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COMMERCE COMMISSION

Price Control Study of Airfield Activities

Critical Issues Paper
2 July 1999

INTRODUCTION

1. Pursuant to section 54 of the Commerce Act 1986 (the Commerce Act), the Minister of Commerce (the Minister) has required that the Commerce Commission (the Commission) report to him by 14 December 1999 on whether he should recommend the introduction of price control on airfield activities at Auckland, Wellington and Christchurch International Airports (the airports).

2. As a result of the Minister's request, the Commission is undertaking a price control study of airfield activities. Information Paper A98/2 (3 August 1998) outlined the scope of the Minister's request and the Commission's approach and timetable for conducting the price control study.

3. To date, the Commission has been conducting preliminary investigations into the three international airports and the aviation industry. As a result of these investigations, the Commission has identified what it considers to be the critical issues for the study. The Commission is issuing this Critical Issues Paper to assist parties in making their initial submissions on 27 August 1999.

4. The Commission stresses that the issues identified in this paper are not intended to limit submissions from interested parties. This paper only aims to provide guidance for initial submissions. Interested parties will have the opportunity to make further submissions once the Commission has released its draft report on 10 September 1999.

TIMETABLE (please note some dates have been changed)

27 August 1999	Initial submissions due
17 September 1999	Commission's draft report public
8 October 1999	Submissions on draft report due

15 October 1999	Experts' reports due
28-29 October, 1-4 November 1999	Conference
14 December 1999	Commission reports to Minister of Commerce

SCOPE (TERMS OF REFERENCE) OF THE INQUIRY

5. Acting pursuant to section 54 of the Commerce Act, the Minister of Commerce (the Minister) has required the Commission to report to him on the following matter:

> "A whether there is evidence that airfield activities [as defined in the Airport Authorities Amendment Act 1997] provided by the three major international airports (Auckland, Wellington and Christchurch) are supplied or acquired in a market in which competition is limited or is likely to be lessened; and it [is] necessary or desirable for the prices of these goods or services to be controlled in accordance with the [Commerce] Act in the interests of users, or consumers, or as the case may be, suppliers; and
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> B whether market conditions are such that the Commission believes that [the Minister] should recommend to the Governor-General that he make an Order in Council under section 53 of the [Commerce] Act invoking price controls over charges for airfield activities at the three major international airports."

6. Specific matters which the Commission is required to consider and report on to the Minister are the following:

> "1. Whether [price control over] charges should be introduced for airfield activities at one or more of the three major international airports.
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> 2. If the Commission is of the view that price control should be introduced, to which (i) regions, areas, or localities in New Zealand; (ii) quantities, qualities, grades, or classes; and (iii) different persons or classes of persons, should price control be applied?
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> 3. What conditions, tests, or thresholds does the Commission consider would be useful in judging whether (i) airfield activities are or will be supplied in a market in which competition is limited or likely to be lessened; and (ii) it is necessary or desirable for the prices of airfield activities to be controlled in accordance with the [Commerce] Act."
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> If price control was introduced (i) what form of price control would the Commission apply; (ii) and why; (iii) how would the Commission operate this form of price control; and (iv) what time and/or in what conditions should price control end?"

7. The Commission is required to report to the Minister on whether he should make a recommendation resulting in the imposition of price control over the prices charged for airfield activities at any of the three airports, and the nature and extent of any price control measures that might be introduced.

8. Since the Minister made his request, the Commerce (Controlled Goods or Services) Amendment Bill (the Amendment Bill) has been introduced to amend the Commerce Act

1986. The Amendment Bill is still before the House. The Bill, if passed, will repeal Part IV and sections 70-74 to Part V of the Commerce Act. The Amendment Bill will update the provisions in Parts IV and V of the Commerce Act to give the Commerce Commission increased flexibility in administering price control by providing powers for the Commission to use incentive-based price control or revenue caps and associated service quality standards.

9. Although the Minister made his request under the provisions of Part IV of the Commerce Act, the Commission, in making its recommendations to the Minister, intends to consider the new Part 4 and new sections 70-74 that may apply. The limiting of Part IV to control of prices will be removed. As a result, subject to the enactment of the Bill, the Commission now proposes to report to the Minister on whether he should make a recommendation resulting in the imposition of (1) price control or (2) any other form of control over the airfield activities at Auckland, Wellington and Christchurch International Airports; and the nature and extent of any control measures.

10. The Airport Authorities Amendment Act 1997 divides the non-contestable business of airport companies into three identified airport activities (airfield, aircraft and freight, and specified passenger terminal). The Minister's request focuses on airfield activities only.

11. Since the Minister made his request, Air New Zealand has sought to widen the scope of the inquiry to include "all markets impacting on the operation of airline services in which airport operators may have significant market power"[1]. The Minister has declined Air New Zealand's request, but has made the following comment:

> "…the Commerce Commission will not be able to ignore the other areas of the airport outside the scope of "airfield activities". This is because to thoroughly examine airfield activities the Commerce Commission will need to assess such factors as allocation of assets, revenues, and costs between airfield activities and other areas of the airport."[2]

Correspondingly, the integrated nature of airport activities makes it necessary for the Commission to gain an understanding, and consider the impact, of aircraft and freight

[1] Report by Network Economics Consulting Group, part of Air New Zealand's Submission to the Minister for Enterprise and Commerce, 11 November 1998.
[2] Letter dated 4 February 1999 from Hon Max Bradford, Minister for Enterprise and Commerce, to Mr David Beatson, Air New Zealand.

activities, specified passenger terminal activities, and other airport activities. The Commission, therefore, must examine airfield activities in the context of all airport activities.

CRITICAL ISSUES

Definition of 'Price' and 'Revenue'

12. Section 2 of the Commerce Act defines 'price' to include "valuable consideration in any form, whether direct or indirect; and includes any consideration that in effect relates to the acquisition or supply of goods or services or the acquisition or disposition of any interest in land, although ostensibly relating to any other matter or thing".

> **Question 1:** Is price limited to the charges, rents or fees of Auckland, Wellington and Christchurch International Airports, or does price, by definition, include, for example, the asset values placed on the assets of Auckland, Wellington and Christchurch International Airports?

> **Question 2:** Given the definition of price provided in s 2, what prices exist in relation to the airfield activities at Auckland, Wellington and Christchurch International Airports? What prices exist in relation to aircraft and freight activities, specified passenger terminal activities, and other airport business at Auckland, Wellington and Christchurch International Airports?

13. The Commerce Act does not define the term 'revenue'. The Concise Oxford Dictionary defines revenue as "income ... from any source; items constituting [income]". Income is defined as "periodical receipts from one's business, lands, work, investments etc." The Commission must determine what the definition of revenue is for the purposes of the Commerce Act.

> **Question 3:** How should 'revenue' be defined for the purposes of Part 5 of the Commerce Act (as proposed by the Amendment Bill)?

> **Question 4:** What revenues exist in relation to the airfield activities at Auckland, Wellington and Christchurch International Airports? What revenues exist in relation to aircraft and freight activities, specified passenger terminal activities, and other airport business at Auckland, Wellington and Christchurch International Airports?

Definition of 'Control' under the Commerce Act 1986 as proposed to be amended by the Commerce (Controlled Goods or Services) Amendment Bill

14. Section 53 of the Commerce Act (as proposed to be amended by clause 2 of the Amendment Bill) allows for goods or services to be controlled in accordance with Part 4 and ss 70 to 74 of Part 5 of the Act. Part 4 of the Act does not define the term 'control' or suggest what form that control might take. However, guidance is provided by the proposed s 70(1) which allows the Commission to "authorise, as it considers appropriate, the prices or revenues, and the quality standards, that apply in respect of the supply of controlled goods or services". This is broader than the current wording in s 70(1) which only allows the Commission to "authorise a maximum, actual, or minimum price". The Amendment Bill may extend price control under the Commerce Act to control of prices and revenues, and proposes to allow the Commission to impose quality standards on controlled goods and services.

15. Section 70(2), as proposed to be amended, provides further guidance to the Commission, by providing methods by which prices and revenues can be controlled, being as follows:
    - The setting of maximum, actual, average, or minimum prices for, or revenues derived from, controlled goods or services;
    - The use of methods or formulae by reference to which, or by calculation from which, prices or revenues for controlled goods or services may be ascertained; for example, a CPI-X type formula or a sliding-scale type price regulation; and
    - The use of any other method that the Commission considers appropriate to determine prices or revenues for controlled goods or services.

16. The Commission must determine what the definition of 'control' is for the purposes of the Commerce Act.

Question 5: How should 'control' be interpreted under Part 4 of the Commerce Act? Does the Act limit the sort of controls which could be contemplated, i.e. is control limited to control of prices, revenues and quality standards? What are the possible forms of control that could be contemplated under the Act? Is there a spectrum of possibilities based on the 'degree' or method of control?

Thresholds for Control under Part 4 of the Commerce Act 1986 as proposed to be amended by the Commerce (Controlled Goods or Services) Amendment Bill

17. Section 53 of the Commerce Act (as proposed to be amended by the Amendment Bill) will allow goods or services to be controlled where the following criteria from s 53(2) are satisfied:
    - (a) Goods or services are or will be supplied or acquired in a market in which competition is limited or is likely to be lessened; and
    - (b) It is necessary or desirable for those goods and services to be controlled either (i) in the interests of users or consumers, or (ii) in the interests of suppliers.

Question 6: Who are the users, consumers and suppliers of Auckland, Wellington and Christchurch International Airports?

18. Section 53(2)(a) refers to markets in which competition is "limited or is likely to be lessened". Of these terms only "lessened" is used in any other part of the Commerce Act. The term "lessened" is used in s 73(a) in Part V in respect of authorisations for controlled goods or services and in respect of a "substantial lessening" under Part II of the Act. The Commission must determine what threshold applies under s 53(2)(a).

Question 7: What is the threshold to be considered under s 53(2)(a)? In other words, how should the words "limited or is likely to be lessened" be interpreted?

19. Section 53(2)(b) requires control to be "necessary or desirable" and "in the interests of" users, consumers or suppliers. The Commerce Act does not define these terms or provide any guidance as to their interpretation. Like s 53(2)(a), the Commission must determine what threshold applies under s 53(2)(b).

Question 8: What is the threshold to be considered under s 53(2)(b)? In other words, how should the words "necessary or desirable" and "in the interests of" be interpreted?

20. Section 52 of the Act as proposed in the Amendment Bill will provide for goods or services to be controlled *in accordance with [Part 4] and sections 70 to 74 [of the Commerce Act]*. This could allow the provisions of ss 70-74 to be considered in determining the thresholds under Part 4 of the Act.

21. Section 73 sets out the factors to which the Commission must have regard in respect of authorisations for controlled goods or services. Sub-sections (a) and (b) merely mirror the considerations in respect of s 53(2). Section 73(c) goes further and requires the Commission to have regard to: "The *promotion of efficiency* in the production and supply or acquisition of the controlled goods or services". (emphasis added)

Question 9: Can the threshold in s 73(c) for authorising controlled goods or services be considered when determining the thresholds under s 53 for recommending that control be declared?

Question 10: Where the threshold under s 73(c) is appropriate, how is efficiency to be defined? What are the appropriate measures that need to be considered?

22. Aside from the guidance provided by ss 53(2) and 73(c), it is open to the Commission to determine the appropriate tests. The Commission is required to determine the thresholds for recommending that goods or services be controlled under Part 4 of the Commerce Act.

Question 11: What are the thresholds for making a recommendation to the Minister that goods or services be controlled under Part 4 of the Commerce Act?

Relevant Markets

23. Market definition is fundamental to any inquiry that considers whether to subject goods or services to control under the Commerce Act. Section 53(2) refers to whether control is necessary or desirable in a *market* where competition is limited or likely to be lessened. Markets need to be defined in order to provide a framework within which to analyse the extent of competition, or its antithesis – market power.

24. Section 3(1A) of the Act provides that the term market "is a reference to a market in New Zealand for goods and services as well as other goods and services that, as a matter of fact and commercial commonsense, are substitutable for them." Markets are typically defined according to three dimensions: (1) the products or service supplied and purchased, (2) the

functional level in the distribution chain, and (3) the geographic area within which the goods or services are obtained or supplied.

25. With airports, the relevant markets may be New Zealand-wide (national), regional, or even airport specific; and groups of services at any given airport may be supplied in a single market, or separately in a number of smaller markets. Markets are mutually exclusive; if a national market is considered to be the relevant market, then there cannot be any smaller markets. Different goods or services may, however, be supplied in different markets. The markets may even be different between the airports.

26. Given the terms of reference of this inquiry, it is the market for airfield activities that the Commission has been asked to consider.

Question 12: Is this market geographically limited? In other words, are there separate markets for airfield activities at each of Auckland, Wellington and Christchurch International Airports; are there regional markets; or is there a national market for airfield activities?

27. Airfield activities may be supplied in a broader market than a market for airfield activities alone. Some possible markets, in which airfield activities may be supplied in, are as follows:

- Market for identified airport activities;
- Market for airports; and
- New Zealand Aviation Market.

Question 13: Are airfield activities supplied in a broader market than a market for airfield activities? If yes, in what market are they supplied in?

28. The activities undertaken as airfield activities may be supplied in separate markets. Some possible markets are as follows:

- Market for runways, taxiways, and parking aprons for aircraft;
- Market for aerodrome and apron control services;
- Market for airfield maintenance services; and
- Market for airport rescue services.

Question 14: Are the activities undertaken as airfield activities supplied in separate product markets? If yes, which markets are they supplied in?

29. The market for airfield activities is not the only market in which Auckland, Wellington and Christchurch International Airports operate.

Question 15: Do other activities or markets have an impact on the market for airfield activities? What other activities or markets?

Question 16: Given questions 12-15, what are the relevant markets with regard to the airfield activities supplied at each of Auckland, Wellington and Christchurch International Airports?

Competition Analysis

30. The Commerce Act states that control of goods or services should only be introduced in markets where *competition is limited or is likely to be lessened*. In order to assess this, the Commission needs to consider whether Auckland, Wellington and Christchurch International Airports are able to exercise market power in any of the defined markets, or whether, and to what degree, they are constrained by the presence of competitive sources of supply, either in the form of substitutable products or suppliers, or by the countervailing power (if any) of buyers.

Question 17: What are the characteristics of (1) the supply of, and (2) the demand for airport facilities and services? Are there any available substitutes? What are the associated price elasticities?

Question 18: With respect to each of the markets identified, to what extent does each airport face competition from: (1) other airports, (2) other transport modes, and (3) the potential for other competitors to enter the market?

Question 19: What is the airlines’ potential for countervailing power? What countervailing power might other (non-airline) users - for example, caterers, fuel companies, concessionaires - have? To what extent is any countervailing power used?

Question 20: What activities are contestable at each of Auckland, Wellington and Christchurch International Airports? What activities are non-contestable? In other words, in which markets is there competition, and in which markets is there limited or no competition?

Charging and Cost Allocation Methodologies

31. Auckland, Wellington and Christchurch International Airports set charges in order to recover from users the capital and operating costs incurred in running the airport, together with a return on capital invested. The airports maintain that costs are allocated between activities in an equitable and reasonable fashion. The Commission understands that, typically, the direct costs of any facility are recovered from users based on their use of the facility, while joint costs are apportioned using a variety of factors which seem to be related to demand sensitivity.

32. With regard to the airfield, typically, the costs of the basic facility (used by the lightest aircraft) are shared amongst all users, with the costs of increments allocated to those who make use of them. The basis of cost allocation is different for different parts of the airfield. Airfield land is typically allocated to users based on the number of aircraft movements and the runway area required. The costs of sealed surfaces (runways, taxiways and aprons) and the damage to them are shared among users based a variety of factors including the runway area used, runway thickness required, number of landings, seats landed[3], tonnes landed[4], and equivalent annual landings of design aircraft[5]. The costs of rescue fire services are allocated to users based on rescue fire category required[6] and the number of landings or seats landed.

33. The following questions should be considered with regard to (1) airfield activities, (2) aircraft and freight activities, (3) specified passenger terminal activities, and (4) other airport activities.

Question 21: Should airport charges be derived directly from a specific pricing model; or should charges be derived from commercial negotiations with users?

Question 22: Where airport charges should be derived directly from a specific pricing model, what methodology or model – for example, a cost allocation model – should be used? Why?

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[3] Seat capacity of aircraft multiplied by the number of landings.
[4] Maximum certified take-off weight of aircraft (MCTOW) multiplied by number of landings.
[5] Calculated in accordance with Federal Aviation Authority (FAA) Advisory Circular AC150/5320-6C.
[6] Defined for each aircraft in accordance with International Civil Aviation Organisation (ICAO) and New Zealand Civil Aviation Authority (CAA) requirements.

Question 23: Which costs should airports attempt to recoup from users? Should the cost of any land held for future development be included? Should the cost of any runway area not used by any aircraft that service an airport (either because the airport has extended its runway or the airlines have reduced the size of aircraft they operate at the airport) be included?

Question 24: Where cost allocations should be used to arrive at charges, on what basis should costs be allocated between users? To what extent should individual components of costs be allocated separately based on individual cost drivers? Should capital costs and operating costs be recovered separately? How should joint costs be allocated?

Question 25: Should airline users obtain any benefit from other revenue the airport company derives? For example, should the revenue from passenger departure charges be deducted from the pool of costs allocated to airlines, since the airlines provide the passengers who pay the charges? Similarly, should airlines receive a benefit from revenue derived from concessionaires (such as food and bookshops) and public car parking? Should airlines receive a benefit from other commercial revenues, for example, rents for buildings and land at the airport and utilities charges?

Question 26: What is the impact of the means by which costs are recovered? Should some costs be recovered from airline companies and others direct from their passengers?

Question 27: Given questions 21-26, how should charges be structured to various users to recoup costs?

Airport Use

34. Facilities at some airports are under-utilised, while facilities at others are congested. Congested airports impose higher costs on users, but, at the same time, higher levels of use cause airport unit costs to fall.

Question 28: Should airports with high use have lower charges than airports with less use? Should charges be adjusted when the number of aircraft movements, passenger numbers, or the size of aircraft operated changes significantly?

35. When an airport is congested, peak load pricing or similar mechanisms are the short-run response to eliminate excess demand. The use of such pricing mechanisms can conflict with price control mechanisms which are designed to eliminate monopoly profits.

Question 29: Is there any evidence of airport congestion currently at Auckland, Wellington or Christchurch International Airports? What are the implications of the use of pricing to control airport congestion? How would the use of such pricing fit with any price control mechanisms?

Capital Investment

36. Growth in traffic will require investment in new facilities at airports from time to time. The future demand by users is uncertain and is not guaranteed. Airport companies must make decisions to invest in capital projects based on these future uncertainties. It is not likely to be desirable for airport companies to delay investment until demand warrants it (exceeds capacity). Equally, it is not likely to be desirable for airport companies to over-invest in facilities.

Question 30: What factors should be used by airports in making decisions on timing of investments? When should airports invest in new facilities? Should airports invest only when demand exceeds capacity, or should airports invest in time to meet anticipated future demand? Does the timing of investment differ between airports?

Question 31: How should capital expenditure be funded? Should the airport development charge (international passenger departure charge) revenue be used to pay for capital expenditure, or should landing charges and/or terminal charges be increased to fund any investment?

Question 32: When should the costs of new investments be included in the costs allocated to airport users? Should airport users commence paying for any capital expenditure before the airport commences the investment, once the investment is commenced (and in progress), or once it is completed and available for use?

Charges Imposed by Auckland, Wellington and Christchurch International Airports

37. The charges currently imposed by Auckland, Wellington and Christchurch International Airports vary between the airports, but include the following charges: landing, aircraft parking, terminal services, airport development, public car parking, duty free, and utilities. These charges are variously imposed on airlines, passengers and other airport users. Landing charges and aircraft parking charges relate to airfield activities.[7] The Commission is looking at all airport charges as part of its assessment of allocations of assets, revenues, and costs between activities.

38. Landing and other charges, and aeronautical revenues, of the airports can be examined relative to the operational statistics of the airports. Benchmarks may include passenger movements, aircraft movements, runway length, area of runway, hectares of land, and employee numbers. Charges can also be examined relative to other airports with similar characteristics.

Question 33: Is there any evidence of excessive charging for airfield activities currently at Auckland, Wellington and Christchurch International Airports? Is there any evidence of excessive charging for aircraft and freight activities, specified passenger terminal activities, or other airport activities? Do these concerns relate to (1) the overall level of charges, (2) the relativity between them, (3) the types of charges, or (4) the methodology by which the charges are determined? Should Auckland, Wellington or Christchurch International Airport change the way that they charge? If so, how?

Cross-subsidisation

39. Cross-subsidisation occurs where one user or group of users subsidise another user or group of users. In other words, some users pay less than the incremental costs of supply, with the unrecovered costs being paid by others. Cross-subsidisation is most likely to occur where the profits earned by non-contestable business activities are used to cross-subsidise contestable activities.

Question 34: Is there any evidence of cross-subsidisation at Auckland, Wellington or Christchurch International Airports?

Asset Valuation

40. The approach to asset valuation adopted is critical as charges attempt to recover costs and provide a return on capital employed. In addition, asset valuations often serve as the denominator for rates of return. As a consequence, an increase in asset values, for example, is likely to result in increased charges and/or a fall in rate of return. The airports are currently free to choose, and change, the asset valuation policy that they adopt, subject to accounting standards.

41. Asset valuation methods can be compared by placing them on a continuum from historic cost at one extreme to a "greenfields" approach at the other. In between are concepts including depreciated historic cost, inflation adjusted historic cost, replacement cost, economic value, deprival value, optimised deprival value, and combinations of these. Alternatively, where an airport has been privatised, a measure related to the sale value might be used.

42. The fixed assets of Auckland, Wellington and Christchurch International Airports were vested in the airport companies at $345 million, $87 million, and $94 million, respectively on 1 April 1988, 16 October 1990, and 1 July 1988. As at 31 December 1998, the total assets of Auckland, Wellington and Christchurch International Airports were $538 million, $218 million, and $193 million, respectively, per the published statements of financial position.[8] Total fixed assets at 31 December 1998 of Auckland, Wellington and Christchurch International Airports were $526 million, $213 million and $186 million, respectively. Since corporatisation, the value of fixed assets of Auckland, Wellington and Christchurch International Airports (per published statements of financial position) have increased $181 million (52%), $126 million (144%), and $92 million (97%), respectively.

43. Auckland, Wellington and Christchurch International Airports currently each have different asset valuation policies. Auckland uses depreciated historic cost accounting, with fixed assets recorded at cost less accumulated depreciation, although the airport company intends

[7] Refer to Appendix 2 for schedules of current airfield charges at the Airports.
[8] Refer to Appendix 1

to revalue assets at 30 June 1999. Wellington uses Optimised Deprival Value (ODV) methodology to value its fixed assets, undertaking revaluations at least every three years. Christchurch uses depreciated historic cost accounting for all fixed assets except land, which is revalued at least every three years. The asset valuation policy adopted directly affects the fixed asset values per the airport's published statement of financial position.

44. Auckland, Wellington and Christchurch International Airports all depreciate fixed assets, except land, on a straight line basis over their estimated remaining useful lives, but use different economic lives. The economic lives adopted directly affects the fixed asset values per the airport's published statement of financial position. Current estimated economic lives used by Auckland, Wellington and Christchurch International Airports are as follows:

Asset	**Auckland**	**Wellington**	**Christchurch**
Buildings and services	5-33 years	1-60 years	14-40 years
Runways, taxiways and aprons	16 years	1-60 years	30-50 years
Vehicles	5 years	1-20 years	5-16 years
Plant and office equipment	4-10 years	1-20 years	3-20 years

45. The increases in the fixed asset values of Auckland, Wellington and Christchurch International Airports since corporatisation are the result of asset revaluations, depreciation, capital investment and capital divestment. Auckland has not revalued any assets to date, so the entire $181 million increase in fixed assets is due to net capital investment (net of divestments and depreciation). Wellington has revalued its assets since 31 June 1993, initially on a discounted cash flow basis, and more recently using ODV. To date, Wellington has revalued its fixed assets upwards by $36 million. In addition, Wellington has made net capital investments of $90 million. Christchurch has only revalued its land holdings (to market value), and has to date revalued land upwards by $21 million. In addition, Christchurch has made net capital investments of $71 million.

Question 35: How should airport assets be valued for the purposes of arriving at (1) airport charges, (2) a rate of return on those assets, and (3) price control regulations?

Question 36: Should airports be required to adopt a standard asset valuation methodology for the purposes of arriving at (1) airport charges, (2) a rate of return on those assets, and (3) price control regulations?

Cost of Capital

46. As Auckland, Wellington and Christchurch International Airports use a mix of debt and equity financing, cost of capital should be computed as a weighted average cost of capital (WACC). In the simplest terms, the cost of debt and the cost of equity for the firm are weighted by the proportions of debt and equity the firm uses and are summed together to get WACC.

47. The relevant cost of debt for computing WACC is the after-tax cost of new debt. The published financial accounts of the airports disclose their current loans and the interest rates being paid. Per its 1998 annual report, Auckland is currently paying 10% for shorter-term debt and 7.5-8.0% for long-term debt. Wellington last reported paying between 6.84% and 9.82%. Christchurch was reported as paying between 7.30% and 7.69%. The companies are rated by Dun and Bradstreet (New Zealand) Limited as follows: Auckland and Wellington are rated as 5A 2, good; and Christchurch is rated as 5A 1, strong. The first rating (e.g. 5A 1) rates the company's financial strength, an indicator of tangible net worth. The second rating is the condition of the company, and is linked to the level of risk and credit worthiness.

Question 37: What should the cost of debt be for each of Auckland, Wellington and Christchurch International Airports? Why?

48. There are two sources of equity financing available to firms: (1) retained earnings and (2) issues of new common stock. The cost of financing using retained earnings is the rate of return shareholders require or the opportunity costs of alternative investments. The cost of financing using new issues of common stock is simply the cost of retained earnings plus an adjustment for issue costs.

49. Methods that can be used to determine the cost of retained earnings include the Capital Asset Pricing Model (CAPM), the Discounted Cash Flow (DCF) Model, and the bond-yield-plus-

risk-premium approach, although the CAPM is most commonly used. The CAPM takes the risk-free rate and adds a market risk premium weighted by the firm's beta. Beta is a measure of a firm's individual risk and is what generally causes its cost of equity to be different from that of another firm in the same industry or economy. A small change in beta can significantly change a firm's WACC.

Question 38: Should the CAPM be used to determine the cost of equity, or should another model or approach be used? Why?

Question 39: If the CAPM were to be used, what should beta be for each of Auckland, Wellington and Christchurch International Airports? Why? What firms/industries in New Zealand or overseas have similar risk profiles and can therefore be used as benchmarks for determining beta?

Question 40: What risk-free rate should be used to determine the cost of equity? Why?

Question 41: What market risk premium should be used to determine the cost of equity? Why?

Question 42: What should the cost of equity be for each of Auckland, Wellington and Christchurch International Airports? Why?

50. From the published financial accounts of the airports, the debt and equity ratios of each airport can be computed. The debt ratios of Auckland, Wellington and Christchurch at 31 December 1998 were 57.63%, 47.35% and 39.61%, respectively. The equity ratios were 42.37%, 52.65% and 60.39%, respectively.

Question 43: What should the weights for debt and equity be for each of Auckland, Wellington and Christchurch International Airports? Why?

Question 44: Given the above inputs, what is the WACC for each of Auckland, Wellington and Christchurch International Airports?

51. What is important for this inquiry, however, is the cost of capital for airfield activities. In addition, the costs of capital for aircraft and freight activities, specified passenger terminal activities, and the total non-contestable business of the airports are also relevant.

Question 45: Considering questions 37 to 43 again, what is WACC for the (1) airfield activities, (2) aircraft and freight activities, (3) specified passenger terminal activities, and (4) total non-contestable business of each of Auckland, Wellington and Christchurch International Airports?

Rate of Return Earned Relative to Cost of Capital

52. Airport charges are set so as to provide a return on capital employed. Charges are calculated using a target rate of return which the airport company seeks to achieve. The rate of return required is, therefore, a critical factor in the determination of charges. What is important for this inquiry, however, is the rate of actually earned, not that targeted; specifically, the rate of return earned relative to the costs of capital employed.

53. The following question should be considered with regard to (1) airfield activities, (2) aircraft and freight activities, (3) specified passenger terminal activities, and (4) other airport activities.

Question 46: What rate of return should airport companies be allowed to earn relative to their cost of capital? Why?

54. Numerous measures of rates of return exist, and broadly fall into two groups: (1) accounting rates of return and (2) economic rates of return.
55. Accounting rates of return include: Return on Assets (ROA) and Return on Equity (ROE), which are determined by dividing net profit/loss after tax by total assets and total equity, respectively. Another, Return on Investment (ROI) is computed by dividing earnings before interest and taxes by total assets. Other accounting measures include Accounting Rate of Profit (ARP). These measures are able to be computed from the information in published financial statements. Typically, total assets and total equity are replaced by average total

assets and average total equity, in order to remove fluctuations in the values of assets and equity over a financial period. Further, extraordinary items included in profits usually need to be excluded, or at least recognised, in order for comparisons over time to be meaningful.

56. Economic rate of return (ERR) is the economic income derived from an asset as a proportion of the market value of the asset at the start of the period. Economic income is net cash flow generated by the asset less the change in the market value of the asset over the period (economic depreciation). Calculation of ERR requires market values to exist or to be able to be determined.

57. Using data in the published financial accounts of Auckland, Wellington and Christchurch International Airports, rates of return can be computed for the airports. For the year ended 30 June 1998, rates of return (for all airport activities) included the following:

Rate of Return Measure	**Auckland**	**Wellington**	**Christchurch**
Return on Assets	7.54%	2.26%	5.60%
Return on Assets adjusted for extraordinary items	7.97%	2.26%	5.60%
Return on Average Total Assets	7.69%	2.45%	5.95%
Return on Investments	14.02%	5.43%	10.78%
Return on Equity	18.58%	3.93%	9.53%
Return on Equity adjusted for extraordinary items	19.66%	3.93%	9.53%
Return on Average Shareholders' Equity	15.10%	4.00%	9.70%
Accounting Rate of Profit	9.30%	3.88%	7.73%
Economic Rate of Return (using Est. Market Values)	19.72%	4.36%	n/a

Question 47: What measure of rate of return should be used when examining the rates of return earned relative to the cost of capital employed? Why? What are the merits of using one measure over another?

Question 48: Is there any evidence of excessive rates of return being earned by Auckland, Wellington and Christchurch International Airports relative to cost of capital?

58. This inquiry looks at airfield activities in the context of all airport activities. What is important, therefore, is the rate of return earned on airfield activities relative to the cost of capital for airfield activities. In addition, the rate of return earned on aircraft and freight

activities, specified passenger terminal activities, and other airport business relative to cost of capital are also relevant.

Question 49: Is there any evidence of excessive rates of return being earned on (1) airfield activities, (2) aircraft and freight activities, (3) specified passenger terminal activities, (4) and other airport business by Auckland, Wellington and Christchurch International Airports relative to cost of capital?

59. It is recognised that many rates of return are directly affected by the asset valuation method employed by the airport company. Wellington's rates of return are based on current values, compared to depreciated historic cost for Auckland and Christchurch. [9]

Question 50: Taking into account asset valuations, is there any evidence of excessive rates of return being earned by Auckland, Wellington and Christchurch International Airports relative to cost of capital?

Efficiency

60. Poor profit performance could reflect inefficiency. A company with market power could 'conceal' high profits by allowing costs to rise. The prices charged, revenues earned, and efficiency of Auckland, Wellington and Christchurch Airports should be benchmarked against other airports or other businesses with similar risk profiles.

Question 51: What entities could or should Auckland, Wellington and Christchurch International Airports be benchmarked against? Why? How comparable are these entities?

Question 52: Relative to other airports and other businesses with similar risk profiles, is there any evidence of excessive prices charged, revenues earned, or rates of return earned by Auckland, Wellington or Christchurch International Airports?

[9] Refer to Asset Valuation section of this paper.

Light-Handed Regulation

61. The current light-handed regulation of airports in New Zealand relies heavily on (1) the countervailing power of airport users, (2) the obligation under the Airport Authorities Act 1966 of airports to consult with users, (3) the competition standards imposed by the Commerce Act, and (4) the implicit threat of price control under the Commerce Act.

Question 53: Does the requirement to consult users constrain the behaviour of Auckland, Wellington and Christchurch International Airports, or are they able to exercise market power?

Question 54: Does the threat of price control under the Commerce Act constrain the behaviour of Auckland, Wellington and Christchurch International Airports?

62. The Airport Authorities Amendment Act 1997 came into force on 26 November 1998 and split the non-contestable business of airport companies into three identified airport activities (airfield, aircraft and freight, and specified passenger terminal). In addition, the Ministry of Transport is currently developing Information Disclosure Regulations which will apply from 1 January 2000.

Question 55: Are the changes to the Airport Authorities Act 1966 and the proposed Information Disclosure Regulations likely to change the behaviour of Auckland, Wellington and Christchurch International Airports? What is the impact of greater information disclosure of the type envisaged?

Control of Airfield Activities Recommended (Assessments of Thresholds)

Question 56: Given the thresholds for recommending that goods or services be controlled under Part 4 of the Commerce Act 1986, should the Commission recommend the introduction of controls on airfield activities? Which airports, if any, should be controlled?

Operation of Control

63. Section 55 of the Commerce Act states that controlled goods or services can only be supplied in accordance with an authorisation from the Commerce Commission in terms of Part V of the Act, unless there is an undertaking in effect. Section 70(2) of the Commerce Act (as proposed by the Amendment Bill) provides methods by which the Commission may authorise the prices, revenues, and the quality standards in respect of the supply of controlled goods or services, namely by:

- The setting of maximum, actual, average, or minimum prices for, or revenues derived from, controlled goods or services;
- The use of methods or formulae by reference to which, or by calculation from which, prices or revenues for controlled goods or services may be ascertained; for example, a CPI-X type formula or a sliding scale type price regulation; and
- The use of any other method that the Commission considers appropriate to determine prices or revenues for controlled goods or services.

64. Price control formerly used in New Zealand was based on price controlled firms seeking price increases when rising costs jeopardised allowed rates of return. Overseas, 'price caps' are widely used today, where prices are set in advance for a period of several years, with mid-term adjustments generally being discouraged. Related to price capping is sliding scale regulation, where profits above a certain level are shared with customers through price reductions.

Question 57: If the control of airfield activities were to be recommended, what form should it take? Why? What conditions should be imposed?

Question 58: How effective would price control be if it was just limited to airfield activities? Would the control of airfield activities alone lead to monopoly prices being charged in non-airfield activities?

Service Quality Standards

65. A price controlled firm might seek to evade price control by lowering costs through an erosion of service standards, or by raising prices of services not subject to price control. By the Amendment Bill, Part V of the Commerce Act may be amended to allow the Commission

to impose quality standards on controlled goods and services by, for example, creating incentives to improve or maintain the quality of the goods or services supplied.

Question 59: Should service quality standards be imposed? What types of service quality standards ought to be imposed when goods or services are controlled? How could the evasion of controls be prevented?

PUBLISHED FINANCIAL ACCOUNTS OF THE AIRPORTS

66. The Commission has obtained copies of the published annual reports of Auckland, Wellington and Christchurch International Airports from corporatisation to date. To ensure that all interested parties have access to this information, the Commission encloses spreadsheets of the audited financial accounts (statement of financial performance, statement of financial position and statement of cashflows) and operational statistics of Auckland, Wellington and Christchurch International Airports as Appendix 1.

CONFERENCE

67. The Commerce Act requires the Commission to give interested persons reasonable opportunity to furnish their views. Interested parties have the opportunity to make two written submissions and provides reports by independent experts. In addition, interested parties are invited to attend a conference to be held over 6 days on 28-29 October and 1-4 November 1999 at the Overseas Terminal, Oriental Bay, Wellington.

68. The Commission has yet to determine how the conference should be structured. The Commission has a published guide to *Conference Procedures* in relation to authorisations under the Commerce Act, but is not certain that these procedures are appropriate for this inquiry. The conference will give interested parties the opportunity to make oral submissions to the Commission and the Commission will have the opportunity to ask questions.

GUIDELINES ON SUBMISSIONS TO THE COMMISSION

69. Submissions should be provided to the Commission in both hard paper form and electronic format where possible. Copies of all public submissions will be sent to interested parties in hard paper form and will be able to be down-loaded from the Commission's website in electronic format.

70. Electronic copies of submissions should be either in Microsoft Word (".doc") or Portable Document Format (".pdf"). The documents should display information such as letterhead and date of the document. Electronic copies should either be e-mailed to the Commission at airports@comcom.govt.nz or provided on floppy disk.

71. The Commission acknowledges that elements of submissions may be commercially sensitive. Where commercially sensitive information is contained in a document, that information should be enclosed in square brackets [ ]. Interested parties should supply two versions of their submissions – one marked public and the other marked confidential. Public versions should highlight where confidential information has been deleted. Electronic copies of submissions are only required for public versions. The Commission advises that should interested parties wish to, they can provide the Commission with an electronic copy of their confidential submission (with confidential information in square brackets), and the Commission can prepare a public version of the submission.

FURTHER INFORMATION

72. Background information on the price control study of airfield activities, is available by visiting the Commission's website at http://www.comcom.govt.nz or by contacting the Commission in Wellington. Correspondence can be sent to:

Price Control Study of Airfield Activities
Commerce Commission
P O Box 2351
Wellington

Or by fax to (04) 471-0771 or E-mail to airports@comcom.govt.nz

APPENDIX 1

PUBLISHED FINANCIAL ACCOUNTS OF THE AIRPORTS

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

For the period ended	Interim Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	15 months Jun-93	Mar-92	Mar-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
REVENUE										
Airport Development Charge		23,176	24,534	22,478	20,674	19,297	22,036	12,748	12,181	11,857
Landing Charges		42,644	41,697	41,318	37,551	33,477	40,959	30,935	32,098	30,514
Terminal Services Charges		13,751	11,977	8,965	7,822	7,676	7,843	5,349	5,157	7,463
Rental Income		14,833	11,378	9,225	8,366	8,316	10,458	8,202	7,824	5,804
Carpark Income		8,343	7,027	6,237	5,850	5,224	5,727	4,547	4,712	4,643
Concession Income		41,563	34,634	34,042	30,999	25,375	29,381	18,008	16,805	16,086
Utilities and General		10,198	8,827	7,666	6,184	6,203	8,092	9,361	10,136	6,551
OPERATING REVENUE		154,509	140,074	129,930	117,446	105,568	124,496	89,149	88,914	82,919
INTEREST INCOME		477	288	1,253	1,119	1,047	1,589	2,862	3,314	1,543
TOTAL REVENUE	80,093	154,986	140,362	131,183	118,565	106,616	126,085	92,011	92,228	84,462
EXPENSES										
Audit Fees		171	46	36	36	36	37	39	38	34
Depreciation		31,857	27,859	21,712	19,415	16,874	24,187	16,033	15,541	12,288
Directors' Fees		175	135	121	110	110	138	110	110	100
Repairs, Maintenance and Supplies		18,521	19,909	18,731	15,538	14,837	19,750	13,339	15,996	14,103
Utilities and General		7,162	4,440	4,861	5,241	5,166	4,580	3,482	2,413	2,489
Rates, Tax and Insurance		2,098	2,286	2,189	2,282	2,163	2,159	1,976	4,067	3,744
Staff and Associated Costs		15,419	15,480	13,517	12,281	11,774	15,752	12,289	9,828	9,298
Interest		12,774	10,741	9,170	7,990	9,110	13,357	14,485	19,786	20,347
TOTAL EXPENSES	48,503	88,177	80,896	70,337	62,893	60,070	79,960	61,753	67,779	62,404
Net Profit Before Extraordinaries	31,590	66,809	59,466	60,846	55,672	46,546	46,125	30,258	24,449	22,058
Extraordinary Items										
Profit on disposal of subsidiary	-	-	-	-	-	4,995	-	-	-	-
Costs of Initial Public Offering (IPO)	-	(3,536)	-	-	-	-	-	-	-	-

NET PROFIT BEFORE TAX (NPBT)	31,590	63,273	59,466	60,846	55,672	51,541	46,125	30,258	24,449	22,058
Income Tax	11,216	22,389	19,277	22,005	21,059	18,589	18,951	12,130	8,713	8,605
NET PROFIT AFTER TAX (NPAT)	**20,374**	**40,884**	**40,189**	**38,841**	**34,613**	**32,952**	**27,174**	**18,128**	**15,736**	**13,453**
Share of After Tax Profit of Associates	(15)	205	321	189	210	323	91	9	41	-
NET PROFIT AFTER TAX INCLUDING ASSOCIATES	20,359	41,089	40,510	39,030	34,823	33,275	27,265	18,137	15,777	13,453

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

For the period ended	**Dec-98**	**Jun-98**	**Jun-97**	**Jun-96**	**Jun-95**	**Jun-94**	**Jun-93**	**Mar-92**	**Mar-91**	**Mar-90**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
EQUITY AT THE BEGINNING OF THE YEAR	220,051	324,765	308,510	292,895	278,967	259,006	242,891	231,999	222,522	213,794
Operating Surplus After Tax	20,359	41,089	40,510	39,030	34,823	33,275	27,265	18,137	15,777	13,453
Dividends to Shareholders	(12,180)	(145,803)	(24,255)	(23,415)	(20,895)	(13,314)	(10,920)	(7,245)	(6,300)	(4,725)
Prior Period Adjustment - Associated Company	-	-	-	-	-	-	(230)	-	-	-
EQUITY AT THE END OF THE YEAR	**228,230**	**220,051**	**324,765**	**308,510**	**292,895**	**278,967**	**259,006**	**242,891**	**231,999**	**222,522**

STATEMENT OF FINANCIAL POSITION

EQUITY										
Share Capital (210 m ordinary shares @ $1)	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Retained Earnings	18,230	10,051	114,765	98,510	82,895	68,967	49,006	32,891	21,999	12,522
Total Equity	228,230	220,051	324,765	308,510	292,895	278,967	259,006	242,891	231,999	222,522
NON-CURRENT LIABILITIES										
Long-Term Borrowing (coupon bonds, promissory notes)	272,600	156,200	153,400	113,500	79,350	87,000	110,000	130,000	152,050	141,495
Other Term Borrowings	822	805	554	526	538	1,256	2,484	4,610	-	-
Total Non-Current Liabilities	273,422	157,005	153,954	114,026	79,888	88,256	112,484	134,610	152,050	141,495
CURRENT LIABILITIES										
Accounts Payable	4,043	8,851	9,295	8,782	7,061	4,264	1,971	3,596	2,866	2,360
Provision for Runway Repairs	-	-	790	790	790	790	791	283	1,781	-
Employee Entitlements (Leave Provision)	-	1,532	1,457	1,342	1,347	1,346	1,059	1,138	868	831
Goods and Services Tax	-	489	118	50	444	535	686	447	294	864

Proposed Dividend	12,180	134,988	13,440	12,600	12,495	8,064	7,770	4,620	3,675	4,725
Taxation Payable	5,318	1,101	-	35	1,030	715	628	1,178	1,502	1,325
Fixed Asset Payables and Retentions	-	9,926	13,772	12,417	6,994	2,532	3,333	2,268	-	-
Other Payables	15,459	8,425	3,252	1,612	1,505	5,761	3,808	3,443	5,440	4,256
Total Current Liabilities	37,000	165,312	42,124	37,628	31,666	24,007	20,046	16,973	16,426	14,361
TOTAL EQUITY AND LIABILITIES	**538,652**	**542,368**	**520,843**	**460,164**	**404,449**	**391,230**	**391,536**	**394,474**	**400,475**	**378,378**
NON-CURRENT ASSETS (@ cost less accumlated depreciation)										
Freehold Land	211,989	208,397	190,965	179,799	171,156	164,491	158,860	156,916	147,711	134,278
Buildings	257,236	264,376	258,024	200,640	136,208	124,498	129,749	121,664	134,025	132,102
Runways, Taxiways and Aprons	49,491	50,041	52,959	58,797	64,698	69,580	75,441	77,441	81,142	82,593
Vehicles and Plant	7,387	8,072	6,983	8,643	4,177	2,999	3,387	4,904	4,760	4,961
Total Non-Current Assets	526,103	530,886	508,931	447,879	376,239	361,568	367,437	360,925	367,638	353,934

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL POSITION (CONT.)

As at	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Mar-92	Mar-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
CURRENT ASSETS										
Cash and Bank Balances	585	57	108	294	20	284	133	(118)	170	(57)
Bank Deposits	-	-	-	-	-	2,400	13,700	20,200	23,363	13,018
NZ Government Stock	-	-	-	-	15,000	15,000	-	-	-	-
Receivables (@ net realisable value)	8,380	8,580	6,924	9,314	8,013	5,858	4,855	5,321	5,952	8,087
Prepayments	1,236	486	1,136	845	1,092	2,430	1,640	2,486	221	309
Inventories	59	55	58	54	55	64	68	68	48	45
Taxation Receivable	-	-	1,588	-	-	-	-	-	-	-
Total Current Assets	10,260	9,178	9,814	10,507	24,180	26,036	20,396	27,957	29,754	21,402
Investment in Associates (50% Marriott-AIAL & Waste Resources)	2,289	2,304	2,098	1,778	4,030	3,626	3,703	5,592	3,083	3,042
TOTAL ASSETS	**538,652**	**542,368**	**520,843**	**460,164**	**404,449**	**391,230**	**391,536**	**394,474**	**400,475**	**378,378**

STATEMENT OF CASHFLOWS

CASHFLOWS FROM OPERATING ACTIVITIES

	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Mar-92	Mar-91	Mar-90
Cash was provided from:										
Receipts from Customers	80,013	154,742	142,382	128,629	116,905	104,477	124,989	89,646	91,636	86,826
Interest Received	236	477	288	1,572	1,594	1,102	1,562	2,982	2,951	1,512
	80,249	155,219	142,670	130,201	118,499	105,579	126,551	92,628	94,587	88,338
Cash was applied to:										
Payments to Suppliers and Employees	26,174	45,032	39,694	37,466	37,171	29,931	41,652	27,778	31,196	27,994
Interest Paid	10,512	11,329	10,741	9,242	7,536	9,299	11,379	18,387	7,092	9,311
Taxes Paid	7,065	19,834	21,012	23,046	20,828	18,946	19,638	13,096	9,220	11,029
	43,751	76,195	71,447	69,754	65,535	58,176	72,669	59,261	47,508	48,334
Net Cash Flows from Operating Activities	36,498	79,024	71,223	60,447	52,964	47,403	53,882	33,367	47,079	40,004

CASHFLOWS USED IN INVESTING ACTIVITIES

Cash was provided from:										
Proceeds from Sale of Fixed Assets	46	119	152	162	59	5,110	199	9,127	105	120
Repayment of Associates Advance	-	-	-	-	250	600	750	950	273	-
	46	119	152	162	309	5,710	949	10,077	378	120

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF CASHFLOWS (CONT.)

For the period ended	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Mar-92	Mar-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Cash was applied to:										
Purchase of Fixed Assets and Airport Development Expenditure	17,428	57,739	88,046	83,794	31,378	13,042	33,310	15,095	29,535	18,792
Advance to/Shares in Associates	-	-	-	2,381	445	200	-	3,450	-	3,042
	17,428	57,739	88,046	86,175	31,823	13,242	33,310	18,545	29,535	21,834
Net Cash Flows Used in Investing Activities	(17,382)	(57,620)	(87,894)	(86,013)	(31,514)	(7,532)	(32,361)	(8,468)	(29,157)	(21,714)
CASHFLOWS FROM FINANCING ACTIVITIES										
Cash was provided from:										
Term Borrowings	116,400	2,800	39,900	71,150	-	-	-	141,000	-	67,860
Cash was applied to:										
Net Repayment of Borrowings	-	-	-	-	2,631	23,000	15,000	153,050	-	77,860
Re-Purchase of Bonds	-	-	-	37,000	5,019	-	5,000	10,000	-	-
Dividends Paid	134,988	24,255	23,415	23,310	16,464	13,020	7,770	6,300	7,350	-
	134,988	24,255	23,415	60,310	24,114	36,020	27,770	169,350	7,350	77,860
Net Cash Flows from Financing Activities	(18,588)	(21,455)	16,485	10,840	(24,114)	(36,020)	(27,770)	(28,350)	(7,350)	(10,000)
NET INCREASE (DECREASE) IN CASH HELD	**528**	**(51)**	**(186)**	**(14,726)**	**(2,664)**	**3,851**	**(6,249)**	**(3,451)**	**10,572**	**8,290**
Add cash at the beginning of the year	57	108	294	15,020	17,684	13,833	20,082	23,533	12,961	4,671
CASH AT END OF THE YEAR	**585**	**57**	**108**	**294**	**15,020**	**17,684**	**13,833**	**20,082**	**23,533**	**12,961**

OPERATIONAL STATISTICS

PASSENGER NUMBERS	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Mar-92	Mar-91	Mar-90
Domestic Passengers		3,073,405	3,007,320	3,000,625	2,921,438	2,658,048	2,358,029	2,287,003	2,303,993	2,423,292
International Passengers		4,432,202	4,583,661	4,244,544	3,888,959	3,530,041	3,375,575	3,184,829	2,952,794	2,934,808
TOTAL PASSENGERS	3,867,273	7,505,607	7,590,981	7,245,169	6,810,397	6,188,089	5,733,604	5,471,832	5,256,787	5,358,100

AIRCRAFT MOVEMENTS (Scheduled, Freight and GA)

Domestic Movements		113,142	112,484	109,693	107,112	97,201	90,283	77,081	73,368	65,484
International Movements		24,505	23,938	22,562	20,452	18,353	18,501	18,139	18,122	17,654
TOTAL AIRCRAFT MOVEMENTS	70,122	137,647	136,422	132,255	127,564	115,554	108,784	95,220	91,490	83,138

FREIGHT

Domestic		35,681	39,722	39,121	37,642	31,616	27,691	32,621	34,016	27,972
International		157,770	151,624	154,084	160,062	143,882	126,871	125,942	115,473	120,468
TOTAL FREIGHT (Tonnes)	93,130	193,481	189,873	194,635	197,704	175,498	154,562	158,563	149,489	148,440

WELLINGTON INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June	Interim Dec-98	1998	1997	1996	1995	1994	1993	1992	8.5 months 1991
	$000	$000	$000	$000	$000	$000	$000	$000	$000
REVENUE									
Airport Charges (Landing Charge & Terminal Services Charge)		16,118	15,134	14,788	14,106	13,540	13,566	14,111	8,251
Rental, Lease and Concession		5,277	4,977	4,991	4,814	4,133	3,944	3,658	2,764
Airport Development Charge		2,929	2,389	2,168	1,929	1,769	1,662	1,552	965
Carparking Services		2,954	2,873	2,584	2,442	2,276	2,048	1,651	1,178
Other		408	478	514	584	495	178	501	159
OPERATING REVENUE		27,686	25,851	25,045	23,875	22,213	21,398	21,473	13,317
INTEREST INCOME		41	14	9	48	765	167	229	81
TOTAL REVENUE	14,800	27,727	25,865	25,054	23,923	22,978	21,565	21,702	13,398
EXPENSES									
Audit Fees		32	26	26	31	31	32	21	25
Business Development Costs		491	478	540	-	-	-	-	-
Depreciation		5,098	4,671	4,477	3,964	3,728	2,105	1,975	1,338
Directors' Fees		118	115	115	105	105	101	105	74
Employee Remuneration and Benefits		5,330	4,761	4,292	3,911	3,155	2,685	2,317	1,413

Interest		3,817	2,970	2,097	2,472	1,736	2,381	2,797	2,950
Rental and Leasing Costs		132	110	66	-	-	-	-	-
Repairs and Maintenance		776	731	742	1,306	769	1,152	976	673
Other Operating Costs		5,213	5,926	5,387	4,595	6,383	8,413	8,085	5,088
TOTAL EXPENSES	10,656	21,007	19,788	17,742	16,384	15,907	16,869	16,276	11,561
NET PROFIT BEFORE TAX (NPBT)	4,144	6,720	6,077	7,312	7,539	7,071	4,696	5,426	1,837
Income Tax	723	2,335	2,219	2,744	3,129	2,913	1,750	2,164	626
NET PROFIT AFTER TAX (NPAT)	**3,421**	**4,385**	**3,858**	**4,568**	**4,410**	**4,158**	**2,946**	**3,262**	**1,211**

STATEMENT OF MOVEMENTS IN EQUITY

EQUITY AT THE BEGINNING OF THE YEAR	111,530	108,106	105,791	100,509	71,940	70,625	59,718	57,761	56,550
Operating Surplus After Tax	3,421	4,385	3,858	4,568	4,410	4,158	2,946	3,262	1,211
Increase in Revaluation Reserve	-	-	-	2,541	25,923	-	7,961	-	-
Dividends to Shareholders	-	(961)	(1,543)	(1,827)	(1,764)	(2,843)	-	(1,305)	-
EQUITY AT THE END OF THE YEAR	**114,951**	**111,530**	**108,106**	**105,791**	**100,509**	**71,940**	**70,625**	**59,718**	**57,761**

WELLINGTON INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL POSITION

As at 30 June	Dec-98	1998	1997	1996	1995	1994	1993	1992	1991
	$000	$000	$000	$000	$000	$000	$000	$000	$000
EQUITY									
Share Capital (56.55 m ordinary shares @ $1)	56,550	56,550	56,550	56,550	56,550	56,550	56,550	56,550	56,550
Revaluation Reserve	36,938	36,949	37,026	36,926	34,209	8,265	7,961	-	-
Retained Earnings	21,463	18,031	14,530	12,315	9,750	7,125	6,114	3,168	1,211
Total Equity	114,951	111,530	108,106	105,791	100,509	71,940	70,625	59,718	57,761
NON-CURRENT LIABILITIES									
Bank Loans	95,000	75,000	47,000	36,900	27,500	28,400	31,000	30,450	30,450
Rental in Advance	-	-	146	323	598	1,235	706	-	-
Land Acquisitions	-	-	-	-	-	1,500	-	-	-
Total Non-Current Liabilities	95,000	75,000	47,146	37,223	28,098	31,135	31,706	30,450	30,450
CURRENT LIABILITIES									
Bank Overdraft/Advance		252	4,300	526	-	-	-	-	-
Trade Creditors		1,873	1,341	1,231	651	979	1,584	705	439
Accruals and Other Liabilities		4,620	1,885	1,568	1,728	660	524	1,148	1,258
Employee Entitlements		553	404	307	-	-	-	202	276
Rental in Advance		-	-	-	-	618	664	-	-
Goods and Services Tax		-	-	-	-	93	188	897	349
Land Acquisitions		-	-	-	1,500	6,634	-	-	-
Taxation Payable		135	40	-	-	-	319	-	201
Proposed Dividend		-	768	893	838	976	-	1,305	-
Total Current Liabilities	8,362	7,433	8,738	4,525	4,717	9,960	3,279	4,257	2,523
TOTAL EQUITY AND LIABILITIES	**218,313**	**193,963**	**163,990**	**147,539**	**133,324**	**113,035**	**105,610**	**94,425**	**90,734**
NON-CURRENT ASSETS									
Land and Land Improvements (@ net current value)	119,449	118,147	114,969	113,103	99,503	80,483	71,743	61,617	60,163
Buildings (@ net current value)	26,189	26,667	17,788	17,793	22,774	18,502	17,743	19,001	21,328
Vehicles, Plant and Equipment (@ net current value)	5,710	5,635	5,774	5,787	6,767	6,518	5,514	4,239	4,412
Capital work in progress	62,485	38,172	21,948	7,778	1,501	-	-	-	-

Deferred Tax	-	-	-	-	50	32	13	(2,106)	75
Total Non-Current Assets	213,833	188,621	160,479	144,461	130,595	105,535	95,013	82,751	85,978

WELLINGTON INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL POSITION (CONT.)

As at 30 June	Dec-98	1998	1997	1996	1995	1994	1993	1992	1991
	$000	$000	$000	$000	$000	$000	$000	$000	$000
CURRENT ASSETS									
Cash and Bank		400	333	2	221	410	206	54	3
Short Term Deposits		-	-	-	-	887	-	3,250	1,548
Prepayments		1,214	631	221	252	935	981	163	123
Trade Accounts Receivable		2,734	2,248	2,168	1,882	1,702	9,392	8,207	2,837
Sundry Accounts Receivable		994	299	297	226	3,497	18	-	245
Taxation Receivable		-	-	390	148	69	-	-	-
Total Current Assets	4,480	5,342	3,511	3,078	2,729	7,500	10,597	11,674	4,756
TOTAL ASSETS	**218,313**	**193,963**	**163,990**	**147,539**	**133,324**	**113,035**	**105,610**	**94,425**	**90,734**

STATEMENT OF CASHFLOWS

CASHFLOWS FROM OPERATING ACTIVITIES

	Dec-98	1998	1997	1996	1995	1994	1993	1992	1991
Cash was provided from:									
Receipts from Customers	15,141	26,757	25,459	24,435	25,756	26,122	19,938	17,750	10,329
Interest Received	-	41	41	9	48	764	167	216	81
	15,141	26,798	25,500	24,444	25,804	26,886	20,105	17,966	10,410
Cash was applied to:									
Payments to Suppliers and Employees	4,086	8,458	11,564	10,625	10,631	10,938	11,300	11,691	5,604
Interest Paid	1,598	4,618	3,304	1,817	1,914	1,715	3,449	3,040	2,165
Taxes Paid	480	2,638	1,818	3,145	3,226	3,414	4,260	562	849
	6,164	15,714	16,686	15,587	15,771	16,067	19,009	15,293	8,618
Net Cash Flows from Operating Activities	8,977	11,084	8,814	8,857	10,033	10,819	1,096	2,673	1,792

CASHFLOWS USED IN INVESTING ACTIVITIES

Cash was provided from:									
Proceeds from Sale of Fixed Assets		383	218	20	2,083	1,359	-	-	-
Cash was applied to:									
Purchase of Fixed Assets		32,288	19,716	16,585	10,390	6,620	3,439	917	87,241
Capitalised Interest		1,335	1,191	665	-	-	-	1,705	1,548
		33,623	20,907	17,250	10,390	6,620	3,439	2,622	88,789
Net Cash Flows Used in Investing Activities	(31,284)	(33,240)	(20,689)	(17,230)	(8,307)	(5,261)	(3,439)	(2,622)	(88,789)

WELLINGTON INTERNATIONAL AIRPORT LIMITED

STATEMENT OF CASHFLOWS (CONT.)

For the year ended 30 June	**Dec-98**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**	**1991**
	$000	$000	$000	$000	$000	$000	$000	$000	$000
CASHFLOWS FROM FINANCING ACTIVITIES									
Cash was provided from:									
Proceeds of Bank Deposits and Bills		28,000	10,100	9,400	-	-	34,250	-	87,000
Cash was applied to:									
Repayment of Loans		-	-	-	900	2,600	-	-	-
Repayment of Debentures		-	-	-	-	-	30,450	-	-
Dividends Paid		1,729	1,668	1,772	1,902	1,867	1,305	-	-
		1,729	1,668	1,772	2,802	4,467	31,755	-	-
Net Cash Flows from Financing Activities	20,000	26,271	8,432	7,628	(2,802)	(4,467)	2,495	-	87,000
NET INCREASE (DECREASE) IN CASH HELD	**(2,307)**	**4,115**	**(3,443)**	**(745)**	**(1,076)**	**1,091**	**152**	**51**	**3**
Add cash at the beginning of the year	148	(3,967)	(524)	221	1,297	206	54	3	-
CASH AT END OF THE YEAR	**(2,159)**	**148**	**(3,967)**	**(524)**	**221**	**1,297**	**206**	**54**	**3**

OPERATIONAL STATISTICS

PASSENGER NUMBERS									
Domestic Passengers		3,116,000	2,994,000	2,927,000	2,994,000	2,834,000	2,659,000	2,485,000	2,233,000

International Passengers	388,000	354,000	326,000	289,000	258,000	252,000	251,000	232,000
TOTAL PASSENGERS	3,504,000	3,348,000	3,253,000	3,283,000	3,092,000	2,911,000	2,736,000	2,465,000
AIRCRAFT MOVEMENTS								
Domestic Movements	112,283	112,961	98,671	92,692	89,119	86,447	88,371	
International Movements	4,154	3,847	3,190	2,696	2,317	2,065	1,944	
TOTAL COMMERCIAL AIRCRAFT MOVEMENTS	116,437	116,808	101,861	95,388	91,436	88,512	90,315	-
Other	15,511	15,693	13,514	16,234	17,437	15,327	13,506	
TOTAL AIRCRAFT MOVEMENTS	131,948	132,501	115,375	111,622	108,873	103,839	103,821	-

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

For the period ended	Interim Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Jun-92	15 months Jun-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
REVENUE										
Airport Charges (Landing Charge & Terminal Services Charge)		19,361	19,588	19,332	18,456	17,171	16,191	14,896	19,158	15,644
Passenger Departure Charge		7,020	6,022	4,678	4,299	3,980	3,469	2,357	2,590	2,205
Lease Rentals and Concessions		14,720	13,369	12,279	11,759	10,919	9,855	9,441	9,889	6,992
Vehicle Parking		2,460	2,272	2,076	1,759	1,565	1,380	1,135	1,453	1,118
Antarctic Visitor Centre		2,719	2,568	2,644	2,710	2,748	2,373	-	-	-
Other		1,560	1,122	1,057	1,052	754	391	714	985	631
Realised Gain on Sale of Fixed Assets		-	-	-	-	46	-	-	-	-
OPERATING REVENUE	25,225	47,840	44,941	42,066	40,035	37,183	33,659	28,543	34,075	26,590
Short Term Bank Deposits		297	368	271	106	54	46	75	22	294
Other Deposits		340	205	3	71	69	74	96	148	108
INTEREST INCOME	84	637	573	274	177	123	120	171	170	402
TOTAL REVENUE	25,309	48,477	45,514	42,340	40,212	37,306	33,779	28,714	34,245	26,992
EXPENSES										
Audit Fees	17	30	30	25	25	25	22	23	34	43
Depreciation	5,500	7,532	6,605	4,230	3,680	3,883	3,730	2,690	4,353	3,680
Directors' Fees	60	122	104	95	95	95	84	84	105	84
Employee Remuneration	4,061	7,783	8,068	7,756	7,553	6,923	7,061	6,291	7,317	6,040
Financing and Interest Costs	2,637	4,883	3,145	2,424	2,478	2,579	3,236	3,809	6,760	5,119
Other Administrative Expenses	-	2,863	2,709	2,928	2,254	2,318	2,183	1,633	1,755	1,221
Electrictity, Fuel & Oil	-	1,107	811	845	829	828	868	925	1,148	973
Maintenance - Buildings & Plant	-	3,265	2,509	1,125	1,050	1,061	1,201	950	938	931
Maintenance - Sealed Surfaces	-	1,652	887	1,142	987	1,136	1,033	1,009	649	475
Other Operating Costs	5,157	2,982	2,975	2,205	2,260	2,286	1,388	1,015	1,354	1,285
Movement in Provision for Future Expenses in Resealing Surfaces	127	100	(80)	1,007	811	1,177	746	745	931	709

TOTAL EXPENSES	17,559	32,319	27,763	23,782	22,022	22,311	21,552	19,174	25,344	20,560
Net Profit Before Extraordinaries	7,750	16,158	17,751	18,558	18,190	14,995	12,227	9,540	8,901	6,432
Extraordinary Items										
Provision for Depreciation re Terminal Expansion	-	-	8,746	-	-	-	-	-	-	-
NET PROFIT BEFORE TAX (NPBT)	7,750	16,158	9,005	18,558	18,190	14,995	12,227	9,540	8,901	6,432
Income Tax	2,612	5,233	3,946	6,471	5,952	5,583	4,174	2,797	3,712	2,800
NET PROFIT AFTER TAX (NPAT)	**5,138**	**10,925**	**5,059**	**12,087**	**12,238**	**9,412**	**8,053**	**6,743**	**5,189**	**3,632**

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

For the period ended	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Jun-92	Jun-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
EQUITY AT THE BEGINNING OF THE YEAR	114,661	110,302	112,909	84,863	77,521	71,853	66,966	62,872	59,757	57,618
SURPLUS AND REVALUATIONS										
Operating Surplus After Tax	5,138	10,925	5,059	12,087	12,238	9,412	8,053	6,743	5,189	3,632
Increase in Capital Reserve	-	-	-	-	-	-	2	-	-	7
Increase in Asset Revaluation Reserve	-	-	628	20,797	-	-	-	-	-	-
Total Recognised Revenues and Expenses	5,138	10,925	5,687	32,884	12,238	9,412	8,055	6,743	5,189	3,639
Dividends to Shareholders	(3,110)	(6,566)	(8,294)	(4,838)	(4,896)	(3,744)	(3,168)	(2,649)	(2,074)	(1,500)
EQUITY AT THE END OF THE YEAR	**116,689**	**114,661**	**110,302**	**112,909**	**84,863**	**77,521**	**71,853**	**66,966**	**62,872**	**59,757**

STATEMENT OF FINANCIAL POSITION

EQUITY										
Share Capital (57.6 m ordinary shares @ $1)	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600
Asset Revaluation Reserve	21,355	21,355	21,425	20,797	-	-	-	-	-	-
Capital Reserve	366	366	366	366	366	366	320	7	7	7
Retained Earnings	37,368	35,340	30,911	34,146	26,897	19,555	13,933	9,359	5,265	2,150
Total Equity	116,689	114,661	110,302	112,909	84,863	77,521	71,853	66,966	62,872	59,757

NON-CURRENT LIABILITIES										
90-day Short Term Notes (@ discounted value)	68,340	70,390	47,149	29,348	31,269	32,746	38,311	39,568	37,224	35,520
Other Term Borrowings	-	-	-	-	-	26	62	1,160	1,209	1,297
Total Non-Current Liabilities	68,340	70,390	47,149	29,348	31,269	32,772	38,373	40,728	38,433	36,817
CURRENT LIABILITIES										
Trade Creditors	4,367	1,796	916	1,013	1,200	1,156	1,951	2,517	1,249	2,540
Construction Creditors	-	3,001	6,589	526	-	-	-	-	-	-
Employee Entitlements	-	725	577	613	560	618	596	519	929	1,004
Goods and Services Tax	-	127	-	188	186	216	174	47	319	165
Accrued Expenses	-	912	2,098	1,341	862	979	-	-	-	-
Proposed Dividend	3,110	3,566	4,608	2,362	2,707	1,958	1,670	1,382	461	776
Taxation Payable	719	-	-	-	-	180	136	237	1,072	686
Current Portion of Term Borrowing	-	-	-	-	-	2,031	2,059	2,048	2,043	-
Total Current Liabilities	8,196	10,127	14,788	6,043	5,515	7,138	6,586	6,750	6,073	5,171
TOTAL EQUITY AND LIABILITIES	**193,225**	**195,178**	**172,239**	**148,300**	**121,647**	**117,431**	**116,812**	**114,444**	**107,378**	**101,745**

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL POSITION (CONT.)

As at	**Dec-98**	**Jun-98**	**Jun-97**	**Jun-96**	**Jun-95**	**Jun-94**	**Jun-93**	**Jun-92**	**Jun-91**	**Mar-90**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
NON-CURRENT ASSETS (unless stated, @ cost of acquisition from Christchurch Airport Authority less accumlated depreciation)										
Land (@ current valuation)		56,756	56,680	55,437	34,440	34,189	33,244	33,214	33,228	32,641
Buildings		24,770	24,034	49,471	49,685	47,125	45,378	43,123	43,036	35,318
Terminal Facilities		71,208	23,237	-	-	-	-	-	-	-
Sealed Surfaces (after provision for future resealing expenses)		11,921	12,553	11,604	13,436	14,624	16,745	17,959	18,635	21,257
Plant and Equipment		6,412	7,451	9,273	10,684	11,122	11,734	7,114	7,512	5,067
Furniture		1,187	1,285	1,895	2,100	1,812	1,741	1,086	1,175	1,569
Motor Vehicles		2,016	2,196	2,100	2,232	2,625	2,910	855	966	1,294
Work in Progress		12,505	34,801	10,710	1,701	1,432	1,410	7,632	820	2,502
Total Non-Current Assets	186,910	186,775	162,237	140,490	114,278	112,929	113,162	110,983	105,372	99,648

CURRENT ASSETS

Cash	-	-	13	9	11	10	7	4	3	2
Bank and Short Term Deposits	1,741	4,275	2,611	2,769	3,255	155	123	269	(1,148)	(1,232)
Receivables and Prepayments (@ net realisable value)	3,575	3,189	4,253	4,079	3,183	3,757	3,028	2,680	2,939	3,198
Taxation Receivable	-	193	1,562	321	232	-	-	-	-	-
Future Income Tax Benefit	-	-	950	-	-	-	-	-	-	-
Inventories (@ lower of weighted average cost or NRV)										
- Materials	999	202	107	115	126	121	117	108	157	87
- Retail Stock	-	459	419	442	487	389	328	54	-	-
- Livestock (@ IRD rates)	-	85	87	75	75	70	47	46	55	42
Total Current Assets	6,315	8,403	10,002	7,810	7,369	4,502	3,650	3,161	2,006	2,097
TOTAL ASSETS	**193,225**	**195,178**	**172,239**	**148,300**	**121,647**	**117,431**	**116,812**	**114,144**	**107,378**	**101,745**

STATEMENT OF CASHFLOWS

CASHFLOWS FROM OPERATING ACTIVITIES

Cash was provided from:										
Receipts from Customers	24,349	48,449	45,416	41,273	40,082	36,596	33,650	28,656	34,679	27,193
Interest Received	89	632	601	247	723	55	47	75	-	-
Net GST Received	414	849	-	2	-	43	126	-	289	-
	24,852	49,930	46,017	41,522	40,805	36,694	33,823	28,731	34,968	27,193

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

STATEMENT OF CASHFLOWS

For the period ended	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Jun-92	Jun-91	Mar-90
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Cash was applied to:										
Payments to Suppliers and Employees	8,758	19,335	17,500	15,528	15,351	14,705	13,830	12,783	14,368	10,250
Financing and Interest Costs	2,638	4,634	3,048	2,481	2,469	2,617	3,234	3,785	6,457	5,119
Income Tax Paid	1,700	2,913	6,137	6,557	6,364	5,539	4,275	3,633	3,326	2,161
Net GST Paid	-	-	912	-	31	-	-	271	-	574
	13,096	26,882	27,597	24,566	24,215	22,861	21,339	20,472	24,151	18,104
Net Cash Flows from Operating Activities	11,756	23,048	18,420	16,956	16,590	13,833	12,484	8,259	10,817	9,089
CASHFLOWS USED IN INVESTING ACTIVITIES										
Cash was provided from:										
Proceeds from Sale of Fixed Assets	-	175	74	89	36	157	169	32	49	52
Cash was applied to:										
Purchase of Fixed Assets	8,673	37,205	30,401	10,428	5,844	4,870	7,873	7,145	12,051	13,037
Net Cash Flows Used in Investing Activities	(8,673)	(37,030)	(30,327)	(10,339)	(5,808)	(4,713)	(7,704)	(7,113)	(12,002)	(12,985)
CASHFLOWS FROM FINANCING ACTIVITIES										
Cash was provided from:										
Term Borrowings	-	23,241	17,801	29,348	-	-	4,940	2,043	39,224	1,297
Cash was applied to:										
Bank Bill Facility Repaid	-	-	-	31,269	3,477	5,565	5,883	-	-	-
Other Term Borrowings Repaid	2,051	-	-	-	57	64	1,100	43	35,565	-
Dividends Paid	3,566	7,608	6,048	5,184	4,147	3,456	2,880	1,728	2,389	724
	5,617	7,608	6,048	36,453	7,681	9,085	9,863	1,771	37,954	724

Net Cash Flows from Financing Activities	(5,617)	15,633	11,753	(7,105)	(7,681)	(9,085)	(4,923)	272	1,270	573
NET INCREASE (DECREASE) IN CASH HELD	**(2,534)**	**1,651**	**(154)**	**(488)**	**3,101**	**35**	**(143)**	**1,418**	**85**	**(3,323)**
Add cash at the beginning of the year	4,275	2,624	2,778	3,266	165	130	273	(1,145)	(1,230)	2,093
CASH AT END OF THE YEAR	**1,741**	**4,275**	**2,624**	**2,778**	**3,266**	**165**	**130**	**273**	**(1,145)**	**(1,230)**

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

OPERATIONAL STATISTICS

For the period ended	Dec-98	Jun-98	Jun-97	Jun-96	Jun-95	Jun-94	Jun-93	Jun-92	Jun-91	Mar-90
PASSENGER NUMBERS										
Domestic Passengers	1,346,954	2,758,571	2,845,008	2,884,497	2,919,119	2,701,578	2,432,295	2,239,076	2,251,605	2,525,874
International Passengers	486,104	911,668	953,270	848,521	777,842	720,914	632,639	565,657	539,802	556,263
TOTAL PASSENGERS	1,833,058	3,670,239	3,798,278	3,733,018	3,696,961	3,422,492	3,064,934	2,804,733	2,791,407	3,082,137
AIRCRAFT MOVEMENTS										
Domestic Movements (excluding General Aviation)		74,489	73,754	83,234	76,323	72,842	68,411	65,819	67,306	68,335
International Movements (excluding General Aviation)		5,752	5,127	4,696	4,413	3,940	3,697	4,095	4,086	4,033
TOTAL COMMERCIAL AIRCRAFT MOVEMENTS		80,241	78,881	87,930	80,736	76,782	72,108	69,914	71,392	72,368
General Aviation		56,991	68,900	44,203	52,858	45,933	43,368	50,238	53,762	52,841
TOTAL AIRCRAFT MOVEMENTS		137,232	147,781	132,133	133,594	122,715	115,476	120,152	125,154	125,209

APPENDIX 2

SCHEDULES OF CURRENT CHARGES OF THE AIRPORTS

AUCKLAND INTERNATIONAL AIRPORT LIMITED

AIRCRAFT CHARGES SCHEDULE

Effective From 1 July 1997

1. LANDING CHARGES (BASED ON MCTOW)

(i)	Aircraft under 3,000kg	$12.50 per landing - operators with 25 flights or more per month
		$25.00 per landing - operators with less than 25 flights per month
(ii)	Aircraft 3,000kg and higher but under 6,000kg	$0.0043 per kg - operators with 25 flights or more per month
		$25.00 per landing - operators with less than 25 flights per month
(iii)	Aircraft 6,000kg and higher but under 40,000kg	$0.0065 per kg
(iv)	Aircraft 40,000kg and higher	$0.0105 per kg - International flights
		$0.0108 per kg - Domestic flights

* This charge covers the use of runway, taxiway and apron areas (excluding parking) and the services of the Rescue Fire Unit.
* A 50% discount applies to training flights (multiple touch-and-go training flights are counted as one landing) for aircraft over 6,000kg.

2. PARKING CHARGES (NON-SCHEDULED FLIGHTS ONLY)

(a) Aircraft under 6,000kg MCTOW
- (i) Parking up to 6 hours - No Charge
- (ii) Parking in excess of 6 hours - $50.00 for every 24 hour period or part period from time of landing

(b) Aircraft 6,000kg and higher but under 40,000kg MCTOW
- (i) Parking up to 6 hours - No Charge
- (ii) Parking, between 6 hours and 5 days - $75.00 for every 24 hour period or part period from time of landing
- (iii) Parking between 6 and 10 days - $100.00 for every 24 hour period or part period from day 6 to day 10
- (iv) Parking in excess of 10 days - $150.00 for every 24 hour period or part period from day 10 onwards

(c) Aircraft 40,000kg MCTOW and higher

- (i) Parking up to 6 hours - No Charge
- (i i) Parking between 6 hours and 5 days - $100.00 for every 24 hour period or part period from time of landing
- (iii) Parking between 6 and 10 days - $250.00 for every 24 hour period or part period from day 6 to day 10
- (iv) Parking in excess of 10 days - $500.00 for even. 24 hour period or part period from day 10 onwards

3. INTERNATIONAL TERMINAL SERVICES CHARGES

Payable if embarking and/or disembarking passengers are using any of the International Terminal Passenger only facilities.

Rates for Non scheduled Flights:

* With airbridge or transfer bus use - $10.00 for each embarking and each disembarking passenger
* Without airbridge or transfer bus use - $8.50 for each embarking and each disembarking passenger

Rates for Scheduled Flights:

* for airlines party to the Terminal Services Charges Agreement, rates as specified in the Agreement

NOTES

(i) MCTOW means Maximum Certified Take Off Weight.

(ii) All above charges are subject to 12.5% Goods and Services Tax which can be claimed back from the Inland Revenue Department if the operator is locally registered for that tax.

(iii) The charges are set in accordance with section 4(2)(a) of the Airport Authorities Act and may be varied from time to time.

(iv) The charges are applicable to all Domestic and International flights (parking charges apply to non-scheduled flights only) and are totally separate from charges made by Airways Corporation of NZ Ltd for aircraft traffic control.

(v) All charges are payable by 20th of the following month except charges for non-scheduled International Flights which are payable on Landing (including parking charges for estimated time of parking) unless other arrangements have been made.

(vi) Aircraft include helicopters.

WELLINGTON INTERNATIONAL AIRPORT LIMITED

AIRCRAFT CHARGES SCHEDULE

Effective from 1 April 1999

LANDING AND APRON CHARGE
Aircraft Weight Band

Above 30 tonnes	12.13	$/tonne
2-30 tonnes	6.17	$/tonne
Less than 2 tonnes	12.50	$/landing

A minimum charge of $25.00 per operator per month will apply.

PARKING CHARGE (ITINERANT FLIGHTS ONLY)
(Applies to aircraft greater than 6 tonne MCTOW)

(i) Parking up to 6 hours - No Charge
(ii) Parking between 6 hours and 5 days - $75.00 for every 24 hour period or part period from time of landing.
(iii) Parking between 6 and 10 days - $100.00 for every 24 hour period or part period from day 6 to day 10.
(iv) Parking in excess of 10 days - $150.00 for every 24 hour period or part period from day 10 onwards.

TERMINAL CHARGE
(Aircraft using Domestic or International Terminal)

Domestic	0.38	$/seat
International	4.61	$/seat

Notes.
1. All charges will be recovered on a per landing basis.
2. $/tonne is based on the maximum certified take-off weight (MCTOW) of an aircraft.
3. $/seat is based on the maximum passenger capacity of an aircraft as normally configured.
4. All charges exclude GST.
5. All aircraft less than 2 tonnes are charged one fee per landing only.
6. A minimum charge of $25.00 per operator per month will apply.
7. GA aircraft will only be charged for a single landing, for touchdown/take-off practices carried out for training purposes.
8. Helicopter charges are only to be collected from revenued flights (ie emergency based flights will not be charged).

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

SCHEDULE OF AIRPORT CHARGES

Effective from 1 June 1991

Aircraft Type	Airfield	Rescue Fire	Terminal	Quarantine Cost	Total Charge
International					
B747	1,791	463	2,716	328	5,298
MD 11 /DC 10	1,367	463	1,746	211	3,787
A340	1,372	463	2,277	275	4,387
B767	772	463	1,293	156	2,684
B757	530	463	1,129	136	2,258
B737	179	88	711	86	1,064
Domestic					
B767	772	463	461	-	1,696
B737	179	88	257	-	524
BAE 146 Ansett NZ	162	88	99	-	349
Dash 8 Ansett NZ	69	12	31	-	112
ATR 72	72	12	84	-	168
Saab 34	54	12	46	-	112
Metroliner	29	1	28	-	58
Twin Otter	29	1	28	-	58
Nomad	27	1	15	-	43
PA 31	23	1	2		26
Freighters					
B767	772	463	-	-	1,235
B737	179	88	-	-	267
BAE 146	162	88	-	-	250
CV 58	80	1	-	-	81
DC 3	54	1	-	-	55
Metroliner	29	1	-	-	30
Other					
Corporate Jets	55	12	-	-	67

Note:

1. The terminal component of the charge will only apply to passenger operations.
2. The quarantine component of the charge will only apply to passenger operations.
3. A discount of 20% on the airfield cost centre will apply to all training flights by commercial operators.
4. All charges are subject to Goods and Services Tax at the rate of 12.5%.