

Critical Issues Paper 16 March 2001

INTRODUCTION

1. Pursuant to s 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 1 August 2002 on whether he should recommend the introduction of price control on airfield activities at any of Auckland, Wellington or Christchurch International Airports (the airports).¹
2. Given the s 54 Notice, the Commission is undertaking a price control study of airfield activities. As a result of its preliminary investigations, the Commission has identified what it considers to be the critical issues for the study. On 2 July 1999—prior to its reporting date being extended—the Commission released a Critical Issues Paper, A99/1, to assist parties in making their initial submissions. The Commission is now issuing this revised and updated Critical Issues Paper as the formal phase of its inquiry commences. Appendix 4 provides a summary of the revisions and cross references to A99/1.
3. The critical issues identified are broadly grouped into the following six areas:
 - What the Commission is being asked to contemplate—the definition of control under the Commerce Act. Q 1-5
 - The “conditions, tests or thresholds” that the Commission has to consider in order to respond to the s 54 Notice. Q 6-14
 - Examining the activities covered by the terms of reference to determine the goods or services for which control could be recommended; namely those goods or services, if any, that are supplied or acquired in markets in which competition is limited or is likely to be lessened. Q 15-24
 - An assessment of whether control is necessary or desirable for any of the goods or services identified. Q 25-84
 - Whether control should be recommended. Q 85-90
 - Operation of any controls—where control is declared, how it would operate. Q 91-95

¹ The Commission was originally required to report to the Minister by 14 December 1999, but the reporting date was extended by the Minister on 29 July 1999.

PROCESS

4. The process for the Commission's inquiry was originally outlined in Information Paper A98/2 (3 August 1998). The only changes since the release of that paper have been with regard to the timetable for the formal consultation phase, and the decision by the Commission to release a Critical Issues Paper to assist parties in making initial submissions. Otherwise, the process outlined in A98/2 is still being followed.

Timetable

5. On 2 September 1999, the Commission published a Revised Timetable, A99/3, for the inquiry following the extension by the then Minister of Commerce and Enterprise of the Commission's reporting date to 1 August 2002. Subsequently, the Commission resolved to release a revised and updated Critical Issues Paper in early December 2000, and to extend the length of the conference.
6. On 31 October 2000, the Commission sought comment from interested parties on its paper, Proposed Amendments to Inquiry Timetable, A00/1. Two amendments were proposed involving the due date for experts' reports being moved to 27 April 2001, and the addition of the opportunity for interested parties and experts to make "cross" submissions by 18 May 2001 (the old date for experts' reports). Cross submissions allow interested parties and experts to make written comment on other submissions and experts' reports (in addition to the opportunity provided at the conference). No party objected to the Commission's proposals and the amendments to the timetable were made.
7. Subsequently, the Commission decided to delay the commencement of the formal phase of its inquiry by 3 months so as to ensure that parties were provided with reasonable opportunity to submit their views. The timetable for the remainder of the inquiry is as follows:

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| 27 April 2001 | Initial submissions due |
| 8 June 2001 | Commission's draft report issued ² |
| 20 July 2001 | Submissions on draft report <u>and</u> experts' reports due |
| 17 August 2001 | Cross submissions due |
| 4-7, 10 and 12-14 September 2001 | Conference |
| 2 November 2001 | Commission aims to report to the Minister of Commerce |
| 1 August 2002 | Date by which the Commission must report to the Minister. |

² Dependent on anticipated amendments to the Commerce Act having been enacted.

8. Note that the Commission reserves the right to alter the timetable in the future, at its discretion, if it considers it to be necessary.

Guidelines on Submissions to the Commission

9. The Commission is required to report to the Minister and, in doing so, to give reasons for the recommendations it makes. It intends to examine critical issues from a neutral starting point. Parties are required to substantiate the submissions and evidence they place before the Commission. The Commission's recommendations will be based on its assessment of evidence presented and the facts established.
10. Submissions should be provided to the Commission in both hard copy and electronic forms where possible. Electronic copies of submissions should be either in Microsoft Word (".doc") and/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. 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.
11. The Commission recognises that parties may consider parts of their submissions to be commercially sensitive, or may have given undertakings to third parties to keep certain information confidential. However, any requests for confidentiality will not be accepted automatically. Information will only be kept confidential where it is genuinely confidential in nature. Information can be kept confidential either under the Official Information Act 1982 or section 100 of the Commerce Act. Requests for confidentiality will be considered in accordance with the Commission's confidentiality policy.³ Unless stated, the Commission will assume that a submission is public.
12. Where commercially sensitive information is considered to be contained in a document, that information should be clearly identified and 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. Should interested parties wish to do so, they can provide the Commission with an electronic copy of their confidential submission (with confidential information in square brackets), and the Commission will then prepare a public version of the submission.

Conference

13. The Commerce Act requires the Commission to give interested persons reasonable opportunity to furnish their views. Interested parties are invited to attend a conference to be held over 8 days on 4-7, 10 and 12-14 September 2001 at the Overseas Terminal, Oriental Bay, Wellington. Prior to the conference, interested parties have the opportunity to make three written submissions and to provide reports by independent experts.
14. The conference will broadly follow the Commission's published *Conference Procedures* in relation to authorisations under the Commerce Act. However, issues such as order of speaking and format will be determined (and parties advised) nearer the time. The conference will give interested parties the opportunity to make oral submissions (summarising their arguments) before the Commission, and the Commission will have the opportunity to ask questions.

Access to Information

15. The Commission recognises that parties may have differing amounts of information on Auckland, Wellington and Christchurch International Airports, and in respect of the different aspects of the Commission's inquiry. In some cases, parties may not have the information needed to submit on all of the issues identified. The Commission will endeavour to ensure that, where appropriate, parties have access to sufficient information so as to be able to furnish their views.
16. Information held by the Commission falls into four broad groups:
 - Information that is in the public domain (public information).
 - Information provided to the Commission that is not in the public domain, but is able to be released under the Official Information Act 1982 (non-confidential information).
 - Information provided to the Commission that parties consider to be commercially sensitive and should not be released under the Official Information Act 1982 (confidential information).
 - Information provided to the Commission that is protected by a section 100 confidentiality order (protected information).

³ The Commission is currently reviewing its confidentiality policy and copies will shortly be publicly available.

Public Information

17. With respect to public information, the Commission has obtained copies of the published annual reports of the airport companies from corporatisation to date. To ensure that all interested parties have access to this information, without having to approach the airports directly, the Commission encloses spreadsheets of the audited financial accounts and operational statistics of each of the airports in Appendix 1.⁴ Further, Appendix 2 contains schedules of some of the current charges at each airport in connection with landings, aircraft parking, terminal services, and passengers.

18. Pursuant to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, the airports this year, for the first time, have disclosed the following information:
 - Segment financial accounts for identified airport activities.
 - Passenger charges and charges for identified airport activities; and the methodology used to determine the charges.
 - Basis for allocating assets to identified airport activities.
 - Details of asset revaluations and any reports on which revaluations were based.
 - Operating costs of identified airport activities.
 - Weighted average cost of capital (WACC) and the methodology and calculations used to determine WACC.
 - Numbers of passenger and aircraft movements.
 - Interruptions to services.
 - Number of people employed in identified airport activities.

19. The information disclosures made this year by each airport are available on their websites at the following links:

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| Auckland | http://www.auckland-airport.co.nz/StatutoryInfo/disclosure_2000.html |
| Wellington | http://www.wlg-airport.co.nz/airport/index.html |
| Christchurch | http://www.christchurch-airport.co.nz/Profile_FinancialReporting.asp . |

20. Pursuant to the disclosure regulations, asset valuation reports are available for inspection at the offices of the airport companies. Alternatively, parties can arrange to view the reports at the Commission's office in Wellington. Parties may find it useful to refer to the information disclosures when responding to the questions in this paper.

⁴ Note that Appendix 1 has been updated since 2 July 1999 to include information for the latest financial years.

21. Other relevant public information includes legislation and past decisions of the Commission and the courts in respect of price control in New Zealand. A list of past decisions of the Commission is available on the Commission's website, along with copies of decisions under the Commerce Act 1986. Hard copies of older decisions—under the Commerce Act 1975—can be requested from the Commission, however, decisions under the 1975 Act are not directly relevant as the provisions under that Act differ markedly. Court decisions, legislation, academic literature, and information on regulation internationally can be obtained by parties themselves through the relevant channels.

Non-Confidential Information

22. The Commission has been provided with information that, whilst not already in the public domain, is able to be released by it under the Official Information Act 1982 (becoming public information). In fact, some parties have already obtained some of this information by making requests under the Official Information Act. Relevant non-confidential information includes the following:
- Schedules detailing the airport activities (for both identified airport activities and other activities) at each of Auckland, Wellington and Christchurch International Airports. These specify the activities undertaken by the airport companies, the activities undertaken by third parties, the ownership of assets, and the prices or revenues of the airport companies in respect of the various activities. These schedules have been prepared based on the Commission's preliminary investigations in conjunction with the airport companies. To assist parties, these schedules are enclosed in Appendix 3.
 - Further information in respect of cost allocation, pricing models, asset valuation, WACC calculations, and the various identified airport activities (in addition to that disclosed by the airports under information disclosures), some of which is able to be released under the Official Information Act. For more information, please contact the Commission.

Confidential Information

23. In addition to the public and non-confidential information, the Commission has been provided with information that parties consider to be commercially sensitive and which the Commission has agreed to keep confidential under the Official Information Act 1982.⁵ Some of this information is potentially important to the issues being considered in this inquiry. In addition, the Commission considers that parties may not be able to fully appreciate some issues based on public information alone. The Commission must be able to test confidential information to the maximum extent possible.

⁵ Decisions to keep information confidential are reviewable by the Office of the Ombudsman.

24. To do enable the Commission to test confidential information to the maximum extent possible and enable parties to furnish their views, the Commission will utilise some or all of the following practices:
- Ensure that public information conveys the thrust of confidential information without disclosing confidential details.
 - Release confidential material under the Official Information Act on public interest grounds.
 - Make confidential information available to experts employed by the Commission.
25. Decisions as to how confidential information will be tested will be based on a case-by-case assessment of whether parties have *sufficient* information to be able to furnish their views. Sufficient information does not mean ample information, but at least enough to enable the relevant purpose to be fulfilled—parties are not entitled to every conceivable piece of relevant information. Sufficiency is a relative and flexible concept dependent upon the context and purposes for which the consultation is required, and the existing knowledge and position of the parties. It is recognised that, due to consultations with airports, the major airlines already have most of the confidential information.

Protected Information

26. Some information held is protected under the Commerce Act by a section 100 confidentiality order. A section 100 order prohibits the publication or communication of, or the giving of evidence involving, the information. The Commission is currently considering—as part of the review of its confidentiality policy—how it will test this information. The options being considered are providing information to independent experts employed by interested parties under confidentiality undertakings and/or providing it to experts that the Commission may employ.

FURTHER INFORMATION

27. Information on the price control study 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

SCOPE (TERMS OF REFERENCE) OF THE INQUIRY

28. Acting pursuant to s 54 of the Commerce Act, the Minister of Commerce (the Minister) has required the Commission to report to him on the following matters:

- “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
- 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.”

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

- “1. Whether {price control over} charges should be introduced for airfield activities at one or more of the three major international airports.
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?
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.

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?”

30. The Airport Authorities Amendment Act 1997 defines airfield activities as one of three identified airport activities—the others being aircraft and freight activities, and specified passenger terminal activities. Airfield activities are specifically defined in the Airport Authorities Amendment Act as follows:

Airfield Activities means activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft; and includes-

- (a) The provision of any or more of the following:
- (i) Airfields, runways, taxiways, and parking aprons for aircraft;
 - (ii) Facilities and services for air traffic and parking apron control;
 - (iii) Airfield and associated lighting;
 - (iv) Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft;
 - (v) Rescue, fire, safety and environmental hazard control services;
 - (vi) Airfield supervisory and security services; and
- (b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

31. In broad terms, the Commission is required to report to the Minister on four things:

- Whether there is limited competition for airfield activities.
 - Whether control is necessary or desirable in respect of the charges for airfield activities.
 - Whether market conditions are such that the Minister should make a recommendation resulting in the imposition of control over such charges.
 - The nature and extent of any price control measures that would be introduced (where applicable).
32. The s 54 Notice relates solely to airfield activities. However, the Minister of Commerce, in response to suggestions from airlines that the scope of the inquiry should be widened, has stated that:
- “...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.”⁶
33. Although the scope is limited to airfield activities, the integrated nature of airport activities makes it necessary for the Commission to gain an understanding, and consider the impact, of other airport activities. The Commission, therefore, considers that it should examine airfield activities in the context of all airport activities. Accordingly, where necessary, this paper also examines airport activities other than airfield activities. However, in reporting to the Minister, the Commission intends to confine its recommendations to airfield activities.

⁶ Letter dated 4 February 1999 from Hon Max Bradford, Minister for Enterprise and Commerce, to Mr David Beatson, Air New Zealand.

CHANGES TO THE COMMERCE ACT 1986

34. Since the receipt of the s 54 Notice, changes have been proposed to the Commerce Act, including some of the current provisions in Parts IV and V (the price control provisions). The Minister has indicated that it is a high priority for the Government to enact the changes as soon as possible. The exact wording of the amendments will be known once they are introduced into Parliament (and subsequently enacted). However, the Minister has released a cabinet paper describing the Government's proposed changes. To a large extent, the changes are expected to be similar to those suggested by the previous Government's Commerce (Controlled Goods and Services) Amendment Bill. The Commission expects the changes to include repealing Part IV and sections 70-74 of Part V of the Act, replacing them with new a Part 4 and new provisions in Part 5. Changes to Part V are understood to be likely to give the Commission increased flexibility in administering controls by granting it discretion in respect of approach. Further, it is anticipated that the present limiting of Part IV to the control of prices will be removed, and the control of goods or services will extend to prices, revenues and quality standards. Also, changes to the wording of section 53(2) are expected.
35. Although the s 54 Notice was issued under the existing provisions of the Commerce Act, the Commission, in making its recommendations to the Minister, intends to consider any amended provisions that may apply on the grounds that the Minister is likely to be considering, and making decisions based on, the Commission's report under amended provisions of the Act. Where relevant—and to the extent it can—this paper refers to the expected amendments to the legislation, so that parties may, in making their submissions, take account of the anticipated changes.
36. The anticipated amendments are likely to mainly affect three areas of this paper (1, 2 and 5), as follows:
- What the Commission is being asked to contemplate—the definition of control under the Commerce Act. Changes to s 70 are expected to broaden the definition. Q 1-5
 - The “conditions, tests or thresholds” that the Commission has to consider—s 53(2)(b) of the Commerce Act is expected to be amended in terms of whose interests are to be considered. Q 6-14
 - Operation of any controls—if control is declared, how would it operate. Similarly, changes to s 70 are likely to provide more flexibility, granting the Commission discretion in respect of how it administers any controls. Q 91-95

CRITICAL ISSUES

The Definition of Control under the Commerce Act

37. In order to consider whether airfield activities should be controlled in accordance with the Commerce Act, it is necessary to define control. However, the Act does not define price control or suggest what form it might take. Some guidance is provided by s 70 which currently allows the Commission to “authorise a maximum, actual, or minimum price” and by previous decisions of the Commission and the Courts with respect to the administration of price control.
38. As noted earlier, anticipated amendments to the Commerce Act are likely to propose two key changes. The first is that price control under the Commerce Act be extended to control of prices, revenues, and quality standards. Secondly, that the method of control with regard to prices, revenues and quality standards be at the Commission’s discretion—in contrast to the current provisions where the Commission is limited to authorising a maximum, actual or minimum price for controlled goods and services.
39. The Commission must determine what the definition of “control” is for the purposes of the Commerce Act. Before doing this, however, the terms “price” and “revenue” need to be defined and interpreted. The definitions of “price” and “revenue” impact on the definition of “control”.

Definition of Price

40. 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”. The definition of price appears to be quite broad. It also does not appear to be restricted to any period of time.

Question 1: How should the definition of price be interpreted in respect of Part IV of the Act? Is price limited to the charges, rents or fees that users or consumers pay to acquire goods or services? Does price (by definition) include other factors, for example, the asset values placed on the assets utilised or employed in supplying goods or services?

Question 2: Given your response to question 1, what prices exist in relation to the airfield activities at Auckland, Wellington and Christchurch International Airports? What prices exist in relation to other airport activities at Auckland, Wellington and Christchurch International Airports?

Definition of Revenue

41. The Commerce Act 1986 not currently define the term “revenue” and the Amendment Bill is not expected to. 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” and would appear to be defined in terms of a period of time, for example, a year. The Commission must determine what the definition of revenue is for the purposes of the Commerce Act if it is to consider the anticipated amendments and the possibility of controlling revenue.

Question 3: How should revenue be defined for the purposes of the Commerce Act? Is it a gross or net (net of expenses incurred) concept? Over what period of time should revenue be measured? Should revenue be a pre- or post-tax concept? Should it be measured in real or nominal terms? Should revenue be determined on a cash basis or an accrual basis?

Question 4: Given your response to question 3, what revenues exist in relation to the airfield activities at Auckland, Wellington and Christchurch International Airports? What revenues exist in relation to other airport activities at Auckland, Wellington and Christchurch International Airports?

Definition of Control

42. The current provisions of s 70 only allow the Commission to “authorise a maximum, actual, or minimum price”. Expected amendments are likely to grant the Commission discretion in the approach it uses to administer price control. The exact wording of proposed changes to s 70 will be contained in the SOP introduced by the Minister.

Question 5: How should price control be interpreted under Part IV of the Commerce Act? How might the definition of control change as a result of the anticipated amendments to s 70? What are the forms of control that may be contemplated? Where do they fit on the spectrum of forms of control, based on the ‘degree’ or method of control?

Conditions, Tests, or Thresholds for Controlling Goods or Services under the Commerce Act

43. Section 53(2) of the Commerce Act allows the Minister to recommend that goods or services be controlled if satisfied that:
- (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.
44. It is important to note that the Commission has never had to consider whether goods or services should be controlled. However, it has some experience with the requirements of s 53(2) as they mirror the first two considerations in s 73, which the Commission was required to consider when it previously authorised prices for controlled goods or services. In determining whether the requirements of s 53(2) are satisfied, a number of “conditions, tests, or thresholds” potentially need to be considered. The s 54 Notice requires the Commission to report to the Minister on the “conditions, tests, or thresholds” considered. For these reasons, the Commission needs to determine those “conditions, tests, or thresholds”.

Section 53(2)(a)

45. 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. Section 3(2) also provides that “references to the lessening of competition include references to the hindering or preventing of competition”. However, the amendments are proposed that would see the term “substantial lessening” also used in s 47 of Part 3 of the Act. The Commission must determine the “conditions, tests, or thresholds” that are needed to determine whether competition is “limited or is likely to be lessened” and to what extent the principles of competition used elsewhere in the Act are relevant.

Question 6: Given the requirements of s 53(2)(a), what “conditions, tests or thresholds” would be useful in determining whether competition is “limited or is likely to be lessened”? How should the words “limited or is likely to be lessened” be interpreted? To what extent is the Commission’s approach to competition in Parts II and III of the Commerce Act relevant in respect of Part IV? What specific factors need to be considered in respect of any such “conditions, tests or thresholds”? Please explain.

Section 53(2)(b)

46. Section 53(2)(b) requires that “It is necessary or desirable for...goods or services to be controlled...in the interests of users, consumers, or, as the case may be, of suppliers”. The Commerce Act does not define the terms “necessary or desirable” or “in the interests of”, or provide any guidance as to their interpretation. The Commission must determine the “conditions, tests, or thresholds” that are needed to determine whether control of goods or services is “necessary or desirable”.

Question 7: Given the requirements of s 53(2)(b), what “conditions, tests or thresholds” would be useful in determining whether control of goods or services is necessary or desirable? How should the words “necessary or desirable” and “in the interests of” be interpreted? What specific factors need to be considered in respect of any such “conditions, tests or thresholds”? Please explain.

Interests to be Considered

47. In considering the provisions of s 53(2)(b), the Act directs the Commission to consider whether the imposition of control is necessary or desirable in the interests of *users, consumers, or, as the case may be, of suppliers*. Of these, only the term “supplier” is defined in the Act, as a person who provides, grants or confers services; or supplies goods by way of gift, sale, exchange, lease, hire or hire purchase. The Commission needs to determine whose interests it is required to consider.
48. The Amendment Bill proposes that the purpose of the Commerce Act be “for the long-term benefit of consumers”. In line with the changes proposed by the previous Government, the SOP is expected to replace the current provisions in s 53(2)(b) and provide that the following interests be considered in determining whether the imposition of control is necessary or desirable:
- Persons who acquire goods or services from a person who faces limited or lessened competition in supplying them.⁷
 - Suppliers who supply goods or services to a person who faces limited or lessened competition in acquiring them.

⁷ The current provisions of the Act refer to users and consumers rather than persons.

Question 8: In determining whether the imposition of control is “necessary or desirable”, whose interests is the Commission able to consider? Whose interests should it consider? In considering whether the imposition of control is “necessary or desirable”, whose interests is the Commission acting to safeguard? In terms of the current provisions, how should the terms “users”, “consumers” and “suppliers” be defined and interpreted? With respect to the likely amendments, how should the term “persons acquiring the goods” be interpreted? How does the term “persons acquiring the goods” compare to the terms “users” and “consumers”? How, if at all, do the interests to be considered change given the anticipated amendments? Please explain.

Question 9: Who are the users, consumers, and suppliers of airfield activities at, Auckland, Wellington and Christchurch International Airports? In respect of the likely amendments, who are the persons acquiring airfield activities at, Auckland, Wellington and Christchurch International Airports?

Efficiency

49. A key issue is whether efficiency is a valid consideration in considering matters under Part IV of the Act, and in determining whether control should be imposed.
50. The current Part IV provides that goods or services are controlled in accordance with the Commerce Act. The purpose of the Act is to promote competition in markets in New Zealand. Also, s 73 sets out the factors to which the Commission must have regard in implementing control through authorising prices for controlled goods or services. Sub-sections (a) and (b) mirror the considerations in respect of s 53(2), however, s 73(c) goes further and specifically 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). It is not totally clear whether efficiency can, or should, be considered in deciding whether control is “necessary or desirable”.
51. The Amendment Bill proposes to replace the current long title of the Act with a purpose statement being that “{t}he purpose of this Act is to promote competition in markets for the long term benefit of consumers”. Whereas currently the long title simply talks of promoting competition in markets, the proposed amendment aims to do so for the “long term benefit of consumers”.

Question 10: Should efficiency be considered by the Commission when determining whether control of goods or services is necessary or desirable? Are the considerations in s 73(c) relevant to determining whether control should be imposed? Should the “promotion of efficiency”, as stated in s 73(c) be considered in determining whether control should be imposed? Is efficiency one of the “conditions, tests or thresholds” that need to be considered in determining whether control of goods or services is necessary or desirable per s 53(2)(b)? How, if at all, would your answer differ as a result of the anticipated amendments to the Act? Why?

Question 11: If it is appropriate to consider efficiency, how should the term ‘efficiency’ be defined? Practically, would need to be considered? How could efficiency be measured?

52. The Minister has to be satisfied of the requirements in s 53(2) before recommending that goods or services be controlled. The s 54 Notice requires the Commission to report on the requirements in s 53(2), but also to report on the “conditions, tests or thresholds” considered. Specifically, the Notice requires the Commission to report on the following:

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.

Question 12: Given your responses to questions 6-11, what “conditions, tests or thresholds” would be useful in determining 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?

Question 13: What weight should the Commission give to the various “conditions, tests or thresholds”? Why?

Question 14: What evidence is required to establish that airfield activities supplied or acquired at Auckland, Wellington and Christchurch International Airports meet the “conditions, tests or thresholds” and satisfy the requirements for control?

The Goods or Services that are Supplied or Acquired in Markets in which Competition is Limited or is Likely to be Lessened

53. The paper as already asked about the “conditions, tests or thresholds” that would be useful in determining whether airfield activities are or will be supplied in a market in which competition is limited or likely to be lessened. Applying the “conditions, tests or thresholds” in respect of the current s 54 Notice involves examining the airfield activities to determine the goods or services for which control could be recommended; namely those goods or services that are supplied or acquired in markets in which competition is limited or is likely to be lessened.

Goods or Services Supplied or Acquired

54. Both the terms “goods” and “services” are defined in the Commerce Act. Broadly speaking, “services” include any rights, benefits, privileges, or facilities that are (or are able to be) provided, granted, or conferred in trade. “Goods”—relevant to airports—are defined to include aircraft, vehicles, gas and electricity. In addition, the Airport Authorities Amendment Act defines identified airport activities to comprise any one or more of airfield activities, aircraft and freight activities, and specified passenger terminal activities; each of which is also defined.

Question 15: What goods or services are supplied or acquired at each of Auckland, Wellington and Christchurch International Airports in respect of airfield activities? Please differentiate between the goods and services.

Relevant Markets

55. Market definition is fundamental to any inquiry that considers whether to subject goods or services to control under the Commerce Act. Section 53(2)(a) refers to a *market* in which competition is limited or is 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.
56. 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 goods or services 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.

57. 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.
58. Given the terms of reference of this inquiry, it is the market(s) in which airfield activities are supplied or acquired that the Commission has been asked to consider.

Question 16: Are the market(s) in which airfield activities are supplied or acquired geographically limited? In other words, are there separate markets for airfield activities at each of Auckland, Wellington and Christchurch International Airports; or are there regional markets; or is there a national market for airfield activities? Do other airports compete with any of Auckland, Wellington and Christchurch International Airports? What relevance (if any) does the distinction between domestic and international services have for market definition?

59. 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, are as follows:
- Market(s) for identified airport activities.
 - Market(s) for airport services.
 - Market(s) for aviation services.

Question 17: Are airfield activities supplied in a broader market than a market for airfield activities? If yes, in what market are they supplied in? If the relevant market is the one for aviation services (or something similar), is this also the market in which airlines operate and provide services? Please provide reasons.

60. The activities undertaken as airfield activities may be supplied in separate markets. Some possible markets are as follows:
- Market(s) for runways, taxiways, and parking aprons for aircraft.
 - Market(s) for aerodrome and apron control services.
 - Market(s) for airfield maintenance services.
 - Market(s) for airport rescue services.

Question 18: Are the activities undertaken as airfield activities supplied in separate product markets? If yes, which markets are they supplied in? Please explain why.

61. The market for airfield activities may not be the only market in which Auckland, Wellington and Christchurch International Airports operate.

Question 19: Do other activities or markets have an impact—either currently or potentially—on the market for airfield activities? Please identify and explain what these other markets are.

Question 20: In summary, given your responses to questions 16-19, what are the relevant markets with regard to the airfield activities supplied at each of Auckland, Wellington and Christchurch International Airports? Please explain.

Competition Analysis

62. Section 53(2) of 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 potentially needs to consider whether any of Auckland, Wellington or 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 21: What are the price elasticities of demand for airfield activities? What, if any, substitutes are available for airfield activities? What are the cross elasticities between any identified substitutes and the airfield activities they could substitute for? In other words, what are the characteristics of (1) the supply of, and (2) the demand for, airfield activities? Please provide reasons.

Question 22: With respect to each of the markets identified in your response to question 20, to what extent does each airport face competition in airfield activities from: (1) other airports, (2) other transport modes, and (3) the potential for other competitors to enter the market? Please provide reasons.

Question 23: What factors give rise to countervailing power if it exists? What is the potential for the users of airfield activities (e.g. airlines) to exercise countervailing power? Does the countervailing power, if any, vary depending on the significance or size of the aircraft operator? Is the countervailing power, if any, stronger when airlines act collectively? Do foreign and domestic airlines have different amounts of countervailing power? Please explain.

Question 24: What goods or services (included within the definition of airfield activities) are supplied or acquired in a market in which competition is limited or is likely to be lessened? In which markets? Please explain.

Whether Control is Necessary or Desirable for any of the Goods or Services Identified

63. The paper has already asked about the “conditions, tests or thresholds” that would be useful in determining whether it is necessary or desirable for goods and services to be controlled either (i) in the interests of users or consumers, or (ii) in the interests of suppliers. Applying the “conditions, tests or thresholds” in respect of the current s 54 Notice involves an assessment of whether control is necessary or desirable for any of the goods or services identified as being supplied or acquired in a market in which competition is limited or is likely to be lessened. In making and conducting this assessment, the following potentially need to be considered:

- Charging principles.
- Cost allocation methodologies.
- Airport use and congestion.
- Capital investment.
- Cross-subsidisation.
- Asset valuation.
- Cost of capital.
- Rate of return relative to cost of capital.
- Efficiency.
- The current airport regulation.
- Regulation of airports internationally.

Charging Principles

64. Auckland, Wellington and Christchurch International Airports set charges in order to recover from users and consumers the capital and operating costs incurred in running the airport, together with a return on capital invested. Costs are allocated between activities, and between the various users and consumers.

Question 25: What broad principles should govern the pricing of airfield activities? Are the principles any different to those that should apply in respect of any other airport activities? Are they any different to those that should apply in other industries?

65. The international terminal services charge at Auckland International Airport has been based on a commercial agreement since 1998. All airline charges and services at Wellington International Airport are based on a deed agreed in mid-1997. To some extent, however, these charges are based on underlying pricing models or cost allocations. Aside from the charges reached by commercial negotiation, charges (including the landing charges at Auckland and Christchurch International Airports) are determined by the airports based almost entirely on a pricing model.

Question 26: Should charges for airfield activities be derived directly from a specific pricing model; or should they be derived from commercial negotiations with users? What are the positives and negatives of each approach?

Question 27: If in response to question 26 you consider that charges for airfield activities should be derived directly from a specific pricing model, what are your views of the methodologies or models utilised by Auckland, Wellington and Christchurch International Airports? If you disagree with the model they use, what alternative model do you think they should use? Please explain.

66. Regardless of how prices are determined, there appears to be at least an underlying, if not direct, relationship between prices and costs.

Question 28: Which costs should airports attempt to recoup from users and consumers of airfield activities? Should both operating and capital costs be recovered? Should both direct and common (overhead, joint, or indirect) costs be recovered? Should the cost of any land held for future development be recouped? Should the cost of any runway area not used by any aircraft operating at an airport (either because the runway has been extended beyond the needs of aircraft currently using the airport or because the airlines now operate smaller aircraft at the airport) be recouped?

Question 29: Should charges for airfield activities recover only costs, or should they include profit margins necessary to achieve a rate of return? Does your answer differ in respect of any other airport activities?

67. Auckland, Wellington and Christchurch International Airports determine prices based on a twin-till system, the two tills being what they consider to be the non-contestable and contestable parts of the airports. Under a twin-till system, users or consumers of the non-contestable business receive no direct benefit from any increases in revenues from the commercial business, in that their charges do not decrease. In contrast, some overseas airports operate a single-till approach where the airlines receive the benefit of increased commercial revenues in lower landing charges.

Question 30: How should costs be allocated between airport activities? Should airline users obtain any benefit—by way of, for example, reduced charges for airfield activities—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 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? Is a single-till or twin-till approach appropriate? Please provide reasons.

Question 31: How does the means by which costs are recovered impact on the charges for airfield activities? How does it impact on users and consumers? Should some costs be recovered from airline companies—through, for example, charges for airfield activities—and others direct from their passengers? Please identify the costs and provide reasons.

Question 32: In summary, given your responses to questions 25-31, how should charges for airfield activities be structured and determined? Please explain why.

Question 33: Do you have any other comments about the specific charging principles adopted by Auckland, Wellington and Christchurch International Airports in respect of airfield activities? How do the principles adopted by the airports compare to the principles that you consider that they should utilise?

Cost Allocation Methodologies

68. The following questions should be considered primarily with regard to airfield activities, but comments are also welcome in respect of other airport activities.
69. As noted above, costs are allocated between activities, and between the various users and consumers. The Commission understands that, typically, the direct costs of any facility—for example, runways, taxiways and aprons—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.

Question 34: What are the costs of airfield activities? Which are direct costs (able to be directly attributed to individual users and consumers)? Which are joint (common) costs? What drives or determines these costs? Why?

70. With regard to the airfield, typically, the costs of the basic facility (used by the lightest and all aircraft) are shared amongst all users, with the costs of increments to that facility allocated only to those larger aircraft which 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 on a variety of factors including the runway area used, runway thickness required, number of landings, seats landed⁸, tonnes landed⁹, and equivalent annual landings of design aircraft¹⁰. The costs of rescue fire services are allocated to users based on rescue fire category required¹¹ and the number of landings or seats landed.

Question 35: Where cost allocations are used to arrive at charges for airfield activities, 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? In other words, which users should be expected to meet the various costs identified? Why?

⁸ Seat capacity of aircraft multiplied by the number of landings.

⁹ Maximum certified take-off weight of aircraft (MCTOW) multiplied by number of landings.

¹⁰ Calculated in accordance with Federal Aviation Authority (FAA) Advisory Circular AC150/5320-6C.

¹¹ Defined for each aircraft in accordance with International Civil Aviation Organisation (ICAO) and New Zealand Civil Aviation Authority (CAA) requirements.

Question 36: Do you have any other comments about the specific cost allocation methodologies adopted by Auckland, Wellington and Christchurch International Airports in respect of airfield activities?

Airport Use and Congestion

71. Facilities at some airports could be under-utilised, while facilities at others may be congested—both airfields and terminal buildings. Congested airports impose higher costs on users and consumers. However, greater capacity utilisation lowers the average level of fixed costs per user. Some airports also experience differing levels of use at different times of the day or week. Further, airport use can and does change over time.

Question 37: Should airports with high runway use have lower charges for airfield activities than airports with less use or vice versa? Why? What factors should be used in deciding whether an airport is congested?

Question 38: How should growth translate into changes in charges for airfield activities over time? Should charges be adjusted when the number of aircraft movements, passenger numbers, or the size of aircraft operated changes significantly? If so, what would constitute a significant enough change?

72. 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 raise issues for price control mechanisms which are designed to eliminate monopoly profits.

Question 39: Is there any evidence of runway congestion currently at Auckland, Wellington or Christchurch International Airports? What are the implications of the use of pricing to control airport congestion? What issues should be considered when trying to fit such pricing within any price control mechanism? Why?

Capital Investment

73. Growth in traffic will require investment in new facilities at airports from time to time. Airport companies must make decisions to invest in capital projects despite these future uncertainties. It may not be desirable for airport companies to delay investment until demand exceeds capacity. Equally, it is not likely to be desirable for airport companies to over-invest in facilities.

Question 40: What factors should be considered by airports in making decisions on timing of investments in respect of airfield activities? When should airports invest in new facilities for airfield activities? Should airports invest only when demand exceeds capacity, or should airports invest in time to meet anticipated future demand? Does the appropriate timing for investment differ between the airports? Please explain why.

Question 41: How should capital expenditure in respect of airfield activities be funded? What alternatives are available? Should an airport development charge (international passenger departure charge) be used to pay for new capital expenditure, or should landing charges and/or terminal charges be increased to fund any new investment? Should there be a limit on the fraction of development costs that can be raised from users and consumers? Should the costs funded by users and consumers be limited to the costs of financing development (for example, interest costs)? Please explain why.

Question 42: When should the costs of new investments in respect of airfield activities be included in the costs allocated to airport users and consumers? Should airport users and consumers 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? Should current users and consumers expect a guarantee of future access rights if they pay for investment before it is completed? Please explain why.

74. Since corporatisation, Auckland, Wellington and Christchurch International Airports have undertaken significant new investment. Each has invested in new terminal facilities and developed commercial property. Wellington International Airport has reshaped, resurfaced and grooved its entire runway and installed new drainage systems. Auckland International Airport is currently undertaking a project to rehabilitate its runway. Various other investment projects are being undertaken or are planned.

Question 43: Under what circumstances would an airport under- or over-invest in facilities in respect of airfield activities? How should recent investments by the airports in respect of airfield activities be interpreted? Is there any evidence of over- or under-investment? For what reasons were such investments most likely made? Are the investment decisions in any way related to corporatisation or the threat of price control?

Cross-subsidisation

75. 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 44: Is prevention of cross-subsidisation desirable? If so, how could it actually be prevented? Why?

Question 45: Is there any evidence of cross-subsidisation in respect of airfield activities at any of Auckland, Wellington or Christchurch International Airports? Between which other airport activities does this occur? Why?

Asset Valuation Methodology

76. The approach used to value assets is important in determining airport charges 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 an increase in charges and/or a fall in the company's rate of return. The airport companies are currently free to choose, and to change, their asset valuation policy, subject to meeting generally accepted accounting principles.
77. There are a number of asset valuation methods available, which range from the historic cost of assets at one extreme to a "greenfields" (complete rebuild) 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. Numerous alternative methodologies exist.

Question 46: How should airfield assets be valued for the purposes of arriving at (1) charges for airfield activities, (2) a rate of return on airfield assets, and (3) price control regulations? In each instance, please include comment on the relative merits of the various asset valuation methods. What principles should be used to assess the merits of different methods?

Question 47: Should airports be required to adopt a standard asset valuation methodology for the purposes of arriving at (1) charges for airfield activities, (2) a rate of return on airfield assets, and (3) price control regulations? What would be the advantages and disadvantages of a standardised approach? Why?

Question 48: When airfield assets are revalued, how should revaluation gains (or losses) be treated? Should they be recorded as income?

Asset Valuation of Auckland, Wellington and Christchurch International Airports

78. The valuations of the fixed assets of the airports are detailed in the following table:

| | Auckland | Wellington | Christchurch |
|---|-----------------|-------------------|---------------------|
| Vesting value | \$345 million | \$87 million | \$94 million |
| Value per the airports last statement of financial position (2000 financial year) | \$827 million | \$242 million | \$206 million |
| Increase in value of fixed assets | \$481 million | \$155 million | \$112 million |
| % increase | 139% | 178% | 119% |

79. Auckland, Wellington and Christchurch International Airports do not employ identical asset valuation policies. The asset valuation policy adopted directly affects the fixed asset values in the airport company's published statement of financial position.

- Until recently, Auckland used depreciated historic cost accounting, with fixed assets recorded at cost less accumulated depreciation, but revalued its assets on 30 June 1999.
- Since 1993, Wellington has regularly revalued its fixed assets.
- In its financial accounts, Christchurch uses depreciated historic cost for all fixed assets except land, which has been revalued since 1996. For pricing purposes current valuations have also been used for sealed surfaces and terminals.

80. The methodologies most recently used by the airports to value selected assets is summarised in the following table:

| | Auckland | Wellington | Christchurch |
|----------------------|--|--|---|
| Land | Optimised Replacement Cost (ORC) | Zone approach or hypothetical subdivision. | Specialised land at ORC. Other land (including that held for future development) at the market value of the "highest and best use". |
| Specialised Terminal | Optimised Depreciation Replacement Cost (ODRC) | ODRC, but with an income approach used for the contestable elements. | ODRC |
| Sealed surfaces | ODRC | ODRC | ODRC |

81. 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 in the airport company'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 | 14-60 years | 10-40 years |
| Runways, taxiways and aprons | 16-40 years | 10-30 years | 30-50 years |
| Vehicles | 5 years | 3-8 years | 5-16 years |
| Plant and office equipment | 5-10 years | 1-20 years | 3-25 years |
| Infrastructure | 5-50 years | | |

82. The changes in the fixed asset values of Auckland, Wellington and Christchurch International Airports since corporatisation are the result of a mix of asset revaluations, depreciation, capital investment and capital divestment.
- Auckland has revalued its assets by \$283 million, with a further \$198 million increase in fixed assets being due to net capital investment (net of divestments and depreciation).
 - Wellington has revalued its assets upwards by \$36 million. In addition, Wellington has made net capital investments of \$119 million.
 - Christchurch has only revalued its land upwards by \$47 million. In addition, Christchurch has made net capital investments of \$65 million.
83. The recent information disclosures made by Auckland, Wellington and Christchurch International Airports have disclosed details in respect of asset valuation, and made asset valuation reports available.

Question 49: Regardless of your views on asset valuation methodology, have Auckland, Wellington and Christchurch International Airports applied their chosen methodology correctly? For example, have airfield assets been optimised appropriately? If not, please explain.

Question 50: Is there any evidence that the asset valuations adopted in respect of airfield activities by any of Auckland, Wellington or Christchurch International Airports are excessive or unreasonable? If so, please provide details.

Cost of Capital

84. 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 a firm are weighted by the proportions of debt and equity the firm uses and are summed together to get its WACC.

Question 51: Should WACC be computed on a nominal or real basis? Please explain why.

Question 52: Should WACC be computed on a pre- or post-tax basis? Please explain why.

Question 53: What effective tax rate should be used to determine WACC? Please explain why.

85. The relevant cost of debt for computing WACC is usually the after-tax cost of new debt. The published financial accounts of the airports disclose their current loans and the interest rates being paid. According to its 2000 annual report, Auckland is currently paying 10% for shorter-term debt and 7.5-8.0% for long-term debt, the highest of the three airports. Wellington is currently paying between 4.76% and 6.31% for unsecured loans. Christchurch is currently paying slightly more, between 5.27% and 7.09%.

Question 54: How should the cost of debt be determined? What benchmarks should be used to calculate the cost of short and long term debt respectively? Why?

Question 55: What should be the cost of debt for each of Auckland, Wellington and Christchurch International Airports? Why?

86. 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 shares is higher than the cost of financing using retained earnings, being that cost plus an adjustment for issue costs.
87. Methods that can be used to determine the cost of equity 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 cost of equity, and hence its WACC.

Question 56: Should the CAPM be used to determine the cost of equity, or should another model or approach be used? Why?

Question 57: If the CAPM were to be used, what should beta be for each of Auckland, Wellington and Christchurch International Airports? Should an asset or equity beta be used? Why? What firms or industries in New Zealand or overseas have similar risk profiles and can therefore be used as benchmarks for determining beta?

Question 58: What risk-free rate should be used to determine the cost of equity? Why?

Question 59: What market risk premium should be used to determine the cost of equity? Why?

Question 60: What should the cost of equity be for each of Auckland, Wellington and Christchurch International Airports? Why?

88. 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 International Airports at the end of their 2000 financial years were 40.58%, 73.91% and 43.09%, respectively. The equity ratios were 59.42%, 26.09% and 56.91%, respectively. In recent years, Auckland has reduced its debt ratio slightly, while Christchurch has increased its debt ratio slightly. Wellington, however, has significantly increased its debt ratio.

Question 61: Regardless of how the airport companies actually finance their assets, what weights for debt and equity should be used in determining WACC for each of Auckland, Wellington and Christchurch International Airports? What factors lead to different debt and equity ratios? What are the implications of them for WACC? Should the focus be long-term or short-term? Please explain.

Question 62: Given you responses to questions 51 to 61, what is the appropriate WACC for the entire business of each of Auckland, Wellington and Christchurch International Airports? Why?

89. 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 other airport activities are also relevant, if returns for those segments are to be compared to those for airfield activities.

Question 63: Considering questions 51 to 61 again, what is the appropriate WACC for airfield activities of each of Auckland, Wellington and Christchurch International Airports? How does your answer differ in respect of aircraft and freight activities, specified passenger terminal activities, and other airport activities? Please provide reasons.

90. Cost of capital estimates for “identified airport activities” have been disclosed by the airports this year as part of information disclosures as follows.

| WACC Component | Auckland | Wellington | Christchurch |
|---------------------------------|-----------------|-------------------|---------------------|
| Asset Beta | 0.45-0.60 | 0.4-0.5 | 0.65 |
| Risk-free Rate | 7.3% | 6.97% | 6.23% |
| Inflation | 1.6% | n/a | n/a |
| Market Risk Premium (after tax) | 9.0% | 9.0% | 9.0% |
| Debt Premium | 1.5% | 1.0% | n/a |
| Tax Rate | 33% | 33% | 33% |
| Debt Ratio | 50% | 40% | n/a |
| WACC (nominal after tax) | 9.5-11.5% | 8.5-9.4% | 10.1% |

Question 64: How do your views on WACC (as indicated in your responses to questions 51 to 63) compare to the WACC estimates adopted by each of Auckland, Wellington and Christchurch International Airports?

Rate of Return Earned

91. Numerous measures of rates of return exist, however, they all essentially divide the earnings for a given period by a denominator representing investment made. The choice of both earnings measure and denominator are usually related to the purpose for which the rate of return is being computed, for example, return to shareholders.

92. Rate of return measures include (but are not limited to) the following:
- Return on Assets (ROA) which is determined by dividing net profit/loss after tax by total assets.
 - Return on Equity (ROE) which is determined by dividing net profit/loss after tax by total equity.
 - Return on Investment (ROI) which is computed by dividing earnings before interest and taxes by total assets.
 - Accounting Rate of Profit (ARP) which incorporates asset valuation gains and losses and is conceptually comparable to nominal, after-tax, WACC.
93. All of these measures are able to be computed from the information in published financial statements, with little adjustment required. 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. Other measures, such as economic rate of return are more subjective, requiring estimation of the market values of assets and economic depreciation or appreciation.

Question 65: What measures of return should be used when examining the rates of return earned by the airport companies for the purposes of this inquiry? Why? What are the merits of using one measure over another?

94. 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 determining charges. What is of interest here, however, is the rate of return actually earned, not that targeted; specifically, the rate of return earned relative to the costs of capital employed.

Question 66: What rate of return measure should be used when comparing or benchmarking returns to WACC? Please explain why.

Question 67: What is a reasonable rate of return for airport companies to earn on airfield activities given the cost of capital in respect of airfield activities? Does your answer differ in respect of any other airport activities or for the airport company as a whole? Why?

Overall Rate of Return

95. Using data in the published financial accounts of Auckland, Wellington and Christchurch International Airports, and the asset valuations adopted by the companies, rates of return can be computed for the airport companies as a whole. For the last three financial years, 1998-2000, rates of return (for all airport activities) included the following:

| Auckland International Airport | | | |
|---|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 6.03% | 5.13% | 7.54% |
| Return on Assets adjusted for extraordinary items | 6.03% | 5.13% | 7.97% |
| Return on Average Total Assets | 6.09% | 6.19% | 7.69% |
| Return on Investments | 11.22% | 10.07% | 14.02% |
| Return on Equity | 10.15% | 8.28% | 18.58% |
| Return on Equity adjusted for extraordinary items | 10.15% | 8.28% | 19.66% |
| Return on Average Shareholders' Equity | 10.04% | 11.58% | 15.01% |
| Accounting Rate of Profit | 7.91% | 62.09% | 9.30% |

| Wellington International Airport | | | |
|---|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 1.71% | 1.82% | 2.26% |
| Return on Average Total Assets | 1.78% | 1.98% | 2.45% |
| Return on Assets adjusted for work in progress | 1.72% | 2.69% | 2.81% |
| Return on Investments | 5.02% | 3.71% | 5.43% |
| Return on Investments adjusted for work in progress | 5.05% | 5.48% | 6.76% |
| Return on Equity | 6.57% | 3.62% | 3.93% |
| Return on Average Shareholders' Equity | 4.73% | 3.68% | 3.99% |
| Accounting Rate of Profit | 4.21% | 3.35% | 3.88% |

| Christchurch International Airport | | | |
|---|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 6.22% | 5.59% | 5.60% |
| Return on Average Total Assets | 6.15% | 5.89% | 5.95% |
| Return on Assets adjusted for work in progress | 6.28% | 5.60% | 5.98% |
| Return on Investments | 11.91% | 10.42% | 10.78% |
| Return on Investments adjusted for work in progress | 12.01% | 10.45% | 11.52% |
| Return on Equity | 10.94% | 8.34% | 9.53% |
| Return on Average Shareholders' Equity | 9.92% | 9.34% | 9.71% |
| Accounting Rate of Profit | 7.84% | 21.52% | 7.73% |

Question 68: Given your response to question 67, is there any evidence of excessive or unreasonable rates of return being earned overall by any of Auckland, Wellington or Christchurch International Airports? If so, please provide details. What benchmark(s) should rates be measured against to determine this?

Segment Rates of Return

96. 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, it is interesting to compare these returns to the rates of return earned on aircraft and freight activities, specified passenger terminal activities, and other airport business relative to their respective costs of capital. Segment financial performance details for each activity have been disclosed by the airports this year as part of information disclosures. Rates of return by segment for 2000 are as follows:

| Auckland International Airport | | | | | | |
|---|-----------------|-----------------------------|-------------------------------------|--------------------------------------|--------------|--------------|
| Rate of Return Measure | Airfield | Aircraft and Freight | Specified Passenger Terminal | Identified Airport Activities | Other | Total |
| Return on Assets | 4.34% | 5.56% | 1.00% | 3.11% | 11.40% | 6.03% |
| Return on Investments | 8.36% | 10.20% | 3.39% | 6.52% | 19.81% | 11.22% |
| Wellington International Airport | | | | | | |
| Rate of Return Measure | Airfield | Aircraft and Freight | Specified Passenger Terminal | Identified Airport Activities | Other | Total |
| Return on Assets | 2.31% | 1.42% | -0.39% | 0.95% | 5.65% | 1.71% |
| Return on Investments | 6.75% | 5.55% | 0.94% | 3.85% | 11.00% | 5.02% |
| Christchurch International Airport | | | | | | |
| Rate of Return Measure | Airfield | Aircraft and Freight | Specified Passenger Terminal | Identified Airport Activities | Other | Total |
| Return on Assets | 6.54% | 3.02% | 8.82% | 7.07% | 5.23% | 6.22% |
| Return on Investments | 12.24% | 7.09% | 15.70% | 13.08% | 10.27% | 11.91% |

Question 69: Is there any evidence of excessive or unreasonable rates of return being earned on airfield activities by any of Auckland, Wellington or Christchurch International Airports? If so, please provide details. How do the rates of return earned on airfield activities compare to that earned for other airport activities and that for the airport companies as a whole? Please explain.

Overall Rate of Return Adjusted for Asset Revaluation

97. It is recognised that many rates of return are directly affected by the asset valuation method employed by the airport company. In addressing asset valuation earlier in this paper, the differing asset valuation methods of the airports—both between the airports and for each airport over time—were noted. To some extent, all three airports have revalued assets to current valuation. Adjusting data in the published financial accounts of Auckland, Wellington and Christchurch International Airports to remove the effects of asset valuations adopted by the companies, rates of return, based on estimated historic costs, can be computed for the airports. For the last three financial years, 1998-2000, these rates of return were as follows:

| Auckland International Airport | | | |
|--|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 8.93% | 9.53% | 7.54% |
| Return on Average Total Assets | 9.05% | 9.62% | 7.69% |
| Return on Investments | 16.62% | 16.89% | 14.67% |
| Return on Equity | 22.40% | 22.02% | 18.58% |
| Return on Average Shareholders' Equity | 21.78% | 22.94% | 15.01% |

| Wellington International Airport | | | |
|---|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 1.95% | 2.54% | 3.47% |
| Return on Average Total Assets | 2.04% | 2.79% | 3.84% |
| Return on Assets adjusted for work in progress | 1.97% | 4.05% | 4.53% |
| Return on Investments | 5.72% | 4.71% | 7.25% |
| Return on Investments adjusted for work in progress | 5.76% | 7.51% | 9.48% |
| Return on Equity | 12.41% | 5.93% | 7.03% |
| Return on Average Shareholders' Equity | 7.15% | 6.11% | 7.24% |

| Christchurch International Airport | | | |
|---|-------------|-------------|-------------|
| Rate of Return Measure | 2000 | 1999 | 1998 |
| Return on Assets | 8.01% | 7.15% | 6.29% |
| Return on Average Total Assets | 7.89% | 7.07% | 6.73% |
| Return on Assets adjusted for work in progress | 8.10% | 7.17% | 6.77% |
| Return on Investments | 15.33% | 13.33% | 12.10% |
| Return on Investments adjusted for work in progress | 15.50% | 13.38% | 13.04% |
| Return on Equity | 18.00% | 12.38% | 11.71% |
| Return on Average Shareholders' Equity | 15.41% | 12.69% | 11.99% |

Question 70: Taking into account asset valuations, is there any evidence of excessive or unreasonable rates of return being earned overall by any of Auckland, Wellington or Christchurch International Airports? If so, please provide details.

Operational Efficiency

98. Poor profit performance could reflect inefficiency. However, profitability does not necessarily reflect efficiency. A company with market power could allow costs to rise or over-invest and still remain profitable. To solve this problem, benchmarking measures could be found. The prices charged, revenues earned, rates of return earned, and efficiency of Auckland, Wellington and Christchurch Airports should be benchmarked against other airports or other businesses with similar risk profiles.

Question 71: What would be appropriate measures to use in benchmarking New Zealand airports? What issues should be considered in comparing New Zealand airports to each other, to overseas airports, and against themselves across time? Why?

Question 72: How should growth in demand (e.g. passenger numbers, aircraft movements, MCTOW landed, tonnes of freight etc) be treated when evaluating the efficiency of operations across time? Why?

Question 73: What entities could or should Auckland, Wellington and Christchurch International Airports be benchmarked against? Why? How comparable are these entities? What adjustments may be necessary to make them comparable? Why?

Question 74: Relative to other airports and other businesses with similar risk profiles, is there any evidence of excessive or unreasonable costs, prices charged, revenues earned in respect of airfield activities? In other words, are they efficient or inefficient? To what extent does your answer depend on the allocation of assets, revenues and costs between airport activities? Why?

Current Regulatory Environment

99. In deciding whether it is necessary or desirable for any goods or services to be controlled, the Commission must consider impact of the current regulatory environment.

100. The current regulation of airports in New Zealand has historically relied 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. Under this regime, varying outcomes have occurred. In the case of Wellington International Airport, protracted litigation with the airlines occurred in the early 1990s over landing charges. In recent years, a deed relating to charges and services (landing and terminal) has been agreed between the airport company and major airlines. A commercial agreement was also reached between Auckland International Airport and international airlines in respect of a terminal services charge for its international terminal building. No commercial agreement has been reached in respect of landing charges at Auckland or Christchurch International Airports.

Question 75: Historically, has the requirement to consult users constrained the behaviour of any of Auckland, Wellington or Christchurch International Airports, or have they been able to exercise market power? What is your experience of consultation? How effective is it? What are its limitations? How does the existence of countervailing power (if any) affect consultation?

Question 76: Historically, has the threat of price control under the Commerce Act constrained the behaviour of any of Auckland, Wellington or Christchurch International Airports? Have the general competition provisions of the Commerce Act such as s 36 constrained the behaviour of any of Auckland, Wellington or Christchurch International Airports? Please provide examples.

101. Recent legislative changes have expanded, and arguably strengthened, the regulation applying to airports. The Airport Authorities Amendment Act 1997 came into force on 26 November 1998 and amended the Airport Authorities Act 1966. The 1997 Amendment divided what was considered the non-contestable business of airport companies into three identified airport activities (airfield, aircraft and freight, and specified passenger terminal). It also introduced specific requirements in respect of these activities, most importantly the following:
- A requirement that airport companies consult with substantial customers on charges before they are fixed or altered, and at least every five years.
 - A transitional requirement that airport companies consult (within a year of commencement of the 1997 Amendment) with substantial customers on charges that they had not consulted on in the last five years.

102. The 1997 Amendment also provided for additional obligations in respect of “specified airport companies”; currently limited to Auckland, Wellington and Christchurch International Airports. These companies are also required to consult on any identified capital expenditure (in relation to identified airport activities) that equates to more than 20% of the value of their assets.
103. As a result of these amended requirements to consult, in the last year, both Auckland and Christchurch International Airports have consulted with substantial customers in respect of charges. Wellington International Airport did not consult with its customers, other than required under its deed, as it had consulted them within the last five years. Wellington International Airport is to commence consultation with substantial customers on 1 July 2001 with a view to determining new charges to apply from 1 July 2002.
- After its consultation, Auckland International Airport decided to increase its landing charges by 8.5% from 1 September 2000 (followed by further 5% increases in 2001 and 2002) and its Airport Development Charge by \$2 from 1 October 2000. In response, Air New Zealand has commenced legal action challenging the consultation process that led to the increased charges.
 - After its consultation, Christchurch International Airport introduced new airport (landing and terminal) charges effective 1 January 2001. There was no overall increase or decrease in charges—charges for domestic aircraft generally increased, while charges for international aircraft fell. Prices have been set for the next three years, with no further increases over the period. There has been no change to the international passenger departure charge.

Question 77: Further to your response to question 75, has the recent consultation changed your views in respect of consultation? Is it any more effective? Do the amended requirements to consult further constrain the behaviour of any of Auckland, Wellington or Christchurch International Airports? Have they caused a change in behaviour? What is your experience of the recent consultation? How effective was it? What were its limitations?

104. In addition, the Ministry of Transport has developed the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 which apply to financial statements prepared on or after 1 January 2000. The first disclosures for the 2000 financial year have recently been released by Auckland, Wellington and Christchurch International Airports. In summary, the regulations require specified airport companies to disclose the following information:
- Segmented financial accounts for identified airport activities.
 - Passenger charges and charges for identified airport activities; and the methodology used to determine the charges.
 - Basis for allocating assets to identified airport activities.

- Details of asset revaluations and any reports on which revaluations were based.
- Operating costs of identified airport activities.
- Weighted average cost of capital (WACC) and the methodology and calculations used to determine WACC.
- Numbers of passenger and aircraft movements.
- Interruptions to services.
- Number of people employed in identified airport activities.

Question 78: Are the information disclosure regulations likely to change the behaviour of any of Auckland, Wellington or Christchurch International Airports in the future? What is the impact of greater information disclosure? In particular, how is greater disclosure likely to affect the countervailing power, if any, of users? Is it likely to prove useful in consultation in the future?

Charges Imposed by Auckland, Wellington and Christchurch International Airports

105. 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.¹² The Commission is looking at all airport charges as part of its assessment of the allocations of assets, revenues, and costs between activities.
106. 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 79: Given your responses to questions 25-78, is there any evidence of excessive or unreasonable charging for airfield activities currently at any of Auckland, Wellington or Christchurch International Airports? Is there any evidence of exercise of market power? To what extent does your answer depend on the allocation of assets, revenues and costs between airport activities? Please provide reasons?

¹² Refer to Appendix 2 for schedules of current airfield charges at the airports.

Question 80: Do your concerns—indicated in response to question 79—in respect of charges for airfield activities (if any) 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? Do you have any additional concerns in respect of charges for airfield activities? Why?

Question 81: Should any of Auckland, Wellington or Christchurch International Airport change the way that they charge for airfield activities? If so, how? What are the relative merits of the alternative methods?

Regulation of Airports Internationally

107. Internationally, regulation of airports varies—both between airports in the same country, and between countries. To some extent, the regulation adopted depends on the ownership of the airports—whether they are under private or government ownership. The various forms of regulation adopted include price control, which applies to some airports in both the United Kingdom and Australia.

Question 82: What lessons can be learned from overseas regulation of airports? Please explain.

Whether Control Should be Recommended

108. The first part of the s 54 Notice asks the Commission to report on the following:

- 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;

Question 83: Given the “conditions, tests or thresholds” identified for recommending that goods or services be controlled under Part IV of the Commerce Act 1986, and based on your responses to questions 25-82, is control of airfield activities necessary or desirable in the interests of users, consumers or suppliers? For which of Auckland, Wellington or Christchurch Airports, if any, is it necessary or desirable? Please explain why.

109. The second part of the s 54 Notice asks the Commission to report on the following:

- 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.

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?

110. The s 54 Notice asks that the Commission consider and report on whether “market conditions are such” that control should be imposed. In reporting on this part of the s 54 Notice, the Commission intends to consider the costs and benefits of control, and how effective control of airfield activities would be, in order to ascertain the impact of any controls on current market conditions, and, therefore, whether “market conditions are such” that control should be imposed.

Question 84: How should an assessment of the costs and benefits of control be conducted? What are the factors that need to be considered? What weight should be given to the various factors? Please explain.

111. There is considerable experience world-wide in respect of price control, both in respect of airports and other industries. There is also a substantial amount of literature available on the subject, particularly discussing the advantages of various methods, and the costs and benefits of control itself. Generally, one of three methods of control is used: (cost of service) rate of return regulation, price capping, or sliding scale regulation.

112. The price control method formerly used in New Zealand, and still used in the US today for utilities, was a cost of service (or rate of return) approach in which price rises or falls are not allowed unless they can be justified by cost increases or decreases which have depressed the enterprise’s rate of return. In the UK and Australia a price-cap (or index-based) approach is currently used for various utilities. Recently a sliding-scale rate of return approach has been discussed, which combines a price cap with a limit on the rate of return which a company can earn.

Question 85: What would be the costs and benefits of the various price control approaches in general? How do these compare to the costs and benefits of other forms of regulation in general?

Question 86: What would be the costs and benefits of invoking controls over airfield activities at each of Auckland, Wellington and Christchurch International Airports? How does this compare to the costs and benefits of the current regulatory regime?

113. As noted earlier in this paper, airport activities are integrated. Airfield activities are only one of a number of potentially non-contestable activities over which airport companies may have market

power. In this regard, the Commission needs to consider how effective control would be if it was limited to airfield activities.

Question 87: How effective would control be if it were just limited to airfield activities? Could the control of airfield activities leave incentives for airports to charge monopoly prices, or offer a lower of quality of service, for non-airfield activities? In other words, would it allow controls to be evaded? How could such problems, if any, be prevented? Are any of the concerns identified more or less important at any of the three airports? Please explain.

Question 88: Given your responses to questions 83, 86 and 87; are market conditions such that the Commission should recommend the introduction of controls on airfield activities? Please explain why.

Question 89: If your response to question 88 is yes, to which of Auckland, Wellington or Christchurch Airports? Specifically, 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 controls be applied? Please explain why.

Operation of any Control

114. Section 55 of the Commerce Act states that controlled goods or services can only be supplied in accordance with an authorisation from the Commission in terms of Part V of the Act, unless there is an undertaking in effect. Section 70 (as to be amended) provides the methods by which the Commission may authorise the prices, revenues, and the quality standards in respect of the supply of controlled goods or services. Earlier in this paper, the current and proposed provisions of s 70 were addressed, in looking at the definition of control.
115. The last part of the s 54 Notice asks:

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?
116. The Commission considers that it need only report on this part of the s 54 Notice if it is making a recommendation that price control be invoked. Parties who consider that controls should be recommended (answered yes to question 89) should respond to these questions. Parties who consider that controls should not be recommended (answered no to question 89) may still wish to respond to the remaining questions without prejudice to their response to question 89 and earlier

questions. Where applicable, parties will have further opportunity to make submissions on this point after the Commission has released its draft report.

Question 90: If the control of airfield activities were to be recommended, what form should it take? What methods or formulae, if any should be used? What conditions should be imposed and how might they differ depending on the circumstances of suppliers or the nature of markets? Please explain.

Question 91: On what time and/or under what conditions might any controls end?

Service Quality Standards

117. 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. 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 92: Should service quality standards be imposed in addition to controls on prices or revenues? What types of service quality standards could be imposed when goods or services are controlled? How would these differ between activities? Please explain why.

Investment

118. A firm under the threat of having price control imposed on them might have incentives to undertake unnecessary investments.

Question 93: Where controls are imposed, how should any historic over-investment or “gold-plating” be taken into account? Please explain.

119. Also, when a firm is initially price controlled, it might have incentives to amend any plans for future investment.

Question 94: Where controls are imposed, how would it impact on any existing investment intentions? Please explain.

120. In addition, a price controlled firm might seek to evade price control by making investment decisions simply so as to be allowed to increase prices.

Question 95: Where controls are imposed, should any limitation be imposed on new investment? If so, what sort of limitations? Please explain why.

CONCLUSION

121. The Commission stresses that the issues identified in this paper are not intended to limit submissions from interested parties. This paper aims only to provide guidance for initial submissions. Interested parties will have the opportunity to make further submissions once the Commission has released its draft report. The Commission looks forward to receiving initial submissions by 27 April 2001. Submissions should 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

| | 15 months | | | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Mar-92 | Mar-91 | Mar-90 | Mar-89 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| REVENUE | | | | | | | | | | | | |
| Airport Development Charge | 25,499 | 24,055 | 23,176 | 24,534 | 22,478 | 20,674 | 19,297 | 22,036 | 12,748 | 12,181 | 11,857 | 10,784 |
| Landing Charges | 45,897 | 44,902 | 42,644 | 41,697 | 41,318 | 37,551 | 33,477 | 40,959 | 30,935 | 32,098 | 30,514 | 25,490 |
| Terminal Services Charges | 13,599 | 14,433 | 13,751 | 11,977 | 8,965 | 7,822 | 7,676 | 7,843 | 5,349 | 5,157 | 7,463 | 4,510 |
| Rental Income | 16,999 | 16,037 | 14,833 | 11,378 | 9,225 | 8,366 | 8,316 | 10,458 | 8,202 | 7,824 | 5,804 | 3,987 |
| Carpark Income | 11,899 | 9,622 | 8,343 | 7,027 | 6,237 | 5,850 | 5,224 | 5,727 | 4,547 | 4,712 | 4,643 | 4,314 |
| Concession Income | 50,997 | 46,506 | 41,563 | 34,634 | 34,042 | 30,999 | 25,375 | 29,381 | 18,008 | 16,805 | 16,086 | 10,850 |
| Utilities and General | 5,100 | 4,811 | 10,198 | 8,827 | 7,666 | 6,184 | 6,203 | 8,092 | 9,361 | 10,136 | 6,551 | 5,425 |
| OPERATING REVENUE | 169,990 | 160,366 | 154,509 | 140,074 | 129,930 | 117,446 | 105,568 | 124,496 | 89,149 | 88,914 | 82,919 | 65,359 |
| INTEREST INCOME | 110 | 207 | 477 | 288 | 1,253 | 1,119 | 1,047 | 1,589 | 2,862 | 3,314 | 1,543 | 637 |
| TOTAL REVENUE | 170,100 | 160,573 | 154,986 | 140,362 | 131,183 | 118,565 | 106,616 | 126,085 | 92,011 | 92,228 | 84,462 | 65,996 |
| EXPENSES | | | | | | | | | | | | |
| Audit Fees | 76 | 45 | 171 | 46 | 36 | 36 | 36 | 37 | 39 | 38 | 34 | 36 |
| Depreciation | 29,488 | 30,094 | 31,857 | 27,859 | 21,712 | 19,415 | 16,874 | 24,187 | 16,033 | 15,541 | 12,288 | 10,845 |
| Directors' Fees | 19 | 292 | 175 | 135 | 121 | 110 | 110 | 138 | 110 | 110 | 100 | 96 |
| Repairs, Maintenance and Supplies | 17,908 | 20,399 | 18,521 | 19,909 | 18,731 | 15,538 | 14,837 | 19,750 | 13,339 | 15,996 | 14,103 | 12,845 |
| Utilities and General | 8,446 | 8,304 | 7,162 | 4,440 | 4,861 | 5,241 | 5,166 | 4,580 | 3,482 | 2,413 | 2,489 | 2,200 |
| Rates, Tax and Insurance | 1,885 | 1,943 | 2,098 | 2,286 | 2,189 | 2,282 | 2,163 | 2,159 | 1,976 | 4,067 | 3,744 | 3,449 |
| Staff and Associated Costs | 17,908 | 16,513 | 15,419 | 15,480 | 13,517 | 12,281 | 11,774 | 15,752 | 12,289 | 9,828 | 9,298 | 8,920 |
| Interest | 18,632 | 19,754 | 12,774 | 10,741 | 9,170 | 7,990 | 9,110 | 13,357 | 14,485 | 19,786 | 20,347 | 21,077 |
| TOTAL EXPENSES | 94,361 | 97,343 | 88,177 | 80,896 | 70,337 | 62,893 | 60,070 | 79,960 | 61,753 | 67,779 | 62,404 | 59,468 |
| Net Profit Before Extraordinaries | 75,739 | 63,230 | 66,809 | 59,466 | 60,846 | 55,672 | 46,546 | 46,125 | 30,258 | 24,449 | 22,058 | 6,528 |
| <u>Extraordinary Items</u> | | | | | | | | | | | | |
| Profit on disposal of subsidiary | - | - | - | - | - | - | 4,995 | - | - | - | - | - |
| Costs of Initial Public Offering (IPO) | - | - | (3,536) | - | - | - | - | - | - | - | - | - |
| NET PROFIT BEFORE TAX (NPBT) | 75,739 | 63,230 | 63,273 | 59,466 | 60,846 | 55,672 | 51,541 | 46,125 | 30,258 | 24,449 | 22,058 | 6,528 |
| Income Tax | 25,005 | 20,962 | 22,389 | 19,277 | 22,005 | 21,059 | 18,589 | 18,951 | 12,130 | 8,713 | 8,605 | 2,734 |
| NET PROFIT AFTER TAX (NPAT) | 50,734 | 42,268 | 40,884 | 40,189 | 38,841 | 34,613 | 32,952 | 27,174 | 18,128 | 15,736 | 13,453 | 3,794 |
| Share of After Tax Profit of Associates | 319 | 148 | 205 | 321 | 189 | 210 | 323 | 91 | 9 | 41 | - | - |
| NET PROFIT AFTER TAX INCLUDING ASSOCIATES | 51,053 | 42,416 | 41,089 | 40,510 | 39,030 | 34,823 | 33,275 | 27,265 | 18,137 | 15,777 | 13,453 | 3,794 |

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

For the period ended

| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Mar-92 | Mar-91 | Mar-90 | Mar-89 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| EQUITY AT THE BEGINNING OF THE YEAR | 510,189 | 220,051 | 324,765 | 308,510 | 292,895 | 278,967 | 259,006 | 242,891 | 231,999 | 222,522 | 213,794 | 210,000 |
| Operating Surplus After Tax | 51,053 | 42,416 | 41,089 | 40,510 | 39,030 | 34,823 | 33,275 | 27,265 | 18,137 | 15,777 | 13,453 | 3,794 |
| Increase in Asset Revaluation Reserve | 2,544 | 281,322 | - | - | - | - | - | - | - | - | - | - |
| Dividends to Shareholders | (63,840) | (33,600) | (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 | 499,946 | 510,189 | 220,051 | 324,765 | 308,510 | 292,895 | 278,967 | 259,006 | 242,891 | 231,999 | 222,522 | 213,794 |

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 | 210,000 | 210,000 |
| Asset Revaluation Reserve | 283,866 | 281,322 | - | - | - | - | - | - | - | - | - | - |
| Retained Earnings | 6,080 | 18,867 | 10,051 | 114,765 | 98,510 | 82,895 | 68,967 | 49,006 | 32,891 | 21,999 | 12,522 | 3,794 |
| Total Equity | 499,946 | 510,189 | 220,051 | 324,765 | 308,510 | 292,895 | 278,967 | 259,006 | 242,891 | 231,999 | 222,522 | 213,794 |

NON-CURRENT LIABILITIES

| | | | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Long-Term Borrowing (coupon bonds, promissory notes) | 290,000 | 265,800 | 156,200 | 153,400 | 113,500 | 79,350 | 87,000 | 110,000 | 130,000 | 152,050 | 141,495 | 141,330 |
| Other Term Borrowings | 538 | 537 | 805 | 554 | 526 | 538 | 1,256 | 2,484 | 4,610 | - | - | - |
| Total Non-Current Liabilities | 290,538 | 266,337 | 157,005 | 153,954 | 114,026 | 79,888 | 88,256 | 112,484 | 134,610 | 152,050 | 141,495 | 141,330 |

CURRENT LIABILITIES

| | | | | | | | | | | | | |
|---|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Bank Overdraft | 1,186 | 1,029 | - | - | - | - | - | - | - | - | - | - |
| Accounts Payable | 17,758 | 13,664 | 8,851 | 9,295 | 8,782 | 7,061 | 4,264 | 1,971 | 3,596 | 2,866 | 2,360 | 1,973 |
| Provision for Runway Repairs | - | - | - | 790 | 790 | 790 | 790 | 791 | 283 | 1,781 | - | - |
| Employee Entitlements (Leave Provision) | 1,815 | 1,509 | 1,532 | 1,457 | 1,342 | 1,347 | 1,346 | 1,059 | 1,138 | 868 | 831 | 1,114 |
| Goods and Services Tax | 1,224 | 466 | 489 | 118 | 50 | 444 | 535 | 686 | 447 | 294 | 864 | 1,066 |
| Proposed Dividend | 21,840 | 21,420 | 134,988 | 13,440 | 12,600 | 12,495 | 8,064 | 7,770 | 4,620 | 3,675 | 4,725 | - |
| Taxation Payable | 1,186 | 522 | 1,101 | - | 35 | 1,030 | 715 | 628 | 1,178 | 1,502 | 1,325 | 2,734 |
| Fixed Asset Payables and Retentions | 5,314 | 8,779 | 9,926 | 13,772 | 12,417 | 6,994 | 2,532 | 3,333 | 2,268 | - | - | - |
| Other Payables | 516 | - | 8,425 | 3,252 | 1,612 | 1,505 | 5,761 | 3,808 | 3,443 | 5,440 | 4,256 | 5,330 |
| Total Current Liabilities | 50,839 | 47,389 | 165,312 | 42,124 | 37,628 | 31,666 | 24,007 | 20,046 | 16,973 | 16,426 | 14,361 | 12,217 |

TOTAL EQUITY AND LIABILITIES

| | | | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 841,323 | 823,915 | 542,368 | 520,843 | 460,164 | 404,449 | 391,230 | 391,536 | 394,474 | 400,475 | 378,378 | 367,341 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|

NON-CURRENT ASSETS (@ cost less accumulated depreciation until 1999; from 1999 @ current valuation)

| | | | | | | | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Freehold Land | 312,939 | 313,996 | 208,397 | 190,965 | 179,799 | 171,156 | 164,491 | 158,860 | 156,916 | 147,711 | 134,278 | 132,310 |
| Buildings | 256,808 | 271,627 | 264,376 | 258,024 | 200,640 | 136,208 | 124,498 | 129,749 | 121,664 | 134,025 | 132,102 | 130,395 |
| Runways, Taxiways and Aprons | 78,201 | 60,985 | 50,041 | 52,959 | 58,797 | 64,698 | 69,580 | 75,441 | 77,441 | 81,142 | 82,593 | 83,893 |
| Vehicles and Plant | 11,017 | 10,251 | 8,072 | 6,983 | 8,643 | 4,177 | 2,999 | 3,387 | 4,904 | 4,760 | 4,961 | 3,707 |
| Infrastructure | 108,990 | 105,624 | - | - | - | - | - | - | - | - | - | - |
| Investment Properties | 59,933 | 50,600 | - | - | - | - | - | - | - | - | - | - |
| Total Non-Current Assets | 827,888 | 813,083 | 530,886 | 508,931 | 447,879 | 376,239 | 361,568 | 367,437 | 360,925 | 367,638 | 353,934 | 350,305 |

AUCKLAND INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL POSITION (CONT.)

| As at | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Mar-92 | Mar-91 | Mar-90 | Mar-89 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| CURRENT ASSETS | | | | | | | | | | | | |
| Cash and Bank Balances | - | - | 57 | 108 | 294 | 20 | 284 | 133 | (118) | 170 | (57) | 211 |
| Bank Deposits | - | - | - | - | - | - | 2,400 | 13,700 | 20,200 | 23,363 | 13,018 | 4,460 |
| NZ Government Stock | - | - | - | - | - | 15,000 | 15,000 | - | - | - | - | - |
| Receivables (@ net realisable value) | 7,562 | 6,936 | 8,580 | 6,924 | 9,314 | 8,013 | 5,858 | 4,855 | 5,321 | 5,952 | 8,087 | 12,083 |
| Prepayments | 3,320 | 1,258 | 486 | 1,136 | 845 | 1,092 | 2,430 | 1,640 | 2,486 | 221 | 309 | 189 |
| Inventories | 314 | 186 | 55 | 58 | 54 | 55 | 64 | 68 | 68 | 48 | 45 | 93 |
| Taxation Receivable | - | - | - | 1,588 | - | - | - | - | - | - | - | - |
| Total Current Assets | 11,196 | 8,380 | 9,178 | 9,814 | 10,507 | 24,180 | 26,036 | 20,396 | 27,957 | 29,754 | 21,402 | 17,036 |
| Investment in Associates (50% Marriott-AIAL & Waste Resources) | 2,239 | 2,452 | 2,304 | 2,098 | 1,778 | 4,030 | 3,626 | 3,703 | 5,592 | 3,083 | 3,042 | - |
| TOTAL ASSETS | 841,323 | 823,915 | 542,368 | 520,843 | 460,164 | 404,449 | 391,230 | 391,536 | 394,474 | 400,475 | 378,378 | 367,341 |

STATEMENT OF CASHFLOWS

CASHFLOWS FROM OPERATING ACTIVITIES

Cash was provided from:

| | | | | | | | | | | | | |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| Receipts from Customers | 169,183 | 161,490 | 154,742 | 142,382 | 128,629 | 116,905 | 104,477 | 124,989 | 89,646 | 91,636 | 86,826 | 54,954 |
| Interest Received | 137 | 180 | 477 | 288 | 1,572 | 1,594 | 1,102 | 1,562 | 2,982 | 2,951 | 1,512 | 635 |
| | 169,320 | 161,670 | 155,219 | 142,670 | 130,201 | 118,499 | 105,579 | 126,551 | 92,628 | 94,587 | 88,338 | 55,589 |

Cash was applied to:

| | | | | | | | | | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Payments to Suppliers and Employees | 46,932 | 50,554 | 45,032 | 39,694 | 37,466 | 37,171 | 29,931 | 41,652 | 27,778 | 31,196 | 27,994 | 21,987 |
| Interest Paid | 21,308 | 20,115 | 11,329 | 10,741 | 9,242 | 7,536 | 9,299 | 11,379 | 18,387 | 7,092 | 9,311 | 18,640 |
| Taxes Paid | 25,011 | 21,683 | 19,834 | 21,012 | 23,046 | 20,828 | 18,946 | 19,638 | 13,096 | 9,220 | 11,029 | 1,455 |
| | 93,251 | 92,352 | 76,195 | 71,447 | 69,754 | 65,535 | 58,176 | 72,669 | 59,261 | 47,508 | 48,334 | 42,082 |

Net Cash Flows from Operating Activities

| | | | | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 76,069 | 69,318 | 79,024 | 71,223 | 60,447 | 52,964 | 47,403 | 53,882 | 33,367 | 47,079 | 40,004 | 13,507 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|

CASHFLOWS USED IN INVESTING ACTIVITIES

Cash was provided from:

| | | | | | | | | | | | | |
|------------------------------------|------------|-----------|------------|------------|------------|------------|--------------|------------|---------------|------------|------------|-----------|
| Proceeds from Sale of Fixed Assets | 124 | 93 | 119 | 152 | 162 | 59 | 5,110 | 199 | 9,127 | 105 | 120 | 66 |
| Repayment of Associates Advance | 532 | - | - | - | - | 250 | 600 | 750 | 950 | 273 | - | - |
| | 656 | 93 | 119 | 152 | 162 | 309 | 5,710 | 949 | 10,077 | 378 | 120 | 66 |

AUCKLAND INTERNATIONAL AIRPORT LIMITED**STATEMENT OF CASHFLOWS (CONT.)**

For the period ended

Cash was applied to:

Purchase of Fixed Assets and Airport Development Expenditure

Advance to/Shares in Associates

| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Mar-92 | Mar-91 | Mar-90 | Mar-89 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Purchase of Fixed Assets and Airport Development Expenditure | 44,162 | 32,929 | 57,739 | 88,046 | 83,794 | 31,378 | 13,042 | 33,310 | 15,095 | 29,535 | 18,792 | 14,514 |
| Advance to/Shares in Associates | - | - | - | - | 2,381 | 445 | 200 | - | 3,450 | - | 3,042 | - |
| | 44,162 | 32,929 | 57,739 | 88,046 | 86,175 | 31,823 | 13,242 | 33,310 | 18,545 | 29,535 | 21,834 | 14,514 |

Net Cash Flows Used in Investing Activities

| | | | | | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|---------|----------|---------|----------|----------|----------|
| | (43,506) | (32,836) | (57,620) | (87,894) | (86,013) | (31,514) | (7,532) | (32,361) | (8,468) | (29,157) | (21,714) | (14,447) |
|--|----------|----------|----------|----------|----------|----------|---------|----------|---------|----------|----------|----------|

CASHFLOWS FROM FINANCING ACTIVITIES*Cash was provided from:*

Term Borrowings

| | | | | | | | | | | | | |
|--|--------|---------|-------|--------|--------|---|---|---|---------|---|--------|--------|
| | 30,700 | 109,600 | 2,800 | 39,900 | 71,150 | - | - | - | 141,000 | - | 67,860 | 73,470 |
|--|--------|---------|-------|--------|--------|---|---|---|---------|---|--------|--------|

Cash was applied to:

Net Repayment of Borrowings

Re-Purchase of Bonds

Dividends Paid

| | | | | | | | | | | | | |
|-----------------------------|--------|---------|--------|--------|--------|--------|--------|--------|---------|-------|--------|--------|
| Net Repayment of Borrowings | - | - | - | - | - | 2,631 | 23,000 | 15,000 | 153,050 | - | 77,860 | 67,860 |
| Re-Purchase of Bonds | - | - | - | - | 37,000 | 5,019 | - | 5,000 | 10,000 | - | - | - |
| Dividends Paid | 63,420 | 147,168 | 24,255 | 23,415 | 23,310 | 16,464 | 13,020 | 7,770 | 6,300 | 7,350 | - | - |
| | 63,420 | 147,168 | 24,255 | 23,415 | 60,310 | 24,114 | 36,020 | 27,770 | 169,350 | 7,350 | 77,860 | 67,860 |

Net Cash Flows from Financing Activities

| | | | | | | | | | | | | |
|--|----------|----------|----------|--------|--------|----------|----------|----------|----------|---------|----------|-------|
| | (32,720) | (37,568) | (21,455) | 16,485 | 10,840 | (24,114) | (36,020) | (27,770) | (28,350) | (7,350) | (10,000) | 5,611 |
|--|----------|----------|----------|--------|--------|----------|----------|----------|----------|---------|----------|-------|

NET INCREASE (DECREASE) IN CASH HELD

Add cash at the beginning of the year

| | | | | | | | | | | | | |
|---------------------------------------|---------|---------|------|-------|----------|---------|--------|---------|---------|--------|-------|-------|
| | (157) | (1,086) | (51) | (186) | (14,726) | (2,664) | 3,851 | (6,249) | (3,451) | 10,572 | 8,290 | 4,671 |
| Add cash at the beginning of the year | (1,029) | 57 | 108 | 294 | 15,020 | 17,684 | 13,833 | 20,082 | 23,533 | 12,961 | 4,671 | - |

CASH AT END OF THE YEAR

| | | | | | | | | | | | | |
|--|---------|---------|----|-----|-----|--------|--------|--------|--------|--------|--------|-------|
| | (1,186) | (1,029) | 57 | 108 | 294 | 15,020 | 17,684 | 13,833 | 20,082 | 23,533 | 12,961 | 4,671 |
|--|---------|---------|----|-----|-----|--------|--------|--------|--------|--------|--------|-------|

OPERATIONAL STATISTICS**PASSENGER NUMBERS**

Domestic Passengers

International Passengers

| | | | | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Domestic Passengers | 3,206,806 | 3,075,627 | 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 | 2,299,846 |
| International Passengers | 4,799,236 | 4,590,347 | 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 | 2,804,401 |
| TOTAL PASSENGERS | 8,006,042 | 7,665,974 | 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 | 5,104,247 |

AIRCRAFT MOVEMENTS (Scheduled, Freight and GA)

Domestic Movements

International Movements

| | | | | | | | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| Domestic Movements | 120,105 | 114,738 | 113,142 | 112,484 | 109,693 | 107,112 | 97,201 | 90,283 | 77,081 | 73,368 | 65,484 | 58,354 |
| International Movements | 27,664 | 25,306 | 24,505 | 23,938 | 22,562 | 20,452 | 18,353 | 18,501 | 18,139 | 18,122 | 17,654 | 16,805 |
| TOTAL AIRCRAFT MOVEMENTS | 147,769 | 140,044 | 137,647 | 136,422 | 132,255 | 127,564 | 115,554 | 108,784 | 95,220 | 91,490 | 83,138 | 75,159 |

FREIGHT

Domestic

International

| | | | | | | | | | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Domestic | 36,588 | 34,688 | 35,681 | 39,722 | 39,121 | 37,642 | 31,616 | 27,691 | 32,621 | 34,016 | 27,972 | 29,994 |
| International | 155,091 | 151,582 | 157,770 | 151,624 | 154,084 | 160,062 | 143,882 | 126,871 | 125,942 | 115,473 | 120,468 | 105,712 |
| TOTAL FREIGHT (Tonnes) | 191,679 | 186,270 | 193,481 | 189,873 | 194,635 | 197,704 | 175,498 | 154,562 | 158,563 | 149,489 | 148,440 | 135,706 |

WELLINGTON INTERNATIONAL AIRPORT LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

For the period ended

| | 9 months | | | | | | | | | 8.5 months |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Mar-00 | Mar-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| REVENUE | | | | | | | | | | |
| Landing Charge | 12,985 | 10,717 | 14,241 | 13,448 | 13,272 | 12,629 | 12,158 | 11,521 | 11,678 | 6,539 |
| Terminal Services Charge | 2,841 | 1,616 | 1,877 | 1,686 | 1,516 | 1,477 | 1,382 | 2,045 | 2,433 | 1,712 |
| Rental, Lease and Concession | 7,276 | 4,135 | 5,277 | 4,977 | 4,991 | 4,814 | 4,133 | 3,944 | 3,658 | 2,764 |
| Airport Development Charge | 3,698 | 2,683 | 2,929 | 2,389 | 2,168 | 1,929 | 1,769 | 1,662 | 1,552 | 965 |
| Carparking Services | 3,948 | 2,225 | 2,954 | 2,873 | 2,584 | 2,442 | 2,276 | 2,048 | 1,651 | 1,178 |
| Other | 500 | 376 | 408 | 478 | 514 | 584 | 495 | 178 | 501 | 159 |
| OPERATING REVENUE | 31,248 | 21,752 | 27,686 | 25,851 | 25,045 | 23,875 | 22,213 | 21,398 | 21,473 | 13,317 |
| INTEREST INCOME | 24 | 39 | 41 | 14 | 9 | 48 | 765 | 167 | 229 | 81 |
| TOTAL REVENUE | 31,272 | 21,791 | 27,727 | 25,865 | 25,054 | 23,923 | 22,978 | 21,565 | 21,702 | 13,398 |
| EXPENSES | | | | | | | | | | |
| Audit Fees | 32 | 32 | 32 | 26 | 26 | 31 | 31 | 32 | 21 | 25 |
| Business Development Costs | 573 | 883 | 491 | 478 | 540 | - | - | - | - | - |
| Depreciation | 6,579 | 3,594 | 5,098 | 4,671 | 4,477 | 3,964 | 3,728 | 2,105 | 1,975 | 1,338 |
| Directors' Fees | 165 | 103 | 118 | 115 | 115 | 105 | 105 | 101 | 105 | 74 |
| Employee Remuneration and Benefits | 4,709 | 4,212 | 5,330 | 4,761 | 4,292 | 3,911 | 3,155 | 2,685 | 2,317 | 1,413 |
| Interest | 8,445 | 4,361 | 3,817 | 2,970 | 2,097 | 2,472 | 1,736 | 2,381 | 2,797 | 2,950 |
| Rental and Leasing Costs | 141 | 119 | 132 | 110 | 66 | - | - | - | - | - |
| Repairs and Maintenance | 1,424 | 742 | 776 | 731 | 742 | 1,306 | 769 | 1,152 | 976 | 673 |
| Other Operating Costs | 5,109 | 3,587 | 5,213 | 5,926 | 5,387 | 4,595 | 6,383 | 8,413 | 8,085 | 5,088 |
| TOTAL EXPENSES | 27,177 | 17,633 | 21,007 | 19,788 | 17,742 | 16,384 | 15,907 | 16,869 | 16,276 | 11,561 |
| NET PROFIT BEFORE TAX (NPBT) | 4,095 | 4,158 | 6,720 | 6,077 | 7,312 | 7,539 | 7,071 | 4,696 | 5,426 | 1,837 |
| Income Tax | (185) | (29) | 2,335 | 2,219 | 2,744 | 3,129 | 2,913 | 1,750 | 2,164 | 626 |
| NET PROFIT AFTER TAX (NPAT) | 4,280 | 4,187 | 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 | 4,280 | 4,187 | 108,106 | 105,791 | 100,509 | 71,940 | 70,625 | 59,718 | 57,761 | 56,550 |
| Operating Surplus After Tax | 149 | - | 4,385 | 3,858 | 4,568 | 4,410 | 4,158 | 2,946 | 3,262 | 1,211 |
| Increase in Revaluation Reserve | (47,500) | - | - | - | 2,541 | 25,923 | - | 7,961 | - | - |
| Dividends to Shareholders | (7,500) | - | (961) | (1,543) | (1,827) | (1,764) | (2,843) | - | (1,305) | - |
| EQUITY AT THE END OF THE YEAR | 65,146 | 115,717 | 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 | Mar-00 \$000 | Mar-99 \$000 | Jun-98 \$000 | Jun-97 \$000 | Jun-96 \$000 | Jun-95 \$000 | Jun-94 \$000 | Jun-93 \$000 | Jun-92 \$000 | Jun-91 \$000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>EQUITY</u> | | | | | | | | | | |
| Share Capital (56.55 m ordinary shares @ \$1) | 9,050 | 56,550 | 56,550 | 56,550 | 56,550 | 56,550 | 56,550 | 56,550 | 56,550 | 56,550 |
| Revaluation Reserve | 36,499 | 36,398 | 36,949 | 37,026 | 36,926 | 34,209 | 8,265 | 7,961 | - | - |
| Retained Earnings | 19,597 | 22,769 | 18,031 | 14,530 | 12,315 | 9,750 | 7,125 | 6,114 | 3,168 | 1,211 |
| Total Equity | 65,146 | 115,717 | 111,530 | 108,106 | 105,791 | 100,509 | 71,940 | 70,625 | 59,718 | 57,761 |
| <u>NON-CURRENT LIABILITIES</u> | | | | | | | | | | |
| Bank Loans | 118,700 | 105,492 | 75,000 | 47,000 | 36,900 | 27,500 | 28,400 | 31,000 | 30,450 | 30,450 |
| Subordinated Debt | 55,000 | - | - | - | - | - | - | - | - | - |
| Rental in Advance | - | - | - | 146 | 323 | 598 | 1,235 | 706 | - | - |
| Land Acquisitions | - | - | - | - | - | - | 1,500 | - | - | - |
| Total Non-Current Liabilities | 173,700 | 105,492 | 75,000 | 47,146 | 37,223 | 28,098 | 31,135 | 31,706 | 30,450 | 30,450 |
| <u>CURRENT LIABILITIES</u> | | | | | | | | | | |
| Bank Overdraft/Advance | 4,147 | 1,641 | 252 | 4,300 | 526 | - | - | - | - | - |
| Trade Creditors | 2,552 | 5,920 | 1,873 | 1,341 | 1,231 | 651 | 979 | 1,584 | 705 | 439 |
| Accruals and Other Liabilities | 3,856 | 333 | 4,620 | 1,885 | 1,568 | 1,728 | 660 | 524 | 1,148 | 1,258 |
| Employee Entitlements | 340 | 824 | 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 | 10,895 | 8,718 | 7,433 | 8,738 | 4,525 | 4,717 | 9,960 | 3,279 | 4,257 | 2,523 |
| TOTAL EQUITY AND LIABILITIES | 249,741 | 229,927 | 193,963 | 163,990 | 147,539 | 133,324 | 113,035 | 105,610 | 94,425 | 90,734 |
| <u>NON-CURRENT ASSETS</u> (unless stated, @ cost less accumulated depreciation until 1993; from 1993 @ current valuation) | | | | | | | | | | |
| Land | 48,565 | 48,924 | 47,788 | 47,203 | 47,125 | 49,199 | 39,795 | 34,813 | 47,083 | 44,840 |
| Land Improvements | 64,952 | 70,271 | 70,359 | 67,766 | 65,977 | 50,303 | 40,688 | 36,930 | 14,534 | 15,323 |
| Buildings | 116,763 | 25,922 | 26,667 | 17,788 | 17,793 | 22,774 | 18,502 | 17,743 | 19,001 | 21,328 |
| Vehicles, Plant and Equipment | 10,497 | 5,470 | 5,635 | 5,774 | 5,787 | 6,767 | 6,518 | 5,514 | 4,239 | 4,412 |
| Capital work in progress (@ cost) | 1,330 | 74,485 | 38,172 | 21,948 | 7,778 | 1,501 | - | - | - | - |
| Deferred Tax (@cost) | - | - | - | - | - | 50 | 32 | 13 | (2,106) | 75 |
| Total Non-Current Assets | 242,107 | 225,072 | 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 | Mar-00 | Mar-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| <u>CURRENT ASSETS</u> | | | | | | | | | | |
| Cash and Bank | 1 | 2 | 400 | 333 | 2 | 221 | 410 | 206 | 54 | 3 |
| Short Term Deposits | - | - | - | - | - | - | 887 | - | 3,250 | 1,548 |
| Prepayments | 1,624 | 505 | 1,214 | 631 | 221 | 252 | 935 | 981 | 163 | 123 |
| Trade Accounts Receivable | 3,785 | 2,511 | 2,734 | 2,248 | 2,168 | 1,882 | 1,702 | 9,392 | 8,207 | 2,837 |
| Sundry Accounts Receivable | 68 | 1,157 | 994 | 299 | 297 | 226 | 3,497 | 18 | - | 245 |
| Taxation Receivable | 2,156 | 680 | - | - | 390 | 148 | 69 | - | - | - |
| Total Current Assets | 7,634 | 4,855 | 5,342 | 3,511 | 3,078 | 2,729 | 7,500 | 10,597 | 11,674 | 4,756 |
| TOTAL ASSETS | 249,741 | 229,927 | 193,963 | 163,990 | 147,539 | 133,324 | 113,035 | 105,610 | 94,425 | 90,734 |

STATEMENT OF CASHFLOWS

CASHFLOWS FROM OPERATING ACTIVITIES

Cash was provided from:

| | | | | | | | | | | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Receipts from Customers | 29,165 | 21,907 | 26,757 | 25,459 | 24,435 | 25,756 | 26,122 | 19,938 | 17,750 | 10,329 |
| Interest Received | 24 | 39 | 41 | 41 | 9 | 48 | 764 | 167 | 216 | 81 |
| | 29,189 | 21,946 | 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 | 6,727 | 9,864 | 8,458 | 11,564 | 10,625 | 10,631 | 10,938 | 11,300 | 11,691 | 5,604 |
| Interest Paid | 7,567 | 4,114 | 4,618 | 3,304 | 1,817 | 1,914 | 1,715 | 3,449 | 3,040 | 2,165 |
| Taxes Paid | 1,383 | 454 | 2,638 | 1,818 | 3,145 | 3,226 | 3,414 | 4,260 | 562 | 849 |
| | 15,677 | 14,432 | 15,714 | 16,686 | 15,587 | 15,771 | 16,067 | 19,009 | 15,293 | 8,618 |

Net Cash Flows from Operating Activities

| | | | | | | | | | | |
|--|---------------|--------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|--------------|
| | 13,512 | 7,514 | 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 | 18 | 22 | 383 | 218 | 20 | 2,083 | 1,359 | - | - | - |
|------------------------------------|----|----|-----|-----|----|-------|-------|---|---|---|

Cash was applied to:

| | | | | | | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|---------------|
| Purchase of Fixed Assets | 28,478 | 36,036 | 32,288 | 19,716 | 16,585 | 10,390 | 6,620 | 3,439 | 917 | 87,241 |
| Capitalised Interest | 767 | 3,779 | 1,335 | 1,191 | 665 | - | - | - | 1,705 | 1,548 |
| | 29,245 | 39,815 | 33,623 | 20,907 | 17,250 | 10,390 | 6,620 | 3,439 | 2,622 | 88,789 |

Net Cash Flows Used in Investing Activities

| | | | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|
| | (29,227) | (39,793) | (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 period ended

| | Mar-00 \$000 | Mar-99 \$000 | Jun-98 \$000 | Jun-97 \$000 | Jun-96 \$000 | Jun-95 \$000 | Jun-94 \$000 | Jun-93 \$000 | Jun-92 \$000 | Jun-91 \$000 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>CASHFLOWS FROM FINANCING ACTIVITIES</u> | | | | | | | | | | |
| <i>Cash was provided from:</i> | | | | | | | | | | |
| Proceeds of Bank Deposits and Bills | 68,208 | 30,492 | 28,000 | 10,100 | 9,400 | - | - | 34,250 | - | 87,000 |
| <i>Cash was applied to:</i> | | | | | | | | | | |
| Repayment of Loans | - | - | - | - | - | 900 | 2,600 | - | - | - |
| Repayment of Debentures | - | - | - | - | - | - | - | 30,450 | - | - |
| Repurchase of Shares | 47,500 | - | - | - | - | - | - | - | - | - |
| Dividends Paid | 7,500 | - | 1,729 | 1,668 | 1,772 | 1,902 | 1,867 | 1,305 | - | - |
| | 55,000 | - | 1,729 | 1,668 | 1,772 | 2,802 | 4,467 | 31,755 | - | - |
| Net Cash Flows from Financing Activities | 13,208 | 30,492 | 26,271 | 8,432 | 7,628 | (2,802) | (4,467) | 2,495 | - | 87,000 |
| NET INCREASE (DECREASE) IN CASH HELD | (2,507) | (1,787) | 4,115 | (3,443) | (745) | (1,076) | 1,091 | 152 | 51 | 3 |
| Add cash at the beginning of the year | (1,639) | 148 | (3,967) | (524) | 221 | 1,297 | 206 | 54 | 3 | - |
| CASH AT END OF THE YEAR | (4,146) | (1,639) | 148 | (3,967) | (524) | 221 | 1,297 | 206 | 54 | 3 |

OPERATIONAL STATISTICS

PASSENGER NUMBERS

| | | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Domestic Passengers | 3,168,398 | 2,345,000 | 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 | 444,523 | 336,000 | 388,000 | 354,000 | 326,000 | 289,000 | 258,000 | 252,000 | 251,000 | 232,000 |
| TOTAL PASSENGERS | 3,612,921 | 2,681,000 | 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 | 109,412 | 103,115 | 112,283 | 112,961 | 98,671 | 92,692 | 89,119 | 86,447 | 88,371 | |
| International Movements | 4,830 | 5,221 | 4,154 | 3,847 | 3,190 | 2,696 | 2,317 | 2,065 | 1,944 | |
| TOTAL COMMERCIAL AIRCRAFT MOVEMENTS | 114,242 | 108,336 | 116,437 | 116,808 | 101,861 | 95,388 | 91,436 | 88,512 | 90,315 | - |
| Other (General Aviation) | 15,436 | 13,540 | 15,511 | 15,693 | 13,514 | 16,234 | 17,437 | 15,327 | 13,506 | |
| TOTAL AIRCRAFT MOVEMENTS | 129,678 | 121,876 | 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

| | 15 months | | | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 | Mar-90 | Mar-89 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| REVENUE | | | | | | | | | | | | |
| Landing Charge Component of Airport Charge | 10,081 | 11,299 | 11,048 | 11,126 | 11,053 | 10,585 | 9,804 | 9,244 | 8,505 | 10,939 | 8,939 | 9,874 |
| Terminal Component of Airport Charge | 9,394 | 8,817 | 8,313 | 8,462 | 8,279 | 7,871 | 7,367 | 6,947 | 6,391 | 8,219 | 6,712 | |
| Passenger Departure Charge | 8,160 | 7,430 | 7,020 | 6,022 | 4,678 | 4,299 | 3,980 | 3,469 | 2,357 | 2,590 | 2,205 | 1,907 |
| Lease Rentals and Concessions | 19,123 | 16,561 | 14,720 | 13,369 | 12,279 | 11,759 | 10,919 | 9,855 | 9,441 | 9,889 | 6,992 | 5,426 |
| Vehicle Parking | 2,931 | 2,553 | 2,460 | 2,272 | 2,076 | 1,759 | 1,565 | 1,380 | 1,135 | 1,453 | 1,118 | 1,105 |
| Antarctic Visitor Centre | 4,978 | 4,546 | 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 | 890 |
| Realised Gain on Sale of Fixed Assets | - | - | - | - | - | - | 46 | - | - | - | - | - |
| OPERATING REVENUE | 54,667 | 51,206 | 47,840 | 44,941 | 42,066 | 40,035 | 37,183 | 33,659 | 28,543 | 34,075 | 26,590 | 19,202 |
| Short Term Bank Deposits | 229 | 129 | 297 | 368 | 271 | 106 | 54 | 46 | 75 | 22 | 294 | 247 |
| Other Deposits | 7 | 26 | 340 | 205 | 3 | 71 | 69 | 74 | 96 | 148 | 108 | 931 |
| INTEREST INCOME | 236 | 155 | 637 | 573 | 274 | 177 | 123 | 120 | 171 | 170 | 402 | 1,178 |
| TOTAL REVENUE | 54,903 | 51,361 | 48,477 | 45,514 | 42,340 | 40,212 | 37,306 | 33,779 | 28,714 | 34,245 | 26,992 | 20,380 |
| EXPENSES | | | | | | | | | | | | |
| Audit Fees | 32 | 35 | 30 | 30 | 25 | 25 | 25 | 22 | 23 | 34 | 43 | 20 |
| Depreciation | 9,778 | 9,515 | 7,532 | 6,605 | 4,230 | 3,680 | 3,883 | 3,730 | 2,690 | 4,353 | 3,680 | 2,695 |
| Directors' Fees | 135 | 124 | 122 | 104 | 95 | 95 | 95 | 84 | 84 | 105 | 84 | 84 |
| Employee Remuneration | 8,336 | 7,921 | 7,783 | 8,068 | 7,756 | 7,553 | 6,923 | 7,061 | 6,291 | 7,317 | 6,040 | 5,031 |
| Financing and Interest Costs | 5,420 | 4,959 | 4,883 | 3,145 | 2,424 | 2,478 | 2,579 | 3,236 | 3,809 | 6,760 | 5,119 | 5,034 |
| Other Administrative Expenses | 2,990 | 3,189 | 2,863 | 2,709 | 2,928 | 2,254 | 2,318 | 2,183 | 1,633 | 1,755 | 1,221 | - |
| Electricity, Fuel & Oil | 1,175 | 1,157 | 1,107 | 811 | 845 | 829 | 828 | 868 | 925 | 1,148 | 973 | - |
| Maintenance - Buildings & Plant | 1,348 | 2,293 | 3,265 | 2,509 | 1,125 | 1,050 | 1,061 | 1,201 | 950 | 938 | 931 | - |
| Maintenance - Sealed Surfaces | 904 | 690 | 1,652 | 887 | 1,142 | 987 | 1,136 | 1,033 | 1,009 | 649 | 475 | - |
| Other Operating Costs | 4,093 | 3,738 | 2,982 | 2,975 | 2,205 | 2,260 | 2,286 | 1,388 | 1,015 | 1,354 | 1,285 | 5,901 |
| Movement in Provision for Future Expenses in Resealing Surfaces | 806 | 31 | 100 | (80) | 1,007 | 811 | 1,177 | 746 | 745 | 931 | 709 | 650 |
| TOTAL EXPENSES | 35,017 | 33,652 | 32,319 | 27,763 | 23,782 | 22,022 | 22,311 | 21,552 | 19,174 | 25,344 | 20,560 | 19,415 |
| Net Profit Before Extraordinaries | 19,886 | 17,709 | 16,158 | 17,751 | 18,558 | 18,190 | 14,995 | 12,227 | 9,540 | 8,901 | 6,432 | 965 |
| <u>Extraordinary Items</u> | | | | | | | | | | | | |
| Provision for Depreciation re Terminal Expansion | - | - | - | 8,746 | - | - | - | - | - | - | - | - |
| NET PROFIT BEFORE TAX (NPBT) | 19,886 | 17,709 | 16,158 | 9,005 | 18,558 | 18,190 | 14,995 | 12,227 | 9,540 | 8,901 | 6,432 | 965 |
| Income Tax | 6,658 | 5,553 | 5,233 | 3,946 | 6,471 | 5,952 | 5,583 | 4,174 | 2,797 | 3,712 | 2,800 | 947 |
| NET PROFIT AFTER TAX (NPAT) | 13,228 | 12,156 | 10,925 | 5,059 | 12,087 | 12,238 | 9,412 | 8,053 | 6,743 | 5,189 | 3,632 | 18 |

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**STATEMENT OF MOVEMENTS IN EQUITY**

For the period ended

| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 | Mar-90 | Mar-89 |
|---|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| EQUITY AT THE BEGINNING OF THE YEAR | 145,687 | 114,661 | 110,302 | 112,909 | 84,863 | 77,521 | 71,853 | 66,966 | 62,872 | 59,757 | 57,618 | 57,600 |
| <u>SURPLUS AND REVALUATIONS</u> | | | | | | | | | | | | |
| Operating Surplus After Tax | 13,228 | 12,156 | 10,925 | 5,059 | 12,087 | 12,238 | 9,412 | 8,053 | 6,743 | 5,189 | 3,632 | 18 |
| Increase in Capital Reserve | - | - | - | - | - | - | - | 2 | - | - | 7 | - |
| Increase in Asset Revaluation Reserve | - | 26,128 | - | 628 | 20,797 | - | - | - | - | - | - | - |
| Total Recognised Revenues and Expenses | 13,228 | 38,284 | 10,925 | 5,687 | 32,884 | 12,238 | 9,412 | 8,055 | 6,743 | 5,189 | 3,639 | 18 |
| Dividends to Shareholders | (37,949) | (7,258) | (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 | 120,966 | 145,687 | 114,661 | 110,302 | 112,909 | 84,863 | 77,521 | 71,853 | 66,966 | 62,872 | 59,757 | 57,618 |

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 | 57,600 | 57,600 |
| Asset Revaluation Reserve | 47,483 | 47,483 | 21,355 | 21,425 | 20,797 | - | - | - | - | - | - | - |
| Capital Reserve | 366 | 366 | 366 | 366 | 366 | 366 | 366 | 320 | 7 | 7 | 7 | - |
| Retained Earnings | 15,517 | 40,238 | 35,340 | 30,911 | 34,146 | 26,897 | 19,555 | 13,933 | 9,359 | 5,265 | 2,150 | 18 |
| Total Equity | 120,966 | 145,687 | 114,661 | 110,302 | 112,909 | 84,863 | 77,521 | 71,853 | 66,966 | 62,872 | 59,757 | 57,618 |

NON-CURRENT LIABILITIES

| | | | | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 90-day Short Term Notes (@ discounted value) | 82,606 | 63,259 | 70,390 | 47,149 | 29,348 | 31,269 | 32,746 | 38,311 | 39,568 | 37,224 | 35,520 | 35,520 |
| Other Term Borrowings | - | - | - | - | - | - | 26 | 62 | 1,160 | 1,209 | 1,297 | - |
| Total Non-Current Liabilities | 82,606 | 63,259 | 70,390 | 47,149 | 29,348 | 31,269 | 32,772 | 38,373 | 40,728 | 38,433 | 36,817 | 35,520 |

CURRENT LIABILITIES

| | | | | | | | | | | | | |
|-----------------------------------|--------------|--------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Trade Creditors | 2,893 | 1,355 | 1,796 | 916 | 1,013 | 1,200 | 1,156 | 1,951 | 2,517 | 1,249 | 2,540 | 1,911 |
| Construction Creditors | - | 776 | 3,001 | 6,589 | 526 | - | - | - | - | - | - | - |
| Employee Entitlements | 666 | 751 | 725 | 577 | 613 | 560 | 618 | 596 | 519 | 929 | 1,004 | 616 |
| Goods and Services Tax | 218 | 264 | 127 | - | 188 | 186 | 216 | 174 | 47 | 319 | 165 | 814 |
| Accrued Expenses | 1,084 | 1,347 | 912 | 2,098 | 1,341 | 862 | 979 | - | - | - | - | 12 |
| Proposed Dividend | 3,917 | 4,147 | 3,566 | 4,608 | 2,362 | 2,707 | 1,958 | 1,670 | 1,382 | 461 | 776 | - |
| Taxation Payable | 199 | - | - | - | - | - | 180 | 136 | 237 | 1,072 | 686 | 47 |
| Current Portion of Term Borrowing | - | - | - | - | - | - | 2,031 | 2,059 | 2,048 | 2,043 | - | - |
| Total Current Liabilities | 8,977 | 8,640 | 10,127 | 14,788 | 6,043 | 5,515 | 7,138 | 6,586 | 6,750 | 6,073 | 5,171 | 3,400 |

TOTAL EQUITY AND LIABILITIES

| | | | | | | | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| 212,549 | 217,586 | 195,178 | 172,239 | 148,300 | 121,647 | 117,431 | 116,812 | 114,444 | 107,378 | 101,745 | 96,538 |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**STATEMENT OF FINANCIAL POSITION (CONT.)**

| As at | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 | Mar-90 | Mar-89 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| <u>NON-CURRENT ASSETS</u> (unless stated, @ cost less accumulated depreciation) | | | | | | | | | | | | |
| Land (@ current valuation from 1996) | 86,507 | 83,207 | 56,756 | 56,680 | 55,437 | 34,440 | 34,189 | 33,244 | 33,214 | 33,228 | 32,641 | 28,564 |
| Buildings | 23,527 | 24,284 | 24,770 | 24,034 | 49,471 | 49,685 | 47,125 | 45,378 | 43,123 | 43,036 | 35,318 | 35,453 |
| Terminal Facilities | 73,685 | 78,473 | 71,208 | 23,237 | - | - | - | - | - | - | - | - |
| Sealed Surfaces (after provision for future resealing expenses) | 12,557 | 13,825 | 11,921 | 12,553 | 11,604 | 13,436 | 14,624 | 16,745 | 17,959 | 18,635 | 21,257 | 20,984 |
| Plant and Equipment | 5,207 | 6,659 | 6,412 | 7,451 | 9,273 | 10,684 | 11,122 | 11,734 | 7,114 | 7,512 | 5,067 | 3,496 |
| Furniture | 1,294 | 1,106 | 1,187 | 1,285 | 1,895 | 2,100 | 1,812 | 1,741 | 1,086 | 1,175 | 1,569 | 980 |
| Motor Vehicles | 1,863 | 1,772 | 2,016 | 2,196 | 2,100 | 2,232 | 2,625 | 2,910 | 855 | 966 | 1,294 | 1,559 |
| Work in Progress | 1,768 | 651 | 12,505 | 34,801 | 10,710 | 1,701 | 1,432 | 1,410 | 7,632 | 820 | 2,502 | - |
| Total Non-Current Assets | 206,408 | 209,977 | 186,775 | 162,237 | 140,490 | 114,278 | 112,929 | 113,162 | 110,983 | 105,372 | 99,648 | 91,036 |
| <u>CURRENT ASSETS</u> | | | | | | | | | | | | |
| Cash | - | - | - | 13 | 9 | 11 | 10 | 7 | 4 | 3 | 2 | 93 |
| Bank and Short Term Deposits | 1,823 | 2,651 | 4,275 | 2,611 | 2,769 | 3,255 | 155 | 123 | 269 | (1,148) | (1,232) | 2,000 |
| Receivables and Prepayments (@ net realisable value) | 3,416 | 3,572 | 3,189 | 4,253 | 4,079 | 3,183 | 3,757 | 3,028 | 2,680 | 2,939 | 3,198 | 3,263 |
| Taxation Receivable | - | 532 | 193 | 1,562 | 321 | 232 | - | - | - | - | - | - |
| Future Income Tax Benefit | - | - | - | 950 | - | - | - | - | - | - | - | - |
| Inventories (@ lower of weighted average cost or NRV) | | | | | | | | | | | | |
| - Materials | 221 | 228 | 202 | 107 | 115 | 126 | 121 | 117 | 108 | 157 | 87 | 112 |
| - Retail Stock | 604 | 547 | 459 | 419 | 442 | 487 | 389 | 328 | 54 | - | - | - |
| - Livestock (@ IRD rates) | 77 | 79 | 85 | 87 | 75 | 75 | 70 | 47 | 46 | 55 | 42 | 34 |
| Total Current Assets | 6,141 | 7,609 | 8,403 | 10,002 | 7,810 | 7,369 | 4,502 | 3,650 | 3,161 | 2,006 | 2,097 | 5,502 |
| TOTAL ASSETS | 212,549 | 217,586 | 195,178 | 172,239 | 148,300 | 121,647 | 117,431 | 116,812 | 114,144 | 107,378 | 101,745 | 96,538 |

STATEMENT OF CASHFLOWS**CASHFLOWS FROM OPERATING ACTIVITIES***Cash was provided from:*

| | | | | | | | | | | | | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Receipts from Customers | 54,874 | 50,645 | 48,449 | 45,416 | 41,273 | 40,082 | 36,596 | 33,650 | 28,656 | 34,679 | 27,193 | 13,777 |
| Interest Received | 236 | 160 | 632 | 601 | 247 | 723 | 55 | 47 | 75 | - | - | 1,123 |
| Net GST Received | - | 137 | 849 | - | 2 | - | 43 | 126 | - | 289 | - | 435 |
| | 55,110 | 50,942 | 49,930 | 46,017 | 41,522 | 40,805 | 36,694 | 33,823 | 28,731 | 34,968 | 27,193 | 15,335 |

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**STATEMENT OF CASHFLOWS**

For the period ended

| | Jun-00 \$000 | Jun-99 \$000 | Jun-98 \$000 | Jun-97 \$000 | Jun-96 \$000 | Jun-95 \$000 | Jun-94 \$000 | Jun-93 \$000 | Jun-92 \$000 | Jun-91 \$000 | Mar-90 \$000 | Mar-89 \$000 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-----------------------|-----------------------|---------------------|
| <i>Cash was applied to:</i> | | | | | | | | | | | | |
| Payments to Suppliers and Employees | 19,291 | 18,278 | 19,335 | 17,500 | 15,528 | 15,351 | 14,705 | 13,830 | 12,783 | 14,368 | 10,250 | 6,119 |
| Financing and Interest Costs | 5,211 | 5,071 | 4,634 | 3,048 | 2,481 | 2,469 | 2,617 | 3,234 | 3,785 | 6,457 | 5,119 | 5,034 |
| Income Tax Paid | 5,927 | 5,892 | 2,913 | 6,137 | 6,557 | 6,364 | 5,539 | 4,275 | 3,633 | 3,326 | 2,161 | 900 |
| Net GST Paid | 46 | - | - | 912 | - | 31 | - | - | 271 | - | 574 | - |
| | <u>30,475</u> | <u>29,241</u> | <u>26,882</u> | <u>27,597</u> | <u>24,566</u> | <u>24,215</u> | <u>22,861</u> | <u>21,339</u> | <u>20,472</u> | <u>24,151</u> | <u>18,104</u> | <u>12,053</u> |
| Net Cash Flows from Operating Activities | <u>24,635</u> | <u>21,701</u> | <u>23,048</u> | <u>18,420</u> | <u>16,956</u> | <u>16,590</u> | <u>13,833</u> | <u>12,484</u> | <u>8,259</u> | <u>10,817</u> | <u>9,089</u> | <u>3,282</u> |
| <u>CASHFLOWS USED IN INVESTING ACTIVITIES</u> | | | | | | | | | | | | |
| <i>Cash was provided from:</i> | | | | | | | | | | | | |
| Proceeds from Sale of Fixed Assets | 46 | 39 | 175 | 74 | 89 | 36 | 157 | 169 | 32 | 49 | 52 | - |
| <i>Cash was applied to:</i> | | | | | | | | | | | | |
| Purchase of Fixed Assets | 6,677 | 9,556 | 37,205 | 30,401 | 10,428 | 5,844 | 4,870 | 7,873 | 7,145 | 12,051 | 13,037 | 94,310 |
| Net Cash Flows Used in Investing Activities | <u>(6,631)</u> | <u>(9,517)</u> | <u>(37,030)</u> | <u>(30,327)</u> | <u>(10,339)</u> | <u>(5,808)</u> | <u>(4,713)</u> | <u>(7,704)</u> | <u>(7,113)</u> | <u>(12,002)</u> | <u>(12,985)</u> | <u>(94,310)</u> |
| <u>CASHFLOWS FROM FINANCING ACTIVITIES</u> | | | | | | | | | | | | |
| <i>Cash was provided from:</i> | | | | | | | | | | | | |
| Term Borrowings | 19,347 | - | 23,241 | 17,801 | 29,348 | - | - | 4,940 | 2,043 | 39,224 | 1,297 | 93,120 |
| <i>Cash was applied to:</i> | | | | | | | | | | | | |
| Bank Bill Facility Repaid | - | - | - | - | 31,269 | 3,477 | 5,565 | 5,883 | - | - | - | - |
| Other Term Borrowings Repaid | - | 7,131 | - | - | - | 57 | 64 | 1,100 | 43 | 35,565 | - | - |
| Dividends Paid | 38,179 | 6,677 | 7,608 | 6,048 | 5,184 | 4,147 | 3,456 | 2,880 | 1,728 | 2,389 | 724 | - |
| | <u>38,179</u> | <u>13,808</u> | <u>7,608</u> | <u>6,048</u> | <u>36,453</u> | <u>7,681</u> | <u>9,085</u> | <u>9,863</u> | <u>1,771</u> | <u>37,954</u> | <u>724</u> | <u>-</u> |
| Net Cash Flows from Financing Activities | <u>(18,832)</u> | <u>(13,808)</u> | <u>15,633</u> | <u>11,753</u> | <u>(7,105)</u> | <u>(7,681)</u> | <u>(9,085)</u> | <u>(4,923)</u> | <u>272</u> | <u>1,270</u> | <u>573</u> | <u>93,120</u> |
| NET INCREASE (DECREASE) IN CASH HELD | (828) | (1,624) | 1,651 | (154) | (488) | 3,101 | 35 | (143) | 1,418 | 85 | (3,323) | 2,092 |
| Add cash at the beginning of the year | 2,651 | 4,275 | 2,624 | 2,778 | 3,266 | 165 | 130 | 273 | (1,145) | (1,230) | 2,093 | - |
| CASH AT END OF THE YEAR | <u>1,823</u> | <u>2,651</u> | <u>4,275</u> | <u>2,624</u> | <u>2,778</u> | <u>3,266</u> | <u>165</u> | <u>130</u> | <u>273</u> | <u>(1,145)</u> | <u>(1,230)</u> | <u>2,092</u> |

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**OPERATIONAL STATISTICS**

For the period ended

| | Jun-00 | Jun-99 | Jun-98 | Jun-97 | Jun-96 | Jun-95 | Jun-94 | Jun-93 | Jun-92 | Jun-91 | Mar-90 | Mar-89 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

PASSENGER NUMBERS

| | | | | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Domestic Passengers | 3,017,888 | 2,737,654 | 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 | 2,371,264 |
| International Passengers | 1,066,495 | 971,119 | 911,668 | 953,270 | 848,521 | 777,842 | 720,914 | 632,639 | 565,657 | 539,802 | 556,263 | 544,367 |
| TOTAL PASSENGERS | 4,084,383 | 3,708,773 | 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 | 2,915,631 |

AIRCRAFT MOVEMENTS

| | | | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------|
| Domestic Movements (excluding General Aviation) | 61,554 | 78,451 | 74,489 | 73,754 | 83,234 | 76,323 | 72,842 | 68,411 | 65,819 | 67,306 | 68,335 | - |
| International Movements (excluding General Aviation) | 7,338 | 7,086 | 5,752 | 5,127 | 4,696 | 4,413 | 3,940 | 3,697 | 4,095 | 4,086 | 4,033 | - |
| TOTAL COMMERCIAL AIRCRAFT MOVEMENTS | 68,892 | 85,537 | 80,241 | 78,881 | 87,930 | 80,736 | 76,782 | 72,108 | 69,914 | 71,392 | 72,368 | - |
| General Aviation | 86,228 | 66,131 | 56,991 | 68,900 | 44,203 | 52,858 | 45,933 | 43,368 | 50,238 | 53,762 | 52,841 | - |
| TOTAL AIRCRAFT MOVEMENTS | 155,120 | 151,668 | 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 September 2000

1. LANDING CHARGES (BASED ON MCTOW)

| | |
|--|--|
| (i) Aircraft under 3,000kg | \$13.56 per landing - operators with 25 flights or more per month \$27.13 per landing - operators with less than 25 flights per month |
| (ii) Aircraft 3,000kg and higher but under 6,000kg | \$0.0047 per kg - operators with 25 flights or more per month \$27.13 per landing - operators with less than 25 flights per month |
| (iii) Aircraft 6,000kg and higher but under 40,000kg | \$0.0071 per kg |
| (iv) Aircraft 40,000kg and higher | \$0.0114 per kg - International flights \$0.0117 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 - \$15.00 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. The charges stated in section one of this schedule are valid for landings between 1/9/2000 and 31/8/2001. The charges will increase by 5% for landings between 1/9/2001 to 31/8/2002. That charges as at 31/8/2002 will subsequently be increased by 5% from 1/9/2002.
- (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 July 2000****LANDING AND APRON CHARGE***Aircraft Weight Band*

| | | |
|--------------------|-------|------------|
| Above 30 tonnes | 12.59 | \$/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 | 0.40 | \$/seat |
| International | 5.90 | \$/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 revenue flights (ie emergency based flights will not be charged).

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED**SCHEDULE OF AIRCRAFT CHARGES****Effective from 1 January 2001****LANDING CHARGE***Aircraft Weight Band*

| | | |
|--------------------|------|----------|
| Above 30 tonnes | 7.14 | \$/tonne |
| 6-30 tonnes | 7.76 | \$/tonne |
| 3-6 tonnes | 4.00 | \$/tonne |
| Less than 3 tonnes | 6.00 | \$/tonne |

TERMINAL CHARGE

| | | |
|---------------|------|---------|
| Qantas NZ | 1.05 | \$/seat |
| Domestic | 1.62 | \$/seat |
| International | 3.39 | \$/seat |

Note:

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 are subject to Goods and Services Tax at the rate of 12.5%.

**SCHEDULE OF INTERNATIONAL PASSENGER DEPARTURE CHARGES
(AIRPORT DEVELOPMENT CHARGES)**

AUCKLAND INTERNATIONAL AIRPORT LIMITED

Effective from 1 October 2000

| | | |
|-----------------------------|-------|-----------|
| Adult | 22.00 | \$/person |
| Child under 12 years of age | 0.00 | \$/person |

WELLINGTON INTERNATIONAL AIRPORT LIMITED

Effective from 1 January 1998

| | | |
|----------------------------|-------|-----------|
| Adult | 25.00 | \$/person |
| Child 2-12 years of age | 10.00 | \$/person |
| Child under 2 years of age | 0.00 | \$/person |

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

Effective from 1 January 1997

| | | |
|-----------------------------|-------|-----------|
| Adult | 25.00 | \$/person |
| Child under 12 years of age | 0.00 | \$/person |

Note:

1. These charges are levied directly on passengers that depart the airports on an international flight.
2. Of the charge collected at each airport, \$5 per passenger is paid to the Crown for the provision of civil aviation services (\$4 aviation security charge and \$1 civil aviation levy). The \$5 levy applies to all international departing passengers 2 years of age and over. Both AIAL and CIAL absorb the levy for passengers under 12 years of age.
3. Transit passengers are exempt from the charges.
4. The charges include Goods and Services Tax at the rate of 12.5%.

APPENDIX 3
SCHEDULES OF AIRPORT ACTIVITIES

AUCKLAND INTERNATIONAL AIRPORT LIMITED (AIAL) IDENTIFIED AND OTHER AIRPORT ACTIVITIES

AIRFIELD ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft; and includes-

- (a) The provision of any one or more of the following:
- (i) Airfields, runways, taxiways, and parking aprons for aircraft
 - (ii) Facilities and services for air traffic and parking apron control
 - (iii) Airfield and associated lighting
 - (iv) Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft
 - (v) Rescue, fire, safety, and environmental hazard control services
 - (vi) Airfield supervisory and security services
- (b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|---|--|--|--|--|
| Airfields, runways, taxiways, and parking aprons for aircraft | Most. | Airways own and maintain runway and taxiway paint markings. | Land and land improvements (including drainage storm water, roads and other infrastructure – both airside and some apportionment for landside) associated with the main runway, taxiways, international apron, domestic apron, grassed areas and roads within the airfield or otherwise supporting it. | Aircraft landing charges. Sundry income from hay sales. |
| Facilities and services for air traffic control | AIAL leases land to Airways. | Provided by Airways, who own the Control Tower building. Also own, operate and maintain navigational equipment. | Land on which Airways' Control Tower sits. | Rent from land leased to Airways. |
| Facilities and services for parking apron control | AIAL provides apron control service at the international terminal apron. | Air NZ, Qantas NZ and Eagle Air provide apron control at the domestic apron on behalf of AIAL. | Land and buildings for the International Apron Tower, together with land for the Domestic Apron. | Terminal Services Charge (TSC). |
| Airfield associated lighting | AIAL has apron lights only. | Airways owns cables and light fittings for main taxiway and runway. It operates and maintains this airfield lighting as well as AIAL's assets. | Cable ducts and light pots for entire airfield; cabling for light fittings for aprons and first taxiway. | Aircraft landing charges. |
| Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft | All. | None. | Runway maintenance equipment. | Aircraft landing charges. |

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|---|---|---|--|--|
| Rescue, fire, safety, and environmental hazard control services | All. | Airport Noise Committee. | Land and buildings associated with the rescue fire service (Public Safety Response) as well as vehicles. | Rescue fire component of aircraft landing charges. |
| Airfield supervisory and security services | AIAL provides and maintains security fencing and leases space to Aviation Security Service (AVSEC). | AVSEC provides airside security, security between airside and landside, International passenger control, and perimeter patrols. | Security fencing and office space leased to AVSEC. | Rental from ground lease to AVSEC. |
| Facilities/assets held for future activities | Holding of land. | None. | Land held for the second runway. | Rental from land held for second runway. |

AIRCRAFT AND FREIGHT ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable, within a security area or areas of the relevant airport, the servicing and maintenance of aircraft and the handling of freight transported, or to be transported, by aircraft; and includes-

- (a) The provision within any security area or areas of the relevant airport, of any one or more of the following:
 - (i) Hangars
 - (ii) Facilities and services for refuelling of aircraft, flight catering, and waste disposal
 - (iii) Facilities and services for the storing of freight
 - (iv) Security, customs and quarantine services for freight
- (b) The holding of any facilities and assets (including land) acquired or held to provide aircraft and freight activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|---|---|---|--|
| Hangars | AIAL leases land to some parties with hangars. | Air NZ, Great Barrier, St Johns Ambulance, Airworks, Skycare, NZ Post etc. | Land on which hangars are situated. | Ground and/or building rental. |
| Facilities and services for refuelling of aircraft | Provision of pipeline and access to the airfield. | Refuelling undertaken by fuel companies. | Pipeline running onto the international apron. | Charge for use of pipeline and access to airfield. |
| Facilities and services for flight catering | AIAL provides access to the airfield. | Provided by PRI (Pacific) Flight Catering and Caterair directly to airlines. | Land leases. | Rent. |
| Facilities and services for waste disposal | Provision of bins for collection of rubbish around the airport and terminals. Owns and operates the quarantine waste disposal and honeypot facility at the airport. | Collection and removal of waste through AIAL agent Onyx and third party carriers. | Rubbish bins. Owns and operates on-airport quarantine incineration facility and honeypot. | Incineration fees for airside and landside waste. |
| Facilities and services for the storing of freight | Freight buildings leased to Air NZ and Qantas NZ. | Air NZ (container park) and Qantas NZ (domestic). | Land and buildings, namely container park adjacent to international apron and freight building at domestic. | Rent. |

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|---|--|----------------------|-------------------------|
| Security services for freight | None. | Airside security provided by AVSEC and airport security provided by NZ Police. | None. | None. |
| Customs services for freight | None. | Provided by NZ Customs. | None. | None. |
| Quarantine services for freight | None. | Provided by MAF. | None. | None. |
| Facilities/assets held for future activities | Holding of land. | None. | Land. | Rent. |
| Other | | | | |
| (1) Stock handling | AIAL provides land where stock can be handled. | Airlines or freight operators handle stock. | Stock handling area. | Stock handling fees. |
| (2) Ground handling facilities | Land and buildings leased to ground handling operators. | Undertaken by Air NZ, Qantas NZ, Sky Care and Ogden Aviation Services. Each own their own tarmac equipment. Ogdens own their building. | Land and buildings. | Rent. |

SPECIFIED PASSENGER TERMINAL ACTIVITIES

Means the activities undertaken (including the facilities and services provided) in relation to aircraft passengers while those passengers are in a security area or areas of the relevant airport; and includes-

- (a) The provision within a security area or areas of the relevant airport, of any one or more of the following:
 - (i) Passenger seating areas, thoroughfares, and airbridges
 - (ii) Flight information and public address systems
 - (iii) Facilities and services for the operation of customs, immigration, and quarantine checks and control
 - (iv) Facilities for the collection of duty-free items
 - (v) Facilities and services for the operation of security and Police services
- (b) Any activities undertaken (including the facilities and services provided) in a passenger terminal to enable the check-in of aircraft passengers, including services for baggage handling.
- (c) The holding of any facilities and assets (including land) acquired or held to provide specified passenger terminal activities in the future (whether or not used for any other purpose in the meantime); - but does not include the provision of any space for retail activities.

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|--|--|---|---|
| Passenger seating areas, thoroughfares | Provision of seating in gate lounges and other public areas in ITB (International Terminal Building) and in the DTBs | None. | Seating in public areas of ITB and Air NZ and Qantas NZ domestic terminals (DTBs). Space for airline lounges. | For ITB - TSC and Airport Development Charge (ADC); For DTB – Rentals. Also rent from airline lounge space. |
| Airbridges | Provided by AIAL at ITB. | Provided by Air NZ and Qantas NZ at DTBs. Mobile stairs provided by airlines or ground handling firms. | Airbridges at ITB. | TSC and portion of ADC. |

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|--|---|---|--|
| Flight information and public address systems | Provided by AIAL, except at DTBs. | Qantas NZ and Air NZ provide at DTBs. | FIDS and PA systems at ITB. | TSC and portion of ADC. |
| Facilities and services for the operation of customs | Office space leased to NZ Customs. AIAL provides public space in ITB. | Provided by NZ Customs. | Furniture and fittings in public areas of ITB, as well as office space. | Rent for office space, TSC and portion of ADC for public facilities. |
| Facilities and services for the operation of immigration | Office space leased to NZ Immigration. AIAL provides public space in ITB. | Provided by NZ Immigration. | Furniture and fittings in public areas of ITB, as well as office space. | Rent for office space, TSC and portion of ADC for public facilities. |
| Facilities and services for the operation of quarantine checks and control | Office space leased to MAF. AIAL provides public space in ITB. | Provided by MAF. | Furniture and fittings in public areas of ITB, as well as office space. | Rent for office space, TSC and portion of ADC for public facilities. |
| Facilities for the collection of duty-free items | Collection facility is operated by AIAL for off-airport and non-DFS/Regency sales. | DFS and Regency provide their own collection facilities. | Furniture and fittings and counter and storage space. | Licence fees. |
| Facilities and services for the operation of security | Space leased to AVSEC. | AVSEC provides security between airside and landside, and screening of hand baggage. | Space leased to AVSEC. | Rent for office space, TSC and portion of ADC for public facilities. |
| Facilities and services for the operation of Police services | Space leased to NZ Police. | Provided by NZ Police. | Space leased to NZ Police in ITB. | Rent for office space, TSC and portion of ADC for public facilities. |
| Passenger check-in areas | Space leased, and furniture and fittings provided, to airlines. | Check-in services provided by Airlines. Air NZ provide own furniture and fittings. | Check-in counters at ITB ground floor check-in for all airlines except Air NZ premier check-in.. | Counter rental and portions of both ADC and TSC. |
| Baggage Handling | Provision of fixed outbound and inbound baggage systems at the ITB. | Provided by Air NZ, Qantas NZ, Ogdens and Skycare. Air NZ and Qantas NZ own inbound and outbound baggage make-up systems at the DTBs. | ITB outbound baggage system (feeder conveyor and scales, collector conveyors, and sortation conveyors) and inbound luggage carousels; plus conveyers at DTBs. AIAL also provide airline lost baggage areas. | TSC and portions of ADC. |
| Facilities/assets held for future activities | Holding of land. | None. | Land. | Rent. |

OTHER AIRPORT ACTIVITIES

The activities undertaken (including the facilities and services provided) in addition to airfield activities, aircraft and freight activities, and specified passenger terminal activities (identified airport activities) defined in the Airport Authorities Amendment Act 1997. Other airport activities include the following (and facilities in connection with): utilities, roading, car parking, commercial property, office space, conference facilities, concessions, information, public space and facilities in terminals, and passenger vehicle operators.

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|--|--|---|---|
| Utilities (electricity, telecommunications, water etc) | AIAL provides the infrastructure and also supplies some services. Owns and operates electricity network, providing access to retailers. Owns and operates stand-by generators in the case of an emergency or when there is a fault on supply or network. | Electricity retailers supply electricity to AIAL and other parties operating at airport. Landis and Staefa NZ manage environment at ITB. Gas by Contact. | Infrastructure, including stand-by generators, electricity network at airport (underground cable, power centres and building cabling) that connects with the network of Vector at the airport boundary. | Electricity retailers pay a tariff to use electricity network pursuant to use of systems agreements negotiated with AIAL. |
| Roading | Provision of roads within airport (on AIAL land). | Manukau City Council provides adjoining roads. | Roads. | Portion of ADC. |
| Car parking | AIAL provides some parking facilities. | Public and staff car parks are managed under contract by Parking Services International Limited. On and off airport carparks, Skycare, Skyway Garage, Koru Valet parking and other valet parking, local hotel parking and tenancy parking. | Land and parking facilities. | Public and staff parking charges and rent from leased car parks. |
| Commercial property portfolio | AIAL leases out land and buildings (offices and warehousing) landside to various aviation and non-aviation related businesses, in addition to space in terminal buildings. | Some sub-leasing. | Land and buildings. | Rent. |
| Food and beverages | 50/50 Joint venture with HMSC Host and AIAL Limited at ITB. | HMSC Host and Kiwi Discovery. | ITB facilities. | Share of joint venture profits with HMSC Host in ITB. |
| Office space | Provide office space in terminal buildings. | None. | Terminal space. | Rent. |
| Conference facilities | Provision of media centre and other conference facilities for hire in the terminals. | | Terminal space and facilities. | Rent. |
| Concessions | Offer concessions to third parties around and within the terminals for: <ul style="list-style-type: none"> • Retail shops. • Duty-free shops. • Food and beverages. • Rental cars. • Banking and money exchange services. | Third parties operate concessions around and within the terminals. | Terminal space and facilities. | Rate for each concession is calculated on the basis of the greater of a minimum base rental amount and a percentage (e.g. 25%) of the concession's gross turnover i.e. pay base amount and where turnover exceeds a set level, pay a percentage of surplus to AIAL. |

| Activity | Undertaken by AIAL | Undertaken by Third Party | Assets owned by AIAL | Revenue derived by AIAL |
|--|--|--|--|---|
| Information | Customer service officers (red coats) and hospitality ambassadors (blue coats). | Some airlines have their own customer service desks. | Terminal space and furniture. | Portion of ADC. |
| Public space and facilities in terminals | All. Some are free services and others incur at a charge. | None. | Terminal space and facilities. In the ITB this includes a chapel, a theatrette, reading/writing areas, smoking lounges, first aid, children's play areas, nurseries, an exercycle, day rooms, and showers. | In transit area of ITB, day rooms are available for hire as well as showers, towels, soap, and hairdryers. Luggage storage is also available. Costs of free facilities recovered from portion of ADC. |
| Passenger vehicle operators | Provide facilities and space for taxis, buses, shuttle operators. | Bus, taxi and shuttle service operators. | Facilities and land for taxis, buses, shuttles, valet parking etc. | Licence fees and fees per pick-up. |
| Consultancy services | AIAL offers training, consultancy and project management on all airport disciplines. | None. | None. | Consultancy income. |
| Trolley Services. | Management contract to Smart Cart. | None. | Plant. | Portion of ADC. |

WELLINGTON INTERNATIONAL AIRPORT LIMITED (WIAL) IDENTIFIED AND OTHER AIRPORT ACTIVITIES

AIRFIELD ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft; and includes-

- (a) The provision of any one or more of the following:
- (i) Airfields, runways, taxiways, and parking aprons for aircraft
 - (ii) Facilities and services for air traffic and parking apron control
 - (iii) Airfield and associated lighting
 - (iv) Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft
 - (v) Rescue, fire, safety, and environmental hazard control services
 - (vi) Airfield supervisory and security services
- (b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by WIAL | Undertaken by Third Party | Assets owned by WIAL | Revenue derived by WIAL |
|---|---|--|---|---|
| Airfields, runways, taxiways, and parking aprons for aircraft | All. | None. | Land and land improvements to runway, taxiways, aprons and grassed areas. | Landing charges (except rescue fire component). |
| Facilities and services for air traffic control | None. | Airways provide all air traffic control from an off-airport site. | None. | None. |
| Facilities and services for parking apron control | Partly provided by WIAL. | Undertaken by airlines. | Apron supervision vehicles. | None. |
| Airfield and associated lighting | Some facilities provided by WIAL. | Airways own all lighting and navigation aids. | WIAL owns stand lighting and Nose in Guidance units. | Component of landing charges. |
| Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft | Contracted out by WIAL. | Major maintenance undertaken by outside contractors with supervision by airport. | None. | Component of landing charges. |
| Rescue, fire, safety, and environmental hazard control services | Provision of rescue fire service and airside services team. The airside services team monitor the safety of the apron, conduct runway checks, co-ordinate airside works, look after bird and hazard control, and monitor airside rules. | Noise Management Committee. | Land and buildings, vehicles and equipment, and noise monitoring system. | Rescue fire component of landing charges. |
| Airfield supervisory and security services | Provision and maintenance of security fencing, perimeter patrols, and management of systems. | AVSEC provides airside security, security between airside and landside, and international passenger screening. | Security fencing, access control system, and CCTV monitors. | Component of landing charges. |
| Facilities/assets held for future activities | Residential properties bordering airfield (for resource management). | None. | Residential properties bordering airfield. | Rent. |

AIRCRAFT AND FREIGHT ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable, within a security area or areas of the relevant airport, the servicing and maintenance of aircraft and the handling of freight transported, or to be transported, by aircraft; and includes-

- (a) The provision within any security area or areas of the relevant airport, of any one or more of the following:
 - (i) Hangars
 - (ii) Facilities and services for refuelling of aircraft, flight catering, and waste disposal
 - (iii) Facilities and services for the storing of freight
 - (iv) Security, customs and quarantine services for freight
- (b) The holding of any facilities and assets (including land) acquired or held to provide aircraft and freight activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by WIAL | Undertaken by Third Party | Assets owned by WIAL | Revenue derived by WIAL |
|--|---|--|---|---|
| Hangars | Provision of land and buildings. | Air NZ and GA hangers. | Rex hangar, Gibson hangar, and Westside 1 hangar. | Rent. |
| Facilities and services for refuelling of aircraft | Provision of land and access to airfield. | Mobil & BP have a joint facility (JUFF) with underground hydrants. Shell supplies fuel by tanker or through JUFF. | Land. | Rent. |
| Facilities and services for flight catering | Provision of land and access to airfield. | Provided by Air NZ flight Kitchen (on-airport) and PRI Flight catering (off-airport). | Land for Air NZ flight kitchen. | PRI pay access fee to get airside, Air NZ pay rent. |
| Facilities and services for waste disposal | Provision of land. | Medical Waste provide facilities for quarantine waste. | Effluent disposal facility for domestic operations. | None. Airlines pay for service direct. |
| Facilities and services for the storing of freight | Provision of land. | Freight buildings provided by Air NZ, Qantas NZ, and NZ Post. | Land for international cargo building. | Rent. |
| Security services for freight | Provision of terminal space. | Airside security provided by AVSEC and airport security provided by Police. | Spaced leased to AVSEC and NZ Police. | Rent. |
| Customs services for freight | Provision of terminal space. | Provided by NZ Customs. | Space leased to NZ Customs. | Rent. |
| Quarantine services for freight | Provision of terminal space. | Provided by MAF. | Space leased to MAF. | Rent. |
| Facilities/assets held for future activities | Land. | None. | Land. | None. |
| Other | | | | |
| Ground handling | WIAL provides ground maintenance vehicles and access to airfield. | Undertaken by Sky Care, Aviation Ground Services, Airlines, and Capital Jet Services who own their own mobile plant. | Ground maintenance vehicles. | None. |

SPECIFIED PASSENGER TERMINAL ACTIVITIES

Means the activities undertaken (including the facilities and services provided) in relation to aircraft passengers while those passengers are in a security area or areas of the relevant airport; and includes-

- (a) The provision within a security area or areas of the relevant airport, of any one or more of the following:
 - (i) Passenger seating areas, thoroughfares, and airbridges
 - (ii) Flight information and public address systems
 - (iii) Facilities and services for the operation of customs, immigration, and quarantine checks and control
 - (iv) Facilities for the collection of duty-free items
 - (v) Facilities and services for the operation of security and Police services
- (b) Any activities undertaken (including the facilities and services provided) in a passenger terminal to enable the check-in of aircraft passengers, including services for baggage handling.
- (c) The holding of any facilities and assets (including land) acquired or held to provide specified passenger terminal activities in the future (whether or not used for any other purpose in the meantime); - but does not include the provision of any space for retail activities.

| Activity | Undertaken by WIAL | Undertaken by Third Party | Assets owned by WIAL | Revenue derived by WIAL |
|--|---|---|---|--|
| Passenger seating areas, thoroughfares | Provides public areas in terminal. | RNZAF and Aero Club. | Land and terminal building, plus furniture in common areas. | Terminal services charge (TSC) and international passenger departure charge. |
| Airbridges | All. | None, although the airlines provide mobile stairs. | Airbridges. | TSC. |
| Flight information and public address systems | Information systems. | Airlines provide source data. | Public FIDS screens, hardware and software for terminal. | TSC. |
| Facilities and services for the operation of customs | Space leased to NZ Customs. | Provided by NZ Customs. | Statutory space. | Rent for sole use space. |
| Facilities and services for the operation of immigration | | | Statutory space. | |
| Facilities and services for the operation of quarantine checks and control | Space leased to MAF. | Provided by MAF. | Statutory space. | Rent for sole use space. |
| Facilities for the collection of duty-free items | Space leased for collection of duty-free. | Duty Free-Stores. | Terminal space. | Rent for sole use space. |
| Facilities and services for the operation of security | Space leased to AVSEC. | AVSEC provide security between airside and landside, and international passenger screening. | Common use space used for this purpose. Security cameras and access control system. | Rent for sole use space. |
| Facilities and services for the operation of Police services | Space leased to NZ Police. | Provided by NZ Police. | Terminal space. | Rent for sole use space. |
| Passenger check-in areas | Provide airline check-in areas. | Check-in services provided by Airlines. | Check-in counters. | Rent for check-in counters. |
| Baggage Handling | Provide baggage handling system. | Operated by airlines. | Baggage handling system. | |
| Facilities/assets held for future activities | Land. | None. | Land. | None. |

OTHER AIRPORT ACTIVITIES

The activities undertaken (including the facilities and services provided) in addition to airfield activities, aircraft and freight activities, and specified passenger terminal activities (identified airport activities) defined in the Airport Authorities Amendment Act 1997. Other airport activities include the following (and facilities in connection with): utilities, roading, car parking, commercial property, office space, conference facilities, concessions, information, public space and facilities in terminals, and passenger vehicle operators.

| Activity | Undertaken by WIAL | Undertaken by Third Party | Assets owned by WIAL | Revenue derived by WIAL |
|--|--|---|--|---|
| Utilities (electricity, telecommunications, water etc) | WIAL provides some infrastructure and also supplies some services. | Wellington City Council owns drainage and sewerage lines. HV network and gas lines owned United Networks. | Some infrastructure and utility services. WIAL owns electricity cables within the terminal building. | Some electricity, telecommunications and other utility costs are on-charged to tenants. Some tenants also directly billed by suppliers at tenants option. |
| Roading | WIAL provides internal roads and road access links. | Wellington City Council provides adjacent public roads. | Roads. | Costs recovered from various airport activities. |
| Car parking | WIAL provides all parking facilities and at airport. | Car parks are managed under contract by Condrens Car Parks International Limited. | Land and parking facilities | Public and staff parking charges (less costs to have operation contracted out). |
| Commercial property portfolio | WIAL leases out land and buildings landside to various aviation and non-aviation related businesses. | None. | Land and buildings. | Rent. |
| Office space | Provide office space in terminal buildings. | None. | Terminal space. | Rent. |
| Conference facilities | Conference facilities for hire in terminal. | Some facilities provided by airlines in club lounges. | Terminal space and facilities. | Rent. |
| Concessions | Offer concessions to third parties around and within the terminals for the following: <ul style="list-style-type: none"> • Retail shops. • Duty-free shops. • Food and beverages. • Rental cars. • Banking and money exchange services. | Third parties operate concessions around and within the terminals. | Terminal space and facilities. | Rate for each concession is calculated on the basis of the greater of a minimum base rental amount and a percentage of the concession's gross turnover i.e. pay base amount and where turnover exceeds a set level, pay a percentage of surplus turnover too. |
| Information | Provide airport information desk and airport service officers who provide assistance and customer service to airport users. | Some airlines have their own customer service desks. | Terminal space and furniture. | Costs recovered from specified terminal activities. |
| Public space and facilities in terminals | All. The terminal services team maintain buildings, plant and equipment. They also run the operations centre and systems, co-ordinating airport communications. | None. | Terminal space and facilities. | Costs recovered from specified terminal activities. |

| Activity | Undertaken by WIAL | Undertaken by Third Party | Assets owned by WIAL | Revenue derived by WIAL |
|-----------------------------|--|--|--|------------------------------------|
| Passenger vehicle operators | Provide facilities and space for taxis, buses, shuttles, valet parking etc; tendering out rights to operate some services. | Successful tenders operate pick-up bus, taxi and shuttle services, unlimited operators undertake drop-off services. Airlines operate valet parking services. | Facilities and land for taxis, buses, shuttles, valet parking etc. | Licence fees and fees per pick-up. |

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED (CIAL) IDENTIFIED AND OTHER AIRPORT ACTIVITIES

AIRFIELD ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft; and includes-

- (a) The provision of any one or more of the following:
- (i) Airfields, runways, taxiways, and parking aprons for aircraft
 - (ii) Facilities and services for air traffic and parking apron control
 - (iii) Airfield and associated lighting
 - (iv) Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft
 - (v) Rescue, fire, safety, and environmental hazard control services
 - (vi) Airfield supervisory and security services
- (b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|---|---|--|--|--|
| Airfields, runways, taxiways, and parking aprons for aircraft | All land and sealed surfaces except those undertaken by third parties. | Aprons provided by Air NZ, Qantas NZ, and NZ Post (part only). | All land and all sealed surfaces except those undertaken by third parties. | Airfield component of airport charge and rent. |
| Facilities and services for air traffic control | Provision of Control Tower. | All air traffic control provided by Airways. | Airways office space and control tower. | Rent. |
| Facilities and services parking apron control | None. | Air NZ allocates gates for all flights except Qantas NZ domestic. | None. | None. |
| Airfield and associated lighting | Apron flood lighting. | Airfield lighting provided by Airways. | Apron flood lighting. | Recovered as part of the airfield charges. |
| Services to maintain and repair airfields, runways, taxiways, and parking aprons for aircraft | Grass moving, pavement sweeping, and patching. Other maintenance contracted out. Provide 24 hour, 7 days a week maintenance service for all airport facilities, grounds and surfaces. | Contractors used for major maintenance e.g. resealing and pavement rehabilitation | Maintenance yard land, buildings plant and machinery. | Recovered as part of the airfield charges. |
| Rescue, fire, safety, and environmental hazard control services | All. | None. | Land, buildings, equipment and vehicles relating to rescue fire service. | Rescue fire component of airport charge. |
| Airfield supervisory and security services | Provision and maintenance of security fencing and perimeter patrols. | AVSEC provides airside security, security between airside and landside, and international passenger control. | Security fencing. | Recovered as part of the airfield charges. |
| Facilities/assets held for future activities | Holding of Land. | None. | Land. | Rent. |

AIRCRAFT AND FREIGHT ACTIVITIES

Means the activities undertaken (including the facilities and services provided) to enable, within a security area or areas of the relevant airport, the servicing and maintenance of aircraft and the handling of freight transported, or to be transported, by aircraft; and includes-

- (a) The provision within any security area or areas of the relevant airport, of any one or more of the following:
 - (i) Hangars
 - (ii) Facilities and services for refuelling of aircraft, flight catering, and waste disposal
 - (iii) Facilities and services for the storing of freight
 - (iv) Security, customs and quarantine services for freight
- (b) The holding of any facilities and assets (including land) acquired or held to provide aircraft and freight activities in the future (whether or not used for any other purpose in the meantime).

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|--|--|---|--|--|
| Hangars | Qantas NZ Heavy Maintenance Hanger No. 2 and land for other hangars. | Hangers are provided by Air NZ and Qantas NZ. US National Guard also own their own hangars. | Qantas NZ Heavy Maintenance Hanger No. 2 and land for other hangars. | Rent. |
| Facilities and services for refuelling of aircraft | Land. | Oil companies own all refuelling facilities including pipes and other fixtures. | Land. | Rent. |
| Facilities and services for flight catering | Provide Air NZ Flight Kitchen facilities on Wairaki Road. | Air NZ and Qantas NZ provide their own catering services. | Air NZ Flight Kitchen on Wairaki Road. | Rent. |
| Facilities and services for waste disposal | Waste Disposal Facility. | Waste Disposal contracted out to Medical Waste Group. | Waste Disposal Facility. | Quarantine centre component of airport charge. |
| Facilities and services for the storing of freight | Land and landside freight forwarding facilities leased to operators. | Airlines own some hangars and some freight buildings. | Land and landside freight forwarding facilities. | Rent. |
| Security services for freight | Space leased to AVSEC and NZ Police. | Airside security provided by AVSEC and airport security provided by Police. | Space leased to AVSEC and NZ Police. | Rent. |
| Customs services for freight | Space leased to NZ Customs. | Provided by NZ Customs. | Space occupied NZ Customs. | Rent. |
| Quarantine services for freight | Space leased to MAF. | Provided by MAF. | Space occupied by MAF. | Rent. |
| Facilities/assets held for future activities | Holding of Land. | None. | Land. | Rent. |
| Other | | | | |
| Ground handling | CIAL provides access to airfield. | Undertaken by Airlines, who own mobile plant. | | Airfield component of airport charge. |

SPECIFIED PASSENGER TERMINAL ACTIVITIES

Means the activities undertaken (including the facilities and services provided) in relation to aircraft passengers while those passengers are in a security area or areas of the relevant airport; and includes-

- (a) The provision within a security area or security areas of the relevant airport, of any one or more of the following:
 - (i) Passenger seating areas, thoroughfares, and airbridges
 - (ii) Flight information and public address systems
 - (iii) Facilities and services for the operation of customs, immigration, and quarantine checks and control
 - (iv) Facilities for the collection of duty-free items
 - (v) Facilities and services for the operation of security and Police services
- (b) Any activities undertaken (including the facilities and services provided) in a passenger terminal to enable the check-in of aircraft passengers, including services for baggage handling.
- (c) The holding of any facilities and assets (including land) acquired or held to provide specified passenger terminal activities in the future (whether or not used for any other purpose in the meantime); - but does not include the provision of any space for retail activities.

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|--|---|--|---|--|
| Passenger seating areas, thoroughfares | Terminal buildings and improvements apart from Qantas NZ terminal area. Own and manage public areas, including seating. | Qantas NZ own and manage the their area of the terminal. Improvements and fit-outs in the lounges are owned and provided by the airlines. | Terminal buildings and improvements apart from the Qantas NZ terminal area, plus public areas, including seating. | Terminal component of airport charge and rent for airline lounges. |
| Airbridges | International air-bridges. | Qantas NZ and Air NZ own and operate their respective air-bridges. International air-bridges operated by Air NZ. Mobile stairs provided by airlines. | International air-bridges. | Recovered as part of the terminal component of airport charge. |
| Flight information and public address systems | Own and maintain the FIDS in the Air NZ part of the domestic terminal and in international terminal. | Qantas NZ own and manage their own FIDS. Day-to-day operation of CIAL's system by airlines | FIDS in the Air NZ part of the domestic terminal and in international terminal. | Recovered as part of the terminal component of airport charge. |
| Facilities and services for the operation of customs | Space leased to NZ Customs. | Provided by NZ Customs. | Space occupied by NZ Customs. | Rent paid on offices plus costs of arrivals and departures areas recovered as part of terminal component of airport charge. |
| Facilities and services for the operation of immigration | Space leased to Immigration. | Provided by Immigration. | Space occupied by Immigration. | Rent paid on offices plus costs of arrivals and departures areas recovered as part of terminal component of airport charge. |
| Facilities and services for the operation of quarantine checks and control | Space leased to MAF. | Provided by MAF. | Space occupied by MAF | No rental paid on areas in arrivals hall or any office space. Costs recovered as part of terminal component of airport charge. |

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|--|--|---|-------------------------------------|--|
| Facilities for the collection of duty-free items | Collection facility is operated by CIAL for off-airport and non-DFS Ltd sales. | | Space occupied by collection point. | Charge to retailers using the service. |
| Facilities and services for the operation of security | Space leased to AVSEC. | AVSEC provide security between airside and landside, and international passenger control. | Space occupied by AVSEC. | Rent. |
| Facilities and services for the operation of Police services | Space leased to NZ Police. | Provided by NZ Police. | Space occupied by NZ Police. | Rent. |
| Passenger check-in | Provide airline check-in areas. | Check-in services provided by Airlines. | Check-in counters. | Rent. |
| Baggage handling | Provide baggage handling system. | Operated by airlines. | Baggage handling system. | |
| Facilities/assets held for future activities | Holding of Land. | None. | Land. | Rent. |

OTHER AIRPORT ACTIVITIES

The activities undertaken (including the facilities and services provided) in addition to airfield activities, aircraft and freight activities, and specified passenger terminal activities (identified airport activities) defined in the Airport Authorities Amendment Act 1997. Other airport activities include the following (and facilities in connection with): utilities, roading, car parking, commercial property, office space, conference facilities, concessions, information, public space and facilities in terminals, and passenger vehicle operators.

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|--|---|---|--|--|
| Utilities (electricity, telecommunications, water etc) | CIAL supplies electricity to tenants (both within terminal and elsewhere at airport) at cost where they wish CIAL to. Generates electricity for control period demand purposes to offset cost of imported energy. Provide water and sewerage. | Orion owns external electricity network at airport (overhead and underground power cables). Electricity retailers supply some tenants with power. | Some infrastructure and utility services, including stand-by electricity generators and electrical cabling in buildings. | Tenants who purchase electricity from third parties pay a delivery charge to access CIAL's "lines" in the terminal building. Electricity supplied at cost. Other utilities charges include water and sewerage. |
| Roading | CIAL provides internal roads and road access links. | Christchurch City Council provides adjacent public roads. | Roads. | Costs recovered from various airport activities. |
| Car parking | CIAL provides and operates all parking facilities and at airport. | None. | Land and parking facilities | Public and staff parking charges. |
| Commercial property portfolio | CIAL leases out land and buildings landside to various aviation and non-aviation related businesses. | None. | Land and buildings. | Rent. |
| Office space | Provide office space in terminal buildings. | None. | Terminal space. | Rent. |
| Conference facilities | Conference facilities for hire in terminal. | | Terminal space and facilities. | Rent. |

| Activity | Undertaken by CIAL | Undertaken by Third Party | Assets owned by CIAL | Revenue derived by CIAL |
|--|--|--|--|---|
| Concessions | Offer concessions to third parties around and within the terminals for the following: <ul style="list-style-type: none"> • Retail shops. • Duty-free shops. • Food and beverages. • Rental cars. • Banking and money exchange services. | Third parties operate concessions around and within the terminals. | Terminal space and facilities. | Rate for each concession is calculated on the basis of the greater of a minimum base rental amount and a percentage of the concession's gross turnover i.e. pay base amount and where turnover exceeds a set level, pay a percentage of surplus turnover too. |
| Information | CIAL provides free customer services and travel and information centre. | Some airlines have their own customer service desks. | Terminal space and furniture. | Revenue |
| Public space and facilities in terminals | All. | None. | Terminal space and facilities. | Costs recovered from airlines. |
| Passenger vehicle operators | Provide facilities and space for taxis, buses, shuttles, valet parking etc; tendering out rights to operate some services. | Successful tenders operate pick-up bus, taxi and shuttle services, unlimited operators undertake drop-off services. Airlines operate valet parking services. | Facilities and land for taxis, buses, shuttles, valet parking etc. | Licence fees and fees per pick-up. |
| Sheep farm | Land held for development or in respect of noise control is farmed. | Farm is operated by CIAL. | Land. | Farm revenue. |

APPENDIX 4

RECONCILIATION TO A99/1, 2 JULY 1999, CRITICAL ISSUES PAPER

Revisions and Cross-References to Questions

| Question Number | | Revisions (other than minor wording changes) | Question Number | | Revisions (other than minor wording changes) |
|-----------------|--------|---|-----------------|--------|---|
| 16/3/01 | 2/7/99 | | 16/3/01 | 2/7/99 | |
| 1 | 1 | Question modified | 55 | 37 | None |
| 2 | 2 | None | 56 | 38 | None |
| 3 | 3 | Question modified | 57 | 39 | None |
| 4 | 4 | None | 58 | 40 | None |
| 5 | 5 | Question modified | 59 | 41 | None |
| 6 | 7 | Question modified | 60 | 42 | None |
| 7 | 8 | Question modified | 61 | 43 | None |
| 8 | n/a | New question | 62 | 44 | None |
| 9 | 6 | Question modified | 63 | 45 | None |
| 10 | 9 | Question modified | 64 | n/a | New question |
| 11 | 10 | Question modified | 65 | 47 | Question Modified |
| 12 | 11 | None | 66 | n/a | New question |
| 13 | n/a | New question | 67 | 46 | None |
| 14 | n/a | New question | 68 | 48 | Question modified |
| 15 | n/a | New question | 69 | 49 | None |
| 16 | 12 | Question modified | 70 | 50 | None |
| 17 | 13 | None | 71 | n/a | New question |
| 18 | 14 | None | 72 | n/a | New question |
| 19 | 15 | None | 73 | 51 | Question modified |
| 20 | 16 | None | 74 | 52 | Question modified |
| 21 | 17 | None | 75 | 53 | Question modified |
| 22 | 18 | None | 76 | 54 | Question modified |
| 23 | 19 | Question modified | 77 | n/a | New question |
| 24 | n/a | New question | 78 | 55 | Question modified |
| 25 | n/a | New question | 79 | 33 | Question modified |
| 26 | 21 | Question modified | 80 | 33 | Question modified |
| 27 | 22 | None | 81 | n/a | New question |
| 28 | 23 | None | 82 | n/a | New question |
| 29 | n/a | New question | 83 | 56 | Question modified |
| 30 | 25 | None | 84 | n/a | New question |
| 31 | 26 | None | 85 | n/a | New question |
| 32 | 27 | None | 86 | n/a | New question |
| 33 | n/a | New question | 87 | 58 | Question modified |
| 34 | n/a | New question | 88 | 56 | Question modified |
| 35 | 24 | Question modified | 89 | 57 | Question modified |
| 36 | n/a | New question | 90 | 57 | Question modified |
| 37 | 28 | Question modified | 91 | n/a | New question |
| 38 | 28 | Question modified | 92 | 59 | Question modified |
| 39 | 29 | None | 93 | n/a | New question |
| 40 | 30 | None | 94 | n/a | New question |
| 41 | 31 | Question modified | 95 | n/a | New question |
| 42 | 32 | Question modified | | | |
| 43 | n/a | New question | | | |
| 44 | n/a | New question | | | |
| 45 | 34 | Question modified | | | |
| 46 | 35 | Question modified | | | |
| 47 | 36 | None | | | |
| 48 | n/a | New question | | | |
| 49 | n/a | New question | | | |
| 50 | n/a | New question | | | |
| 51 | n/a | New question | | | |
| 52 | n/a | New question | | | |
| 53 | n/a | New question | | | |
| 54 | n/a | New question | | | |

Note:

1. 49% of the questions in the 2/7/99 paper remain unchanged (except for minor wording changes).
2. 51% of the questions in the 2/7/99 paper have been modified slightly, (typically due to the addition of further related sub-questions), but the issues and questions are essentially unchanged.
3. This paper includes 33 new (57% more) questions, most of which do not relate to new issues, but merely expand on previous questions.

Cross-References to Paragraph Numbers

| Paragraph Number 16/3/01 2/7/99 | | Paragraph Number 16/3/01 2/7/99 | | Paragraph Number 16/3/01 2/7/99 | |
|---|--------|---|--------|---|-----|
| 1 | 1 | 55 | 23 | 109 | n/a |
| 2 | 2, 3 | 56 | 24 | 110 | n/a |
| 3 | n/a | 57 | 25 | 111 | n/a |
| 4 | 2 | 58 | 26 | 112 | 64 |
| 5 | n/a | 59 | 27 | 113 | 63 |
| 6 | n/a | 60 | 28 | 114 | n/a |
| 7 | n/a | 61 | 29 | 115 | n/a |
| 8 | n/a | 62 | 30 | 116 | n/a |
| 9 | n/a | 63 | n/a | 117 | 65 |
| 10 | 69, 70 | 64 | 31 | 118 | n/a |
| 11 | 71 | 65 | n/a | 119 | n/a |
| 12 | 71 | 66 | n/a | 120 | n/a |
| 13 | 67 | 67 | n/a | 121 | 4 |
| 14 | 68 | 68 | 33 | | |
| 15 | n/a | 69 | 31 | | |
| 16 | n/a | 70 | 32 | | |
| 17 | 66 | 71 | 34 | | |
| 18 | n/a | 72 | 35 | | |
| 19 | n/a | 73 | 36 | | |
| 20 | n/a | 74 | n/a | | |
| 21 | n/a | 75 | 39 | | |
| 22 | n/a | 76 | 40 | | |
| 23 | n/a | 77 | 41 | | |
| 24 | n/a | 78 | 42 | | |
| 25 | n/a | 79 | 43 | | |
| 26 | n/a | 80 | n/a | | |
| 27 | 72 | 81 | 44 | | |
| 28 | 5 | 82 | 45 | | |
| 29 | 6 | 83 | n/a | | |
| 30 | 10 | 84 | 46 | | |
| 31 | 7 | 85 | 47 | | |
| 32 | n/a | 86 | 48 | | |
| 33 | 11 | 87 | 49 | | |
| 34 | 8 | 88 | 50 | | |
| 35 | 9 | 89 | 51 | | |
| 36 | n/a | 90 | n/a | | |
| 37 | 14 | 91 | 54 | | |
| 38 | 14 | 92 | 55 | | |
| 39 | 16 | 93 | 55, 56 | | |
| 40 | 12 | 94 | 52 | | |
| 41 | 13 | 95 | 57 | | |
| 42 | 14 | 96 | 58 | | |
| 43 | 17 | 97 | 59 | | |
| 44 | n/a | 98 | 60 | | |
| 45 | 18 | 99 | n/a | | |
| 46 | 19 | 100 | 61 | | |
| 47 | n/a | 101 | 62 | | |
| 48 | n/a | 102 | n/a | | |
| 49 | n/a | 103 | n/a | | |
| 50 | 20, 21 | 104 | 62 | | |
| 51 | n/a | 105 | 37 | | |
| 52 | 22 | 106 | 38 | | |
| 53 | n/a | 107 | n/a | | |
| 54 | n/a | 108 | n/a | | |