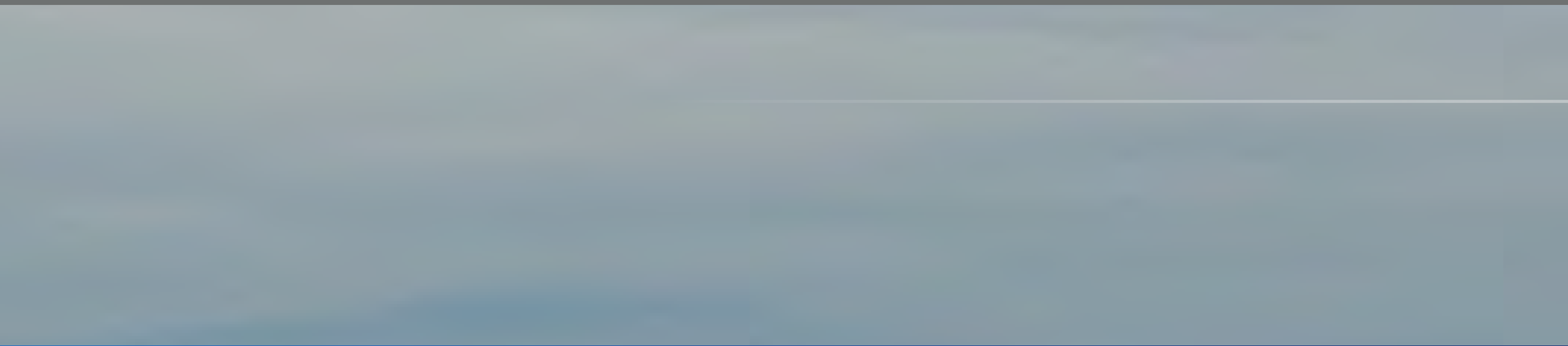
APAC
ANNUAL REPORT 2018/19

MELBOURNE | LAUNCESTON

AUSTRALIA PACIFIC AIRPORTS CORPORATION



AUSTRALIA PACIFIC AIRPORTS CORPORATION

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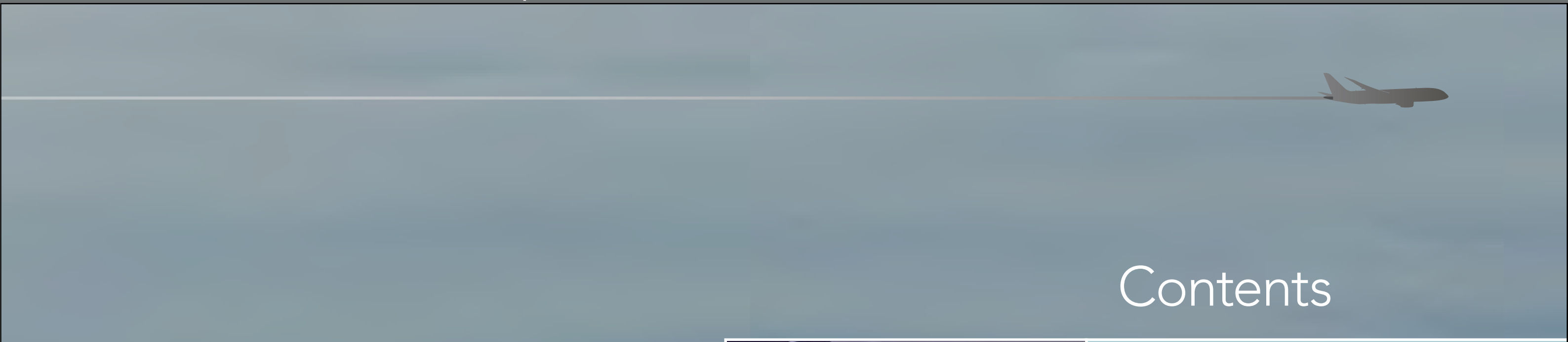
ABN 89 069 775 266



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Our Company

Australia Pacific Airports Corporation

Australia Pacific Airports Corporation Limited (APAC) is committed to delivering strong, sustainable returns for the benefit of our diverse stakeholders through the performance of two key Australian aviation assets.

Australia Pacific Airports Corporation Limited (APAC) is a privately held corporation owned by institutional investors, predominantly superannuation/pension funds.

The funds are owned, managed or represented by the following five entities:

Investor Share	
AMP	27.32%
IFM Investors	25.17%
Future Fund	20.34%
SAS Trustee Corporation (managed by NSW Treasury Corporation)	18.47%
Utilities of Australia (managed by HRL Morrison & Co)	8.7%

About Melbourne Airport

Melbourne Airport has been Victoria's gateway to the world for close to 50 years. The airport is located approximately 22 kilometres north-west of Melbourne's central business district and is well connected to Melbourne's freeway and arterial road network. It is in close proximity to major industrial areas and three of Melbourne's residential growth corridors. This location and accessibility mean the airport serves as a hub for the freight and logistics industry, as well as capitalising on growing labour markets.

The Melbourne Airport site is approximately 2,740 hectares in area. It is predominantly surrounded by non-urban uses to the immediate north and west. This helps protect the community and safeguards the airport from encroachment of sensitive and incompatible uses. There is urban development to the east and south of the airport, comprising a mix of residential and industrial uses.

Melbourne Airport operates curfew-free – 24 hours per day, seven days per week. The airport has two intersecting runways, which are operated in different modes, mainly in response to daily wind direction or to reduce aircraft noise impacts.

The terminal complex is located on the east side of the north-south runway and south of the east-west runway. The passenger terminal complex combines international facilities (Terminal 2) with three domestic terminals (Terminals 1, 3 and 4). This integrated terminal precinct enables Melbourne Airport to provide the shortest minimum connection time between domestic and international flights of all major Australian airports. Eighty aircraft stands, for the parking of aircraft, serve the terminal precinct and accommodate the embarkation or disembarkation of passengers, loading or unloading of mail or freight, and for fuelling, parking or maintenance.

Airservices Australia provides air traffic control, aeronautical information services, airport rescue and firefighting and navigation services for Melbourne Airport. These facilities are located in the midfield of the airport. Aircraft maintenance, repair and overhaul facilities are provided to the south of the airfield.

Melbourne Airport makes a significant contribution to the Victorian economy as a critical component of tourism and trade-based industries that support jobs and create economic growth. A report commissioned by the Victorian State Government found that in 2015-16 the economic activity of businesses operating within the airport precinct contributed $7 billion to the Victorian economy. Melbourne Airport contributed to $20.7 billion of economic activity across Australia in 2015-16, including $17.6 billion in Victoria. This is equivalent to almost seven per cent of Victoria's total economic activity. That same report found that Melbourne Airport directly and indirectly supports around 170,000 jobs across Australia, of which almost 150,000 are in Victoria. The movement of airfreight supported more than 31,000 of these jobs nationally, of which more than 28,000 were in Victoria.

About Launceston Airport

Launceston Airport is situated 15 kilometres south of Launceston City near the local towns of Perth and Evandale. The award-winning airport serves as a domestic, regional and general aviation gateway to Northern Tasmania for commercial aircraft, airfreight and private operators. The airport is well situated to service the state as it is located adjacent to the Midland Highway and trunk routes servicing the north, north-west, north-east and south of Tasmania. A major freight rail junction is located at the southern end of the airport.

The existing airport site occupies 180 hectares with a single north-west – south-east runway and full length taxiway. Current facilities available to support aircraft operations include six domestic aircraft stands, three freight stands and 15 general aviation stands. The terminal complex comprises three levels with four dedicated boarding gates. A separate terminal houses Sharp Airlines' maintenance facilities, national reservations centre and departure lounge.

The airport also provides a range of facilities and office accommodation to ancillary businesses which, although not directly related to the aviation sector, are attracted to the benefits of operating in an environment that has excellent connectivity and logistics links.

Launceston Airport is the second-busiest airport in Tasmania for passengers and provides the main aviation hub for Northern Tasmania. Located close to the Launceston CBD, the airport is a key component of Tasmania's infrastructure providing access to national and international markets for both tourism and business. While some 30 staff are employed at Launceston Airport by APAC (and its operating subsidiary, APAL), the airport has an average daily workforce of around 500.

Tourism is one of Tasmania's fastest-growing industries, directly contributing $1.5B to the economy, with around 21,600 Tasmanians directly employed by the tourism industry and another almost 21,000 indirectly reliant on the economic activity generated by tourism. The tourism industry directly supports 8.7 percent of all Tasmanian jobs and constitutes 4.9 percent of total gross state product, which is the highest proportion/dependency of any state or territory. In the communities surrounding Launceston Airport around seven per cent of the workforce, more than 6,000 people, are directly employed in the tourism sector. With aviation by far the dominant mode of entry into Australia's only island state, the long-term importance of Launceston Airport as the gateway to Northern Tasmania is hard to overstate.

Getting the traveller experience right is fundamental to the success of our business. We need to invest in, and develop, the whole airport asset, to help our customers be successful in their businesses.

At APAC we are:

Authentic
We celebrate diversity and earn the trust of our stakeholders by acting with integrity.

Passionate
We are visionary, with the courage to innovate to achieve our goals.

Accountable
We are results-driven, make commercially savvy decisions, and take responsibility for our actions.

Collaborative
We work together and communicate openly to achieve our shared goals.

Our Strategy

APAC understands that the best way to build airports our shareholders are proud to own, is to build airports our communities are proud to host.

Airports are assets that were originally built by governments – to deliver benefits for their host communities. They are value multipliers, opening up communities to new markets for tourism, freight and trade. As operator of two iconic Australian airports, APAC understands that the reason its assets exist is to serve their local communities – and Australia more broadly. But that can only happen as long as airlines are also serving those markets. The symbiotic relationship between airports and airlines is therefore vital to the success of the APAC business, and as such is the foundation of our five strategic pillars.

Our 5 Strategic Pillars & Priorities

Our five strategic pillars articulate how Melbourne Airport will deliver on its vision to be an airport Melbourne can be proud of.

Corporate Pillars	Strategies
Drive aviation growth	• Establish relationships / engage with airlines focussing on new services from China, Americas and India • Partner with tourism and visitor agencies • Improve the traveller experience • Deliver sustainable pricing agreements • Improve access to the airport
Generate additional value through commercial businesses and improve efficiency	• Profitably develop our property land bank, taking into account improved facilities for customers and travellers • Increase supply of retail space with a tailored retail mix for key target markets • Optimise yield and utilisation of car parks and negotiate sustainable ground access agreements • Develop and implement efficiency program
Build the right infrastructure at the right time and at the right price	• Optimise the use of the current assets • Develop and deliver capital investment consistent with integrated business wide precinct plans
Strengthen reputation by operating safely, shaping and meeting regulatory obligations	• Safety comes first in all instances • Meet regulatory obligations • Influence regulatory environment • Protect APAM's competitive advantages • Maintain social license through sustainable business practices, responsible development and effective community engagement
Be the best we can be	• Enhance organisational capability and effectiveness by: - Streamlining and simplifying all we do - Investing in our people's development - Investing in key systems, technology and processes - Embedding the APAC culture and way of working

Highlights 2018/19

Total passengers

- **38.8m** (ex transits) **+1.9%**
- **+5.3%** international
- **+0.4%** domestic
- **+1.9%** Launceston

Total movements

- **0.26m** **+0.6%**
- **+6.0%** international
- **-0.6%** domestic

Financial performance

- **EBITDA** **$770m** **+4.8%**
- **Net profit after tax** **$390m** **+23.8%**

Capital investment

- **$377m** ex T1 **+33%**

Revenue at a glance

	Aeronautical	Retail	Parking & Ground Access	Property
FY18	$400m	$187m	$212m	$116m
FY19	$428m	$185m	$214m	$117m
Change	**6.9%**	**-0.8%**	**0.9%**	**0.4%**

Top five international arrivals by country*

	New Zealand	China	Singapore	United States	India
Share	**17.6%**	**16.2%**	**6.3%**	**6.3%**	**6.3%**
Passengers	**0.71m**	**0.65m**	**0.25m**	**0.25m**	**0.24m**

* Source: Sabre MI, YE June 19.
Note: Inbound country ranking based on passenger's itinerary point of origin as non-AU, PAX is both-way.

Chairman's Report

APAC from increasingly volatile global economic headwinds during the 2019 financial year. APAC returned $390 million in Profit after Tax, and will pay dividends of $277.49 million to shareholders. Conclusion of our Aeronautical Services Agreement negotiations, and the purchase of Terminal 1, were two of the key highlights from the year.

I am pleased to present APAC's Annual Report for the financial year 2018/19, and my first as Chairman.

While the financial year started strongly for Australian aviation, the 12 months to 30 June saw a number of emerging trends take hold in our industry, headwinds against the kind of historical growth APAC has recorded in recent years. In this context, APAC's performance for the year is pleasing.

Global geopolitical factors, the volatility of oil pricing, and domestic airlines limiting capacity in search of greater profitability, are all combining to bring downward pressure on passenger numbers for Australian airports.

Despite this, Melbourne Airport recorded more than 11 million annual international travellers for the first time in its 49-year history. This 5.3 per cent year on year growth in international passenger numbers compares favourably against other international airports servicing capital cities around the country, and underscores why the international market has been the engine room of APAC's growth for some time now.

This continued growth has enabled APAC to pay dividends of $277.49 million to shareholders this year. APAC's investors are responsible for managing superannuation and pension funds for millions of Australians, and the dividends paid by APAC make an important contribution to those retirement savings.

In addition to our dividends paid to shareholders, APAC also made a substantial contribution to government revenue, paying income tax for the financial year of almost $167 million. We proudly acknowledge that over the past decade APAC has paid more than $1 billion in income tax to the Commonwealth.

On behalf of the Board, I thank my fellow Board members, the Chief Executive Officer of APAC, Lyell Strambi, and his team, for their continued commitment and dedication to our company resulting in another strong year of performance.

I congratulate our outgoing Chairman, David Crawford AO, for the many successes achieved at APAC during his tenure.

Safety

APAC's Board is proud to report that our airports retained a 'zero fatality' record in the financial year to 30 June 2019. All airport employees and customers have the right to a safe airport experience, and our zero-fatality record cannot be valued too highly.

APAC recorded six lost time injuries for the year, and one medical treatment injury.

People

As an asset manager, it is vital APAC attracts motivated people who will thrive in a high-performance environment. While tens of thousands of individuals are employed at our airports in Melbourne and Launceston, the APAC workforce itself numbers fewer than 400 people. Optimising the performance of each of our people is a critical area of focus for our leaders, as each team member plays a crucial role in the day-to-day planning, operation and enhancement of our assets. Our continued focus on building a consistent, excellence-seeking way of working throughout all levels of our business is integral to our teams delivering a traveller experience that adds value for our airline customers through operational efficiency, passenger amenity, and value-added services.

Sustainability

During the past year APAC achieved two significant milestones on its sustainability journey. In just our third year of participation in the Global Real Estate Sustainability Benchmark (GRESB), APAC was ranked as the Asset Sector Leader for Airport Companies in the Transport division. More detail on APAC's performance on environmental, societal and governance (ESG) factors is included later in this report.

I am also pleased to report that in June 2019 the APAC Board approved funding for a 12-megawatt solar farm to be built at Melbourne Airport. This represents a 40 per cent increase in the initial size of the planned facility, and will contribute to Melbourne Airport achieving its aspirations of achieving 25 per cent of its energy needs to be met by renewables.

Performance

APAC has succeeded in growing passenger numbers through the desirability of the destinations we serve, the amenity of the airports, and the efficiencies enjoyed by the airlines that operate there.

As an airport owner and operator, we have a strong incentive to improve our performance continuously, through route development, streamlined passenger processing, and the ability to mine operational data to find new efficiencies in day-to-day operations.

APAC delivered a strong result for shareholders in the financial year to 30 June, remaining responsive to emerging challenges throughout the year while staying focused on the core goals. While the limitations on domestic aviation capacity that emerged last year have continued, APAC once again delivered a strong result for shareholders.

Our full year result saw the business deliver Profit after Tax of $390 million, up from $314.9 million in the previous financial year. Almost 50 per cent of total revenue was generated through our core Aviation business unit, with domestic capacity constraints impacting both Aviation and Parking & Ground Access revenues compared to Budget.

Board

Throughout the financial year the work of APAC's Board continued to be supported through its governance structure comprising three Committees, being: Audit & Risk Management, Finance & Projects, and Remuneration. The priority topic of safety is managed through the full APAC Board.

APAC's previous Chairman, Mr David Crawford AO, stepped down from the Board on 31 May 2019. All other Directors of APAC remained unchanged in the financial year to 30 June 2019, with Company Secretary Lisa Evans resigning in July 2019. Company Secretary responsibilities were assumed by APAC Chief Financial Officer, Mr Grant Devonport, on 3 July 2019.

Melbourne Airport's Third Runway

During the year APAC's Board supported a proposal to pause work on development of the Major Development Plan (MDP) for Melbourne Airport's third runway. That decision followed a planning review that identified new information suggesting the east-west orientation proposed for Melbourne Airport's third runway may have limited its availability compared to alternatives. Through the course of the year the APAC Planning team identified that a new north-south runway would offer greater reliability for a similar gain in capacity. The Board further supported the decision to halt work on the MDP for the planned runway, instead commencing in June 2019 a period of additional technical consultation with airlines, regulators, government and community stakeholders to validate new information attained through the planning review.

Outlook

While the past two years have seen a major focus on capital works to meet capacity needs across Melbourne and Launceston Airports, this year saw an increased focus in our investment in the experience we create for travellers through our facilities. Through strategic sequencing of our capital program we have continued to build capacity to accommodate growing passenger numbers, at the same time as beginning major refurbishment works across terminals in both Melbourne and Launceston.

The third pillar of our Strategy is to Build the Right Infrastructure, at the Right Time, and the Right Price. While growth in passenger numbers is expected to ease in financial year 2019/20, our commitment to this strategy will see us keep pace with anticipated growth while also enhancing the traveller journey through our airports with a greater focus on airport amenity and the 'sense of place' created through our retail and hospitality tenants, our facilities and terminal design, and the experience created through the efforts of our people.

Peter Hay
Chairman

Chief Executive Officer's Report

While the past financial year will be marked through milestone achievements, it's the daily commitment to continuously improving the passenger experience through our airports that is delivering real outcomes on the ground. APAC's commitment to continuously improving the passenger experience at our airports has seen major works delivered in both Melbourne and Launceston to enhance our customers' operational efficiencies and streamline the passenger journey through our terminals. I am pleased to report that through our rational, commercial approach to negotiations with our customers we have successfully concluded our Aeronautical Services Agreements with all customer airlines for both Melbourne and Launceston Airports during the past financial year, as well as agreeing the commercial terms with Qantas for the purchase of Melbourne Airport's Terminal 1.

APAC's airports play a vital role in their host cities, their local communities and the national economy. It's a privilege to be at the helm of such critical infrastructure that affects almost all Australians in some way, and it's a privilege shared by APAC's executive team. At APAC we commit every day to building airports to be proud of, and we do that in service of both our host cities and our airline customers. But we don't do it on our own – it takes the whole APAC family working together, from our Board, executive team and staff, to our local communities and stakeholders in government, to our business partners and service providers, to our shareholders and investors.

Airports have a complex purpose: to enrich the host city in which they operate by enabling tourism, freight and trade to generate employment economic opportunities for their communities. The fact that airports can only do this successfully by working hand in glove with their airline customers, crystallises the symbiotic relationship that exists between two main pillars of the aviation sector.

At APAC we pride ourselves on understanding the challenges our customers face, and building airports that help our customers succeed at every turn. Airlines live in a world where they are constantly trying to win over traveller business by implementing new routes, introducing new aircraft and innovations to appeal to different traveller markets. Their emphasis on providing excellence in customer service and great value fares is vital to retaining loyal customers – and the traveller's journey through an airport is part of that service experience.

We bring this to life at APAC by striving to get the balance right between airport capacity and passenger amenity. In Melbourne the past year has seen us successfully conclude our Aeronautical Services Agreement with all customer airlines, agree commercial terms on the purchase of Terminal 1 from Qantas Group, and secure Commonwealth approval for our 2018 Master Plan. In Launceston we successfully negotiated a five-year Aeronautical Services Agreement with our largest customer, Qantas Group, including a first-of-its kind joint marketing campaign to attract domestic and international visitors to Tasmania's north. These kinds of milestones are achieved only through the concerted work of all our stakeholders, and to everyone who has helped APAC achieve success in this financial year, we say thank you.

International passenger numbers continue to drive growth

Melbourne Airport's international passenger numbers continued to grow throughout the year, ending the financial year up 5.3 per cent compared to the previous financial year. That translated into 11.4 million international passengers through Melbourne Airport. Notably, we achieved this growth despite AirAsia X withdrawing its double-daily service from Melbourne to Kuala Lumpur in December 2018, notionally removing more than four hundred thousand seats from our international capacity.

Conversely, domestic growth has flat-lined in the past financial year. While Launceston Airport reported growth of 1.9 per cent, or 1.39 million passengers, Melbourne Airport reporting growth in domestic passenger numbers of just 0.4 per cent. This is consistent with traffic across the domestic network more broadly, as aviation faces economic factors such as falling house prices, lower consumer confidence, stagnant wage growth and tightening corporate expenditure, as well as ongoing capacity discipline strategies being practiced by both domestic carrier groups. Despite these challenges, Melbourne has outperformed the Australian market in domestic passenger growth over the past five years compared to all other major airports, and Melbourne has averaged the highest domestic load factors of Australia's major Airports.

Commercial negotiations successfully concluded

As at 30 June APAC had concluded Aeronautical Services Agreement (ASA) negotiations with all 35 of the international airlines that operate out of Melbourne Airport. This milestone gives airline customers pricing certainty for the next five years, enabling them to optimise their fleet management over the period of the contract. At the same time, it underpins APAC's capital program at Melbourne Airport, which will steadily add more airfield and terminal capacity over the life of the ASA, along with increasing investment in the traveller experience through the airport. We are particularly proud of the workings of our Capital Consultative Group, or CCG, which brings airlines and airport management together to agree on a way forward for the most significant capital projects. In the 2018/19 financial year, two of the key highlights from this process were the design agreement for the redevelopment of our international landside arrivals hall (Terminal 2), and the commencement of works to build Zulu Taxiway, the largest project ever undertaken on the airfield since the airport opened in 1970.

Passenger experience delivers sustainable returns for investors

Our strategic focus on continually improving the traveller experience through our airports underpinned this year's strong financial result. At the end of the day an airport is a place of transit, and an airport terminal building is a place where a traveller wants to spend a minimum, not a maximum, of time – but they want that time to pass meaningfully, and in comfort. We bring this insight to bear in the design of both Melbourne and Launceston airports, seeking to streamline essential processes such as check-in and security screening, while creating pleasant, enjoyable environments for passengers to dwell in prior to boarding their flights.

This design philosophy was epitomised this year when Melbourne Airport unveiled the nation's first fully integrated international security screening point fit-out with Smart Security technology. The redeveloped T2 security screening zone includes Smart Security lanes that feature new body scanners and automated tray return systems, making the screening process easier and more efficient for travellers. Three additional screening lanes, dedicated fast-track lanes, and a staff and goods lane have also been installed, generating 35 per cent more throughput capacity.

We've further invested in screening point technology, conducting two trials of computed tomography (CT) scanners in Terminal 4, as part of our preparation to meet enhanced security screening standards mandated by the Commonwealth Government. Our most recent trial showed the transition from traditional x-ray technology to CT scanning could improve the passenger experience by processing up to 100 more people an hour. That dramatic lift to throughput rates translates to less time for passengers to spend in queues, a more pleasant screening experience while enhancing screening effectiveness, and less stress for passengers through this important process.

Throughout the financial year we've also invested in an Enterprise Data Platform (EDP) that will enable us to transition myriad sources of manually curated data into a central engine capable of mining deeper insights from the wealth of information we currently use to run our airports. One of the major disruptions to passenger movement is the time wasted at known choke-points in the passenger journey through the terminal, such as Immigration in international arrivals. Using EDP we can now model the impact of flight delays passenger volumes through our airside arrivals hall. This can help tenants operating in the space to predict the impact of fluctuating passenger numbers, informing anything from restocking shelves in the arrivals hall duty free store to adjusting toilet-cleaning rosters or increasing Australian Border Force staffing of immigration desks.

With projects such as these we are directly improving the airport experience for millions of travellers each month, while also improving the operational efficiency of our airports – which ultimately leads to better outcomes for all of our airline customers, growth for our shareholders, new destinations and lower fares for our travellers.

Lyell Strambi
Chief Executive Officer and Managing Director


Virgin
E5
VH-

OUR BUSINESS

Melbourne capital investment highlights

A significant program of work began or was completed of FY19 as we continue to transform the airport experience for our Melbourne stakeholders and customers. These are some of the investment highlights from the past year.

Hotels

Major development plan for 464 room 3 & 4 star dual branded hotel approved.

T3 Redevelopment

Phase 1 completed for the T3 redevelopment with new check-in kiosks and bag drop facilities.

Taxiway Zulu Project

Works commenced on Taxiway Zulu project, which will deliver a new airfield taxiway network.

Launceston capital investment highlights

A significant program of work was also completed over FY19 as we continue to transform the airport experience for our Launceston stakeholders and customers. These are some of the investment highlights from the past year.

Car Rental Carpark

Upgrade to car rental carpark including operator booth construction.

Staff Office Consolidation

Upgrade to Terminal Level 1 to facilitate new staff accommodation for Launceston team.

Terminal Upgrades

Upgrades to terminal; including water fountains, signage, extraction fans, digital screens, CCTV cameras and blinds.

Approach Road Refresh

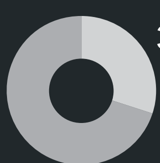
Installation of landscaping, including sculptures of Tasmanian fauna and skylines.

Aviation

Passenger movements

37.3 million

1.9% from 2018



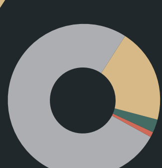
30% international
+5.3% from 2018

70% domestic
+0.4% from 2018

Aircraft movements

246,210

0.7% from 2018



21% international
3.1% freighters
0.8% other
75.1% domestic

Airlines

36 international

6 Domestic and Regional

Destinations

45 international

30 Domestic and Regional

Freight

308,947 tonnes exported and imported

35% export market share +4% from 2018

Melbourne Airport's growth in passenger numbers continued to outperform other Australian airports during the financial year, with growth in international passenger numbers the primary driver of growth overall. Over the period we concluded key commercial negotiations with all of our customer airlines. Combined with the Commonwealth Government's approval of the 2018 Master Plan, these agreements provide a strong foundation for the next phase of the airport's development.

Market strength more than simple demand

Global aviation is a competitive sector that ultimately best succeeds through a partnership approach, centred on the needs and experiences of the paying customer – the traveller. While the challenges facing the industry over the past 12 months have intensified, we have maintained a strong belief that headwinds need not equate to negative growth.

Melbourne is a high-potential market for airlines the world over, with competitive advantages on multiple fronts. Our major events calendar provides seasonal offerings across cultural and sporting sectors throughout the year, while our Southern Hemisphere location offers balance with Northern Hemisphere summer vacation and winter ski season peaks. For domestic carriers the long-established strength and profitability of the Melbourne-Sydney route lays the foundation for successful network operations.

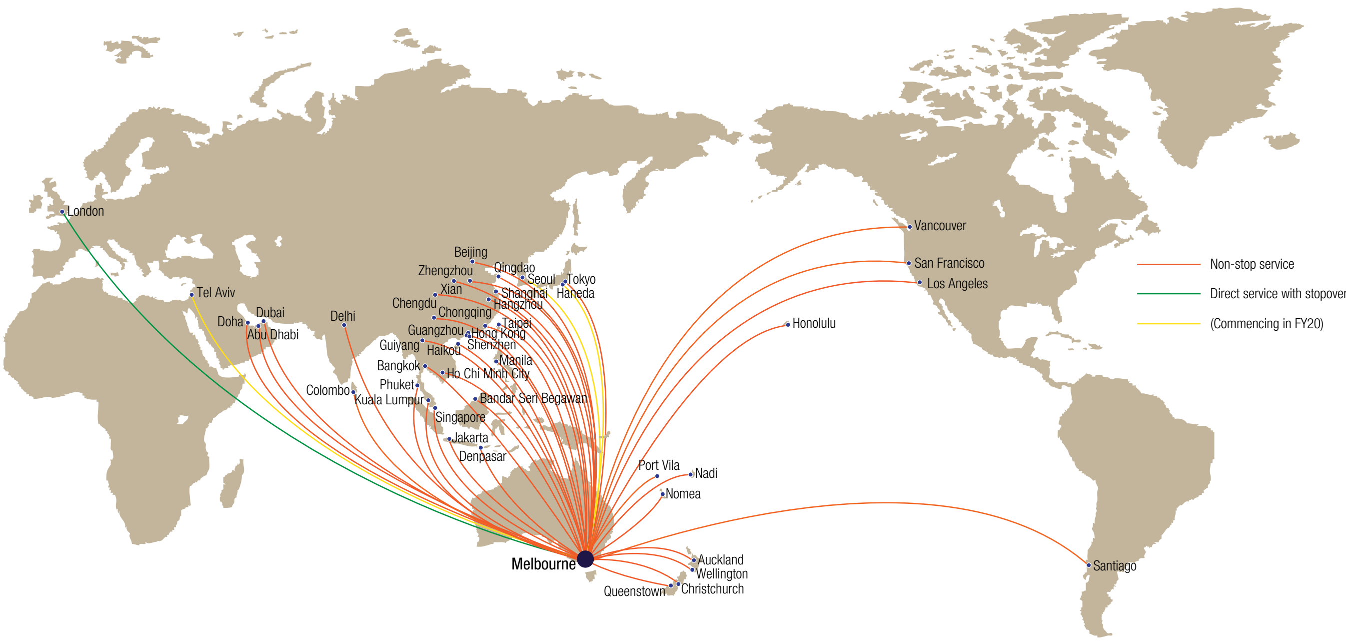
In bringing Melbourne's competitive advantages to life for our airline customers, we have focused on building a partnership approach with airlines, whether through incentives, co-marketing efforts or operational flexibility. Supporting our airlines in the Melbourne market takes many forms and when we focus on delivering for the traveller together, we have continued to see growth and diversification in our airline portfolio. At the heart of that partnership approach are our commercial agreements with our airline partners.

Commercial agreements completed

The financial year to 30 June saw Melbourne Airport complete Aeronautical Service Agreement (ASA) negotiations with all parties, with Qantas Group the final customer to agree terms. With an approved 2018 Master Plan and an agreed ASA, we have a roadmap for what Melbourne Airport needs to build and deliver over the next five years.

Key elements of the ASA enable greater collaboration with airlines than ever before, providing an opportunity to inform the design of major projects and reducing financial risk to airlines. Examples of those elements include:

- A Capital Consultation Group (CCG). In addition to representatives from across the airline community, the CCG process includes an Independent Engineer review of major project costs for pricing purposes, to ensure that infrastructure is delivered efficiently and in line with market costs.
- A Quality of Service Forum to specifically review and improve quality of service issues and share operational data including airline on-time performance (OTP).
- A Quality Service Rebate system if Melbourne Airport's equipment is not available for use and causes a significant impact to OTP.
- A commitment to the Airport Collaborative Decision Making, or A-CDM process, which aims to improve the overall efficiency of airport operations.
- An annual price reset if actual capital expenditure falls short of planned expenditure, reducing the risk to airlines of any underinvestment.



In addition to our ASA, the 2018/19 financial year saw complete negotiations for the purchase of Terminal 1. This concluded a 30-year lease agreement with Qantas, and established a new 10-year Terminal Operating Licence that will see APAM transition terminal operations into its business through a staged approach.

Finalising the T1 negotiations now creates a path forward for major projects, including progression of Northern Infill projects, increases in baggage capacity, and gate utilisation flexibility.

International

Passenger numbers hit new heights.

Growing at 5.3 percent for the financial year, international passenger numbers exceeded 11 million for the first time in Melbourne Airport's 49-year history. Adding Cebu Pacific Air and Air Vanuatu to the schedule increased the total number of international airlines operating from Melbourne Airport to 36.

The past financial year saw substantial delivery against the aeronautical capital program, from momentum-building progress to ground-breaking on new developments.

Terminal 2 check-in refurbishment

Building on the successful refurbishment of hybrid check-in zones M, N and O, the past financial year saw a refurbished zone L unveiled in October 2018. Zone L retains tradition check-in desk capability with enhanced technology and redesigned queuing systems improving the check-in experience for travellers. In addition to delivering check-in zone L, additional check-in capacity works began on zone P. This zone required removal of three retail tenancies from the northern end of the T2 check-in hall, and will create the necessary capacity to allow for the ongoing refurbishment of zones A-K.

Terminal 2 Security Expansion

March 2019 saw the completion of works in the expanded T2 security screening point. These works delivered Australia's first fully integrated international screening point fit-out with Smart Security technology, as well as adding three new screening lanes, a dedicated fast-track lane and a separate staff and goods entrance. In total the zone's redevelopment resulted in a 35 percent uplift in capacity.

The redeveloped zone now includes eGates, plus screening lanes featuring new body scanners and automated tray return systems, making the screening process easier and more efficient for travellers.

T2 Arrivals Hall design agreed

One of the key projects before the Capital Consultation Group (CCG), the expansion of Terminal 2's ground level Arrivals Hall is a vital project to enhance the landside circulation space available for arriving international travellers and their meeters and greeters. Through the CCG process initial plans for the project were revised to deliver the necessary short-term capacity required, while also preparing the way for further future expansion as needed.

Domestic

Melbourne Airport's domestic market remained relatively flat, recording growth of 0.4 per cent for the year. This low growth is consistent with the domestic market across Australia, where total capacity supplied by the airlines has decreased since financial year 2015. The growth seen in Melbourne reflects continued increase in passenger load factors, and an ongoing commitment to explore new route opportunities with our domestic airline customers, such as the direct service from Melbourne to Kununurra, announced by Alliance Airlines and Virgin Australia (commencing May 2020), and the direct service from Melbourne to Busselton Margaret River by Jetstar (commencing March 2020).

Terminal 3 upgrades

Stage 1 of the planned redevelopment of Terminal 3 commenced in late 2018, with works to upgrade self-service check-in kiosks. This was followed by the installation of automatic bag drops for the first time in Terminal 3, along with upgrades to the landside baggage system and check-in hall lighting. The departures upgrades were completed in early April 2019.

The check-in hall works were complemented by a reconfiguration of the ground floor arrivals hall. Rental car desks were removed along with aged window treatments, opening up additional floor space for passenger seating and introducing more natural light into the space. These works will enable staged development for the future T2 Arrivals Hall project.

Airfield Works – Taxiway Zulu

In June 2019 we broke ground on Taxiway Zulu, the largest single airfield investment for the airport since its opening in 1970. The project will see more than 250,000 square metres of new taxiway pavement laid over its three-year span. Once complete, the new taxiway network will result in parallel taxiways in the north of the airfield, supporting wide-body aircraft movements in both the east-west and north-south directions. The valuable additional space for aircraft traffic will improve the efficiency of movements on the ground as well as supporting the growth forecast in Melbourne Airport's international connectivity.

Airfield Works – Third Runway

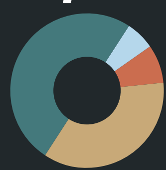
In November 2018 the decision was made to temporarily pause work on the Major Development Plan for Melbourne Airport's third runway. That decision was triggered by a confluence of factors, including consideration of updated guidelines relating to windshear, emerging insights into airfield operations enabled by digital data collection, and updated modelling to the potential capacity of the proposed east-west parallel runway system. Airport management launched a rigorous planning review to assess whether the previously announced east-west orientation remained the preferred option for the third runway.

The planning review provided strong evidence to suggest the north-south parallel runway system could now provide a superior outcome in terms of availability, capacity, long-term investment profile and community impacts.

Parking and Ground Access

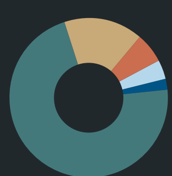
Public car parks

23,200



- 36% – Terminal 123/T4
- 50% – Long-term & VLS
- 6% – Premium, Valet, Business
- 8% – Other

PGA Revenue %



- 71% – Car parking
- 16% – Car rental
- 6% – Buses
- 4% – Taxi & VHA
- 2% – Rideshare

Vehicle movements

25,500
per day
through the forecourt

Daily pickups

7,000+ TAXIS	**1,400** VHA
2,500+ UBER	**9,000+** SKYBUS Passengers

Online revenue

47%

Online transactions

26%

Meeting passenger needs, from the freeway to the runway.

FY19 is the first full financial year of operation since the deregulation of Victoria's taxi industry, which legalised rideshare operations at the airport for the first time. With Victoria lagging other states in enabling the legal operation of rideshare businesses, Melbourne Airport's Parking & Ground Access team were able to plan for the impact of the newest players in the forecourt – both in terms of vehicle movements and commercial outcomes from our parking business and landside access revenues.

Our participation in the IFM-led AirRail Melbourne consortium is driven by our focus on meeting traveller needs and exceeding expectations – and a world-class rail connection to Melbourne Airport is at the heart of our landside access design philosophy.

Commercial Operators

The year to 30 June showed a major shift in traveller behaviour across the forecourt, particularly with parking customers switching modes to commercial operators. This was observable in the increased revenue contribution from landside access charges.

Those landside access charges are fees charged to transport operators running a business at the airport.

Commercial transport operators require dedicated infrastructure, from bus stops and shelters to forecourt lanes and dedicated wayfinding for each individual mode of transport. Fleet operators (such as taxis, SkyBus, rideshare, rental companies and the like) also require on-airport holding and marshalling areas to streamline the passenger pick-up experience as necessary. Landside access charges are determined either through commercial negotiations, or levied on a cost-recovery basis. In the latter case, charges are set based on the costs the airport has incurred in building and maintaining that specialised, dedicated infrastructure.

Parking

The past financial year saw a major uplift in marketing for airport access operators. With rideshare aggressively pursuing fast growth in our forecourt, marketing spend by the taxi industry accelerated to keep pace, forcing in-kind responses by SkyBus and off-airport parking competitors. Defending our parking business saw us increase our strategic marketing investment, entering the TV advertising market for the first time.

These moves followed last year's price adjustment, which had previously helped drive an uplift in transaction numbers.

Reinforcing the convenience of parking at terminal, and the emotional connection of being met by a loved one on return, formed the major pillars of our parking marketing strategy.

At the same time, we launched an intensive customer insights research program to help better tailor our product offering at multiple price points.

This approach has delivered outstanding success for the Valet and Premium products previously – both products that continued to outperform forecasts two years after launch. Today, our Premium products are approaching maximum capacity.

Rail

In September 2018 Melbourne Airport announced it had joined the AirRail Melbourne consortium, led by APAC-shareholder IFM Investors, and partnering with Metro Trains Australia and Southern Cross Station.

The consortium's proposed rail solution would see dedicated airport trains connecting the airport to Southern Cross Station via a redeveloped 'super hub' at the existing Sunshine train station in Melbourne's western suburbs. Airport train services would run 24/7, departing every 10 minutes, with a journey time to Southern

Cross of no longer than 20 minutes, making rail the fastest route from the city to the airport. Melbourne Airport's goal in joining the consortium is to ensure the airline traveller experience remains paramount in all landside access design – whether that's from the runway to the freeway, or the terminal to the track.

Roads

With an estate footprint of more than 2,500 hectares, Melbourne Airport on-airport road network spans 40km of roadway – including two elevated roads. On an average weekday more than 120,000 vehicles use those roads, from private cars to commercial transport operators and heavy haulage.

The 2019 financial year saw us deliver one large road project and announce plans for another.

Dynamic Lane Allocation

Recognising the physical constraints of today's main forecourt, we developed a strategy to better utilise available public lanes during peak periods. This is particularly important for accommodating the free pick-up/drop off passenger market, which can see thousands of pedestrians crossing multiple lanes of traffic during morning and afternoon peaks.

Our dynamic lane allocation project saw us installing digital signage on purpose-built gantries mounted above Terminal Drive.

These signs indicate relative congestion in all of the public lanes, directing inbound traffic into less-congested lanes to streamline their trip through the forecourt.

Since the project's completion, landside access has improved significantly, with forecourt vehicles movements up 250 vehicles per hour year on year, with a reduction in peak travel time of up to 3 minutes.

Elevated Loop Road

A long-awaited project, this year we progressed the airport's second elevated loop road to a detailed design phase. With APAC Board approval, a design concept was selected that will completely revolutionise today's passenger transit model.

The new design concept will see Departures Drive fully pedestrianised, removing upper-level kerbside vehicle access to the terminals, in line with global design best practices. All airport bound vehicles carrying departing passengers will, in future, exit the Tullamarine Freeway via a dedicated exit ramp providing for a single exit to all Terminals, greatly improving access and wayfinding to the T4 ground transport hub and the new At Terminal 123 car park and transport hub.

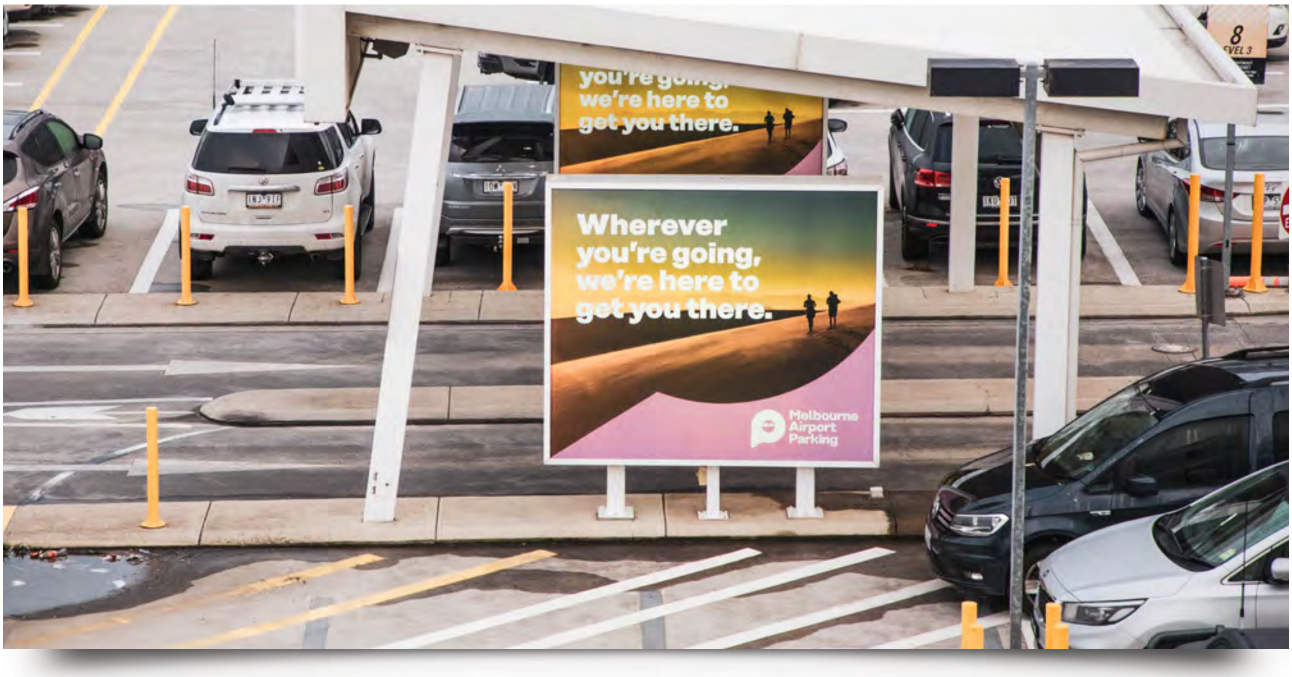
The new design will mean drivers can leave the Tullamarine Freeway, enter the terminal precinct and leave again, all without encountering a single intersection or traffic light.

Pedestrian and vehicle movements will be grade-separated, improving safety for pedestrians moving from the drop-off lanes into the terminals.

Public pick-up lanes will also be relocated to an expanded area within the T123 car park, with only commercial transport operators continuing to utilise the ground-level lanes of today's forecourt.

The conclusion of the full project by the end of calendar year 2023 will enable further reconfiguration of the forecourt to accommodate planned expansion of the terminal building, as well as reducing ground-level congestion and improving safety outcomes for pedestrians.

The full project is estimated to cost around $350m, to be delivered in two stages with Stage 1 starting as early as November 2019.



Property

Leasehold Land

Airport Estate
2,740 ha

Business Park
410 ha

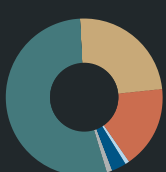
Elite Park
57 ha

Forefront
6.5 ha

The Hive
2 ha

Leases

Airport Estate
360



- **54%** – Terminals
- **24%** – Other
- **17%** – Business Park
- **1%** – Elite Park
- **3%** – Forefront
- **1%** – The Hive

Occupancy
>98%

Annual Rent
>$90m pa

WALE
10 years

FY19 capex
$58.4m

Melbourne Airport is not just an incredible international airport, it also has one of the most exciting real estate portfolios in the country. The airport occupies 2,740 hectares of land, which in addition to aviation activities, is home to the APAM Property Portfolio – valued at $1.4bn (containing over 360 leases, excluding Terminal 1). The Property business generated $116.8 million in revenue during the 2018/19 financial year, an increase of 0.4 percent on 2017/18.

The Property business focuses on managing an existing portfolio of diverse property assets while seeking to add to it through the development of the extensive land bank.

The Property Asset Management team work on providing appropriate accommodation to support the aviation community (i.e. terminal offices, airline lounges, and freight warehouses) as well as the vast business community that has been created across the Estate. The team is focused on driving revenue in a sustainable format through the relationships they have developed with existing tenants, success being measured through occupancy and tenant retention targets.

The Property Development team focuses on developing the land bank (approximately 250 hectares of developable land) in an efficient and cost-effective manner, seeking opportunities that add utility value to aviation activities.

Outside of the terminal precinct, the Airport has created four distinct commercial precincts, the identity of each one reflecting the unique value proposition it offers existing and future occupiers.

Melbourne Airport Business Park, Elite Park, The Hive, and The Forefront all provide unique benefits for their respective tenants and deliver important utility value to the airport ranging from freight and logistics services to traveller amenity and accommodation.

Business Precincts

Melbourne Airport Business Park is Australia's largest business park, with unrivalled scale, home to global industry leaders including Toll and TNT. These logistics heavyweights recognise the unique advantage of being located adjacent to the junction of three major freeways – the Calder Freeway (West), Tullamarine Freeway (city-airport connection) and the M80 Ring Road.

During the 2018/19 financial year Melbourne Airport Business Park continued to expand with the completion of an 8,000m^2 warehouse for Geodis Wilson. An additional 72,000m^2 of land was committed and construction commenced for the development of new warehouses for GEA Australia, Directed Electronics, CH Robinson, and Salco. At the end of the year, an exciting opportunity was secured to deliver a 47,000m^2 warehouse for Bapcor, the ASX listed premier provider of automotive aftermarket equipment and services, creating their new office headquarters alongside their Victorian Distribution Centre.

Elite Park is designated as an elite training and customer experience precinct totalling approximately 57 hectares. The precinct aims to create important community utility along the eastern boundary of the airport estate and is home to the Essendon Football Club and the soon to be completed URBNSURF Melbourne – Australia's first commercial surf park.

A continuing focus area will be to target experience centres and leisure opportunities that bring new amenity to this important community-facing precinct.

The Hive. As the Airport grows and the number of travellers and those working at the airport rise, The Hive aims to provide a public oasis; servicing the needs of those accessing the airport, including the 20,000 individuals working on-site at the airport every day. The Hive is creating a vibrant centre that everyone can access for work, dining and recreational purposes.

The Hive precinct currently provides two modern office buildings, home to the Australian Federal Police, Department of Immigration and Border Protection, Australian Quarantine Inspection Service and Customs. There is also opportunity to welcome further tenants with two additional commercial office buildings set to be developed in coming years.

The exciting next phase of The Hive's evolution has commenced with the development of a new hotel complex in partnership with Accor-Hotels. The 464-room, 10-storey development has been designed to provide the widest amenity to both travellers, airport staff and potential conference/office occupiers with two different hotel brand offerings (a 3-star Ibis Styles and 4-star Novotel), a café, pub, bar, and restaurant offering, along with a 300-seat conference facility and a gym/pool facility. The development is due to be completed mid-2021 with a proposed opening in July 2021.

The Forefront is a world-leading commercial precinct with large-scale exposure along the Tullamarine Freeway, perfect for high-density development where exposure and access is critical to an occupier's operations.

Today the precinct plays an important role in providing convenience amenity to both passengers and airport-based workers. Mercedes-Benz Melbourne Airport plays an important role in enhancing the service experience for current customers who travel regularly, through its car service offering. Creative Garden Early Education Tullamarine, provides child care services, including long day care, for up to 120 children.

The long-term vision is to shape the area as a major employment precinct with services such as health care, including a medical research centre and specialist healthcare services.

Terminal Precinct

Outside of the four commercial precincts, a significant portfolio is managed across the terminal's precinct, ranging from various spaces within the terminals (offices, storage, lounges, and APAM occupied areas), and areas adjacent to the terminals (hotels, freight warehouses, offices, and APAM occupied areas). The key focus is to provide accommodation that supports the aviation community, whether it be airlines, aviation supporting companies or third parties providing services directly to passengers and their friends/family.

As the airport grows, demand for office space increases for those companies supporting this growth. The challenge is meeting this demand from a portfolio that is almost 100 percent occupied. In a unique response to this challenge, an old freight warehouse was sought to create an office village. **Building 64**, adjacent to Terminal 4, is being converted into this office village, providing 20 tenancies ranging from $50m^2$ up to $180m^2$. The aim is to create an environment that will be occupied by tenants who support APAM's significant development plan. Moving these companies from offices within the terminals into Building 64 will free up space for occupation by airlines and their supporting businesses.

A key focus during the year was the transition of Terminal 1 from the Qantas Group. Historically, Qantas Group occupied and managed all activities within the entirety of Terminal 1 under a lease, which was due to expire within the 2018-19 financial year. APAM and Qantas Group worked collaboratively over many months to transition management of this building from Qantas to APAM, agreeing the format and service levels that would see Qantas' continued operation from Terminal 1 into the foreseeable future.

As has been noted various times in this report, Melbourne Airport has seen significant growth over the past few years, which has led to significant challenges for all companies operating here, APAM included. APAM has seen a gentle but consistent growth in its staff numbers during this time; with staff numbers increasing in line with operational growth to ensure we have the appropriate resources to support our growing business. In order to support this growth in staff numbers, and provide additional accommodation for our aviation community in Terminal 2, APAM completed a mezzanine area fit out within Terminal 4, providing ~2,600m^2 of new office space, capable of accommodating ~200 staff. In creating the new space, APAM took the opportunity to rethink its operational model and delivered new accommodation that focused on open plan collaboration areas. These areas provide an open and collaborative environment to encourage/support greater engagement across the various business units.

Retail

Retail

Bringing Melbourne to life at the airport, every day

With responsibility for filling the airport's in-terminal storefronts, the Retail Business Unit makes an extraordinarily large contribution to our goal of bringing the city to life at the airport. Whether it's on-trend fashion brands, or getting the balance right between the established names and emerging stars of Melbourne's world-famous foodie scene, our Retail team delivers the mix of retail and hospitality options our passengers crave.

Our Retail strategy delivered a strong performance during the financial year, returning revenue growth of 3.6 percent against challenging domestic passenger numbers, a stagnating local economy, and the loss of three retail tenancies in Terminal 2 to make way for additional check-in capacity.

Revenue growth through a partnership approach

While financial Year 2019 saw revenue from speciality leases lift by five percent in line with agreed contracts, the partnership approach Melbourne Airport takes with its retail tenants is the real growth driver for the business unit.

Around 80 percent of tenancies at the airport now operate on a percentage rent basis, meaning Melbourne Airport is an active participant in helping to drive retail and food and beverage (F&B) footfall right across the terminal precinct.

This approach delivers two key benefits. Firstly, more sustainable rent pricing provides tenants with a cost buffer in the event of lean years or shifting consumer demand. Second, a shared interest between the airport and its retail partners in selecting tenants that fit with passenger demand – then working together to maximise awareness of what's on offer in the terminal precinct.

Just one example of that approach can be seen in Melbourne Airport's first ever pop-up bar. Terminal 3 ½ by Stomping Ground, returned for the 2018/19 summer season, building on its first successful year with all-new artwork and an enhanced roster of food trucks rotating through the airport during its season. The popularity of Terminal 3 ½ contributed to successful negotiations that will see Stomping Ground open the country's first on-airport brewery, which will open during FY20.

Delivering on passenger demand through tenant selection and our partnership approach has been fundamental to the success of the T2 Luxury precinct. The first precinct of its kind at Melbourne Airport, T2 Luxury built on the feedback from tens of thousands of travellers to ensure we curated the right calibre and mix of tenants to recreate the kind of high-street shopping experience you'd expect to find on Melbourne's Collins Street, right here in the terminal.

Bringing Melbourne to life at the airport

Following the FY18 delivery of our T2 Luxury and Laneway precincts, the stage was set to welcome one of Melbourne's most loved destination coffee brands to the terminal. St. Ali opened its T2 café in April 2019, providing its iconic blend and a menu inspired by the South Melbourne flagship.

The 2019 financial year marked the start of our landside retail transformation in Terminals 2 and 3, with the aim of completely transforming the airport's dining options and bringing to life an in-terminal food culture to rival any city precinct. Following an extensive, competitive tendering process, we received 74 bids for the 14 highly valued tenancies planned for construction.

Through the course of the year negotiations were concluded with some of Melbourne's most famous names, from the kitchens of Shane Delia and Scott Pickett, to established destination eateries from Melbourne's suburban scene including Axil Coffee Roasters and Cobb Lane bakery.

In addition, Australia's largest sporting code, the Australian Rules Football League (AFL) announced it would open its first restaurant concept – the AFL Bar & Kitchen, which will open in Terminal 3 during FY20.

Delivering these new tenancies will also allow for improvement to terminal common areas, improving the look and feel for passengers stopping in prior to their flights.

Marketing on the front line of Retail innovation

In the past year, with domestic passenger growth particularly constrained, innovation has been integral to a successful marketing strategy. Most visibly that innovative mindset was delivered through the launch of Australia's largest outdoor digital advertising screens.

Super Screens

The airport's Super Screens each span 320m^2 and enable full-motion content at full HD, thanks to more than 1.52 million individual LEDs per screen. Importantly, the screens themselves are fully synchronised, enabling campaigns that can interact with one another on a scale that can't be found anywhere else in Australia. The Super Screens delivered an all-new revenue channel once activated, and continue to be managed by oOH! Media as part of the airport's out-of-home advertising asset portfolio.

Journey Magazine

Inside the terminals, more than eighteen thousand passengers and airport guests have flicked through the pages of Melbourne Airport's newest publication.

Journey is a quarterly production that evokes the contemporary design ethos of *Smith Journal, The Outpost,* and *Another Escape.*

Delivered in partnership with our retailers, Journey brings the airport shopping and dining experience to light for passengers in a style that proves print media isn't dead, it's just reinventing itself to deliver more than previously thought. The textured pages of Journey are a pleasure for passengers to turn through, combining the best offers from our retail partners in a way that brings together complete 'looks' from across the precinct.

Terminal 1

Having agreed to terms with Qantas for the sale and return of T1, Melbourne Airport's Retail team prioritised securing existing tenants in the terminal to ensure a seamless transition experience for passengers on 1 July. Many of T1's retail and F&B tenants have other, long-standing operations across terminals 2, 3 and 4, and as a result were willing to embrace our short-term proposals for 12-month lease extensions, with a view to developing a shared longer-term vision for what the T1 retail and dining offer will deliver for passengers.

Launceston

Passenger Movement

Total passengers
1.39m
+1.9%
from 2018

Aircraft Movement

Total aircraft movements
19.204
-0.5%
from 2018

Retail Stores

5 stores
901m²
100%
occupancy

Public Car Parks

1,555
total

26% Short term	**17%** Long term
8% Undercover	**49%** Saver

Property

LEASES
39
leases
24.144m²
95%
occupancy

Launceston Airport is the northern gateway to Tasmania. With tourism to the region and state continuing to grow, and traveller numbers to Launceston Airport increasing by 1.9 percent on the 2017/18 financial year, the airport continues its focus to develop for future growth. We are proud to showcase the region's products and produce, giving visitors and locals alike a strong impression of Tasmania and a real 'sense of place.'

For a fourth year, Launceston won an Australian Airports Association Industry Award, taking out the Innovation and Excellence Award for the recently completed terminal reconfiguration. In addition, Launceston Airport was once again recognised in the 2018 Tasmanian Tourism Awards, this time taking out top honours and the gold award for 'Specialised Tourism Services'.

Commercial update

Through collaborative negotiations, Launceston Airport successfully secured a 5-year Aeronautical Services Agreement (ASA) with the airport's largest airline customer, Qantas Group.

Tourism initiatives

To raise Launceston Airport's profile on the national and international stage an innovative multi-channel marketing campaign was launched to drive increased visitation to the region. Working in collaboration with Qantas Group, the airport-funded campaign leveraged Jetstar assets with the hero being the application of a "Destination Launceston Airport" livery onto an Airbus A320, which is the first time an airport has utilised Jetstar livery in this way. The aircraft was seen by many during its 759 turnarounds at 18 domestic and 3 international airports. Additional marketing channels were also utilised during this time, with interior branding installed in four Jetstar Airbus A320's, airport sponsored in-flight reading material, boarding pass banners, and digital activations. Passenger growth for the period of this campaign was more than five times the average Australian domestic aviation growth rate for the 2018/19 financial year.

With Launceston Airport playing a pivotal role in the visitation to Northern Tasmania, it is an influential point for visitors and locals to connect with the region's cultural, sporting, business and community events calendar. A highlight of the 2018/19 events calendar was the arrival of Tasmania's newest airline – Air MoFo, which landed at the airport to celebrate Launceston's inaugural year of hosting the Mona Foma arts and music festival.

Rental car capacity increase

In our continued commitment to improving the customer experience, covered walkways were constructed between the terminal and car rental car park, and rental-return service booths were installed for three major rental car operators. Works were also completed in the rental car ready-bay zone, which saw capacity grow by more than 20 percent.

Office accommodation

To facilitate improved internal communication and collaboration, the thirty-strong Launceston Airport team have moved from their various office's, located across the airport precinct, into one office suite located in the terminal building. The newly constructed office includes meeting rooms that have been branded with iconic Northern Tasmanian tourism locations, reflecting the airports aspiration to be Tasmania's tourism gateway.


Spirit of Australia
QANTAS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The United Nations Principles for Responsible Investment were first launched in April 2006. This voluntary and aspirational set of investment principles encourage investors to use responsible investment to enhance returns and better manage risks. Since 2006, the global investment community has been on a journey to increasingly incorporate environmental, social and governance (ESG) factors into investment analysis and decision-making.

Having owned two iconic Australian airport assets for more than two decades, APAC has incorporated ESG factors into its decision-making for several years. In this Annual Report, greater focus is given to how those factors contribute to the management of APAC's airport assets, with the goal of providing even greater clarity to APAC's investors and stakeholders.

Environmental, Social and Governance Report

Global Real Estate Sustainability Benchmark (GRESB)

The 2018/19 financial year marked APAC's third year of participation in the GRESB ranking process, seeing the business ranked as the Asset Sector Leader for Airport Companies in the Transport division.

Both Melbourne and Launceston Airports landed an overall score of 88 out of 100 – the highest score awarded to an airport worldwide, with the peer average being 67.

Each year GRESB assesses and benchmarks the environmental, social and governance (ESG) performance of real assets worldwide and monitors progress towards global sustainability goals.

GRESB Assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real asset investments and are aligned with international reporting frameworks such as Principles for Responsible Investment (PRI) and global sustainability reporting firm GRI.

GRESB®
INFRASTRUCTURE
Sector Leader 2019

88/100 **GRESB Score**
GRESB Average 45 — Peer Average 67

93/100 **Implementation & Measurement**
GRESB Average 42 — Peer Average 66

79/100 **Management & Policy**
GRESB Average 50 — Peer Average 67

APAC ESG Stakeholder Matrix

	Stakeholder				
	Share-holder	Travellers	Customers	Employees	Govern-ment & Community
Governance					
We are committed to exceptional corporate governance policies and practices, which are fundamental to the long term success of APAC.	✓		✓	✓	✓
Risk					
To apply risk management principles across APAC, so that all material exposures can be identified, analysed, evaluated and treated.	✓		✓	✓	✓
Safety					
To improve the health and safety of APAC workers and the overall safety at Melbourne and Launceston airports.	✓	✓	✓	✓	✓
Environment					
To be an environmental leader for transport and logistics sites in Australia.	✓	✓	✓	✓	✓
Community Investment					
We are committed to corporate social responsibility and will play a leading role within the communities where we operate.	✓		✓	✓	✓

Governance

We are committed to exceptional corporate governance policies and practices which are fundamental to the long term success and prosperity of APAC. Our Board of Directors brings a broad range of local and international experience across industries including aviation, finance, infrastructure, retail, risk management, property, investments and asset management.

Our specialised skill sets and experience deliver strong decision making and clear strategic planning for the benefit of our investors and customers.

Director Profiles

Peter Hay – Chairman
Appointed 1 June 2019

Mr Hay has strong background and breadth of experience in business corporate law, finance and investment banking advisory work, with particular expertise in relation to mergers and acquisitions. He has also had significant involvement in advising governments and government-owned enterprises. Peter's board experience spans mining and resources, manufacturing, retail, property, and financial services. He is currently Chairman of Newcrest Mining and retail property group, Vicinity. He is a former director on the boards of GUD Holdings, Novion, Myer, ANZ Bank, and Alumina.

David Crawford AO – Chairman

Appointed 30 April 2012
Resigned 31 May 2019

Mr Crawford has extensive experience in risk management and business reorganisation. Mr Crawford has acted as a consultant, scheme manager, receiver and manager and liquidator to very large and complex groups of companies. Currently Mr Crawford is also the Chairman of LendLease Corporation Limited and South32 Limited. Previously, he was also the Australian National Chairman of KPMG; former Chairman and Director of Fosters Group Limited; former Director of Westpac Banking Corporation Ltd and former Chairman of National Foods Limited.

Lyell Strambi – Managing Director & Chief Executive Officer
Appointed 9 November 2015

Mr Strambi joined APAC in September 2015. Mr Strambi has extensive aviation experience spanning more than 30 years both in Australia and overseas. Before joining APAC, Mr Strambi spent six years at Qantas, the last two as CEO of Qantas Domestic. Prior to this Mr Strambi worked for eight years at Virgin Atlantic Airways based in London.

John Harvey – Director
Appointed 25 March 2013)

Mr Harvey was previously Chief Executive Officer of the Mt Eliza Business School and the inaugural CEO of PricewaterhouseCoopers in Australia. Mr Harvey had a 25-year career with PricewaterhouseCoopers during which he provided professional advisory services to multinational and Australian national companies and was a registered company auditor for 20 years.

Lianne Buck – Director
Appointed 14 October 2016

Ms Buck is the Head of Direct Investments and Infrastructure for NSW Treasury Corporation where she is responsible for a portfolio of infrastructure and property investments in excess of A$10 billion. Ms Buck has 15 years' experience in Australian and global infrastructure, with previous roles including Investment Director at Hastings Funds Management in New York and as Chief Operating Officer of Macquarie Group's unlisted infrastructure funds.

Michael Cummings – Director
Appointed 19 March 2015

Mr Cummings is a Partner and Global Co-Head Asset Management of AMP Capital's Infrastructure business. In addition to APAC, Mr Cummings is on the board of Powerco NZ, Endeavour Energy, Opal Aged Care, and Chairman of Evergen. Mr Cummings has over 30 years of international experience in the infrastructure sector – having held senior executive positions in a number of major energy infrastructure companies.

Barry Brakey – Director
Appointed 25 February 2015
Resigned 29 August 2019

Mr Brakey was previously the Head of Property at the Australian Government Future Fund having previously operated his own property advisory business. Mr Brakey was responsible for over A$4 billion of property invested both domestically and globally for a number of Australian government, industry and corporate superannuation and investment funds. Mr Brakey was also the past National President of the Australian Property Institute.

Barry Brakey resigned as Director on 29 August 2019 and was replaced by Raphael Arndt.

Danny Elia – Director
Appointed 6 October 2015

Mr Elia is the Executive Director of Global Asset Management at IFM Investors where he is responsible for driving IFM Infrastructure's asset management strategy across the Australian and Global Infrastructure funds. Previous roles include CEO of South Australian Health Partnerships, Director of Public Private Partnerships for Leighton Contractors, General Manager of Transurban Victoria, and Finance Director of Linfox Logistics Asia Pacific.

Director Profiles

David Kenny – Director
Appointed 7 December 2015

Mr Kenny is an Investment Director, Infrastructure at AMP Capital Investors. Previously Mr Kenny worked for Ontario Teachers' Pension Plan Board (OTPP), where he was General Manager, Business Development. He also served as General Manager, Corporate Finance at Downer Infrastructure in Sydney, and worked in both Sydney and London for Macquarie Airports, where he held senior roles including that of Chief Investment Officer.

James Fraser-Smith – Director
Appointed 15 September 2016

Mr Fraser-Smith is a Director in the Infrastructure and Timberlands team at Future Fund. Mr Fraser-Smith has significant asset management experience including Board representation on a range of infrastructure assets, including Sydney Desalination Plant, ElectraNet (the South Australian transmission network), Ballarat Water, Port of Portland, Sydney Airport Link and Mater Hospital (Newcastle).

Lisa Evans – Company Secretary
Appointed April 2009
Resigned 2 July 2019

Ms Evans joined APAC in 2009, with more than 20 years' legal experience. Ms Evans is the Company Secretary for APAC and its subsidiaries, and is responsible for the shared corporate services functions of the business, including human resources, safety and environment, legal services, and corporate and public affairs. Prior to joining APAC, Ms Evans held corporate legal roles in Melbourne, following ten years in private practice in both Australia and New Zealand.

Grant Devonport – Company Secretary
Appointed 3 July 2019

Mr Devonport was appointed Chief Financial Officer of Australia Pacific Airports Corporation (APAC) in February 2019. Mr Devonport has extensive commercial experience as a CFO spanning more than 20 years across multiple industries and geographies including banking & finance, superannuation, media, transport, logistics and supply chain and retail. Mr Devonport's experience includes strategy development, execution and leading transformational change. He is a Member of the Institute of Chartered Accountants Australia and New Zealand and a Mentor for the Financial Executives Institute of Australia.

Risk Governance, Management and Assurance

We recognise that rigorous risk and opportunity management is essential for corporate stability and for sustaining our long term performance.

Risk governance

APAC's risk management framework provides a sound basis for good corporate governance, supports our business in achieving its objectives, and fosters a culture of transparency. Our risk management framework incorporates the principles of effective risk management, as set out in the International Risk Management Standard ISO31000.

Leadership is the foundation of effective risk management. As such, APAC's Board of Directors and Senior Leadership Team have responsibility for driving and supporting risk management across the Company.

The Audit & Risk Management Committee has responsibility for the oversight of risk management and regularly reviews the Corporate Risk Profile, supported by 'deep dives' on key risks.

APAC's Head of Risk is responsible for maintaining and continuously improving the risk management framework, supported by business unit 'risk champions' who ensure a consistent standard of enterprise-wide risk management throughout the Company.

Our approach to risk management

APAC's philosophy to achieving effective risk management is underpinned by three key principles:

1. **Culture**. We want to build a strong risk management and control culture, promote awareness, ownership and proactive management of key risks while promoting prudent risk taking.
2. **Structure**. We seek to put in place an organisational structure that promotes good corporate governance, provides for appropriate segregation of duties, defines responsibility and authority for risk taking, and promotes ownership and accountability for risk management.
3. **Process.** We seek to implement robust processes and systems for effective identification, analysis, evaluation and treatment of risk. We seek to improve our risk management and internal control policies and procedures on an on-going basis and ensure that they remain sound and robust by benchmarking to global best practices.

Assurance

APAC maintains an Internal Audit function which provides a systematic and disciplined approach to evaluating and continually improving the effectiveness of risk management and internal control processes.

The Audit and Risk Management Committee is responsible for approving the scope of the internal audit plan, overseeing the performance of the internal audit team and reporting to the Board on the status of the risk management system.

APAC acknowledges that some events may be largely unpredictable and exceed the capacity of even the most robust management methods and structure. APAC's risk management framework includes a Business Resilience program which seeks to increase the Company's resilience to exceptional events and in turn contribute to more stable corporate performance.

The combined strength of APAC's culture of accountability, risk management and assurance activities (our three lines of defence) provide the Company with an effective risk management framework.

Key Risks and Treatments

Risk identification, assessment and treatment are aligned to APAC's annual business planning process from which our risk themes are derived.

Risk Governance, Management and Assurance

The following table lists the principal risks and uncertainties that could have a material impact on the Company and its ability to achieve its stated objectives.

Risk Theme	Explanation	Treatments
Safety	The safety of the traveller, our customers and team members is fundamental to the success of our business.	APAC's safety management system includes risk assessment processes for activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by APAC's business.
Security and Terrorism	A serious security incident at one of our airports could have potentially significant consequences.	Our security activities are regularly audited both by internal auditors and government agencies to ensure they are conducted in accordance with applicable regulations and procedures, including employee screening and training.
Macroeconomic factors	Economic, geopolitical and demographic developments can result in unexpected fluctuations in passenger numbers and flight movements.	The majority of the factors affecting demand are external and largely beyond our control. Although a significant portion of our cost structure is fixed costs, we have created optimised flexibility through the outsourcing of a large number of activities. A solid financial position and incremental capital investment plan will ensure that we have the ability to adapt to changing market dynamics.
Talent Retention and Attraction	APAC's operational and financial performance relies on our ability to retain and attract talent.	APAC's human resources and remuneration policies are designed to attract and retain talent in line with our strategic objectives. Key talent retention is further supported through internal mobility and flexible working practices where appropriate.
Financial Risk	APAC faces risks relating to the cost and availability of funds to meet its business needs and movements in interest rates. APAC has significant indebtedness and there is a requirement to refinance portions of this debt on a regular basis.	APAC continuously monitors risk exposures over time through review of cash flows, price movements, market analysis and ongoing communication. When measuring financial risk, the Company considers positive and negative exposures, existing hedges and maintains the ability to offset exposures where possible.
Information Security	Digital infrastructure, applications and networks may be subject to cyber-attacks or other incidents (e.g. from negligence) that could result in operational disruption or the loss of personally identifiable information.	APAC maintains robust IT Disaster Recovery plans and measures to mitigate any operational interruptions. We continuously reassess the appropriateness of, and seek to continuously improve these controls in light of the evolving cyber threat and through regular cyber awareness campaigns.
Capital Planning and Works	Circumstances affecting our business can change during long development periods, resulting in investments not being delivered at the right time or the right price.	APAC seeks to optimise the use of its current assets and through its Master Planning process, expands capacity incrementally. In this way we are able to maintain flexibility should circumstances change unexpectedly.
Third party interdependencies	Our airports depend on the input of third parties. Disruption to their operations can damage our reputation and negatively affect results.	APAC maintains open lines of communication with all parties who play a role in our business processes. We have agreements in place with these parties where possible. Relationships with contracted parties are managed in accordance with the terms of agreement
Competition	APAC and its airports operate in a competitive market and face competition for new business from other airports and service providers.	APAC is ideally placed to leverage its existing asset base and to repurpose existing assets to higher value propositions for our customers and, in doing so, gain competitive advantage.
Regulatory and environmental	APAC and its airports are subject to a variety of governmental laws and regulations at the federal, state and local level that regulate its aeronautical operations and which require airport operators to take all reasonable and practicable measures to prevent and minimise air, water and soil pollution, as well as excessive noise.	APAC is committed to meeting all regulatory obligations as well as contributing to changes in the regulatory environment through our subject matter experts

Safety

All airport employees and customers have the right to a safe airport experience. As one of our five strategic pillars, it's a duty of care we take very seriously.

Our Safety Strategy

The FY19 safety strategy provided a framework of new initiatives aimed at improving the health and safety of our workers, stakeholders and the travelling public at Melbourne and Launceston airports.

The strategy was guided by the following four key principles:

- All employees working at Melbourne and Launceston airports (APAC and non-APAC) have the right to a healthy and safe working environment.
- Well-designed, healthy and safe work environments will allow workers at Melbourne and Launceston airports (APAC and non-APAC) to have more productive working lives.
- All members of the public visiting or passing through Melbourne and Launceston airports have the right to a safe airport experience.
- Safe and compliant airfield operations requires a cooperative approach between APAC and the airlines using Melbourne and Launceston airports.

Strategy Summary

Public Safety

At Melbourne Airport, an extensive public safety audit was conducted in terminals, car parks, the forecourt, and general public areas to improve the safety of the travelling public. A preventative maintenance audit was also conducted on structures, public areas, equipment and machinery.

A separate initiative to address driver behaviour in the forecourt was led by the APAC Safety and Landside Operations teams, Victoria Police and Australian Federal Police.

Airside Safety Culture

Airside safety culture was a focus area for FY19 with a number of initiatives developed to address airside driving behaviours and to increase overall accountability for safety across the aprons and airfield.

The following initiatives were implemented:

- Delivery of a cognitive safety culture program to airfield workers in critical roles.
- Transition of paper based safety reporting to digital platforms.
- Development of worker education and capability in relation to safety governance, fatigue management and human factors.

Employee Health and Wellbeing

The APAC Mental Health Committee and Mental Health Steering Group delivered the Psychological Wellbeing Strategy in collaboration with the Melbourne Airport Chaplaincy. The focus of the Psychological Wellbeing Strategy is to embed a culture of positive mental health and wellbeing across the APAC workforce.

Fatigue Management Plans were embedded through the business and linked back to the Psychological Wellbeing Strategy.

Environment

APAC has a range of regulatory reporting obligations. These include our Annual Environment Reports, National Greenhouse and Energy Reporting and submission to the National Pollutant Inventory. Complying with these obligations is standard operating practice. However, consistent with our Environment Policy and Strategy, APAC seeks to move beyond compliance, through continual improvement in managing our environmental impacts.

During FY19 we:

- Had our Environmental Management System (EMS) audited and re-certified against the ISO14001:2015 standard. We have maintained our certified EMS since 2004, when we became the first Australian airport to achieve EMS certification.
- Achieved Level 2 accreditation under the Airport Carbon Accreditation (ACA) program - the global standard for carbon management in the airport industry.
- Continued to voluntarily report under the Global Real Estate Sustainability Benchmark (GRESB).
- Continued to offset APAC's travel-related greenhouse gas emissions through the purchase and retirement of NCOS-compliant carbon offsets.

Environment Strategy

The goal of the Melbourne Airport Environmental Policy is for the airport 'to be an environmental leader for transport and logistics sites in Australia'. Given the complex cultural heritage and environmental setting within which Melbourne Airport operates, achieving our policy goal will require continuous improvement, with direction set by a clear Environment Strategy.

Our Environment Strategy details how this goal will be achieved. The strategy forms an integral part of Melbourne Airport's 2018 Master Plan, which was approved by the Commonwealth Minister in February 2019.

The objectives of our Environment Strategy are to:

- Continually improve environmental management practices
- Ensure Indigenous and non-Indigenous (historical) cultural heritage sites are protected
- Ensure strong stewardship of the physical environment
- Meet all compliance obligations and maintain the goodwill of regulators, passengers and the community
- Future-proof the environmental value of the airport site.
- To achieve these objectives, we have developed targets and action plans across each of the following environmental aspects:
- Environmental Management
- Sustainability in planning and design
- Energy and carbon
- Hazardous materials
- Cultural heritage
- Land and water management
- Biodiversity and conservation
- Air quality and ground-based noise
- Waste management

Greenhouse Gas Emission Management

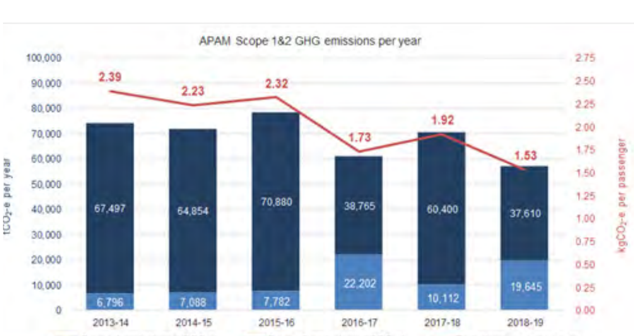
APAC closely monitors its energy consumption and greenhouse gas emissions (GHG) across Melbourne and Launceston Airports.

In FY19, emissions from Melbourne Airport accounted for around 99% of APAC's total across the two sites. Greenhouse gas emissions at Melbourne for FY19 were approximately 57,400 tCO_2-e (Scope 1&2). Of this, 66% was associated with electricity purchased from the grid and 33% with natural gas combustion.

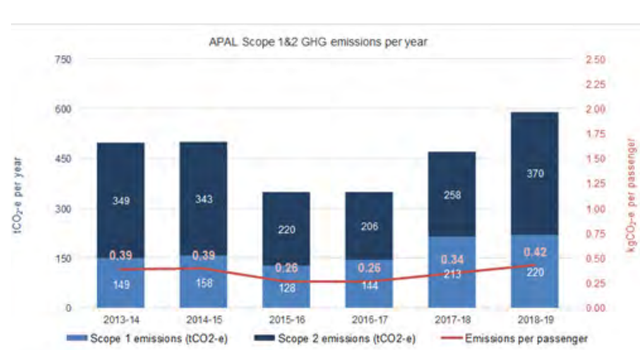
By FY30, passenger throughput at Melbourne is expected to have increased by 43 percent from FY19 levels. If left unchecked, emissions could increase by a similar amount.

To prevent this from occurring, APAC is investing in an energy efficiency program across all terminals, a 12MW (Direct Current) fixed tilt solar farm, and the ongoing operation of our 8MW trigeneration facility. Further, to ensure that emissions reduction progress continues into the future, we have identified and are working towards adopting a science-based emissions reduction target.

Melbourne Airport Scope 1&2 GHG emissions per year



Launceston Airport Scope 1&2 GHG emissions per year



Airport Carbon Accreditation

Work continued on reducing our carbon footprint in FY19, which was recognised on 24 January 2019 when we achieved Level 2 Accreditation (Reduction) in the global Airport Carbon Accreditation program. The program, which is run by Airports Council International (ACI) is a voluntary carbon management scheme and consists of four levels that progress from mapping carbon emissions, reducing emissions and engaging with third parties through to carbon neutrality.

To achieve Level 2 Accreditation (Reduction) we were required to:

- Fulfil all the requirements for Level 1 Accreditation (Mapping).
    - o Determine our 'operational boundary' and the emissions sources within that boundary which are Scope 1 and Scope 2 sources, as defined by the Greenhouse Gas Protocol.
    - o Collect data and calculate the annual carbon emissions for the previous year for those sources.
    - o Compile a carbon footprint report.
    - o Engage an independent third party to verify the report before submission, to ensure that the carbon footprint calculation is in accordance with ISO14064 and accreditation requirements.
- Provide evidence of effective carbon management procedures, which includes target setting.
- Show that a reduction in the carbon footprint has occurred by analysing the carbon emissions data of consecutive years.

Solar Farm

In June 2019 the APAC Board approved funding for the construction of a 12MW (Direct Current) fixed tilt solar farm. This begins the first phase of Melbourne Airport's plans for the development of its renewable energy capacity. The plan also includes further expansions of generation potential and examination of energy storage opportunities. The planned expansion supports Melbourne Airport's aspirations to generate 25% of its own electricity demand through renewable energy. It will also complement our broader sustainability and energy efficiency initiatives.

The solar farm will reduce Melbourne Airport's reliance on electricity purchased from the grid and generated from natural gas, supplies of which are carbon-intensive and can experience price volatility. Combined with energy retailer agreements and future investments in renewable energy and storage, on-site solar generation will provide a source of power smoothing, standby power supply and potential revenue. The further development of renewable energies will stabilise energy procurement arrangements and will reduce operational expenditure.

Biodiversity Management

During FY19 Melbourne Airport undertook revegetation activities to improve biodiversity in three conservation areas within Melbourne Airport environs: Deep Creek and tributaries, Moonee Ponds Creek and Annandale Grasslands. We also continued to manage the sensitive 160ha Grey Box Woodland.

Our revegetation activities included planting 200 seedlings at Annandale Grassland, 160 at Deep Creek and 490 at Moonee Ponds Creek. Plantings were conducted to assist with the slowing of water from rainfall events to reduce tunnel and gutter erosion, to increase canopy connectivity and to replace fauna habitat that was eliminated through the removal of woody weeds. Appropriate to each location, we planted a mix of lightwood, yellow gum, fragrant saltbush, sticky hop-bush, hedge wattle, river red gum, river bottlebrush, woolly tea-tree and sticky boobialla.

Weed management activities were performed within all conservation areas managed by the Melbourne Airport team. Target species included silverleaf nightshade, African boxthorn, boneseed and serrated tussock.

Environment

World Environment Day

As part of the World Environment Day program, Melbourne Airport's Head of Utility and Facility Management presented an 'Open Mic' session and provided insights into Melbourne Airport's energy use, future energy needs, planned solar farm and carbon emissions – attended by 30+ team members. The team were also given tips and tricks to use at home to reduce carbon emissions.

PFAS

Per- and poly- fluorinated alkyl substances (PFAS) are manufactured chemicals that are used to make products resistant to heat, stains, grease and water. PFAS have been widely used for more than 50 years in many consumer and industrial products, including carpets, cookware, clothing, food packaging, pesticides, stain repellents, firefighting foams, mist suppressants and coatings.

PFAS are stable chemicals that are resistant to physical, chemical and biological degradation. Because of these properties, PFAS last for a long time and they can be found in humans, animals and throughout the environment in Australia and other parts of the world.

At airports, firefighting foams containing PFAS (known as aqueous film forming foams or AFFF) were historically used because they are very effective at putting out liquid fuel fires. At Melbourne and Launceston Airports, AFFF have been stored in aircraft hangers for deluge systems and used extensively in training for and responding to firefighting emergencies involving liquid fuels.

As part of ongoing environmental management of the two airports, in accordance with obligations under the Airports Act and regulations, Melbourne and Launceston Airports have been assessing and monitoring PFAS contamination. The airports have adopted the PFAS National Environmental Management Plan (NEMP) to address PFAS management, and have facilitated the establishment of ongoing regulator roundtables, to prepare for and review works in response to PFAS at the airports. Members of the roundtables include Airservices Australia, Commonwealth Department of Infrastructure, Transport, Cities and Regional Development (DITCRD), and the local Environment Protection Authority.

Works in response to PFAS at the airports are ongoing, but items completed so far have included:

- Excavation of almost 100 tonnes of PFAS-contaminated soil at one location, with the soil sent to a local facility which destroys the PFAS at high temperatures.
- Change-out of AFFF stores by tenants.
- Management of stockpiled soil in accordance with the PFAS NEMP.
- Installation of a trench to collect contaminated groundwater.
- Covering of a former fire training ground pad to prevent the contamination of rainfall run-off.

People

People Initiatives

As an asset manager, it is vital APAC is an employment destination of choice for talented, motivated people who will thrive in a high performance environment.

While thousands of individuals are employed at Melbourne and Launceston Airports, the APAC workforce itself numbers fewer than 400 people. Optimising the performance of each of these individuals is critical, as each team member plays a crucial role in the day-to-day planning, operation and enhancement of our assets. Instilling a consistent, excellence-seeking way of working throughout all levels of our business will help us deliver a traveller experience that adds value for our airline customers through operational efficiency, passenger amenity, and value-added services.

APAC's success is also dependant on the thousands of individuals working at our airports and highlights the importance of our fifth strategic pillar: Be the Best We Can Be.

Important to perceptions of leadership are an effective strategic direction and the consistent modelling of APAC values by the senior leadership team. The best performing attribute is team members understanding how their role impacts APAC's success, and in order to deliver to this, the following initiatives were implemented:

- Developed a refreshed Strategic Framework
- Developed and modernised internal communications
- Streamlined Performance & Development Review processes (ePM)

Workplace Relations & Environment

During FY19, APAC embarked on a full review of its workplace relations environment. The completion of the KPMG Workplace Relations Review resulted in the appointment of a dedicated industrial relations resource, who will develop an Industrial Relations Strategy that will incorporate the future of APAC's workplace environment.

The APAC Way

APAC is committed to continuous improvement, which is guided by understanding what is driving engagement and satisfaction in team members across both the Melbourne and Launceston operations.

The 2019 Employee Engagement Survey achieved a 7 percent increase in survey participation along with a 16 percent uplift in employee satisfaction scores. A change in survey provider has also delivered improved results reporting for our leaders so they are able to respond to team member feedback themes with improved focus and speed.

During FY19, APAC continued to evolve and embed its organisational culture and values badged 'The APAC Way'.

The objective of The APAC Way program is to ensure APAC remains a relevant and appealing employer for key talent at a time when all of Australia's major airports are experiencing strong growth in passenger numbers.

Additionally, the current boom in Victorian infrastructure delivery provides a challenging talent market for project management, planning and construction specialists, making APAC's status as an employer of choice a vital strategic asset.

The APAC Way aims to connect our people to how they think, feel and act being part of a proud organisation.

Underpinning The APAC Way is a company-wide recognition of the value in enhancing the efficiency of our ways of working, by ensuring our airports operate as effectively as possible. At the same time, APAC is responsible for building airports that travellers value as much for their amenity as for their contribution to a seamless air travel experience.

To engage our people on this journey, APAC began development of a three-year, visual roadmap, The APAC Way Roadmap, that brings together our five strategic

People

pillars, our integrated capital plan, our ways of working and the four core values that ultimately drive the performance necessary to deliver airports to be proud of:

- Authentic: We celebrate diversity and earn the trust of our stakeholders by acting with integrity.
- Passionate: We are visionary, with the courage to innovate to achieve our goals.
- Accountable: We are results-driven, make commercially savvy decisions, and take responsibility for our actions.
- Collaborative: We work together and communicate openly to achieve our shared goals.

The APAC Way Roadmap allows our people to easily link their individual efforts to the broader strategy and vision for the business. It provides them with a clear picture of, and stronger connection to, what we are going to do, how we are going to do it and what it will look like by the end of 2022.

Talent and Capability Program

APAC's Learning and Development framework has continued to evolve into a broader Talent and Capability program. This includes development of a leadership framework designed to reduce corporate risk by cultivating a values-centric approach to leadership among mid-level managers identified for future leadership roles within APAC.

Key initiatives delivered under this program included:

- Delivery of a more formal 'Performance Development Review' process aligned to ongoing coaching by supporting coaching programs throughout the business.
- Development of the talent management program to retain APAC's talent.
- Develop career development programs for High Potentials.
- Revised and refined the Senior Leadership Team Succession Planning Framework for a more robust and collaborative approach to further enhance the succession pipeline.
- Development and implementation of leadership and development program for all tiers of management to build leadership capability and succession capability.
- Review of APAC's learning & development services to optimise delivery of programs and initiatives for authentic capability uplift.
- Review and development of induction and orientation program to optimise the early engagement of team members.
- Refreshed onboarding program, resulting in more effective introductions for new staff joining the business.

The Talent and Capability program will continue to evolve throughout FY20 as The APAC Way is cemented into the daily operating behaviours of the business.

Community Engagement

For Melbourne Airport to continue delivering an important connection for Victorians and visitors alike, we must work effectively with a broad range of stakeholders to deliver safe and effective airport operations. We must also respect the needs and desires of local communities to live in a safe and comfortable urban environment.

Engagement enables Melbourne Airport to be responsive to the needs of our stakeholders and deliver better outcomes for all involved, while continuing to operate within a highly regulated and complex environment. In FY19 Melbourne Airport significantly increased the engagement opportunities available for communities and stakeholders, through both face to face activities and an enhanced online presence.

Melbourne Airport is a member of the International Association for Public Participation (IAP2). In developing the framework and undertaking engagement we follow IAP2 principles and approaches.

FY19 Overview

In FY19 Melbourne Airport undertook engagement to support a number of specific projects, most notably the 2018 Melbourne Airport Master Plan. In addition to that, Melbourne Airport focussed on increasing our engagement reach for the airport more generally.

Melbourne Airport in the community

To ensure a broad range of community members have the opportunity to engage with Melbourne Airport on topics or issues they are interested in, we undertook a number of new engagement activities. These included regular “hot desk” sessions in the areas surrounding the airport, and attendance at local festivals and events. At these sessions we identified that people are interested in issues such as employment, the environment, the Melbourne Airport Rail Link project, ground access, and a range of other topics.

Master Plan engagement

To support the development and approval of the 2018 Melbourne Airport Master Plan, a series of engagement opportunities were provided to local communities and other interested stakeholders. A series of X expo style sessions were held across local communities, where interested parties could come and speak to Melbourne Airport technical teams across a range of issues including noise, planning, environment and ground access.

To support this engagement Melbourne Airport also utilised the My Melbourne Airport website, which acts as an engagement hub allowing people to access information, provide comments and ask questions.

Advisory and reference groups

To support a more detailed understanding of issues and views, Melbourne Airport also utilises a number of advisory groups; the Melbourne Airport Community Aviation Consultation Group (MACACG) and the Planning Coordination Forum (PCF).

The MACACG underwent a review in FY19 to ensure that its objectives and operations continue to meet with best practice for advisory groups. The recommendations of the review were accepted in June 2019 and included expanding the membership of the MACACG.

The PCF provides an opportunity for local council, state government, regulators and other organisations to provide input and insight focussed around planning outcomes and decisions.

Corporate Social Responsibility

$5,023,306

APAC Total Community Contribution

Melbourne Airport's contribution includes:	**$294,221** invested in community organisations	**$424,000** facilitated additional charitable donationsfrom employees, stakeholders, and travellers	**$3,667,000** Enhancing Melbourne's tourism & arts/cultural organisations via revenue foregone
	Relationships with 10 community organisations, to deliver 28 change-making programs		Making a significant difference in 819 people's lives
Launceston Airport's contribution includes:	**$55,000** invested in 11 community organisations		
	Strengthening Northern Tasmanian via support for tourism, arts and cultural events		

Investing in local communities, strengthening the state

APAC's community investments seek to support our host communities, cities and states. APAC has a strong focus on local communities and addressing leading socio-economic issues such as improving educational and employment pathways in Melbourne's northwest, and strengthening tourism within Northern Tasmania.

Both Melbourne and Launceston Airports actively support localised destination and tourism marketing through on-airport assets, providing more than 20 annual packages of advertising support for iconic tourism, cultural and arts events. Our airports also enable a range of fundraising programs to support well-known charities such as The Salvation Army, the Royal Children's Hospital, and returned service personnel.

Melbourne Airport

At a local level, Melbourne Airport's community investments fund education and employment programs with our closest neighbours, with 42% of the airports investment being delivered within the collective postcodes of Brimbank and Hume, directly supporting 470 local residents.

On the impact of the Aiming High and Study Groups, which Melbourne Airport has proudly funded since 2015, Ahmed Yussuf had this to say:

> *"Banksia Gardens Community Services was salvation for my family. My mother was a recently arrived migrant from Kenya, a single parent raising seven children, all of whom needed space to grow academically and socially. Without their support, first through Study Group and then through Aiming High and other initiatives, I don't know where I would be. These programs are integral to helping young people in Broadmeadows become empowered and enabled to realise their potential."*

Increased investment

VERIFIED 2019 LBG AU & NZ

FY19 represented a significant change for Melbourne Airport's approach, this included:

- A doubling of the airport's community investment from previous years,
- Obtaining verification of the airport's community contributions via global corporate social responsibility reporting firm London Benchmarking Group,
- The launch of a $100,000 Community Grants Program with local Neighbourhood Houses.

The airport also celebrated signing fresh and expanded long-term partnerships with flagship community partners; Western Chances, Banksia Gardens Community Services and Conservation Volunteers. Melbourne Airport's $440,000 Western Chances partnership will enable the academic potential and career aspirations of young people from Melbourne's west – funding 500 scholarships over a three period to 2020.

The Cross-Cultural Volunteering program at Organ Pipes National Park, also commenced with established partners; Conservation Volunteers. The highly successful program encourages the region's adult migrants and refugees to participate in bushland rejuvenation activities, while matched with supportive local community members and service providers. In just three months 2500m² of weeds have been removed, and 250 stems were planted to improve biodiversity of the National Park, all while supporting the English language and social skill development of the program's 55 participants.

FINANCIAL STATEMENTS

Directors' Report

The Directors of Australia Pacific Airports Corporation Limited (the Company) and its controlled entities (the Group or APAC) present their report for the financial year ended 30 June 2019.

Principal activities

During the financial year, the principal activity of the Group was the ownership and management of Melbourne Airport and Launceston Airport.

Review of operations

Financial Results:

Revenue grew 3.5% to $1,047.1 million in 2019 compared to the previous year, generating Operating Profit of $770.5 million and a profit after tax for the year of $390.4 million. Melbourne Airport has reached its highest passenger milestone during the financial year, welcoming 37,395,992 travellers. 1.9% higher than the record achieved last year. International tourism experienced the most significant boost with around 11.4 million travellers flying in and out of Melbourne, a rise of 5.3% compared to the last financial year. This increase in passengers is seen in the increase in Aeronautical revenue, which increased by 6.9%.

Our non-Aeronautical businesses also showed growth, with growth in the Parking and Ground Access business driven by growth in Ground Access and the Property business having growth from tenancy agreements. Retail revenue has decreased by $1.5 million (0.8%), with a reduction in revenue from Duty Free partially offset by additional revenue from the T2 Luxury Precinct and improved performance in Terminal 4.

Operating costs were $276.6 million, a decrease of 0.2%. While total costs decreased due to asset write offs in FY18, there were increases in costs driven by Government mandated improvements in Security, CPI increases across all costs and increased utilities. These cost increases were partially offset by savings in Facilities Maintenance and other administration and marketing costs.

Other key highlights:

On 26 June 2019, Melbourne Airport completed the purchase of Leasehold Improvements within Terminal 1 (T1) from Qantas Group for $276 million. From 1 July 2019, the Group will progressively take over the operations of T1. Qantas Group will continue to operate from T1 under a Terminal Operational License.

On 24 June 2019, construction commenced on expanding Melbourne Airport's airfield assets through the development of a new taxiway network worth $300 million. This represents the largest airfield investment project since the airport's 1970 opening. The program will enable the delivery of new capacity, new routes, new terminal facilities and new levels of operational performance.

In September 2018, Melbourne Airport announced it had joined with IFM Investors, Metro Trains and Southern Cross to unveil a blueprint for the development of the Melbourne Airport Rail Link. AirRail Melbourne will be providing a proposal to the Victorian and Commonwealth Governments to build a world-class link that unlocks other rail capacity and creates thousands of jobs.

Dividends

The Directors declared a final dividend for the year ended 30 June 2018 of $130.14 million ($1.10 per share) which was paid on 21 September 2018 and an interim dividend for the year ended 30 June 2019 of $154.71 million ($1.31 per share) was paid on 22 March 2019.

The Directors determined that a final dividend for the year ending 30 June 2019 of $277.49 million ($2.35 per share) to be paid 26 September 2019.

Directors

The following persons were directors of the Company during the financial period and /or up to the date of this report.

Name	Position	Date appointed/resigned
Peter Hay	Chairman	1 June 2019
David Crawford AO	Chairman	30 April 2012, Resigned 31 May 2019
Lyell Strambi	Managing Director	9 November 2015
John Harvey	Director	25 March 2013
Lianne Buck	Director	14 October 2016
Michael Cummings	Director	19 March 2015
Barry Brakey	Director	25 February 2015, Resigned 29 August 2019
Danny Elia	Director	6 October 2015
David Kenny	Director	7 December 2015
James Fraser-Smith	Director	15 September 2016
Raphael Arndt	Director	29 August 2019

Meeting of Directors and Board Committees

The number of meetings of the Board of Directors and each Board Committee held during the year ended 30 June 2019, and the number of meetings attended by each Director is set out below:

	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Crawford AO	13	13	4	3	3	3	4	3
Lyell Strambi	14	14	4	4	3	3	5	5
John Harvey	14	13	4	4	*	*	*	*
Lianne Buck	14	13	*	*	3	3	5	5
Michael Cummings	14	12	*	*	*	*	5	5
Barry Brakey	14	14	4	4	3	3	*	*
Danny Elia	14	14	*	*	1	1	5	5
David Kenny	14	14	*	*	3	3	*	*
James Fraser-Smith	14	13	*	*	2	1	2	1
Peter Hay	1	1	*	*	*	*	*	*

James Fraser-Smith was not a member of the Finance and Projects Committee or Remuneration Committee but attended as an observer during the year.

	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Company Secretary	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Lisa Evans	14	13	4	4	3	3	5	5
Grant Devonport	4	4	1	1	-	-	-	-

Ms L. Evans resigned as Company Secretary on 2 July 2019. Mr G. Devonport was appointed as replacement on 10 July 2019.

Changes in state of affairs

Other than the acquisition of T1 leasehold improvements from Qantas Group and commencement of APAC operations within Terminal 1, there were no other significant changes in the state of affairs of the Group during the year ended 30 June 2019.

Australia Pacific Airports Corporation Limited

Directors' Report

Events occurring after balance date

On 10 July 2019, Australia Pacific Airports (Launceston) Pty Ltd extended the Senior bank debt facility (AUD $65 million) to 30 July 2020. On 11 July 2019, Australia Pacific Airports (Melbourne) Pty Ltd issued an AUD $100 million Bilateral loan facility. AUD $90 million of the facility limit of AUD $100 million was drawn on 31 July 2019.

Other than final dividend and above, there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in future financial periods.

Future developments

The Group's future developments and operations are included within the Master Plans of Melbourne Airport (2018) and Launceston Airport (2015). The documents include setting the strategic direction for each airport, providing plans for development, documenting to the public the intended uses of the sites and development proposals and ensuring compliance with environmental legislation and standards.

The focus of the Group is on improving efficiency and safety while maximising capacity of the airport and improving the traveller experience.

Environmental regulations

In relation to environmental matters, the Group is subject to the Airports Act 1996 ("the Act") and the Airports (Environment Protection) Regulations 1997 ("the Regulations"). The Board is satisfied that the results of environmental monitoring conducted by internal and external specialists during the year ended 30 June 2019 demonstrate compliance with the Act and the Regulations.

Like other airports around Australia, fire-fighting foams containing per- and poly- fluoroalkyl substances (PFAS) have historically been used at Melbourne and Launceston Airports. Melbourne and Launceston Airports have been working to identify and manage the presence of PFAS at both airports.

Indemnification and insurance of officers and auditors

Each officer (including each Director) of the Group is indemnified, to the maximum extent permitted by law, against any liabilities incurred as an officer of the Group pursuant to agreements with the Group. Each officer is also indemnified against reasonable costs (whether legal or otherwise) incurred in relation to relevant proceedings in which the officer is involved because the officer is or was an officer.

The Group has arranged to pay a premium for a Director's and officer's liability insurance policy to indemnify Directors and officers in accordance with the terms and conditions of the policy.

This policy is subject to a confidentiality clause which prohibits disclosure of the nature of the liability covered, the name of the insurer, the limit of liability and the premium paid for this policy.

The auditor of the Group is in no way indemnified out of the assets of the Group.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

No application has been made and no proceedings have been brought or intervened in, on behalf of APAC under section 237 of the Corporations Act.

Rounding off of amounts

The Group is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information has been rounded to the nearest thousand dollars, unless otherwise indicated.

This Directors' Report is made in accordance with a resolution of Directors.

Mr P. Hay	Mr L. Strambi
Chairman	Managing Director
MELBOURNE	MELBOURNE
30 August 2019	30 August 2019

Auditors Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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550 Bourke Street
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Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

The Board of Directors
Australia Pacific Airports Corporation Limited
Level 2, Terminal 2
MELBOURNE AIRPORT VIC 3043

30 August 2019

Dear Board Members,

Auditors Independence Declaration - Australia Pacific Airports Corporation Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australia Pacific Airports Corporation Limited.

As lead audit partner for the audit of the financial statements of Australia Pacific Airports Corporation Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Samuel Vorwerg
Partner
Chartered Accountants

Independent Audit Report to the Members of APAC

Deloitte.

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Independent Auditor's Report to the members of Australia Pacific Airports Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australia Pacific Airports Corporation Limited (the "Company") and its subsidiaries (the "Group"), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based

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on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 30 August 2019

Directors' Declaration

Australia Pacific Airports Corporation Limited

Directors' Declaration

The Directors declare that:

(a) The attached financial statements and notes are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the financial position as at 30 June 2019 and of its performance of the Group for the year ended on that date; and

(ii) complying with Accounting Standards and *Corporations Regulations 2001* ;

(b) The financial statements and notes also comply with Australian Financial Reporting Standards as disclosed in Note 1;

(c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Mr P. Hay
Chairman

MELBOURNE
30 August 2019

Mr L. Strambi
Managing Director

MELBOURNE
30 August 2019

Statement of Profit and Loss and Other Comprehensive Income

for the Financial Year ended 30 June 2019

	Note	Consolidated 2019 $'000	2018 $'000
Revenue			
Aeronautical		427,787	400,167
Security	5	59,520	53,602
Retail		185,211	186,697
Parking & Ground Access		214,055	212,197
Property		116,843	116,326
Outgoings/recharges		39,386	40,479
Interest		337	218
Other income		3,855	2,095
Profit on sale of fixed assets		114	50
Total revenue		**1,047,108**	**1,011,831**
Less operating costs:			
Staff costs		(55,954)	(53,167)
Security	5	(58,308)	(52,355)
Service and utilities		(101,338)	(100,130)
Maintenance costs		(32,234)	(35,814)
Administration and marketing costs		(16,549)	(14,604)
Other costs		(12,210)	(21,135)
Total operating costs		**(276,593)**	**(277,206)**
Operating profit		**770,515**	**734,625**
Change in fair value of investment property		143,837	48,549
Depreciation and amortisation	2	(182,708)	(173,957)
Borrowing costs	2	(174,235)	(170,834)
Profit before income tax		**557,409**	**438,384**
Income tax expense	3(a)	(166,967)	(123,529)
Profit after income tax		**390,442**	**314,855**
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges, net of income tax	21	(56,494)	(34,964)
Total comprehensive income for the year		**333,947**	**279,892**
Profit for the year attributable to the owners of the Company		**390,442**	**314,855**
Total comprehensive income attributable to the owners of the Company		**333,947**	**279,892**

Notes to the financial statements are included on pages 59-91

Statement of Financial Position

as at 30 June 2019

	Note	Consolidated 2019 $'000	2018 $'000
Current Assets			
Cash and cash equivalents	26(a)	26,038	19,290
Receivables	6	135,107	131,321
Financial assets	13	-	82
Other assets	7	4,106	4,170
Accrued revenue	8	22,233	16,692
Total current assets		**187,484**	**171,555**
Non-current assets			
Property, plant and equipment	9	3,460,493	2,741,137
Investment property	10	1,416,336	1,493,862
Intangible assets	12	675,429	674,985
Financial assets	13	446,112	336,238
Other assets	7	12,095	13,860
Accrued revenue	8	117,446	87,822
Total non-current assets		**6,127,911**	**5,347,905**
Total assets		**6,315,395**	**5,519,460**
Current liabilities			
Payables	14	149,122	108,946
Borrowings	15	270,980	-
Employee benefit provisions		20,517	17,838
Financial liabilities	16	27,839	2,114
Income tax payable	3	23,174	23,886
Unearned income		6,687	3,754
Total current liabilities		**498,319**	**156,538**
Non-current liabilities			
Payables	18	1,202	1,202
Borrowings	17	4,034,082	3,727,687
Employee benefit provisions		1,563	1,645
Financial liabilities	16	137,342	62,650
Deferred tax liability	3(b)	512,520	493,763
Unearned income		9,299	4,007
Total non-current liabilities		**4,696,008**	**4,290,954**
Total liabilities		**5,194,327**	**4,447,492**
Net assets		**1,121,068**	**1,071,968**
Equity			
Issued capital	20	118,100	118,100
Hedge reserve	21	(157,239)	(100,745)
Retained earnings	22	1,160,207	1,054,613
Total equity		**1,121,068**	**1,071,968**

Notes to the financial statements are included on pages 59-91

Statement of Changes in Equity
for the Financial Year ended 30 June 2019

	Consolidated			
	Issued Capital $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 30 June 2017	**118,100**	**(65,782)**	**984,739**	**1,037,057**
Profit for the year	-	-	314,855	314,855
Other comprehensive income:				
Changes in the fair value of cash flow hedges, net of income tax	-	(34,963)	-	(34,963)
Total comprehensive income for the year	-	**(34,963)**	**314,855**	**279,892**
Dividends paid	-	-	(244,981)	(244,981)
Balance at 30 June 2018	**118,100**	**(100,745)**	**1,054,613**	**1,071,968**
Balance at 1 July 2018	**118,100**	**(100,745)**	**1,054,613**	**1,071,968**
Profit for the year	-	-	390,442	390,442
Other comprehensive income:				
Changes in the fair value of cash flow hedges, net of income tax	-	(56,494)	-	(56,494)
Total comprehensive income for the year	-	**(56,494)**	**390,442**	**333,947**
Dividends paid	-	-	(284,847)	(284,847)
Balance at 30 June 2019	**118,100**	**(157,239)**	**1,160,207**	**1,121,068**

Notes to the financial statements are included on pages 59-91

Statement of Cash Flows

for the Financial Year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Cash flows from operating activities			
Receipts from customers		1,120,599	1,035,227
Payments to suppliers and employees		(364,243)	(375,623)
Interest received		337	218
Interest paid		(169,398)	(167,395)
Income tax paid		(124,713)	(107,241)
Net cash provided by operating activities	**26(b)**	**462,582**	**385,186**
Cash flows from investing activities			
Payment for property, plant and equipment		(634,319)	(269,934)
Payment for investment property		(18,637)	(13,753)
Proceeds from sale of property, plant and equipment		114	50
Payments for intangible assets		(794)	(775)
Net cash used in investing activities		**(653,636)**	**(284,412)**
Cash flows from financing activities			
Proceeds from borrowings		1,026,301	300,500
Repayment of borrowings		(534,500)	(160,300)
Payment for debt issue costs		(7,864)	(2,623)
Repayment of finance lease		(1,287)	(1,287)
Dividend paid		(284,847)	(244,981)
Net cash (used in)/provided by financing activities		**197,803**	**(108,691)**
Net (decrease) / increase in cash		**6,749**	**(7,917)**
Cash and cash equivalents at the beginning of the year		**19,290**	**27,207**
Cash and cash equivalents at the end of the year	26(a)	**26,038**	**19,290**

Notes to the financial statements are included on pages 59-91

Notes to the Financial Statements

for the Financial Year ended 30 June 2019

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. For the purposes of preparing the financial statements, Australia Pacific Airports Corporation Limited (APAC), (the "Company") is a for-profit entity. The financial report includes the consolidated financial statements of Australia Pacific Airports Corporation Ltd and its controlled entities ("Group").

The financial statements were authorised for issue by the Directors on 30 August 2019.

Basis of preparation

The financial report has been prepared on the basis of historical cost except for certain non-current assets and financial instruments that are measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. Some prior year comparative figures have been restated to align with current year presentation.

Rounding off of amounts

The Group is a company of the kind referred to in ASIC Class Order 2016/191, dated 1 April 2016, and in accordance with that Class order, amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Going concern

As at 30 June 2019, the Group has a net current deficiency of $310.8 million (2018: net current assets $15.0 million). Despite the net current deficiency as at 30 June 2019, the Directors are of the view that the Group is a going concern due to the long history of profitability, committed funding and available liquidity. As at 30 June 2019, the Group had undrawn facilities of $890.1 million comprising of $400 million Term Bank Loans and $490.4 million of unused revolving bank debt. On 10 July 2019, Australia Pacific Airports (Launceston) Pty. Ltd extended the senior bank debt facility ($65 million) to 30 July 2020.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (listed in Note 24) as at 30 June 2019 and the results of all subsidiaries for the year then ended. The accounting policies of the subsidiaries are consistent with the Group's accounting policies.

Subsidiaries are all entities over which the Company has power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect the amount of the investee's returns.

Consolidation of a subsidiary begins from the date on which the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Profit or loss and comprehensive income are attributable to the owners of the Company as there are no non-controlling interests in the Group.

In preparing the consolidated financial statements, all inter-company balances and transactions and unrealised profits arising within the Group are eliminated in full.

(b) Cash

Cash comprises of cash on hand, cash in banks and investments in money market instruments.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Assets acquired are recorded at the cost of acquisition being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition, or at current book value if transferred from investment property.

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Buildings	10 – 40 years
Roads, runways and other infrastructure	13 – 80 years
Plant and equipment	3 – 15 years

Land leased as part of the airport acquisition has been valued at acquisition at fair value. Leased land is amortised on a straight line basis over the lease term of 99 years.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1. Summary of accounting policies *continued*

(c) Property, plant and equipment continued

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

(d) Investment Property

The Group's investment properties represent interests in land and buildings held to derive rental income. They are initially measured at cost, including transaction costs. Subsequently, at each year end reporting date, they are carried at their fair values based on the market value determined by independent (external) valuers. These valuations include the cost of capital works in progress. Gains or losses arising from a change in the fair value of investment properties are recognised in the profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

A property is transferred to or from investment property when there is a change in use.

(e) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually or earlier if there is an indication that the goodwill may be impaired. An impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

(f) Masterplan

Under the Airports Act 1996, Melbourne Airport is required every 5 years to prepare a Master Plan to guide the development of airport for the next 20 years. The costs associated with the Masterplan are recognised as an intangible asset amortised over the 5 year period.

(g) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cashflows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Capitalised borrowing costs

Interest costs directly attributable to assets under construction are capitalised as part of the costs of those assets up to the date of completion of each asset.

(i) Investments

Investments in controlled entities are recorded at cost.

(j) Payables

Trade payables and other accounts payable are measured at amortised cost and recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Borrowings

Borrowings are recorded at an amount equal to the net proceeds received. Borrowing costs are recognised on an accrual basis. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Ancillary costs incurred by the Group in establishing funding facilities are capitalised and amortised over the term of the facilities. These costs are netted off against the loan in the Statement of Financial Position.

1. Summary of accounting policies *continued*

(k) Borrowings continued

Foreign currency borrowings are reported at spot exchange rates with movement in the spot rate reflected in the profit or loss statement to the extent the borrowings are unhedged and in the hedge reserve if the borrowings are effectively hedged.

(l) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

(m) Superannuation

The Group makes contributions to accumulation funds on behalf of its employees. These contributions are expensed when incurred.

(n) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, other incentives, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of wages and salaries, annual leave and long service leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of annual leave and long service leave not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(o) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cashflows are included in the Statement of Cash Flows on a gross basis. The GST component of cashflows arising from investing activities which is recoverable from, or payable to, the taxation authority is classified as an operating cashflow.

(p) Derivative financial instruments

The Group enters into interest rate swaps, swaptions and cross currency interest rate swaps. The swaps have been allocated against the underlying or forecast cross currency and interest rate exposure and to this extent modify the cross currency and interest rate risk of the underlying and forecast debt. These instruments are initially recognised at fair value on the date a contract is entered into, and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss, unless the derivative is designated and effective as a hedging instrument, in which event, the timing of recognition in profit or loss depends on the nature of the hedge relationship. Further details of derivative financial instruments are disclosed in Note 27 to the financial statements.

(q) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

1. Summary of accounting policies *continued*

(q) Income tax continued

***Deferred tax** continued*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle that carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in that income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken to account in the determination of goodwill or excess.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. APAC is the head entity in the tax-consolidated group. Tax expense/recovery, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by APAC (as head entity in the tax consolidated group).

(r) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 Impairment of assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are prices observable for the asset or liability, either directly or indirectly, but are not quoted prices included in Level 1;
- Level 3 inputs are unobservable inputs for the asset or liability.

(s) Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Company's presentation of, or disclosure in some areas.

The Company has initially applied AASB 15 Revenue from Contracts with Customers (AASB 15) and AASB 9 Financial Instruments (AASB 9) from 1 July 2018. The impact of these standards are described below:

AASB 9 Financial Instruments:

AASB 9 (2014) Financial Instruments (AASB 9) sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement (AASB 139). The Group has applied AASB 9 from 1 July 2018 on a retrospective basis except for hedging, which was early adopted and has not restated comparatives.

The impact of AASB 9 on the Group's accounting policies and results is described below.

Classification and measurement of financial instruments

Whilst no changes have been made to the classification and measurement of financial liabilities, AASB 9 removes the following classification of financial assets – held to

1. Summary of accounting policies *continued*

(s) Adoption of new and revised Accounting Standards *continued*

Classification and measurement of financial instruments *continued*

maturity, loans and receivables and available for sale. AASB 9 requires financial assets, debt and equity investments to be classified between the following measurement categories – amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI).

The classification depends on the business model for managing the financial asset and whether contractual cash flows are solely from payments of principal and interest ('SPPI'). The following table illustrates the measurement requirements of AASB 9 for debt instruments, applicable to the Group:

Initial Recognition	Subsequent measurement	
Amortised at cost	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at amortised cost using the effective interest rate method, and reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.
FVTPL (Fair value through profit or loss)	Measured at fair value. Any acquisition transaction costs are recognised in the profit or loss.	These assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Whilst there has been no measurement impact as a result of these changes to the Group's financial statements, changes in classification are shown below for the year ended 30 June 2019:

	Original measurement	New measurement	Original carrying amount ($,000)	New carrying amount ($,000)
Cash and cash equivalents	Loans and receivables	Amortised at cost	26,038	26,038
Trade and other receivables	Loans and receivables	Amortised at cost	135,107	135,107
Cross currency swaps	Fair value hedging instrument	Fair value hedging instrument	423,099	423,099
Borrowings	Loans and receivables	Amortised at cost	4,305,063	4,305,063

Impairment of Finance Assets

AASB 9 replaces the incurred loss model of AASB 139 with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI. Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

The Group assessed the ECL associated with trade receivables by applying the simplified impairment approach permitted by AASB 9. This requires expected lifetime losses to be recognised from initial recognition of all financial assets. The result of the assessment is there is no impact of the new impairment model as required by AASB 9.

AASB 15 Revenue from Contracts with Customers:

AASB 15 Revenue from Contracts with Customers (AASB 15) replaces AASB 118 Revenue (AASB 118) and related interpretations and applies to all revenues arising from contracts with customers, unless the contracts are within the scope of other standards such as AASB 117 Leases. The Standard outlines the application principles to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration it expects to be entitled to in exchange for fulfilling its performance obligations to the customer.

The Group have formally applied AASB 15 from 1 July 2018. The new standard has been adopted using the cumulative effect method (without applying practical expedients). Accordingly the information presented for 2017 has not been restated and continues to be reported in line with AASB 118. The Group has performed an analysis on the impact of this

1. Summary of accounting policies *continued*

(s) Adoption of new and revised Accounting Standards *continued*

AASB 15 Revenue from Contracts with Customers: *continued*

standard on the revenue streams and determined that this new standard does not have a material effect on the financial report. This analysis is summarised below:

Aeronautical revenues

Aeronautical revenue is primarily generated from contracts with Airlines for the provision of access to terminals, infrastructure, apron parking, airfield, and terminal facilities. Revenue is recognised as the service is provided as follows:

- Passenger charges: On a per passenger basis as they arrive or depart
- Runway charges: On a per passenger basis or on the basis of maximum take-off weight
- Aircraft parking charges: Over the duration of time the aircraft is parked and maximum take-off weight.

Aeronautical revenues are billed and paid on a monthly basis.

Incentives or discounts are provided in line with terms of contracts with Airlines and are generally based on passenger numbers, flight frequency and or new routes. Revenues from passenger charges are therefore variable consideration and estimated monthly. Variable revenue is only recognised when it is highly probable the revenues will not reverse.

Discounts and incentives are generally paid annually based on contract commencement date and any unpaid amount is recognised as a payable.

There is no change to timing of revenue recognition arising from AASB 15.

Security recovery revenues

Revenue is a pass-through of security operating costs and a capital recovery on depreciation and is based on the recognition of actual security costs and depreciation incurred.

Security recovery revenues are billed and paid on a monthly basis.

There is no change to timing of revenue recognition arising from AASB 15.

Parking and Ground Access revenue

Parking and ground transport revenue is primarily generated from passengers and staff for the provision of car parking and from taxis, ride share services, busses and private vehicles for the provision of ground access services.

Revenue is recognised over the period of time the car parking and ground access service is provided.

There is no change to timing of revenue recognition arising from AASB 15.

AASB 15 does not apply to revenues other than from contracts from customers, and does not apply to the following revenue streams:

Retail revenues

This comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, financial and advertising services. These contracts contain lease components.

Property and car rental revenues

This comprises the lease of terminal space, buildings and other space on Melbourne Airport. These contracts contain only lease components.

New standards and interpretations not yet adopted

The accounting standard that has not been early adopted for the year ended 30 June 2019 but will be applicable to the Group in future reporting periods is detailed below.

Accrued Revenue

Accrued Revenue relates to revenue earned with no cash received in the reporting period.

Accounting Standard	Requirement	Impact on financial statements
AASB 16 Leases	AASB 16 provides a new model for accounting for leases. The standard becomes mandatory for the June 2020 financial year and will be applied prospectively.	No material impact expected as the Company is primarily a lessor in leasing transactions.
AASB 2019-1 Conceptual Framework for Financial Reporting	AASB 2019-1 incorporates the IASB's meaning for reporting entity and includes revised definitions and recognition criteria for assets and liabilities. Mandatory for financial years commencing on or after 1 January 2020.	Management will assess any impact on financial statements, with no material impact expected.

1. Summary of accounting policies *continued*

(t) Critical accounting judgments and key sources of estimation uncertainty

In the preparation of the financial statements, the Directors are required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported carrying values of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Fair value of investment property

The fair value of the investment property has been arrived at on the basis of a valuation carried out by an independent valuer. The value of investment property is measured on a fair value basis utilising the discounted cash flow approach, capitalisation approach and depreciated replacement cost where applicable. These calculations require the use of assumptions, including discount rates, terminal yield and industrial and retail rental growth rates.

Impairment of goodwill

Determining whether goodwill is impaired requires an annual estimation of the value in use (or fair value less costs to dispose) of the cash generating units to which goodwill has been allocated. Fair value less cost to sell calculation is used by the Company and requires the Directors to estimate the future cash flows expected to arise from the cash generating unit and application of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating units, in order to calculate present value. These calculations require the use of assumptions and the application of sensitivity analysis where appropriate (see Note 12). The company consider Melbourne and Launceston Airports to be separate cash generating units.

The carrying amount of goodwill at 30 June 2019 was $671,866 (2018: $671,866). There was no impairment loss.

2. Profit for the year

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Profit for the year has been derived after charging the following specific expenses:		
Employee benefits expense - superannuation contributions	4,992	4,636
Impairment of assets under construction	419	5,502
Depreciation of property, plant and equipment	182,357	173,441
Amortisation of master plan	351	516
Depreciation and amortisation	**182,708**	**173,957**
Borrowing costs:		
Interest:		
- Secured debt	176,140	170,903
- Interest capitalised during the period	(7,928)	(4,509)
- Unsecured debt	742	994
- Amortisation of deferred borrowing costs	4,807	4,528
Hedge reserve unwind	(414)	(1,739)
Other costs	888	657
Borrowing costs	**174,235**	**170,834**

3. Income tax expense

	Consolidated	
	2019	2018
	$'000	$'000
(a) Income tax recognised in profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax expense	**557,409**	**438,384**
Income tax expense calculated at 30%	167,223	131,515
Adjusted for:		
Non-deductible expenses	444	609
Income tax expense in respect of prior years	1,714	312
Non-Assessable Income	(259)	(618)
Recognition of property, plant and equipment deferred tax balance	-	(8,831)
Reversal of permanent benefit relating to ineligible R&D projects	-	542
Deferred tax in respect of prior years	(2,155)	-
Income tax expense	**166,967**	**123,529**
Income tax expense comprises of:		
Current tax expense	122,284	110,233
Deferred tax expense	45,124	12,984
Current tax expense in respect of prior years	1,714	(7,276)
Deferred tax in respect of prior years	(2,155)	7,588
Income tax expense	**166,967**	**123,529**

The Directors of Australia Pacific Airports Corporation Limited (head entity) have elected for those entities within the consolidated group that are wholly-owned Australian resident entities to be taxed as single entity from 1 July 2003. Accordingly, the Company became part of a tax consolidated group with effect from 1 July 2003.

Entities within the tax consolidated group have entered into a tax sharing agreement with the head entity. Under the terms of this agreement, Australia Pacific Airports Corporation Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the net profit or loss of the entity and the current tax rate.

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

3. Income tax expense *continued*

(b) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

	Consolidated			
2019	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Property, plant & equipment	(155,971)	6,794	-	(149,177)
Accrued revenue	(31,507)	(3,885)	-	(35,392)
Investment property	(353,467)	(47,077)	-	(400,544)
Prepayments	(4,414)	600	-	(3,814)
Deferred borrowing costs	(1,814)	(3)	-	(1,817)
	(547,173)	**(43,571)**	**-**	**(590,744)**
Gross deferred tax assets:				
Provisions & accruals	7,325	765	-	8,090
Unearned income	2,157	(53)	-	2,104
Hedge Reserve	43,176	-	24,212	67,388
Other	752	(110)	-	642
	53,410	602	24,212	78,224
Net deferred tax liability	**(493,763)**	**(42,969)**	**24,212**	**(512,520)**

	Consolidated			
2018	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Property, plant & equipment	(190,277)	2,799	-	(187,478)
Investment property	(335,254)	(18,213)	-	(353,467)
Prepayments	(5,014)	600	-	(4,414)
Deferred borrowing costs	(1,810)	(4)	-	(1,814)
	(532,355)	**(14,818)**	**-**	**(547,173)**
Gross deferred tax assets:				
Provisions & accruals	12,464	(5,139)	-	7,325
Unearned income	2,062	95	-	2,157
Hedge Reserve	28,193	-	14,983	43,176
Other	1,462	(710)	-	752
	44,181	(5,754)	14,983	53,410
Net deferred tax liability	**(488,174)**	**(20,572)**	**14,983**	**(493,763)**

3. Income tax expense *continued*

(b) Deferred tax balances *continued*

	Consolidated	
	2019	2018
	$'000	$'000
Deferred tax liability		
Balance at beginning of the year	493,763	488,174
Temporary differences	18,757	5,589
Balance at end of the year	**512,520**	**493,763**
Income tax payable	**(23,174)**	**(23,886)**

4. Remuneration of auditors

	Consolidated	
	2019	2018
	$	$
Deloitte Touche Tohmatsu		
Auditing the financial report - statutory	265,600	228,600
Reviewing the half-year report	54,800	53,700
Auditing of regulatory accounts and compliance items	68,400	67,000
Other assurance services	13,000	12,700
	401,800	**362,000**

5. Security

	Consolidated	
	2019	2018
	$	$
Security revenue	59,520	53,602
Security costs	(58,308)	(52,355)
	1,212	**1,247**

Revenue is a pass-through of security operating costs and a capital recovery on depreciation and is based on the recognition of actual security costs and depreciation incurred.

6. Current receivables

	Consolidated	
	2019	2018
	$'000	$'000
Trade receivables	107,493	131,839
Less: provision for impairment loss	(677)	(518)
	106,816	**131,321**
GST receivable	28,290	-
	135,107	**131,321**

6. Current receivables *continued*

Revenue is invoiced on 30 day terms, with the exception of property and rental revenue which is invoiced in advance. Most agreements allow for interest to be charged on overdue balances between 1.0% and 2.0% above overdraft rates.

The company provides for impairment loss based on the credit quality of the trade receivable. This is calculated from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited, due to the spread and quality of the customers.

Included in the Company's trade receivable balance are debtors with a carrying amount of $3,907,407 (2018: $30,787,795), which were overdue (90 days +) as at the reporting date.

7. Other assets

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Prepayments	1,546	1,616
Prepaid rebates	2,000	2,000
Tenant deposits	460	460
Other	100	94
Total current	**4,106**	**4,170**
Non-current		
Prepaid rebates	12,095	13,860
Total Non-current	**12,095**	**13,860**

8. Accrued revenue

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Balance at the beginning of the year	**104,515**	**73,808**
New additions for the year	525	200
Balance recognised in revenue for the year	34,639	30,507
Balance at the end of the year	**139,679**	**104,515**
- Current	22,233	16,692
- Non-current	117,446	87,823

9. Property, plant & equipment

	Consolidated					
	Leasehold land $'000	Buildings & mains $'000	Roads, runways & other $'000	Plant & equipment $'000	Assets under construction $'000	Total $'000
Gross carrying amount						
Balance at 1 July 2018	**166,770**	**1,703,788**	**1,154,117**	**774,032**	**201,736**	**4,000,443**
Additions	-	252,558	-	23,442	386,133	662,133
Disposals	-	-	-	(825)	-	(825)
Impairment	-	-	-	-	(419)	(419)
Transfers to/(from) investment property	59,500	167,024	-	13,476	-	240,000
Transfers to/(from) assets under construction	15,372	104,405	82,727	41,165	(243,669)	-
Balance at 30 June 2019	**241,642**	**2,227,775**	**1,236,844**	**851,290**	**343,781**	**4,901,332**
Accumulated depreciation						
Balance at 1 July 2018	**14,828**	**479,284**	**330,431**	**434,764**	**-**	**1,259,307**
Depreciation expense	2,298	79,641	39,290	61,128	-	182,357
Depreciation transfer	-	-	-	-	-	-
Disposals	-	-	-	(825)	-	(825)
Balance at 30 June 2019	**17,126**	**558,925**	**369,721**	**495,067**	**-**	**1,440,839**
Net book value as at 30 June 2019	**224,516**	**1,668,850**	**867,123**	**356,223**	**343,781**	**3,460,493**

	Consolidated					
	Leasehold land $'000	Buildings & mains $'000	Roads, runways & other $'000	Plant & equipment $'000	Assets under construction $'000	Total $'000
Balance at 1 July 2017	**133,394**	**1,167,740**	**1,544,992**	**732,668**	**153,725**	**3,732,519**
Additions	-	-	-	-	273,612	273,612
Disposals	-	-	-	(186)	-	(186)
Impairment	-	-	-	-	(5,502)	(5,502)
Transfers between groups	-	446,964	(446,964)	-	-	-
Transfers to/(from) assets under construction	33,376	89,084	56,089	41,550	(220,099)	-
Balance at 30 June 2018	**166,770**	**1,703,788**	**1,154,117**	**774,032**	**201,736**	**4,000,443**
Accumulated depreciation						
Balance at 1 July 2017	**13,266**	**311,711**	**388,617**	**372,450**	**-**	**1,086,044**
Depreciation expense	1,562	46,805	62,582	62,492	-	173,441
Depreciation transfer between groups	-	120,768	(120,768)	-	-	-
Disposals	-	-	-	(178)	-	(178)
Balance at 30 June 2018	**14,828**	**479,284**	**330,431**	**434,764**	**-**	**1,259,307**
Net book value as at 30 June 2018	**151,944**	**1,224,505**	**823,685**	**339,268**	**201,736**	**2,741,137**

10. Investment property

	Consolidated 2019 $'000	2018 $'000
Balance at beginning of the year	**1,493,862**	**1,431,559**
Additions for the year	18,637	13,754
Transfer (to)/from property, plant and equipment	(240,000)	-
Net gain from fair value adjustments for the year	143,837	48,549
Balance at end of the year	**1,416,336**	**1,493,862**

Each investment property is valued independently (externally) in June each year as part of the annual valuation process. The valuation process requires that the independent valuer (who are approved by the Board of Directors) be appropriately qualified. For the current financial year, CBRE have conducted the valuation.

To determine fair value, the independent valuation has used the midpoint of the capitalisation of net income approach and discounted cash flow (DCF) analysis, as well as the direct comparison approach for vacant land. The valuation employs the residual value method when valuing development properties.

Valuation method	Description
Capitalisation of net income	The fully leased net income for each precinct has been discounted on a leasehold basis (present value of the net income for the remaining term) from the valuation date at an appropriate capitalisation rate which reflects the nature, location, land value content condition and tenancy profile of each property when compared with current market investment criteria. The valuation does not capitalise into perpetuity as the asset is not freehold. Various adjustments are then made to the calculated result, including estimated future incentives, capital expenditure, vacancy allowances and reversions to market rent.
Discounted cash flow	The discounted cash flow analysis allows the assessment of the long term return that is likely to be be derived from a property with a combination of both rental and capital growth over an assumed investment horizon. A wide range of assumptions are made including a target internal rate of return, rental growth, occupancy, sale price of the property at the end of the investment horizon, potential capital expenditure and costs associated with its disposal at the end of the investment period. The cash flow analysis comprises annual income streams.
Direct comparison approach	This approach has been completed for the vacant land allotments. The most appropriate form of assessment is considered to be the dollar per square metre ($psm) of site area basis.

Key inputs and sensitivities

The Group has classified fair value measurements (such as those performed on investment properties) into the following hierarchy as required by AASB 13 Fair Value Measurement:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Inputs to investment property valuations are considered Level 3 of the fair value hierarchy as the capitalisation of income and DCF methods require assumptions to be made to determine certain inputs that are not based on observable market data. At reporting date, the key unobservable inputs used by the Group in determining fair value of its investment properties are summarised below:

Notes to the Financial Statements

10. Investment property *continued*

- A capitalisation rate ranging from 5.50% to 7.75%;
- A discount rate ranging from 7.25% to 8.00%;
- A terminal yield ranging from 6.00% to 8.5%;
- Market rental growth between 2.91% to 3.04%.

The higher the capitalisation rate, discount rate and terminal yield, the lower the fair value. The higher the rental growth, the higher the fair value. All of the above assumptions have been taken from the latest external valuation report. The Group provided investment property (along with land and buildings in Note 9) as security for loans as disclosed in Notes 15 and 17.

Terminal 1

The Group completed the purchase of leasehold improvements related to Terminal 1 on 26 June 2019. The Group has commenced operating the Terminal under a Terminal Operational License and as such is no longer classified as investment property. The fair value at the date of transfer has been included in property, plan and equipment and will depreciate over the useful life of the assets.

11. Lease arrangements

Some properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of properties are as follows:

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Within one year	247,169	241,664
Later than one year but not later than 5 years	768,746	801,351
Later than 5 years	925,594	889,495
	1,941,509	**1,932,510**

12. Intangible assets

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Goodwill (i)	671,866	671,866
Masterplan (ii)	3,563	3,119
	675,429	**674,985**

(i) Goodwill

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Melbourne Airport	667,700	667,700
Launceston Airport	4,166	4,166
	671,866	**671,866**

12. Intangible assets *continued*

(i) Goodwill *continued*

The recoverable amount of the cash generating units is determined by a 'fair value less cost to sell' calculation using a discounted cash flow analysis. The fair value measurement of the cash generating unit is categorised as Level 3 based on the fair value hierarchy.

The methodology adopted to value the Melbourne and Launceston Airports is a discounted cash flow based on the forecast dividends to equity holders (including franking credits) at a cost of equity. The valuation derived from this discounted cash flow analysis has been cross checked to a valuation based on the capitalised earnings approach by calculating the implied multiples of the valuation and comparing these with those of comparable companies and transactions to ensure the valuation is providing a reliable measure.

The cash flows used in the discounted cash flow analysis were projected based on management's 20 year financial model. Cash flows are driven by aeronautical, retail and property revenues which are heavily dependent on passenger numbers and pricing which is determined based on known contracted terms and forecast inflation. Growth in passenger numbers over the forecast period is based on internal forecast and information provided by an independent firm.

Dividends are expected to be fully franked and payout ratios are based on a range of factors including the achievement of credit metrics. Terminal value was calculated for the period beyond the 20 year forecast based on a sustainable level of forecast distributions and a capitalisation amount based on a constant terminal growth rate of 2.5%.

Post-tax cash flows are discounted to their present value using a post-tax discount rate of 9.75%. The discount rate used reflects current market assessment of the time value of money and the risks specific to the CGU.

Under the Airports Act 1996, Melbourne Airport is required every 5 years to prepare a Master Plan to guide the development of airport for the next 20 years. The costs associated with the Masterplan are recognised as an intangible asset amortised over the 5 year period.

(ii) Masterplan

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Gross carrying amount – at cost		
Opening balance	6,025	5,250
Additions	794	775
Closing balance	**6,819**	**6,025**
Accumulated amortisation		
Opening balance	(2,906)	(2,391)
Amortisation expense	(350)	(515)
Closing balance	**(3,256)**	**(2,906)**
Net book value	**3,563**	**3,119**
Represented by:		
Launceston – FY15 to FY20 Masterplan	85	139
Melbourne – FY18 to FY23 Masterplan	3,478	2,980
	3,563	**3,119**

13. Financial assets

	Consolidated	
	2019	2018
	$'000	$'000
Current		
Interest rate swaps	-	82
Total Current	**-**	**82**
Non-Current		
Cross currency interest rate swaps	446,112	336,238
Total Non-Current	**446,112**	**336,238**

14. Current payables

	Consolidated	
	2019	2018
	$'000	$'000
Trade and other payables (i)	113,215	69,991
GST payable	-	2,902
	113,215	**72,893**
Interest payable to:		
- Secured debt – bank (ii)	35,552	35,723
- Launceston City Council	355	330
	35,907	**36,053**
	149,122	**108,946**

(i) The average credit period for purchases and services is 30 days. No interest is charged on trade payables.

(ii) Secured by a fixed and floating charge over the company's assets. There have been no defaults on loans payable during the current or prior years.

15. Current borrowings

	Consolidated	
	2019	2018
	$'000	$'000
Secured:		
Senior - bank debt (i)	46,300	-
Domestic bonds (i)	-	-
Fixed rate notes (5.0% 4 June 2020)	225,000	-
Deferred borrowing costs	(320)	-
Total Current	**270,980**	**-**
Financing facilities:		
Unsecured bank overdraft facility reviewed annually:		
- Amount used	-	-
- Amount unused	21,395	20,804

15. Current borrowings *continued*

	Consolidated 2019 $'000	Consolidated 2018 $'000
Bank Debt (ii)		
- Amount used	46,300	-
- Amount unused	18,700	-

(i) Secured by a fixed and floating charge over the Company's assets

(ii) Refer to note 31 Subsequent Events

16. Financial liabilities

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current		
Interest rate swaps	-	-
Forward interest rate hedge instruments	26,552	1,073
Finance Lease (i)	1,287	1,041
Total Current	**27,839**	**2,114**
Non-Current		
Interest rate swaps	68,845	42,754
Cross currency interest rate swaps	23,013	7,539
Forward interest rate hedge instruments	39,823	5,539
Finance Lease (i)	5,661	6,818
Total Non-Current	**137,342**	**62,650**

(i) Commitments for finance lease

	Consolidated 2019 $'000	Consolidated 2018 $'000
Lease Commitments		
Within one year	1,287	1,287
Later than one year but not later than five years	5,150	5,150
More than five years	10,300	11,587
Total	**16,737**	**18,024**
Lease Commitments Present Value		
Within one year	936	1,041
Later than one year but not later than five years	2,890	3,214
More than five years	3,123	3,604
Total	**6,949**	**7,859**

The above table relates to expenditure commitments under finance leases

17. Non-current borrowings

	Consolidated	
	2019	2018
	$’000	$’000
Secured:		
– Term Bank Loans (i)	100,000	-
– Revolving bank debt (i)	600,000	254,500
– Domestic Bonds (i)		
Fixed rate notes (5.0% 4 June 2020)	-	225,000
Fixed rate notes (4.0% 15 September 2022)	250,000	250,000
Fixed rate notes (4.55% 11 November 2025)	120,000	120,000
Fixed rate notes (3.75% 4 November 2026)	200,000	200,000
– US Private Placements (i)		
Fixed rate notes US $200m (7.8% 15 September 2021) (ii)	284,880	270,106
Fixed rate notes US $200m (7.7% 15 September 2023) (ii)	284,880	270,106
Fixed rate notes US $200m (7.6% 15 September 2026) (ii)	284,880	270,106
Fixed rate notes (5.95% 15 January 2028)	50,000	50,000
Fixed rate notes (5.875% 15 November 2022) (iii)	125,000	125,000
– European bonds (i)		
Variable rate notes (26 September 2023) (iv)	890,760	819,917
Fixed rate notes (5.05% 15 October 2024) (v)	566,848	521,765
Fixed rate notes (4.18% 27 September 2030) (vi)	250,398	327,280
	4,007,646	**3,703,780**
Financial Liabilities valued at Fair Value through profit and loss (vii)	53,023	47,313
	4,060,669	**3,751,093**
Deferred borrowing costs	(26,587)	(23,405)
	4,034,082	**3,727,687**
Amortisation of borrowing costs, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Amortisation of deferred borrowing costs	4,807	4,528

(i) Secured by a fixed and floating charge over the entity’s assets
(ii) Excludes cross currency swaps that convert the US private placement notes US $600m into AUD
(iii) Converted from floating to fixed rate note per agreement on 15 November 2012
(iv) Excludes cross currency swaps that converts the Euro note €550m into AUD
(v) Excludes cross currency swaps that converts the Euro note €350m into AUD
(vi) Excludes cross currency swaps that converts Norwegian Krone note Kr1.5bn into AUD
(vii) Refer to Note 27 (q) Fair value hedges for more information

17. Non-current borrowings *continued*

	Consolidated 2019 $'000	2018 $'000
Financing facilities:		
Term Bank loans (i)	100,000	-
Amount used	400,000	-
Amount unused		
Revolving Bank Debt (i)		
Amount used	600,000	254,500
Amount unused	450,000	810,500
(i) Secured by a fixed and floating charge over the Entity's assets		
Reconciliation of Current and Non-Current Borrowings at Face Value:		
Current borrowings at Face Value *Refer to Note 15*	271,300	-
Non-current borrowings at Face Value	3,551,204	3,330,704
Total borrowings at Face Value	**3,822,504**	**3,330,704**
Exchange rate fluctuation	456,442	373,076
Total borrowings at Fair Value at spot rates	**4,278,946**	**3,703,780**

(i) Secured by a fixed and floating charge over the entity's assets

Net debt reconciliation:	**2018**	**Cash flows**	**Non-cash changes**			**2019**
			Acquisition / refinance / reclassification	**FX movement**	**Fair value changes**	
Long-term borrowings	3,703,780	491,800	(271,300)	83,366	-	4,007,646
Short-term borrowings	-	-	271,300	-	-	271,300
Finance Lease liabilities	7,859	(1,287)	377	-	-	6,949
Assets held to hedge long-term borrowings	(279,416)	-	-	-	(8,465)	(287,881)
Total liabilities from financing activities	**3,432,223**	**490,513**	**377**	**83,366**	**(8,465)**	**3,998,014**

18. Non-current payables

	Consolidated 2019 $'000	2018 $'000
Undistributed capital note liability	**1,202**	**1,202**

Capital notes are entitled to 1/9th of net profit of APAL with distribution equal to 1/9th of declared dividends. Capital notes are redeemable at the end of the Launceston Airport lease.

19. Capitalised interest charges

	Consolidated	
	2019	2018
	$'000	$'000
Property, plant and equipment	7,506	4,327
Investment property	422	182
	7,928	**4,509**

20. Issued capital

	Consolidated	
	2019	2018
	$'000	$'000
118,100,000 Ordinary Shares – fully paid (2018: 118,100,000)	**118,100**	**118,100**

Fully paid ordinary shares carry one vote per share and carry the right to dividends

21. Hedging reserve

	Consolidated	
	2019	2018
	$'000	$'000
Balance at beginning of the year	(100,745)	(65,782)
Gain/(loss) recognised:		
- Fair value adjustment	(80,292)	(48,207)
- Deferred tax arising on cashflow hedges	24,088	14,462
- Transfer from hedge reserve to profit and loss	(414)	(1,739)
- Deferred tax arising from adjustment	124	521
	(56,494)	**(34,965)**
Balance at end of the year	**(157,239)**	**(100,745)**

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss at expiry or termination of the hedged transaction.

22. Retained earnings

	Consolidated	
	2019	2018
	$'000	$'000
Balance at beginning of the year	**1,054,613**	**984,739**
Profit for the year	390,442	314,855
Dividends paid	(284,847)	(244,981)
Balance at end of the year	**1,160,207**	**1,054,613**

23. Commitments for expenditure

	Consolidated	
	2019	2018
	$'000	$'000
Not longer than 1 year	203,513	82,940
Longer than 1 year but not longer than 5 years	115,015	30
Total property, plant and equipment commitments	**318,528**	**82,970**

24. Subsidiaries

		Ownership interest	
Name of entity	**Country of incorporation**	**2019 %**	**2018 %**
Parent entity			
Australia Pacific Airports Corporation Limited	Australia		
Subsidiaries			
APAC (Holdings No. 2) Pty. Limited	Australia	100	100
- Australia Pacific Airports (Melbourne) Pty Limited	Australia	100	100
- Australia Pacific Airports (Property) Pty Limited (i) (ii)	Australia	100	100
- APAC (Holdings) Pty Limited (i)	Australia	100	100
- Australia Pacific Airports (Launceston) Pty Limited (i)	Australia	100	100

(i) These subsidiaries are classified as small proprietary companies and in accordance with the Corporations Act 2001 are relieved from the requirement to prepare, audit and lodge financial statements

(ii) This subsidiary was dormant during the financial year

25. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 24 to the financial statements.

(b) Key management personnel compensation

The aggregate compensation of the key management personnel of the Consolidated Entity is set out below:

The key management personnel during the year were, L Strambi, G Devonport, D Hall, S Gandy, L Argus, A Gardiner, L Evans and L Horton.

	Consolidated	
	2019	2018
	$'000	$'000
Short-term employee benefits	5,379,419	4,317,692
Long-term incentives	1,627,620	1,293,750
	7,007,039	**5,611,442**
Former Executives		
Short-term employee benefits	1,499,408	1,197,817
Long-term incentives	352,000	130,325
Termination benefits	477,735	-
	2,329,143	**1,328,142**

25. Related party disclosures *continued*

(c) Transactions within the wholly-owned group

Australia Pacific Airports Corporation Limited (APAC) is the ultimate parent entity of the wholly owned group, and the parent entity of the tax consolidated group.

In accordance with tax sharing arrangements (refer to Note 3) tax payments have been received or accrued to reflect the wholly owned Controlled Entity's share of the tax expense of the tax consolidated group.

(d) Executory contracts

During FY2019, AMP Capital Investors Ltd have been engaged to provide Debt Advisory services to APAM to the value of $1,000,000. $500,000 has been incurred as at 30 June 2019 and is included within Trade and other payables. The Further $500,000 is at Management and Board discretion. AMP Capital Investors Ltd, being a shareholder, are considered to be a related party.

26. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Cash and cash equivalents	**26,038**	**19,290**

(b) Reconciliation of profit after related income tax to net cash flows from operating activities:

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Profit for the year	**390,442**	**314,855**
Net profit on sale of non-current assets	(114)	(50)
Gain on investment property	(143,837)	(48,549)
Impairment of property, plant and equipment	419	5,502
Amortisation of deferred borrowing costs	4,807	4,528
Hedge reserve unwind	(414)	(1,739)
Depreciation and amortisation of non-current assets	182,708	173,956
Deferred tax liabilities	42,845	20,572
Receivables	(3,785)	(47,106)
Other current assets	64	989
Other non-current assets	1,765	1,998
Accrued revenue	(35,164)	(30,706)
Payables	12,294	(7,328)
Interest payable	444	651
Tax payable	(715)	(3,696)
Employee benefits provision	2,599	992
Unearned income	8,226	317
Net cash provided by operating activities	**462,582**	**385,186**

27. Financial instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt while maintaining a strong investment grade credit rating.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 15 and 17, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings as disclosed in Notes 20, 21 and 22 respectively. In addition, the Group has implemented risk management strategies to mitigate against adverse increases to interest rates on future borrowings.

During the financial year the Group has complied with all imposed capital requirements including bank covenants.

(b) Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Categories of financial instruments

				Consolidated	
	At amortised cost	At fair value through P&L	At fair value through OCI	2019 $'000 Total	2018 $'000 Total
Financial Assets					
Cash and cash equivalents	26,038	-	-	26,038	19,290
Loans and receivables:					
Trade receivables	107,493	-	-	107,493	131,321
GST receivable	28,290	-	-	28,290	-
Tax receivable	-	-	-	-	-
Non-current cross currency interest rate swaps	-	52,491	393,621	446,112	336,238
Current interest rate swaps	-	-	-	-	82
Non-current interest rate swaps	-	-	-	-	-
Current forward interest rate hedge instruments	-	-	-	-	-
Non-current forward interest hedge instruments	-	-	-	-	-
	161,820	**52,491**	**393,621**	**607,933**	**486,931**
Financial Liabilities					
Trade payables	113,215	-	-	113,215	69,991
GST payable	-	-	-	-	2,902
Tax payable	-	-	-	-	-
Interest payable	35,907	-	-	35,907	36,053
Current interest rate swaps	-	-	-	-	-
Borrowings	4,252,038	53,023	-	4,305,061	3,727,687
Non-current payables	1,202	-	-	1,202	1,202
Non-current interest rate swaps	-	-	68,845	68,845	42,754
Non-current cross currency interest rate swaps	-	-	23,013	23,013	7,539
Current forward interest rate hedge instruments	-	-	26,552	26,552	1,073
Non-current forward interest hedge instruments	-	-	39,823	39,823	5,539
Finance leases	6,949	-	-	6,949	7,859
	4,409,312	**53,023**	**158,233**	**4,620,567**	**3,902,599**

27. Financial instruments *continued*

(d) Financial risk management objectives

The Group's corporate treasury function is to provide financing, investing and financial risk management services to the business. The strategic objectives are to manage all material financial risks related to APAM's treasury activities including funding, liquidity, interest rate, foreign exchange, counterparty credit, operational and compliance risks. Corporate Treasury will also provide support to the Company by ensuring financial metrics are maintained at levels that support a strong and stable standalone investment grade corporate credit rating from at least one internationally recognised Ratings Agency.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

The Group's exposures to interest rates on the financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

(e) Interest rate risk management

The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to interest rates, including interest rate swaps, swaptions and cross currency hedges to mitigate the risk of rising interest rates.

The Consolidated Entity does not enter into or trade derivative financial instruments for speculative purposes.

The Consolidated Entity's exposures to interest rates on the financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

(f) Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- Net profit would increase/decrease by $1,836,000 (2018: increase/decrease by $845,000). This is due to interest rates on its variable rate borrowings.
- Other equity reserves would increase/decrease by $15,469,000 (2018: increase/decrease $8,616,000) mainly as a result of the changes in fair value through other comprehensive income (FVOCI) for fixed rate instruments.

The Consolidated Entity has no material interest revenue.

(g) Cross currency sensitivity

Foreign currency exposures are predominantly hedged through a combination of fair value and cash flow hedges. The impact of foreign currency movements to the profit or loss and cash flow reserve, and sensitivity to such movements, is therefore not significant. At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's other equity reserves would increase/decrease by $16,655,000 (2018: increase/decrease $20,580,000) mainly as a result of the changes in fair value in fair value through other comprehensive income (FVOCI) for fixed rate instruments.

(h) Interest rate swap contracts

Under interest rate derivative contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of rising interest rates.

27. Financial instruments *continued*

(h) Interest rate swap contracts continued

The following table details the notional amounts and remaining terms of interest rate derivative contracts outstanding as at the reporting date.

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value of interest rate derivatives	
	2019	2018	2019	2018	2019	2018
	%	%	$'000	$'000	$'000	$'000
Consolidated						
Less than 1 year	-	3.7	-	100,000	-	82
1 to 2 years	-	-	-	-	-	-
2 to 5 years	4.2	-	729,000	-	(68,845)	-
5 years +	3.5	4.3	659,000	1,218,000	(66,374)	(49,366)
			1,388,000	1,318,000	(135,219)	(49,284)

The fair value of these contracts as at 30 June 2019 is disclosed in Notes 13 and 16.

(i) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

(j) Foreign currency exchange contracts

The Group enters cross currency interest rate swaps. The swaps have been allocated against the underlying cross currency exposure and to this extent modify the cross currency risk of the underlying debt. The cross currency interest rate swaps are initially recognised at fair value on the date a contract is entered into, and are subsequently remeasured to their fair value at each reporting date.

Outstanding Contracts	Average	Foreign	Notional Principal	Fair Value of Cross currency interest rate
Consolidated 2019		FC'000	$'000	$'000
USD 5 years+	0.7021	600,000	573,230	224,739
EUR 5 years+	0.6175	900,000	1,289,979	221,372
NOK 5 years+	5.9905	1,500,000	242,994	(23,013)
			2,106,203	423,098

Outstanding Contracts	Average	Foreign	Notional Principal	Fair Value of Cross currency interest rate
Consolidated 2018		FC'000	$'000	$'000
USD 5 years+	0.7405	600,000	573,230	156,291
EUR 5 years+	0.6337	900,000	1,289,979	179,947
NOK 5 years+	6.0306	1,500,000	242,994	(7,539)
			2,106,203	328,699

Notes to the Financial Statements

27. Financial instruments *continued*

(k) Liquidity risk

The following table details the Consolidated Entity's exposure to liquidity risk as at 30 June 2019.

2019	Weighted average effective interest rate %	1-3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Financial Assets						
Current receivables	-	102,909	3,907	-	-	106,816
Cash at bank	-	26,038	-	-	-	26,038
Cross currency interest rate swaps	-	-	-	345,917	100,195	446,112
Total		**128,947**	**3,907**	**345,917**	**100,195**	**578,967**
Financial Liabilities						
Current trade payables	-	113,215	-	-	-	113,215
Interest payable	-	35,907	-	-	-	35,907
Term Bank loans	2.74	-	-	-	100,000	100,000
Revolving Bank loans	2.70	-	46,300	600,000	-	646,300
Domestic bonds:						
– Fixed rate notes (4 June 2020)	5.00	-	225,000	-	-	225,000
– Fixed rate notes (15 September 2022)	4.00	-	-	250,000	-	250,000
– Fixed rate notes (11 November 2025)	4.55	-	-	-	120,000	120,000
– Fixed rate notes (4 November 2026)	3.75	-	-	-	200,000	200,000
US Private Placement:						
US $200m Due 15 Sep 2021 – fixed (i)	7.81	-	-	284,880	-	284,880
US $200m Due 15 Sep 2023 – fixed (i)	7.67	-	-	284,880	-	284,880
US $200m Due 15 Sep 2026 – fixed (i)	7.63	-	-	-	284,880	284,880
Fixed rate (15 January 2028)	5.95	-	-	-	50,000	50,000
Fixed rate (15 November 2022)	5.88	-	-	125,000	-	125,000
European Bonds:						
Variable rate notes (26 Sep 2023) (ii)	5.12	-	-	890,760	-	890,760
Fixed rate (15 October 2024) (iii)	5.05	-	-	-	566,848	566,848
Fixed rate notes (27 September 2030) (iv)	4.18	-	-	-	250,398	250,398
Cross currency interest rate swaps	-	-	-	-	23,013	23,013
Interest rate swaps	-	-	-	68,845	-	68,845
Forward interest rate hedge instruments	-	-	-	-	66,374	66,374
Finance lease		234	702	2,890	3,123	6,949
	5.31	**149,356**	**272,002**	**2,507,255**	**1,664,636**	**4,593,249**

(i) Excludes cross currency swaps that convert the US private placement notes of US $600m into AUD $
(ii) Excludes cross currency swaps that convert Euro Note €550m into AUD
(iii) Excludes cross currency swaps that convert Euro Note €350m into AUD
(iv) Excludes cross currency swaps that converts Norwegian Krone note Kr1.5bn into AUD.

27. Financial instruments *continued*

(k) Liquidity risk *continued*

The following table details the Consolidated Entity's exposure to liquidity risk as at 30 June 2018.

2018	Weighted average effective interest rate %	1-3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Financial Assets						
Current receivables	-	98,193	33,128	-	-	131,321
Cash and cash equivalents	-	19,290	-	-	-	19,290
Cross currency interest rate swaps	-	-	-	59,797	276,441	336,238
Interest rate swaps	-	82	-	-	-	82
Total		**117,565**	**33,128**	**59,797**	**276,441**	**486,931**
Financial Liabilities						
Current trade payables	-	69,991	-	-	-	69,991
Interest payable	-	36,053	-	-	-	36,053
Bank loans	2.60	-	-	254,500	-	254,500
Domestic bonds:						
– Fixed rate notes (4 June 2020)	5.00	-	-	225,000	-	225,000
– Fixed rate notes (15 September 2022)	4.00	-	-	250,000	-	250,000
– Fixed rate notes (11 November 2025)	4.55	-	-	-	120,000	120,000
– Fixed rate notes (4 November 2026)	3.75	-	-	-	200,000	200,000
US Private Placement:						
US $200m Due 15 Sep 2021 – fixed (i)	7.81	-	-	270,106	-	270,106
US $200m Due 15 Sep 2023 – fixed (i)	7.67	-	-	-	270,106	270,106
US $200m Due 15 Sep 2026 – fixed (i)	7.63	-	-	-	270,106	270,106
Fixed rate (15 January 2028) (iii)	5.95	-	-	-	50,000	50,000
Fixed rate (15 November 2022)	5.88	-	-	-	125,000	125,000
European Bonds:						
Variable rate notes (26 September 2023) (ii)	5.01	-	-	-	867,919	867,919
Fixed rate (15 October 2024) (iii)	5.05	-	-	-	552,312	552,312
Fixed rate notes (27 September 2030) (iv)	4.18	-	-	-	248,732	248,732
Cross currency interest rate swaps	-	-	-	-	7,539	7,539
Interest rate swaps	-	-	-	42,754	-	42,754
Forward interest rate hedge instruments	-	1,073	-	5,539	-	6,612
Finance lease	-	260	781	3,214	3,734	7,989
Total	**5.31**	**107,377**	**781**	**1,051,113**	**2,715,448**	**3,874,719**

(i) Excludes cross currency swaps that convert the US private placement notes of US $600m into AUD
(ii) Excludes cross currency swaps that convert Euro Note €550m into AUD
(iii) Excludes cross currency swaps that convert Euro Note €350m into AUD
(iv) Excludes cross currency swaps that converts Norwegian Krone note Kr1.5bn into AUD

27. Financial instruments *continued*

(l) Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group measures credit risk on a fair value basis.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security.

(m) Fair value

Except as detailed below, the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

The fair value of all financial instruments is derived from quoted market interest rates which are subsequently incorporated within generally applied discounted cash flow models. The amounts carried on the Statement of Financial Position approximate the fair value with the following exceptions:

Financial liabilities	**Carrying amount**		**Net fair value**	
	2019	**2018**	**2019**	**2018**
	$,000	**$,000**	**$,000**	**$,000**
Borrowings - other entities	1,202	1,202	10,967	10,600

All of the Group's financial instruments measured, recognised and disclosed at fair value were valued using market observable inputs (Level 2), as defined in note 1(t). There were no transfers between levels during the year and there has been no change in valuation techniques applied.

(n) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(o) Hedge accounting

Hedging refers to the way in which the Group uses derivative financial instruments, to manage its exposure to financial risks as described below under "Types of hedging instruments". The gain or loss on the underlying instrument ("hedged item") is expected to move in the opposite direction to the gain or loss on the derivative ("hedging instrument"), therefore offsetting the Group's risk position. Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in Profit or Loss.

The Group's major exposure to interest rate risk and foreign currency risk arises from its long-term borrowings.

(p) Cross-currency, interest rate swaps and option contracts

The Group is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out above, the Group holds the following types of derivative instruments:

Interest rate swap and option contracts: the Group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.

Cross-currency swap contracts: the Group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Group to mitigate the risk of adverse movements in foreign exchange rates.

27. Financial instruments *continued*

(p) Cross-currency, interest rate swaps and option contracts continued

The Group enters into the above derivative instruments to offset the risks arising from its long-term borrowings. To the extent permitted by AASB 9, the Group formally designates and documents these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

– an economic relationship exists between the hedged item and hedging instrument;

– the effect of credit risk does not dominate the value changes resulting from the economic relationship;

– the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

As a result of borrowing in foreign currency, the Group is exposed to foreign exchange and foreign interest rate risk. Cross-currency swaps are used to hedge both the foreign exchange risk and foreign interest rate risk over the full term of the foreign currency borrowing. The swaps are designated as cash flow hedges of foreign currency/AUD forward foreign exchange risk of the foreign currency borrowing, fair value hedge of the foreign currency benchmark interest rate risk of the foreign currency benchmark component and cash flow hedge of foreign currency/AUD spot foreign exchange risk of the foreign currency borrowing principal.

(q) Fair value hedges

The objective of the Group's fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

The Group enters into cross-currency swaps to mitigate its exposure to changes in the fair value of long-term offshore borrowings. Changes in the fair value of the hedging instrument, and changes in the fair value of the hedging instrument, and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in Profit or Loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument. AASB 9 allows a component of the Group's borrowing margin associated with cross-currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in the Profit or Loss over the remaining maturity of the borrowing.

The Consolidated Entities fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below. This relates solely to the issue of cross currency swaps over the European bonds (26 September 2023) as it is the only instrument with a fair value hedge.

Fixed rate instruments	2019 $'000	2018 $'000
Face value	784,929	784,929
FX adjustments	105,831	82,989
Cumulative fair value hedge adjustments	53,023	47,313
Carrying amount	**943,783**	**915,231**

27. Financial instruments *continued*

(r) Cash flow hedges

The objective of the Group's cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency.

All of the Group's cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to the Group's cash flow hedges.

Balance Sheet	**Notional Amount of the Hedging Instrument $'000**	**Carrying Amount of the Hedging Instrument**		**Line item of the Statement of Financial Position where the hedging instrument is located**
		Assets $'000	**Liabilities $'000**	
2019				
Cross-currency swaps				
Fair value hedge	460,929	52,491	-	Financial assets
Cash flow hedge	2,106,204	393,621	23,013	Financial assets / Financial liabilities
Interest rate swaps	729,000	-	68,845	Financial liabilities
Forward interest rate hedge	659,000	-	66,374	Financial liabilities
2018				
Cross-currency swaps				
Fair value hedge	460,929	46,367	-	Financial assets
Cash flow hedge	2,106,204	289,871	7,539	Financial assets / Financial liabilities
Interest rate swaps	784,929	82	42,754	Financial assets / Financial liabilities
Forward interest rate hedge	894,000	-	6,612	Financial liabilities

Income Statement	**Cumulative changes in value of hedging instrument used for calculating hedge ineffectiveness**	**Cumulative changes in value of hedging item used for calculating hedge ineffectiveness**	**Cash flow hedge reserve at 30 June 2019**	**Hedge ineffectiveness recognised in Income Statement**
	Gain/(loss)	**Gain/(loss)**	**Gain/(loss)**	**Gain/(loss)**
2019				
Cash flow hedges				
Interest rate and foreign exchange rate risk on cross currency swaps	370,608	377,636	(85,841)	-
Interest rate risk on floating rate borrowings	135,219	136,676	49,284	-
Income Statement			**Ineffectiveness recognised in Income Statement Gain/(loss)**	**Line item of the Income Statement that includes hedge ineffectiveness**
Fair value hedges				
Interest rate risk			531	Borrowing costs

27. Financial instruments *continued*

r) Cash flow hedges continued

Income Statement	Cumulative changes in value of hedging instrument used for calculating hedge ineffectiveness Gain/(loss)	Cumulative changes in value of hedging item used for calculating hedge ineffectiveness Gain/(loss)	Cash flow hedge reserve at 30 June 2018 Gain/(loss)	Hedge ineffectiveness recognised in Income Statement Gain/(loss)
2018				
Cash flow hedges				
Interest rate and foreign exchange rate risk on cross currency swaps	282,332	299,022	(90,744)	-
Interest rate risk on floating rate borrowings	49,284	50,261	49,284	-

Income Statement	Ineffectiveness recognised in Income Statement Gain/(loss)	Line item of the Income Statement that includes hedge ineffectiveness
Fair value hedges		
Interest rate risk	945	Borrowing costs

The following table details the expected transfer of the cash flow hedge reserve to the profit and loss:

Current Hedges	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Transfer to borrowing costs in profit and loss	28,086	28,086	74,293	24,274	154,739

The expected transfer is based on Mark-to-Market as at 30 June 2019, and represents expected transfer to Profit and Loss in the form of borrowing costs as cashflows of associated derivatives are being paid.

28. Dividends

	Consolidated 2019 $'000	2018 $'000
Fully franked dividends paid during the financial year (refer to Director's Report for details)		
(2019: $2.41 per share, 2018: $2.07 per share)	284,847	244,981
Franking account	40,598	30,207

29. Company disclosures

	Consolidated	
	2019	2018
	$'000	$'000
(a) Financial position:		
Assets:		
Current assets	19,955	19,396
Non-current assets	128,032	127,995
Total assets	**147,987**	**147,390**
Liabilities:		
Current liabilities	7	-
Non-Current liabilities	-	-
Total liabilities	**7**	**-**
Net assets	**147,980**	**147,390**
Equity:		
Issued capital	118,100	118,100
Retained earnings	29,880	29,290
Total equity	**147,980**	**147,390**
(b) Financial performance		
Loss for the year	285,328	244,912
Other comprehensive income	-	-
Total other comprehensive income	**285,328**	**244,912**
(c) Non balance sheet commitments:		
Guarantees of debt	-	-
Contingent liabilities	-	-
Commitments for the acquisition of property, plant and equipment by the parent company	-	-

30. Contingent liabilities

In the ordinary course of business the group receives legal claims, the Directors do not consider there to be any other matters to disclose.

31. Subsequent events

The Directors determined a final dividend for the year ending 30 June 2019 of $277,489,000 ($2.35 per share) to be paid 26 September 2019.

On 10 July 2019, Australia Pacific Airports (Launceston) Pty Ltd extended the Senior bank debt facility (AUD$65 million) to 31 July 2020.

On 11 July 2019, Australia Pacific Airports (Melbourne) Pty Ltd issued an AUD$100 million Bilateral loan facility. AUD$90 million of the facility limit of AUD$100m was drawn on 31 July 2019.

32. Additional company information

Australia Pacific Airports Corporation Limited ACN 069 775 266 is an unlisted public company incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business

Level 2, Terminal 2,

Melbourne Airport VIC 3043

(03) 9297 1600

Website: www.melbourneairport.com.au

Email: reception@melair.com.au

29. Company disclosures

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	2019	2018
	$'000	$'000
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Contingent liabilities	-	-
Commitments for the acquisition of property, plant and equipment by the parent company	-	-

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