Australia Pacific Airports

APAC

ANNUAL REPORT 2016/17

Contents

Australia Pacific Airports Corporation
ABN 89 069 775 266

Our Company

Australia Pacific Airports Corporation

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

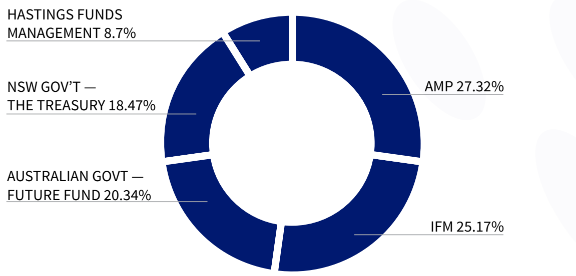
Australia Pacific Airports Corporation Limited (APAC) is a wholly Australian, privately held corporation owned by institutional investors, contributing to the retirement savings of thousands of Australians.

In July 1997, we acquired the lease for Melbourne Airport, 27 years after it first opened. Ten months on, in partnership with the Launceston City Council, we added Launceston Airport to our portfolio. Both Airports operate under a 50-year long-term lease from the Federal Government, with an option for a further 49 years. Today, we have more than 300 employees working across both sites.

Our vision for Melbourne Airport is to create an airport Melbourne can be proud of. As a vital piece of strategic infrastructure that benefits the national economy, we're committed to enabling tourism, freight and trade, as well as creating business and personal connections to the global marketplace.

For Launceston, we strive to be the port of choice and the tourism gateway to Tasmania. With Launceston Airport's strategic location, it has a unique opportunity to capture disproportionate air traffic growth for the state.

Investor Share



APAC is a privately held corporation owned, managed or represented by these five entities.

Our Values

Safety, security and the environment
We are dedicated to ensuring a safe, secure and environmentally responsible business that reacts immediately to all situations that compromise this value.

People and their development
We recognise people as our greatest strength and support individual and team growth by providing the right development opportunities.

Customer and commercially focused
We enrich relationships and maximise commercial opportunities through the realisation of stakeholder and customer expectations.

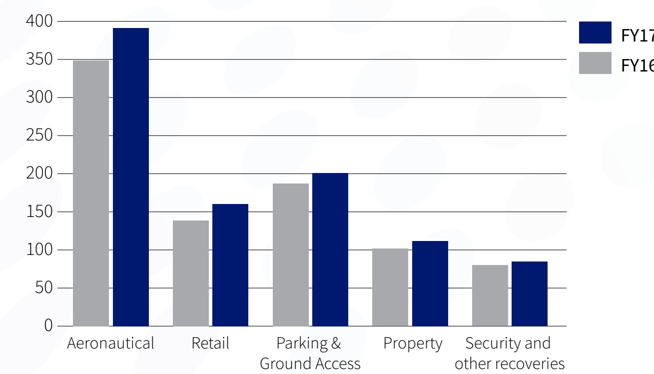
Excellence and accountability
We set clear goals and priorities and take responsibility to proudly deliver superior results.

Teamwork and respect
We work together towards common goals and respect the diverse skills and circumstances of individuals.

Ethics and integrity
We will improve our positive reputation and aim for the highest ethical standards through strong personal integrity.

Financial Highlights

Revenue



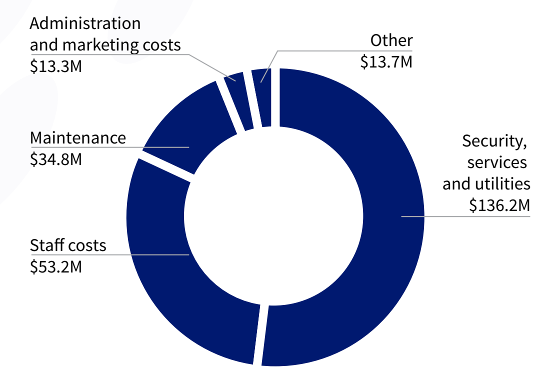
Strong revenue growth

10.8%

- 3.7% increase in total passengers to 36.5m
- 8.4% increase in international passengers to 9.9m
- 2.0% increase in domestic passengers to 26.6m[1]
  - Melbourne 25.2m
  - Launceston 1.3m

[1] Includes a rounding adustment of approximately 80,000 passengers.

Costs



Measured cost growth

5.1%

Normalised cost increase of 5.1% attributable to the costs to service the increased passenger traffic and full year of costs associated with the operations of Terminal 4 and the At Terminal T4 car park.

Capital spend $209.6m

- T2 luxury development
- Initiated 8th international baggage reclaim
- Commencement of T2 airside arrivals concourse refurbishment

Enhanced Cash flow from operations

41.9%

- Strong cash management
- 4.2% reduction in interest paid
- 5.2% reduction in payment to suppliers and employees

Summary financial data

$'m	FY17	FY16	% change	
Revenue	953.4	860.5	10.8%	▲
Operating expenditure (excl impairment loss)	(251.3)	(239.1)	5.1%	▲
Impairment loss	-	(14.1)	-	
Operating result	702.2	607.4	15.6%	▲
Change in fair value of investment property	51.6	98.7	(47.7%)	
Depreciation and amortisation	(158.4)	(149.0)	(6.3%)	
Borrowing costs	(168.5)	(175.5)	4.0%	
Profit before tax	426.8	381.6	11.8%	▲
Income tax expense	(129.3)	(113.9)	13.6%	
Net profit	297.5	267.7	11.1%	▲
Cash flow from operations	447.6	315.5	41.9%	▲
Credit rating	A-/ A3	A-/ A3	-	

Chairman's Report

APAC delivered a strong performance for the 2017 financial year returning $297.5 million in Profit after Tax and dividends paid to shareholders of $229 million. Our commitment to succeeding in partnership with our customers will see us continue to invest in our assets to capture future forecast growth.

2016/17 Annual Report

We are pleased to present our Annual Report for the 2016/17 financial year.

Over the past year our operations in Melbourne and Launceston continued to perform strongly. Total passenger movements for the group increased by 3.7 per cent, totalling more than 36.4 million passengers across our two airports.

Growth in Melbourne's international passengers reached 8.4 per cent for the year, with more than 9.9 million international travellers passing through T2.

Performance

APAC delivered a strong performance for the financial year ended 30 June 2017, with Profit after Tax of $297.5 million, up from $267.7 million in the financial year ended 30 June 2016. Our core Aviation business unit contributed 41 per cent of total revenue. This strong performance also reflects the value in our complementary business units of Parking & Ground Access, Property and Retail.

This year APAC will pay dividends of $229 million to shareholders. Our investors are responsible for managing the superannuation and pension funds for millions of Australians. These dividends are an important contribution to those retirement savings.

In addition to profits returned to shareholders, APAC's strong financial performance translated into a substantial contribution to government revenue. Our income tax expense for the financial year ended 30 June 2017 was $129.3 million.

Safety

In the year to 30 June 2017 our airports retained a 'zero fatality' record. APAC recorded four lost time injuries for the year, and zero medical treatment injuries.

It is vital to the successful operation of our assets that safety remains front of mind for all APAC management, staff and contractors. All airport employees and customers have the right to a safe airport experience.

This year, the Board was pleased to endorse a new Safety Strategy, guided by three key principles:

1. All employees, APAC and non-APAC, working at Melbourne and Launceston airports have the right to a healthy and safe working environment.
2. Well-designed, healthy and safe work environments will allow workers at Melbourne and Launceston airports to have more productive working lives.
3. All members of the public visiting or passing through Melbourne and Launceston airports have the right to a safe airport experience.

More details on the APAC Safety Strategy are included later in this report.

Sustainability

Sustainability is a key consideration for the carbon-intensive global aviation sector. As such, it is an area of ever-increasing importance in the management of our two airports. Our business is committed to ensuring a safe, secure and environmentally responsible operation. During the past financial year we commenced mapping and measuring Melbourne Airport's carbon footprint as part of the international Airport Carbon Accreditation program. This program is the only institutionally endorsed, carbon management certification program for airports.

Additional sustainability initiatives included development of our 2017 Biodiversity Conservation Management Plan and Fire Management Plan.

People

Our people are invaluable, helping our airline customers succeed in their businesses. Continuous improvement of our people not only ensures we retain the best talent in the market, but we deliver continual value for the many businesses that depend on our airports.

The 2017 Employee Survey showed significantly improved engagement with our people, noting increases in both participation rate and overall employee satisfaction.

These findings were supported with the launch of a new Learning and Development Framework, tying employee training and professional development activities more closely to our business objectives.

A review of our remuneration framework ensured better alignment of our remuneration with company-wide strategic drivers and incentives for high performers.

Board

This year we welcomed Lianne Buck (NSW Treasury Corporation) and James Fraser-Smith (Future Fund) to the Board. We continued to support the Board's activities through a governance structure comprising three Committees: Audit & Risk Management, Finance & Projects, and Remuneration.

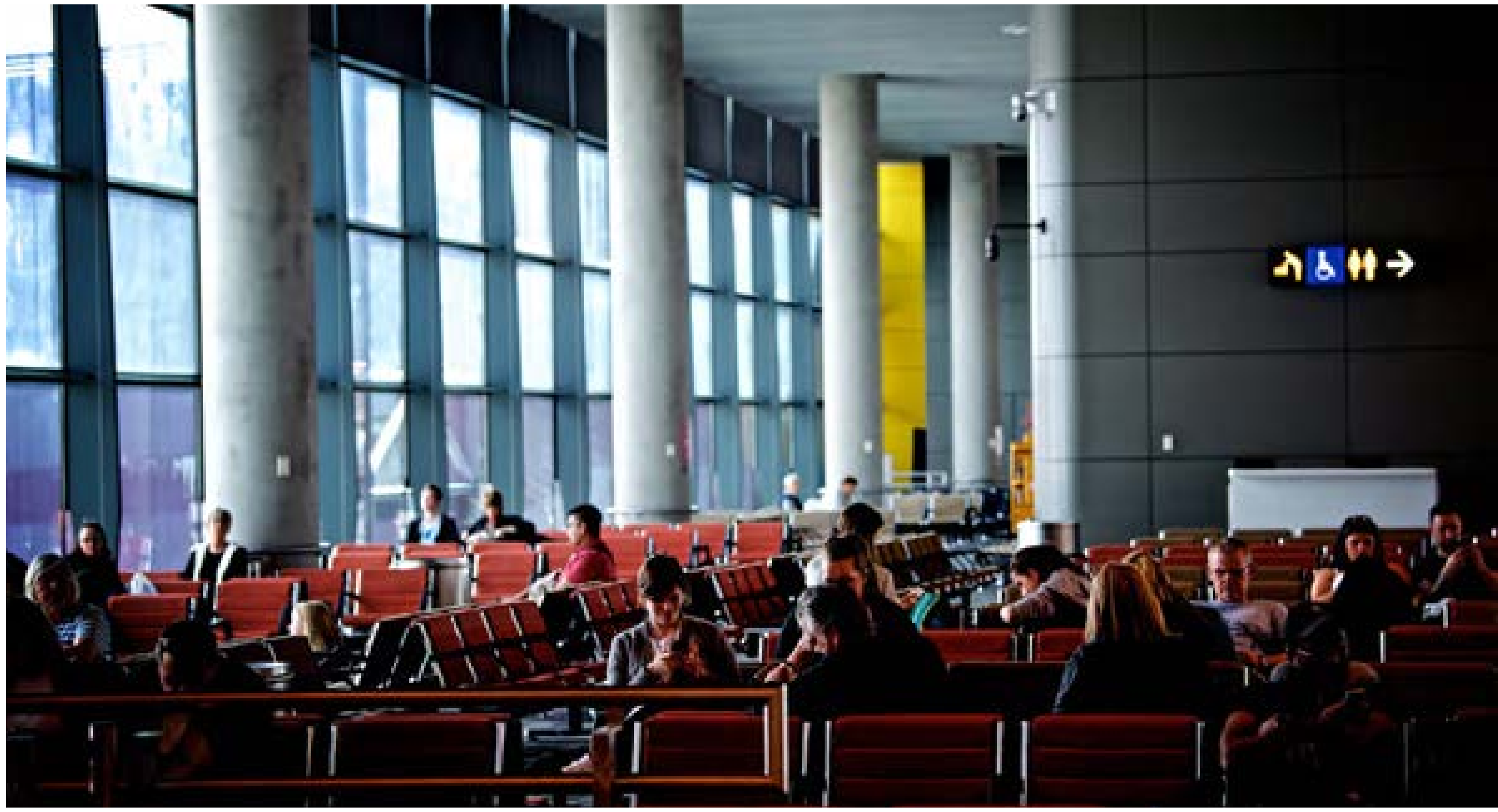
As detailed later in this report, each of these Committees met regularly to consider and make recommendations to the Board in their specific areas of focus.

Outlook

It is a fact of airport operations that the success of our business is intrinsically linked to that of our customers. Melbourne and Launceston airports are strategic assets that connect their respective communities to a world of tourism, freight and trade. Growth in passenger numbers across both markets is forecast to continue and our business is well-placed to capture that growth through continued investment in the capacity, amenity and scope of our assets.

On behalf of the Board I thank the Chief Executive Officer of APAC, Lyell Strambi, and his entire management team, for another strong year of performance. I also thank my fellow Board members and all employees for their continued commitment and dedication to APAC and the thousands of superannuants we support through our efforts.

David Crawford AO
Chairman



Chief Executive Officer's Report

There is a great sense of momentum and purpose in our business, brought about through the implementation of our new strategy over the past year. With another year of strong growth behind us, the real challenge for APAC is ahead. Passenger numbers for Melbourne Airport are forecast to exceed 60 million as soon as 2033. The symbiotic relationship between airports and airlines is therefore vital to our collective success, and this insight is the foundation of our strategy.

I thank my management team and staff, our airline customers, service providers, business and community partners, and our owners, for their continued support of our airports over the past year. We've worked with our stakeholders to capture aviation growth in a challenging domestic market, supporting the economies of Victoria and Tasmania, and making a significant contribution to Australian tourism.

Strong performance driven by strategy

The 2016/17 financial year saw APAC achieve critical milestones in both Melbourne and Launceston, delivering another year of strong performance. There is a great sense of momentum and purpose in our business, brought about through the implementation of our new strategy over the past year.

It is important to remember that 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, we remind ourselves every day that the reason we exist is to serve our local communities – and Australia more broadly. But we can only do that as long as airlines are also serving those markets. The symbiotic relationship between airports and airlines is therefore vital to our collective success, and this insight is the foundation of our strategy.

For this reason, growth in the number of airlines using our airports, along with the number of services and the number of available seats, has underpinned APAC's performance. We were extremely pleased to welcome three new Chinese airlines to Melbourne in the past financial year, with Xiamen Air, Beijing Capital Airlines and Hainan Airlines all launching their inaugural services during the year.

Qantas, Virgin Australia, Jetstar and China Southern were among the airlines that launched additional services, to international destinations as diverse as Tokyo, Los Angeles, Ho Chi Minh City, and China's answer to Silicon Valley, Shenzhen. Tigerair's domestic footprint also continued to grow, adding a service to Canberra during the year and celebrating the airline's 24-millionth passenger with an event in the newly refurbished Pier F at Melbourne Airport. We also saw larger aircraft take over established routes, with Qatar Airways, Cathay Pacific and Qantas all among those featuring in this area.

A year of new beginnings

The past 12 months have been a period of major change at APAC.

The introduction of our new strategy early in the financial year saw a renewed focus on the traveller experience across both Melbourne and Launceston Airports. With our focus squarely on target, we launched numerous projects and initiatives across both assets to bring an improved experience to Melbourne and Launceston – instilling a 'sense of place' that connects our airports to the cities we are proud to serve.

In many ways the work of developing airports has much in common with building a modern high-rise tower. For months, most of the work takes place behind hoardings, out of sight. For most of the year, that was definitely the case in Melbourne's international terminal, with extensive works beginning on our T2 Luxury Precinct, Duty Free, and 8th baggage reclaim.

Once revealed, each of these projects will contribute to improving the Melbourne Airport traveller experience, whether by streamlining an important part of the airport process such as baggage collection, or enhancing the amenity on offer to the passengers of our important airline customers.

We were also pleased to see Launceston Airport complete its terminal refurbishment before commencing work on an important re-configuration of its landside and sterile areas. Having elevated the experience on offer in our departures area, work is now underway to reconfigure security screening in Launceston. Once completed, passengers will have more time to sit back, relax and enjoy the airport's dining and retail offering right up until boarding.

Deep commitment to customer service excellence

During the past financial year we amalgamated the customer service recognition programs of both Melbourne and Launceston Airports. The 2017 APAC Customer Service Awards showcased the best examples of customer service from right across both airports. We were pleased to see a strong performance among our business partners and from the airline community, with a record number of nominations received compared to earlier recognition campaigns.

In one stand-out example, a manager from one international airline nominated an exemplary display of customer service by a competitor's employee. There can be few endorsements as significant, and this example highlights the shared vision of customer service excellence held across our airports.

Controlling costs as operations grow

As anticipated the first full year of operation for Terminal 4 and its associated ground transport hub contributed significantly to cost growth of 5.1 per cent for the business. Against this, APAC's commitment to strong cash management saw the business achieve a 4.2 per cent reduction in interest paid, along with a 5.2 per cent reduction in payment to suppliers and employees. With a significant capital investment program planned for the next decade, managing costs will continue to be a critical area of focus for our leadership team.

Looking ahead to future growth

With another year of strong growth behind us, the real challenge for APAC is ahead of us. Passenger numbers for Melbourne Airport are forecast to exceed 60 million as soon as 2033, making our planned investment in a third runway critically important. Our airport cannot service Melbourne as it should if it artificially constrains the capacity of the city to grow.

With passenger numbers at Melbourne Airport forecast to reach 60 million by 2033, a new approach will be needed to manage traffic flows in and out of the airport, and throughout our surrounding communities. The commitment by both Federal and State Governments to funding a rail feasibility study was a welcome milestone this year, towards the essential development of Victoria's future transport infrastructure mix.

Lyell Strambi
Chief Executive Officer and Managing Director

Teg Singh, recipient of the 2017 Customer Service Superstar Award, meeting the APAC Board.

Our Strategy

The Melbourne Vision

An airport Melbourne can be proud of.

Our guiding vision is to create an airport Melbourne can be proud of. We have identified a number of key areas to focus on, to be able to deliver upon this vision:

- Capturing an unprecedented growth opportunity through increased airport capacity, amenity and scope
- Delivery of a modern facility that enables airline customers to grow sustainably, at an efficient airport committed to the traveller experience
- Delivering tangible benefits to communities
- Achieving consistently strong returns for our shareholders while driving job-creating growth and adding value to the entire airport estate.

The Launceston Vision

To be the port of choice and the tourism gateway to Tasmania.

Tourism is integral to the Tasmanian economy. Our vision sees us invest in our future growth — and that of our state — by bringing a 'sense of place' to the airport. By bringing to life the best of Launceston and its surrounds right inside the terminal, we allow travellers to immerse themselves in Tasmania from the moment they disembark, right through to boarding for departure. The unique beauty of Tasmania's northern city is felt from the Boag's Upper Deck Bar to the fagus leaf motif that adorns the columns of the airport's check-in zone.

The APAC Board viewing future plans for Terminal 2 check-in zones N and M using virtual reality.

Our Strategy

Capitalising on strong population and economic growth as well as a step change in aircraft technology.

Melbourne Airport is Victoria's gateway to the world and a vital piece of strategic infrastructure that benefits the national economy on many fronts. Its curfew free operation and prime location are competitive advantages that not only benefit the airport but also the state of Victoria, enabling tourism, freight and trade 24 hours a day, seven days a week.

The rate of growth in international passengers at Melbourne Airport has outstripped that of other Australian airports over the past decade. Strong growth in passenger numbers is expected to continue, driven in particular by economic growth in international markets, developments in aviation technology and the attractiveness of Melbourne and Victoria as destinations for international and domestic carriers.

The technological advancements driving greater fuel efficiency and aircraft range have transformed the economics of point-to-point air travel, enabling new direct services to Melbourne from ports throughout Asia, as well as opening up new potential routes across India and North and South America.

As more new generation aircraft enter service, Melbourne Airport will be able to capture growth from an expanding population of travellers with the means to afford international travel to Australia as a result of continued global economic growth, particularly in Asia.

Melbourne Airport's Aviation business and its ability to capitalise on these positive demand drivers is at the core of our strategy. The Retail, Parking & Ground Access (PGA) and Property business units play a critical role in our ability to deliver on aviation growth by developing:

- Car parking, road access and forecourt infrastructure to facilitate more efficient movement of travellers in and out of the airport
- A retail offering that brings the best of Melbourne to life in-terminal
- Assets that add value for airline travellers, such as hotels and other amenities.

These business units are also significant contributors to the traveller experience and APAC's overall financial performance in their own right.

Uniquely Launceston

Launceston Airport is similarly important to the communities it serves. Having already accomplished its 'sense of place', continued investment in the asset will capture future growth from the strong Tasmanian tourism market. In a highly competitive market served not only by air but also sea, Launceston Airport delivers an experience that meets travellers' needs and pays homage to some of Launceston's most highly valued products and experiences. Development of the airport's significant land bank will add value to the asset overall, while also protecting the airport from inappropriate encroachment.

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.

Our 5 Strategic Pillars

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

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, with an eye on opportunities that add utility value for customers and travellers
- Increase supply of retail space with a tailored retail mix for key target markets
- Optimise utilisation of car parks and negotiate sustainable ground access agreements
- Develop and implement efficiency program

Build the right infra-structure and the right time and at the right price

- Optimise the use of the current assets
- Repurpose existing assets to a higher value use
- Build the right things at the right time and right price

Operate safely and meet regulatory obligations

- Safety comes first in all instances
- Meet regulatory obligations
- Protect APAM's competitive advantages

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
  - Living our stated values and behaviours

Our Business

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

We created and implemented a new safety strategy that provided a framework of initiatives aimed at improving the health and safety of our workers and the overall safety of Melbourne and Launceston airports.

The strategy was guided by the following three key principles:

- All APAC and non APAC employees working at Melbourne and Launceston airports 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.

Strategy summary

Safety Management Standard	Safety Committees in Action	Hazard Hunt Program Commenced	Safety Culture Program
New APAC Safety Management Standard developed to replace the highly prescriptive APAC Safety Management System. This new standard places greater accountability on Business Units and is expected to increase ownership and overall compliance.	New Business Unit safety committee hierarchy introduced to support issue escalation, visibility, accountability of safety matters and assist in the sharing of key safety lessons learned across APAC. Also introduced risk assessment criteria to aid reporting and escalation.	Hazard Hunts established as part of the APAC Safety Strategy to reduce risk of injury for all stakeholders. The Hazard Hunts supported/enhanced existing processes. Every safety hazard identified and addressed is recognised as a potential incident avoided.	A safety culture training framework was designed based on psychological safety and seven training modules were developed, with the first module delivered to APAM and APAL staff over numerous sessions.

Aviation

Aviation is the heart of our business. Air travel actively facilitates national and global connections, helping connect Victoria to the world and creating employment opportunities by enabling growth in tourism, freight and trade. Our team is focused on continuously improving the airport experience for travellers. We work collaboratively with our customers: to optimise the efficiency of our assets; to invest in smart infrastructure; and to reduce costs for our airline customers — ultimately delivering cheaper fares and more choice for the travelling public.

Over the past year, Melbourne has continued to grow strongly as a domestic and international destination. Domestic growth was in line with long term trends and the Melbourne-Sydney route remains in the top five busiest air routes in the world. Growth in international passenger numbers was strong and Melbourne's market share has risen steadily to exceed 25 per cent of the national passenger traffic, with new capacity launched across a wide range of markets from Europe, North America and Asia. This trend is set to continue, with the introduction of more fuel efficient aircraft and already one-third of international airlines at Melbourne Airport are operating the new generation of wide-body B787 and A350 aircraft, which can fly long-range routes at lower operating cost.

Commercial agreements

The commercial agreements APAC has with its customers, such as the Aeronautical Services Agreement (ASA), provide the commercial framework that underpins airport developments made by the APAM and APAL operating companies. The APAM ASA which expired on 30 June 2017 underpinned circa $1B of investment, with the majority of that investment resulting in expanded passenger facilities in the International terminal (T2), the airfield and the landside facility. These agreements strengthen the relationship between airlines and Melbourne Airport.

International

More carriers, more destinations, more services

The year to 30 June saw many of our existing customers introduce new services to Melbourne. Qantas added a direct service to Tokyo and resumed flights to Christchurch. Jetstar became the first Australian carrier to fly from Melbourne direct to Ho Chi Minh City, and China Southern added a service to Shenzhen. Virgin Australia also re-commenced its direct service to Los Angeles. These additions took the number of international destinations accessible via a direct flight from Melbourne to 35, serviced by 29 international airlines.

Melbourne Airport welcomed three new Chinese carriers into the Melbourne market — Xiamen Airlines, Beijing Capital Airlines and Hainan Airlines. In addition to growth in the number of carriers and an increase in services, airlines also introduced larger aircraft onto established services, adding further capacity to popular routes.

New entrants to the Melbourne market, Japan Airlines (JAL), LATAM Airlines (LAN), SriLankan Airlines (ALK) and Air Canada (ACA) all announced new services during the financial year, with operations scheduled to commence during September (JAL), October (LAN & ALK) and December 2017 (ACA).

Melbourne Airport proudly hosted launch events and undertook cooperative marketing for our airline customers throughout the year, helping to raise awareness of, and interest in, the growing number of options available to travellers.

Domestic

Domestic travellers look to the east

Australia's domestic air travel has remained relatively flat over the past year, with modest growth in east coast markets being offset by capacity reductions on east-west services. Overall, Melbourne Airport recorded growth of 2.1 per cent in domestic passenger volumes, despite the softer national market conditions.

Projects overview

Throughout the financial year Melbourne Airport continued to focus on projects that increased operational efficiency across the airfield and terminal precincts — providing airlines with confidence in their schedules, and ultimately translating to a better traveller experience overall.

Airfield

Taxiway optimisation improves airline on-time performance, and subsequently the traveller experience. The focus this year has been to replace the 40+ year-old concrete in our taxiways and apron areas and continue to deliver a broader rework of parallel taxiways to improve aircraft movements on the ground. With 24/7 operations, Melbourne Airport manages all apron and taxiway works in a live, operational environment, ensuring our airline customers are able to keep to their schedules.

Strategic alignment:

Our High Intensity Approach Lighting System (HIALS) project replaced an aging system with a new approach lighting system. The new system was designed to increase safety for maintenance staff, improve efficiency, reduce energy demand, and lower ongoing maintenance costs. HIALS is just one of the ways Melbourne Airport maximises the operational flexibility of our existing runway system and significantly enhances the safety of aircraft operations, particularly in conditions of reduced visibility.

Strategic alignment:

Terminal

Streamlining the arrivals process is a critical element of the overall Melbourne Airport traveller experience, creating a valuable first impression of the city to arriving visitors, and welcoming home Victorian residents. Additionally, the pre-departure dwell time of travellers reflects on both the airport and the airlines operating from our terminals. Delivering the right experience for travellers translates to a more enjoyable journey and a positive impression of our city.

The year to 30 June saw us complete the redevelopment of the common use T4 Pier F, currently serving operations by Tigerair and Virgin Australia. We joined with Tigerair to welcome the airline's 24-millionth passenger in June, along with the official opening of the completed facility.

The updated Pier F now includes seven gates to serve aircraft along with expanded seating in gate lounges and sheltered walkways between the terminal and aircraft.

Strategic alignment:

Almost half (49 per cent) of all passengers arriving at Melbourne's International Terminal now use SmartGate. During the past financial year we worked with Australian Border Force to install additional SmartGates in our international arrivals hall. The three new gates increased processing capacity by 30 per cent, reducing queues at Immigration and improving passenger flows through this important process.

Strategic alignment:

Operations

Airport security remains our priority operational consideration. Throughout the year we continued to actively monitor and mitigate identified security risks via process, procedure and capital enhancement and we are now planning for further expansion in our International Terminal.

Strategic alignment:

Financial Year 2017 saw Melbourne Airport introduce its Optimisation Committee, tasked with improving the use of our facilities. Operational efficiency was improved through a series of initiatives at check-in including outbound baggage management, bay allocation, and arrivals processing.

Strategic alignment:

Runway Development Program

Melbourne Airport is committed to delivering a new runway by 2022 to support the growth, aspirations and prosperity of Victoria, Australia and the aviation industry. The new runway will enhance the traveller experience and help our airline customers to grow their businesses in the Melbourne market through improved airport efficiency and on-time performance. Throughout the 2017 financial year Melbourne Airport has progressed design and a series of complex technical studies that will inform the Major Development Plan. Approval of the Major Development Plan is required from the Commonwealth Government prior to construction commencing. This work is on track to have the new runway operational by 2022, subject to approvals.

Strategic alignment:

APAC staff and contractors lay concrete as part of the Victor Taxiway South construction works.

Parking & Ground Access

Getting the traveller experience right is vital to the success of our strategy. Providing travellers with a range of transport options is a crucial component.

We invest in building, maintaining and operating one of Victoria's busiest road networks. Spanning 40kms of roadway, the network includes two elevated loop roads. Over the past four years we have invested $250 million in the continued development of our road network, which carries almost 120,000 vehicles that drive through Melbourne Airport on the average weekday.

As well as providing more than 24,000 public car parking spaces, we work with multiple commercial transport operators including taxis, chauffeur cars, buses — including SkyBus, charter and Public Transport Victoria — and 17 off-airport car park operators, to provide travellers with a choice of transport options.

We actively support the development of a rail link to Melbourne Airport. We welcome the commitments in May 2017 from both Federal and State Governments to provide funding for a feasibility study — a vital first step for this important project. A rail link will be a necessary addition to today's mix of transport modes, as airport passenger numbers are forecast to exceed 60 million by 2033.

Projects overview

The long-term trend of steadily increasing passenger numbers through Melbourne Airport means ground access options need to strike the right balance of convenience, choice and value. Throughout the past financial year the Parking & Ground Access team delivered a series of projects to enhance every facet of our ground access, in line with our strategic pillars.

Customer service

With so many ground access modes to choose from, providing travellers with a single point of contact for enquiries was a key consideration of our tender for landside security and customer support. In response to customer feedback, we opened a new Customer Service Office, accessible to all customers seven days a week, regardless of their transport mode of choice.

Strategic alignment:

Car parks

With more than 24,000 public car parking spaces available to airline passengers we're able to offer a wide variety of options for drivers. From the ultra-convenience of Premium and Valet parking as close as possible to the terminal, to the value offered in our Long Term Car Park (LTCP), there really is a park for everyone at the airport.

Online car park bookings for FY17 increased 5.9% year-on-year, from 701,000 to 743,000. Online bookings are a key part of our parking product — improving our ability to manage utilisation of car park assets, and providing consumers with discounts to incentivise pre-booking across all product offers.

Over the past financial year we completed installation of our Premium car parking zones in the At Terminal T1 T2 T3 and At Terminal T4 car parks. Premium parking offers customers the ultimate convenience of parking closest to terminal – ideal for business travellers on a tight schedule. Premium car parks are guaranteed to be under cover with wider-than-standard parking bays. An additional security boom gate at the entry and exit to Premium parking areas, and 24/7 CCTV coverage enhance the safety of customers' vehicles.

Strategic alignment:

December 2016 saw the completion of new bay-finding technology installation in the At Terminal T4 car park. Bay-finding technology helps drivers identify vacant bays as quickly as possible, reducing the need for drivers to circle the car park looking for an empty bay. These efficiencies result in a more enjoyable travel experience for both airline passengers and for parking customers who are meeting and greeting loved ones at the airport. The reduction in vehicle movements in our car parks, and improved attention of drivers, both improve the safety of our car park operations.

Strategic alignment:

The popularity of our Long Term Car Park has surged in recent years, along with rapid take-up of online booking by regular customers. By removing unused facilities we were able to create additional parking bays in the LTCP.

Strategic alignment:

SkyBus

As Melbourne Airport's only existing mass transit solution, SkyBus provides an invaluable service connecting the airport and the Melbourne CBD. The SkyBus network expanded to include suburban services in the past financial year. We were pleased to secure a new 10-year agreement with SkyBus, ensuring we maintain a world-class mass transit offering for travellers, which will support the airport through the next decade of growth.

We also finalised a new agreement with SkyBus for delivery of our LTCP and Staff car park bus services. Contracting these important services delivers numerous efficiency gains through access to SkyBus' expertise and capabilities.

Strategic alignment:

Taxis

More than 2.2 million taxi movements were recorded through the Melbourne Airport forecourt in the past financial year, making it the most popular mode of commercial transport. As such, taxis enjoy premium siting in the forecourt with ranks located curb-side adjacent to terminals T1 and T2. The T4 Ground Transport Hub also includes a dedicated ground-level taxi rank.

During the past financial year Melbourne Airport reached agreement with CityLink to implement an eTag-based payment system to support on-airport taxi management. This enhancement to our integrated Taxi Management System will streamline movement of taxis from holding areas to terminal rank, reducing down time for drivers and reducing passenger wait times during busy periods.

Strategic alignment:

Rideshare

While legislation enabling the operation of services such as UberX had not passed Victorian Parliament during the year to 30 June, sufficient progress was made to provide APAC with confidence this new mode would be operational imminently. Traveller feedback had indicated a strong desire by airline passengers to access ridesharing services at Melbourne Airport. APAC commenced discussions with Uber with a view to enabling this new commercial transport mode to begin operations at Melbourne Airport once relevant legislation had been passed into Victorian law.

Strategic alignment:

Property

Our land bank is a significant piece of real estate. It provides a great opportunity for growth — both in terms of aviation and commercial. Our aim is to deliver long term, sustainable revenue, enhancing and realising the value of the estate, contributing to the airport's overall amenity, reputation and economic strength.

Melbourne Airport has a substantial property portfolio valued at over $1.4bn, consisting of existing assets (over 400 tenancies) and a large vacant land bank (some 300 hectares). It is this substantial land bank that provides the Property team the greatest opportunity for growth whilst seeking to add utility value to the Airport's aviation activities.

The main source of property revenue is rent from the airline community, major logistics and freight companies, hotels, and office occupiers. Year-on-year revenue growth is consistent at around 3 per cent, and the average unexpired lease term across the portfolio is over 10 years.

Projects overview

Over the course of the year the Property team continued its development of industrial warehousing in the Melbourne Airport Business Park (MABP) and Melbourne Airport Cargo Estate (MACE), with the delivery of some 23,625m^2 in MABP and 10,125m^2 in MACE respectively.

In addition to developing the wider airport estate, over the past 12 months, the Property team undertook several projects specifically to support the operational and growth activities of the airport's airline community.

Airline growth support

Having delivered new premium lounges for Etihad and Emirates airlines in 2016, new and expanded lounge offerings were developed for Air New Zealand and Dnata in 2017. In addition, during the year we continued to add new accommodation areas across the terminals for the airline community to support their operational and growth activities. This included airline offices, apron engineering and storage areas.

Strategic alignment:

A new 11,000m^2 facility was delivered for Alpha Flight Catering, for fitting out as the largest commercial kitchen in Australia. Working with Alpha, the Property team was able to deliver a new property asset that not only aligned with both parties' development and growth ambitions, but added value to our customers by increasing the on-airport production capability of a major airline catering partner.

Strategic alignment:

A new lease was agreed with First Point Animal Services on an existing freight warehouse located in the southern area of the airport's main precinct. Although the facility will be primarily used as a horse transfer facility (and is the first of its kind in Australia), it will also be available for the transfer of domestic cats and dogs. The overall proposed works include the addition of external ramps, the refurbishment of the warehouse floor, ground and first floor office refurbishment, a horse transfer and stable wash area, and a dog and cat enclosure. This facility will support both the airline community and Melbourne's designation as the quarantine port of entry for flora and fauna arriving by air.

Strategic alignment:

Warehousing

In May 2017 Porsche Cars Australia commenced a lease at Melbourne Airport for its new warehouse and office facility on the corner of Sky Road and Airport Drive within MABP. Porsche has taken 7,750m^2 for an initial five-year period to store imported parts for distribution across the Porsche automotive dealer and supply network. Works included a new warehouse space; two-storey office, dispatch office and façade upgrade to ensure compliance with the Porsche Corporate Identity standards.

Strategic alignment:

Looking forward, in June 2017 the Property team secured a new warehouse tenant for MABP. The requirement is to develop and build a new 15,000m^2 warehouse and office facility for an established cosmetic retailer with over 2,000 employees in Australia and New Zealand. The tenant requires a storage solution to cater for bulk storage of incoming palletised goods, supplying the active picking and replenishment of products for on line and store dispatch. The parties are working together to complete development documentation for an anticipated construction start in the last quarter of 2017.

Strategic alignment:

Given the timeframes associated with the physical delivery of commercial property developments, the majority of work undertaken during any year does not come to fruition until the years following. As such, a large focus for our Property team is to progress activities that will see the addition of value come through in future years. The following overview highlights progress of this nature.

Hotel strategy development

During 2017 the Property team developed and commenced the process to deliver additional hotel facilities within the airport's main precinct. The proposed development will add 400-500 rooms, along with additional amenities for the airport community's use — such as gym, restaurant and retail facilities. Additional hotel amenities will play an important role in ensuring sufficient accommodation capacity within the Tullamarine area. The proposed location for the new development is within a short walk from Terminal 4.

Strategic alignment:

Retail

Creating memorable dining and shopping experiences that showcase Melbourne's food and fashion culture, bringing the best of the city to life at the airport to create lasting impressions for every traveller.

At the very heart of our retail proposition is our desire to create a lasting impression of Melbourne for every traveller through the airport. Our retail and dining mix invites travellers to immerse themselves in those last few minutes with us, and enjoy the very best of Melbourne — brought to life inside the airport.

This commitment to our city has seen Melbourne Airport establish long-lasting relationships with some of Australia's most iconic chefs and dining brands: Café Vue by Shannon Bennett, Bar Pulpo by Frank Camorra, Two John's Taphouse by Red Rock and Brunetti by the Angele Brothers.

The goal of all retail projects is to enhance the traveller experience and accommodate the airport's continued growth in passenger numbers, whilst achieving an appropriate commercial return. It's a goal that saw Retail return revenue of more than $160 million, or 18.5 per cent of APAC revenue for the year, reflecting year-on-year growth of 15.6 per cent.

Projects overview

Shopping and dining are two of the activities Melbourne is best known for. Within the airport terminals the traveller experience is enhanced by the quality of the retail offering. Our deep commitment to getting the traveller experience right has seen significant investment in creating a uniquely Melbourne-flavoured retail offer, combining world-class architecture with a mix of brands catering to the diverse, discerning travellers passing through our terminals.

T2 retail redevelopment

Extensive customer research involving thousands of international travellers identified the need to refresh the international departure retail experience. Traveller expectations included a level of luxury retail, improved food and beverage offerings, gifts and souvenirs representing the best of Melbourne and Victoria, as well as travel essentials.

The enhanced retail precinct was designed to bring more of Melbourne to life at the airport — adding value and creating a positive, lasting impression.

By 30 June the Retail team had delivered a redesigned floor plate that repurposed an existing 2,200m^2 of floor space. Within the new precinct, 11 luxury brands were secured, including Tiffany & Co, Burberry, Salvatore Ferragamo, Max Mara and Emporio Armani. New contracts negotiated with both Dufry and Travelex resulted in improved revenue to APAC and commitments from both companies to fully refurbish their stores and kiosks.

Stage 1 of the airside Dufry duty free store refurbishment opened within the financial year, with the rest of the precinct development to open by the end of 2017.

Strategic alignment:

T4

Financial year 2017 saw the first full year of T4 operation. As the number of travellers using T4 grows, the mix of brands continues to evolve; ensuring retailers have the right proposition for the T4 traveller.

As a purpose-built terminal designed to meet the needs of low-cost carriers, T4 represents a dramatic change in the airport retail proposition. A single, common-use retail and dining precinct maximises exposure and dwell time resulting in higher passenger spend rates. Airlines also benefit from the changes enabled in the design of piers and gate lounges.

The result is a lower-cost solution for airlines, with lower rent and other operating costs due to a smaller total footprint. Ultimately, reduced airline operating costs benefit travellers in the form of lower fares, while the airport's own terminal investment enhances the traveller experience between check-in and departure.

Strategic alignment:

Launceston

From the prominent Boag's Upper Deck bar and restaurant to the ubiquitous fagus leaf motif or the immersive scent of lavender, we showcase the very best of Launceston and Tasmania for your entire airport experience.

Tourism is integral to the Tasmanian economy. At Launceston Airport we continue to invest in our future growth and that of our state. As a key piece of infrastructure we are managing capital efficiently to ensure we keep pace with growth while delivering our long term vision for the airport's development.

Achievements & awards

During the course of the year Launceston Airport was recognised for a number of awards and achievements. For the second consecutive year the airport was awarded the Australian Airports Association (AAA) 'Major Airport of the Year'. This award was joined by the AAA's 'Excellence and Innovation-Commercial Award' for the transformation of the airport's retail space. The airport's Boags' Upper Deck Bar & Restaurant was named "2017 Best Retail Offering Reflecting 'Sense of Place' in the Asia Pacific Region" at the global Airport Food and Beverage Awards.

Projects overview

For this financial year our projects have been committed to both improving the traveller experience and driving commercial growth. We have developed and delivered differentiated offerings appropriate to the passengers' needs and travel context. We have concentrated on the improvement of our facilities, our processes and our service to reduce passenger anxiety and to use our assets efficiently and effectively.

Supporting airline growth

During the past financial year, Launceston Airport welcomed new services from Virgin Australia and Qantas. Virgin Australia Cargo launched freighter services from Launceston Airport, creating more opportunities for Tasmanian growers and manufacturers to export their goods throughout Australia and into a growing global market.

The Royal Flying Doctor Service (RFDS) moved into a new hangar at Launceston Airport during June 2017, enabling this vital service to operate at even greater capacity entering new markets for patient transfer. RFDS employs locally based trained professionals to run its programs, working collaboratively in partnership with local health and community organisations. RFDS Tasmania won a primary health tender early in 2017 to provide free services and deliver them directly to community members to meet their needs. Tasmania's Integrated Primary Care Consortium is managed by the RFDS in partnership with five local government areas.

Qantas launched seasonal B717 jet operations between Launceston and Melbourne, adding an extra 1,200 seats during the 2016/17 summer peak.

Strategic alignment:

Terminal reconfiguration

The last financial year has seen significant strategic investment of more than $2 million in re-shaping the terminal to improve the traveller experience through Launceston Airport.

A second X-ray machine was introduced to the security screening point in November 2016.

The new addition significantly advanced screening processing times during peak periods and improved airline punctuality. Later in March 2017, we commenced construction activity to reorientate the security screening facility, to locate it directly after check in, allowing travellers more time to rest and relax within the recently transformed retail and dining precinct.

We also implemented a program of toilet facility upgrades in the terminal. This included increasing cubicle space to accommodate cabin-baggage, and installing new more effective hand dryers and movement-activated taps.

Future improvements due for roll-out on completion of the terminal re-shaping project in September include enhanced flight information displays and signage, new passenger amenities, additional seating and power charging points and a new automated CCTV-controlled security exit.

Strategic alignment:

Inclusive & accessible environment

In November the airport published its Disability Access Facilitation Plan. This plan provides comprehensive information on our facilities and services, and ensures we provide an accessible and friendly environment for all airport users.

The plan incorporates a number of recent access improvements made by the airport, and industry best practice recommendations. Published on the airport's website, it incorporates a new feature which allows visually impaired guests to listen to the content via an audio playback facility.

We also made a number of improvements during the year to our accessibility facilities including more disabled car parking bays, improved signage, renovation of accessible toilets and the introduction of an 'assisted screening meeting point' for the security screening area for the mobility impaired requiring facilitated assistance.

Strategic alignment:

Strong retail success

The past financial year saw a concerted focus on growing Launceston Airport's retail sector, with more than 95% of all leasable property at the airport precinct let. Strong trading results have been achieved by our new retail establishments — Launceston Store, Boag's, Wilderness Espresso and Hudsons Coffee — in their first year of operation. Our strategy to showcase quality Tasmanian product and produce has resonated with travellers, with airport visitors regularly commending us on featuring local produce. In June, we successfully launched our new car park 'Saver' brand. Saver offers great parking deals, making some of the lowest major airport parking rates in Australia even more affordable.

Strategic alignment:

Staff development

APAC invests in organisational capability to optimise the performance of Launceston Airport. In the past year the airport's leadership team was restructured with more clearly delineated responsibilities and an increased focus on commercial business development.

In addition, we have significantly expanded our reward and recognition scheme to incorporate customer service awards for best individual, best company, best volunteer and safety excellence from all on airport operators and staff.

Strategic alignment:

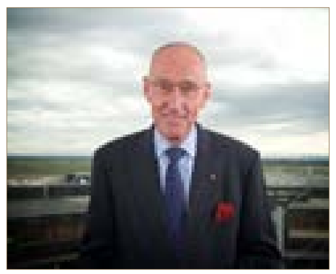
Governance and Risk

Board of Directors Information

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, risk management, property, investments and asset management.

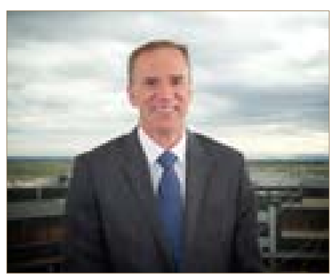
Our specialised skill sets and experience deliver strong decision making and clear strategic planning for the benefit of our investors and customers.

The APAC Board's activities are supported through a governance structure comprising three Committees: Audit & Risk Management, Finance & Projects, and Remuneration.



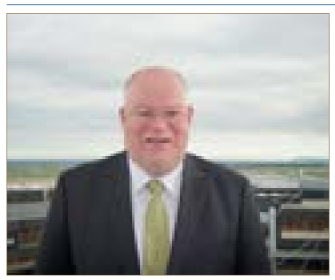
David Crawford AO
Chairman
Appointed April 2012

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.



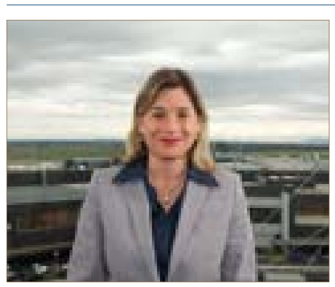
Lyell Strambi
Managing Director & Chief Executive Officer
Appointed November 2015

Mr Strambi joined APAC in September 2015. Mr Strambi has extensive experience spanning more than 30 years in the aviation sector 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.



Barry Brakey
Director
Appointed February 2015

Mr Brakey is 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.



Lianne Buck
Director
Appointed 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 March 2015

Mr Cummings is the Head of Funds – Infrastructure at AMP Capital Investors for Australia and New Zealand. In addition to APAC, Mr Cummings is on the board of Powerco NZ, and is Alternate Director on Interlink (M5 Toll Road) and Evergen Pty Ltd. Mr Cummings has over 26 years of international experience in the infrastructure sector – having held senior executive positions in a number of major energy infrastructure companies.

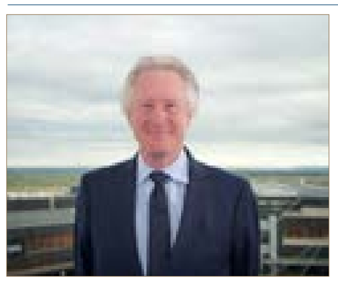
The APAC Board's activities are supported through a governance structure comprising three Committees: Audit & Risk Management, Finance & Projects, and Remuneration.

Danny Elia
Director
Appointed 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.

James Fraser-Smith
Director
Appointed 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).

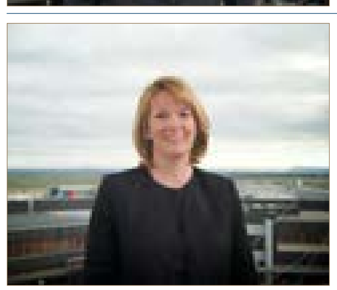


John Harvey
Director
Re-appointed March 2013 (Previously held position May 2011-February 2013)

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.

David Kenny
Director
Appointed 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.



Lisa Evans
Company Secretary
Appointed April 2009

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.

Risk Governance, Management and Assurance

Strong governance underpins decision making across the APAC business. Rigorous risk management, deep understanding of our societal responsibilities and a long-standing commitment to sustainable business practices are fundamental to the APAC governance framework.

Global Real Estate Sustainability Benchmark (GRESB)

GRESB is an industry-driven organisation that assesses the Economic, Social and Governance (ESG) performance of real assets globally, including real estate portfolios and infrastructure assets.

ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to reinforce accountability. Research finds high correlation between positive assessment of ESG factors and long-term business performance.

More than 250 GRESB members, of which about 60 are pension funds and their fiduciaries, use the GRESB data in their investment management and engagement process, with a clear goal to optimise the risk/return profile of their investments.

APAC shareholder and GRESB Member, AMP Capital, is a signatory to the Principles of Responsible Investment (PRI), which advocates the analysis of ESG factors in investment selection.

APAC GRESB RESULTS

In the 2016/17 financial year, Australia Pacific Airports Corporation achieved strong rankings by GRESB, including:

- GRESB Score of 69/100, compared to an average score of our ranked peers of 40/100
- Ranking of 1st Transportation: Airport (of a pool of 8 peers)
- Ranking of 2nd Oceania (pool of 8)
- Ranking of 3rd Investment Type: Transportation (pool of 28)
- Ranking of 2nd Transportation/Oceania (pool of 8)

APAC understands and recognises 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. It helps our business achieve optimal performance, while fostering 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.

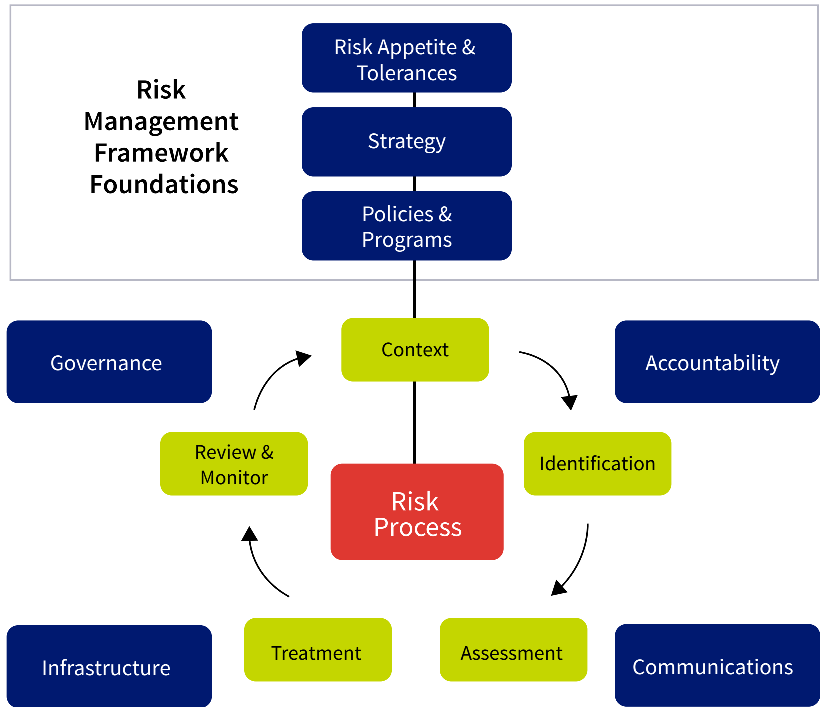
Corporate leadership is integral to effective risk management. As such, the Board of Directors and Senior Leadership Team have responsibility for driving and supporting risk management across the company.

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

In the past year APAC has also appointed a Head of Risk & Assurance who is responsible for maintaining and continuously improving the risk management framework.

Identified risks are categorised as belonging to one of 11 themes, being:

Security / Terrorism	Contract Management	Capital Planning
Financial	Information Security	Facilities Management
Capital Works	People/Talent	Customers & Suppliers
Safety	Regulatory & Environment	



Our approach to risk management

Enterprise-wide risk management seeks to apply risk management principles across an entire organisation, so that all material exposures can be identified, analysed, evaluated and treated.

In recognition of this, APAC's Board has formally endorsed an approach to risk management that includes consideration of financial, safety, reputation, regulatory and environmental consequences.

The following objectives drive APAC's approach to risk management:

- Increase the likelihood of achieving objectives
- Support more effective decision making
- Achieve a truly integrated risk management approach
- Improve stakeholder confidence and trust
- Encourage a high standard of accountability at all levels
- Safeguard the company's assets — human, property, reputation and knowledge
- Improve organisational resilience and minimise losses
- Enable the Board to fulfil its governance and compliance requirements.

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

1. **Culture**. We continually work to build and maintain a strong risk management and control culture, promoting awareness, ownership and proactive management of key risks while also encouraging prudent risk taking.

2. **Structure.** Our organisational structure 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 implement and continually improve robust processes and systems for effective identification, analysis, evaluation and treatment of risk. We seek to continously improve our risk management policies and internal control procedures, ensuring that they remain sound and robust by benchmarking to global best practices.

Based on the above principals, the risk management framework seeks to ensure that there is no distinction between usual business practices and risk management practices, and emphasises the integrated nature of risk management within the APAC business.

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 Continuity Management program which increases the Company's resilience to exceptional events and in turn contributes to more stable corporate performance.

Assurance

We maintain 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.

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

Chairman, David Crawford, and the APAC Board during a regular board meeting.

People, Community & Environment

People Initiatives

Our people are invaluable in helping our airline customers succeed in their business.

We are committed to the continuous development of our people through investment in ongoing initiatives that support and enable staff on a daily basis.

Initiatives include:

Learning and Development (L&D) framework

As a key initiative of FY17, we reviewed our learning and development framework and updated the strategy to offer development activities across all employee levels, with clear links to achievement of our business objectives. The framework is represented as a matrix comprising five key learning areas — My Business, My People, My Essentials, My Speciality and Me — across three role levels — Lead Self, Lead Others, Lead the Business. A series of initiatives to be implemented include:

- Revised Induction and Onboarding program
- Delivery of first module of Manager Essentials program — Performance coaching

2017 Employee Survey

The 2017 Employee Survey inviting employee feedback on their experience indicated a largely positive response with:

- 73% of employees completing the survey (up from 70% in 2015)
- A 13% increase in Overall Employee Satisfaction improving to 5.1 from the 2015 result of 4.5 (on a scale of 1 to 7)
- Higher ratings in all of the Satisfaction Drivers as compared with the 2015 results with improvement across all key employee engagement metrics, including more employees likely to recommend APAC as a 'great place to work'.

Review of remuneration framework

A revised framework was implemented in FY17 to better align remuneration with company wide strategic drivers, differentiate reward for high performers and develop a framework linked to company and individual performance.

APAC Enterprise Agreement

Negotiation of the 2017 Enterprise Agreement (EA) has commenced, with the first negotiation meeting held in Melbourne in late May. The APAC negotiation team, comprising six leaders from across the business, met with the relevant unions and employee representatives to set out the objectives of the negotiations, and agree protocols and process. As we work through the negotiations, we are placing a high importance on communicating regularly with our people, and a dedicated 'EA2017' hub has been developed on our intranet site where employees can easily access information or post questions.

APAC staff at the 2017 Customer Service Awards.

Community & CSR

We recognise the importance of corporate citizenship, and seek to benefit the communities in which our airports operate beyond their role as centres of employment. Through a combination of financial and in-kind support, we help organisations with specific expertise to deliver more of their targeted programs throughout nearby communities. Our community investments focus on helping young people from our neighbouring communities — to aim higher in the face of adversity through programs targeting educational outcomes and employment-readiness.

Encouraging local businesses

Sponsoring Hume City Council's investment in local business.

The Hume Business Awards encourage the growth of the business community within Hume as measured by the number of local businesses registered within the municipality and the annual number of award applicants. Hume has more than 14,000 registered businesses, with the 2016 Awards attracting 53 applicants — an increase of more than 27% from 2015.

Supporting employment & education opportunities

Helping the region's young people achieve academic and career success with Western Chances.

Each year Western Chances delivers programs that remove social, economic and cultural barriers to education and job training for hundreds of talented young people across a large geographical area in Melbourne's western suburbs. All young people supported by Western Chances have an identified talent and motivation to achieve, but lack the financial resources, opportunities and networks to pursue their education and career goals. Melbourne Airport's support of Western Chances provides scholarships and opportunity programs tailored to the specific circumstances of each recipient.

Improving educational outcomes for school students through Banksia Garden Community Services.

Our support of Banksia Gardens Community Services' after-hours homework clubs and study groups target primary and secondary students in Broadmeadows and the surrounding suburbs. Our commitment supports the employment of trained professional tutors and provides learning support for more than 180 students per week. It also funds the provision of eight annual scholarships to talented but underprivileged Grade 6 students from Gladstone Views Primary School and Holy Child Primary School — to assist their families with education expenses as they transition into secondary school.

Investing in Victoria's future tourism leaders through Destination Melbourne.

Tourism is an essential driver of the Victorian economy, contributing more than $23 billion to the economy in Gross State Product (direct and indirect GSP). The industry now represents 6.2 per cent of the total Victorian economy. The Melbourne Tourism Industry Leadership Program is focused on raising professional standards in the local tourism industry by offering practical learning opportunities for future leaders. We have supported more than 150 graduates of this program, with almost half advancing into leadership roles in Victoria's tourism industry.

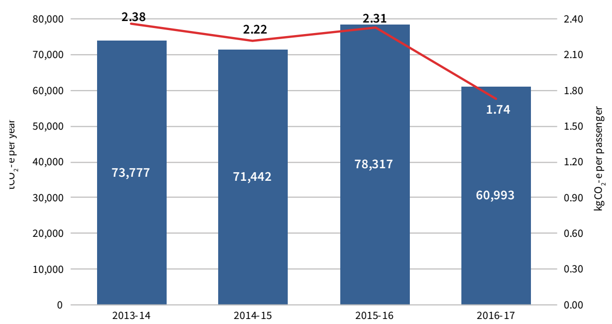
The Panda Artparade exhibition, owned by the Chengdu Government, on display at Terminal 2 Departures, Melbourne Airport.

Environment

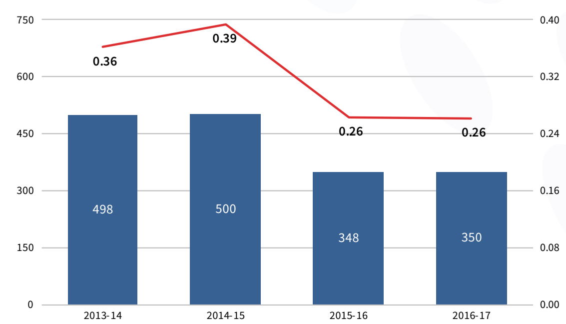
We are dedicated to ensuring a safe, secure and environmentally responsible business that reacts immediately to all situations that compromise this value. It is our commitment to our workers and customers, to our community and to an environmentally sustainable future.

With continued growth forecast for both Melbourne and Launceston Airports, APAC recognises the importance of limiting its environmental impact and promoting sustainability. Over the past four years both assets have achieved an overall downward trend in greenhouse gas (GHG) emissions per passenger. A variety of initiatives have contributed to this trend.

Melbourne Airport Scope 1&2 GHG emissions per year



Launceston Airport Scope 1&2 GHG emissions per year



Sustainability Initiatives

Tri-generation

In December 2016 Melbourne Airport completed its 8MW Tri-generation plant to generate low-carbon electricity from gas and reuse waste heat for heating and cooling the terminals. The on-site energy source generated more than 21 million KW/h of electricity over the summer months, diversifying the airport's power supply. The Tri-generation facility is a significant contributor in reducing our carbon footprint.

Airport carbon accreditation

Melbourne Airport commenced mapping and measuring its carbon footprint as part of the Airport Carbon Accreditation program. The program is the only institutionally endorsed carbon management certification program for airports. Melbourne Airport expects to have completed Level 1 (Mapping) by the end of 2017.

Retrofitting LED lighting

An extensive program of LED lighting retrofitting has occurred throughout Launceston Airport's main terminal core, toilets, car rental areas, administration corridors, as well as the departure gates. Energy-efficient lighting has been used to replace fluorescent and/or sodium vapour lighting. Externally the program has addressed retrofits in the contractor car park, airfield gates, Illuminated Wind Indicators and new regional apron light mast, including new LED bollards lining the airside road. Movement-activated LED lighting has been installed in the newly constructed taxi toilet and the new check-in toilet area.

Conservation sponsorships

The Eastern-Barred Bandicoot

Melbourne Airport sponsors Conservation Volunteers, a program that supports the establishment of a 300 hectare protected and predator-proof habitat for the critically endangered Eastern-Barred Bandicoot, one of Victoria's most endangered mammals. Currently listed as extinct in the wild, Zoos Victoria, Mt Rothwell Biodiversity Interpretation Centre and Hamilton Community Parklands are seeking to increase the population through releasing a new population into this protected area.

The Tassie Devil

Launceston Airport is a proud sponsor of the Save the Tasmanian Devil Program Appeal. Initiatives include:

- Collection boxes in the terminal for traveller donations
- A $5,500 Tasmanian devil artwork, ("The Spirit of Cedric", Amanda Davies 2013) placed on show at the terminal and successfully auctioned.

Funds raised support vaccine research and conservation programs for the endangered species.

Noise abatement improvements

Melbourne Airport

In May 2017 Airservices Australia implemented a series of changes to arrival and departure flight paths. These changes saw existing flight paths updated, helping to reduce the impact of aircraft noise on surrounding communities.

Runway 09 Standard Terminal Arrival Route changes

Ground Based Augmentation System (GBAS) was installed at Melbourne Airport allowing the increased likelihood of landing in poor weather and improved protection from terrain for newer jet aircraft.

GBAS also allowed the movement of the existing flight path for arrivals from the west and south away from the Melton residential areas.

Runway 34 Arrival changes

Aircraft arriving to Runway 34 from the north will appear slightly to the east of the previous flight path in the Sunbury area with no noticeable change to noise impacts.

Runway 34 Departure changes

Aircraft departing Melbourne Airport off Runway 34 for southern destinations will continue further north before turning east and south over sparsely populated areas. Aircraft will be less likely to spread over the Mickleham, Craigieburn and Kalkallo areas.

Smart Tracking (also known as Required Navigation Performance (RNP))

Smart Tracking was introduced at Melbourne Airport in 2016, allowing Australian aircraft to use the new navigation systems. A growing number of modern aircraft are now fitted with navigation systems that use satellite-assisted guidance. These systems allow aircraft to use GPS information to fly with a high degree of accuracy, flight paths can be designed to curve around obstacles (high terrain or buildings), follow existing noise corridors (highways) or to avoid noise sensitive areas in favour of overflying industrial land or other non-residential areas.

Noise monitoring

Airservices collects noise and operational data from five noise monitors (Bulla, Keilor East, Essendon, Coolaroo and Thomastown). Noise monitoring is conducted to determine the contribution of aircraft noise to the overall noise that a community is exposed to, helps local authorities make informed land use decisions and informs government aircraft noise policy and assists in the implementation of legislation.

Launceston Airport

Launceston Airport's Community Aviation Consultative Group, comprising representatives from the airport, neighbourhood, industry, councils, government and tourism, has welcomed a review and trial of amended noise abatement aircraft arrival and departure routings by Airservices Australia.

Environmental management plans

Biodiversity conservation management plan

Melbourne Airport's Biodiversity and Conservation Management Plan provides strategies to achieve biodiversity conservation targets for high priority management areas including the grey box woodland, waterways and native grasslands. The plan was finalised and implemented in March 2017.

Fire management plan

A Fire Management Plan for the grey box woodland was also prepared with actions to reduce bushfire risk and manage the ecological values of the forest. These include prescribed burning, biomass control and management of fire breaks and access.

Launceston Airport this year landscaped its new entrance, broadly in keeping with the original heritage garden plans (designed by architect Mervyn T Davies in the 1960s). Replanting of more extensive areas of the precinct will occur in a similar fashion in spring, following the recent removal of native gum species that were posing an increasing safety hazard.

Directors' Report

The Directors of Australia Pacific Airports Corporation Limited (APAC) ACN 069 775 266 submit herewith the annual report of Australia Pacific Airports Corporation Limited (the "Company") and its subsidiaries ("Consolidated Entity") for the financial year ended 30 June 2017.

Principal activities

The Consolidated Entity's principal activity during the course of the financial year was the management of airport operations at Melbourne Airport and Launceston Airport.

Review of operations

Revenue	• Total revenue for the year increased 10.8% to $953,439,000. • Aeronautical revenue increased 12.2% with overall passenger numbers increasing from 35,203,000 in 2016 to 36,492,000 in 2017. • Retail revenue increased 15.6% as a full year of T4 retail was recognised. • Parking and Ground Transport revenue increased 7.4% due to a full year of the At Terminal T4 car park revenue. • Property revenue increased 9.9% due to new developments completed in FY16.
Operating costs	• Operating costs for the year decreased 0.7% to $251,283,000. • Excluding prior year exceptional items, operating costs increased 5.1% ($12,233,000). The increases, across Services, Utilities and Maintenance are attributable to the costs to service the increased passenger traffic and full year of costs associated with the operations of Terminal 4 and the At Terminal T4 car park. • Other costs have decreased due to impairment losses for the write down of capital work in progress of $14.1m in the year ended 30 June 2016.
Results	• Operating profit increased 15.6% to $702,156,000. • Profit for the year increased 11.1% to $297,467,000. • Profit, excluding the revaluation of Investment Property, increased 31.6% to $261,348,000. • Cash flows from operations increased 41.9% to $447,639,000.

A summary of consolidated operations and results is set out below:

		Consolidated	
		2017	2016
	Notes	$'000	$'000
Total Revenue		953,439	860,502
EBITDA [(1)]		753,755	706,086
Net profit		297,467	267,726
EBITDA before exceptional items [(2)]		702,156	621,452
Profit after tax		**297,467**	**267,726**
Income tax expense		129,342	113,877
Profit before tax		**426,809**	**381,603**
Change in fair value of investment property		(51,599)	(98,734)
Borrowing costs	2	168,510	175,484
Depreciation, amortisation and impairment	2	158,436	148,999
Impairment of assets	2	-	14,100
EBITDA before exceptional items [(2)]		**702,156**	**621,452**

(1) EBITDA is earnings before interest, tax, depreciation and amortisation.

(2) EBITDA before exceptional items is earnings before interest, tax, depreciation and amortisation excluding impairment loss and change in fair value of investment property.

Dividends

The Directors declared a final dividend for 30 June 2016 of $105,273,000 (89 cents per share) which was paid on 23 September 2016 and an interim dividend for the year ended 30 June 2017 of $108,576,000 (92 cents per share) paid on 28 March 2017.

The Directors are proposing a final dividend for the year ending 30 June 2017 of $120,168,000 to be paid in September 2017.

Directors

The names of the Directors of the Company during or since the end of the financial year are:

Name	*Position*	*Appointment*
Continuing		
Mr D. Crawford AO	Chairman	Appointed 30 April 2012
Mr L. Strambi	Managing Director	Appointed 9 November 2015
Mr J. Harvey	Director	Appointed 2 May 2011, Resigned 15 February 2013
	Director	Appointed 25 March 2013
Ms L. Buck	Alternate Director	Appointed 23 July 2014 (as alternate for Mr N. Maruf) Resigned 23 March 2016 Appointed 5 April 2016 (as alternate for Mr M. Robinson) Resigned 14 October 2016
	Director	Appointed 14 October 2016
Mr M. Cummings	Alternate Director	Appointed 19 February 2015 (as alternate for Ms M. Beltran)
	Director	Resigned as alternate, Appointed 19 March 2015
Mr B. Brakey	Director	Appointed 25 February 2015
Mr D. Elia	Alternate Director	Appointed 2 June 2015 (as alternate for Mr K. Mangini)
	Director	Resigned as alternate, Appointed 6 October 2015
Mr D. Kenny	Director	Appointed 7 December 2015
Mr J. Fraser-Smith	Director	Appointed 15 September 2016
Not Continuing		
Mr M. Robinson	Director	Appointed 5 April 2016 Resigned 14 October 2016

The above named Directors held office during and since the end of the financial year, except as stated above.

Directors' meetings

The following table sets out the number of Board and Committee meetings held during the financial year, and the number of meetings attended by each Director whilst they were a Director or member of the relevant Committee. During the financial year, the total number of meetings held was ten Board meetings, five Audit and Risk Management Committee meetings, eight Finance and Project Committee meetings and seven Remuneration Committee meetings.

	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Continuing								
Mr D. Crawford AO	10	10	5*	4*	8*	5*	7*	6*
Mr L. Strambi	10	10	5	5	8	7	7	7
Mr J. Harvey	10	10	5*	5*	-	-	-	-
Ms L. Buck	7	7	-	-	5*	5*	4*	4*
Mr M. Cummings	10	8	-	-	-	-	7*	7*
Mr B. Brakey	10	10	5*	5*	8*	8*	-	-
Mr D. Elia	10	10	-	-	8*	7*	7*	6*
Mr D. Kenny	10	10	-	-	8*	8*	-	-
Mr J. Fraser-Smith	8	8	-	-	2	2	-	-
Not Continuing								
Mr M. Robinson	3	3	-	-	3	3	3	3

	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Company Secretary	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Continuing								
Ms L. Evans	10	10	5	5	8	7	7	7

(*) This director is a standing member of the above committee.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Consolidated Entity other than that referred to in the financial statements or notes thereto.

Subsequent events

Other than final dividend, 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

Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial periods and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental regulations

In relation to environmental matters, the Consolidated Entity 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 2017 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 of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred by such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Consolidated Entity has entered into a deed of indemnity with each Director and their alternates which provides that the Company will:

- indemnify the Director to the extent permitted by law against liabilities incurred as a Director of the Company, other than liabilities to the Company or a related body corporate, or which arise from a lack of good faith or honesty on the part of the Director;
- maintain insurance which, to the extent permitted by law, insures the Director against all losses or liabilities incurred by the Director as an officer of the Company;
- keep a complete set of Board documents and give the Director access to those documents;

both during the period the Director holds office and for a period of seven years after the Director ceases to hold office.

The Consolidated Entity has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Consolidated Entity or of any related body corporate against a liability incurred as such an officer or auditor.

Rounding off of amounts

The Consolidated Entity 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.

Corporate governance

The Directors are responsible for the corporate governance practices of the Consolidated Entity. The main corporate governance practices that were in operation throughout the financial period are detailed below.

Board of Directors

On the day on which the Directors' Report was made, the Board consisted of eight non-executive Directors plus one Managing Director. Details of the Directors are set out on page 1 of the Directors' Report.

The primary responsibilities of the Board include:

- the appointment of the Managing Director and Chief Executive Officer;
- the establishment of the long term goals of the Consolidated Entity and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the consolidated entity and monitoring the results on a monthly basis;
- ensuring that the Consolidated Entity has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and
- the approval of the annual financial statements and half-year financial statements.

The Board formed three Committees to support the Board in the following areas:

- Audit and Risk Management;
- Finance and Projects; and
- Remuneration.

Audit and Risk Management Committee

The Audit & Risk Management Committee is comprised of three non-executive Directors and meets at least three times each year. The Audit and Risk Management Committee meetings provide a separate forum for the review of:

- the annual financial statements and other external financial reporting requirements prior to their approval by the Board;
- the effectiveness of management information systems including risk management systems and systems of internal control;
- the efficiency and effectiveness of the internal and external audit functions, including reviewing the respective audit plans; and
- the independence of auditors and the appropriateness of their appointment for any other services.

The Committee meets at least once a year with the External Auditor without executives being present.

The Committee is responsible for monitoring the Company's system of internal control and endorsing the Risk Management Framework. The Committee regularly monitors the operational and financial aspects of the Company's activities and considers the recommendations and advice of auditors and other external advisors on the operational and financial risks that face the Company.

The Committee ensures that recommendations made by the auditors and other external advisers are investigated and where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

A system of risk management has been in place for a number of years which allows the Committee directly to monitor management performance in assessing and controlling risk. The system includes external advisers whose reports are communicated to the Committee both directly and indirectly.

The Board is satisfied that this process assists the Board to effectively monitor management performance in risk management and control.

Finance and Projects Committee

The Finance and Projects Committee is comprised of five non-executive Directors. Meetings are held as required, but at least twice per year. Its focus is on the financial arrangements of the Company, including:

- awareness of the Company's financial risk profile and monitoring the Company's financial strategy; and
- assisting the Board in reviewing the Company's corporate financial model, including the basis for any assumptions contained in the model and the process by which the model is prepared.

The Finance and Projects Committee is also charged with reviewing and reporting to the Board on any large scale projects which the Company intends to embark on including capital projects which are complex in nature. Except in the case of projects delegated by the Board to the Committee for review and approval, the Committee has no delegated authority of its own.

During the year directors attended meetings where they are not a standing member. When the non-standing director attends he or she becomes a voting member of the Committee for the purposes of that meeting.

Remuneration Committee

The Remuneration Committee is comprised of four non-executive Directors and meets at least four times each year. The Remuneration Committee reports to the Board in relation to:

- the contractual terms, remuneration and performance metrics of the Chief Executive Officer;
- remuneration of the Chairman and members of the Board;
- succession planning for senior executives; and
- human resource strategy and its implementation.

Australia Pacific Airports Corporation Limited

Directors' Report

This Directors Report is signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Mr D. Crawford AO
Chairman

MELBOURNE
30 August 2017

Mr L. Strambi
Managing Director

MELBOURNE
30 August 2017

Auditors Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
550 Bourke Street
Melbourne, VIC, 3000
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 2017

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 2017, 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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Independent Audit Report to the Members of APAC

Deloitte.

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.

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 2017

Directors' Declaration

Australia Pacific Airports Corporation Limited

Directors' Declaration

The Directors declare that:

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

(i) giving a true and fair view of the financial position as at 30 June 2017 and of its performance of the Consolidated Entity 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 International Financial Reporting Standards as disclosed in Note 1;

(c) There are reasonable grounds to believe that the Consolidated Entity 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 D. Crawford AO
Chairman

MELBOURNE
30 August 2017

Mr L. Strambi
Managing Director

MELBOURNE
30 August 2017

Statement of Profit and Loss and Other Comprehensive Income

for the Financial Year ended 30 June 2017

		Consolidated	
	Note	2017	2016
		$'000	$'000
Revenue			
Aeronautical revenue		391,064	348,508
Security revenue		50,083	47,577
Retail revenue		160,157	138,526
Parking & ground transport revenue		201,215	187,341
Property revenue		111,619	101,546
Outgoings/recharges		34,317	32,297
Interest revenue		531	771
Other income		2,855	2,021
		951,841	**858,587**
Profit on sale of fixed assets		1,598	1,915
Total revenue		**953,439**	**860,502**
Less operating costs:			
Staff costs		(53,231)	(50,762)
Service and utilities		(136,249)	(130,612)
Maintenance costs		(34,751)	(29,667)
Administration and marketing costs		(13,328)	(12,945)
Other costs		(13,724)	(29,164)
Operating profit		**702,156**	**607,352**
Change in fair value of investment property		51,599	98,734
Depreciation and amortisation	2	(158,436)	(148,999)
Borrowing costs	2	(168,510)	(175,484)
Profit before income tax expense		**426,809**	**381,603**
Income tax expense	3(a)	(129,342)	(113,877)
Profit for the year		**297,467**	**267,726**
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges, net of income tax	20	(13,445)	10,396
Total comprehensive income for the year		**284,022**	**278,122**
Profit for the year attributable to the owners of the Company		**297,467**	**267,726**
Total comprehensive income attributable to the owners of the Company		**284,022**	**278,122**

Notes to the financial statements are included on pages 49 - 80

Statement of Financial Position

as at 30 June 2017

	Note	Consolidated 2017 $'000	2016 $'000
Current Assets			
Cash and cash equivalents		27,207	6,337
Receivables	5	83,707	82,013
Current Tax receivable	3	-	6,688
Financial assets	12	230	-
Other assets	6	5,725	8,118
Accrued revenue	7	11,606	13,785
Total current assets		**128,475**	**116,941**
Non-current assets			
Property, plant and equipment	8	2,646,477	2,599,401
Investment property	9	1,431,559	1,357,783
Intangible assets	11	674,725	673,004
Financial assets	12	260,918	339,463
Other assets	6	14,723	16,724
Accrued revenue	7	62,712	44,376
Total non-current assets		**5,091,114**	**5,030,751**
Total assets		**5,219,589**	**5,147,692**
Current liabilities			
Payables	13	122,839	109,023
Borrowings	14	114,001	249,950
Employee benefit provisions		6,174	5,364
Financial liabilities	15	1,440	1,004
Income tax payable	3	27,583	-
Unearned income		3,128	2,789
Total current liabilities		**275,165**	**368,130**
Non-current liabilities			
Payables	17	1,202	1,202
Borrowings	16	3,346,390	3,263,980
Employee benefit provisions		1,430	1,313
Financial liabilities	15	66,427	65,925
Deferred tax liability	3(b)	488,174	476,390
Unearned income		3,744	3,868
Total non-current liabilities		**3,907,367**	**3,812,678**
Total liabilities		**4,182,532**	**4,180,808**
Net assets		**1,037,057**	**966,884**
Equity			
Issued capital	19	118,100	118,100
Hedge reserve	20	(65,782)	(52,337)
Retained earnings	21	984,739	901,121
Total equity		**1,037,057**	**966,884**

Notes to the financial statements are included on pages 49 - 80

Statement of Changes in Equity

for the Financial Year ended 30 June 2017

	Consolidated Issued Capital $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 30 June 2015	**118,100**	**(62,733)**	**791,395**	**846,762**
Profit for the year	-	-	267,726	267,726
Other comprehensive income:				
Changes in the fair value of cash flow hedges, net of income tax	-	10,396	-	10,396
Total comprehensive income for the year	**-**	**10,396**	**267,726**	**278,122**
Dividends paid	-	-	(158,000)	(158,000)
Balance as at 30 June 2016	**118,100**	**(52,337)**	**901,121**	**966,884**
Profit for the year	-	-	297,467	297,467
Other comprehensive income:				
Changes in the fair value of cash flow hedges, net of income tax	-	(13,445)	-	(13,445)
Total comprehensive income for the year	-	(13,445)	297,467	284,022
Dividends paid	-	-	(213,849)	(213,849)
Balance as at 30 June 2017	**118,100**	**(65,782)**	**984,739**	**1,037,057**

Notes to the financial statements are included on pages 49 - 80

Statement of Cash Flows

for the Financial Year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers		1,028,807	920,132
Payments to suppliers and employees		(329,183)	(347,083)
Interest received		531	771
Interest paid		(174,991)	(182,684)
Income tax paid		(77,525)	(75,681)
Net cash provided by operating activities	25(b)	**447,639**	**315,455**
Cash flows from investing activities			
Payment for property, plant and equipment		(186,417)	(225,180)
Payment for investment property		(20,935)	(41,091)
Proceeds from sale of property, plant and equipment		16	1,909
Payments for intangible assets		(2,235)	-
Net cash used in investing activities		**(209,571)**	**(264,362)**
Cash flows from financing activities			
Proceeds from borrowings		442,995	415,000
Repayment of borrowings		(436,011)	(302,500)
Payment for debt issue costs		(10,333)	(1,850)
Dividend paid		(213,849)	(158,000)
Net cash (used in)/provided by financing activities		**(217,198)**	**(47,350)**
Net increase in cash		**20,870**	**3,743**
Cash and cash equivalents at the beginning of the period		**6,337**	**2,594**
Cash and cash equivalents at the end of the period	25(a)	**27,207**	**6,337**

Notes to the financial statements are included on pages 49 - 80

Notes to the Financial Statements

for the Financial Year ended 30 June 2017

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 (the "Company") is a for-profit entity. The financial report includes the consolidated financial statements of the group.

The financial statements were authorised for issue by the Directors on 30 August 2017.

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.

Going concern

As at 30 June 2017, the Consolidated Entity has a deficiency in net current assets of $146,690,000 (2016: $251,189,000). Despite the deficiency in net current assets as at 30 June 2017, the Directors are of the view that the Consolidated Entity is a going concern due to the long history of profitability, unused finance facilities of $966,104,000 (2016: $780,437,000), forecast positive cash flows and the strong net asset position.

Rounding off of amounts

The consolidated entity 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.

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 23) as at 30 June 2017 and the results of all subsidiaries for the year then ended. The accounting policies of the subsidiaries are consistent with the consolidated entity'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 consolidated entity.

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

(b) Cash

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

(c) Inventories

Inventories are valued at the lower of cost and net realisable value.

(d) Receivables

Trade receivables are recorded at amortised cost less provisions for impairment.

(e) 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*

(f) Investment Property

Property held to earn rentals and/or for capital appreciation, is presented in the balance sheet as investment property. Investment property is initially recorded at cost, including transaction costs. Subsequent to initial recognition, investment property is recorded at fair value as determined at year end reporting date by external valuers. Gains or losses arising from a change in the fair value of this investment property 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.

(g) 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.

(h) 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.

(i) Impairment of assets

At each reporting date, the Consolidated Entity 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 Consolidated Entity 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.

(j) 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.

(k) Investments

Investments in controlled entities are recorded at cost.

(l) Payables

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

(m) 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 Consolidated Entity 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.

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.

Notes to the Financial Statements

1. Summary of accounting policies *continued*

(n) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation as a result of a past event, it is probable that the Consolidated Entity 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.

(o) Superannuation

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

(p) 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 Consolidated Entity in respect of services provided by employees up to the reporting date.

(q) Revenue recognition

Aeronautical revenue

Revenue from landing fees and terminal charges is recognised on an accruals basis when the service is provided.

Security revenue

Revenue from provision of security services is recognised on an accruals basis when the service is provided.

Retail revenue

Retail revenue comprises revenue from rental income from retail tenants, whose sale activities include duty free, food and beverage, banking and currency, and advertising services. Revenue is recognised on an accruals basis when the service is provided.

Parking & ground transport revenue

Parking & ground transport revenue comprises revenue from car parking, ground transport and car rental. Revenue is recognised on an accruals basis when the service is provided.

Property revenue

Property revenue is split in two main areas. These are:

(i) Investment property revenue

Revenue from the investment property (as defined in Note 1(f)) throughout the airport is recognised on a straight line basis over the term of relevant lease agreements.

(ii) Other property revenue

Revenue from non-investment property is recognised on an accruals basis in accordance with terms of relevant lease agreements.

Outgoings/Recharge

Revenue received from recharging of outgoings and sundry other income is recognised on an accruals basis when the goods or services are provided.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Consolidated Entity and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other income

Revenue received from sundry other income is recognised on an accruals basis when the goods or services are provided,

(r) 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.

1. Summary of accounting policies *continued*

(r) Goods and services tax *continued*

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.

(s) Derivative financial instruments

The Consolidated Entity 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 26 to the financial statements.

(t) 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.

In principle, 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.

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 Consolidated Entity 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 Consolidated Entity 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. Australia Pacific Airports Corporation Ltd ("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).

(u) 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 Consolidated Entity 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

1. Summary of accounting policies *continued*

(u) Fair value *continued*

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.

(v) Adoption of new and revised Accounting Standards

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are re levant to their operations and effective for the current reporting period.

The adoption of all new and revised Standards and Interpretations did not materially affect the amounts reported for the current or prior periods. In addition, the new and revised Standards and Interpretations have not had a material impact and not resulted in change to the Consolidated Entity's presentation of or disclosure in these financial statements.

Standards and Interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below.

Title of Standard	Nature of change	Impact	Mandatory application date / Date of adoption by the Consolidated Entity
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (ie 1 January 2018) without restating the comparative period. The Consolidated Entity will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Consolidated Entity has completed a preliminary assessment of the implications of AASB 15 over its four primary revenue streams (Aviation, Parking, Retail, Property). Property and retail leases are not expected to be impacted as they are recorded in line with AASB 117 and the Consolidated Entity does not expect any material changes to parking and aviation revenue recognition based on the assessment performed.	Mandatory for financial years commencing on or after 1 January 2018. To be adopted from 1 July 2018.
AASB 16 Leases	AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Depreciation of the asset and interest on the liability will be recognised. Early adoption is permitted under certain circumstances.	The Consolidated Entity has reviewed the impact of AASB 16. As the Consolidated Entity is primarily the lessor under the standard the company does not believe there are material changes to the leases accounting treatment.	Mandatory for financial years commencing on or after 1 January 2019. To be adopted from 1 July 2019.

There are other new accounting standards issued but not yet effective, however these are not expected to have a material impact on the financial statements of the Consolidated Entity.

1. Summary of accounting policies *continued*

(w) 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, to represent the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on comparable market evidence relevant to each specific property or class of properties. 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 Consolidated Entity 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 11).

Where the present value of future cash flows of a cash generating unit are less than the carrying amount of those assets, an impairment loss may arise.

The carrying amount of goodwill at 30 June 2017 was $671,866,000 (2016: $671,866,000). There was no impairment loss.

Useful lives of property, plant and equipment

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

Fair value of derivative financial instruments

The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Where material, the credit risk associated with the derivatives is reflected in its calculation methodology. Judgement is used to determine whether the credit risk associated with the derivatives has changed materially over time based on market transactions and prices and, where this is the case, the credit factor is adjusted in the valuation calculation.

	Consolidated 2017 $'000	Consolidated 2016 $'000
2. Profit for the year		
Profit for the year has been derived after charging the following specific expenses:		
Employee benefits expense - superannuation contributions	4,141	3,562
Impairment of assets under construction	656	14,100
Depreciation of property, plant and equipment	157,921	148,484
Amortisation of master plan	515	515
Depreciation and amortisation	**158,436**	**148,999**
Borrowing costs:		
Interest:		
- Secured debt	170,413	184,874
- Interest capitalised during the period	(4,538)	(10,884)
- Unsecured debt	477	486
- Amortisation of deferred borrowing costs	4,320	4,423
Hedge reserve unwind	(3,612)	(3,682)
Other costs	1,450	267
Borrowing costs	**168,510**	**175,484**
3. Income tax expense		
(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	**426,809**	**381,603**
Income tax expense calculated at 30%	128,043	114,481
Adjusted for:		
Non-deductible expenses	220	329
Non-deductible depreciation	62	62
Income tax expense in respect of prior years	2,575	(995)
Non-Assessable Income	(1,558)	-
Income tax expense	**129,342**	**113,877**
Income tax expense comprises of:		
Current tax expense	112,019	70,749
Deferred tax expense	14,748	44,123
Current tax expense in respect of prior years	(223)	(995)
Deferred tax in respect of prior years	2,798	-
Income tax expense	**129,342**	**113,877**

3. Income tax rexpense *continued*

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.

(b) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

	Consolidated			
	Opening balance	Charged to income	Charged to equity	Closing balance
2017	**$'000**	**$'000**	**$'000**	**$'000**
Gross deferred tax liabilities:				
Property, plant & equipment	(191,299)	1,022	-	(190,277)
Investment property	(317,401)	(17,853)	-	(335,254)
Prepayments	(5,614)	600	-	(5,014)
Deferred borrowing costs	(1,650)	(160)	-	(1,810)
	(515,964)	**(16,391)**	**-**	**(532,355)**
Gross deferred tax assets:				
Provisions & accruals	11,979	485	-	12,464
Unearned income	1,997	65	-	2,062
Hedge Reserve	25,197	(2,767)	5,763	28,193
Other	401	1,061	-	1,462
	39,574	**(1,156)**	**5,763**	**44,181**
Net deferred tax liability	**(476,390)**	**(17,547)**	**5,763**	**(488,174)**

3. Income tax rexpense *continued*

(b) Deferred tax balances *continued*

	Consolidated			
	Opening balance	Charged to income	Charged to equity	Closing balance
2016	**$'000**	**$'000**	**$'000**	**$'000**
Gross deferred tax liabilities:				
Property, plant & equipment	(292,446)	101,147	-	(191,299)
Investment property	(170,434)	(146,967)	-	(317,401)
Prepayments	-	(5,614)	-	(5,614)
Other	(1,606)	(44)	-	(1,650)
	(464,486)	**(51,478)**	**-**	**(515,964)**
Gross deferred tax assets:				
Provisions & accruals	5,044	6,935	-	11,979
Unearned income	1,792	205	-	1,997
Financial assets/liabilities	26,884	-	(1,687)	25,197
Other	52	508	(159)	401
	33,772	**7,648**	**(1,846)**	**39,574**
Net deferred tax liability	**(430,714)**	**(43,830)**	**(1,846)**	**(476,390)**

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Deferred tax liability		
Balance at beginning of the year	476,390	430,714
Temporary differences	11,784	45,676
Balance at end of the year	**488,174**	**476,390**
Income tax payable	**(27,583)**	**-**
Income tax receivable	**-**	**6,688**

4. Remuneration of auditors

	Consolidated 2017 $	Consolidated 2016 $
Deloitte Touche Tohmatsu		
Auditing the financial report - statutory	224,500	231,900
Reviewing the half-year report	52,780	52,260
Auditing of regulatory accounts and compliance items	65,860	64,640
Other assurance services	78,700	-
	421,840	**348,800**

5. Current receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	83,707	82,013
	83,707	**82,013**

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 1.5% and 2.0% above overdraft rates.

The Company provides for doutful debts 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 $3,788,659 (2016: $4,268,000), which were overdue as at the reporting date and of which the Company has impaired $731,000 (2016: $231,000) as there may be no change in credit quality of the remaining overdue balance not impaired and the Company believes that the amount is considered recoverable.

6. Other assets

	Consolidated 2017 $'000	Consolidated 2016 $'000
Current		
Prepayments	2,115	4,527
Prepaid rebates	2,000	2,000
Cash on deposit for more than 3 months	1,428	1,428
Other	182	163
Total current	**5,725**	**8,118**
Non-current		
Prepaid rebates	14,723	16,724
Total Non-current	**14,723**	**16,724**

7. Accrued revenue

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred operating lease income		
Balance at the beginning of the year	58,161	46,583
New additions for the year	2,148	3,642
Balance recognised in revenue for the year	14,008	7,936
Balance at the end of the year	**74,318**	**58,161**
- Current	11,606	13,785
- Non-current	62,712	44,376

8. Property, plant & equipment

Consolidated	Leasehold land $'000	Buildings $'000	Roads, runways & other infra-structure $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Gross carrying amount						
Balance at 1 July 2016	**123,016**	**1,150,961**	**1,417,070**	**674,178**	**163,173**	**3,528,398**
Additions	-	-	-	-	216,210	**216,210**
Disposals	(5,908)	(232)	-	(56)	-	**(6,196)**
Impairment	-	-	-	-	(656)	**(656)**
Transfers to/(from) investment property	-	-	(5,237)	-	-	**(5,238)**
Transfers between groups	-	(19,558)	19,558	-	-	**-**
Transfers to/(from) assets under construction	16,286	36,567	113,602	58,545	(225,000)	**-**
Balance at 30 June 2017	**133,394**	**1,167,738**	**1,544,993**	**732,667**	**153,727**	**3,732,518**
Accumulated depreciation						
Balance at 1 July 2016	12,668	271,455	330,653	314,221	-	**928,997**
Depreciation expense	1,264	40,878	57,419	58,282	-	**157,844**
Depreciation transfer	-	(468)	468	-	-	**-**
Disposals	(666)	(155)	-	(56)	-	**(877)**
Transfer to investment property	-	-	77	-	-	**77**
Balance at 30 June 2017	**13,266**	**311,711**	**388,617**	**372,447**	**-**	**1,086,041**
Net book value as at 30 June 2017	**120,129**	**856,026**	**1,156,375**	**360,220**	**153,727**	**2,646,477**

8. Property, plant & equipment *continued*

	Consolidated					
	Leasehold land $'000	Buildings $'000	Roads, runways & other infrastructure $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Gross carrying amount						
Balance at 1 July 2015	**120,723**	**830,972**	**1,214,592**	**518,177**	**652,731**	**3,337,195**
Additions	-	-	-	-	205,265	**205,265**
Disposals	-	(3)	(290)	(5,169)	-	**(5,462)**
Impairment	-	-	-	-	(14,100)	**(14,100)**
Transfers to/(from) investment property	-	5,500	-	-	-	**5,500**
Transfers to/(from) assets under construction	2,293	314,492	202,768	161,170	(680,723)	**-**
Balance at 30 June 2016	**123,016**	**1,150,961**	**1,417,070**	**674,178**	**163,173**	**3,528,398**
Accumulated depreciation						
Balance at 1 July 2015	**11,726**	**232,572**	**277,232**	**264,305**	**-**	**785,835**
Depreciation expense	942	38,884	53,579	55,079	-	**148,484**
Disposals	-	(1)	(158)	(5,163)	-	**(5,322)**
Balance at 30 June 2016	**12,668**	**271,455**	**330,653**	**314,221**	**-**	**928,997**
Net book value as at 30 June 2016	**110,348**	**879,506**	**1,086,417**	**359,957**	**163,173**	**2,599,401**

9. Investment property

	Consolidated 2017 $'000	2016 $'000
Balance at beginning of the year	1,357,783	1,222,434
Additions for the year	17,017	42,115
Transfer (to)/from property, plant and equipment	5,160	(5,500)
Net gain from fair value adjustments for the year	51,599	98,734
Balance at end of the year	**1,431,559**	**1,357,783**

The fair value of the investment property as at 30 June 2017 has been arrived at on the basis of a valuation carried out by CBRE for Melbourne Airport and JLL for Launceston Airport. CBRE and JLL are independent valuers and members of the Institute of Valuers of Australia and have appropriate qualifications and extensive experience of valuing property for the Consolidated Entity.

The value of investment property is measured on a fair value basis utilising the discounted cash flow approach, capitalization approach and depreciated replacement cost where applicable, to represent the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income has been capitalised using yields derived from market evidence. The fair value measurement hierarchy used in calculating fair value has been classified as Level 3 on the basis that there are significant inputs that are not based on observable market data.

Unobservable inputs include:

- A discount rate ranging from 7.75% to 8.25%;
- A terminal yield taking into account management's experience and knowledge of market conditions ranging from 5.5% to 7.75%; and
- Industrial and retail rental growth rates, taking into account management's experience and knowledge of market conditions ranging from 2.75% to 3.50%.

The higher the discount rate, the lower the fair value. The higher the terminal yield, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

The Consolidated Entity has historically had a low level of void properties.

Outgoings in relation to investment properties are recoverable by the Consolidated Entity.

There has been no change to the valuation technique during the year. The Consolidated Entity reviews on an annual basis any material changes in the valuation techniques and market data inputs used.

The Consolidated Entity provided investment property (along with land and buildings in Note 8) as security for loans as disclosed in Notes 14 and 16.

10. 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	
	2017	2016
	$'000	$'000
Within one year	154,164	138,344
Later than one year but not later than 5 years	517,964	562,581
Later than 5 years	920,231	1,029,778
	1,592,359	**1,730,703**

11. Intangible assets

Goodwill *(i)*	671,866	671,866
Masterplan *(ii)*	2,859	1,138
	674,725	**673,004**

Goodwill has been allocated for impairment testing to two cash generating units, being Melbourne and Launceston Airports. The carrying amount of goodwill was allocated to cash generating units as follows:

(i) Goodwill

	Consolidated	
	2017	2016
	$'000	$'000
Melbourne Airport	667,700	667,700
Launceston Airport	4,166	4,166
	671,866	**671,866**

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, Fresh Information Limited.

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 2.4%.

11. Intangible assets *continued*

***(i) Goodwill** continued*

Cash flows were discounted using a cost of equity, as the cash flows are based on distributions to investors. In estimating the cost of equity, the Consolidated Entity has used a pre-tax discount rate of 10.5%. There are no assumptions from which a reasonably possible change would result in an impairment of the intangible assets.

	Consolidated	
	2017	2016
(ii) Masterplan	**$'000**	**$'000**
Gross carrying amount – at cost		
Opening balance	3,014	3,014
Additions	2,236	-
Closing balance	**5,250**	**3,014**
Accumulated amortisation		
Opening balance	(1,876)	(1,360)
Amortisation expense	(515)	(516)
Closing balance	**(2,391)**	**(1,876)**
Net book value at 30 June 2017	**2,859**	**1,138**
Represented by:		
FY13 to FY18 Masterplan	623	1,138
FY18 to FY23 Masterplan	2,236	-
	2,859	**1,138**

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.

12. Financial assets

	Consolidated	
	2017	2016
	$'000	$'000
Current		
Forward interest rate hedge instruments	230	-
Total Current	**230**	**-**
Non-Current		
Cross currency interest rate swaps	259,247	339,463
Interest rate swaps	78	-
Forward interest rate hedge instruments	1,593	-
Total Non-Current	**260,918**	**339,463**

13. Current payables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade and other payables (i)	86,198	68,361
GST payable	2,196	3,696
	88,394	**72,057**
Interest payable to:		
- Secured debt – bank (iii)	34,128	36,779
- Launceston City Council (ii)	317	187
	34,445	**36,966**
	122,839	**109,023**

(i) The average credit period for purchases and services is 31 days. No interest is charged on trade payables.

(ii) The credit period for services for non trade payables to other related parties is up to 90 days. No interest is charged on non trade payables to other related parties.

(iii) 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.

14. Current borrowings

	Consolidated 2017 $'000	Consolidated 2016 $'000
Secured:		
Senior - bank debt	114,300	-
Domestic bonds (i)		
Fixed rate notes (7.0% 25 August 2016)	-	250,000
Deferred borrowing costs	(299)	(50)
	114,001	**249,950**

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

	2017	2016
Financing facilities:		
Unsecured bank overdraft facility reviewed annually:		
• Amount used	-	-
• Amount unused	20,404	20,737
Financing facilities:		
Bank Debt (i)		
· Amount used	114,300	-
· Amount unused	345,700	-

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

15. Financial liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Current		
Interest rate swaps	222	1,004
Forward interest rate hedge instruments	60	-
Finance Lease *(i)*	1,158	-
Total Current	**1,440**	**1,004**
Non-Current		
Interest rate swaps	41,886	59,653
Cross currency interest rate swaps	15,372	6,272
Forward interest rate hedge instruments	1,180	-
Finance Lease *(i)*	7,989	-
Total Non-Current	**66,427**	**65,925**

(i) Commitments for finance lease

	Lease commitments 2017 $'000	Lease commitments 2016 $'000	Present Value 2017 $'000	Present Value 2016 $'000
Within one year	1,287	-	1,158	-
Later than one year but not later than five years	5,150	-	3,575	-
More than five years	12,875	-	4,415	-
Total	**19,312**	**-**	**9,148**	**-**

The above table relates to expenditure commitments under finance leases.

16. Non-current borrowings

	Consolidated 2017 $'000	2016 $'000
Secured:		
– Senior - bank debt (i)	-	300,300
– Domestic Bonds (i)	795,000	595,000
– US Private Placements (i)	955,336	980,261
– European bonds (i)	1,571,638	1,341,682
	3,321,974	**3,217,243**
Financial Liabilities valued at Fair Value through profit and loss	49,300	70,757
	3,371,274	**3,288,000**
Deferred borrowing costs	(24,884)	(24,020)
	3,346,390	**3,263,980**
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	4,320	4,423
(i) Secured by a fixed and floating charge over the entity's assets		
Financing facilities:		
Bank Debt (i)		
· Amount used	-	300,300
· Amount unused	600,000	759,700
(i) Secured by a fixed and floating charge over the Consolidated Entity's assets		

17. Non-current payables

	2017	2016
Undistributed capital note liability	**1,202**	**1,202**

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

18. Capitalised interest charges

	Consolidated 2017 $'000	2016 $'000
Property, plant and equipment	4,156	9,860
Investment property	382	1,024
	4,538	**10,884**
The above amounts were capitalised during the financial year.		

19. Issued capital

	2017	2016
118,100,000 Ordinary Shares – fully paid (2016: 118,100,000)	**118,100**	**118,100**

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

20. Hedging reserve

	Consolidated 2017 $'000	2016 $'000
Balance at beginning of the year	(52,337)	(62,733)
Gain/(loss) recognised:		
- Fair value adjustment	(15,596)	18,533
- Deferred tax arising on cashflow hedges	4,679	(5,560)
- Transfer from hedge reserve to profit and loss	(3,612)	(3,682)
- Deferred tax arising from adjustment	1,084	1,105
	(13,445)	**10,396**
Balance at end of the year	**(65,782)**	**(52,337)**

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 when the hedged transaction impacts the profit or loss.

21. Retained earnings

	Consolidated 2017 $'000	2016 $'000
Balance at beginning of the year	901,121	791,395
Profit for the year	297,467	267,726
Dividends paid	(213,849)	(158,000)
Balance at end of the year	**984,739**	**901,121**

22. Commitments for expenditure

	2017	2016
Capital expenditure commitments		
Property, plant and equipment		
Not longer than 1 year	90,012	87,612
Longer than 1 year but not longer than 5 years	880	653
	90,892	**88,265**

23. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2017 %	2016 %
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

24. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 23 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, Mr L. Strambi, Ms L. Argus, Mr S. Gandy, Mr A. Gardiner, Mr D. Hall, Ms L. Evans, Mr L. Horton, Mr M. Jarvis, Ms N. Lennie, Mr C. Woodruff and Mr D. Crawford.

	Consolidated	
	2017	**2016**
	$	**$**
Short-term employee benefits	6,833,683	8,422,908
Long-term incentives	1,945,172	902,060
Termination benefits	540,068	724,000
	9,318,923	**10,048,968**

(c) Transactions within the wholly-owned group

The ultimate parent entity in the wholly-owned group is Australia Pacific Airports Corporation Limited (APAC).

During the financial year APAC provided operational administration services at cost to other entities in the wholly-owned group of $319,635 (2016: $302,635), which were recorded against intercompany loans and eliminated on consolidation.

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.

The ultimate parent entity in the wholly-owned group and the parent entity in the tax consolidated group is Australia Pacific Airports Corporation Limited.

(d) Executory contracts

The Company is party to a consultancy arrangement with the previous Chief Executive Officer, Mr C. Woodruff for the period 1 July 2015 to 30 June 2017. The payments are dependent on the provision of services by Mr C. Woodruff.

25. 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	
	2017	**2016**
	$'000	**$'000**
Cash and cash equivalents	**27,207**	**6,337**

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

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Profit for the year	**297,467**	**267,726**
Net profit on sale of non-current assets	(1,598)	(1,915)
Gain on investment property	(51,599)	(98,734)
Impairment of property, plant and equipment	656	14,100
Amortisation of deferred borrowing costs	4,320	4,423
Hedge reserve unwind	(3,612)	(3,682)
Capitalised interest	(4,538)	(10,884)
Depreciation and amortisation of non-current assets	158,436	148,999
(Increase)/decrease in assets:		
Receivables	(3,193)	(9,728)
Other current assets	2,393	(4,340)
Tax receivable	-	(3,025)
Other non-current assets	2,001	(16,724)
Accrued revenue	(16,158)	(11,578)
Increase/(decrease) in liabilities:		
Payables	12,755	(3,225)
Interest payable	(2,651)	2,943
Tax payable	34,270	-
Employee benefits provision	928	(805)
Unearned income	215	683
Deferred tax liabilities	17,547	41,221
Net cash provided by operating activities	**447,639**	**315,455**

26. Financial instruments

(a) Capital risk management

The Consolidated Entity 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 Consolidated Entity consists of debt, which includes the borrowings disclosed in Notes 14 and 16, cash and cash equivalents and equity attributable to equity holders of the Consolidated Entity, comprising issued capital, reserves and retained earnings as disclosed in Notes 19, 20 and 21 respectively. In addition, the Consolidated Entity has implemented risk management strategies to mitigate against adverse increases to interest rates on future borrowings.

During the financial year the Consolidated Entity 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	
				2017	2016
				$'000	$'000
	At amortised cost	At fair value through P&L	At fair value through OCI	Total	Total
Financial Assets					
Cash at Bank	27,207	-	-	27,207	6,337
Loans and receivables:					
Trade receivables	83,707	-	-	83,707	82,013
Tax receivable	-	-	-	-	6,688
Non-current cross currency interest rate swaps	-	46,615	212,632	259,247	339,463
Non-current interest rate swaps	-	-	78	78	-
Current forward interest rate hedge instruments	-	-	230	230	-
Non-current forward interest hedge instruments	-	-	1,593	1,593	-
	110,914	**46,615**	**214,533**	**372,062**	**434,501**
Financial Liabilities					
Trade payables	86,198	-	-	86,198	68,361
GST payable	2,196	-	-	2,196	3,696
Interest payable	34,445	-	-	34,445	36,966
Current interest rate swaps	-	-	222	222	1,004
Borrowings	3,411,091	49,300	-	3,460,391	3,513,930
Non-current payables	1,202	-	-	1,202	1,202
Non-current interest rate swaps	-	-	41,886	41,886	59,653
Cross currency interest rate swaps	-	-	15,372	15,372	6,272
Current forward interest rate hedge instruments	-	-	60	60	-
Non-current forward interest hedge instruments	-	-	1,180	1,180	-
Finance leases	9,147	-	-	9,147	-
	3,544,279	**49,300**	**58,720**	**3,652,299**	**3,691,084**

26. Financial instruments *continued*

(d) Financial risk management objectives

The Consolidated Entity's corporate treasury function provides services to the business, co-ordinates access to domestic and financial markets, monitors and manages the financial risks relating to the operations of the Consolidated Entity through internal risk reports which analyses exposures by degree and magnitude of risk. These risks include market risk (including fair value interest rate risk), credit risk, liquidity risk and cashflow interest rate risk. The Consolidated Entity seeks to minimise the effects of interest rate risks, by using derivative financial instruments to hedge these exposures. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors through written policy on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments for financial purposes.

(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 Consolidated Entity's:

- Net profit would increase/decrease by $1,038,000 (2016: increase/decrease by $1,233,000). This is due to interest rates on its variable rate borrowings.
- Other equity reserves would increase/decrease by $3,995,000 (2016: increase/decrease $13,245,000) mainly as a result of the changes in fair value of available for sale 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 Consolidated Entity's other equity reserves would increase/decrease by $20,903,000 (2016: increase/decrease $25,972,000) mainly as a result of the changes in fair value of fixed rate instruments available for sale.

26. Financial instruments *continued*

(h) Interest rate swap contracts

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

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 swaps	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	%	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Consolidated						
Less than 1 year	3.9	5.6	360,923	112,000	(222)	(1,004)
1 to 2 years	3.7	3.9	100,000	360,923	46	(752)
2 to 5 years	-	-	-	-	-	-
5 years +	4.1	6.7	324,000	324,000	(40,960)	(58,901)
			784,923	796,923	(41,137)	(60,657)

The fair value of these contracts as at 30 June 2017 is disclosed in Note 15.

(i) Foreign currency risk management

The Consolidated Entity 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 Consolidated Entity 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 contracted fixed interest rate		Foreign Currency		Notional principal amount		Fair valus of cross currency interest	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
			FC000	FC000	$'000	$'000	$'000	$'000
USD 5 years +	0.7689	0.7286	600,000	600,000	573,230	573,230	151,131	192,868
EUR 5 years +	0.6727	0.6562	900,000	900,000	1,289,979	1,289,979	106,270	140,324
NOL 5 years +	6.4172		1,500,000	-	242,994	-	(13,526)	-
					2,106,203	**1,863,209**	**243,875**	**333,192**

26. Financial instruments *continued*

(k) Liquidity risk

The following table details the Consolidated Entity's exposure to liquidity risk as at 30 June 2017.

2017	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		83,707	-	-	-	83,707
Cash at bank		27,207	-	-	-	27,207
Cross currency interest rate swaps		-	-	54,096	205,150	259,246
Interest rate swaps		-	-	78	-	78
Forward interest rate hedge instruments		230	-	1,593	-	1,823
		111,144	**-**	**55,767**	**205,150**	**372,061**
Financial Liabilities						
Current trade payables		86,198	-	-	-	86,198
Interest payable		34,445	-	-	-	34,445
Bank loans	2.46	-	114,300	-	-	114,300
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	-	-	260,112	-	260,112
US $200m Due 15 Sep 2023 – fixed (i)	7.67	-	-	-	260,112	260,112
US $200m Due 15 Sep 2026 – fixed (i)	7.63	-	-	-	260,112	260,112
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)	5.01	-	-	-	817,601	817,601
Fixed rate (15 October 2024) (iii)	5.05	-	-	-	520,290	520,290
Fixed rate notes (27 September 2030) (iv)	4.18	-	-	-	233,747	233,747

26. Financial instruments *continued*

***(k) Liquidity risk** continued*

2017	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
Cross currency interest rate swaps		-	-	-	15,372	15,372
Interest rate swaps		222	-	41,886	-	42,108
Forward interest rate hedge instruments		60	-	1,180	-	1,240
Finance lease		289	868	3,575	4,415	9,147
		121,215	**115,168**	**531,753**	**2,856,649**	**3,624,784**

(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.

The following table details the Consolidated Entity's exposure to liquidity risk as at 30 June 2016

2016	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		82,013	-	-	-	82,013
Cash at bank		6,337	-	-	-	6,337
Tax receivable		6,688	-	-	-	6,688
Cross currency interest rate swaps		-	-	-	339,463	339,463
		95,038	**-**	**-**	**339,463**	**434,501**
Financial Liabilities						
Current trade payables		68,361	-	-	-	68,361
Interest payable		36,966	-	-	-	36,966
Bank loans	3.1	-	-	300,300	-	300,300
Domestic bonds:						
– Fixed rate notes (25 August 2016)	7.0	250,000	-	-	-	250,000
– Fixed rate notes (4 June 2020)	5.0	-	-	225,000	-	225,000
– Fixed rate notes (15 September 2022)	4.0	-	-	-	250,000	250,000
– Fixed rate notes (11 November 2025)	4.6	-	-	-	120,000	120,000
US Private Placement:						

26. Financial instruments *continued*

***(k) Liquidity risk** continued*

2016	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
US $200m Due 15 Sep 2021 – fixed (i)	7.8	-	-	-	268,420	268,420
US $200m Due 15 Sep 2023 – fixed (i)	7.7	-	-	-	268,420	268,420
US $200m Due 15 Sep 2026 – fixed (i)	7.6	-	-	-	268,420	268,420
Fixed rate (15 January 2028)	5.95	-	-	-	50,000	50,000
Fixed rate (15 November 2022)	5.875	-	-	-	125,000	125,000
European Bonds:						
Variable rate notes (26 Sep 2023) (ii)	5.74	-	-	-	819,917	819,917
Fixed rate (15 October 2024) (iii)	5.05	-	-	-	521,765	521,765
Cross currency interest rate swaps		-	-	-	6,272	6,272
Interest rate swaps		1,004	-	752	58,901	60,657
		356,331	**-**	**526,052**	**2,757,115**	**3,639,498**

(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

(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 Consolidated Entity. The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity'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 $'000		Net fair value $'000	
	2017	**2016**	**2017**	**2016**
Borrowings - other entities	1,202	1,202	11,778	9,670

All of the consolidated entity's financial instruments measured, recognised and disclosed at fair value were valued using market observable inputs (Level 2), as defined in note 1(u). There were no transfers between levels during the year and there has been no change in valuation techniques applied.

26. Financial instruments *continued*

(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 Consolidated Entity's short, medium and long-term funding and liquidity management requirements. The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity's major exposure to interest rate risk and foreign currency risk arises from its long-term borrowings.

(p) Interest rate swaps and option contracts

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

Interest rate swap contracts: the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity 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 Consolidated Entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Consolidated Entity to mitigate the risk of adverse movements in foreign exchange rates.

The Consolidated Entity enters into the above derivative instruments to offset the risks arising from its long-term borrowings. To the extent permitted by AASB 9, the Consolidated Entity 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 Consolidated Entity 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.

26. Financial instruments *continued*

(q) Fair value hedges

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

The Consolidated Entity 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 Consolidated Entity'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.

Our 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.

	2017 $'000	2016 $'000
Fixed rate instruments		
Face value	784,929	784,929
FX adjustments	32,671	34,987
Cumulative fair value hedge adjustments	49,300	70,757
Carrying amount	866,900	890,673

26. Financial instruments *continued*

(r) Cash flow hedges

The objective of the Consolidated Entity'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.

The Consolidated Entity enters into interest rate swaps and cross-currency swaps as hedges of future cash flows arising from its borrowings. Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying borrowing. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity.

All of the Consolidated Entity'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 Consolidated Entity's cash flow hedges.

Balance Sheet		**Carrying Amount of the Hedging Instrument**		
2017	**Notional Amount of the Hedging Instrument $'000**	**Assets $'000**	**Liabilities $'000**	**Line item of the Statement of Financial Position where the hedging instrument is located**
Cross-currency swaps				
Fair value hedge	460,929	46,615	-	Financial assets
Cash flow hedge	2,106,204	212,631	15,372	Financial assets / Financial liabilities
Interest rate swaps	784,923	78	41,886	Financial assets / Financial liabilities
Forward interest rate hedge	1,066,000	1,823	1,240	Financial assets / Financial liabilities
2016				
Cross-currency swaps				
Fair value hedge	460,929	64,665	-	Financial assets
Cash flow hedge	1,863,210	274,798	6,272	Financial assets / Financial liabilities
Interest rate swaps	796,923	-	60,657	Financial liabilities

26. Financial instruments *continued*

***(r) Cash flow hedges** continued*

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 ineffective- ness**	**Cash flow hedge reserve at 30 June 2017**	**Hedge Ineffectiveness recognised in Income Statement**	**Line item of the Income Statement that includes hedge ineffectiveness**
	Gain/(loss)	**Gain/(loss)**	**Gain/(loss)**	**Gain/(loss)**	
2017					
Cash flow hedges					
Interest rate and foreign exchange rate risk on cross currency swaps	197,259	312,795	(48,511)	-	N/A
Interest rate risk on floating rate borrowings	41,446	42,618	41,446	-	N/A

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				2,685	Borrowing costs
2016					
Cash flow hedges					
Interest rate and foreign exchange rate risk on cross currency swaps	268,628	302,069	(15,105)	-	N/A
Interest rate risk on floating rate borrowings	60,649	62,667	60,649	(882)	Borrowing costs

		Line item of the Income Statement that includes hedge ineffectiveness
Fair value hedges		
Interest rate risk	6,092	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**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Transfer to profit and loss	11,036	10,906	33,629	7,362	62,933

27. Dividends

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Fully franked dividends paid during the financial year (refer to Director's Report for details) (2017: $1.81 per share, 2016: $1.34 per share)	213,849	158,000
Franking account	28,548	42,556

28. Company disclosures

(a) Financial position:

Assets:		
Current assets	20,053	20,053
Non-current assets	127,407	127,407
Total assets	**147,460**	**147,460**
Liabilities:		
Current liabilities	-	-
Total liabilities	-	-
Net assets	**147,460**	**147,460**
Equity:		
Issued capital	118,100	118,100
Retained earnings	29,360	29,360
Total equity	**147,460**	**147,460**
(b) Financial performance		
Profit for the year	213,849	158,000
Other comprehensive income		
Total other comprehensive income	213,849	158,000
(c) Non balance sheet commitments:		
Guarantees of debt	-	-
Contingent liabilities	-	-
Commitments for the acquisition of property, plant and equipment by the parent company	-	-

29. Subsequent events

The Directors are proposing a final dividend for the year ending 30 June 2017 of $120,168,000 to be paid in September 2017.

30. Contingent liabilities

The Consolidated Entity did not have any contingent liabilities as at 30 June 2017.

31. Additional company information

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

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