APAC

ANNUAL REPORT 2017/18

MELBOURNE | LAUNCESTON

Australia Pacific Airports

Australia Pacific Airports Corporation
ABN 89 069 775 266

Contents

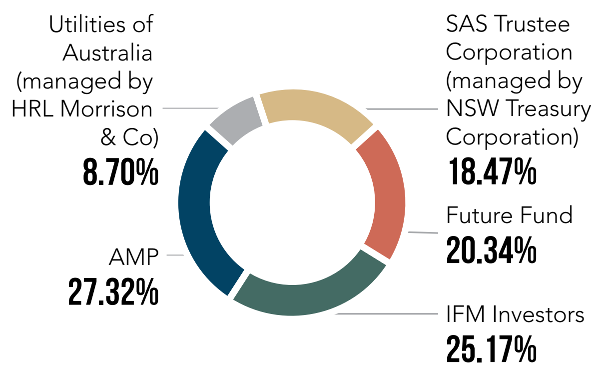
Our Company

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 privately held corporation owned by institutional investors, predominantly superannuation/pension funds.

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



About Melbourne Airport

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

The Melbourne Airport site is approximately 2,663 hectares in area. It is predominantly surrounded by non-urban uses to the immediate north and west. This helps protect the community and safeguards the airport from encroachment of sensitive and incompatible uses. There is urban development to the east and south of the airport, comprising a mix of residential and industrial uses.

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

The terminal complex is located on the east side of the north-south runway and south of the east-west runway. The passenger terminal complex combines international facilities (Terminal 2) with three domestic terminals (Terminals 1, 3 and 4). This integrated terminal precinct enables Melbourne Airport to provide the shortest minimum connection time between domestic and international flights of all major Australian airports. The terminal precinct is served by approximately 60 hectares of apron to accommodate aircraft for loading or unloading of passengers, mail or freight, and for fuelling, parking or maintenance.

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

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

About Launceston Airport

Launceston Airport is situated 15 kilometres south of Launceston City near the local towns of Perth and Evandale. The award-winning airport, which this year marked its twentieth year since privatisation, serves as a domestic, regional and general aviation gateway to

Northern Tasmania for commercial aircraft, airfreight and private operators. The airport is well situated to service the state as it is located adjacent to the Midland Highway and trunk routes servicing the north, north-west, north-east and south of Tasmania. A major rail junction is located at the southern end of the airport.

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

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

Launceston Airport is the second-busiest airport in Tasmania for passengers and provides the main aviation hub for Northern Tasmania. Located close to the Launceston CBD, the airport is a key component of Tasmania's infrastructure providing access to national and international markets for both tourism and business. While fewer than 40 staff are employed at Launceston Airport by APAC (and its operating subsidiary, APAL), the airport has an average daily workforce of around 500.

Tourism is Tasmania's fastest-growing industry, with around 160,000 Tasmanians directly employed by the tourism industry and another almost 20,000 reliant on the economic activity generated by tourism. In the communities surrounding Launceston Airport around seven per cent of the workforce, more than 6,000 people, are directly employed in the tourism sector. With aviation by far the dominant mode of entry into Australia's only island state, the long-term importance of Launceston Airport as the gateway to Northern Tasmania is hard to overstate.

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

Our APAC Values

At APAC we are:

Authentic

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

Passionate

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

Accountable

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

Collaborative

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

Our Strategy

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

Airports are assets that were originally built by governments – to deliver benefits for their host communities. They are value multipliers, opening up communities to new markets for tourism, freight and trade.

As operator of two iconic Australian airports, APAC understands that the reason its assets exist is to serve their local communities – and Australia more broadly.

But that can only happen as long as airlines are also serving those markets. The symbiotic relationship between airports and airlines is therefore vital to the success of the APAC business, and as such is the foundation of our five strategic pillars.

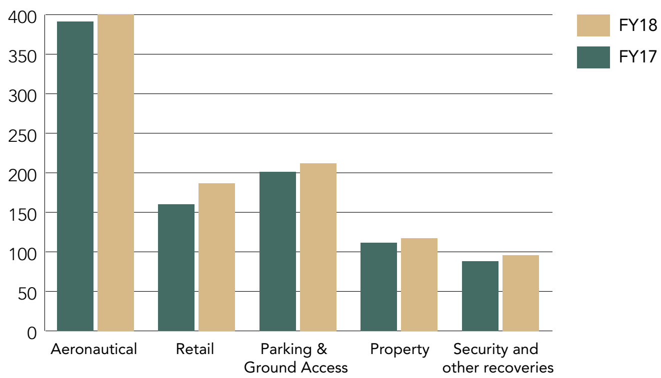
Our 5 Strategic Pillars & Priorities

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

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

Financial Highlights 2017/18

REVENUE

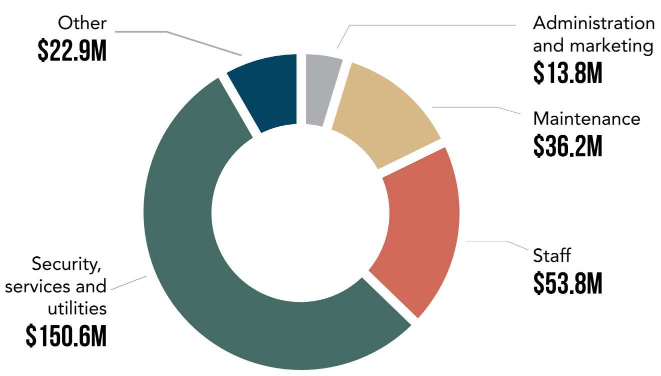


STRONG REVENUE GROWTH

↑ 6.1%

- 4.3% increase in total passengers to 38.1m
- 9.4% increase in international passengers to 10.9m
- 2.4% increase in domestic passengers to 27.2m
  - Melbourne 25.8m
  - Launceston 1.4m

COSTS

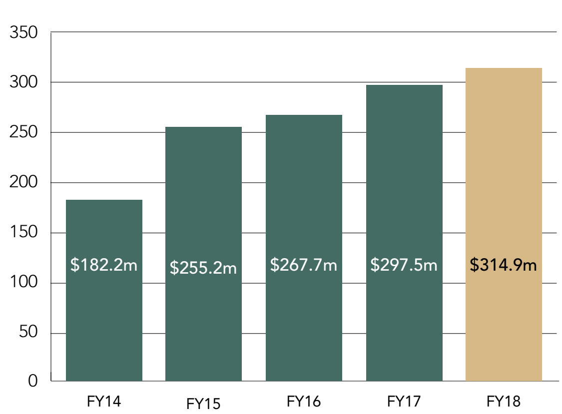


MEASURED COST GROWTH

↑ +5.3%

Normalised cost excluding one off items increased 5.3%

NET PROFIT



CAPITAL SPEND

$284.4M

- Completion 8th international baggage reclaim
- Completion T2 luxury development
- T2 check in expansion zones L, M, N

Chairman's Report

Diligent management of APAC's finances saw the business return a strong result for the 2018 financial year, despite a challenging commercial environment. APAC returned $314.9 million in Profit after Tax and will pay dividends of $245 million to shareholders. Vital progress on landmark capital works was a key highlight from the year.

2017/18 Annual Report

We are pleased to present our Annual Report for the financial year 2017/18.

The past year has again seen international operations surge in Melbourne, while domestic market growth remains constrained by the major airline groups. Total passenger movements for APAC increased by 4.3 per cent, with a combined total of more than 38 million passengers across our two airports.

For the first time in the history of Melbourne Airport, international passenger movements exceeded 10 million annual travellers (10.9 million). This reflected year-on-year growth of over 9.4%.

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

Performance

Despite the limitations on growth in Australia's domestic aviation capacity, APAC delivered a strong result for shareholders through diligent cost management and reprioritisation of several initiatives. The financial year ended 30 June 2018 saw the business deliver Profit after Tax of $314.9 million, up from $297.5 million in the previous financial year. Our core Aviation business unit contributed almost 40 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 $245 million to shareholders. Our investors are responsible for managing superannuation and pension funds for millions of Australians and these dividends are an important contribution to those retirement savings.

After another year in which Australian company taxes dominated news headlines, it is with some pride that we note APAC's strong financial performance also delivered a substantial contribution to government revenue. APAC paid income tax for the financial year ended 30 June 2018 of $107.2 million.

Sustainability

The past financial year has seen increased focus on environmental, societal and governance (ESG) factors among our investor community – both our shareholders and our debt investors. Our business remains committed to ensuring safe, secure and environmentally responsible operations in Melbourne and Launceston, and this commitment was recognised with improved ratings in the Global Real Estate Sustainability Benchmark (GRESB). More detail on APAC's ESG performance is included later in this report.

Safety

APAC's Board is proud to report that our airports retained a 'zero fatality' record in the financial year to 30 June 2018. All airport employees and customers have the right to a safe airport experience, and our zero fatality record cannot be valued too highly.

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

More details on the APAC Safety Strategy are included later in this report, including details of specific safety campaigns undertaken during the period.

People

It is vital APAC is an employment destination of choice for talented, motivated people who can thrive in a high performance environment.

We are pleased to report that the APAC Enterprise Agreement was successfully negotiated to completion during the financial year, with 89% of eligible employees voting to accept management's proposal in February 2018. Of significance to the APAC workforce was the alignment of the agreement with the APAC remuneration framework, which increased the ability of the business to recognise high performance with additional incentives.

Board

The Board remained unchanged in the financial year to 30 June 2018, ensuring continuity of all Directors with regard to APAC's strategy. The work of the Board continued to be supported through a governance structure comprising three Committees: Audit & Risk Management, Finance & Projects, and Remuneration.

Outlook

The success of any airport is predicated on growth in passenger numbers. This fundamental characteristic of the airport business model is strongly aligned with the best interests of consumers: more accessible (affordable) air travel creates more opportunities for travellers, delivers more passengers for airlines, and consequentially a stronger result for airport businesses.

Timely investment in infrastructure to facilitate this growth is a critical factor in the sustainable operation of any airport. Failure to invest in critical infrastructure limits competition among airlines, driving up prices for travellers and creating an artificial constraint on a region's economic performance. APAC remains deeply committed to building the infrastructure every airline customer, both current and future, needs in order to grow its business at our airports.

David Crawford AO
Chairman

Chief Executive Officer's Report

The APAC team has tackled the past financial year with an increased focus on investment for the future and a strong commitment to delivering a better experience for every traveller through our airports. Numerous projects that commenced in FY17 have now been delivered, enhancing the traveller experience at just about every turn. The Draft 2018 Melbourne Airport Master Plan entered public exhibition during the financial year, and outlines a future where nearly 70 million passengers a year are expected by 2038. We look forward to tackling that challenge in lock-step with our airline customers, whether domestic or international.

Our business' success would not be possible without the dedication and commitment of the whole APAC community working together – whether that's the APAC management team and staff, our service providers, business and community partners, government and our owners and investors. Ultimately, airports succeed by delivering for the airlines they service, and every day the APAC team acknowledges the integral role our airline customers play in supporting the visitor and freight industries of Australia's south-east. To every stakeholder who has contributed to our success this year, thank you.

International services driving unprecedented growth in passenger numbers

Australia's busiest 24/7 airport smashed its passenger records over the past financial year, welcoming 36.7 million travellers in the 12 months to 30 June, an increase of 4.4 per cent compared to the previous year. Domestic capacity has remained relatively subdued over the period, with both major domestic carrier groups actively practicing capacity discipline. Despite this, the strength of the Melbourne-Sydney route helped contribute to domestic growth of 2.4 per cent compared to the prior year.

But the real story is in the growth in international traffic. International passenger numbers grew by 9.4 per cent compared to the previous financial year, driven in large part by the addition of six new international carriers (Japan Airlines, LATAM Airlines, SriLankan Airlines, Air Canada, Tianjin Airlines and Malindo Air), and the commencement of services to six new destinations (Santiago, Vancouver, Colombo, Zhengzhou, Hangzhou, and Chongqing).

International demand for access to Melbourne continues to grow, driven by the increasing availability of super-efficient new generation aircraft being deployed to both long-haul (Hong Kong, Hanoi, Bangkok, Tokyo, Singapore) and ultra-long haul (Vancouver, Santiago, London – via Perth) destinations alike. However the key driver of this sustained growth in international services is the desirability of the Melbourne (and south-east Australia) market, and the attractiveness of Australia's fastest-growing local population.

Delivering sustainable returns for investors

With airports in Melbourne and Launceston, APAC is positioned strongly in the Australian aviation market. Melbourne is Australia's fastest-growing city, with a population now greater than five million people. Launceston is the portal to the magic of Northern Tasmania, closer to the mainland than the state's capital and on the doorstep of some of the island state's most iconic natural wonders.

However there are a finite number of aircraft in the world, and a well-publicised pilot shortage in the domestic market, meaning airport businesses need to play their part in securing services for their host city – and making those services sustainable for the longer term.

Australia's airports compete with other ports domestically and internationally in airline attraction. Indeed, airports and state-based tourism bodies are increasingly working in partnership to win business from overseas carriers, combining the attractiveness of destinations like Melbourne and Launceston with competitive offers and incentive schemes.

While airports are anchored to their host city, airlines are free to move aircraft to the most profitable routes. This creates a strong incentive for airports to price aeronautical services competitively, catering to individual airline needs as much as possible within the constraints of common user infrastructure.

Successful commercial negotiations set the scene for the next five years

At the close of the 2017/18 financial year APAC had signed its next Aeronautical Services Agreement (ASA) with 37 airlines, representing 94 per cent of the international carriers operating out of Melbourne Airport. This ASA gives airline customers pricing certainty for the next five years, enabling airlines to optimise their fleet management over the contract period. Melbourne Airport's most recent ASA features a number of elements that increase the input and influence of airlines into the capital planning process, ensuring the right infrastructure is delivered at the right time. Several of these features are adapted from, and build upon, the best elements of deals struck elsewhere by participating airlines.

Enhancing efficiency through smart infrastructure investment

During the past financial year two projects in Melbourne Airport's international terminal, T2, showcased APAC's commitment to investing in smart infrastructure to drive efficiency gains throughout the traveller journey, while delivering a more streamlined and pleasant airport experience.

In November 2017 the first of three new hybrid check-in zones opened, replacing older style check-in counters with a mix of self-service check-in kiosks and hybrid desks. This installation marked the first time in Australia that hybrid check-in desks have been available to international travellers. With more travellers than ever wanting to self-service at check-in, the new zones dramatically reduce queueing time. At the same time, they dramatically reduce the cost of staffing a long bank of traditional desks – delivering cost and efficiency benefits for our airline customers.

At the other end of the international traveller experience is baggage reclaim, and in December 2017 we delivered a critical project to further enhance this process in Melbourne. The eighth international baggage reclaim can help to increase arriving international passenger throughput by 15 per cent. The airport's largest carousel can hold approximately 800 bags at any one time – equivalent to the passenger load of two widebody aircraft.

Topping off a successful year, we were proud that SkyTrax named Melbourne's Terminal 4 the best low cost terminal in the Australia/Pacific region and third place worldwide.

In Launceston, a complete reconfiguration of the terminal removed a significant choke point in the traveller journey through the terminal. By reorienting the security screening point, travellers now pass through screening immediately after check-in, meaning they can maximise their relaxation time in the lounge prior to boarding. The reconfigured terminal has helped airlines improve their on-time performance, while also reducing traveller anxiety and unnecessary queuing time.

Creating lasting impressions with a sense of place

Having completed the refurbishment of the Launceston Airport terminal retail and hospitality precinct in early 2017, the past year has seen Melbourne Airport deliver several projects that similarly bring a sense of place to life at the airport.

With research showing a new generation of international travellers wanting more from their airport experience, Melbourne Airport embarked on building a new luxury retail laneway on our international departures level. Attracting brands that are typically at home on Collins Street in the CBD, the luxury retail precinct perfectly complements the expanded duty free footprint and delivers a retail experience to meet the expectations of an increasingly discerning global market.

As Melbourne is also the home of the Australian 'foodie' scene, it's only appropriate that our new retail offer be further enhanced with dining options from some of the city's most famous restaurant brands. Iconic names such as Café Vue, Bar Pulpo by Movida and Brunetti Caffe have been joined by emerging dining options including Urban Providor, the Two Johns pub and Vietnamese fusion establishment, BaXa. The result is a retail and dining precinct that reminds departing travellers just why Melbourne is designated Australia's food and shopping capital.

For domestic travellers, or friends and family who had travelled to the airport to meet an arriving passenger, the summer of 2017/18 welcomed the airport's first pop-up establishment. Local craft brewery, Stomping Ground, brought to life a pop-up beer garden, designated T3 ½. With a selection of Melbourne's most popular food trucks rotating through the venue, T3 ½ rapidly became a favourite destination for the twenty-thousand strong on-airport workforce, as well as passengers taking a little longer to say farewell to loved ones before their flights. T3 ½ was such a hit it will return for the 2018/19 summer.

More work ahead to meet forecast demand

During the past financial year we were pleased to welcome announcements by both the Commonwealth and Victorian Governments pledging funding to support development of a rail link to Melbourne Airport. This will be a piece of infrastructure critical for Melbourne to cope with its growth and congestion challenges, as well as opening opportunities for communities to Melbourne's north and west, having been part of the Melbourne Airport planning conversation since the 1960s.

As recognised by this pledge by two levels of government, growth at Melbourne Airport is proceeding at a rapid pace – in some cases requiring significant capital works to meet looming capacity demands. Work on the Runway Development Program Major Development Plan has continued throughout the financial year, and Major Development Plans have also been commenced on projects to improve on-airport traffic movements (elevated loop road) and on-airport accommodation (T4 hotel precinct). These projects, and many others, will be critical to meeting the demands of the millions of additional passengers our airlines are forecasting during the next five years.

Lyell Strambi
Chief Executive Officer and Managing Director

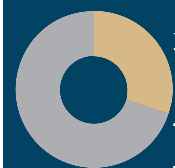
OUR BUSINESS

Melbourne Airport is the primary gateway for visitors to Victoria and enables connections to 31 locations throughout Australia and 43 international destinations. We work closely with our airline customers, as well as local, state and federal governments and tourism partners to grow existing routes and open up new routes that benefit travellers and increase visitation to Australia. We also collaborate with airlines to deliver terminal and airside infrastructure that is efficient and cost effective, while ultimately enhancing the traveller journey. We're proud of the outcomes we've achieved in facilitating tourism, freight and trade through this dedicated partnership approach.

Aviation

Passenger Movements

36.7 million ↑4.4% from 2017



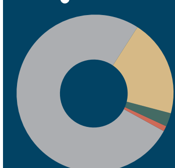
30% international +9.4% from 2017

70% domestic +2.5% from 2017

Aircraft Movements

244,476

↑2.2% from 2017



20% international

3% freighters

1% other

76% domestic

Airlines

35 International

6 Domestic and Regional

Destinations

43 International

31 Domestic and Regional

Freight

307,250 tonnes exported and imported

35% export market share

As passenger numbers hit new records, we continue to make improvements to the traveller experience throughout our terminals, better utilising the facilities and operations we already have while expanding capacity both inside the terminal precinct and on the airfield. This includes the provision of smart security procedures and equipment as directed by the Federal government.

Record increase in international passengers

Over the past financial year Melbourne Airport witnessed an intense surge in passenger growth thanks to our airline customers and new airlines who opened new routes, particularly in the international market.

Melbourne's desirability as a destination in its own right, in addition to new generation aircraft technology, has helped drive demand for non-stop air travel in and out of Melbourne.

Adding 1.2 million international seats in the past financial year resulted in a growth rate of 9.4 per cent in international passenger numbers.

A relatively flat domestic market, cultivated in part by domestic carriers pursuing better yields through capacity discipline, contributed growth of 2.5 per cent.

The overwhelming growth contribution of international numbers pushed overall passenger traffic to 36.7 million people at 30 June 2018, a year-on-year increase of 4.4 per cent compared to the previous period.

Commercial agreements

Through collaborative negotiations, Melbourne Airport's most recent Aeronautical Services Agreement (ASA) features a number of elements which support our customers' need for improving amenity, capacity and service, providing greater visibility and engagement into the capital planning process and increasing commitment from the airport for service delivery.

For example, it includes:

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

JUHI

In November 2017 Melbourne Airport announced a new long-term agreement reached with fuel suppliers securing investment in the Joint User Hydrant Installation Joint Venture (JUHI) facility infrastructure for the coming two decades years.

The new agreement addresses four critical issues:

- Increase in storage capacity to improve resilience;
- Minimum input capacity to improve ability to re-stock after any supply shocks;
- Commitment to invest in hydrant infrastructure in line with airline customer growth; and
- Open access.

Storage capacity

Under the new agreement jet fuel storage at Melbourne Airport will be brought into line with IATA guidelines of at least three days operating requirements. The JUHI Joint Venture (JV) is currently constructing two new 20 megalitre tanks on their expanded Melbourne Airport site and expect them to be completed in October 2019.

Input capacity

The JUHI JV will also ensure the input capacity for receipting fuel will be at least 110 per cent of average 'peak day' daily operating requirements to allow Melbourne Airport to recover from any supply shocks.

Hydrant infrastructure

Hydrant infrastructure is critical to ensure efficient use of airport infrastructure and ensuring Melbourne Airport is able to meet the forecast demand going forward. The commitment from the JUHI JV to invest in hydrant infrastructure in line with airline customer growth will ensure on-airport infrastructure is developed in unison with the airline demand.

Open access

An open access regime is included in the new agreement to facilitate additional competition in the Jet-A1 market at Melbourne Airport. To date Melbourne Airport is aware of four parties that have applied for access, and are awaiting a response from JUHI to their application for access. The new agreement also includes a provision enabling an additional pipeline to connect to the JUHI facility.

International

More choice for Victorians with more destinations, more airlines, more often.

International passenger volumes hit an all-time high as more than 10.9 million travellers flew through Melbourne Airport in the 12 months to 30 June 2018, an increase of 9.4 per cent on the previous financial year. Six international airlines commenced operations at Melbourne Airport – Air Canada, LATAM Airlines, Japan Airlines (JAL), Malindo Air, Tianjin Airlines and SriLankan Airlines.

AVIATION CONTINUED

Six additional overseas routes launched during the year, contributing to a milestone in international capacity with the addition of 1.2 million additional seats during FY17/18, bolstering leisure and business travel opportunities to Vancouver, Colombo, Chongqing, Zhengzhu, Santiago and Hangzhou. Qantas also announced a new non-stop service to San Francisco, giving Victorians another US west-coast city to explore via a non-stop flight, no longer needing to transfer via Sydney.

It comes as no surprise that seat capacity grew on a number of existing routes including Singapore, Hong Kong, Manila, Bali, Dubai, Bangkok, Beijing and Los Angeles. Many of these destinations have strong links to some of Melbourne's largest multicultural groups, particularly our Malaysian and Filipino communities.

China continues to shine as Melbourne's largest international visitor market with 952,181 Chinese nationals recorded flying through Melbourne Airport over the last financial year. Currently there are nine airlines operating out of Melbourne Airport flying to 12 destinations in mainland China. While demand to China continues overall, other markets that have demonstrated strong growth include Japan at 45 per cent and Taiwan at 38 per cent. Other markets to reach a growth of more than 20 per cent include Sri Lanka, Hong Kong, India, Canada and Vietnam.

More airlines introduced services using new generation aircraft like the Boeing 787-9 and Airbus A350 during the financial year, making long-haul travel more cost effective for both airlines and travellers. This is evident in the growing number of new-generation aircraft flying from Melbourne to destinations such as Bangkok (Thai Airways), Ho Chi Minh City (Vietnam Airlines), Hong Kong (Cathay Pacific) and Singapore (Singapore Airlines).

Additionally, the improved range capability of these aircraft open up non-stop routes to new destinations, such as Air Canada's 15-hour B787-9 service between Melbourne and Vancouver – the longest flight out of Melbourne, never before available on older aircraft types. Similarly, LATAM's non-stop service to Santiago allows Victorians to travel direct to South America for the first time, opening up new tourism opportunities on both sides.

By introducing new carriers with varying departure times, we are also providing travellers with more flexibility thanks to our 24/7 operation. Travellers can reach popular destinations such as Tokyo via JAL on an overnight flight, making the journey even more convenient, while complementing the market serviced by incumbent carriers and their arrival and departure times.

The surge in international routes is creating a positive flow-on effect for freighters who can take advantage of greater access to markets in Asia and beyond. Exports from Melbourne Airport to overseas markets increased by 12.4 per cent over the past financial year, strengthening Melbourne's reputation as the key freight hub for South Eastern Australia.

To support the rise in international passenger numbers Melbourne Airport is investing heavily into improving elements of Terminal 2 with upgrades to check-in, security screening, retail and dining outlets all completed or underway at year-end 30 June 2018.

Domestic

Melbourne Airport's domestic market grew at 2.5 per cent, faster than any other major Australian airport. Around 25.8 million people flew in and out of Melbourne Airport during the financial year. The Melbourne-Sydney route continued to soar in popularity with 54,494 flights recorded, making it the second-busiest air route in the world. Due to the location and hours of operation, Melbourne Airport welcomes 40 per cent of the aircraft flying on Australia's domestic network by lunchtime every day and acts as a freight hub not just for Victoria, but also Tasmania, South Australia and southern parts of New South Wales.

Although domestic network capacity growth remained relatively flat, capacity did climb on several routes with significant increases to Townsville, Kalgoorlie, Whitsundays, Toowoomba, Sydney and the Sunshine Coast.

In December 2017, Melbourne Airport and Virgin Australia announced a new concept in airport terminal design for Terminal 3, to streamline check-in and enhance the traveller experience. The check-in overhaul will replace all check-in kiosks with new infrastructure and software, in addition to upgraded bag drop facilities. A new enclosed walkway will connect the front of Terminals 3 and 4 improving connectivity by allowing passengers to move between the terminals without leaving the building. The improvements within the new-look T3 will also feature dedicated in-lounge security screening, creating a more streamlined screening process for Virgin premium travellers. Virgin Australia passengers arriving into Melbourne will also benefit, with plans to add two more baggage carousels to relieve congestion and accommodate anticipated growth on the airline's network.

T2 Security Expansion

Security screening is a critical part of the traveller journey. It represents a constantly evolving challenge for airport operators that need to adapt to changing governmental requirements and ever-improving screening technologies and procedures. The new international screening point will incorporate boarding pass-scanning Smart Gates at the entry, with capability to integrate facial recognition in the future. The screening lanes consist of new body scanners that provide a much faster and easier process for the traveller and new Smart Lanes that incorporate centralised image processing and tray return systems providing both improved security outcomes and enhanced customer experiences. These improvements are also being implemented to future proof for the upcoming introduction of Computed Tomography (CT) technology. In addition to the upgrades to technology, we are improving the interior by adding more lighting, wooden panels, and a re-configured queuing space. The entrance has also been transformed to align with the airport's check-in hall upgrade, creating a more welcoming environment to ensure travellers can relax and focus on enjoying their flight sooner.

Self-service check-in

Works on the airport's T2 check-in hall upgrade commenced in November 2017, improving facilities at check-in counter zones M to O. Stage one of the upgrade saw 46 self-service check in kiosks, six automated bag drop units and 16 customised hybrid desks installed across the check-in zones. Stage two of the project consists of the redesign of check-in counter L, which will be unveiled in October 2018.

Eighth baggage reclaim

The airport's eigth baggage reclaim, unveiled just before Christmas 2017, enabled the airport to increase international passenger throughput by 15 per cent, ensuring travellers enjoy a seamless arrivals process. The 155 metre baggage carousel is the airport's largest and can hold approximately 800 bags at any one time – equivalent to the passenger load of two wide body aircraft. Working in conjunction with the carousel is a new 85 metre long LED digital screen displaying promotional images of Victoria, giving our travellers a warm welcome and inspiration to explore.

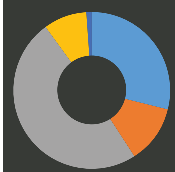
Airfield Works – Foxtrot Apron

In January 2018 we added two additional parking stands for widebody aircraft (or four narrow body international domestic stands) adjacent to the western end of Foxtrot Pier (Pier F). The new stands will incorporate fuel hydrant infrastructure and the ability to facilitate bussing operations. It is anticipated that fuel to these new stands will be provided by mid-2019.

Parking and Ground Access

Public Carparks

23,795



29% Terminal 123
12% Terminal 4
49% Long-term
9% Value Long Stay
1% Business Carpark

Road Network

40+ km
across the airport precinct

Vehicle Movements

120,000
per day

Taxi Pickups

6,500+
per day

SkyBus Passengers

3,600,000
per year

We're here to get you there – ensuring travellers can access the airport safely and efficiently, 24/7.

Melbourne Airport's Parking and Ground Access business is responsible for building and maintaining the landside infrastructure to support efficient passenger transit into and out of the airport. With a total airport footprint of more than 2,500 hectares, and situated at the intersection of Melbourne's northern and western growth corridors, on-airport roads are also integral components of the local community road network. The on-airport road network spans 40 kilometres of roadway and on an average weekday carries approximately 120,000 vehicles.

Airline passengers travelling to and from Melbourne Airport can choose from nine modes of ground transport, including almost 24,000 public car parking bays across 10 dedicated on-airport products. Revenue is generated directly through consumer patronage of the airport's car parks, and indirectly through access charges levied from commercial transport operators including taxis, rideshare operators, chauffeur services, rental cars and car share, and the SkyBus city shuttle service. The forecourt also includes lane allocations for shuttle buses servicing more than 15 off-airport car park operators. In addition, the airport forecourt and T4 ground transport hub both provide free public pick-up and drop-off lanes.

Airport access fees are charged to commercial transport operators on a cost-recovery basis. That is, the fees are set based on the costs the airport has incurred in building and maintaining specialised infrastructure for use by those operators. Such infrastructure includes ranks, bus stops, dedicated roadways and parking facilities, right through to café and toilet facilities to support professional drivers away from the terminal precinct.

Our improved Valet product and the introduction of our Premium Car Park helped Parking and Ground Access increase revenue by 5.3 per cent in the last financial year. The delivery of new car-wash facilities for rental operators also facilitated a reduction in vehicles recirculating on the road network.

The introduction of ridesharing services to Victoria during the financial year has allowed us to expand our transport mix to cater to different traveller preferences. As the mix of transport options continues to evolve APAC will continue to work with commercial operators to understand where established and emerging modes of transport deliver the greatest value to the traveller.

Here to get you there

Following a comprehensive review of the product portfolio, the *Here to Get You There* marketing campaign launched in March 2018, accompanied by price reductions of up to 20 percent for drive-up at terminal parking (and consequently reductions for at terminal online bookings also). The immediate successes of the campaign were a strengthening in at terminal drive-up transactions, and a consequential reduction in congestion through the forecourt and associated roads.

When the Victorian government legalised rideshare a dedicated pick-up zone for UberX and other rideshare operators opened inside the forecourt. In addition, both the Victorian and Federal governments committed to providing $5 billion each to fund a future Melbourne Airport Rail Link, along with funding for a feasibility study.

Value Short Stay/Value Car Park

Responding to consumer demand for an ultra-value product offer, Melbourne Airport opened its Value Short Stay car park in December 2017, offering four hours of parking for only $10. The Value Short Stay car park now provides the lowest meet and greet pricing structure, giving families or friends of travellers another option to linger for a longer goodbye, or meet incoming travellers in the terminal.

Value Short Stay contains 200 car park spaces and is specifically designed for the pick-up/drop off market. Providing four hours of parking for a flat price of $10, the car park also includes a free on-demand shuttle bus service that operates 24/7.

10-minute Wait Zone

A new 10-Minute Wait Zone opened in March 2018 as part of the airport's investment in congestion management, to remove circulating traffic from the forecourt and associated roadways. The Wait Zone is conveniently located for travellers, just steps away from the At Terminal T123 Car Park.

Rideshare

Rideshare was legalised in Victoria in August 2017. To cater to UberX and other rideshare operators, two dedicated wait-zones were created: one each in the forecourt and the At Terminal T4 Ground Transport Hub.

Melbourne Airport Rail Link

Commitments from state and federal governments towards developing a rail link to Melbourne Airport were welcomed by Melbourne Airport and APAC during the financial year. A rail link that connects Melbourne Airport not just with the city, but with regional Victoria as well, will play an important role in solving the broader issue of congestion on Melbourne's roads, and catering to the city's population growth. APAC is working together with other parties to consider aspects of the rail link, including undertaking market research and economic analysis. Ultimately an airport rail link must be fast, frequent and affordable and play a role in connecting to wider Victorian regions.

AFL Partnerships

Melbourne Airport commenced partnerships with eight Victorian AFL Clubs to build awareness of our car park products. The deal with Collingwood, Richmond, Western Bulldogs, Carlton, Melbourne, North Melbourne, Essendon and Hawthorn each team access Valet and At Terminal parking ahead of interstate travel. The partnerships also generate discounts for AFL members who travel interstate for games.

Property

Airport Estate

355 leases | 2,663 hectares

Melbourne Airport Business Park
inc. Melbourne Airport Cargo Estate

59 leases | 410 hectares

Elite Park

4 leases | 57 hectares

The Hive

7 leases | 2 hectares

Terminals

189 leases | Other 86 leases

Melbourne Airport occupies 2,663 hectares of leasehold land with a property portfolio valued at more than $1.5 billion (containing over 355 leases across 464 tenancies), making it one of the most exciting pieces of real estate in the country. Our Property business generated $117.1 million in revenue during the 2017/18 financial year, an increase of 4.9 per cent on 2016/17.

Precinct Strategy

An updated precinct strategy released in 2018 involved a comprehensive review of the Melbourne Airport value proposition for tenants of the vast land bank.

With global business park trends pointing to the co-location of complementary businesses, the focus of the Precinct Strategy was to create four distinct precincts of the airport estate. The identity of each precinct showcases the unique value proposition that it offers for prospective tenants. These precinct identities are reinforced through existing anchor tenants that epitomise the types of businesses best suited to each.

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

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

During the 2017/18 financial year the Melbourne Airport Business Park expanded significantly with the opening of Australia's largest commercial kitchen operated by dnata catering. The 11,000m^2 purpose-built facility allowed dnata catering to grow from preparing 4,000 meals per month to up to 750,000 meals per month. The Porsche Parts Distribution Centre, and Mecca Brands, also moved into the Melbourne Airport Business Park.

Elite Park is designated as an elite training and customer experience precinct, creating important community utility along the eastern boundary of the airport estate. Already home to Essendon Football Club, the precinct also welcomed URBNSURF Melbourne to its 57 hectare site in the 2018 financial year. The Property team will continue to target experience centres and leisure opportunities that bring new amenity to this important community-facing precinct.

The Hive. As the number of travellers and airport workforce rise, The Hive will function as a public oasis servicing the needs of those accessing the airport, due to its close proximity to Terminal 4. With around 20,000 individuals working on-site at the airport every day, along with tens of thousands of travellers, The Hive will create a vibrant centre that everyone can access for dining and recreational purposes.

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

The Forefront is a world-leading commercial precinct with large-scale exposure along the Tullamarine Freeway, perfect for high-density development. Mercedes-Benz Melbourne Airport plays an important role in enhancing the service experience for current customers who travel regularly, through its car service offering and the short-term plan is to add further convenience for passengers. Future development of the site could incorporate additional automotive showrooms. Creative Garden Early Education Tullamarine, located in The Forefront, provides child care services, including long day care to 120 children. It is our long-term vision to shape the area as a major employment precinct with services such as health care, including a medical research centre and specialist healthcare services.

Lounges

During the past financial year we expanded the airport's lounge offering by opening the American Express Lounge and Plaza Premium Lounge with a total space of more than 700m^2, located side by side in Terminal 2 departures. In an Australian first we also opened the Marhaba Lounge, with seating capacity to hold 200 guests. Both the Marhaba Lounge and Plaza Premium Lounge are pay-as-you-go venues, opening up access to more international travellers. The Plaza Premium Lounge features a dining area with booths and tables, a business area with pod-like seating and a bar serving area. The Marhaba lounge experience offers travellers views of the airfield, with a lounge area, relaxation zone, plus kitchen and bar. In addition, Singapore Airlines renovated its lounge in Terminal 2.

URBNSURF Melbourne

Construction commenced on URBNSURF Melbourne – Australia's first commercial surf park. The first sod was turned in February 2018, receiving strong media attention. URBNSURF Melbourne will feature the world's first full-sized public Wavegarden® 'Cove', a market-leading wave generating technology that will deliver up to 1,000 perfect, 2m high ocean-like waves every hour within a 2.1-hectare surfing lagoon.

The surf-sports, leisure and entertainment facility set to open in April 2019 will also include a multi-outlet food and bar precinct, concept retail store, fully equipped surf and hire shop, a surfing academy, high performance coaching and training options, fitness classes, festival and event spaces and a beach club.

Hotel

In March 2018 Melbourne Airport announced its partnership with AccorHotels revealing plans to build a dual-branded hotel in The Hive. The 464-room, 10-storey venue will appeal to different traveller types – reflecting the 3-star Ibis Styles and 4-star Novotel options. Architectural firm Fender Katsilidis and interior designer Woods Bagot, will create the hotel designed to look and feel like Melbourne, just steps away from Terminal 4. The hotel is earmarked to open by the end of 2020.

Retail

Retail

115 stores **17,870** square metres

Terminal 2

61 stores **12,470** square metres

Terminal 3

18 stores **2,085** square metres

Terminal 4

33 stores **3,070** square metres

T2 Luxury Precinct

Tiffany & Co
Burberry
Salvatore Ferragamo
Max Mara
Emporio Armani
Watches of Switzerland
Bally
Michael Kors
Hugo Boss
Furla
Tumi
Rolex

Melbourne is rightly regarded as the food and shopping capital of Australia. As the gateway between Melbourne and the world it's only right that the airport delivers a first and last impression worthy of the title – whether that's a retail offer resplendent with international high-street designers, or dining options that bring the best of the city's iconic local restaurants and cafes to life at the airport. With 115 stores, including a luxury precinct, we showcase the city's fashion and hospitality offering across three terminals, making the airport not only the gateway to Victoria but also an ideal location to shop, work and invest.

In December 2017, Melbourne Airport's T2 Luxury Precinct was unveiled, elevating the retail and food and beverage offering for more than 10 million annual international travellers.

As part of this development, the Melbourne Duty Free Store by Dufry launched its next-generation store, displaying products through a fully immersive 3D-experience. The T2 retail expansion was the major development of FY18 contributing to the Retail revenue of $186.7 million, reflecting growth of 16.6 per cent on the last financial year.

Our retailers benefit from the airport's busy operation, which sees around 100,000 people fly each day. As passenger numbers continue to rise, our tenants will continue to evolve and play a key role in supporting travellers with an experience fit for an airport of global standing.

T2 Luxury Precinct

Melbourne Airport's T2 Luxury Precinct illustrates our aspiration to bring the city to life at the airport. Boasting top international retailers including Burberry, Tiffany & Co, Salvatore Ferragamo, Max Mara, Bally, Emporio Armani, Michael Kors, HUGO BOSS, Furla, Tumi and Watches of Switzerland and Rolex, the precinct delivers a retail proposition appropriate for an airport of Melbourne's size and global position. The interior references design elements from iconic Melbourne architecture such as Federation Square, and features a striking ceiling that contains 350 gold-coated panels, modelled on the city's use of geometric design. The space also references urban design elements found in Melbourne's iconic laneways.

Some of Melbourne's best-known restaurants and cafes launched venues inside the precinct reflecting the city's diverse culinary scene. Representing Melbourne's 'foodie' culture is Shannon Bennett's Café Vue, and Frank Camorra's Bar Pulpo by MoVida. The world-famous Brunetti Caffe is joined by Two Johns Taphouse and the emerging Vietnamese fusion experience of BaXa. Each venue creates a unique sense of place, generating a memorable, lasting impression for travellers with one last taste of Melbourne before venturing overseas.

Other new hospitality outlets include World of Chocolate, Urban Provedore and Australian Produce Store. The existing area was totally remodelled to accommodate the luxury and hospitality areas within the existing footprint.

All brands and venues have been carefully curated according to extensive customer research, including more than 22,000 surveys. Melbourne's retail mix addresses the needs and expectations of all of our travellers ranging from Australian passport holders to international visitors. Growth markets such as China were top of mind when developing the T2 airside precinct, which is why we have adopted multiple payment methods such as AliPay and Union Pay, included mandarin characters on wayfinding and multi-lingual staff are commonly found in our retail tenancies.

Another significant project delivered by the retail team was the redevelopment of the Melbourne Duty Free Store by Dufry.

The 3,100m[2] departures store was transformed into a next generation store through the use of digitalisation, including a 1.25m x 123.25m wrap around screen used to promote in-house products. There are also brand activations in-store, which gives customers a chance to interact with products like never before. The store features more brands and retail offerings, and combined with the T2 Luxury Precinct spans 6,032m[2], completing Stage 1 of the Terminal 2 retail expansion.

Proudly Melbourne

Renowned Collingwood craft brewery, Stomping Ground, launched the airport's first pop-up bar, creating an outdoor urban oasis through the summer and early autumn months. The venue, named T3 ½, opened in December 2017 and featured craft beer, cider and locally based food trucks, giving visitors a real sense of Melbourne's unique hospitality scene. T3 ½ also contained a large TV screen showcasing the world's major sporting events, complete with deck chairs and a kids' corner. It was such a success that a new agreement has been signed between APAM and Stomping Ground to welcome the venue back in November 2018.

Over the 2017/18 financial year Melbourne Airport signed lease agreements with 33 new tenants. Terminal 4 welcomed Melbourne-based designer, Peter Alexander, and MAC Cosmetics, while Terminal 2 welcomed Pressed Juices and Sumo Salad. In the next 12 months all landside stores in T2 and T3 will be transformed in an effort to bring more Melbourne-based brands to the airport. Requests for Proposals have been issued for 18 stores and restaurants, with the redevelopment set to take place in the second half of the 2018/19 financial year.

Digitalisation

We have integrated new digital assets throughout our retail footprint to improve the way we engage with our customers. As part of the T2 Luxury Precinct development, a 5.5m by 3m screen was installed, to support existing retailers and to create a calming ambience.

In October 2018 Melbourne Airport will install Australia's largest TV screens. Each screen is 24m x 13.2m and can interact with one another to form a continuous image. The screens will be located on the outside of the T4 Car Park, creating a unique advertising opportunity for customers. We can also utilise the digital assets to enhance outdoor events and host community celebrations.

Launceston

Passenger Movements

1.4 million

↑ 2.0% from 2017

Aircraft Movements

19,294

↑ 6.2% from 2017

Retail

5 stores

901m²

Public Car Parks

1,555

26% short term
17% long term
8% undercover
49% saver

Property

31 leases

22,000m²

Launceston Airport is the visitor gateway to the northern part of Tasmania. As tourism to the region grows and traveller numbers hit new records, the airport is planning for the future, with a terminal reconfiguration and upgrades, to cater to demand. We are proud to showcase the region's products and produce, giving visitors and locals alike a strong impression of Launceston and a real 'sense of place.'

Over the 2017/18 financial year, passenger numbers hit 1.4 million – a new milestone for the airport equal to a growth of two per cent on the previous year. For a third successive year, Launceston was named 'Major Airport of the Year' by the Australian Airports Association. In addition, Launceston Airport was once again recognised in the 2017 Tasmanian Tourism Awards, this time taking out the silver award for 'Specialised Tourism Services'.

Terminal reconfiguration

In September 2017, Launceston Airport unveiled a $2.1 million dollar terminal re-configuration, completely transforming the way travellers use the airport. In the new layout, all dining and retail outlets are now located in the airport's airside area, accessible directly after security screening.

The re-orientation allows travellers and their loved ones to relax and enjoy the award-winning James Boag's Bar & Restaurant and The Launceston Store right up until boarding. The terminal re-configuration also enables non-travellers to greet arriving passengers as they enter the terminal, connecting people where it matters. Enhanced large-scale flight departure display screens provide up-to-date flight information and shopping offers. In addition, new toilet and shower facilities have been installed in the check-in hall.

Airside pavement works

To extend the life of the apron, remediation works on Taxiway Alpha combined with the creation of additional aircraft parking bays commenced in June 2018. The $2.2 million dollar project involved the replacement of aging concrete infrastructure, to ensure the integrity of the aircraft movement and parking areas well into the future.

Car park re-brand

We launched a new car park product named '$aver' aimed at cost conscious travellers, yet still providing the key attributes of all our car parks of being close, easy and safe. The car park, located at the southern end of the airport, replaced the existing 'Long Term Car Park 2', and provides the cheapest on-airport parking prices across all periods.

Online achievements

Connecting with our travellers online is important to us and a key reason behind our website upgrade. In January we launched a new site with functionality that provides real-time arrivals and departures tracking, an improved car parking calculator and better separation between traveller and corporate content.

The airport has an active social media presence and continues to enjoy the highest Facebook Review Rating of any of the Australian major airports.

20th Anniversary

This year we celebrated our 20-year milestone since privatisation commemorating the day with long-serving staff, members of the wider-airport community, key stakeholders and two local mayors. It was a great opportunity to reflect on the ongoing investment made in the maintenance and development of the airport and our growth from humble beginnings 20 years ago as a jet base facilitating travel for 544,000 people, to 1.37 million passengers annually.

Tourism initiatives

Successfully growing a local visitor industry depends on deep collaboration between the destination's government, businesses and gateways. In Northern Tasmania, Launceston Airport plays a vital role in helping to attract a greater share of Tasmanian visitor traffic, with its commitment to steer visitors to both iconic and emerging local destinations. As part of Launceston Airport's support of the tourism industry we help bring some of Launceston's popular attractions to life and create a "sense of place" through sponsorship and in-terminal promotion of key events and festivals including the Junction Arts Festival, the Glover Prize and Festivale. We work hard to promote our domestic connections to locals and interstate visitors. During the year we were proud to lift our status as the jet gateway to the iconic Cradle Mountain and to world-class golfing and mountain bike trails.


Spirit of Australia
QAN
D5
D7
HSBC
XIAMENAIR
B-2763
厦门航空

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

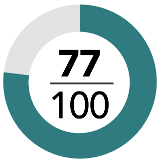
Environmental, Social and Governance Report

Global Real Estate Sustainability Benchmark (GRESB)

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

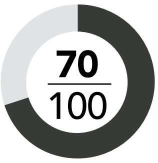
The 2017/18 financial year marked APAC's second year of participation in the GRESB ranking process, seeing the business ranked among a growing class of transportation infrastructure assets.

Having ranked highly against a very small peer group, in the past year APAC outperformed its prior year performance in every category, highlighting the business's commitment to incorporating ESG reporting considerations across its operation.



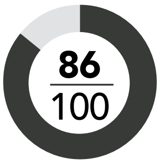
GRESB

GRESB Average 43 **Peer Average 58**



Implementation & Measurement

GRESB Average 34 **Peer Average 50**



Management & Policy

GRESB Average 52 **Peer Average 67**

APAC ESG Stakeholder Matrix

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

Governance

We are committed to exceptional corporate governance policies and practices which are fundamental to the long term success and prosperity of APAC.

Our Board of Directors brings a broad range of local and international experience across industries including aviation, finance, infrastructure, risk management, property, investments and asset management. Their 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.

Director Profiles

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

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.

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

Rigorous risk and opportunity management is essential for corporate stability and for sustaining our long term performance.

Risk Governance

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

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

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

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

Our approach to risk management

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

1. **Culture**. We want to build a strong risk management and control culture, promote awareness, ownership and proactive management of key risks while promoting prudent risk taking.

2. **Structure.** We seek to put in place an organisational structure that promotes good corporate governance, provides for appropriate segregation of duties, defines responsibility and authority for risk taking, and promotes ownership and accountability for risk management.

3. **Process.** We seek to implement robust processes and systems for effective identification, analysis, evaluation and treatment of risk. We seek to improve our risk management and internal control policies and procedures on an on-going basis and ensure that they remain sound and robust by benchmarking to global best practices.

Assurance

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

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

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

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 seeks to increase the Company's resilience to exceptional events and in turn contribute to more stable corporate performance.

Key Risks and Treatments

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

Set out following are the principal risks and uncertainties that could have a material impact on the Company and its ability to achieve its stated objectives.

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

Safety

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

Our Safety Strategy

The FY18 safety strategy provided a framework of new initiatives aimed at improving the health and safety of our workers, stakeholders and the travelling public at Melbourne and Launceston airports.

The strategy was guided by the following four key principles:

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

Strategy Summary

Mental Health and Psychological Safety

An APAC Psychological Wellbeing Strategy was developed and a Mental Health Committee formed to implement the Strategy. Committee members underwent external training to become accredited Mental Health First Aiders and were introduced to the business as Peer Supporters.

Safety Management System

Embedding the new APAC Safety Management Standard across the business and introducing an audit and inspection program to measure compliance across each Business Unit.

Hazard Identification and Risk Assessment

A Safety in Design framework was developed and implemented for all capital projects and a Plant Risk Assessment library was produced for all APAM-owned or operated plant and equipment.

Communication and Consultation

Dedicated safety committees established for service providers and contractors, and Safety Working Groups formed to focus on runway safety and airside vehicle driving.

The facilitation of the modulated APAC safety culture program continued, further exploring concepts around limitations of the brain, attention, communication styles and risk perception.

Environment

APAC continues to actively respond to key environmental challenges including:

- Protecting biodiversity
- Managing contaminants
- Continuously improving our performance.

The goal of the APAC Environment Policy is for our airports to be environmental leaders among transport and logistics sites in Australia. Given the complex cultural heritage and environmental settings within which our airports operate, achieving this goal will require continuous improvement in our environmental management, while following a clear environment strategy. The environment strategy has been developed to provide direction to our airports in achieving their environmental policy goals, and in doing so, satisfy the relevant requirements of the Airports Act.

Awards

2017 Airport Innovation & Excellence – Environmental Management Award Major Airport

Australian Airports Association (AAA)

Sustainability Highlights – Melbourne

Leadership in Energy and Environmental Design (LEED)

In September 2017, we were recognised for leadership in energy and environmental design (LEED) for our newest terminal (Terminal 4) by the United States Green Building Council. LEED provides a framework to create healthy, highly efficient and cost-saving green buildings and is a globally recognised symbol of sustainability achievement.

Airport Carbon Accreditation

We continue to work on reducing our carbon footprint. On 20 February 2018, we achieved Level 1 Accreditation (Mapping) in the global Airport Carbon Accreditation program.

The program, which is run by Airports Council International (ACI) is a voluntary carbon management scheme and consists of four levels that progress from mapping carbon emissions, reducing emissions and engaging with third parties through to carbon neutrality.

To achieve Level 1 Accreditation (Mapping) we were required to:

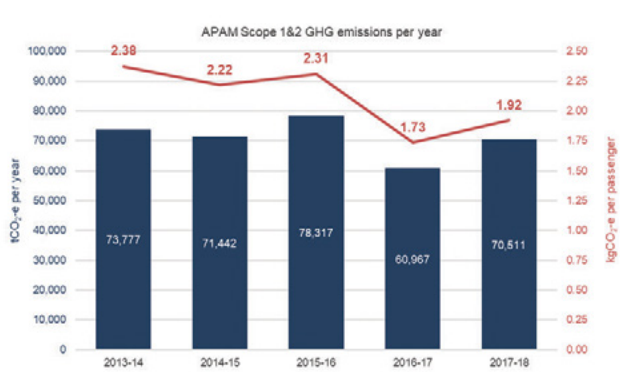
- Determine our 'operational boundary' and the emissions sources within that boundary which are Scope 1 and Scope 2 sources, as defined by the Greenhouse Gas Protocol;
- Collect data and calculate the annual carbon emissions for the previous year for those sources;
- Compile a carbon footprint report; and
- Engage an independent third party to verify the report before submission, to ensure that the carbon footprint calculation is in accordance with ISO14064 and accreditation requirements.

Environmental Management System

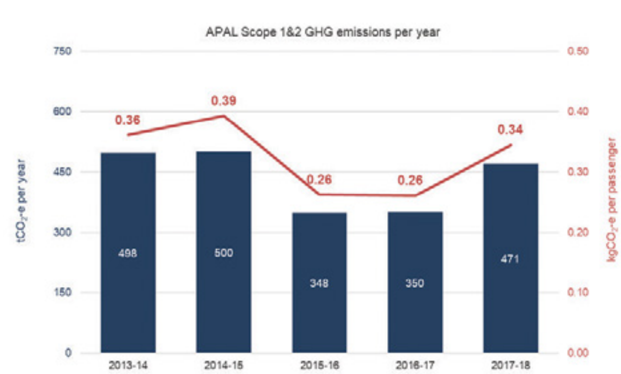
On 1 January 2018, we achieved accreditation to the new 2015 international Environmental Management System (EMS) standard (ISO14001:2015).

In 2004, Melbourne Airport was the first Australian airport to have an internationally certified EMS. This accreditation recognises our airports effective, systematic approach to identifying and mitigating our environmental impacts.

Melbourne Airport Scope 1&2 GHG emissions per year



Launceston Airport Scope 1&2 GHG emissions per year



Sustainability Highlights – Launceston

Utilities Working Group

In November 2017, a Utilities Working Group was created to record the achievements of the Engineering team in the sustainability space over the preceding years as well as plan for continuous improvement in energy usage and water efficiency. Major projects completed include:

- LED light replacements across airport; inclusive of terminal, baggage areas, emergency lighting systems, illuminated wind indictors, Sharp Airlines' apron mast, MAG signs and the compound vehicle wash bay
- Out of operating hours shut down of FIDs and digital advertising screens
- Terminal main concourse lighting upgrade.

Water use efficiencies were also gained by:

- Separation of the fire fighting and domestic water mains
- Installation of tap sensors throughout the terminal bathrooms
- Night-time watering of gardens (timed sprinklers).

Environmental Management Achievements

Melbourne Airport

Biodiversity and Cultural Heritage	Site-wide biodiversity and Cultural Heritage surveys completed
Land	Detailed site-wide site investigation of legacy contamination
Regulatory	Strategic Part 13 EPBC Act Permit for airport maintenance
Geographic Information Systems	Transferred water quality and soil management data on to interactive mapping software

Launceston Airport

Operation Control	100% of airport tenancies received environmental inspections during the period
Land	Detailed site-wide investigation of legacy contamination
Waste Management	Waste Management Strategy drafted for the airport precinct
Governance	Full time Environment resource placed in Launceston team

PFAS

Per- and poly- fluorinated alkyl substances (PFAS) are manufactured chemicals which are found in soils, surface water and groundwater in most urban areas and are often commonly concentrated at places like airports. Historically at airports, PFAS were used in firefighting foam (known as aqueous film forming foam (AFFF)) of the type needed for petroleum fuel fires or spills. At Melbourne and Launceston Airports, AFFF has been used in responding to – and training for – firefighting emergencies.

APAC acknowledges that PFAS is a contaminant which has the potential to give rise to public interest and concern. Information about the status of PFAS at Melbourne Airport is published on the airport website, as it is for Launceston. These pages are updated when new information becomes available.

As part of its ongoing environmental management in accordance with its Environment Strategy and the Airports Act and regulations, APAC is assessing and monitoring PFAS contamination on airport property and is working closely with stakeholders including the airports' major tenants, the Commonwealth Department of Infrastructure and Regional Development, and Environmental Protection Authorities in Victoria and Tasmania on management options.

People

People Initiatives

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

While thousands of individuals are employed at Melbourne and Launceston Airports, the APAC workforce itself numbers fewer than 400 people. Each of these individuals plays a critical role in the day-to-day planning, operation and enhancement of our assets. The dependence of APAC's success on these thousands of individuals highlights the importance of our fifth Strategic Pillar: Be the Best We Can Be.

Optimising the performance of the APAC workforce is critical to our ability to maximise the utility of our airport assets.

Instilling a consistent, excellence-seeking way of working throughout all levels of our business will help us deliver a traveller experience that adds value for our airline customers through operational efficiency, passenger amenity, and value-added services.

APAC Enterprise Agreement

The APAC Enterprise Agreement was successfully negotiated during the financial year, with 89.3% of eligible employees voting on a final proposal in February 2018. The outcome was a decisive yes with a combined 99% YES vote across both Melbourne and Launceston airports. The finalised agreement is now in place until 2021.

The APAC Way

During the 2017/18 financial year, APAC embarked on a root and branch review of its organisational culture and values. The outputs of that review have been badged 'The APAC Way'.

The objective of the APAC Way program is to ensure APAC remains a relevant and appealing employer for key talent at a time when all of Australia's major airports are experiencing strong growth in passenger numbers. Additionally, the current boom in Victorian infrastructure delivery provides a challenging talent market for project management, planning and construction specialists, making APAC's status as an employer of choice a vital strategic asset.

The APAC Way aims to connect our people to how they think, feel and act being part of a proud organisation. Underpinning The APAC Way is a company-wide recognition of the value in enhancing the efficiency of our ways of working, by ensuring our airports operate as effectively as possible. At the same time, APAC is responsible for building airports that travellers value as much for their amenity as for their contribution to a seamless air travel experience.

As a result, The APAC Way program reshaped the organisation's legacy values to reflect the four core values that ultimately drive the performance necessary to deliver airports to be proud of:

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

Learning and Development (L&D) framework

With work beginning in FY17, APAC's L&D framework continued to evolve, guided by the outcomes of The APAC Way program.

Key initiatives delivered under the L&D framework included:

- Transition to a new performance management framework, improving alignment of individual employee objectives to company strategy
- Alignment of objective-setting practices to the revised APAC Remuneration Framework
- Implementation of a revised Induction and Onboarding program, resulting in more effective introductions for new staff joining the business.

The L&D framework will continue to evolve throughout FY19 as The APAC Way is cemented into the daily operating behaviours of the business. This includes development of a leadership framework designed to reduce corporate risk by cultivating a values-centric approach to leadership among mid-level managers identified for future leadership roles within APAC.

Community & CSR

In 2018 APAC reached the tenth year of a corporate partnership between Melbourne Airport and Western Chances. 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. Over the life of this partnership more than 500 young people have received tailored scholarships that help address inequalities in financial resources, employment opportunities and networks.

This example demonstrates the APAC approach to its corporate citizenship – seeking to benefit the communities in which our airports operate, beyond just the role of an airport as a centre of employment. Through a combination of financial and in-kind support, we seek to help organisations with specific expertise to deliver more of their targeted programs into nearby communities.

Western Bulldogs Harmony Game

On Saturday, 23 June 2018, the Western Bulldogs and North Melbourne Football Clubs joined together to celebrate Australia's cultural diversity in the inaugural AFL Harmony Game. Both the Bulldogs and the Kangaroos have a long and proud history of embracing the multicultural community of the western and inner suburbs of Melbourne. Melbourne Airport was a proud supporter of the Harmony Game via the Western Bulldogs Community Foundation. We look forward to continuing our association with the Western Bulldogs Community Foundation in FY19.

A Touch-point for Launceston's Community Calendar

With Launceston Airport playing such a critical role in the local economy and visitation to Northern Tasmania, it is an influential point for visitors and locals to connect with the region's cultural, sporting, business and community events calendar. Throughout the year the airport terminal has hosted numerous activations showcasing events such as Festivale, BOFA Film Festival, Junction Arts, Hawks AFL games and Chamber of Commerce Networking. Community support is also provided through dedicated sponsorship and partnership arrangements, including the Glover Prize; Beacon Foundation; Evandale Penny Farthing Race; Launceston Tornadoes; Northern Rangers; and the Launceston Cycling Classic.

FINANCIAL STATEMENTS

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 2018.

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

Results	• Profit for the year increased 5.8% to $314,855,000. • Operating profit increased 4.6% to $734,625,000. • Profit, excluding Investment Property revaluation gains (net of tax), increased 7.5% to $280,871,000. • Cash flows from operations decreased 14.8% to $385,186,000 primarily due to an increase in operating expenses, a decrease in Trade Payables and the timing of tax payments.
Revenue	• Total revenue for the year increased 6.1% to $1,011,831,000. • Aeronautical revenue increased 2.3% with overall passenger numbers increasing 4.3% to a record 38,073,000 in 2018. • Retail revenue increased 16.6% due to increased Duty Free revenue and new specialty stores. • Parking and Ground Access revenue increased 5.3% due to the introduction of Premium and improved Valet products. • Property revenue increased 4.9% due to full year revenue recognition in the Business Park and new tenancies in Mace Way.
Operating costs	• Operating costs for the year increased 10.3% to $277,206,000. • The increases across Services, Utilities and Maintenance are attributable to the costs to service the increased passenger traffic and electricity price changes. • Other costs have increased due to the write down of capital work in progress of $5,502,000.

Dividends

The Directors declared a final dividend for the year ended 30 June 2017 of $120,168,000 ($1.02 per share) which was paid on 21 September 2017 and an interim dividend for the year ended 30 June 2018 of $124,813,000 ($1.06 per share) paid on 22 March 2018.

The Directors are proposing a final dividend for the year ending 30 June 2018 of $130,140,000 to be paid in September 2018.

Directors

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

Name	Position	Appointment
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
		Revoked 15 February 2013
	Director	Appointed 25 March 2013
Ms L. Buck	Alternate Director	Appointed 23 July 2014 (as alternate for Mr N. Maruf)
		Revoked 23 March 2016
		Appointed 5 April 2016 (as alternate for Mr M. Robinson)
		Revoked 14 October 2016
	Director	Appointed 14 October 2016
Mr M. Cummings	Alternate Director	Appointed 19 February 2015 (as alternate for Ms M. Beltran)
		Revoked 19 March 2015
	Director	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)
		Revoked 6 October 2015
	Director	Appointed 6 October 2015
Mr D. Kenny	Director	Appointed 7 December 2015
Mr J. Fraser-Smith	Director	Appointed 15 September 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 eleven Board meetings, four Audit and Risk Management Committee meetings, seven Finance and Project Committee meetings and four Remuneration Committee meetings.

	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr D. Crawford AO	11	11	4	4*	7	5	4	3*
Mr L. Strambi	11	8	4	4	7	6	4	4
Mr J. Harvey	11	10	4	4*	-	-	-	-
Ms L. Buck	11	11	-	-	7	7*	4	4*
Mr M. Cummings	11	10	-	-	-	-	4	4*
Mr B. Brakey	11	11	4	4*	7	7*	-	-
Mr D. Elia	11	10	-	-	7	5*	4	4*
Mr D. Kenny	11	11	-	-	7	6*	-	-
Mr J. Fraser-Smith	11	10	-	-	3	3	2	2
	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
Company Secretary	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Ms L. Evans	11	11	4	4	7	6	4	4

(*) 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 and Terminal One lease extension, 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 2018 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 2 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 has 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 and 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 with the External Auditor at least once a year 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. The focus of the Committee 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.

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, the remuneration and performance metrics of direct reports to the Chief Executive Officer;
- remuneration of the Chairman;
- succession planning for senior executives; and
- human resource strategy and its implementation.

The Remuneration Committee has no delegated authority to make decisions on behalf of the Board.

During the year certain directors attended meetings of Committees of which they are not a standing member. When a non-standing director attends a Committee meeting, the Charter of each Committee provides that he or she becomes a voting member of the Committee for the purposes of that meeting.

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	Mr L. Strambi Managing Director
MELBOURNE 31 August 2018	MELBOURNE 31 August 2018

Auditors Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

31 August 2018

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 2018, 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

- 7 -

Member of Deloitte Touche Tohmatsu Limited
Liability limited by a scheme approved under Professional Standards Legislation

Independent Audit Report to the Members of APAC

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australia Pacific Airports Corporation Limited (the "Company") and its subsidiaries (the "Group"), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

- 9 -

Deloitte.

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, 31 August 2018

- 10 -

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 2018 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
31 August 2018

Mr L. Strambi
Managing Director

MELBOURNE
31 August 2018

-11-

Statement of Profit and Loss and Other Comprehensive Income

for the Financial Year ended 30 June 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue			
Aeronautical		400,167	391,064
Security		53,601	50,083
Retail		186,697	160,157
Parking & ground access		211,940	201,215
Property		117,051	111,619
Outgoings/recharges		39,759	34,317
Interest		218	531
Other income		2,348	2,855
		1,011,781	**951,841**
Profit on sale of fixed assets		50	1,598
Total revenue		**1,011,831**	**953,439**
Less operating costs:			
Staff costs		(53,787)	(53,231)
Service and utilities		(150,561)	(136,249)
Maintenance costs		(36,196)	(34,751)
Administration and marketing costs		(13,759)	(13,328)
Other costs		(22,903)	(13,724)
Operating profit		**734,625**	**702,156**
Change in fair value of investment property		48,549	51,599
Depreciation and amortisation	2	(173,956)	(158,436)
Borrowing costs	2	(170,834)	(168,510)
Profit before income tax expense		**438,384**	**426,809**
Income tax expense	3(a)	(123,529)	(129,342)
Profit for the year		**314,855**	**297,467**
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges, net of income tax	20	(34,963)	(13,445)
Total comprehensive income for the year		**279,892**	**284,022**
Profit for the year attributable to the owners of the Company		**314,855**	**297,467**
Total comprehensive income attributable to the owners of the Company		**279,892**	**284,022**

Notes to the financial statements are included on pages 53 - 83

Statement of Financial Position
as at 30 June 2018

	Note	Consolidated 2018 $'000	2017 $'000
Current Assets			
Cash and cash equivalents	25(a)	19,290	27,207
Receivables	5	130,812	83,707
Financial assets	12	82	230
Other assets	6	4,736	5,725
Accrued revenue	7	17,203	11,606
Total current assets		**172,123**	**128,475**
Non-current assets			
Property, plant and equipment	8	2,741,137	2,646,477
Investment property	9	1,493,861	1,431,559
Intangible assets	11	674,985	674,725
Financial assets	12	336,238	260,918
Other assets	6	12,725	14,723
Accrued revenue	7	87,822	62,712
Total non-current assets		**5,346,768**	**5,091,114**
Total assets		**5,518,891**	**5,219,589**
Current liabilities			
Payables	13	119,836	122,839
Borrowings	14	-	114,001
Employee benefit provisions		6,952	6,174
Financial liabilities	15	2,114	1,440
Income tax payable	3	23,886	27,583
Unearned income		3,596	3,128
Total current liabilities		**156,384**	**275,165**
Non-current liabilities			
Payables	17	1,202	1,202
Borrowings	16	3,727,687	3,346,390
Employee benefit provisions		1,643	1,430
Financial liabilities	15	62,650	66,427
Deferred tax liability	3(b)	493,763	488,174
Unearned income		3,594	3,744
Total non-current liabilities		**4,290,539**	**3,907,367**
Total liabilities		**4,446,923**	**4,182,532**
Net assets		**1,071,968**	**1,037,057**
Equity			
Issued capital	19	118,100	118,100
Hedge reserve	20	(100,745)	(65,782)
Retained earnings	21	1,054,613	984,739
Total equity		**1,071,968**	**1,037,057**

Notes to the financial statements are included on pages 53 - 83

Statement of Changes in Equity

for the Financial Year ended 30 June 2018

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

Notes to the financial statements are included on pages 53 - 83

Statement of Cash Flows
for the Financial Year ended 30 June 2018

	Note	Consolidated	
		2018	2017
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		1,035,227	1,028,807
Payments to suppliers and employees		(375,623)	(329,183)
Interest received		218	531
Interest paid		(167,395)	(170,453)
Income tax paid		(107,241)	(77,525)
Net cash provided by operating activities	25(b)	**385,186**	**452,177**
Cash flows from investing activities			
Payment for property, plant and equipment		(269,934)	(190,955)
Payment for investment property		(13,753)	(20,935)
Proceeds from sale of property, plant and equipment		50	16
Payments for intangible assets		(775)	(2,235)
Net cash used in investing activities		**(284,412)**	**(214,109)**
Cash flows from financing activities			
Proceeds from borrowings		300,500	442,995
Repayment of borrowings		(160,300)	(436,011)
Payment for debt issue costs		(2,623)	(10,333)
Repayment of finance lease		(1,287)	-
Dividend paid		(244,981)	(213,849)
Net cash used in financing activities		**(108,691)**	**(217,198)**
Net (decrease)/increase in cash		**(7,917)**	**20,870**
Cash and cash equivalents at the beginning of the period		**27,207**	**6,337**
Cash and cash equivalents at the end of the period	25(a)	***19,290***	***27,207***

Notes to the financial statements are included on pages 53 - 83

Notes to the Financial Statements

for the Financial Year ended 30 June 2018

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 Australia Pacific Airports Corporation Ltd and its controlled entities ("Consolidated Entity").

The financial statements were authorised for issue by the Directors on 31 August 2018.

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.

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 2018 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) Receivables

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

(d) 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.

(e) 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

1. Summary of accounting policies *continued*

(e) Investment Property continued

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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Investments

Investments in controlled entities are recorded at cost.

(k) 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.

(l) 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.

(m) 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.

1. Summary of accounting policies *continued*

(m) Provisions continued

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.

(n) Superannuation

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

(o) 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.

(p) 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(e)) 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.

(q) Goods and services tax

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

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

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

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

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

(r) 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.

(s) 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).

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).

(t) 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

1. Summary of accounting policies *continued*

(t) Fair value continued

measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 Impairment of assets.

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

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

(u) 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 relevant 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 2018 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*

(v) 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 2018 was $671,866,000 (2017: $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.

2. Profit for the year

	Consolidated	
	2018	2017
	$'000	$'000
Profit for the year has been derived after charging the following specific expenses:		
Employee benefits expense - superannuation contributions	4,636	4,141
Impairment of assets under construction	5,502	656
Depreciation of property, plant and equipment	173,441	157,921
Amortisation of master plan	515	515
Depreciation and amortisation	**173,956**	**158,436**
Borrowing costs:		
Interest:		
- Secured debt	170,903	170,413
- Interest capitalised during the period	(4,509)	(4,538)
- Unsecured debt	994	477
- Amortisation of deferred borrowing costs	4,528	4,320
Hedge reserve unwind	(1,739)	(3,612)
Other costs	657	1,450
Total borrowing costs	**170,834**	**168,510**

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	**438,384**	**426,809**
Income tax expense calculated at 30%	131,515	128,043
Adjusted for:		
Non-deductible expenses	609	220
Non-deductible depreciation	-	62
Income tax expense in respect of prior years	312	2,575
Non-Assessable Income	(618)	(1,558)
Recognition of property, plant and equipment deferred tax balance	(8,831)	-
Reversal of permanent benefit relating to ineligible R&D projects	542	-
Income tax expense	**123,529**	**129,342**
Income tax expense comprises of:		
Current tax expense	110,233	112,019
Deferred tax expense	12,984	14,748
Current tax expense in respect of prior years	(7,276)	(223)
Deferred tax in respect of prior years	7,588	2,798
Income tax expense	**123,529**	**129,342**

3. Income tax expense *continued*

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

During the year the consolidated entity recorded a deferred tax benefit of $8,831,000 due to the recognition of an increase in the tax written down value of property, plant and equipment. This was recognised following an assessment of the recoverability of the tax value of property, plant and equipment.

3. Income tax expense *continued*

(b) Deferred tax balances *continued*

	Consolidated			
2017	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'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)
Other	(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
Financial assets/liabilities	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)**

	Consolidated	
	2018 $'000	**2017 $'000**
Deferred tax liability		
Balance at beginning of the year	488,174	476,390
Temporary differences	5,589	11,784
Balance at end of the year	**493,763**	**488,174**
Income tax payable	**(23,886)**	**(27,583)**

4. Remuneration of auditors

	Consolidated	
	2018	2017
	$	$
Deloitte Touche Tohmatsu		
Auditing the financial report - statutory	228,600	224,500
Reviewing the half-year report	53,700	52,780
Auditing of regulatory accounts and compliance items	79,700	65,860
Other assurance services	-	78,700
	362,000	**348,800**

5. Current receivables

	Consolidated	
	2018	2017
	$'000	$'000
Trade receivables	130,812	83,707
	130,812	**83,707**

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 doubtful 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 $30,787,795 (2017: $3,788,659), which were overdue (90 days +) as at the reporting date and of which the Company has impaired $518,000 (2017: $731,000) 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	
	2018	2017
Current	$'000	$'000
Prepayments	2,183	2,115
Prepaid rebates	2,000	2,000
Cash on deposit for more than 3 months	460	1,428
Other	93	182
Total current	**4,736**	**5,725**
Non-current		
Prepaid rebates	12,725	14,723
Total Non-current	**12,725**	**14,723**

7. Accrued revenue

	Consolidated	
	2018	2017
	$'000	$'000
Balance at the beginning of the year	**74,318**	**58,161**
New additions for the year	200	2,148
Balance recognised in revenue for the year	30,507	14,008
Balance at the end of the year	**105,025**	**74,318**
- Current	17,203	11,606
- Non-current	87,822	62,712

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 2017	**133,394**	**1,167,738**	**1,544,993**	**732,667**	**153,727**	**3,732,518**
Additions	-	-	-	-	273,612	273,612
Disposals	-	-	-	(186)	-	(186)
Impairment	-	-	-	-	(5,502)	(5,502)
Transfers to/(from) assets under construction	33,376	89,083	56,089	41,550	(220,098)	-
Balance at 30 June 2018	**166,770**	**1,256,821**	**1,601,082**	**774,031**	**201,739**	**4,000,442**
Accumulated depreciation						
Balance at 1 July 2017	**13,266**	**311,711**	**388,617**	**372,447**	**-**	**1,086,041**
Depreciation expense	1,563	46,806	62,582	62,490	-	173,441
Balance at 30 June 2018	**14,829**	**358,518**	**451,199**	**434,759**	**-**	**1,259,305**
Net book value at 30 June 2018	**151,943**	**898,304**	**1,149,882**	**339,272**	**201,739**	**2,741,137**

8. Property, plant & equipment *continued*

	Consolidated					
	Leasehold land	Buildings	Roads, runways & other infra-structure	Plant and equipment	Assets under construction	Total
	$'000	$'000	$'000	$'000	$'000	$'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	-	-	(5,238)	-	-	**(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 at 30 June 2017	**120,129**	**856,026**	**1,156,375**	**360,220**	**153,727**	**2,646,477**

9. Investment property

	Consolidated	
	2018	2017
	$'000	$'000
Balance at beginning of the year	**1,431,559**	**1,357,783**
Additions for the year	13,753	17,017
Transfer (to)/from property, plant and equipment	-	5,160
Net gain from fair value adjustments for the year	48,549	51,599
Balance at end of the year	**1,493,861**	**1,431,559**

The fair value of the investment property at 30 June 2018 has been arrived at on the basis of a valuation carried out by CBRE. CBRE is independent valuer and member of the Institute of Valuers of Australia and have appropriate qualifications and extensive experience of valuing property for the Consolidated Entity. In the prior year, CBRE valued Melbourne Airport and JLL valued Launceston Airport.

9. Investment property *continued*

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 adopted investment yield reflects the capitalisation rate and includes consideration of the property type and tenancy profile. 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 property valuation considers the tenure of tenants and any expected downtime for tenants vacating. Management performs an assessment of the possible range of outcomes for leasing arrangements approaching expiry and includes relevant assumptions in the property valuation to reflect this unobservable input as appropriate.

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	
	2018	**2017**
	$'000	**$'000**
Within one year	241,664	154,164
Later than one year but not later than 5 years	801,351	517,964
Later than 5 years	889,495	920,231
	1,932,510	**1,592,359**

11. Intangible assets

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Goodwill (i)	671,866	671,866
Masterplan (ii)	3,119	2,859
	674,985	**674,725**

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:

11. Intangible assets *continued*

(i) Goodwill

	Consolidated	
	2018	**2017**
	$'000	**$'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.

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

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 9.9%. There are no assumptions from which a reasonably possible change would result in an impairment of the intangible assets.

(ii) Masterplan

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Gross carrying amount – at cost		
Opening balance	5,250	3,014
Additions	775	2,236
Closing balance	**6,025**	**5,250**
Accumulated amortisation		
Opening balance	(2,391)	(1,876)
Amortisation expense	(515)	(515)
Closing balance	**(2,906)**	**(2,391)**
Net book value at 30 June 2018	**3,119**	**2,859**
Represented by:		
FY13 to FY18 Masterplan	139	623
FY18 to FY23 Masterplan	2,980	2,236
	3,119	**2,859**

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	
	2018	**2017**
	$'000	**$'000**
Current		
Forward interest rate hedge instruments	-	230
Interest rate swaps	82	-
Total Current	**82**	**230**
Non-Current		
Cross currency interest rate swaps	336,238	259,247
Interest rate swaps	-	78
Forward interest rate hedge instruments	-	1,593
Total Non-Current	**336,238**	**260,918**

13. Current payables

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Trade and other payables (i)	81,817	86,198
GST payable	2,910	2,196
	84,727	**88,394**
Interest payable to:		
- Secured debt – bank (ii)	34,779	34,128
- Launceston City Council	330	317
	35,109	**34,445**
	119,836	**122,839**

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

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

14. Current borrowings

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Secured:		
Senior - bank debt	-	114,300
Deferred borrowing costs	-	(299)
	-	**114,001**

14. Current borrowings *continued*

	Consolidated	
	2018	2017
	$'000	$'000
Financing facilities:		
Unsecured bank overdraft facility reviewed annually:		
Amount used	-	-
Amount unused	20,804	20,404
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	
	2018	2017
	$'000	$'000
Current		
Interest rate swaps	-	222
Forward interest rate hedge instruments	1,073	60
Finance Lease (i)	1,041	1,158
Total Current	**2,114**	**1,440**
Non-Current		
Interest rate swaps	42,754	41,886
Cross currency interest rate swaps	7,539	15,372
Forward interest rate hedge instruments	5,539	1,180
Finance Lease (i)	6,818	7,989
Total Non-Current	**62,650**	**66,427**

(i) Commitments for finance lease

	Lease commitments		Present Value	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Within one year	1,287	1,287	1,041	1,158
Later than one year but not later than five years	5,150	5,150	3,214	3,575
More than five years	11,587	12,875	3,604	4,415
Total	**18,024**	**19,312**	**7,859**	**9,148**

The above table relates to expenditure commitments under finance leases.

16. Non-current borrowings

	Consolidated 2018 $'000	Consolidated 2017 $'000
Secured:		
– Senior - bank debt (i)	254,500	-
– Domestic Bonds (i)	795,000	795,000
– US Private Placements (i)	985,318	955,336
– European bonds (i)	1,668,962	1,571,638
	3,703,780	**3,321,974**
Financial Liabilities valued at Fair Value through profit and loss	47,313	49,300
	3,751,093	**3,371,274**
Deferred borrowing costs	(23,405)	(24,884)
	3,727,687	**3,346,390**
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	4,528	4,320
Financing facilities:		
Bank Debt (i)		
· Amount used	254,500	-
· Amount unused	810,500	600,000
(i) Secured by a fixed and floating charge over the Entity's assets		
Reconciliation of Current and Non-Current Borrowings at Face Value:		
Current borrowings at Face Value — Refer to Note 14	-	114,300
Non-current borrowings at Face Value	3,330,704	3,076,204
Total borrowings at Face Value	**3,330,704**	**3,190,504**
Exchange rate fluctuation	373,076	245,770
Total borrowings at Fair Value at spot rates	**3,703,780**	**3,436,274**

Net debt reconciliation:			Non-cash changes			
	2017	Cash flows	Acquisition/ refinance/ reclassification	FX movement	Fair value changes	2018
Long-term borrowings	3,321,974	140,200	114,300	127,307	-	3,703,781
Short-term borrowings	114,300	-	(114,300)	-	-	-
Lease liabilities	9,147	(1,288)	-	-	-	7,858
Assets held to hedge long-term borrowings	(202,427)	-	-	-	(76,988)	(279,416)
Total liabilities from financing activities	**3,242,993**	**138,912**	**-**	**127,307**	**(76,988)**	**3,432,223**

17. Non-current payables

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Undistributed capital note liability	**1,202**	**1,202**

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

18. Capitalised interest charges

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Property, plant and equipment	4,327	4,156
Investment property	182	382
	4,509	**4,538**

The above amounts were capitalised during the financial year.

19. Issued capital

	Consolidated	
	2018	**2017**
	$'000	**$'000**
118,100,000 Ordinary Shares – fully paid (2017: 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	
	2018	**2017**
	$'000	**$'000**
Balance at beginning of the year	**(65,782)**	**(52,337)**
Gain/(loss) recognised:		
- Fair value adjustment	(48,207)	(15,596)
- Deferred tax arising on cashflow hedges	14,462	4,679
- Transfer from hedge reserve to profit and loss	(1,739)	(3,612)
- Deferred tax arising from adjustment	521	1,084
	(34,963)	**(13,445)**
Balance at end of the year	**(100,745)**	**(65,782)**

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	
	2018	2017
	$'000	$'000
Balance at beginning of the year	**984,739**	**901,121**
Profit for the year	314,855	297,467
Dividends paid	(244,981)	(213,849)
Balance at end of the year	**1,054,613**	**984,739**

22. Commitments for expenditure

	Consolidated	
	2018	2017
	$'000	$'000
Capital expenditure commitments		
Property, plant and equipment		
Not longer than 1 year	82,940	90,012
Longer than 1 year but not longer than 5 years	30	880
	82,970	**90,892**

23. Subsidiaries

		Ownership interest	
Name of entity	Country of incorporation	2018 %	2017 %
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	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, Mr E. Zraicat and Mr D. Crawford.

	Consolidated	
	2018	2017
	$	$
Short-term employee benefits	6,837,271	6,833,683
Long-term incentives	731,124	1,945,172
Termination benefits	-	540,068
	7,568,395	**9,318,923**

(c) Transactions within the wholly-owned group

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

During the financial year APAC provided operational administration services at cost to other entities in the wholly-owned group of $305,536 (2017: $319,635), 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.

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	
	2018	2017
	$'000	$'000
Cash and cash equivalents	19,290	27,207

25. Notes to the Statement of Cash Flows *continued*

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

	Consolidated	
	2018	2017
	$'000	$'000
Profit for the year	**314,855**	**297,467**
Net profit on sale of non-current assets	(50)	(1,598)
Gain on investment property	(48,549)	(51,599)
Impairment of property, plant and equipment	5,502	656
Amortisation of deferred borrowing costs	4,528	4,320
Hedge reserve unwind	(1,739)	(3,612)
Depreciation and amortisation of non-current assets	173,956	158,436
Deferred tax liabilities	20,572	17,547
(Increase)/decrease in assets:		
Receivables	(47,106)	(3,193)
Other current assets	989	2,393
Other non-current assets	1,998	2,001
Accrued revenue	(30,706)	(16,158)
Increase/(decrease) in liabilities:		
Payables	(7,328)	12,755
Interest payable	651	(2,651)
Tax payable	(3,696)	34,270
Employee benefits provision	992	928
Unearned income	317	215
Net cash provided by operating activities	**385,186**	**452,177**

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.

26. Financial instruments *continued*

(c) Categories of financial instruments

				Consolidated	
				2018	2017
				$'000	$'000
	At amortised cost	At fair value through P&L	At fair value through OCI	Total	Total
Financial Assets					
Cash at Bank	19,290	-	-	19,290	27,207
Loans and receivables:					
Trade receivables	130,812	-	-	130,812	83,707
Tax receivable	-	-	-	-	-
Non-current cross currency interest rate swaps	-	46,367	289,871	336,238	259,247
Current interest rate swaps	-	-	82	82	-
Non-current interest rate swaps	-	-	-	-	78
Current forward interest rate hedge instruments	-	-	-	-	230
Non-current forward interest hedge instruments	-	-	-	-	1,593
	150,103	**46,367**	**289,953**	**486,423**	**372,062**
Financial Liabilities					
Trade payables	81,817	-	-	81,817	86,198
GST payable	2,910	-	-	2,910	2,196
Interest payable	35,109	-	-	35,109	34,445
Current interest rate swaps	-	-	-	-	222
Borrowings	3,680,375	47,313	-	3,727,687	3,460,391
Non-current payables	1,202	-	-	1,202	1,202
Non-current interest rate swaps	-	-	42,754	42,754	41,886
Non-current cross currency interest rate swaps	-	-	7,539	7,539	15,372
Current forward interest rate hedge instruments	-	-	1,073	1,073	60
Non-current forward interest hedge instruments	-	-	5,539	5,539	1,180
Finance leases	7,859	-	-	7,859	9,147
	3,809,272	**47,313**	**56,905**	**3,913,490**	**3,652,299**

(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.

26. Financial instruments *continued*

(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 $845,000 (2017: increase/decrease by $1,038,000). This is due to interest rates on its variable rate borrowings.
- Other equity reserves would increase/decrease by $8,616,000 (2017: increase/decrease $3,995,000) 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 $20,580,000 (2017: increase/decrease $20,903,000) mainly as a result of the changes in fair value of fixed rate instruments available for sale.

(h) Interest rate derivative 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 derivatives	
	2018	2017	2018	2017	2018	2017
	%	%	$'000	$'000	$'000	$'000
Consolidated						
Less than 1 year	3.7	3.9	100,000	360,923	82	(222)
1 to 2 years	-	3.7	-	100,000	-	46
2 to 5 years	-	-	-	-	-	-
5 years +	4.3	4.1	1,218,000	1,390,000	(49,366)	(41,270)
			1,318,000	**1,850,923**	**(49,284)**	**(41,446)**

The fair value of these contracts as at 30 June 2018 is disclosed in Notes 12 and 15.

26. Financial instruments *continued*

(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 exchange rate		Foreign Currency		Notional principal amount		Fair values of cross currency interest rate	
	2018	2017	2018	2017	2018	2017	2018	2017
			FC'000	FC'000	$'000	$'000	$'000	$'000
Consolidated								
USD 5 years +	0.7405	0.7689	600,000	600,000	573,230	573,230	156,291	151,131
EUR 5 years +	0.6337	0.6727	900,000	900,000	1,289,979	1,289,979	179,947	106,270
NOK 5 years +	6.0306	6.4172	1,500,000	1,500,000	242,994	242,994	(7,539)	(13,526)
					2,106,203	**2,106,203**	**328,699**	**243,874**

26. Financial instruments *continued*

(k) Liquidity risk

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

2018	Weighted average effective interest rate %	1-3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Financial Assets						
Current receivables		97,684	33,128	-	-	130,812
Cash at bank		19,290	-	-	-	19,290
Cross currency interest rate swaps		-	-	59,797	276,441	336,237
Interest rate swaps		82	-	-	-	82
		117,057	**33,128**	**59,797**	**276,441**	**486,423**
Financial Liabilities						
Current trade payables		81,817	-	-	-	81,817
Interest payable		35,109	-	-	-	35,109
Bank loans	2.6	-	-	254,500	-	254,500
Domestic bonds:						
– Fixed rate notes (4 June 2020)	5.00	-	-	225,000	-	225,000
– Fixed rate notes (15 September 2022)	4.00	-	-	250,000	-	250,000
– Fixed rate notes (11 November 2025)	4.55	-	-	-	120,000	120,000
– Fixed rate notes (4 November 2026)	3.75	-	-	-	200,000	200,000
US Private Placement:						
US $200m Due 15 Sep 2021 – fixed (i)	7.81	-	-	270,106	-	270,106
US $200m Due 15 Sep 2023 – fixed (i)	7.67	-	-	-	270,106	270,106
US $200m Due 15 Sep 2026 – fixed (i)	7.63	-	-	-	270,106	270,106
Fixed rate (15 January 2028)	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	-	-	-	867,919	867,919
Fixed rate (15 October 2024) (iii)	5.05	-	-	-	552,312	552,312
Fixed rate notes (27 September 2030) (iv)	4.18	-	-	-	248,732	248,732
Cross currency interest rate swaps		-	-	-	7,539	7,539
Interest rate swaps		-	-	42,754	-	42,754
Forward interest rate hedge instruments		1,073	-	5,539	-	6,612
Finance lease		260	781	3,214	3,734	7,989
	5.31	**118,258**	**781**	**1,051,113**	**2,715,447**	**3,885,599**

(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.

26. Financial instruments *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
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	2.5	-	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 September 2023) (ii)	5.05	-	-	-	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
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
	5.37	**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

26. Financial instruments *continued*

(l) Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the 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		Net fair value	
	$'000		$'000	
	2018	2017	2018	2017
Borrowings - other entities	1,202	1,202	10,600	11,778

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(t). There were no transfers between levels during the year and there has been no change in valuation techniques applied.

(n) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the 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.

26. Financial instruments *continued*

(p) Interest rate swaps and option contracts continued

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.

(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.

	2018 $'000	2017 $'000
Fixed rate instruments		
Face value	784,929	784,929
FX adjustments	82,989	32,671
Cumulative fair value hedge adjustments	47,313	49,300
Carrying amount	915,231	866,900

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.

	Notional Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line item of the Statement of Financial Position where the hedging instrument is located
Balance Sheet		**Assets**	**Liabilities**	
2018	**$'000**	**$'000**	**$'000**	
Cross-currency swaps				
Fair value hedge	460,929	46,367	-	Financial assets
Cash flow hedge	2,106,204	289,871	7,539	Financial assets
Interest rate swaps	784,929	82	42,754	Financial assets / Financial liabilities
Forward interest rate hedge	894,000	-	6,612	Financial assets
2017				
Cross-currency swaps				
Fair value hedge	460,929	46,615	-	Financial assets
Cash flow hedge	2,106,204	212,631	15,372	Financial assets
Interest rate swaps	784,923	78	41,886	Financial liabilities
Forward interest rate hedge	1,066,000	1,823	1,240	Financial assets

26. Financial instruments *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 ineffectiveness	Cash flow hedge reserve at 30 June 2018	Hedge Ineffectiveness recognised in Income Statement	Line item of the Income Statement that includes hedge ineffectiveness
	Gain/(loss)	**Gain/(loss)**	**Gain/(loss)**	**Gain/(loss)**	
2018					
Cash flow hedges					
Interest rate and foreign exchange rate risk on cross currency swaps	282,332	299,022	(90,744)	-	N/A
Interest rate risk on floating rate borrowings	49,284	50,261	49,284	-	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				945	Borrowing costs
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
Fair value hedges					
Interest rate risk				2,685	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	16,844	16,901	43,220	21,056	98,020

27. Dividends

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Fully franked dividends paid during the financial year (refer to Director's Report for details) (2018: $2.07 per share, 2017: $1.81 per share)	244,981	213,849
Franking account	30,207	27,958

28. Company disclosures

(a) Financial position:

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Assets:		
Current assets	19,396	20,053
Non-current assets	127,995	127,407
Total assets	**147,390**	**147,460**
Liabilities:		
Current liabilities	-	-
Total liabilities	**-**	**-**
Net assets	**147,390**	**147,460**
Equity:		
Issued capital	118,100	118,100
Retained earnings	29,290	29,360
Total equity	**147,390**	**147,460**
(b) Financial performance		
Profit for the year	244,912	213,849
Other comprehensive income	-	-
Total other comprehensive income	**244,912**	**213,849**
(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 2018 of $130,140,000 to be paid in September 2018.

On 24 July 2018 the Consolidated Entity signed an agreement with Qantas to extend the lease of Melbourne Airport Terminal One until 30 June 2019.

30. Contingent liabilities

The Consolidated Entity did not have any contingent liabilities as at 30 June 2018.

31. Additional company information

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

Principal Registered Office and Principal Place of Business
Level 2, Terminal 2,
Melbourne Airport VIC 3043

(03) 9297 1600

Website: www.melbourneairport.com.au
Email: reception@melair.com.au


qantas
virgin australia
Virgin
tigerair

www.melbourneairport.com.au