

Australia Pacific Airports Corporation Limited

Directors' Report

The Directors of Australia Pacific Airports Corporation Limited 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 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 speciality stores.
- Parking and ground access revenue increased 5.3% due to 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.

Australia Pacific Airports Corporation Limited

Directors' Report

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:

<i>Name</i>	<i>Position</i>	<i>Appointment</i>
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.

Australia Pacific Airports Corporation Limited

Directors' Report

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.

Directors	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
	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

Company Secretary	Board of Directors		Audit and Risk Management		Finance and Projects		Remuneration	
	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.

Australia Pacific Airports Corporation Limited

Directors' Report

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 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.

Australia Pacific Airports Corporation Limited

Directors' Report

Audit and Risk Management Committee

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

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

The Committee meets 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
- 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.

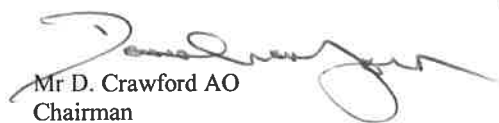
During the year certain directors attended meetings of Committees of which they are not a standing member. When a non-standing director attends a Committee meeting, the Charter of each Committee provides that he or she becomes a voting member of the Committee for the purposes of that meeting.

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

A handwritten signature in dark ink, appearing to read 'D. Crawford', with a stylized flourish at the end.

Mr D. Crawford AO
Chairman

MELBOURNE
31 August 2018

A handwritten signature in dark ink, appearing to read 'L. Strambi', with a large, circular flourish at the end.

Mr L. Strambi
Managing Director

MELBOURNE
31 August 2018

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

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.

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

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Samuel Vorweg
Partner

Chartered Accountants

Melbourne, 31 August 2018

Australia Pacific Airports Corporation Limited

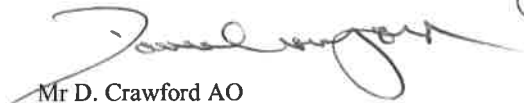
Directors' Declaration

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.

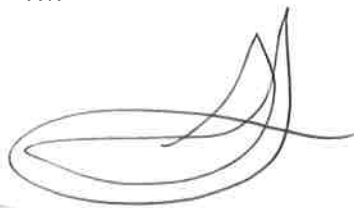
Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Mr D. Crawford AO
Chairman

MELBOURNE
31 August 2018



Mr L. Strambi
Managing Director

MELBOURNE
31 August 2018

Australia Pacific Airports Corporation Limited

Consolidated statement of Profit and Loss and Other Comprehensive Income for the Financial Year ended 30 June 2018

	Note	Consolidated	
		2018	2017
		\$'000	\$'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 16 to 49

Australia Pacific Airports Corporation Limited

Consolidated statement of Financial Position as at 30 June 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'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 16 to 49

Australia Pacific Airports Corporation Limited

Consolidated statement of Changes in Equity for the Financial Year ended 30 June 2018

	Issued Capital	Consolidated Hedging Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2016	118,100	(52,337)	901,121	966,884
Profit for the year	-	-	297,467	297,467
<i>Other comprehensive income:</i>				
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
<i>Other comprehensive income:</i>				
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 16 to 49

Australia Pacific Airports Corporation Limited

Consolidated statement of Cash Flows for the Financial Year ended 30 June 2018

	Note	Consolidated	
		2018	2017
		\$'000	\$'000
<i>Cash flows from operating activities</i>			
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
<i>Cash flows from investing activities</i>			
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)
<i>Cash flows from financing activities</i>			
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
<i>Cash and cash equivalents at the beginning of the year</i>		27,207	6,337
<i>Cash and cash equivalents at the end of the year</i>	25(a)	19,290	27,207

Notes to the financial statements are included on pages 16 to 49

Australia Pacific Airports Corporation Limited

Notes to the Consolidated 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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(d) Property, plant and equipment (cont'd)

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 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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(h) Impairment of assets (cont'd)

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.

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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(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(c)) 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 outgoing and sundry other income is recognised on an accruals basis when the goods or services are

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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(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).

(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 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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(t) Fair value (cont'd)

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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

Title of Standard	Nature of change	Impact	Mandatory application date / Date of adoption by the Consolidated Entity
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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

1. Summary of accounting policies (cont'd)

(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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

Consolidated	
2018	2017
\$'000	\$'000

2. Profit for the year

Profit for the year has been derived after charging the following specific expenses:

Employee benefits expense - superannuation contributions	4,636	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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

Consolidated

2018 2017

\$'000 \$'000

3. Income tax expense (cont'd)

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**

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:

2018

Consolidated

	Opening balance	Charged to income	Charged to equity	Closing balance
	\$'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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

3. Income tax expense (cont'd)

(b) Deferred tax balances (cont'd)

2017	Opening balance	Consolidated		Closing balance
		Charged to income	Charged to equity	
	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(191,299)	1,022	-	(190,277)
Investment property	(317,401)	(17,853)	-	(335,254)
Prepayments	(5,614)	600	-	(5,014)
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	2017
	\$'000	\$'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)

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

Consolidated	
2018	2017
\$	\$

4. Remuneration of auditors

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

Consolidated	
2018	2017
\$'000	\$'000

5. Current receivables

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.

Consolidated	
2018	2017
\$'000	\$'000

6. Other assets

Current

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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000

7. Accrued revenue

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

	Consolidated					
	Leasehold land	Buildings	Roads, runways & other infrastructure	Plant and equipment	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
8. Property, plant & equipment						
<i>Gross carrying amount</i>						
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
<i>Accumulated depreciation</i>						
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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

8. Property, plant & equipment (cont'd)

	Consolidated					Total
	Leasehold land	Buildings	Roads, runways & other infrastructure	Plant and equipment	Assets under construction	
	\$'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

Consolidated

2018 2017

\$'000 \$'000

9. Investment property

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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

9. Investment property (cont'd)

The fair value of the investment property as 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.

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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

11. Intangible assets (cont'd)

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:

	Consolidated	
	2018	2017
(i) Goodwill	\$'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.

	Consolidated	
	2018	2017
(ii) Masterplan	\$'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	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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000
12. Financial assets		
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
	Consolidated	
	2018	2017
	\$'000	\$'000
13. Current payables		
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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

Consolidated
2018 2017
\$'000 \$'000

14. Current borrowings

Secured:

Senior - bank debt	-	114,300
Deferred borrowing costs	-	(299)
	-	114,001

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

Consolidated
2018 2017
\$'000 \$'000

15. Financial liabilities

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 \$'000	2017 \$'000	2018 \$'000	2017 \$'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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000
16. Non-current borrowings		
<i>Secured:</i>		
– 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
<i>Financing facilities:</i>		
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	2017	Cash flows	Non-cash changes			2018
			Acquisition / refinance / reclassification	FX movement	Fair value changes	
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 borrowing:	(202,427)	-	-	-	(76,988)	(279,416)
Total liabilities from financing activities	3,242,993	138,912	-	127,307	(76,988)	3,432,223

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000
17. Non-current payables		
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.

	Consolidated	
	2018	2017
	\$'000	\$'000
18. Capitalised interest charges		
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.

	Consolidated	
	2018	2017
	\$'000	\$'000
19. Issued capital		
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	118,100	118,100

	Consolidated	
	2018	2017
	\$'000	\$'000
20. Hedging reserve		
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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000
21. Retained earnings		
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

	Consolidated	
	2018	2017
	\$'000	\$'000
22. Commitments for expenditure		
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

Name of entity	Country of incorporation	Ownership interest	
		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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

Consolidated	
2018	2017
\$'000	\$'000

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:

Cash and cash equivalents	19,290	27,207
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(b) Reconciliation of profit after related income tax to net cash flows from operating activities:

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
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Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments

(a) Capital risk management

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

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

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

(b) Significant accounting policies

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

(c) Categories of financial instruments

				Consolidated 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 rate 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 rate 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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(d) Financial risk management objectives

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

(e) Interest rate risk management

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

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

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

(f) Interest rate sensitivity

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

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

- Net profit would increase/decrease by \$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 Company'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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(h) Interest rate derivative contracts (cont'd)

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.

(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 Value 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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(k) Liquidity risk

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

2018	Weighted average effective interest rate %	1-3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial Assets						
Current receivables		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)	4.18	-	-	-	248,732	248,732
Cross currency interest rate swaps		-	-	-	7,539	7,539
Interest rate swaps		-	-	42,754	-	42,754
Forward interest rate hedge instruments		1,073	-	5,539	-	6,612
Finance lease		260	781	3,214	3,734	7,989
Total	5.31	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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(k) Liquidity risk (cont'd)

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

2017	Weighted average effective interest rate %	1-3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial Assets						
Current receivables		83,707	-	-	-	83,707
Cash at bank		27,207	-	-	-	27,207
Cross currency interest rate swaps		-	-	54,096	205,150	259,246
Interest rate swaps		-	-	78	-	78
Forward interest rate hedge instruments		230	-	1,593	-	1,823
		111,144	-	55,767	205,150	372,061
Financial Liabilities						
Current trade payables		86,198	-	-	-	86,198
Interest payable		34,445	-	-	-	34,445
Bank loans	2.5	-	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 Sep 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
Total	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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
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.

Australia Pacific Airports Corporation Limited

Notes to the Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

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

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

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

- an economic relationship exists between the hedged item and hedging instrument;
- the effect of credit risk does not dominate the value changes resulting from the economic relationship;
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

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

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(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 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

(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.

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd)

(r) Cash flow hedges (cont'd)

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

Balance Sheet

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

Income Statement

	Cumulative changes in value of hedging instrument used for calculating hedge ineffectiveness Gain/(loss)	Cumulative changes in value of hedging item used for calculating hedge ineffective- ness Gain/(loss)	Cash flow hedge reserve at 30 June 2018 Gain/(loss)	Hedge ineffectiveness recognised in Income Statement Gain/(loss)	Line item of the Income Statement that includes hedge ineffectiveness
2018					
<i>Cash flow hedges</i>					
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

	Ineffective- ness recognised in Income Statement Gain/(loss)	Line item of the Income Statement that includes hedge ineffectiveness
<i>Fair value hedges</i>		
Interest rate risk	945	Borrowing costs

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

26. Financial instruments (cont'd) (r) Cash flow hedges (cont'd)

	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 2017	Hedge ineffectiveness recognised in Income Statement	Line item of the Income Statement that includes hedge ineffectiveness
2017	Gain/(loss)	Gain/(loss)	Gain/(loss)	Gain/(loss)	
<i>Cash flow hedges</i>					
Interest rate and foreign exchange rate risk on cross currency swaps	197,259	312,795	(48,511)	-	N/A
Interest rate risk on floating rate borrowings	41,446	42,618	41,446	-	N/A
Income Statement					
				Ineffective- ness recognised in Income Statement Gain/(loss)	Line item of the Income Statement that includes hedge ineffectiveness
<i>Fair value hedges</i>					
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 \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Transfer to profit and loss	16,844	16,901	43,220	21,056	98,020

Australia Pacific Airports Corporation Limited

Notes to the Consolidated Financial Statements for the Financial Year ended 30 June 2018

	Consolidated	
	2018	2017
	\$'000	\$'000
27. Dividends		
Fully franked dividends paid during the financial year (refer to Director's Report for details)	244,981	213,849
(2018: \$2.07 per share, 2017: \$1.81 per share)		
Franking account	30,207	27,958
28. Company disclosures		
(a) Financial position:		
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

30. Contingent liabilities

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

31. Additional company information

Principal Registered Office and Principal Place of Business
Level 2, Terminal 2,
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