Australia Pacific Airports

Australia Pacific Airports Corporation Ltd
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Victoria 3043 Australia

AUSTRALIA PACIFIC AIRPORTS CORPORATION ANNUAL REPORT

READY FOR THE FUTURE 2005

READY FOR THE FUTURE 2005

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FINANCIAL STATEMENTS

RESULTS AT A GLANCE

Year ended 30 June ($ millions)	2004	2005	Change 04 to 05
Total Revenue	286	323	13%
Operating Expenses	83	93	12%
EBITDA	203	230	13%
Depreciation and Amortisation	45	41	-9%
Interest	90	80	-11%
Profit / (Loss) Before Tax	68	109	60%
Tax Expense / (Benefit)	27	36	33%
Net Profit / (Loss)	41	73	78%

CHAIRMAN'S MESSAGE
A YEAR OF INCREDIBLE ACHIEVEMENT

This year has been one of incredible achievement for APAC. The company has recorded its best passenger results, while continuing its strong financial performance.

APAC's success reflects a wider success for the tourism industry and for the economy in general. Our airports are a barometer of business health in their region and if our airports are busy, the cities and States they serve are doing well.

The strong growth of our aviation business, together with preparations for the new-generation A-380 aircraft, required an acceleration of our capital works program.

This was made possible by a framework of light-handed price regulation and the cooperation of our airline partners, delivering infrastructure developments that will enable our airports to accommodate future growth.

The company's finances provided a stable platform to balance the considerable cash demands that major expansion requires.

Sound management and a stable treasury have delivered our third consecutive year of profitability, with net profit up 78% to $73 million. EBITDA has increased by 13% to $230 million, while costs remain under control.

We have repaid the remainder of our shareholder loans and achieved our first dividend, which we were able to fully frank following payment of our first tax bill.

The Federal Government's current approach to price regulation continues to deliver value for airlines, passengers and the economy, and a constructive working environment for the industry. It has enabled us to deliver one of Victoria's largest infrastructure development programs without government funding and without new price increases for our customers.

This privately-funded infrastructure will support tourism and passenger growth, benefiting business, the community and the local economy.

The quality of service at our airports remains world class and is consistently rated highly in regular passenger surveys. Even during Melbourne Airport's runway widening works, surveys showed high service levels were maintained.

Aviation security remains our key focus - if we do not have a safe business, we do not have a business at all. We work closely with police and other government agencies to ensure our airports continue to meet stringent safety and security standards established by the Federal Government.

Our triple bottom line responsibilities of financial performance, environmental responsibility and community contribution have all been delivered.

APAC's environmental management programs have led to reductions in our airports' consumption of water and resources, while minimising waste generation.

Our community support remains diverse. We have continued our rewarding partnerships with the Salvation Army and the Foundation for the Victims of Torture.

We have further developed our arts sponsorships through support for the Glover Prize and sponsorship of a range of emerging artist awards at major cultural events.

Support for the tourism industry has also continued, with a number of new initiatives added to our existing long-term commitment as principal sponsor of the Victorian Tourism Awards.

Ambitious plans and sound management have delivered strong results and a well planned, well executed expansion program.

On behalf of the board, I congratulate our staff on another extremely successful year.

Don Mercer
Chairman

YEAR IN REVIEW

Financial
- Profit after tax up 78% to $73 million.
- Revenue up 13% to $323 million
- EBITDA (Earnings before interest, taxation, depreciation and amortisation) up 13% to $230 million.

Aeronautical
- Revenue up 13% to $126 million
- Overall passengers at Melbourne Airport up 8.5% to over 20 million
- Second consecutive year of double digit growth in international passengers at Melbourne Airport up 14.4% to 4.3 million
- Launceston passenger traffic up 22.8% to 820,000.

Retail
- Revenue up 16% to $123 million
- Major new currency exchange contract signed with ANZ
- Almost 4,000 new parking spaces constructed in the Multi Storey Car Park and the Long Term Car Park.

Property
- Revenue up 10% to $44 million
- Contract signed with Mercedes-Benz to develop Mercedes-Benz Airport Express retail outlet on-site
- Star Track Express commence a 9,000sqm expansion of its warehouse office facility at the Melbourne Airport Business Park.

CHIEF EXECUTIVE OFFICER'S REPORT

AERONAUTICAL

Airline competition and booming confidence in travel have driven record growth in passenger traffic, with aeronautical revenue up 13% to $126 million in line with strong passenger results.

Both Melbourne and Launceston airports recorded their strongest passenger results, while the introduction of additional flights and new destinations increased choice and flexibility for passengers.

International passenger numbers at Melbourne Airport grew by 14%, on top of the 15% growth achieved last year.

International passenger numbers have grown faster at Melbourne Airport than at any other major airport in Australia. In the past 8 years, Melbourne's international passenger numbers have grown by more than double the Australian average.

This year, continued growth delivered additional capacity on Melbourne's key markets along with new flights and destinations including point to point Vanuatu services and new direct flights to Dubai and Shanghai.

Domestic traffic at Melbourne Airport also grew strongly, up 7% to over 15 million passengers.

Virgin Blue and Qantas continued their steady growth, while the first full year of operations for new domestic low-cost airline Jetstar saw Melbourne become one of the carrier's busiest ports.

Melbourne Airport now offers passengers the choice of five domestic airlines, two of which are established, successful and growing low-cost domestic carriers.

Continued growth from all domestic airlines has delivered more point to point services. This year Melbourne welcomed new direct services to Ayers Rock, Coffs Harbour, Proserpine, Townsville and Wollongong.

The aeronautical services agreement in place at Melbourne Airport is now in its third year and continues to work extremely well, providing stability in prices for our airline customers and enabling them to confidently plan their operations.

This 5-year agreement was made possible by the Federal Government's current approach to price regulation and has enabled Melbourne Airport to invest over $100 million in aeronautical assets in the past three years.

This year's developments included works to accommodate continued passenger growth and the new A380 super-jumbo aircraft, ensuring Melbourne Airport is able to support the future needs of Melbourne, Victoria and Southern Australia.

The major stage of Melbourne Airport's A380-ready development program was the widening of its main north/south runway by 15 metres in April 2004.

The airport adopted a world-leading strategy for the project, suspending aircraft operations on one of its two runways to conduct widening works around the clock.

This approach delivered the fastest and safest possible construction, without accident or workplace injury. Expected to take 1 1/2 months, the project was completed in just 29 days and the airport remained fully operational throughout the works.

Congratulations to all staff involved in the massive project. The effort, commitment and flexibility demonstrated by airlines, pilots, air traffic controllers and airport staff was outstanding, and integral to the success of the outcome.

Throughout construction the team maintained exceptional focus on creating the safest possible conditions while minimising disruption to the travelling public and cost to the industry.

At Launceston, the first full year of operations for domestic low cost carrier Jetstar has contributed to an enormous boost in passenger numbers, up a huge 23% on top of the record growth last year.

This growth has been supported by increased capacity, additional direct Sydney services and the introduction of an extremely successful daily Brisbane service.

Additional direct services have enhanced travel convenience and supported the fast growing short-break tourism market between Tasmania and the mainland.

The decision to include Launceston's York Stadium as an Australian Football League (AFL) venue has also provided a welcome boost for local tourism.

AERONAUTICAL

INCREASED AIRLINE COMPETITION AND CONFIDENCE IN TRAVEL HAVE DRIVEN RECORD GROWTH IN PASSENGER TRAFFIC

Passenger enthusiasm for the choice, quality and value delivered by APAC's retail offer continues to drive growth in our retail business, with revenue up 16% to $123 million.

Continued passenger growth and strong demand for airport parking have also contributed to the extremely successful year for retail.

Melbourne Airport welcomed major new retailer ANZ, which opened four currency exchange centres in terminals T2 international and T3 domestic in May 2005, and established a customer service centre in June.

ANZ joins Travelex Worldwide Money - which currently operates three currency exchange centres in T2 and T3 - as the airport's second financial services provider, introducing competition to onsite currency exchange and banking services.

The new ANZ facilities offer banking services and a pre-order express service for currency exchange. The airport-based product is being promoted to 1 in 4 Victorians through ANZ's extensive network.

Choice and diversity in retail offerings at Melbourne Airport's T2 international were further enhanced this year with the opening of new specialty stores including fashion retailers Purely Merino, RM Williams and Sunglass Hut. Food and beverage outlets Starbucks Coffee and Grab and Fly, and beauty products and services store the Natural Source also opened outlets in T2.

Downtown Duty Free's refurbished and expanded T2 outlets continued to appeal to passengers and drive sales growth in their second full year of operation.

RETAIL

PASSENGER GROWTH AND STRONG DEMAND FOR PARKING HAS CONTRIBUTED TO AN EXTREMELY SUCCESSFUL YEAR FOR RETAIL

Retail revenue from Melbourne Airport's T3 domestic also continues to grow, buoyed by an ever-expanding retail offer. This year saw the opening of a T3 store for fashion retailer Beach Culture, while the first full year of operations for the significant number of retailers that opened T3 outlets in 2003/04 was an outstanding success.

Launceston Airport's food, beverage and gift retailer, local company Kavihan, continued to perform strongly in its second full year of operation.

On the ground

APAC's parking products are more popular than ever, with growing demand and extra capacity ensuring car parks continue to make a major contribution to overall retail revenue.

Melbourne Airport's wide range of parking products continue to meet the diverse needs of customers, stimulating demand for on-airport car parks and filling new capacity.

The location and price of Melbourne Airport's Long Term Car Park continue to make it the most competitive facility of its kind in the marketplace. Capacity was expanded by over 1,000 spaces in November to meet ongoing demand.

Melbourne's two Business Car Parks continue to grow in popularity, with convenient location and easy credit payment facilities effectively catering for the premium needs of our business customers.

The $2 for 20 minute rate in Melbourne Airport's Short Term Car Park remains extremely popular. With security regulations now prohibiting terminal-side parking, the 20 minute rate has been incredibly successful at meeting the specific needs of short staying, pick-up and drop-off traffic.

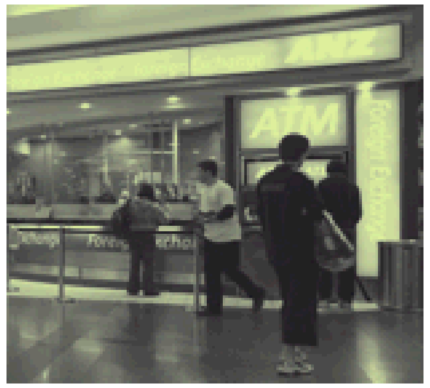
This year more than 2,500 spaces were added to the multi-level car park adjacent to the terminal building. This additional capacity will cater for the upsurge in demand for near-terminal parking facilities. The major expansion, which opened on 1 July 2005, has almost doubled the size of the existing building, adding 6 levels and a mezzanine.

Strong growth in outbound passenger traffic has also driven upward demand for parking and ground transport services at Launceston Airport.

In March 2005 Launceston Airport opened a new second car park facility that has expanded available parking spaces on-site by more than 70%.

Launceston Airport has welcomed new car rental company Red Spot, the sixth car rental company now operating at the airport. The airport has developed additional car rental facilities inside the terminal to accommodate the growing needs of existing operators.

Launceston Airport has also introduced a new passenger management system that has improved operations its front of terminal and forecourt areas.



PROPERTY
ATTRACTIVE OPPORTUNITIES AND NEW DEVELOPMENTS HAVE SEEN PROPERTY PERFORM STRONGLY

Property continues to perform strongly and deliver value for shareholders, with revenue up 10% to $44 million this year.

Melbourne Airport has around 350 hectares of land already zoned and available for development. With potential exposure to over 20 million passengers per year and close proximity to the city and major freeways, the airport presents a unique and appealing development opportunity.

Commercial development is on the increase, as leading businesses continue to realise the strategic and future-growth benefits of locating at Melbourne Airport.

Melbourne Airport signed a major contract with Mercedes-Benz in June to develop a purpose-built sales and service facility on-site. Mercedes-Benz Airport Express will open next year, in a prime location on the main airport entry road. The centre will offer vehicle sales and servicing, including a terminal valet, just metres from the terminal building.

The Melbourne Airport Business Park also continues to grow, with Star Track Express commencing work on a 9,000 square metre expansion to its existing warehouse and office facility. This is the second time that Star Track Express has expanded its facilities since locating at the Business Park in 2003.

As part of Melbourne Airport's major terminal expansion, a third level is being added to T2 for use as premium quality airline lounge space. Melbourne Airport has negotiated agreements for the lease of the new lounge space, which is currently under construction.

The multi-storey building which formerly housed Australian Customs Service and Australian Quarantine Inspection Service (AQIS) was recently demolished. The site, which is situated in a prime location close to the terminal building, is now ready for future office development.

Construction of a major new distribution centre for Australia Post in the terminal precinct is almost complete.

Provision of safe and secure airport facilities remains a top priority for APAC and we work closely with police and other government authorities to constantly review security needs at our airports.

Management teams at Melbourne and Launceston are vigilant in their approach to on-site security, with both airports consistently receiving strong performance reviews from safety and security audits.

Our airports' proactive approach to security ensures they are well placed to implement any new requirements from the Federal Government.

Melbourne Airport was the first Australian airport to implement 100% check bag screening in its international terminal, in line with Federal Government requirements. Deputy Prime Minister John Anderson formally commissioned the new system, which was delivered on time and on budget in November 2004.

Work has now commenced on the installation of a new check bag Screening system in T3 domestic.

At Melbourne Airport, additional covert and overt closed circuit television security cameras were installed to enhance coverage of airport facilities.

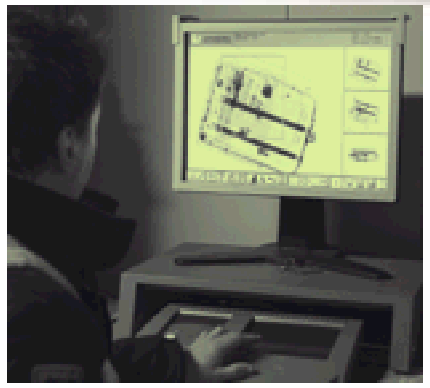
Safety also remained an important priority at Melbourne Airport in a year of large-scale construction and development.

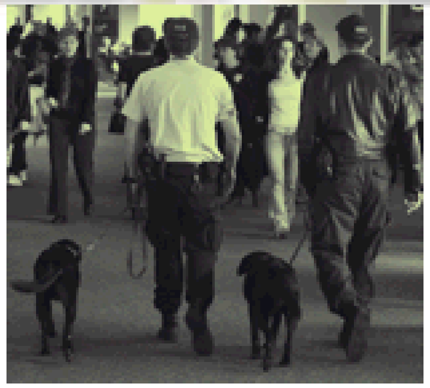
Staff and contractors working on the major runway widening project did an incredible job ensuring the safety of the worksite. Work was conducted around the clock in shifts by a huge number of staff, with the entire project delivered in 29 days without a single accident or incident.

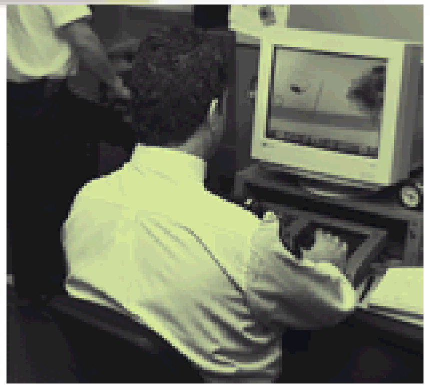
The introduction of Melbourne Airport's safety management system has also been a tremendous success, with workplace injuries falling by around 83% since its introduction in 2003.

SAFETY AND SECURITY

OUR PROACTIVE APPROACH TO SECURITY ENSURES OUR AIRPORTS MEET STRINGENT STANDARDS AND ARE WELL PLACED TO IMPLEMENT ANY NEW REQUIREMENTS







Preparation for future growth has been the focus of this year, with APAC more than than doubling its capital expenditure to over $100 million to invest in infrastructure to equip Victoria for future aviation growth.

Melbourne will be Australia's first A380-ready city, with runway widening works complete, stand-off parking bays available and construction underway on a major expansion of its international terminal.

Five of Melbourne Airport's 23 international airlines have placed orders for the new-generation A380 aircraft, which is around 35% larger than a 747 jumbo and expected to commence airline service in 2006.

The widening of Melbourne Airport's main north/south runway, completed in May 2005, was the major stage of its A380-ready program and the largest single airfield construction project in the airport's 35-year history.

Works involved laying 7.2kms of concrete pavement to widen the runway by 7.5 metres on each side to provide protection from jet blast for the width of the aircraft's huge wingspan. The project also involved a major upgrade of lighting and other airfield services.

The airport remained operational 24 hours, 7 days a week throughout the process, with all passenger services operating as normal on its east/west runway.

GROWTH FOR TOMMOROW

INVESTING IN INFRASTRUCTURE TO EQUIP VICTORIA FOR THE FUTURE

The entire project was complete in just 29 days, without accident or workplace injury and almost two weeks ahead of schedule.

New Capacity and World-Class Service
Construction is now underway on a 5,000sqm expansion of Melbourne Airport's Terminal 2.

Expansion of the arrivals and departures levels of the international terminal will more than double seating space in the public gate-lounge areas, comfortably accommodating continued passenger growth and the huge passenger loads that will be carried by the A380.

Two new aircraft gates are being fitted with dual aerobridges, each of which will have the flexibility to accommodate either one A380 or two smaller aircraft at one time.

The project also involves the construction of a new third level above the terminal extension which will become premium 'penthouse' airline lounges. Agreements have been negotiated for lease of the new lounges, which will have superb views over the airfield to the Macedon Ranges.

An expansion of Melbourne Airport's multi-level car park increased its capacity by over 2,500 spaces. The new spaces address the increased demand for near-terminal parking facilities, ensuring that the airport's parking products continue to meet the needs of its customers.

The extension opened on 1 July 2005 and has almost doubled the size of the existing car park, adding 6 new levels and a mezzanine. Visitors to Melbourne Airport now have access to over six thousand spaces immediately in front of the terminal.

APAC continues to play an important sponsorship and support role in the arts, the community and the tourism industry.

Melbourne Airport's partnership with the Salvation Army is now in its sixth year and continues to provide vital support for local emergency accommodation facilities and for major state-wide campaigns such as the Winter Warmth Appeal.

The airport also provided sponsorship for staff competing in the Red Cross Murray River Marathon charity event, and continues to assist political refugees through ongoing support for the Foundation for Survivors of Torture.

Following the devastating Boxing Day tsunami, Melbourne Airport contributed to global relief efforts through its support of the World Vision Tsunami Appeal.

As the international gateway for a city famous for its commitment to the arts, Melbourne Airport is proud to have developed a portfolio of arts sponsorships that promote new and promising talent.

Melbourne Airport is the naming sponsor for awards in emerging artist categories at the Melbourne International Comedy Festival and the Melbourne International Film Festival, both major events on Melbourne's cultural calendar. The airport also supports the National Gallery of Victoria and the Melbourne Art Fair.

Melbourne Airport this year extended its support of Victoria's tourism industry, commencing a principal sponsorship of an awards program to develop young tourism business leaders.

Melbourne maintained its principal sponsorship of the Victorian Tourism Awards – the premier event for recognising tourism excellence in Victoria. The airport also continued its partnership with Victoria University, now in its sixth year, to help develop more entrepreneurial graduates for Victorian businesses.

Launceston Airport has focused its support for local community and arts events as major sponsor of the John Glover Art Prize this year. The Glover Prize is a prestigious art award, named in memory of the local artist and recognised throughout Australia.

Launceston Airport continued its support for the annual Evandale Penny Farthing antique bicycle races and local tourism bodies.

The airport's not-for-profit vineyard bottled its first wine this year. The *Altitude* wine label is the product of a small vineyard on the airport property, established to promote tourism by reinforcing Launceston as the link to the Tamar Valley, Tasmania's popular food and wine region.

COMMUNITY

APAC CONTINUES TO PLAY AN IMPORTANT SUPPORT ROLE IN THE ARTS, THE COMMUNITY AND THE TOURISM INDUSTRY

Sound environmental planning is an integral part of APAC's business and our airports continue to set the standard for airport environmental management in Australia.

Melbourne Airport's Environmental Management System (EMS) maintained accreditation to world's best practice standard ISO14001, following a successful first surveillance audit with no non-conformances or improvement notes issued. Melbourne Airport remains the only airport in Australia to have its EMS accredited to the internationally recognised standard.

Environment protection and management remains at the forefront of planning and was essential to the success of Melbourne Airport's runway widening. As part of the project, a full Environmental Management Plan was developed with the contractor, environmental training was provided to staff and works were audited throughout construction.

These measures were extremely effective, with the largest airside construction project in the airport's history completed without environmental infringement and with no notices issued.

A variety of communications and operational strategies were implemented to minimise the noise impact on the local community from changed flight paths during the works.

Melbourne Airport continues to work closely with the local community and government to minimise the impact of aircraft operations on local amenity, while supporting operations that deliver tourism growth and economic benefit to the broader community.

Strategies and measures for improving resource use and minimising waste are progressing well. Targets for water conservation have been agreed as part of a Water Management Strategy established with City West Water.

As part of this strategy, all new airport developments are now required to install rainwater tanks, enabling collection and use of rainwater for irrigation of on-site landscapes. The airport has also commenced a pilot program with Melbourne Water to further improve on-site stormwater quality using new filtration technology.

Melbourne Airport's resource management strategy has been finalised, with the first stage of a full energy consumption audit now underway.

As part of this plan, a super-efficient 'Balltech' system has been installed to improve efficiency of the airport's air-conditioning plant, reducing energy consumption and greenhouse contributions. "Skycool", a new exterior paint designed to reduce energy consumption, is being trialled at Terminal 3.

A comprehensive waste-audit of terminals and outbuildings was conducted in May 2005 as part of the airport's Waste Minimisation Strategy. The establishment of new recycling facilities has been successful in diverting huge volumes of plastic, glass and aluminium away from landfill waste streams into recycling for reuse.

ENVIRONMENT

WE CONTINUE TO SET THE STANDARD FOR AIRPORT ENVIRONMENTAL MANAGEMENT, MINIMISING WASTE AND IMPROVING RESOURCE USE

Melbourne Airport continues to work closely with the government, business and community to improve environmental outcomes.

The first Melbourne Airport Environment Award was presented to Qantas in October 2004 for its design and construction of an innovative unit for the environmentally-safe disposal of florescent lighting tubes. Qantas generously donated its $5,000 prize to Sunbury College in March 2005 to support native tree-planting and bush regeneration activities as part of the school's Environmental Master Plan. The start-up award program was an enormous success in its first year and will continue in 2006.

In March 2005, a team of staff participated in Clean-up Australia Day for the first time, volunteering their time to collect litter from public roads around the airport property.

Melbourne Airport is also a major sponsor of "The Scarps", a large-scale environment project run by Landcare Australia to revegetate vast tracts of public land in the vicinity of the airport.

Launceston Airport completed a major review of its Environment Strategy, which was subject to extensive public consultation before being approved by the Federal Government in June 2005.

C.C. Barlow

Chris Barlow
Chief Executive Officer

RESULTS SUMMARY

FINANCIAL RESULTS APAC

Year ended 30 June ($ millions)	1998	1999	2000	2001	2002	2003	2004	2005	Change 04 to 05
Aeronautical	50	50	53	57	57	91	112	126	13%
Retail	53	61	68	77	80	90	106	123	16%
Property	28	32	36	41	42	37	40	44	10%
Security and Other	13	14	14	20	22	25	28	30	7%
Total Revenue	**144**	**157**	**171**	**195**	**201**	**243**	**286**	**323**	**13%**
Operating Expenses	47	48	48	55	65	74	83	93	12%
EBITDA	**98**	**109**	**123**	**140**	**136**	**169**	**203**	**230**	**13%**
Depreciation and Amortisation	26	32	34	35	36	40	45	41	-9%
Interest	103	107	109	137	97	97	90	80	-11%
Profit / (Loss) Before Tax	**(31)**	**(30)**	**(21)**	**(32)**	**3**	**32**	**68**	**109**	**60%**
Tax Expense / (Benefit)	0	0	0	(22)	5	13	27	36	33%
Net Profit / (Loss)	**(31)**	**(30)**	**(21)**	**(10)**	**(2)**	**19**	**41**	**73**	**78%**

PASSENGER VOLUMES MELBOURNE AIRPORT

Year end 30 June (millions)	1998	1999	2000	2001	2002	2003	2004	2005	Change 04 to 05
International	2.56	2.73	2.99	3.36	3.41	3.28	3.76	4.30	14.4%
Domestic	11.41	11.64	12.34	13.56	12.81	13.48	15.23	16.30	7.0%
Total*	**14.20**	**14.58**	**15.57**	**17.24**	**16.48**	**16.92**	**19.16**	**20.78**	**8.5%**

*Total includes transit passengers

AIRCRAFT MOVEMENTS MELBOURNE AIRPORT

Year end 30 June (thousands)	1998	1999	2000	2001	2002	2003	2004	2005	Change 04 to 05
International	17.8	18.2	20.5	23.1	22.6	21.3	24.0	28.0	16.7%
Domestic	126.2	136.2	142.7	162.0	133.1	135.0	140.0	151.2	8.0%
General Aviation	10.1	2.4	1.5	2.3	1.9	1.6	1.3	1.3	0.0%
Total	**154.1**	**156.8**	**164.7**	**187.4**	**157.6**	**157.9**	**165.3**	**180.5**	**9.2%**

PASSENGER VOLUMES LAUNCESTON AIRPORT

Year end 30 June (millions)	1998	1999	2000	2001	2002	2003	2004	2005	Change 04 to 05
Domestic	0.54	0.52	0.54	0.52	0.53	0.58	0.67	0.82	22.8%

AIRCRAFT MOVEMENTS LAUNCESTON AIRPORT

Year end 30 June (thousands)	1998	1999	2000	2001	2002	2003	2004	2005	Change 04 to 05
Regular public transport	10.5	10.1	10.8	13.3	9.2	7.5	7.9	9.5	18.1%
General Aviation	24.0	19.0	16.8	13.1	12.4	7.4	7.4	5.7	-23.6%
Total	**34.5**	**29.1**	**27.6**	**26.4**	**21.6**	**14.9**	**15.3**	**15.1**	**-2.1%**

ABOUT APAC

Australia Pacific Airports Corporation Limited (APAC) operates two Australian airports – Melbourne and Launceston.

APAC acquired Melbourne Airport in July 1997 and Launceston Airport, in partnership with the Launceston City Council, in May 1998. Both airports are operated under a 50-year long-term lease from the Federal Government, with an option for a further 49 years.

Now in its eighth year of operation, APAC has demonstrated consistent growth since its inception.

Strong management and diverse revenue streams continue to enable APAC to capitalise on opportunities and deliver aviation excellence.

APAC is a majority Australian-owned company with four shareholders:

- **AMP Capital Investors Limited.**
- **Hastings Funds Management Limited.**
- **BAA plc.**
- **RREEF Infrastructure.**

Directors and officers

Name	Appointment	Representing
Directors continuing		
Mr D. Mercer	Chairman	
Mr C. Barlow	Chief Executive Officer and Managing Director	
Mr J. Ritch	Director	AMP Capital Investors Limited
Ms F. Gates	Director	RREEF Infrastructure
Mr A. Jurenko	Director	BAA plc.
Mr M. King	Director	Hastings Funds Management Limited
Mr P. Garling	Director	AMP Capital Investors Limited
Dr D. Garrood	Director	BAA plc.
Secretaries		
Mr K. Clark	Chief Financial Officer and Deputy to the CEO	
Mr D. Tkalec	Company Secretary and General Manger, Legal Services	

Our Mission

Our mission is to be the leading airport company in the Asia Pacific region and to fully realise our airports' potential.

To achieve this we will:

- Provide safe, secure and efficient services
- Provide quality customer service
- Identify opportunities for growth and development
- Develop employee skills and provide recognition and incentive for achievement
- Be a responsible and active corporate citizen
- Provide an appropriate financial return to shareholders.

These principles form the core of our performance management system. They ensure that the integrity of our aims and our company values are maintained and strengthened from within.

Our Vision

Australia will be enhanced through APAC's ongoing contribution to transport infrastructure, tourism development and successful partnerships that will generate economic growth and long-term employment.

PROFIT AND LOSS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Consolidated 2005 $'000	2004 $'000
Revenue		
Operating Revenue		
– Aeronautical Revenue	125,896	111,875
– Retail Revenue	123,538	106,483
– Property Revenue	43,743	40,381
– Security, Outgoings and Other Income	29,903	27,084
– Interest Revenue	260	194
Total Operating Revenue	**323,340**	**286,017**
Non-Operating Revenue	40	291
Revenue from Ordinary Activities	**323,380**	**286,308**
Operating Costs		
– Staff Costs	(18,715)	(18,112)
– Service and Utilities	(34,075)	(30,653)
– Maintenance Costs	(9,759)	(7,797)
– Administration, Marketing and Other	(11,681)	(11,135)
– Performance Payments	(19,227)	(15,016)
Operating Profit before Borrowing Costs, Depreciation and Amortisation	**229,923**	**203,595**
Depreciation and Amortisation	(41,350)	(45,050)
Borrowing Costs Other loans	(76,878)	(73,510)
Shareholders Loans	(2,682)	(17,047)
Profit from Ordinary Activities before Income Tax Expense	**109,013**	**67,988**
Income tax (expense) / benefit relating to ordinary activities	(36,264)	(27,074)
Profit from Ordinary Activities after Income Tax Expense	**72,749**	**40,914**

Information is extracted from the Audited Financial Statements.

	Consolidated 2005 $'000	Consolidated 2004 $'000
Current Assets		
Cash Assets	1,047	1,809
Inventories	718	623
Receivables	14,122	23,884
Other Current Assets	5	72
Total Current Assets	**15,892**	**26,388**
Non-Current Assets		
Property, Plant and Equipment	834,711	754,408
Intangibles	577,814	586,195
Deferred Tax Assets	4,190	4,741
Total Non-Current Assets	**1,416,715**	**1,345,344**
Total Assets	**1,432,607**	**1,371,732**
Current Liabilities		
Payables	46,260	37,985
Tax Liabilities	27,096	13,423
Provisions	4,252	4,099
Total Current Liabilities	**77,608**	**55,507**
Non-Current Liabilities		
Interest-bearing Liabilities	1,213,680	1,217,125
Non-Interest-bearing Liabilities	258	1,696
Deferred Tax Liabilities	15,523	14,148
Provisions	445	390
Other Liabilities	6,199	6,015
Total Non-Current Liabilities	**1,236,105**	**1,239,374**
Total Liabilities	**1,313,713**	**1,294,881**
Net Assets	**118,894**	**76,851**
Equity		
Contributed Equity	118,100	118,100
Retained Profits / (Accumulated Losses)	794	(41,249)
Total Equity	**118,894**	**76,851**

Information is extracted from the Audited Financial Statements.

	Consolidated Inflows (Outflows) 2005 $'000	Consolidated Inflows (Outflows) 2004 $'000
Cash Flows from Operating Activities		
Receipts from customers	362,711	307,084
Payments to suppliers and employees	(125,278)	(80,509)
Goods and Services tax remitted	(14,488)	(19,051)
Interest and bill discounts received	260	194
Interest and other costs of finance paid	(80,104)	(98,097)
Net cash provided by operating activities	**143,101**	**109,621**
Cash Flows from Investing Activities		
Payment for property, plant and equipment	(108,230)	(38,898)
Proceeds from sale of property, plant and equipment	33	291
Net cash used in investing activities	**(108,197)**	**(38,607)**
Cash Flows from Financing Activities		
Payment for debt issue costs	(77)	(1,359)
Proceeds from borrowings	146,100	352,880
Repayment of borrowings	(150,983)	(424,274)
Dividend Paid	(30,706)	–
Net cash provided by / (used in) financing activities	**(35,666)**	**(72,753)**
Net Increase / (Decrease) In Cash Held	**(762)**	**(1,739)**
Cash Assets at the Beginning of the Financial Year	**1,809**	**3,548**
Cash Assets at the End of the Financial Year	**1,047**	**1,809**

Information is extracted from the Audited Financial Statements.

1. Summary of Accounting Policies

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated does not take into account changing money values or current valuations of non-current assets. Cost is based on fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

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 have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in accounting standard AASB1024 "Consolidated Financial Statements". A list of controlled entities appears in Note 17 to the financial statements. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

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

(b) Depreciation

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure.Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. 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

(c) Leased Land and Lease Premium Amortisation

Land leased as part of the airport acquisition has been valued at acquisition at fair value and the cost of acquisition of the airport business in excess of net tangible assets has been capitalised as lease premium.

The leased land and lease premium are amortised on a straight line basis over the period of the leases, which are 99 years.

(d) Income Tax

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The directors of APAC elected that all wholly-owned Australian entities would join a tax consolidated group from 1 July 2003.

Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement.

(e) International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006.

Entities complying with AIFRS for the first time have been required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

APAC has established a project team to manage the transition to AIFRS, including training of staff along with system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports regularly to the Board directly under the Audit and Risk Management agenda. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

SUMMARY OF KEY NOTES TO FINANCIAL INFORMATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

1. Summary of Accounting Policies (cont'd)

The project team has substantially completed the analysis of the AIFRS and has identified accounting policy changes that will be required.
In some cases, choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards.* These choices have been analysed to determine the most appropriate accounting polices for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) Financial Instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement* there may be major impacts as noted below:

- Interest rate derivatives will be recorded on balance sheet at fair value, thereby increasing other assets or liabilities, depending upon the contract positions' market values.
- Changes in fair value of derivatives will be recorded to the income statement unless strict cash flow hedge accounting criteria are met (including rigorous designation and effectiveness requirements), in which case changes in fair value will be recorded directly to equity.
- If hedge accounting criteria are met, there will likely be volatility in the equity account; if hedge accounting is not obtained, there will be potentially significant income statement volatility.

AASB 139 is applicable to annual reporting periods beginning on or after 1 January 2005. Comparatives are not required. Accordingly, impacts will be disclosed in the 30 June 2006 financial statements.

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(ii) Income Tax

Under AASB 112 *Income Taxes,* deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

As a result of this change, deferred tax liabilities as at 1 July 2004 are expected to increase by $273,160,000 with a corresponding decrease to retained earnings as a result of temporary differences between the carrying amounts of the lease premium and certain airport structures included within property, plant and equipment and their associated tax bases. The deferred tax liability will be reversed to profit through reduced income tax expense over the life of the related assets. The impact for the year ended 30 June 2005 would have been an increase in profit after tax of $3,727,000 if the change had been introduced on 1 July 2004. The change would have had no effect on cashflow.

(iii) Impairment

Under AASB 136 Impairment of Assets, recoverable amount should be estimated for an individual asset, if not, for the cash-generating unit to which the asset belongs. Specific requirements under AASB 136 in relation to which growth rates, discount rates and assumptions should be used in the calculation of value in use might potentially indicate that certain assumptions used in the current financial models need to be revised.

If the recoverable amount of an asset is less than its carrying amount, a reduction in the asset carrying value and an impairment loss should be recognised immediately.

There were no adjustments to the carrying about of assets as a result of AASB 136 adoption as at 1 July 2004.

Other impacts of AIFRS adoption on disclosures will be presented in the consolidated entity's financial statements for the year ending 30 June 2006.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Furthermore, the consolidated entity has not yet finalised the business impact analysis, accordingly the final impacts of the adoption of AIFRS on the financial statements is unknown at the date of the financial report. Therefore, until the consolidated entity prepares its first full AIFRS financial statements, the possibility cannot be excluded that the above disclosures may have to be adjusted.

	Consolidated 2005 $'000	Consolidated 2004 $'000
2. Income Tax		
The prima facie income tax (expense)/benefit on pre-tax accounting profit / (loss) reconciles to the income tax (expense) / benefit in the financial statements as follows:		
Profit from ordinary activities	**109,013**	**67,988**
Income tax (expense) calculated at 30% of operating profit	(32,704)	(20,396)
Permanent Differences:		
Non allowable depreciation	(1,849)	(3,556)
Amortisation of intangible assets	(1,878)	(1,884)
Non deductible expenses	(100)	(60)
Additional deductions	215	–
(Under) / Over Provision of income tax in previous year	52	(1,178)
Income tax (expense) / benefit attributable to operating profit	**(36,264)**	**(27,074)**
3. Current Receivables		
Trade receivables	14,286	23,813
Allowance for doubtful debts	(193)	(216)
	14,093	**23,597**
Non-trade receivables from:		
– Other related parties	29	287
	14,122	**23,884**

Consolidated

	Leasehold Land $'000	Buildings $'000	Roads, Runways and Other Infrastructure $'000	Plant and Equipment $'000	Assets under Construction $'000	TOTAL $'000
4. Property, Plant and Equipment						
Gross Carrying Amount – at Cost						
Balance at 30 June 2004	113,560	252,234	424,200	138,584	27,224	955,802
Additions	–	–	–	–	115,398	115,398
Disposals	–	(1,315)	(3)	(180)	–	(1,498)
Transfers to / (from) assets under construction	–	13,535	88,124	16,758	(118,417)	–
Balance at 30 June 2005	**113,560**	**264,454**	**512,321**	**155,162**	**24,205**	**1,069,702**
Accumulated Depreciation / Amortisation						
Balance at 30 June 2004	**5,868**	**67,630**	**57,259**	**70,637**	**–**	**201,394**
Depreciation Expense	1,162	11,779	11,071	11,075	–	35,087
Disposals	–	(1,310)	(3)	(177)	–	(1,490)
Balance at 30 June 2005	**7,030**	**78,099**	**68,327**	**81,535**	**–**	**234,991**
Net Book Value						
As at 30 June 2004	107,692	184,604	366,941	67,947	27,224	754,408
As at 30 June 2005	**106,530**	**186,355**	**443,994**	**73,627**	**24,205**	**834,711**

An independent valuation of Leasehold Land and Buildings was completed at 30 June 2003. Leasehold Land, Buildings, Road and Runways and Other Infrastructure were valued by Mr Gary Longden AAPI of the firm Jones Lang Lasalle. The valuation was based on depreciated replacement value. The Directors have decided not to book the revaluation in the financial statements. If the valuation had been booked the carrying values would have been $133,840,000 for Leasehold Land, $305,600,000 for Buildings and $395,000,000 for Roads, Runways and Infrastructure as at 30 June 2003. The valuation did not include any allowance for capital gains tax that may arise on disposal.

		Consolidated 2005 $'000	Consolidated 2004 $'000
4.	**Property, Plant and Equipment (cont'd)**		
	Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year.		
	– Leasehold Land	1,162	906
	– Buildings*	11,779	16,174
	– Roads, Runways and other Infrastructure	11,071	9,753
	– Plant and Equipment	11,075	11,937
		35,087	**38,770**
	* Change in Accounting Estimates. During the 2004 year a review of the expected useful life of buildings, plant and equipment was undertaken and as a result of that review a number of assets lives were adjusted. This resulted in a one off increase in building depreciation in the 2004 year of $4,561,000 and a reduction in 2004 year and future year plant and equipment depreciation of $525,000.		
5.	**Intangibles**		
	Lease Premium	618,103	618,103
	Accumulated Amortisation	(48,323)	(42,060)
		569,780	**576,043**
	Deferred Borrowing Costs	16,698	16,621
	Accumulated Amortisation	(8,664)	(6,469)
		8,034	**10,152**
	Total	**577,814**	**586,195**
	Aggregate amortisation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
	– Lease Premium	6,263	6,280
	– Deferred borrowing costs	2,195	2,208
6.	**Current Payables**		
	Trade payables	22,663	15,916
	Goods and services tax payable	1,043	1,168
	Non-trade payables to:		
	– Other related parties	17,419	14,605
		41,125	**31,689**
	Interest Payable to:		
	– Senior – other entities *(i)*	5,028	5,029
	– Other	107	171
	– Shareholder Loans	–	1,096
		5,135	**6,296**
		46,260	**37,985**
	(i) Secured by a fixed and floating charge over the consolidated entity's assets.		
7.	**Current Tax Liabilities**		
	Income Tax Payable	**27,096**	**13,423**
8.	**Current Provisions**		
	Employee entitlements	**4,252**	**4,099**

SUMMARY OF KEY NOTES TO FINANCIAL INFORMATION FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

		Consolidated 2005 $'000	Consolidated 2004 $'000
9.	**Non-Current Interest Bearing Liabilities**		
	Secured:		
	Non-trade payables to:		
	– Senior – bank debt *(i)*	281,400	216,400
	– Bonds *(i)*		
	Tranche 1 ($300m fixed 6.75% to 15 June 2008)	300,000	300,000
	Tranche 2 ($150m variable to 11 June 2008)	150,000	150,000
	Tranche 3 ($250m variable to 11 June 2011)	250,000	250,000
	– US Private Placement *(i)*		
	Tranche 1 ($232m fixed 6.65% to 13 May 2011)	232,280	232,280
	Unsecured:		
	– Other entities	–	210
		1,213,680	**1,148,890**
	Shareholder loans	–	68,235
	Total Borrowings	**1,213,680**	**1,217,125**
	(i) Secured by a fixed and floating charge over the consolidated entity's assets.		
10.	**Non-Interest-Bearing Liabilities**		
	Non trade payables	**258**	**1,696**
11.	**Non-Current Other Liabilities**		
	Unearned Revenue	**6,199**	**6,015**
12.	**Capitalised Borrowing Costs**		
	Borrowing costs capitalised during the financial year	**1,578**	**855**
	Weighted average capitalisation rate on funds borrowed generally	6.0%	6.8%
13.	**Contributed Equity**		
	118,100,000 Ordinary shares – fully paid (2004: 118,100,000)	**118,100**	**118,100**
	Fully paid ordinary shares carry one vote per share and carry the right to dividends		
14.	**Retained Profit / (Accumulated Losses)**		
	Balance at beginning of financial year	(41,249)	(82,163)
	Net Profit	72,749	40,914
	Dividends Paid	(30,706)	–
	Balance at end of financial year	**794**	**(41,249)**
15.	**Commitments For Expenditure**		
	Capital Expenditure Commitments		
	Property, Plant and Equipment		
	Not longer than 1 year	**38,294**	**37,701**
16.	**Employee Numbers**	No.	No.
	Number of employees at end of financial year	**205**	**188**

17. Controlled Entities

		Country of Incorporation	Ownership Interest 2005 %	Ownership Interest 2004 %
Name of Entity				
Parent Entity				
Australia Pacific Airports Corporation Limited		Australia		
Controlled Entities				
Australia Pacific Airports (Melbourne) Pty. Limited		Australia	100	100
Australia Pacific Airports (Property) Pty. Limited	*(i)(ii)*	Australia	100	100
APAC (Holdings) Pty. Limited	*(i)*	Australia	100	100
Australia Pacific Airports (Launceston) Pty. Limited	*(i)*	Australia	100	100

(i) These controlled entities 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 controlled entity was dormant during the financial year.

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
18. Dividends				
A fully franked interim dividend was paid during the financial year	30,706	–	30,706	–
Franking Account	27,275	13,423	27,275	13,423
19. Contingent Liability				
The consolidated entity is currently in dispute with one of its tenants which is claiming reduction in rent from current and prior periods. The Directors believe based on legal and other expert advice that the dispute will be resolved with no material loss.	–	–	–	–

20. Additional Company Information

Australia Pacific Airports Corporation Limited ACN 069 775 266 is a non-listed public company incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business
Level 2, International Terminal
Melbourne Airport
(03) 9297 1600

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

Information is extracted from the Audited Financial Statements.