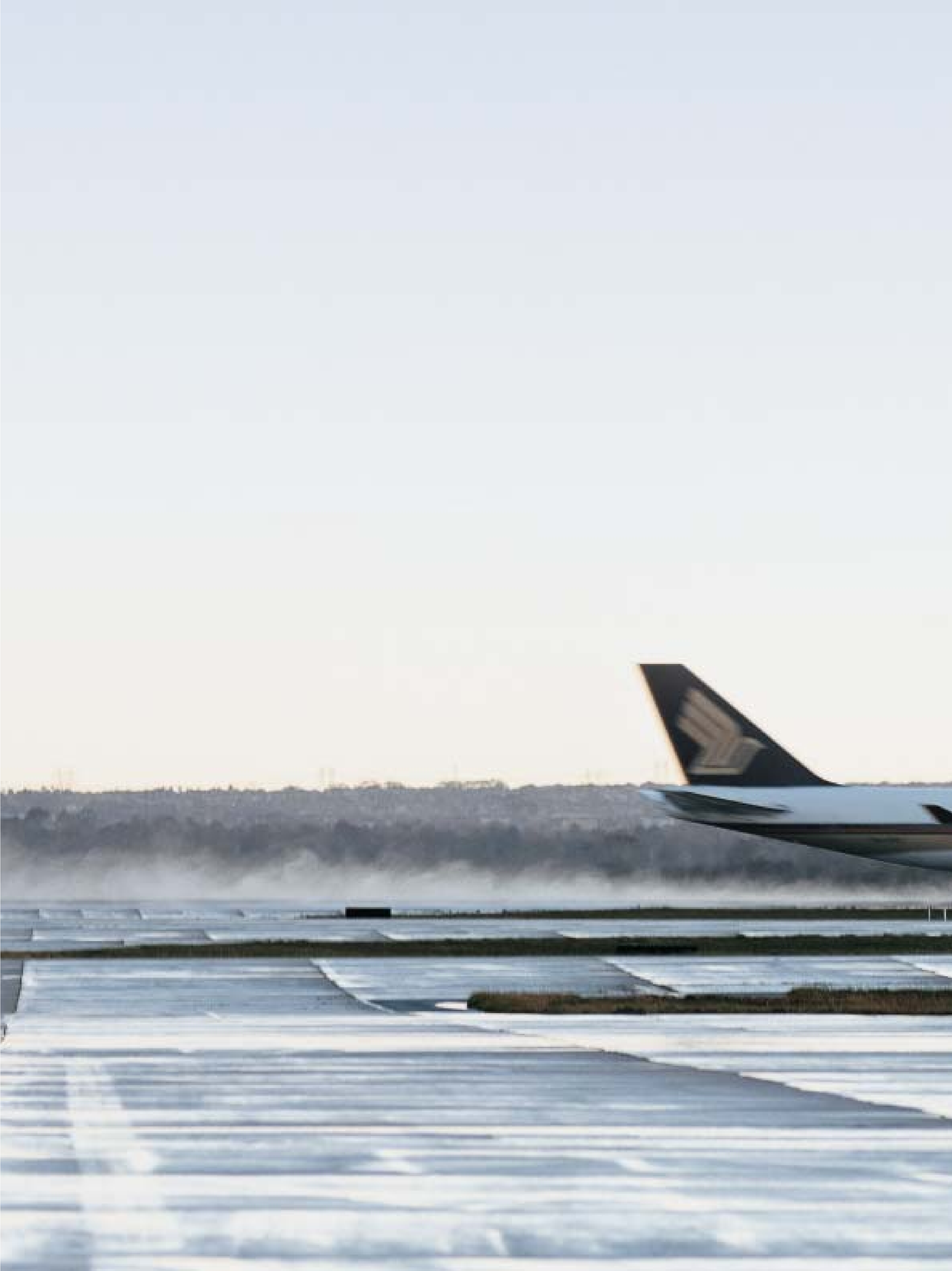
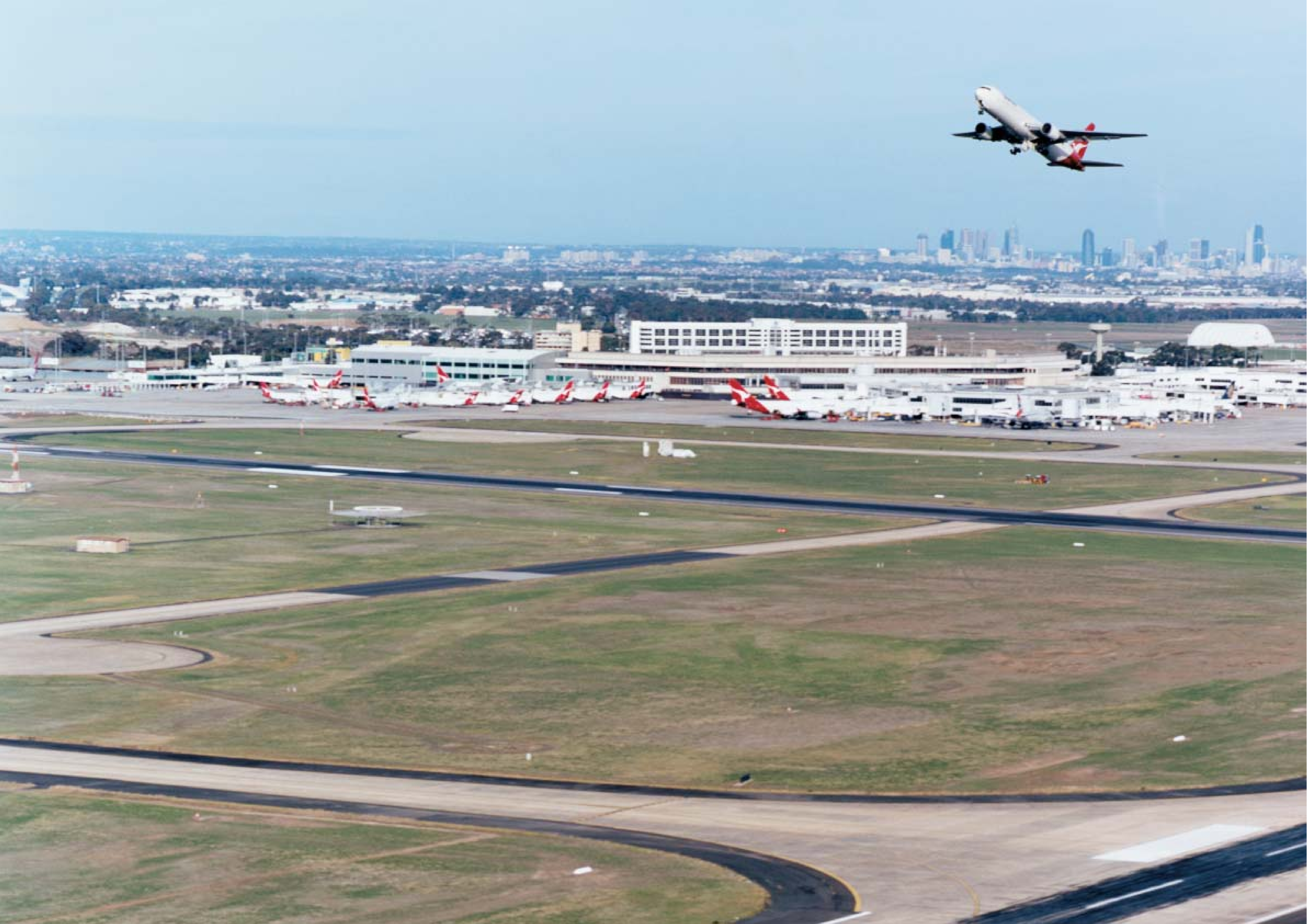
moving forward

Australia Pacific Airports Corporation Annual Report 2003





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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.

Chairman's Message

For the second consecutive year the aviation industry has been beset by challenges. The Bali bombing, the Iraq War and SARS had a dramatic impact on passenger confidence and numbers. In spite of this, APAC's diverse structure and sound management has delivered a maiden post-tax profit of over $19 million.

Strategies and capital works implemented over the last six years have delivered this strong financial outcome, enabling the company to stay on track in a challenging year.

APAC's resilience in adverse circumstances was demonstrated by a significant increase in earnings before interest, tax, depreciation and amortisation (EBITDA) up 24 per cent on last year to $169 million.

Improved profitability has boded well for our shareholders, doubling their return to over $80 million. APAC remains an excellent investment, whilst the fact that we maintained our credit ratings with both Moody's and Standard and Poor's is a positive indicator of things to come as the industry recovers.

Overall revenue grew by 21 per cent to $243 million, supported by sound investments, prudent management of our diverse property and retail assets and strong growth in aeronautical revenue.

This diversity, along with strong business partnerships has helped insulate APAC from the recent trials of the industry.

Costs increased by $9 million this year as a result of changes to our business operations, but we remain confident in our cost controls. The acquisition and operation of former Ansett Domestic Terminals contributed to the increase in costs, as did increased performance payments to our technical adviser BAA plc.

The review of our Environment Strategy heralds a shift toward best practice management and will ensure APAC continues to set the benchmark for airport environmental management in Australia.

Our support of broader community and industry activities continues. APAC maintains its rewarding relationship with the Salvation Army, the Make-A-Wish Foundation and Victoria University. This year we entered a three year agreement with Tourism Victoria to support the Victorian Tourism Awards as the principal sponsor, an event that showcases and rewards the best Victorian tourism operators.

In the face of adversity, APAC has delivered outstanding results. The lessons learned and business discipline acquired over recent years has equipped APAC to better harness opportunities as business returns to normal.

I take this opportunity to extend my thanks to all who contributed during such a memorable year.

Don Mercer
Chairman

Chief Executive Officer's Report

Following a strong recovery from the effects of September 11, this year began as one full of confidence and anticipation, not only for Melbourne and Launceston airports, but for the aviation industry. Unfortunately it proved to be even more turbulent than the previous year, as unpredictable global events presented monumental challenges to airlines and airports. This pattern is becoming the norm.

This time the spotlight was on the Asia Pacific region, with the attack on Bali and the outbreak of SARS bringing global issues to Australia's own doorstep for the first time. In addition, the Iraq War was located geographically midway between our region and Europe. With Europe and Asia our two biggest international travel markets, the impact on traveller confidence and international passenger numbers was enormous.

For only the third time since it opened in 1970, Melbourne Airport experienced a decline in international passenger numbers, down almost four per cent. Strong domestic travel was the saviour, resulting in an increase in overall passenger numbers for both airports.

A strong, diverse business model enabled our team to ensure APAC remained on track through the year.

Retail developments continued to deliver choice, range and quality, with passenger enthusiasm for new shops and food and beverage outlets boosting retail sales. Improvements to on-site car parking facilities and increasing numbers of domestic travellers have boosted income from our car parks.

Property development at Melbourne Airport has grown to accommodate the increasing number of businesses attracted by the location, facilities and cost of establishing on-site. Our Business Park welcomed four new operators, with construction underway on another facility. New facilities for Customs and the Australian Quarantine and Inspection Service (AQIS) were also completed.

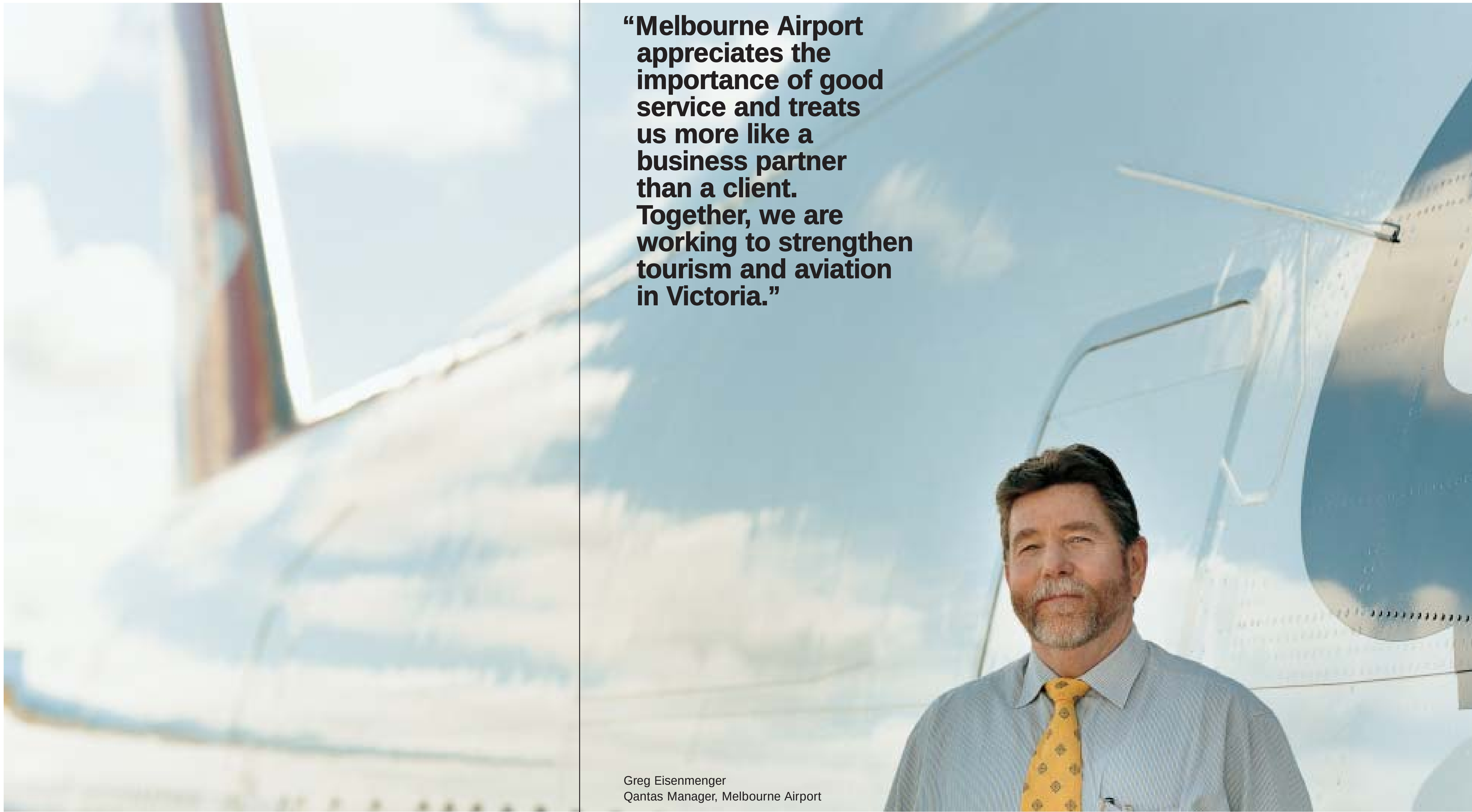
The receipt of an International Air Transport Association (IATA) Eagle Award in June 2003 was a major recognition of our focus on customer service and commitment to delivering value for money. Melbourne Airport was recognised for its new flexible aeronautical pricing arrangement which commenced in July 2001. The new system altered charging arrangements from a fixed per-aircraft to a per-passenger basis.

The response from airlines has been a demonstration of long-term confidence in our airports. In spite of sweeping service cancellations around the world during the SARS epidemic, not one airline cancelled services to Melbourne. While many flights were suspended, they are being reintroduced as passenger confidence returns.

Our results in this challenging year demonstrate that a diverse, strategic business model has positioned APAC strongly to rebound from any challenge the future may present. We will continue to invest to ensure we stay that way.

Chris Barlow
Chief Executive Officer

building on partnerships



"Melbourne Airport appreciates the importance of good service and treats us more like a business partner than a client. Together, we are working to strengthen tourism and aviation in Victoria."

Greg Eisenmenger
Qantas Manager, Melbourne Airport

Year in review

Strong partnerships and diverse interests were the key to another successful year for APAC, with the company recording a maiden after-tax profit of $19 million. This strong result was achieved in spite of the impact of world events.

Aeronautical revenue increased to $91 million, with strong domestic travel contributing to an increase in overall passenger numbers. This figure was also boosted by APAC's acquisition and operation of former Ansett domestic terminals in both Melbourne and Launceston, resulting in a shift in revenue to the aeronautical stream. Previously these terminals were leased to Ansett, generating property revenue.

Although this shift resulted in an on-paper decrease in property revenue, income from APAC's non-terminal property interests increased by five per cent.

Retail revenue increased 12.5 per cent to $90 million with strong food and beverage sales, commencement of a new Duty Free contract and expansion of the retail footprint at Melbourne Airport contributing to this success.

APAC injected over $40 million into capital works projects including runway improvements, new security measures and property development.

Costs increased by $9 million to $74 million as a result of changes to business operations and an increase in outlays for security, insurance and performance payments.

The acquisition and management of our common-user domestic terminals in both Melbourne and Launceston increased the number of passengers in APAC operated terminals by 35 per cent. Operating costs of $2 million previously met by Ansett for these terminals are now met by APAC.

The cost of security also increased, whilst the company's insurance costs jumped 375 per cent to $2.4 million. In addition, our consultancy agreement with BAA plc includes a performance payment linked to operating results. Our sound result this year increased that payment by $9 million.

APAC's strong management has ensured our costs remain contained. On a like for like basis, compared to last year, costs have increased in line with inflation.

Award winning airline partnerships

One of the most significant events of this financial year was the introduction of a new five-year aeronautical charging method for airlines.

The Aeronautical Service Agreement, introduced on July 1 2002, cements our airports' partnership role with their airline customers. The agreement alters charging arrangements from the previous fixed price per aircraft to a per passenger basis, and includes provision for agreed capital investment. The agreement commits to CPI price increases for five years, enabling airlines to plan ahead with confidence and surety.

The change to a per passenger charging system shares both the risk of industry downturn along with the benefits of buoyant traffic between the airport and the airline.

APAC's innovative and responsive new pricing model received international recognition this year, with Melbourne Airport one of only three airports in the world to be presented with an Eagle Award by the International Air Transport Association.

The risk-sharing model provides the highest level of service to our airline customers and demonstrates our commitment to work with them through difficult times.

Changes to Melbourne Airport's terminal have improved access, quality and service for all passengers.

New airside walk-through duty free store, Melbourne Airport.

quality customer service

Melbourne Airport

With 24-hour curfew-free operation, fast access to the city, international and domestic terminals under one roof and room to grow in future, Melbourne Airport enjoys unique advantages that set it apart from other major Australian international airports.

These advantages provide Melbourne Airport with insulation in difficult times, as well as opportunities in good times. That was demonstrated again this year, with Melbourne Airport performing exceptionally well in spite of turbulent global events.

Overall passenger numbers at Melbourne Airport increased by three per cent, buoyed by a strong domestic market. Solid passenger growth for Virgin Blue and Qantas, supported by Regional Express, contributed to a five per cent increase in domestic passenger numbers this year.

The attack on Bali, the Iraq War and SARS had a crippling effect on passenger confidence. For only the third time since the airport opened in 1970, Melbourne Airport experienced a decline in international passenger numbers, down almost four per cent. With Singapore and Hong Kong now officially SARS-free, strong forward bookings indicate that growth will return.

Despite a difficult year for international travel, the number of airlines and services available to Melbourne passengers continued to grow. Melbourne welcomed two new airlines this year with Air Paradise commencing services to Bali in January and Australian Airlines joining them on the route in June.

Thai Airways, Singapore Airlines, British Airways and Cathay Pacific all announced extra capacity in the first half of the year. While many new services were suspended during the SARS epidemic, they are now being reintroduced.

Improving access Melbourne Airport continues to invest in infrastructure to ensure the airport provides first class facilities and quality service to our customers, with an injection of over $40 million this year.

Major works to better integrate Melbourne Airport's South and International terminals at departure level were completed in December 2002. This has created a single departure precinct that improves access for both domestic and international passengers.

Both Virgin Blue and Regional Express experienced a problem-free move into the Melbourne Airport's South Terminal, commencing operations from the former Ansett facility in August 2002. Works to improve retail facilities in the South Terminal are currently underway and an extensive upgrade to retail areas in the International Terminal occurred during the year.

Substantial work to improve taxiways was completed, ensuring the improved efficiency and capacity of existing runways.

24 hour operation at Melbourne Airport is a valuable asset for Victoria, boosting jobs and trade. It enhances flexibility for both passengers and freight, enabling fresh produce to arrive just in time for market, anywhere in the world.

Singapore Airlines Cargo "Mega Ark"
747 freighter aircraft, Melbourne Airport.

any airline, any time

Moving cargo 24 hour operation, fast access to the city and close proximity to major freeways have enhanced Melbourne Airport's reputation as a leading freight hub in the Asia Pacific Region, carrying around 30 per cent of Australia's air cargo.

International freight volumes, although down on previous years, have performed well in spite of the impact from global events. One of the associated losses of airline service suspensions during the SARS epidemic was freight capacity, with around 80 per cent of Melbourne's international air freight carried on passenger aircraft. This capacity is returning, along with services, as passenger confidence rebounds from the impact of SARS.

Domestically, Melbourne maintained its position as the number one freight hub in Australia. The void in domestic air freight service that resulted from the collapse of Ansett has now been filled, with Australian Air Express, Virgin and Qantas all expanding their domestic freight networks. Australian Air Express has increased its fleet of 727 freighters from four to seven, and has rescheduled its business to better service Australia's domestic air freight needs.

Protecting passenger safety
Security remains a top priority for Melbourne Airport. A peer review conducted this year by BAA plc found that our fire safety, airside safety and security procedures are world class. On-site security measures are regularly monitored, and Melbourne Airport continues to meet stringent security standards set by the Federal Government. Group 4 Securitas now provides passenger screening services at Melbourne Airport's International and South terminals under a three year contract commenced in December 2002. Security for the Qantas domestic terminal continues to be provided under a separate contract managed by Qantas.

Local partnerships Melbourne Airport is a strong supporter of organisations that make a positive contribution to our broader community. We continued to work closely with the Salvation Army through ongoing support for local families in need and fundraising for a variety of other projects including the bushfire relief fund.
The airport also supports the Foundation for Survivors of Torture, which provides services for refugees who have been victimised by political regimes, and the Make-A-Wish Foundation, which grants wishes to children with life-threatening illnesses.
The Melbourne Airport sponsored Victoria University Chair in Marketing is now in its fourth year.

Gavin Bailey, General Manager
Launceston Airport, with Virgin Blue cabin staff.

more services

New services and more seats have made it easier than ever to fly in and out of Launceston.

Launceston Airport

A strong year for domestic travel reaped dividends for Launceston Airport, with the airport recording an 8.3 per cent increase in passenger numbers and its fifth consecutive pre-tax profit since privatisation. The airport also recorded its first dividend.

These outstanding results were achieved through continued development of new business with Virgin Blue, expansion to existing services and sound infrastructure.

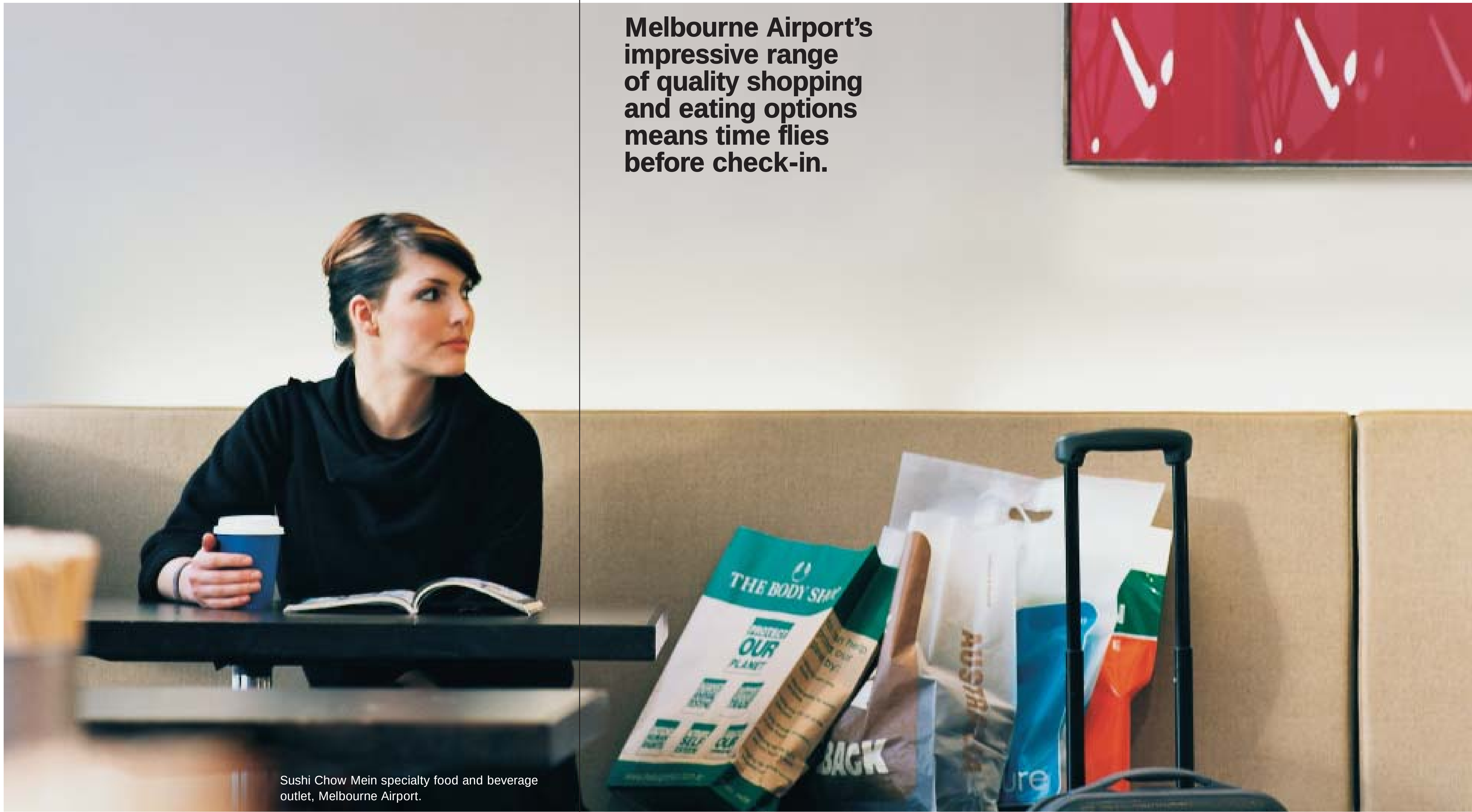
Since the collapse of Ansett the airport has experienced full recovery and then further growth in passenger numbers. This significant growth is the result of increased seating capacity on Qantas and Virgin flights into Launceston, as they respond to a buoyant domestic market and the increasing attraction of Tasmania as a leisure destination for Australian travellers.

A new aeronautical charging system, which alters fee arrangements from a fixed-price per aircraft to a per-passenger landing charge, has further enhanced Launceston's appeal to airlines, and contributed to an increase in revenue for the airport.

The retail concession for the shop and food and beverage outlet at Launceston Airport was tendered during the year. An eight-year contract, commencing on 1 July 2003, was awarded to Launceston-based company Kavihan, who will support the regional economy by using local produce wherever possible in their operation.

Capital works at the airport included the completion of terminal development at the south end of the building, enclosing the baggage area to improve passenger service levels. The car park overlay was also completed, improving road surface quality for customers.

choice, quality and value



Sushi Chow Mein specialty food and beverage outlet, Melbourne Airport.

Melbourne Airport's impressive range of quality shopping and eating options means time flies before check-in.

Retail

Retail partnerships continue to be a vital part of our airport business, with revenue up 12.5 per cent to $90 million this year. Food and beverage was the star performer, as customers responded enthusiastically to the improved range, choice and quality of outlets.

In a year of industry turbulence and reduced international passenger traffic, new contracts and continued expansion demonstrate long-term confidence from our retail partners and confirm our airports as dynamic and successful business environments.

At Melbourne Airport, the commencement of a new eight year contract for Downtown Duty Free operator, The Nuance Group, in November 2002 was a major highlight for the year. Under the contract, airside and landside duty free stores have been extended and updated with a major extension and re-fit of the airside store contributing to a 40 per cent increase in total duty free space. With development now complete, 100 per cent of departing passengers pass through the new mega walk-through duty free store before boarding their aircraft.

Major retail development in Melbourne Airport's International Terminal has created a stylish ambience to enhance the travel experience. Shop fronts for new concessionaires Travelex and World of Chocolate, along with refurbishments at Australian Produce and Body Map contribute to the smart aesthetic.

In the South Terminal, McDonald's and Hudsons Coffee have both completed major refurbishments, whilst new concessionaire Red Rock Leisure signed a contract in December 2002 to operate three specialty stores including the first airport P.J.O'Brien's pub in Australia.

Launceston Airport signed local company Kavihan to an eight-year contract to operate its on-site retail outlet.

More than just shops Retail operations at our airports are broader than just the management of retail premises within the terminal buildings. Melbourne Airport's retail partnerships include the management of ground transport services, including car parks and car rentals, and forecourt operations.

The upgrade of car parks continued this year, with extensions to Melbourne Airport's Long Term and Staff car parks adding 1,000 spaces. A South Terminal Business Car Park was also opened to provide easy access for passengers using this terminal. Melbourne Airport now offers over 10,000 parking spaces to airport customers.

Melbourne Airport's attraction as a high exposure media and advertising proposition also continues to grow. The airport works closely with Cody Outdoor and Eye Corp to capitalise on opportunities for on-site advertising and promotions.

Michael Hayden, Property and Development Manager, Australand Santilli.

building better business

"With faster business deliveries in all directions and great access to new markets, locating at Melbourne Airport puts Victoria and the world at your doorstep."

Property

The increasing appeal of our airports as a business location, along with our commitment to provide exceptional facilities for our customers, has ensured APAC's property interests continued their impressive performance this year.

The purchase of former Ansett domestic terminal leases in Melbourne and Launceston this year diverted most of the revenue stream from the terminals from property to aeronautical and retail.

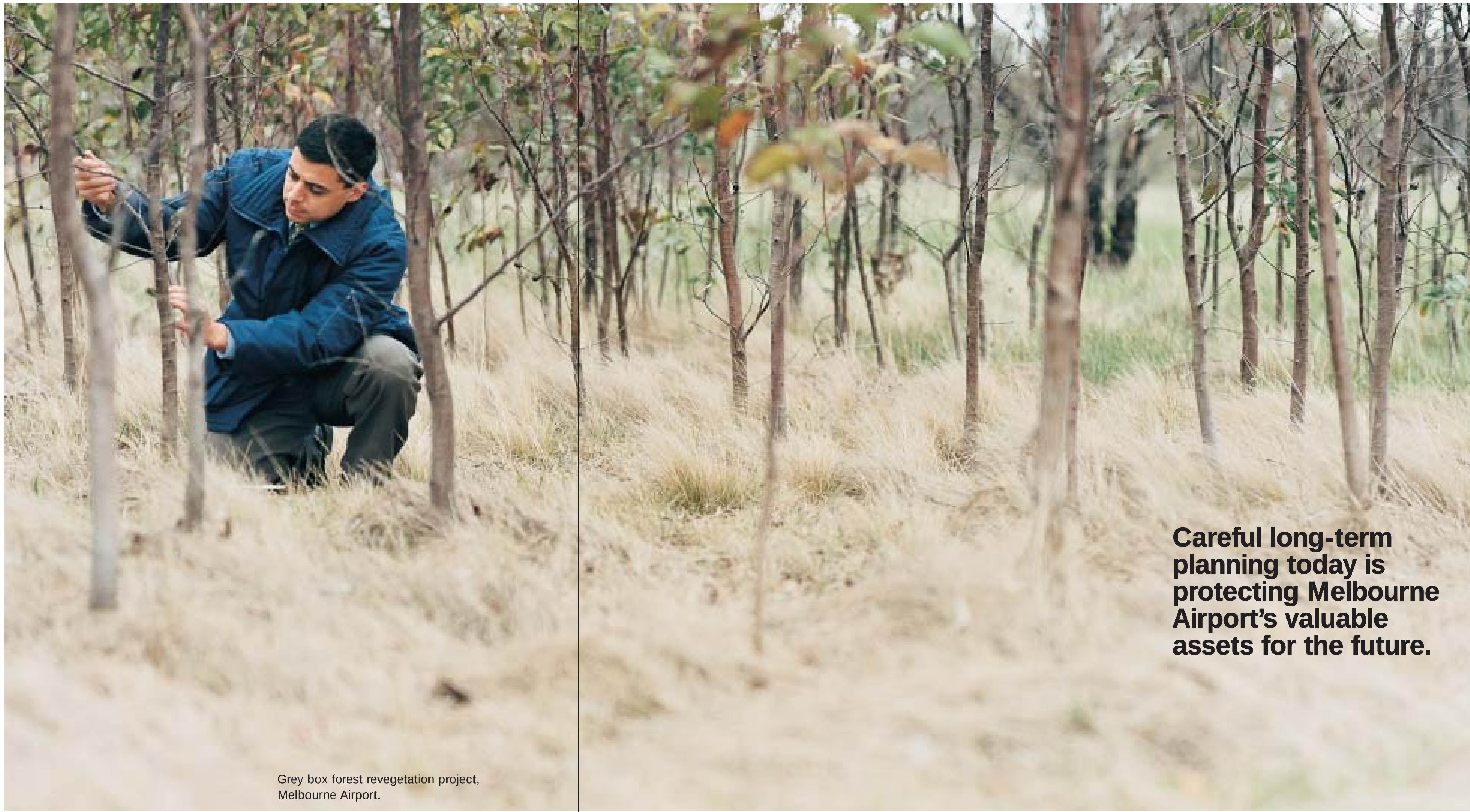
Whilst this caused an overall on-paper property revenue decrease of 12 per cent to $37 million, other areas of APAC's diverse property portfolio went from strength to strength, with income for non-terminal property up five per cent.

Melbourne Airport's Business Park continues to attract Australia's leading transport, freight distribution and manufacturing companies. This year Willow Ware, Caterpillar Logistics, Jets Transport Express and Gibson Freight commenced operations on-site, whilst construction is almost complete on a major new facility for GMC Power Tools. These new tenants join Laminex Industries and Star Track Express in the Business Park.

A major refurbishment of the former Travelodge was undertaken by the Holiday Inn this year. Once complete, the Holiday Inn will commence operations from the new facilities, joining the Hilton Melbourne Airport and Motel Formule 1 as the third hotel on-site.

Customs and Australian Quarantine and Inspection Service (AQIS) are an integral partner to Melbourne Airport and provide a fundamental role on-site. This year the agencies moved into new purpose built facilities, which will help to further improve service for both freight customers and passengers.

room to grow



Grey box forest revegetation project, Melbourne Airport.

Careful long-term planning today is protecting Melbourne Airport's valuable assets for the future.

Planning

Prudent, forward-focused planning strategies at our airports have paved the way for seamless development in the future and ensured our key strategic advantages are protected as we grow.

A review and update of Melbourne Airport's 1998 Master Plan was completed in April 2003 and, following an extensive public consultation process, has now been submitted to the Minister for Transport and Regional Services for approval. The Master Plan is a long-term airport planning document which, under the Commonwealth Airports Act 1996, must be revised every five years.

The updated Master Plan presents a sound, long-term strategy for the development of Melbourne Airport's runways, taxiways, aprons and terminal to meet the changing needs of airlines. It also considers the infrastructure required to accommodate the new 550-seat, super jumbo A380 aircraft, which is scheduled to arrive in Melbourne in late 2006.

Our management team has been successful in strengthening important relationships with stakeholders, business partners and government. These relationships are integral for the protection of strategic advantages as the airport develops.

24 hour, curfew-free operation at Melbourne Airport remains an important advantage for Victoria. The Melbourne Airport Environs Strategy Plan, passed by the Victorian Government in May 2003, strengthens planning regulations that have been in place since 1992 to ensure that curfew-free operation is not threatened in future by inappropriate residential subdivision and development in areas surrounding the airport.

Environment

Sound environmental planning is an integral part of APAC's business strategy and is vital for long-term, sustainable operations.

Melbourne Airport continued to demonstrate its environmental leadership this year, recording outstanding results in an independent external Environment Management Systems (EMS) audit conducted in May 2003. The audit, conducted by external consultants, found that Melbourne Airport's environmental management practices are consistent with international standards and that environmental risk is appropriately managed.

Melbourne Airport completed an update of its 1998 Environment Strategy in April 2003 which was subject to extensive public consultation before submission to the Federal Government for approval in July 2003. The Environment Strategy is a partner to the Master Plan document which, under the Commonwealth Airports Act 1996, must be revised every five years.

The strategy heralds a shift from system establishment to best practice environmental management at Melbourne Airport for the next five years.

Launceston Airport has successfully removed two underground fuel storage tanks and remediated the sites. The airport has improved local waterways by closing down its outdated 20 year-old on-site treatment plant installed by the previous operator. The airport's waste stream is now better managed through diversion to the local council's system. The quality of storm water run-off to local streams also improved as a result of Launceston Airport's work with the local council to implement new off-site drainage systems.

APAC Board

Don Mercer
Chairman of the Board.

Don Mercer was appointed Chairman of APAC in November 1997.

His other appointments include Chairman of Orica Ltd, Chair of Orchestra Victoria and Deputy Chairman of the Australian Institute of Company Directors. He has been President of the Victorian Institute of Company Directors, President of the Victorian College of Arts, Chancellor of RMIT University and on the Boards of CSIRO and APRA.

He was group Managing Director and Chief Executive Officer of ANZ Bank between 1992 and 1997 having joined the Bank as General Manager, Strategic Planning and Economics in 1984. Prior to joining the Bank, he spent 19 years working with Shell in the United Kingdom, the Netherlands, Canada, Indonesia and Australia.

He has an honours degree in chemistry from St Andrews University and a masters degree in economics from Manchester University.

Chris Barlow
Managing Director and Chief Executive Officer.

Chris Barlow was appointed to the Board of APAC in July 2000.

Chris has over 30 years experience in the aviation industry having joined BAA plc (formerly British Airports Authority) in 1969 as an Engineering Project Manager.

He has held a number of senior management positions with BAA, including Managing Director of Aberdeen Airport, General Manager of Terminal 3, Heathrow Airport and Group Development Director, responsible for the A$1.5 billion capital development programme of the BAA Group.

Chris is also on the Board of Melbourne Convention and Visitors Bureau and TTF Australia.

Chris has an honours degree in Civil Engineering, and is a member of the Institute of Civil Engineers and a member of the Institute of Transport.

Rod McGeoch
Deputy Chairman of the Board.

Rod McGeoch joined the APAC Board in November 1995.

He is Chairman Emeritus of Corrs Chambers Westgarth, Lawyers where he practised commercial law and now consults to the firm. He was awarded membership of the Order of Australia in recognition of his contribution to the practise of the law.

Rod holds numerous other board appointments and senior consultancy roles with companies and institutions in the field of telecommunications, health care, advertising, finance, and sports business in Australia and New Zealand.

Rod has a law degree from the University of Sydney.

Jack Ritch

Jack Ritch was appointed a director of APAC in November 1997 and is a member of the Safety, Security and Environment Committee.

Jack is Managing Director of AMP Henderson Global Investors where he is responsible for the operation and development of that company's business in Australia, New Zealand and the Asia Pacific region. From 1987 to 1999 Jack was AMP's Director of Property and he has held a variety of other positions since joining AMP in 1958. He is a director of various other AMP Group companies.

Jack has an economics degree and a postgraduate diploma in town planning both from the University of Sydney and is a fellow of the Australian Insurance Institute and the Australian Property Institute.

Danny Latham

Danny was appointed Director of APAC in February 2001.

Danny is a senior partner in the Asia Pacific infrastructure team at AMP Henderson Global Investments. In his work with the AMP Group, he has been involved in the development and management of airport and other infrastructure assets, as well as financial products and securitisation. He has held directorships on the Boards of a number of infrastructure companies and groups, including Yallourn Energy, Epic Energy and United Energy and is a current director of the Australian Council for Infrastructure Development.

Danny has an economics degree and masters in applied finance from Macquarie University.

Leigh Hall

Leigh Hall was appointed a Director of APAC in July 1997 and is also Chairman of the Audit and Risk Management Committee.

Following 35 years in investment management with AMP, he is now a non-executive director of Funds SA, Gresham Technology Management Ltd, Prime Infrastructure Management Ltd, and Uecomm Ltd.

Leigh has an economics degree from the University of Sydney and is a fellow of the Institute of Chartered Accountants, CPA Australia, Chartered Secretaries Australia, the Australian Insurance Institute and the Securities Institute of Australia.

Felicity Gates

Felicity Gates became a director of APAC in January 1997 and is a member of the Audit and Risk Management Committee.

Felicity is Managing Director – Head of Infrastructure with DB Capital Partners, which she joined in 1994. Felicity has been an active investor for almost a decade on behalf of superannuation funds in airports, ports, electricity generation, toll roads and other infrastructure.

She is also a Director of the Cross City Motorway, Marstel Terminals and Epic Energy as well as Treasurer and Vice-President of the Australian Council for Infrastructure Development.

Felicity has an honours degree in mathematics from the University of Queensland.

Elizabeth Bryan

Elizabeth Bryan was appointed to the Board in August 2002 and is a member of the Safety, Security and Environment Committee.

Elizabeth is also a director of Caltex Australia Limited, Ridley Corporation Limited, Unisuper Limited, Guild Insurance & Financial Services Holdings Ltd, St Hilliers Holdings Pty Limited, Chair of Institute for Health Research, and Member of NSW Council of the Institute of Company Directors.

She was, until 2000, the Chief Executive Officer of Deutsche Asset Management (Australia) Ltd.

She has an arts degree from the Australian National University and a masters degree in economics from the University of Hawaii.

Vernon Murphy

Vernon Murphy was appointed Director of APAC in August 2002 and is a member of the Safety, Security and Environment Committee.

He is Managing Director of BAA Rail, Chairman of Heathrow Express and a non–executive Director of NATS Holdings Ltd. His career in airport management commenced in 1966 with British Airports Authority and since that time he has held various board appointments with the BAA group and senior management roles at its airports at Heathrow, Gatwick and elsewhere.

Vernon has a Master of Arts degree from Cambridge and is a fellow of the Chartered Institute of Transport, fellow of the Institute of Logistics and Transport and a fellow of the Royal Society of Arts.

Mike Toms

Mike Toms was appointed Director of APAC in August 2002 and is a member of the Audit and Risk Management Committee.

As well as being on the Board of BAA plc, Mike is also Group Planning and Regulatory Director with BAA, where his responsibilities include environment, planning, relations with BAA's regulators and BAA's sustainability programme and runway consultations.

He has a degree in geography from University of Durham and a town planning degree from the University of Nottingham. He is a fellow of the Royal Aeronautical Society and a member of the Governing Board of the Airports Council International and member of the Royal Town Planning Institute.

Tony Hyams

Tony Hyams was appointed a Director of APAC in August 1997 and is Chairman of the Safety, Security and Environment Committee.

Tony is an Advisory Director of Credit Suisse First Boston having been the Chief Executive Officer of Credit Suisse in Australia and holding other senior positions since joining the bank in 1971. He holds a number of other board and senior advisory appointments with companies in Australia and New Zealand, including director and Audit Committee Chairman of Australian Infrastructure Fund Limited.

Tony has a law degree and a commerce degree from the University of Melbourne and is a member of the Law Institute of Victoria.

APAC Executives

Kirby Clark
CFO and Deputy to the CEO, APAC Head of Finance, Corporate Services and Human Resources.

Damian Tkalec
Company Secretary and Manager Legal Services.

The Company

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 sixth year of operation, APAC has demonstrated consistent growth since its inception. Strong management and diverse revenue streams have enabled APAC to capitalise on opportunities and deliver aviation excellence.

APAC is an 85 per cent Australian owned company with four shareholders:

AMP Henderson Global Investors Limited.

Hastings Funds Management Limited.

BAA plc.

DB Capital Partners.

Five Year Financial Review

Revenue Sources

	98/99 $millions	99/00 $millions	00/01 $millions	01/02 $millions	02/03 $millions	% Change 02/03 Compared with 01/02
Aeronautical	50	53	57	57	91	60%
Retail	61	68	77	80	90	12%
Property	32	36	41	42	37	-12%
Security and Other	14	14	20	22	25	14%
Total	**157**	**171**	**195**	**201**	**243**	**21%**

Operating Expenses

	98/99 $millions	99/00 $millions	00/01 $millions	01/02 $millions	02/03 $millions	% Change 02/03 Compared with 01/02
	48	48	55	65	74	14%

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

	98/99 $millions	99/00 $millions	00/01 $millions	01/02 $millions	02/03 $millions	% Change 02/03 Compared with 01/02
	109	123	140	136	169	24%

Passenger Volumes – Melbourne Airport

	98/99 millions	99/00 millions	00/01 millions	01/02 millions	02/03 millions	% Change 02/03 Compared with 01/02
International	2.73	2.99	3.36	3.41	3.28	-3.9%
Domestic	11.64	12.34	13.56	12.81	13.48	5.2%
Total	**14.58**	**15.57**	**17.24**	**16.48**	**16.92**	**2.6%**

*Total includes international transit passengers

Aircraft Movements – Melbourne Airport

	98/99 thousands	99/00 thousands	00/01 thousands	01/02 thousands	02/03 thousands	% Change 02/03 Compared with 01/02
International	18.2	20.5	23.1	22.6	21.3	-5.6%
Domestic	136.2	142.7	162.0	133.1	135.0	1.4%
General Aviation	2.4	1.5	2.3	1.9	1.6	-14.4%
Total	**156.8**	**164.7**	**187.4**	**157.6**	**157.9**	**0.2%**

Landed Tonnes – Melbourne Airport

	98/99 thousands	99/00 thousands	00/01 thousands	01/02 thousands	02/03 thousands	% Change 02/03 Compared with 01/02
International	2,580.4	2,807.0	2,978.1	2,868.5	2,603.8	-9.2%
Domestic	4,647.6	4,957.0	5,328.0	4,794.7	4,576.6	-4.5%
General Aviation	34.4	11.3	18.9	16.7	21.5	28.2%
Total	**7,262.4**	**7,775.3**	**8,325.0**	**7,679.9**	**7,201.9**	**-6.2%**

Passenger Growth – Launceston Airport

	98/99 millions	99/00 millions	00/01 millions	01/02 millions	02/03 millions	% Change 02/03 Compared with 01/02
Domestic	0.52	0.54	0.52	0.53	0.58	8.3%

Aircraft Movements – Launceston Airport

	98/99 thousands	99/00 thousands	00/01 thousands	01/02 thousands	02/03 thousands	% Change 02/03 Compared with 01/02
Regular public transport	10.1	10.8	13.3	9.2	7.5	-17.8%
General Aviation	19.0	16.8	13.1	12.4	7.4	-40.6%
Total	**29.1**	**27.6**	**26.4**	**21.6**	**14.9**	**-30.9%**

Landed Tonnes – Launceston Airport

	98/99 thousands	99/00 thousands	00/01 thousands	01/02 thousands	02/03 thousands	% Change 02/03 Compared with 01/02
Regular public transport	231.4	260.6	266.7	223.1	222.0	-0.5%
General Aviation	15.4	14.5	13.4	13.4	9.0	-32.8%
Total	**246.8**	**275.1**	**280.1**	**236.5**	**231.0**	**-2.3%**

APAC Financial Highlights

- Maiden post-tax profit of $19.3 million.
- Overall revenue increased by 21 per cent to $243 million.
- EBITDA up 24 per cent to $169 million.
- Maintained Moody's and Standard and Poor's credit ratings of A3 and A- respectively.

Melbourne Airport

- Overall passenger numbers increased by 3 per cent.
- Virgin Blue and Regional Express commenced operations from the South Terminal (former Ansett domestic terminal).
- Completed works to integrate the South and International terminals, creating a single terminal at departure level.
- Received an Eagle Award from the International Air Transport Association (IATA), one of only three airports in the world to receive the honour.
- 2003 Melbourne Airport Economic Impact Study found that 24 hour curfew-free operation at Melbourne Airport generates over 2500 jobs throughout Victoria and contributes over $1 billion to National Product.

Launceston Airport

- Passenger numbers increased by 8.3 per cent, reflecting full recovery and then further growth since the collapse of Ansett in September 2001.
- Completion of terminal development works to enclose the baggage area at the south end of the building.
- Closure of the airport's outdated 20 year-old on-site treatment plant is improving local waterways.

Retail

- Retail revenue increased by over 12 per cent to $90 million.
- Commencement of a new eight-year contract for The Nuance Group to operate Downtown Duty Free – airside and landside stores have been extended and updated, increasing duty free space by 40%.
- Car parking facilities improved – New South Terminal Business Park opened and extensions completed on the Long Term and Staff Car Parks at Melbourne Airport.

Property

- Revenue from APAC's core property interests increased by 5 per cent.
- Melbourne Airport's Business Park welcomed four new tenants.
- New on-site facilities for Customs and Australian Quarantine Inspection Service (AQIS) opened at Melbourne Airport.

Aeronautical

- Acquisition and operation of former Ansett domestic terminals and buoyant domestic market boosted aeronautical revenue to $91 million.
- Introduction of a new 5 year Aeronautical Service Agreement on July 1 2002. New agreement alters charging arrangements from a per-aircraft fixed charge to a per-passenger basis and includes provisions for agreed capital investment.

Financial Statements

The Directors of Australia Pacific Airports Corporation Limited (APAC) ACN 069 775 266 submit their annual report for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

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

Name	Roles
Mr D. Mercer	Chairman
Mr C. Barlow	Chief Executive Officer and Managing Director
Mr R. McGeoch	Deputy Chairman
Mr J. Ritch	
Mr D. Latham	
Mr L. Hall	Chairman of Audit and Risk Management Sub-Committee
Ms F. Gates	
Ms E. Bryan	
Mr V. Murphy	
Mr M. Toms	
Mr A. Hyams	Chairman of Safety, Security and Environment Sub-Committee

Particulars of the Directors of the company during and since the end of the financial year are set out on pages 18 to 20 which forms part of the Directors' Report.

Alternate Directors

Name	Representing
Mr P. Woodbury	Global Head of Infrastructure, Henderson Global Investors Limited – alternate to Mr R. McGeoch
Mr S. Leong	Principal, AMP Henderson Global Investors Limited – alternate to Mr D. Latham and Mr L. Hall
Mr P. Garling	Head of Infrastructure, Asia Pacific, AMP Henderson Global Investors Limited – alternate to Mr J. Ritch and second alternate to Mr D. Latham and Mr L. Hall
Ms L. Bale	Director, BAA Business Support Centre – alternate to Mr M. Toms
Mr D. Shields	Managing Director and Head of DB Capital Partners – alternate to Ms E. Bryan and Ms F. Gates
Mr M. King	Associate Director, Hastings Funds Management Limited – alternate to Mr A. Hyams

The above named directors held office during and since the end of the financial year except for:
Mr D. Shields resigned as Director and was appointed as alternate for Ms E. Bryan and Ms F. Gates on 26 August 2002
Ms L. Bale resigned as director and was appointed alternate for Mr M. Toms on 26 August 2002
Mr P. Garling was appointed alternate for Mr R. McGeoch, Mr J. Ritch, Mr D. Latham and Mr L. Hall on 28 May 2003.

Directors' Meetings

The following table sets out the number of Board meetings and meetings of Board Sub-Committees held during the financial year showing the number of meetings attended by each Director whilst they were a Director or a Sub-Committee member. During the financial year the total number of meetings held were seven Board meetings, four Audit and Risk Management Sub-Committee meetings and five Safety, Security and Environment Sub-Committee meetings.

Directors	Board of Directors (7 meetings held)	Audit and Risk Management Sub-Committee (4 meetings held)	Safety, Security and Environment Sub-Committee (5 meetings held)
	Meetings Attended	**Meetings Attended**	**Meetings Attended**
Mr D. Mercer	7		
Mr R. McGeoch	6		
Mr J. Ritch	6		4
Mr D. Latham	7		
Mr L. Hall	7	4	
Ms F. Gates	6	3	
Ms E. Bryan	5		3
Mr M. Toms	3	–	
Mr V. Murphy	4		3
Mr A. Hyams	6		5
Mr C. Barlow	7		
Mr D. Shields (alternate)	1	1	1
Ms L. Bale (alternate)	1	1	

Principal Activities

The consolidated entity's principal activity in the course of the financial year was the management of airport operations at Melbourne Airport and Launceston Airport.

Review of Operations

APAC and its subsidiaries recorded revenue of $243,426,000 and operating expenses of $74,237,000 resulting in earnings before borrowing costs, tax, depreciation and amortisation of $169,189,000 for the year ended 30 June 2003.

Depreciation and amortisation expense was $39,931,000 and total borrowing costs were $96,730,000 giving a profit before income tax of $32,528,000 and profit after income tax of $19,325,000.

Dividends

No dividends have been paid or declared since the start of the financial year and the Directors have not recommended the payment of a dividend in respect of the current or preceding financial years.

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

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 years.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental Regulations

In relation to environmental matters, the consolidated entity is subject to the Airports Act 1996 and the Airports (Environment Protection) Regulations 1997. The Board is satisfied that the results of environmental monitoring conducted by internal and external specialists during the year ended 30 June 2003 demonstrate compliance with the Act and the Regulations. The consolidated entity has not been subject to any prosecutions, notices or environment protection orders under the Act or Regulations during the year ended 30 June 2003. Each of the consolidated entity's airports annually publishes an environmental report that details the airport's performance which can be obtained by contacting APAC or the individual airports.

In addition to other environmental regulations APAC and its subsidiaries operates under the Commonwealth Airports Act and the Airports (Environment Protection) Regulations and as part of compliance with this legislation each Airport prepares an Annual Report on environmental performance. A copy of which can be obtained by contacting the Company.

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 as 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 Company 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 arises 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 company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Rounding Off of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, 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.

Corporate Governance

The Directors are responsible for the corporate governance practices of the company. This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

The Board of Directors

On the day on which the Directors' report was made out, the Board consisted of ten non-executive Directors and one Executive Director. Details of the Directors are set out on Page 26 of the Directors' report.

The primary responsibilities of the Board include:

- the establishment of the long term goals of the company and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a monthly basis;
- ensuring that the company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and
- the approval of the annual financial statements.

Risk Management

The Board is responsible for the company's system of internal control. The Board constantly monitors the operational and financial aspects of the company's activities and through the Audit and Risk Management Sub-Committee and Safety, Security and Environment Sub-Committee, the Board considers the recommendations and advice of auditors and other external advisers on the operational and financial risks that face the company.

The Board 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 implemented which allows the Board directly and through its Sub-Committees to monitor management performance in assessing and controlling risk. The system includes external advisers whose reports are communicated to the Board both directly and indirectly.

An external compliance officer has been appointed with responsibility for auditing the company's legal and regulatory obligations.

The Board is satisfied that this process will assist the Board and the appropriate Sub-Committees to monitor management performance in risk management and control.

Audit and Risk Management Sub-Committees

The Board has established an Audit and Risk Management Sub-Committee consisting of three non-executive Directors. The current members of the Audit and Risk Management Sub-Committee are:

- Mr L. Hall (Chairman)
- Ms F. Gates
- Mr M. Toms

The Audit and Risk Management Sub-Committee provides a forum for the effective communication between the Board and the auditors. The Audit and Risk Management Sub-Committee reviews:

- 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 their appointment for any other services.

The Audit and Risk Management Sub-Committee invites the Chairman, Chairman of Safety Security and Environment Sub-Committee, Chief Executive Officer, Chief Financial Officer and the auditors to attend Audit and Risk Management Sub-Committee meetings but also meets independent of management with the auditors during the year. The Sub-Committee also meets with and receives regular reports from the auditors concerning any matters which arise in connection with the performance of their respective roles, including the adequacy of internal control.

Safety, Security and Environment Sub-Committee

The Board has established a Safety, Security and Environment Sub-Committee. The current members of the Safety, Security and Environment Sub-Committee are:

- Mr A. Hyams (Chairman)
- Mr J. Ritch
- Mr V. Murphy
- Ms E. Bryan

The primary role of the Sub-Committee is to oversee the company's arrangements for the discharge of statutory obligations in regard to environmental compliance, occupational health and safety, aviation safety and security. In particular, the Sub-Committee assesses and reviews:

- the appropriateness and effectiveness of the company's management systems in each of the subject areas;
- the areas of significant operational risk;
- the quality of the audit process in each area; and
- the progress of the company in meeting targets and key performance indicators.

The Safety, Security and Environment Sub-Committee invites the Chairman and the Chief Executive Officer to attend the Safety, Security and Environment Sub-Committee meetings.

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

Chairman
MELBOURNE

26 August 2003

Managing Director
MELBOURNE

26 August 2003

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Deloitte Touche Tohmatsu

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTRALIA PACIFIC AIRPORTS CORPORATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for both Australia Pacific Airports Corporation Limited ("the company") and the consolidated entity, for the financial year ended 30 June 2003 as set out on pages 31 to 52. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of Australia Pacific Airports Corporation Limited is in accordance with:

(a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
   (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

B C Porter
Partner
Chartered Accountants
26 August 2003

The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Directors' Declaration

The Directors declare that:

(a) The attached financial statements and notes thereto comply with Accounting Standards;

(b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;

(c) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and

(d) In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Chairman
MELBOURNE
26 August 2003

Managing Director
MELBOURNE
26 August 2003

Statement of Financial Performance for the Financial Year Ended 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Revenue from Ordinary Activities	2	**243,426**	**201,536**	**39,060**	**34,388**
Less Operating Costs					
– Staff Costs		(16,991)	(18,028)	–	–
– Service and Utilities		(29,342)	(24,231)	–	–
– Maintenance Costs		(7,131)	(5,597)	–	–
– Administration, Marketing and Other		(9,766)	(8,365)	(1,616)	(1,796)
– Performance Payments	29	(11,007)	(2,052)	(11,007)	(2,052)
– Abandonment of Assets	3	–	(7,147)	–	–
Operating Profit before Borrowing Costs, Depreciation and Amortisation		**169,189**	**136,116**	**26,437**	**30,540**
– Depreciation and Amortisation	2	(39,931)	(36,119)	–	–
– Borrowing Costs Other loans	2	(70,790)	(65,850)	–	–
Shareholders Loans	2	(25,940)	(30,578)	(25,937)	(30,580)
Profit/(Loss) from Ordinary Activities before Income Tax Expense		**32,528**	**3,569**	**500**	**(40)**
Income tax (expense)/benefit relating to ordinary activities	4	(13,203)	(5,183)	216	22
Profit/(Loss) from Ordinary Activities after Income Tax Expense	24	**19,325**	**(1,614)**	**716**	**(18)**
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners		**19,325**	**(1,614)**	**716**	**(18)**

Notes to the financial statements are included on Pages 35 to 52

Statement of Financial Position as at 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Current Assets					
Cash Assets	30	3,548	1,136	–	–
Inventories	7	634	703	–	–
Receivables	8	17,147	11,910	12,681	14,783
Other Current Assets	9	311	118	–	–
Total Current Assets		**21,640**	**13,867**	**12,681**	**14,783**
Non–Current Assets					
Other Financial Assets	10	–	–	194,969	241,864
Property, Plant and Equipment	11	755,202	741,774	–	–
Intangibles	12	593,324	601,621	–	–
Investments	13	–	–	100,000	100,000
Deferred Tax Assets	14	17,092	26,255	324	53
Total Non–Current Assets		**1,365,618**	**1,369,650**	**295,293**	**341,917**
Total Assets		**1,387,258**	**1,383,517**	**307,974**	**356,700**
Current Liabilities					
Payables	15	40,813	29,882	21,865	16,307
Provisions	16	4,020	3,887	–	–
Total Current Liabilities		**44,833**	**33,769**	**21,865**	**16,307**
Non–Current Liabilities					
Interest–bearing Liabilities	17	1,288,395	1,323,750	178,235	233,235
Non–Interest–bearing Liabilities	18	1,820	258	–	–
Deferred Tax Liabilities	19	12,901	8,863	–	–
Provisions	20	220	265	–	–
Other Liabilities	21	3,152	–	–	–
Total Non–Current Liabilities		**1,306,488**	**1,333,136**	**178,235**	**233,235**
Total Liabilities		**1,351,321**	**1,366,905**	**200,100**	**249,542**
Net Assets		**35,937**	**16,612**	**107,874**	**107,158**
Equity					
Contributed Equity	23	118,100	118,100	118,100	118,100
Accumulated Losses	24	(82,163)	(101,488)	(10,226)	(10,942)
Total Equity		**35,937**	**16,612**	**107,874**	**107,158**

Notes to the financial statements are included on Pages 35 to 52

Statement of Cash Flows for Financial Year Ended 30 June 2003

	Note	Consolidated Inflows (Outflows) 2003 $'000	Consolidated Inflows (Outflows) 2002 $'000	Company Inflows (Outflows) 2003 $'000	Company Inflows (Outflows) 2002 $'000
Cash Flows from Operating Activities					
Receipts from customers		260,032	219,627	–	–
Receipts from related parties		–	–	41,162	28,017
Payments to suppliers and employees		(69,773)	(69,266)	(7,120)	(4,461)
Goods and Services tax remitted		(13,560)	(8,973)	–	–
Interest and bill discounts received		73	181	–	–
Interest and other costs of finance paid		(98,355)	(92,013)	(25,937)	(27,283)
Net cash provided by/(used in) operating activities	30(c)	**78,417**	**49,556**	**8,105**	**(3,727)**
Cash Flows from Investing Activities					
Payment for property, plant and equipment		(42,452)	(44,995)	–	–
Proceeds from sale of property, plant and equipment		257	121	–	–
Net cash used in investing activities		**(42,195)**	**(44,874)**	**–**	**–**
Cash Flows from Financing Activities					
Payment for debt issue costs		(17)	(237)	–	–
Loans repaid by related parties		–	–	46,895	13,727
Proceeds from borrowings		167,362	91,000	–	–
Repayment of borrowings		(201,155)	(97,000)	(55,000)	(10,000)
Net cash provided by/(used in) financing activities		**(33,810)**	**(6,237)**	**(8,105)**	**3,727**
Net Increase/(Decrease) In Cash Held		**2,412**	**(1,555)**	**–**	**–**
Cash at the Beginning of the Financial Year		**1,136**	**2,691**	**–**	**–**
Cash at the End of the Financial Year	30(a)	**3,548**	**1,136**	**–**	**–**

Notes to the financial statements are included on Pages 35 to 52

Notes to the Financial Statements for the Financial Year Ended 30 June 2003

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 27 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 intercompany balances and transactions and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Inventories

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

(c) Receivables

Trade receivables are recorded at amounts due less any provision for doubtful debts.

(d) 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 3–10 years.

(e) 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.

(f) Acquisition of Assets

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.

(g) Capitalisation of Interest

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.

(h) Recoverable Amount of Non–Current Assets

Non–current assets are written down to recoverable amount where the carrying value of any non–current assets exceeds recoverable amount. In determining the recoverable amount of non–current assets, the expected net cash flows have been discounted to their present value.

(i) Reversionary Assets

Any assets that have reverted back to the company have been recognised as an asset by a transfer of value from lease premium. The value of the transfer was the value of the asset at the date of acquisition of the airport.

1. Summary of Accounting Policies (cont'd)

(j) Investments

Investments in controlled entities are recorded at cost.

(k) Payables

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

(l) Interest Bearing Liabilities

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

(m) Employee Entitlements

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

Provision made 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 time of settlement.

Provisions made in respect of other 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.

(n) Revenue Recognition

Aeronautical Revenue

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

Retail Revenue

Revenue from retail customers is recognised on an accruals basis when the service or goods are provided.

Property Revenue

Revenue from the rental of property and buildings throughout the airports is recognised on an accruals basis in accordance with terms of relevant lease agreements.

Dividend Income

Dividend Income is recognised when declared.

Outgoings, Security and Other Income

Revenue received from recharging of Outgoings, Security and Sundry Other Income is recognised on an accruals basis when the goods or services are provided.

(o) Goods and Services Tax

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

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

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

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

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

(p) Derivative Financial Instruments

The consolidated entity enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps, forward interest rate contracts and interest rate options. Further details of derivative financial instruments are disclosed in Note 31 to the financial statements.

Gains and losses on interest rate risk contracts are deferred and amortised over the period of the underlying borrowing.

Gains and losses on interest rate risk contracts are included in the determination of interest expense.

(q) 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.

After the end of financial year, the directors of the APAC elected that all wholly–owned Australian entities would join a tax consolidated group from 1 July 2003. Further information about the group's implementation of the tax consolidation system is detailed in Note 4.

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
2. Profit/(Loss) from Ordinary Activities					
Profit/(Loss) from ordinary activities before income tax includes the following items of revenue and expense:					
(a) Operating Revenue					
Aeronautical Revenue		91,370	56,820	–	–
Retail Revenue		89,804	79,874	–	–
Property Revenue		37,199	42,318	–	–
Outgoings, Security and Other Income		24,723	22,206	–	–
Interest Revenue – Wholly–owned controlled entities		–	–	25,131	29,706
– Other Entities		73	181	–	–
Dividend Income		–	–	1,221	–
Bad Debts Recovered		–	16	–	–
Total Operating Revenue		**243,169**	**201,415**	**26,352**	**29,706**
(b) Non–Operating Revenue					
Management fees – Wholly–owned controlled entities		–	–	12,708	4,682
Proceeds from sale of non–current assets – Property, Plant and Equipment		257	121	–	–
Total Revenue		**243,426**	**201,536**	**39,060**	**34,388**
(c) Expenses					
Net bad and doubtful debts arising from other entities		67	2,259	–	–
Borrowing costs: Interest					
– Secured Debt – other entities		69,138	63,930	–	–
– Unsecured Debt – other entities		99	20	–	–
– Interest capitalised during the year	22	(499)	(208)	–	–
– Other – borrowing costs	12	2,052	2,108	–	–
		70,790	**65,850**	**–**	**–**
– Shareholder Debt		25,940	30,578	25,937	30,580
Total Borrowing Costs		**96,730**	**96,428**	**25,937**	**30,580**
Depreciation of property, plant and equipment	11	33,669	29,857	–	–
Amortisation of lease premium	12	6,262	6,262	–	–
		39,931	**36,119**	**–**	**–**
Operating lease rental expenses		18	16	–	–
Net transfer to provision for employee entitlements		88	1,283	–	–

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
3. Disposals and Abandonment of Assets					
Sales of assets in the ordinary course of business have given rise to the following profits and losses.					
(a) Net Profits					
Property, Plant and Equipment		142	64	–	–
(b) Net Losses					
Property, Plant and Equipment		(2)	(92)	–	–
(c) Write down on Abandoned Assets					
– Buildings		–	(1,962)	–	–
– Roads, Runways and other Infrastructure		–	(3,122)	–	–
– Plant and Equipment		–	(2,063)	–	–
		–	**(7,147)**	**–**	**–**
4. 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/(Loss) from ordinary activities		**32,528**	**3,569**	**500**	**(40)**
Income tax (expense)/benefit calculated at 30% of operating profit/(loss)		(9,758)	(1,071)	(150)	12
Permanent Differences:					
Non allowable depreciation		(1,585)	(2,178)	–	–
Amortisation of intangible assets		(1,878)	(1,878)	–	–
Non deductible expenses		(55)	(25)	–	–
Non assessable dividend income		–	–	366	–
(Under)/Over Provision of income tax in previous year		73	(31)	–	10
Income tax (expense)/benefit attributable to operating profit/(loss)		**(13,203)**	**(5,183)**	**216**	**22**

Legislation to allow groups, comprising a parent entity and its Australian resident wholly–owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the economic entity and parent entity has been reflected in the financial statements.

The directors have elected for those entities within the entity that are wholly–owned Australian resident entities to be taxed as single entity from 1 July 2003. The financial effect of implementing the tax consolidation system has not been recognised in the financial statements. The net effect is not expected to be material.

Prior to the adoption of the tax consolidation system, Australia Pacific Airports Corporation Limited has also agreed to reimburse its wholly–owned subsidiaries for the carrying amount of their deferred tax balances.

5. Directors' Remuneration

The directors of APAC during the year were:

- Mr D. Mercer
- Mr R. McGeoch
- Mr J. Ritch
- Mr D. Latham
- Mr L. Hall
- Ms F. Gates
- Mr V. Murphy
- Mr A. Hyams
- Mr C. Barlow
- Ms E. Bryan
- Mr M. Toms
- Mr P. Woodbury*
- Mr S. Leong*
- Mr P. Garling*
- Mr D. Shields*
- Mr M. King*
- Ms L. Bale*

* In their capacity as alternate

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year to all directors of the company, directly or indirectly, by the company or by any related party.				127,200	104,800
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party.		127,200	104,800		
The number of directors of the entity whose total income falls within each successive $10,000 band of income.				No.	No.
$ 0,000 – $ 9,999				15	15
$40,000 – $49,999				1	1
$60,000 – $69,999				–	1
$80,000 – $89,999				1	–

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
6. Remuneration of Auditors				
Auditor of the parent entity				
Auditing the financial report	133,650	125,400	1,500	1,500
Other services	112,526	77,447	–	–
	246,176	**202,847**	**1,500**	**1,500**

	2003 $'000	2002 $'000	2003 $'000	2002 $'000
7. Current Inventories				
Materials and Stores (at cost)	**634**	**703**	**–**	**–**
8. Current Receivables				
Trade receivables	17,352	12,090	–	–
Allowance for doubtful debts	(240)	(197)	–	–
	17,112	**11,893**	**–**	**–**
Non–trade receivables from: – Other related parties	35	17	–	–
– Wholly–owned controlled entities	–	–	11,460	14,783
Dividend Receivable	–	–	1,221	–
	17,147	**11,910**	**12,681**	**14,783**
9. Other Current Assets				
Prepayments	**311**	**118**	**–**	**–**
10. Other Non–Current Financial Assets				
Non–trade receivables from: – Wholly–owned controlled entities	**–**	**–**	**194,969**	**241,864**

	Consolidated $'000 Leasehold Land	$'000 Buildings	$'000 Roads, Runways and Other Infrastructure	$'000 Plant and Equipment	$'000 Assets under Construction	$'000 Total
11. Property, Plant and Equipment						
Gross Carrying Amount						
Balance at 30 June 2002	113,546	230,048	398,103	123,250	7,381	872,328
Additions	–	–	–	–	47,214	47,214
Disposals	–	(106)	–	(490)	–	(596)
Transfers to/(from) assets under construction	14	18,981	3,920	12,094	(35,009)	–
Balance at 30 June 2003	**113,560**	**248,923**	**402,023**	**134,854**	**19,586**	**918,946**
Accumulated Depreciation/ Amortisation						
Balance at 30 June 2002	4,057	41,279	38,369	46,849	–	130,554
Depreciation Expense	905	10,276	9,137	13,351	–	33,669
Disposals	–	(95)	–	(384)	–	(479)
Balance at 30 June 2003	**4,962**	**51,460**	**47,506**	**59,816**	**–**	**163,744**
Net Book Value						
As at 30 June 2002	109,489	188,769	359,734	76,401	7,381	741,774
As at 30 June 2003	**108,598**	**197,463**	**354,517**	**75,038**	**19,586**	**755,202**

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.

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
11. 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		905	898	–	–
– Buildings		10,276	9,443	–	–
– Roads, Runways and other Infrastructure		9,137	8,767	–	–
– Plant and Equipment		13,351	10,749	–	–
	2	**33,669**	**29,857**	**–**	**–**
12. Intangibles					
Lease Premium		618,103	618,103	–	–
Accumulated Amortisation		(35,780)	(29,519)	–	–
		582,323	**588,584**	**–**	**–**
Deferred Borrowing Costs		15,262	15,246	–	–
Accumulated Amortisation		(4,261)	(2,209)	–	–
		11,001	**13,037**	**–**	**–**
Total		**593,324**	**601,621**	**–**	**–**
Aggregate amortisation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:					
– Lease Premium	2	6,262	6,262	–	–
– Deferred borrowing costs	2	2,052	2,108	–	–

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
13. Non–Current Investments					
At Cost Shares in controlled entities (i)	27	**–**	**–**	**100,000**	**100,000**
(i) The carrying value of an investment in a controlled entity exceeds the value of the underlying net assets of that entity. The Directors have not provided for this as they believe the investment is not recorded above its recoverable amount.					
14. Deferred Tax Assets					
Future income tax benefit: – Tax losses – revenue		14,235	24,406	295	–
– Timing differences		2,857	1,849	29	53
		17,092	**26,255**	**324**	**53**
15. Current Payables					
Trade payables		14,165	9,213	–	–
Goods and services tax payable		1,074	863	–	–
Non–trade payables to:					
– Other related parties		10,033	1,087	10,033	1,087
		25,272	**11,163**	**10,033**	**1,087**
Interest Payable to: – Senior – other entities (i)		3,608	3,479	–	–
– Other		101	20	–	–
– Shareholder Loans		11,832	15,220	11,832	15,220
		15,541	**18,719**	**11,832**	**15,220**
		40,813	**29,882**	**21,865**	**16,307**
(i) Secured by a fixed and floating charge over the consolidated entity's assets.					
16. Current Provisions					
Employee entitlements	26	**4,020**	**3,887**	**–**	**–**

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
17. Non–Current Interest Bearing Liabilities					
Secured:					
Non–trade payables to:					
– Senior – bank debt (i)		409,800	390,000	–	–
– 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	–	–
Unsecured:					
– Other entities		360	515	–	–
		1,110,160	**1,090,515**	**–**	**–**
Shareholder loans		178,235	233,235	178,235	233,235
Total Borrowings		**1,288,395**	**1,323,750**	**178,235**	**233,235**
(i) Secured by a fixed and floating charge over the consolidated entity's assets.					
18. Non–Interest–Bearing Liabilities					
Unsecured Loan–Other		**1,820**	**258**	**–**	**–**
19. Deferred Tax Liabilities					
Deferred tax liabilities		**12,901**	**8,863**	**–**	**–**
20. Non–Current Provisions					
Employee entitlements	26	**220**	**265**	**–**	**–**
21. Non–Current Other Liabilities					
Prepaid Rent		**3,152**	**–**	**–**	**–**
22. Capitalised Borrowing Costs					
Borrowing costs capitalised during the financial year		499	208	–	–
Weighted average capitalisation rate on funds borrowed generally		6.0%	6.0%	–	–
23. Contributed Equity					
118,100,000 Ordinary shares – fully paid (2002: 118,100,000)		**118,100**	**118,100**	**118,100**	**118,100**
Fully paid ordinary shares carry one vote per share and carry the right to dividends					
24. Accumulated Losses					
Balance at beginning of financial year		101,488	99,874	10,942	10,924
Net (Profit)/Loss		(19,325)	1,614	(716)	18
Balance at end of financial year		**82,163**	**101,488**	**10,226**	**10,942**

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
25. Commitments For Expenditure					
(a) Capital Expenditure Commitments					
Property, Plant and Equipment					
Not longer than 1 year		**14,897**	**2,277**	**–**	**–**
(b) Lease Commitments					
Non–cancellable operating lease commitments are disclosed in Note 33 to the financial statements.					
26. Employee Entitlements					
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:					
Provision for employee entitlements					
Current	16	4,020	3,887	–	–
Non–Current	20	220	265	–	–
		4,240	**4,152**	**–**	**–**
		No.	No.		
Number of employees at end of financial year		**179**	**195**	**–**	**–**

27. Controlled Entities

Name of Entity		Country of Incorporation	Ownership Interest 2003 %	Ownership Interest 2002 %
Parent Entity				
Australia Pacific Airports Corporation Limiited		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.

28. Segment Information

APAC leases and operates the Melbourne and Launceston Airports in Australia. Given the nature and size of the Airports, APAC does not have reportable business or geographical segments. Revenue categories disclosed in Note 2 do not represent business segments.

29. Related Party Disclosures

(a) Equity Interests in Related Parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 27 to the financial statements.

(b) Directors' Remuneration

Details of Directors' remuneration are disclosed in Note 5 to the financial statements.

(c) Other Transactions with Directors

A Director, Mr R.H. McGeoch, was a member in the firm of Corrs Chambers Westgarth, Solicitors. Corrs Chambers Westgarth has provided professional services to Australia Pacific Airports Corporation Limited during the course of the financial period on normal commercial terms and conditions.
Aggregate amounts of the above type of transactions and their Director–related entities were as follows:

	Consolidated		Company	
	2003 $'000	**2002 $'000**	**2003 $'000**	**2002 $'000**
Legal and Professional Fees	790	724	–	–
Current Creditors	20	28	–	–

(d) Transactions within the Wholly–Owned Group

The ultimate parent entity in the wholly–owned group is Australia Pacific Airports Corporation Limited (APAC).
Details of interest revenue derived by the parent entity from wholly–owned controlled entities are disclosed in Note 2 to the financial statements.
Amounts receivable from wholly–owned controlled entities are disclosed in Notes 8 and 10 to the financial statements.
During the financial year APAC provided operational administration services at cost to other entities in the wholly–owned group.
Other transactions that occurred during the financial year between entities in the wholly–owned group were the advancement and repayment of loans at commercial interest rates.

(e) Transactions with other Related Parties

Details of interest expense with other related parties are disclosed in Note 2 to the financial statements.
Aggregate amounts receivable from and payable to other related parties are disclosed in Notes 8, 10, 15 and 17 to the financial statements.
During the financial year, APAC paid consulting fees to BAA plc and its controlled entities on normal commercial terms and conditions totalling $1,480,000 (2002: $1,654,000).
During the financial year, APAC incurred fees to BAA plc and its subsidiaries based on operating results of its subsidiaries totalling $11,007,000 (2002: $2,052,000).

(f) Controlling Entity

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

	Note	Consolidated		Company	
		2003 $'000	**2002 $'000**	**2003 $'000**	**2002 $'000**
30. 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 year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:					
– Cash Assets		**3,548**	**1,136**	**–**	**–**
(b) Financing Facilities					
Secured bank overdraft facility reviewed annually and payable at call:					
– Amount used		–	–	–	–
– Amount unused		5,300	5,300	–	–
Secured bank bill facility reviewed annually and payable at call:					
– Amount used		10,000	–	–	–
– Amount unused		–	10,000	–	–
Secured loan facilities with various maturity dates through to June 2006 and which may be extended by mutual agreement:					
– Amount used		399,800	390,000	–	–
– Amount unused		96,900	106,700	–	–
Secured bond issued and credit wrapped by MBIA Insurance Corporation:					
– Due 15 June 2008 – Fixed		300,000	300,000	–	–
– Due 11 June 2008 – Floating		150,000	150,000	–	–
– Due 11 June 2011 – Floating		250,000	250,000	–	–

30. Notes to the Statement of Cash Flows (cont'd)

(c) Reconciliation of profit/(loss) from ordinary activities after related income tax to Cash Flows from Operating Activities

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Profit/(Loss) from Ordinary Activities after Income Tax Expense		19,325	(1,614)	716	(18)
Net (Profit)/Loss on Sale of Non–Current Assets		(140)	28	–	–
Depreciation and Amortisation of Property, Plant and Equipment and Lease Premium		39,931	36,119	–	–
Amortisation of Deferred Borrowing Costs		2,052	2,108	–	–
Abandonment of Non–Current Assets		–	7,147	–	–
Capitalised interest during the year		(499)	(208)	–	–
(Increase)/Decrease in Assets:					
Current Receivables		(5,237)	2,046	2,102	(3,074)
Current Inventories		69	43	–	–
Other Current Assets		(193)	(7)	–	–
Deferred Tax Assets		9,163	4,133	(271)	132
Increase/(Decrease) in Liabilities:					
Current Trade Payables		9,846	(3,408)	8,946	(4,064)
Interest Payable		(3,178)	2,515	(3,388)	3,297
Current Provisions		133	(458)	–	–
Deferred Tax Liabilities		4,038	1,050	–	–
Non Current Liabilities – Other		3,152	–	–	–
Non Current Provisions		(45)	62	–	–
Net cash provided by/(used in) operating activities		**78,417**	**49,556**	**8,105**	**(3,727)**

31. Financial Instruments

(a) 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.

(b) Significant Terms and Conditions

Interest Rate Derivatives

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

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

Outstanding Contracts	Average Interest Rate 2003 %	Average Interest Rate 2002 %	Notional Principal Amount 2003 $'000	Notional Principal Amount 2002 $'000
Less than 1 year	–	6.0	–	10,000
1 to 3 years	5.8	6.0	707,500	557,500
More than 3 years	5.8	6.1	410,000	200,000
			1,117,500	**767,500**

The average interest rate is based on the outstanding balances at the start of the financial year.

(c) Objectives of Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps, forward interest rate contracts and interest rate options, to mitigate the risk of rising interest rates.

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

31. Financial Instruments (cont'd)

(d) Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2003.

			Fixed Interest Rate Maturity				
2003	**Average Interest Rate %**	**Variable Interest Rate $'000**	**Less than 1 Year $'000**	**1 to 3 Years $'000**	**More than 3 Years $'000**	**Non–Interest Bearing $'000**	**Total $'000**
Financial Assets							
Cash Assets	–					3,548	3,548
Current Receivables	–					17,147	17,147
						20,695	**20,695**
Financial Liabilities							
Current Payables	–					(40,813)	(40,813)
Bank Loans	5.1	(409,800)					(409,800)
Other Loans	12.0				(360)		(360)
Other Loans	–					(1,820)	(1,820)
Bonds							
– Tranche 1 (fixed)	6.8				(300,000)		(300,000)
– Tranche 2 (floating)	5.1	(150,000)					(150,000)
– Tranche 3 (floating)	5.2	(250,000)					(250,000)
Shareholder Loans	12.0				(178,235)		(178,235)
Employee Entitlements	–					(4,240)	(4,240)
Derivatives							
Interest Rate Derivatives	4.7	607,500					607,500
Interest Rate Derivatives Floating	5.7			(57,500)	(550,000)		(607,500)
		(202,300)	**–**	**(57,500)**	**(1,028,595)**	**(46,873)**	**(1,335,268)**

31. Financial Instruments (cont'd)

(d) Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2002.

			Fixed Interest Rate Maturity				
2002	**Average Interest Rate %**	**Variable Interest Rate $'000**	**Less than 1 Year $'000**	**1 to 3 Years $'000**	**More than 4 Years $'000**	**Non–Interest Bearing $'000**	**Total $'000**
Financial Assets							
Cash Assets	–					1,136	1,136
Current Receivables	–					11,910	11,910
						13,046	**13,046**
Financial Liabilities							
Current Payables	–					(29,882)	(29,882)
Bank Loans	5.1	(390,000)					(390,000)
Other Loans	8.0				(515)		(515)
Other Loans	–					(258)	(258)
Bonds:							
– Tranche 1 (fixed)	6.8				(300,000)		(300,000)
– Tranche 2 (floating)	5.4	(150,000)					(150,000)
– Tranche 3 (floating)	5.5	(250,000)					(250,000)
Shareholder Loans	12.0				(233,235)		(233,235)
Employee Entitlements	–					(4,152)	(4,152)
Derivatives							
Interest Rate Derivatives	5.1	767,500					767,500
Interest Rate Derivatives Floating	6.1		(10,000)	(557,500)	(200,000)		(767,500)
		(22,500)	**(10,000)**	**(557,500)**	**(733,750)**	**(34,292)**	**(1,358,042)**

31. Financial Instruments (cont'd)

(e) Credit Risk

Credit risk refers to the risk that a counterparty 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.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security.

	Maximum Credit Risk	
	2003	2002
Financial Assets	$'000	$'000
Unrecognised Financial Assets		
Favourable Interest Rate Derivatives	–	1,054

(f) Net Fair Value

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

The net 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 Instrument	Carrying Amount $'000		Net Fair Value $'000	
Inflow/(outflow)	2003	2002	2003	2002
Borrowings – Other Entities	(618)	(773)	(1,819)	(1,513)
Shareholder Loans	(178,235)	(233,235)	(201,905)	(288,966)
Interest Rate Derivatives	–	–	(18,752)	1,054
Bond – Tranche 1 (Fixed)	(300,000)	(300,000)	(319,145)	(302,771)

It should be noted that the net fair value at any particular point in time does not provide an indication of any future gains and losses.

	Note	Consolidated		Company	
		2003	2002	2003	2002
		$'000	$'000	$'000	$'000
32. Dividends					
No dividends were paid or proposed in the period.		–	–	–	–
The consolidated entity to date has not incurred any income tax liability therefore the franking account balance remains nil.		–	–	–	–
33. Leases					
Operating Leases					
Leasing Arrangements					
The operating leases relate to leased motor vehicles.					
The lease terms are typically 4 years.					
Non–Cancellable Operating Leases					
Not longer than 1 year		14	6	–	–
Longer than 1 year and not longer than 5 years		7	–	–	–
		21	**6**	**–**	**–**

34. 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
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