Momentum

Australia Pacific Airports Corporation

Annual Report 2003/2004

Contents

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

Over the past seven years, careful planning, responsive management and a diverse business structure have enabled APAC to adapt to changing external environments and harness opportunities as they arise.

This focussed management strategy has underpinned APAC's continued success during a number of difficult years for the aviation industry. Now, in a year of travel confidence and passenger growth, this same approach has delivered our second year of profitability, with net profit more than doubling to $41 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were up 21 per cent to $204 million, achieved without departing from our five-year pricing agreement with airlines.

This is the continuation of an upward trend for APAC. In just seven short years, we have steered the company from a $31 million loss in our first year of operation to two consecutive years of profitability.

We have fine-tuned our capital structure and simplified our balance sheet, repaying most of our shareholder loans and putting plans in place to repay the remainder in the near future.

APAC has maintained its A- and A3 credit ratings, the best credit ratings of any airport company in Australia.

APAC has the capital structure and management in place to continue delivering strong results. We have demonstrated we can meet the challenges of an ever changing industry and are now preparing for the future.

We raised an additional $232 million third party debt through US private placement. These new funds will support the expansion of car parking, runway widening for the A-380 aircraft and other capital works to accommodate continued passenger growth.

APAC continues to set standards for airport environmental management. Melbourne Airport has become the first Australian airport to receive ISO 14001 accreditation for its Environmental Management System. This exceptional achievement is the result of a commitment to continual improvement and recognises the airport's environment system as best practice on a global stage.

Our support of broader community and industry activities continues. APAC maintained its rewarding relationship with the Salvation Army, the Foundation for Survivors of Torture and Victoria University.

We extended our support of emerging Victorian artists through sponsorship of the Comedy Festival, the Melbourne Film Festival and the Mietta Song Recital. We also formally commenced our three year principal sponsorship of the Victorian Tourism Awards, which showcase and reward tourism excellence.

The energy and vision that APAC has demonstrated over the past seven years will continue to drive the company as we enter an exciting growth phase.

A restructure of our board has provided APAC with a smaller, more focussed team as we move forward. I would like to thank our retiring board members for their contribution to APAC's success.

I congratulate our staff on another exceptional year.

Don Mercer
Chairman

Chief Executive Officer's Report

This year started with the previous one still echoing loudly. International traveller confidence remained flat following the impact of SARs, a situation compounded by the War in Iraq.

Within the space of 12 months a complete turnaround in passenger confidence has delivered our best passenger performance to date, with double digit growth at both Melbourne and Launceston airports supporting a 115 per cent increase in net profit to $41 million.

Growth has been delivered by increased competition as new airlines and new services drive down ticket prices and stimulate traffic.

Launceston Airport achieved one of the highest levels of passenger growth in Australia, with overall passenger numbers up 15.4 per cent to 670,000.

Passenger numbers at Melbourne Airport increased by 13 per cent to over 19 million, with record growth in international passengers, up 15 per cent to 3.8 million.

This strong performance reaffirms the value and success of our collaborative partnership with the Victorian Government, now in its seventh year and still delivering international tourism growth for Victoria.

The commencement of new low-cost carrier Jetstar has introduced competition in the low-cost domestic market, which will further drive growth in buoyant domestic traffic.

Jetstar operates at both Melbourne and Launceston airports, giving our passengers more choice in low-cost services and carriers.

Continued growth from Virgin Blue has seen the carrier move to take over all gate capacity in the concourse it previously shared with Regional Express. Melbourne Airport has responded to accommodate this growth, opening the second concourse in the South Domestic Terminal for the first time since the collapse of Ansett in 2001. Regional Express now operates from the second concourse.

Melbourne Airport's third hotel has reopened, following completion of a full refurbishment by the Holiday Inn. Our Business Park continues to grow, with two new facilities completed this year, and an expansion in our international arrivals hall has enhanced customer service and border control measures.

A strong understanding of the needs of our passengers has ensured new retail outlets in the domestic South Terminal have had an incredibly successful start. The first ever airport-located P.J. O'Brien's pub has been particularly popular with Melbourne passengers.

Melbourne Airport is now preparing for the future, investing $220 million to ensure it is prepared to meet passenger demand as Victorian aviation and tourism continues to grow.

Construction has commenced on a major $40 million expansion to car park facilities that will deliver an additional 3700 car spaces.

Our five-year agreement pricing with airline partners, signed two years ago, was the first step in preparing Melbourne Airport for the new A-380 aircraft. With finance already agreed, the airport has now completed detailed planning for runway widening works required to land the new-generation aircraft when it arrives.

Costs are under control. Eliminating the consulting bonus paid to our shareholder BAA plc, costs rose by only 6 per cent, almost half of which relates to increased security costs. This was achieved in a year that passenger numbers grew by 13 per cent.

Continued growth requires continued investment in the future. Careful planning has enabled us to successfully rise to the challenge of building for growth whilst at the same time ensuring our customer service levels remain world class.

APAC is well prepared to meet the demands of another exciting growth phase.

Chris Barlow
Chief Executive Officer

Travel confidence has returned, delivering APAC's best ever financial and passenger performance.

Flying high

Buoyant passenger traffic has delivered APAC's best financial and passenger performance to date. The company has recorded a net profit of $41 million, more than double last year's maiden tax profit of $19 million.

Consistent with APAC's strategy to deliver growth through volume, this strong result has been achieved without departing from our five-year price agreement with airlines, which is linked to CPI.

The company has maintained its A-and A3 credit ratings, the best credit ratings of any airport operator in Australia.

This has been achieved in a year when we raised $232 million to support capital works for future growth at our airports.

Costs are under control. Excluding the performance bonus paid to our technical adviser BAA plc, costs increased by just 6 per cent, almost half of which can be attributed to increased security costs.

This was achieved in a year when passenger traffic grew by 13 per cent. Interest costs continue to reduce, down 7 per cent this year.

Aeronautical revenue increased by 23 per cent to $112 million, boosted by double-digit passenger growth at both Melbourne and Launceston airports. Operations at Melbourne Airport's South Terminal have expanded, with the second concourse opening to accommodate growth.

Retail revenue increased by 18 per cent to $106 million, with performance driven by understanding of passenger's retail needs. Our car parking businesses delivered the strongest revenue growth, with construction commencing on an additional 3,700 spaces at Melbourne Airport to meet rising demand.

Property continued its steady performance, up 8 per cent to $40 million this year. Melbourne Airport's Business Park continues to grow, whilst the Holiday Inn commenced operations following a full refurbishment and upgrade of the former Centra Hotel.

Melbourne Airport

Victoria's gateway to the world, Melbourne Airport serves a city that is widely accepted as the cultural centre of Oceania for shopping, restaurants, sport and theatre.

A rebound in international travel confidence combined with competition-fuelled growth in the domestic market saw overall traffic at Melbourne Airport increase by 13 per cent to 19.2 million passengers, the best result in the airport's 34-year history.

Melbourne Airport's advantage of 24-hour curfew-free operation ensures the airport remains particularly attractive to overseas carriers by providing flexibility in scheduling and enabling improved aircraft utilisation.

Australia's largest curfew-free airport achieved record international passenger growth, up 15 per cent to 3.8 million passengers, as traveller confidence rebounded from the impact of global events over the past few years.

Since privatisation in 1997, Melbourne Airport has achieved compound annual international passenger growth of 7.2 per cent, more than double the average growth-rate for all major Australian airports.

New carriers and extra flights have increased competition, stimulating passenger growth and reducing ticket prices.

Airline competition remains an important driver of passenger growth, delivering extra passengers and extra capacity in Melbourne's top origin and destination markets of New Zealand, South East Asia and Europe.

Rebounding passenger confidence has also supported this strong result. Bali has recovered strongly from the attack in October 2002. More seats, more flights and more passengers have returned it to its former status as one of Australia's most popular tropical leisure destinations.

Strong growth in domestic traffic growth continued, up 13 per cent to 15.2 million passengers, with double digit increases recorded in every quarter.

Continued growth for Virgin Blue has seen the carrier expand its operations at Melbourne Airport, adding four new check-in counters and utilising all gate capacity in the South Terminal concourse it previously shared with Regional Express (Rex).

The second concourse in the South Domestic Terminal was re-opened for the first time since the collapse of Ansett in 2001 to accommodate relocated operations for Rex.

Growth for Virgin Blue, Qantas and Rex continued, whilst domestic traffic received a further boost from the introduction of services from Jetstar, Qantas' new low-cost domestic carrier, in May.

Around 75 per cent of Jetstar's Victorian flights operate from Melbourne Airport, with the additional 250 flights per week increasing overall domestic capacity. Melbourne Airport now offers passengers 160 low-cost flights every day on one of two carriers, making it the low-cost domestic hub for Victorian travellers.

New Arrivals

Strong passenger growth has reaffirmed the resilience and strength of Victoria as a tourism market. This has been long recognised by Melbourne Airport's international carriers that continued to show confidence in Victoria throughout difficult times and are now benefiting from improved passenger loads and a buoyant travel market.

In a year when traveller confidence has boomed, new airlines and new services have increased capacity on Melbourne's busiest international routes, boosting passenger growth.

Singapore Airlines, Thai Airways, Emirates Airline, Malaysia Airlines, Qantas, Austrian Airlines and Air Pacific have all added capacity.

Melbourne Airport also welcomed two new airlines this year, with China Eastern Airlines commencing services to Shanghai in December and Pacific Blue, Virgin Blue's international sister airline, commencing services to Christchurch in March.

Increased competition and capacity for Victoria's biggest inbound and outbound market, New Zealand, has resulted in strong passenger growth on the trans-Tasman route. In August, Emirates Airline commenced services to Auckland, becoming the first new carrier to enter the route since 1999. In March, Pacific Blue's inaugural Melbourne – Christchurch services further boosted travel on the trans-Tasman.

Thai Airways introduced Melbourne's first ever Phuket direct service in October, whilst additional capacity for Bali has supported continued passenger growth as travel confidence returns.

Melbourne Airport continues its strategic working relationship with the Victorian Government to build international airline capacity. The partnership is now in its seventh year and continues to deliver more international seats to Victoria, benefiting outbound capacity, the tourism industry and the broader economy.

Melbourne Airport has launched a new website and marketing campaign to further stimulate growth in our direct international services. The Melbourne Direct website encourages travellers to fly overseas on one of Melbourne's 23 international airlines by providing information on services available.

The new initiative supports carriers that serve Melbourne Airport, directing passengers to the quickest, most convenient route to hundreds of destinations on Melbourne Airport's direct international services.

Growing for the future

Continued growth requires continued investment. Melbourne Airport is investing around $220 million on a major capital development programme to support ongoing passenger growth.

Construction has commenced on a $40 million project to expand the airport's parking facilities. An extension underway at the Short Term Car Park will almost double the size of the existing facility, adding 2,500 spaces over six levels. Other car park development will add 1,200 new spaces to the 5,000 currently available in the Long Term Car Park.

Long-term planning has enabled Melbourne Airport to finalise priorities and arrange finance for major aeronautical developments well in advance of their construction.

The pricing agreement signed by Melbourne Airport and its airlines partners two years ago incorporated an agreed capital works program over a period of five years. This unique understanding has streamlined the planning and implementation of vital aeronautical development projects, enabling Melbourne Airport to focus on the job of delivering outcomes.

Melbourne Airport is investing around $180 million in major building and construction projects to improve and expand its terminal precinct, runway and apron facilities. Whilst the majority of this work is designed to support continued passenger growth, all new projects allow for accommodation of the new A-380 aircraft. The works will include runway widening to ensure the airport is ready for the new generation aircraft some time after 2006.

Final planning for these works is now complete, and delivery of projects is on-schedule and on-budget. This development will ensure Melbourne Airport is able to continue delivering first class service and facilities to passengers and airlines as traffic continues to grow.

Building Victorian communities

Melbourne Airport continues to play a sponsorship and support role in the arts, the community and the tourism industry.

Our partnership with the Salvation Army, now in its fifth year, provides ongoing support for assisted accommodation needs in the airport's local area. Melbourne Airport has also worked closely with the Salvation Army on other Statewide fund-raising initiatives including the Winter Warmth Appeal.

Melbourne Airport continued its support of the Foundation for Survivors of Torture, which provides services for refugees who are victims of political regimes in other countries.

As the international gateway for a city famous for its commitment to the arts, Melbourne Airport is a proud supporter of promising new talent. We have built a portfolio of arts sponsorships designed to assist Victoria's emerging artists through sponsorship of the Melbourne Comedy Festival's Best New Talent Award and the Melbourne Film Festival's Best Australian Emerging Filmmaker Award.

We have expanded our arts sponsorships to include the Mietta Song Recital Award, part of the Melbourne Festival.

Melbourne Airport continues to support the tourism industry, commencing a three-year agreement as principal sponsor of the Victorian Tourism Awards – the premier event for recognising tourism excellence throughout Victoria.

Melbourne Airport's ongoing partnership with Victoria University is now in its fifth year. Our continued sponsorship of the university's Chair of Marketing helps develop more entrepreneurial graduates for Victorian business.

Ready for tomorrow, today. Melbourne Airport is under construction to accommodate continued growth.

Melbourne Airport has become Australia's largest exporter of air freight.

Moving Cargo

Lack of a night curfew, quick freeway access to greater Melbourne and fast handling are advantages that make Melbourne Airport increasingly attractive as a freight hub.

In 2003, Melbourne Airport exported a record 143,000 tonnes of freight to become Australia's biggest exporter of air cargo.

Easy access and excellent freight handling services have enhanced the airport's appeal to major international freight operators.

Lufthansa, the world's largest international freight airline, has increased its dedicated freight services at Melbourne by two per week, introducing much needed capacity to the USA for the first time in three years.

Increased international passenger flights have also contributed to freight growth, with around 75 per cent of all freight carried in the hold of passenger aircraft.

A 27 per cent increase in international passenger services at Melbourne in the Northern Winter airline schedule has delivered vital freight capacity as tonnage increases.

Two freighter aircraft parking bays at Melbourne Airport have been returned, almost doubling freight parking capacity.

Safe and Secure

Safety and security remain a top priority for Melbourne Airport. On-site security measures are regularly monitored and the airport continues to meet stringent security standards set by the Federal Government.

Melbourne Airport is well advanced in its preparations to meet new government requirements for baggage screening, with the project's delivery on-program and on-budget for completion in December.

Airservices Australia continues to provide world-class traffic control and aviation fire and rescue services on-site.

On-track to land the A-380

With finance arrangements already agreed with our airline partners, Melbourne Airport has advanced its preparations for the arrival of the new-generation A-380 aircraft.

A significant airside works programme is required before the airport can welcome the new aircraft. Detailed planning for these works is now complete and the airport is on-schedule to land the A-380 when it arrives after 2006.

The main runway will be widened to accommodate the double-decker aircraft's enormous 80 metre wingspan. Terminal works will be undertaken to install double-tiered aerobridges on two gates and to expand the departure lounge area. The new aerobridges will enable passengers to board and disembark from both levels of the double-decker aircraft and will have the flexibility to accommodate two A-380s or up to four smaller aircraft at any one time.

All works required to land the A-380 will be funded as part of a five-year price agreement signed two years ago with our airline partners. This agreement enables Melbourne Airport to deliver the construction required to land the aircraft without any additional price increases for airlines or passengers.

Five of Melbourne Airport's 23 international carriers already have plans to incorporate the new aircraft in their fleet, with A-380 orders in place for Qantas, Singapore, Emirates, Malaysia and Thai Airways.

Launceston Airport

Launceston Airport has had another successful year, with Tasmania's increasing appeal as a leisure destination driving growth in passenger numbers, airlines services and seat capacity. Strong economic growth has also stimulated outbound traffic.

Overall passengers at Launceston Airport have increased by 15 per cent to 670,000. The airport has achieved its sixth consecutive pre-tax profit since privatisation in 1998 and declared its second dividend for shareholders, with strong performance underpinned by sound infrastructure, solid cash flow and low staff to operating cost-ratio.

Airline competition, Tasmania's growing popularity and an extraordinary property market boom have promoted growth. A new fleet for the Spirit of Tasmania, including the introduction of a ferry service from Sydney, has raised the profile of Tasmania as a destination and stimulated traffic, for both air and sea passengers.

Jetstar commenced services in June, becoming Launceston's second low-cost domestic carrier and increasing overall passenger services. Strong growth continues for Virgin Blue, now in its third year of operation at Launceston airport.

Launceston continues to improve and invest in technology and systems to enhance the safety and security of the airport. The airport's water system has been upgraded to include a new pump station and water line designed to improve the efficiency of fire fighting services on-site.

High voltage cable has been extended under the runway to serve aircraft navigational aids and aircraft approach systems have been improved by the installation of a new radar by Airservices Australia, which has expanded on-route coverage.

Security has been tightened through the introduction of a comprehensive card proximity system that improves access control throughout the airport. Light beam security has also been installed to strengthen protection of the airport's airside/landside divide.

Increased competition from the ferry service and airlines has boosted passenger numbers by enhancing awareness of Tasmania as a leisure destination.

Retail

Strong passenger traffic contributed to an extremely successful year for retail, with revenue up 18 per cent to $106 million. This is the first time retail revenue has exceeded $100 million and continues an upward trend, with sustained growth resulting in a 100 per cent increase in revenue since the first year of privatisation.

Retail revenue plays a critical role in APAC's overall financial performance. Our retail success is underpinned by a strong knowledge of airports and the people that use them. Ongoing research ensures we maintain a firm understanding of our customers' needs and can respond quickly and positively to change.

This unique understanding is integral to delivering customers what they want and assures the continued success of our retail business.

Melbourne Airport now has more than 10,000 square metres of retail space, with 21 bars and restaurants and 40 specialty retail outlets including many famous brand names.

A major three-year project to redevelop the retail precinct in Melbourne Airport's International Terminal was completed this year and has been extremely successful. In the first full year of operations for the airport's refurbished Downtown Duty Free store, departure sales increased by over $10 million, up 19 per cent on the previous year.

Accessorize and TGI Friday's bar and restaurant commenced operations in Melbourne Airport's International Terminal.

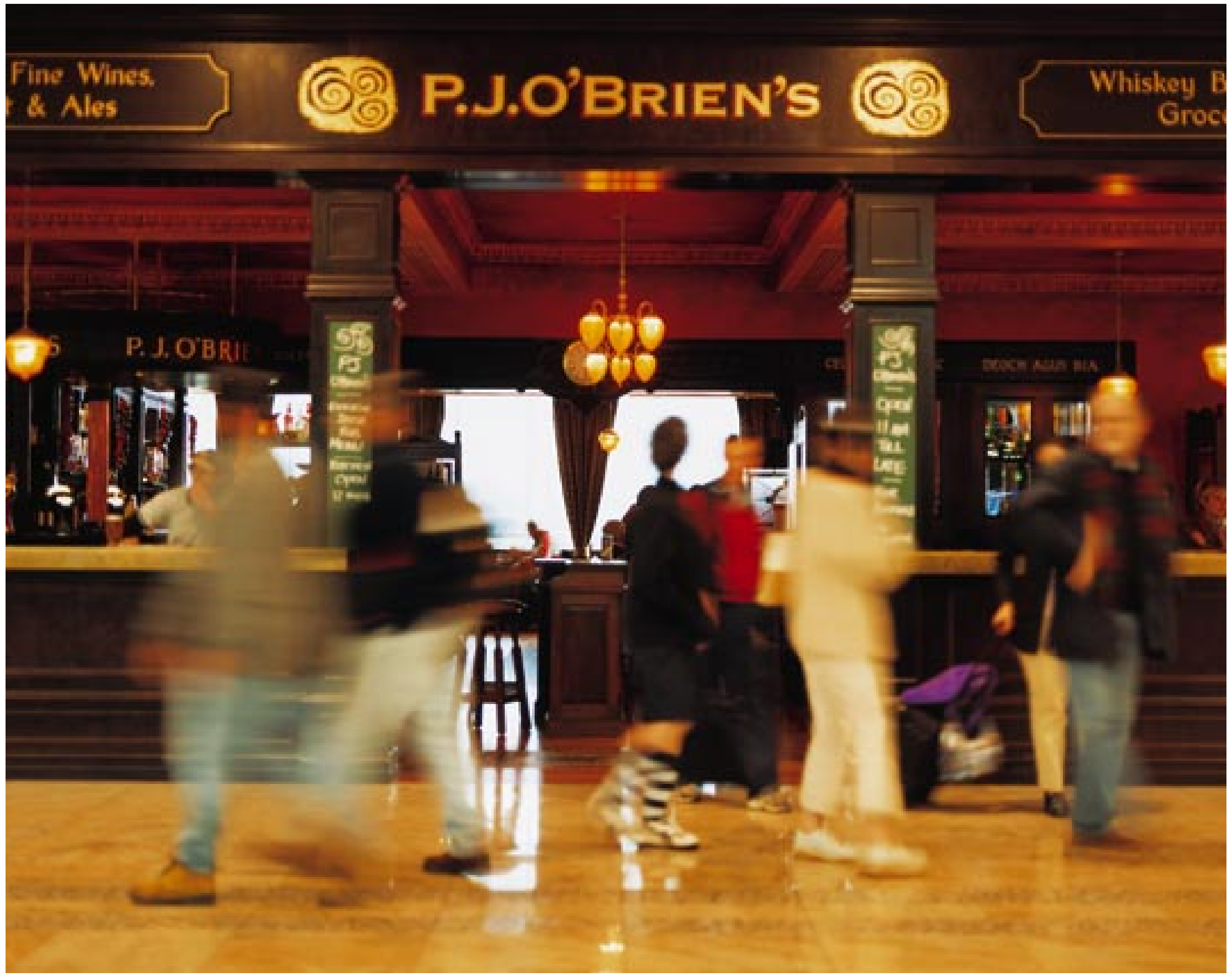
In the domestic South Terminal, the choice, diversity and value in our retail offer has been enhanced by new food and beverage outlets including Viva Juice bar, the Fly Bar, High Tide Lounge and the airport's third Hudson's coffee store. New gift store, Melbourne and Beyond, and the first airport-located P.J. O'Brien's bar have also contributed to the success of retail in the South Terminal.

In a year when passenger numbers rose by 13 per cent, retail revenue grew by 18 per cent as passengers continued to respond positively to the improved quality, choice and value in the airport's retail offer.

Our understanding of domestic passengers continued to grow in our second full year of operations in the South Terminal.

Targeted retail campaigns for sporting and other major Victorian events have been extremely successful and contributed to an increase in per-passenger spend.

Retail at Launceston Airport has been successful in the first full year since local company Kavihan opened its food, beverage and gift store. The new outlet has enhanced the terminal's aesthetic and improved quality and value for passengers.



On the ground…

Revenue from Melbourne Airport's car parking facilities increased by 18 per cent this year, with car parks continuing to be major contributors to overall retail revenue.

When APAC commenced operations in 1997, near completion of a major project to expand parking facilities at Melbourne Airport ensured the airport had plenty of parking capacity to accommodate traffic growth.

Since that time, extensive research identifying how customers use car parks and what they expect from car parking facilities has increased the appeal of our parking products and stimulated customer demand.

The popularity of our car parking products and their price competitiveness with a return taxi fare has filled the capacity that existed when APAC commenced operations.

Melbourne Airport is now building for the future, with construction underway to expand parking facilities to accommodate growing demand.

A $40 million car park development program is now underway to add 2,500 spaces at Melbourne Airport's Short Term Car Park as well as an extra 1,200 spaces in the Long Term Car Park.

New long-term contracts were signed with Melbourne Airport's five on-airport car rental companies in March. Contracts have also been formalised with courtesy vehicles for off-airport car parks, helping reduce congestion at the front of terminal.

Melbourne Airport is a firmly established advertising precinct which continues to grow in appeal and is managed by our partners Eye Corp and Cody Outdoor. Cody Outdoor has been signed to a new long-term contract to manage outdoor advertising in the terminal precinct.

This year, new advertising opportunities have been harnessed, including Eye Corp's innovative contract with Citibank to advertise on aerobridges. New promotional zones have enabled airport advertisers to better target customers. In addition, Melbourne Airport has expanded to incorporate three dimensional advertising, erecting a large fish tank that advertises Bombay Sapphire Gin.

Knowledge of our customers' needs drives retail development, delivering what people want and underpinning the continued success of our retail business.

Property

APAC continues to harness opportunities to increase the appeal of its airports for business and corporate development, with property revenue performing solidly, up 8 per cent to $40 million.

The Business Park continues to attract Victoria's leading manufacturing and distribution companies, with construction completed on facilities for GMC power tools and Bax Global this year. The Business Park now has eight tenants operating from purpose-built warehouse/office facilities on-site.

To accommodate important new border control measures, Australian Quarantine Inspection Services (AQIS) has moved into a 740 square metre extension completed in Melbourne Airport's International Terminal.

The new purpose-built office building constructed for AQIS and Customs has generated its first full year of revenue. The extra space provided by the larger office building supports the border control agencies' capacity to process passengers and freight.

Melbourne Airport's on-site car rental companies continue to grow, increasing demand for support facilities. This year, we have negotiated a lease with Hertz to expand its back-up car facilities by 50 per cent to support its growing car rental business.

Growing passenger numbers and additional flights have seen office expansions for our airline customers this year. Virgin Blue has leased additional space for its operational centre, whilst new airline China Eastern has established an office presence on-site.

In December, the airport's on-site golf course operator renamed its facility to feature its airport location for the first time. Now known as the Melbourne Airport Golf Course, it is a confident move that reaffirms that Melbourne Airport's reputation as a business precinct is growing in prestige.

The Holiday Inn Melbourne Airport has completed a major refurbishment at the original airport hotel. The hotel reopened in July, joining the Hilton Melbourne Airport and Motel Formule 1, ensuring a full range of accommodation options are available within walking distance of the airport terminal.

Melbourne Airport's reputation as a business precinct is rising, with companies attracted by location and on-site development opportunities.

Melbourne Airport has become the first airport in Australia to have its environmental management system accredited to world's best practice standard ISO 14001.

A sustainable future

Sound environmental planning is essential for the long-term operation of our airports and remains an integral part of APAC's business strategy. Our commitment to embrace best practice environmental management continues to produce a strong foundation for sustainable operation in the future.

Melbourne Airport continues to set the standard for airport environment management in this country. In June, Melbourne Airport became the first Australian airport to have its Environmental Management System (EMS) accredited to internationally recognised world's best practice standard, ISO 1004.

Also in June, Melbourne Airport launched a new award to recognise excellence and innovation in airport environment management. The Melbourne Airport Environment Award, the first of its kind offered by an Australian airport, encourages and rewards innovative, best practice solutions to environmental challenges on-site.

Launceston Airport continued its effort to reduce potential for environmental damage by successfully removing an unused underground fuel storage tank and remediating the site.

This was the final tank identified for removal and remediation as part of a major project to address unused fuel storage on-site.

Melbourne Airport continues to work closely with government, business and the community to improve environmental outcomes. The airport has formed a partnership with City West Water to investigate on-site water usage patterns and establish new initiatives to reduce water use.

To help conserve water resources, the Melbourne Airport Golf Course has planted special grass on its fairways to reduce watering requirements.

As part of Melbourne Airport's Waste Minimisation Strategy, a new on-site recycling program has been established in partnership with Visy Recycling. New recycling facilities have been successful in diverting huge volumes of plastic, glass and aluminium away from landfill into recycling for reuse.

Environmental protection and enhancement has remained at the forefront of planning as Melbourne Airport grows. A major building project now underway to expand the airport's Short Term Car Park includes construction of a stormwater collection and storage system. When complete, the system will enable Melbourne Airport to collect and recycle stormwater for irrigation of on-site landscapes, significantly reducing the airport's use of vital water resources.

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 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 the 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 the Royal Dutch Shell Group in the United Kingdom, the Netherlands, Canada, Indonesia and Australia.

Don 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 a Director 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.

Jack Ritch

Jack Ritch was appointed a Director of APAC in November 1997.

Jack is Chairman of AMP Capital Investors. From 1999 to 2004 Jack was Managing Director of AMP Capital Investors (formerly AMP Henderson Global Investors) where he was 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. He has held various management and director positions within the AMP Group since joining in 1958.

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. He has been National President of the Property Council of Australia and Chairman of the Shopping Centre Council of Australia.

Phil Garling

Phil Garling was appointed a Director of APAC in March 2004, having been an Alternate Director since December 2003.

Phil is head of Infrastructure at AMP Capital Investors (AMPCI) and has had 20 years experience in infrastructure development and investment.

Phil was previously CEO of Tenix Infrastructure and was a long term senior executive at Lend Lease culminating in the role of CEO of Lend Lease Capital Services. Phil is a Director of several companies in which AMPCI is an investor and is Chair of DUET (Diversified Utilities and Energy Trust). He is also a former Director of Australian Airport Services and former chair of Infratil Airport Partners.

Phil holds a building degree from the University of NSW and the Advanced Diploma from the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Company Directors, Australian Institute of Building and an Associate Fellow of the Australian Institute of Management.

Felicity Gates

Felicity Gates was appointed a Director of APAC in January 1997, having been an Alternate Director from November 1995.

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

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

Felicity has a first class honours degree in mathematics from the University of Queensland.

Vernon Murphy

Vernon Murphy was appointed a Director of APAC in 1999.

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 in Heathrow, Gatwick and elsewhere.

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

Andrew Jurenko

Andrew Jurenko was re-appointed a Director of APAC in February 2004.

Andrew is Managing Director of BAA International, where he is responsible for identifying and developing the company's international airport opportunities He is also Chairman of BAA Lynton and a member of the BAA Executive Committee.

Andrew held a number of senior finance positions before becoming Finance Director of BAA Lynton in 1990.

Since that time he has held a variety of senior management roles and board appointments with the BAA group in their airport, retail and development divisions. Andrew was the Chief Executive Officer of APAC from 1995 to 1999, during which time both Melbourne and Launceston Airports were acquired.

Andrew is a fellow of the Institute of Chartered Accountants in England and Wales.

Mitchell King

Mitchell King was appointed a Director of APAC in February 2004, having been an Alternate Director since 5 May 1998.

Mitchell is involved actively in the airports sector and is the Chairman of the Airports Development Group Pty Ltd which operates Alice Springs, Darwin and Tennant Creek airports.

Mitchell joined Hastings Funds Management Ltd (HFM) in June 1997 and is a Director of HFM. Mitchell is also the Chief Operating Officer of HFM's listed fund, the Australian Infrastructure Fund.

Mitchell has a Bachelor of Business from RMIT (Accountancy) and has a Diploma from and is a member of Securities Institute of Australia. Mitchell also has been a member of the Chartered Accountants since 1986.

APAC Executives

Kirby Clark

CFO and Deputy to the CEO, APAC Head of Finance, Corporate Services and Human Resurces.

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

A minor change in APAC's shareholder composition occurred this year, with AMP Capital Investors Limited selling a small percentage of its holding to its existing three APAC partners. APAC remains a majority Australian owned company and our four shareholders are unchanged:

- AMP Capital Investors Limited.
- Hastings Funds Management Limited.
- BAA plc.
- DB Capital Partners.

Financial Results – APAC

Results Summary

Year ended 30 June ($ millions)	1998	1999	2000	2001	2002	2003	2004	Change 03 to 04
Aeronautical	50	50	53	57	57	91	112	23%
Retail	53	61	68	77	80	90	106	18%
Property	28	32	36	41	42	37	40	8%
Security and Other	13	14	14	20	22	25	28	12%
Total Revenue	**144**	**157**	**171**	**195**	**201**	**243**	**286**	**18%**
Operating Expenses	47	48	48	55	65	74	83	12%
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**98**	**109**	**123**	**140**	**136**	**169**	**203**	**20%**
Depreciation and Amortisation	26	32	34	35	36	40	45	13%
Interest	103	107	109	137	97	97	90	-7%
Profit / (Loss) Before Tax	**(31)**	**(30)**	**(21)**	**(32)**	**3**	**32**	**68**	**113%**
Tax Expense / (Benefit)	0	0	0	(22)	5	13	27	108%
Net Profit / (Loss)	**(31)**	**(30)**	**(21)**	**(10)**	**(2)**	**19**	**41**	**116%**

Passenger Volumes - Melbourne Airport

Year end 30 June (millions)	1998	1999	2000	2001	2002	2003	2004	Change 03 to 04
International	2.56	2.73	2.99	3.36	3.41	3.28	3.76	14.6%
Domestic	11.41	11.64	12.34	13.56	12.81	13.48	15.23	13.0%
Total*	**14.20**	**14.58**	**15.57**	**17.24**	**16.48**	**16.92**	**19.16**	**13.2%**

*Total includes transit passengers

Aircraft Movements - Melbourne Airport

Year end 30 June (thousands)	1998	1999	2000	2001	2002	2003	2004	Change 03 to 04
International	17.8	18.2	20.5	23.1	22.6	21.3	24.0	12.7%
Domestic	126.2	136.2	142.7	162.0	133.1	135.0	140.0	3.7%
General Aviation	10.1	2.4	1.5	2.3	1.9	1.6	1.3	-18.8%
Total	**154.1**	**156.8**	**164.7**	**187.4**	**157.6**	**157.9**	**165.3**	**4.7%**

Landed Tonnes - Melbourne Airport

Year end 30 June (thousands)	1998	1999	2000	2001	2002	2003	2004	Change 03 to 04
International	2,677.1	2,580.4	2,807.0	2,978.1	2,868.5	2,603.8	2,888.2	10.9%
Domestic	4,450.3	4,647.6	4,957.0	5,328.0	4,794.7	4,576.6	4,939.0	7.9%
General Aviation	47.1	34.4	11.3	18.9	16.7	21.5	19.5	-9.3%
Total	**7,174.5**	**7,262.4**	**7,775.3**	**8,325.0**	**7,679.9**	**7,201.9**	**7,846.7**	**9.0%**

Passenger Volumes – Launceston Airport

Year end 30 June (millions)	1999	2000	2001	2002	2003	2004	Change 03 to 04
Domestic	0.52	0.54	0.52	0.53	0.58	0.67	15.4%

Aircraft Movements – Launceston Airport

Year end 30 June (thousands)	1999	2000	2001	2002	2003	2004	Change 03 to 04
Regular public transport	10.1	10.8	13.3	9.2	7.5	7.9	5.5%
General Aviation	19.0	16.8	13.1	12.4	7.4	7.4	0.5%
Total	**29.1**	**27.6**	**26.4**	**21.6**	**14.9**	**15.3**	**3.0%**

Landed Tonnes - Launceston Airport

Year end 30 June (thousands)	1999	2000	2001	2002	2003	2004	Change 03 to 04
Regular public transport	231.4	260.6	266.7	223.1	222.0	232.3	4.6%
Domestic	15.4	14.5	13.4	13.4	9.0	11.8	31.1%
Total	**246.8**	**275.1**	**280.1**	**236.5**	**231.0**	**244.1**	**5.7%**

APAC financial highlights

- Net profit increased to $41 million, more than double last year's $19 million maiden post-tax profit.
- EBITDA up 21 per cent to $204 million.
- Maintained A- and A3 credit ratings, the best credit ratings of any airport company in Australia.
- Raised an additional $232 million third party debt through US private placement to support capital development to accommodate continued passenger growth.

Melbourne Airport

- Overall passenger numbers up 13 per cent to 19.2 million.
- International passenger traffic increased by 15 per cent and domestic passenger traffic recorded double digit growth in every quarter.
- Melbourne became the first Australian airport to have its Environmental Management System accredited to internationally recognised world's best practise standard ISO 14001.
- Freight growth resulted in Melbourne Airport becoming Australia's largest exporter of air cargo.

Launceston Airport

- Passenger numbers increased by 15.4 per cent to 670,000.
- Safety enhanced by an upgrade to the water system to improve the efficiency of fire fighting services.
- Security tightened through the introduction of a comprehensive card control system, improving access control throughout the airport.

Retail

- Retail revenue increased by 18 per cent to $106 million.
- First full year of operations for the Melbourne Airport's refurbished Downtown Duty Free store was successful, with departure sales increasing by 19 per cent.
- TGI Friday's and Accessorize opened at Melbourne Airport's International Terminal. New retail outlets to open in the airport's domestic South Terminal include Viva Juice Bar, the Fly Bar, High Tide Lounge, Melbourne and Beyond gift store and P.J. O'Brien's pub.
- Car Park facilities at Melbourne Airport are expanding to accommodate growth. Construction has commenced on a $40 million project to add 3,700 spaces.

Property

- Property revenue increased by 8 per cent to $40 million.
- Melbourne Airport's Business Park welcomed two new tenants; Bax Global and GMC Power Tools.
- Australian Quarantine Inspection Services moved into additional space at Melbourne Airport's International Terminal to accommodate important new border control measures.
- Holiday Inn hotel opened at Melbourne Airport following a major refurbishment of the former Centra Hotel building.

Aeronautical

- Renewed confidence in travel and increased passenger numbers boosted aeronautical revenue, up 23 per cent to $112 million.
- Gate capacity at Melbourne Airport increased to accommodate continued growth in domestic traffic. The second concourse in Melbourne Airport's domestic South Terminal opened for the first time since the collapse of Ansett.
- Melbourne Airport welcomed two new international airlines; China Eastern and Pacific Blue, Virgin Blue's international sister airline. Capacity from existing international carriers continues to increase.
- Jetstar, Qantas' new low cost domestic carrier, commenced operations at Melbourne and Launceston airports, increasing domestic seat capacity at both airports.

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 2004. 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	Appointment
Continuing	
Mr D. Mercer	Chairman – Appointed 1 November 1997
Mr J. Ritch	Appointed 1 November 1995
Ms F. Gates	Appointed 12 January 1997
Mr V. Murphy	Appointed 30 August 1999
Mr C. Barlow	Chief Executive Officer and Managing Director – Appointed 1 July 2002
Mr A. Jurenko	Appointed 15 January 2004
Mr M. King	Appointed 20 February 2004
Mr P. Garling	Appointed 2 March 2004
Not Continuing	
Mr M. Toms	Resigned 15 January 2004
Mr A. Hyams	Resigned 19 February 2004
Ms E. Bryan	Resigned 23 February 2004
Mr R. McGeoch	Resigned 23 February 2004
Mr D. Latham	Resigned 23 February 2004
Mr L. Hall	Resigned 23 February 2004

Particulars of the Directors of the company during and since the end of the financial year are set out on pages 20 to 22 which forms part of the Director's Report.

Alternate Directors

Name	Representing
Mr D. Shields	Managing Director and Head of DB Capital Partners – alternate to Ms F. Gates
Mr M. Fitzpatrick	Managing Director, Hastings Funds Management – alternate to Mr M. King

Directors' Meetings

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

Directors	Board of Directors		Audit and Risk Management (3 Committee 1 Full Board)		Safety, Security and Environment (2 Committee 2 Full Board)	
	Held	Attended	Held	Attended	Held	Attended
Continuing						
Mr D. Mercer	7	7	1	1	2	2
Mr J. Ritch	7	7	1	1	2	2
Ms F. Gates	7	7	4	4	2	2
Mr V. Murphy	7	4	1	1	4	2
Mr C. Barlow	7	7	1	1	2	2
Mr A. Jurenko	3	3	1	1	2	2
Mr M. King	3	3	1	1	2	2
Mr P. Garling	2	2	1	1	1	1
Not Continuing						
Mr M. Toms	4	2	3	1	–	–
Mr A. Hyams	4	3	–	–	2	2
Ms E. Bryan	4	3	–	–	2	1
Mr R. McGeoch	4	4	–	–	–	–
Mr D. Latham	4	3	–	–	2	2
Mr D. Latham (Alternate)	–	–	1	1	–	–
Mr L. Hall	4	4	3	2	–	–

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 $286,308,000 and operating expenses of $82,713,000 resulting in earnings before borrowing costs, tax, depreciation and amortisation of $203,595,000 for the year ended 30 June 2004.

Depreciation and amortisation expense was $45,050,000 and total borrowing costs were $90,557,000 giving a profit before income tax of $67,988,000 and profit after income tax of $40,914,000.

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 2004 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 2004.

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 which can be obtained by contacting APAC or the individual airports.

Indemnification of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the Directors of the company, the Company Secretary and all Executive Officers of the company and of any related body corporate against a liability incurred 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 seven non-executive Directors and one Executive Director. Details of the Directors are set out on page 28 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 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 in place for a number of years which allows the Board directly 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.

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

The Board was restructured in February 2004 reducing its size from 11 to 8 Directors. Following this restructure it was decided to undertake the responsibilities of the Audit and Risk Management Committee and Safety, Security and Environment Committee at the full Board level.

Until February 2004 the Board had established an Audit and Risk Management Committee consisting of three non-executive Directors.

The Audit and Risk Management Committee provided a forum for the communication between the Board and the auditors. The Audit and Risk Management Committee previously reviewed and made recommendation to the full Board in respect to:

- 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 Committee invited the Chairman, Chief Executive Officer, Chief Financial Officer and the auditors to attend Audit and Risk Management Committee meetings, but also met independent of management with the auditors during the year.

Until February 2004 the Board had established a Safety, Security and Environment Committee made up of four non-executive Directors. The Safety Security and Environment Committee invited the Chairman and the Chief Executive Officer and met with external parties who perform audits and reviews from time to time.

The primary role of the Committee was 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 Committee assessed, reviewed and made recommendations to the Board in respect to:

- 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.

Subsequent to the February 2004 Board restructure, the Board met under separate agenda, once in relation to Audit and Risk Management and twice in relation to Safety Security and Environment. Separate charters and agendas have continued for each of the specific responsibility areas and the participation of auditors and other external advisors in those meetings will remain unchanged.

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

24 August 2004

Managing Director
MELBOURNE

24 August 2004

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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 2004 as set out on pages 33 to 56. 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 2004 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
24 August 2004

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

D.P. R

Chairman
MELBOURNE
24 August 2004

C.C. Dawley

Managing Director
MELBOURNE
24 August 2004

Statement of Financial Performance for the Financial Year Ended 30 June 2004

	Note	Consolidated		Company	
		2004	**2003**	**2004**	**2003**
		$'000	**$'000**	**$'000**	**$'000**
Revenue from Ordinary Activities	2	**286,308**	**243,426**	**52,200**	**39,060**
Less Operating Costs					
– Staff Costs		(18,112)	(16,991)	–	–
– Service and Utilities		(30,653)	(29,342)	–	–
– Maintenance Costs		(7,797)	(7,131)	–	–
– Administration, Marketing and Other		(11,135)	(9,766)	(1,413)	(1,616)
– Performance Payments	31	(15,016)	(11,007)	(15,016)	(11,007)
Operating Profit before Borrowing Costs, Depreciation and Amortisation		**203,595**	**169,189**	**35,771**	**26,437**
– Depreciation and Amortisation	2	(45,050)	(39,931)	–	–
– Borrowing Costs Other loans	2	(73,510)	(70,790)	–	–
Shareholders Loans	2	(17,047)	(25,940)	(17,047)	(25,937)
Profit from Ordinary Activities before Income Tax Expense		**67,988**	**32,528**	**18,724**	**500**
Income tax (expense)/benefit relating to ordinary activities	4	(27,074)	(13,203)	29	216
Profit from Ordinary Activities after Income Tax Expense	26	**40,914**	**19,325**	**18,753**	**716**
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners		**40,914**	**19,325**	**18,753**	**716**

Notes to the financial statements are included on pages 37 to 56.

Statement of Financial Position as at 30 June 2004

	Note	Consolidated		Company	
		2004	**2003**	**2004**	**2003**
		$'000	**$'000**	**$'000**	**$'000**
Current Assets					
Cash Assets	32	1,809	3,548	–	–
Inventories	7	623	634	–	–
Receivables	8	23,884	17,147	28,392	12,681
Other Current Assets	9	72	311	–	–
Total Current Assets		**26,388**	**21,640**	**28,392**	**12,681**
Non-Current Assets					
Other Financial Assets	10	–	–	95,372	194,969
Property, Plant and Equipment	11	754,408	755,202	–	–
Intangibles	12	586,195	593,324	–	–
Investments	13	–	–	100,000	100,000
Deferred Tax Assets	14	4,741	17,092	4,741	324
Non-Current Receivables	15	–	–	9,629	–
Total Non-Current Assets		**1,345,344**	**1,365,618**	**209,742**	**295,293**
Total Assets		**1,371,732**	**1,387,258**	**238,134**	**307,974**
Current Liabilities					
Payables	16	37,985	40,813	15,701	21,865
Tax Liabilities	17	13,423	–	13,423	–
Provisions	18	4,099	4,020	–	–
Total Current Liabilities		**55,507**	**44,833**	**29,124**	**21,865**
Non-Current Liabilities					
Interest-bearing Liabilities	19	1,217,125	1,288,395	68,235	178,235
Non-Interest-bearing Liabilities	20	1,696	1,820	–	–
Deferred Tax Liabilities	21	14,148	12,901	14,148	–
Provisions	22	390	220	–	–
Other Liabilities	23	6,015	3,152	–	–
Total Non-Current Liabilities		**1,239,374**	**1,306,488**	**82,383**	**178,235**
Total Liabilities		**1,294,881**	**1,351,321**	**111,507**	**200,100**
Net Assets		**76,851**	**35,937**	**126,627**	**107,874**
Equity					
Contributed Equity	25	118,100	118,100	118,100	118,100
Retained Profits / (Accumulated Losses)	26	(41,249)	(82,163)	8,527	(10,226)
Total Equity		**76,851**	**35,937**	**126,627**	**107,874**

Notes to the financial statements are included on pages 37 to 56.

Statement of Cash Flows for the Financial Year Ended 30 June 2004

	Note	Consolidated Inflows (Outflows) 2004 $'000	Consolidated Inflows (Outflows) 2003 $'000	Company Inflows (Outflows) 2004 $'000	Company Inflows (Outflows) 2003 $'000
Cash Flows from Operating Activities					
Receipts from customers		307,084	260,032	–	–
Receipts from related parties		–	–	37,151	41,162
Payments to suppliers and employees		(80,509)	(69,773)	(9,701)	(7,120)
Goods and Services tax remitted		(19,051)	(13,560)	–	–
Interest and bill discounts received		194	73	–	–
Interest and other costs of finance paid		(98,097)	(98,355)	(17,047)	(25,937)
Net cash provided by operating activities	32	**109,621**	**78,417**	**10,403**	**8,105**
Cash Flows from Investing Activities					
Payment for property, plant and equipment		(38,898)	(42,452)	–	–
Proceeds from sale of property, plant and equipment		291	257	–	–
Net cash used in investing activities		**(38,607)**	**(42,195)**	–	–
Cash Flows from Financing Activities					
Payment for debt issue costs		(1,359)	(17)	–	–
Loans repaid by related parties		–	–	99,597	46,895
Proceeds from borrowings		352,880	167,362	-	-
Repayment of borrowings		(424,274)	(201,155)	(110,000)	(55,000)
Net cash provided by/(used in) financing activities		**(72,753)**	**(33,810)**	**(10,403)**	**(8,105)**
Net Increase/(Decrease) In Cash Held		**(1,739)**	**2,412**	**–**	**–**
Cash Assets at the Beginning of the Financial Year		**3,548**	**1,136**	**–**	**–**
Cash Assets at the End of the Financial Year	32	**1,809**	**3,548**	**–**	**–**

Notes to the financial statements are included on pages 37 to 56.

Notes to the Financial Statements for the Financial Year Ended 30 June 2004

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 29 to the financial statements. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

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

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

(b) Inventories
Inventories are valued at the lower of cost and net realizable value.

(c) Receivables
Trade receivables are recorded at amounts due less any allowance 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 3–15 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 tangibleassets 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.

(j) Investments
Investments in controlled entities are recorded at cost.

1. Summary of Accounting Policies (cont'd)

(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 and forward interest rate contracts. Further details of derivative financial instruments are disclosed in Note 33 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.

During the financial year, the directors of the APAC elected that all wholly-owned Australian entitieswould 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.

Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement. Further information about the tax sharing agreement is detailed in Note 4 to the financial statements.

1. Summary of Accounting Policies (cont'd)

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

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

APAC and its subsidiaries has established a project team to manage the transition to Australian equivalents to IFRS, including training of staff along with system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the Board. The project team has prepared a detailed timetable for managing the transition and is currently on schedule. To date the project team has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

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

(i) Financial instruments

Under the Australian equivalent to IAS 39 Financial Instruments: Recognition and Measurement there may be major impacts as a result of:

– Interest rate derivatives will be recorded on balance sheet at fair value, thereby increasing other assets or liabilities, depending upon the contract positions' market values.

– Changes in fair value of derivatives will be recorded to the income statement unless strict cash flow hedge accounting criteria are met (including rigorous designation and effectiveness requirements), in which case changes in fair value will be recorded directly to equity.

– If hedge accounting criteria are met, there will likely be volatility in the equity account; if hedge accounting is not obtained, there will be potentially significant income statement volatility.

(ii) Income tax

Under the Australian equivalent to IAS 12 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

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

It is expected that deferred tax liabilities will increase with a corresponding decrease to retained earnings. The deferred tax liabilities will be recorded to income over the life of the related balances.

(iii) Impairment

Under the Australian equivalent to IAS 36 Impairment of Assets, recoverable amount should be estimated for an individual asset, if not, for the cash-generating unit to which the asset belongs. Specific requirements under IAS 36 in relation to which growth rates, discount rates and assumptions should be used in the calculation of value in use might potentially indicate that certain assumptions used in the current financial models need to be revised.

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

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as some decisions have not yet been made where choices of accounting policies are available. For this reason it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
2. Profit from Ordinary Activities					
Profit from ordinary activities before income tax includes the following items of revenue and expense:					
(a) Operating Revenue					
Aeronautical Revenue		111,875	91,370	–	–
Retail Revenue		106,483	89,804	–	–
Property Revenue		40,381	37,199	–	–
Outgoings, Security and Other Income		27,084	24,723	–	–
Interest Revenue					
– Wholly-owned controlled entities		–	–	16,363	25,131
– Other Entities		194	73	–	–
Dividend Income		–	–	18,823	1,221
Total Operating Revenue		**286,017**	**243,169**	**35,186**	**26,352**
(b) Non-Operating Revenue					
Management fees – Wholly-owned controlled entities		–	–	17,014	12,708
Proceeds from sale of non-current assets – Property, Plant and Equipment		291	257	–	–
Total Revenue		**286,308**	**243,426**	**52,200**	**39,060**
(c) Expenses					
Net bad and doubtful debts arising from other entities		195	67	–	–
Borrowing costs:					
Interest					
– Secured Debt – other entities		71,637	69,138	–	–
– Unsecured Debt – other entities		168	99	–	–
– Interest capitalised during the year	24	(503)	(499)	–	–
– Amortisation of deferred borrowing costs	12	2,208	2,052	–	–
		73,510	**70,790**	**–**	**–**
– Shareholder Debt		17,047	25,940	17,047	25,937
Total Borrowing Costs		**90,557**	**96,730**	**17,047**	**25,937**
Depreciation of property, plant and equipment	11	38,770	33,669	–	–
Amortisation of lease premium	12	6,280	6,262	–	–
		45,050	**39,931**	**–**	**–**
Operating lease rental expenses		18	18	–	–
Net transfer to provision for employee entitlements		249	88	–	–

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
3. Disposals 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	116	142	–	–
(b) Net Losses				
Property, Plant and Equipment	(203)	(2)	–	–
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 from ordinary activities	**67,988**	**32,528**	**18,724**	**500**
Income tax (expense) calculated at 30% of operating profit	(20,396)	(9,758)	(5,617)	(150)
Permanent Differences:				
Non allowable depreciation	(3,556)	(1,585)	–	–
Amortisation of intangible assets	(1,884)	(1,878)	–	–
Non deductible expenses	(60)	(55)	(1)	–
Non assessable dividend income	–	–	5,647	366
(Under)/Over Provision of income tax in previous year	(1,178)	73	–	–
Impact of the Tax Consolidation System:				
Initial recognition of deferred tax balances of subsidiaries on implementation of the tax consolidation system	–	–	3,867	–
Consideration paid or payable to subsidiaries in respect of transferred deferred tax balances	–	–	(3,867)	–
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiaries in the tax consolidated group	–	–	(27,103)	–
Net income benefit arising under tax sharing agreements with subsidiaries in the tax consolidated group	–	–	27,103	–
Income tax (expense)/benefit attributable to operating profit	**(27,074)**	**(13,203)**	**29**	**216**

4. Income Tax (cont'd)

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.

Entities within the tax consolidated group have entered into a tax sharing agreement with the head entity. Under the terms of this agreement, Australia Pacific Airports Corporation Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the net profit or loss of the entity and the current tax rate. The amount currently payable or receivable is reflected as a currently receivable or payable to other entities in the tax consolidated group, with the net provision for income tax timing shown as a non-current intercompany receivable or payable as the case may be.

	Consolidated		Company	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**

5. Directors' Remuneration

The directors of APAC during the year were:

– Mr D. Mercer	– Mr M. Toms
– Mr J. Ritch	– Mr A. Hyams
– Ms F. Gates	– Ms E. Bryan
– Mr V. Murphy	– Mr R. McGeoch
– Mr C. Barlow	– Mr D. Latham
– Mr A. Jurenko	– Mr L. Hall
– Mr M. King	– Mr D. Shields*
– Mr P. Garling	– Mr M. Fitzpatrick*

* In their capacity as Alternate

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
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.			809,000	896,000
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.	809,000	896,000		
The number of directors of the entity whose total income falls within each successive $10,000 band of income.			No.	No.
$0 – $ 9,999			13	14
$ 30,000 – $ 39,999			1	–
$ 40,000 – $ 49,999			–	1
$ 80,000 – $ 89,999			1	1
$680,000 – $689,999			1	–
$760,000 – $769,999			–	1

	Consolidated		Company	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
6. Remuneration of Auditors				
Auditor of the parent entity				
Auditing the financial report	132,000	133,650	1,500	1,500
Other services	153,919	112,526	–	–
	285,919	**246,176**	**1,500**	**1,500**

	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
7. Current Inventories				
Materials and Stores (at cost)	**623**	**634**	**–**	**–**
8. Current Receivables				
Trade receivables	23,813	17,352	–	–
Allowance for doubtful debts	(216)	(240)	–	–
	23,597	**17,112**	**–**	**–**
Non-trade receivables from: – Other related parties	287	35	–	–
– Wholly-owned controlled entities - Operating	–	–	14,837	11,460
– Wholly-owned controlled entities - Tax	–	–	13,555	–
Dividend Receivable	–	–	–	1,221
	23,884	**17,147**	**28,392**	**12,681**
9. Other Current Assets				
Prepayments	**72**	**311**	**–**	**–**
10. Other Non-Current Financial Assets				
Non-trade receivables from: – Wholly-owned controlled entities	**–**	**–**	**95,372**	**194,969**

	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 – at Cost						
Balance at 30 June 2003	113,560	248,923	402,023	134,854	19,586	918,946
Additions	–	–	–	–	38,353	38,353
Disposals	–	(25)	–	(1,472)	–	(1,497)
Transfers to/(from) assets under construction	–	3,336	22,177	5,202	(30,715)	–
Balance at 30 June 2004	**113,560**	**252,234**	**424,200**	**138,584**	**27,224**	**955,802**
Accumulated Depreciation/ Amortisation						
Balance at 30 June 2003	4,962	51,460	47,506	59,816	–	163,744
Depreciation Expense	906	16,174	9,753	11,937	–	38,770
Disposals	–	(4)	–	(1,116)	–	(1,120)
Balance at 30 June 2004	**5,868**	**67,630**	**57,259**	**70,637**	**–**	**201,394**
Net Book Value						
As at 30 June 2003	108,598	197,463	354,517	75,038	19,586	755,202
As at 30 June 2004	**107,692**	**184,604**	**366,941**	**67,947**	**27,224**	**754,408**

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		Company	
		2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'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		906	905	–	–
– Buildings *		16,174	10,276	–	–
– Roads, Runways and other Infrastructure		9,753	9,137	–	–
– Plant and Equipment		11,937	13,351	–	–
	2	**38,770**	**33,669**	**–**	**–**

* Change in Accounting Estimates. During the year a review of the expected useful life of buildings, plant and equipment was undertaken and as a result of that review a number of assets lives were adjusted. This resulted in a one off increase in building depreciation in the current year of $4,561,000 and a reduction in current year and future year plant and equipment depreciation of $525,000.

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
12. Intangibles					
Lease Premium		618,103	618,103	–	–
Accumulated Amortisation		(42,060)	(35,780)	–	–
		576,043	**582,323**	**–**	**–**
Deferred Borrowing Costs		16,621	15,262	–	–
Accumulated Amortisation		(6,469)	(4,261)	–	–
		10,152	**11,001**	**–**	**–**
Total		**586,195**	**593,324**	**–**	**–**
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	6,280	6,262	–	–
– Deferred borrowing costs	2	2,208	2,052	–	–

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
13. Non-Current Investments					
At Cost Shares in controlled entities (i)	29	**–**	**–**	**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		149	14,235	149	295
– Timing differences		4,592	2,857	4,592	29
		4,741	**17,092**	**4,741**	**324**
15. Non-Current Receivables					
Tax receivables from subsidiaries		**–**	**–**	**9,629**	**–**
Represents tax assets and tax liabilities of the group transferred to head entity as part of new tax consolidation regime and tax sharing agreements entered into by the group					
16. Current Payables					
Trade payables		15,916	14,165	–	–
Goods and services tax payable		1,168	1,074	–	–
Non-trade payables to:					
– Other related parties		14,605	10,033	14,605	10,033
		31,689	**25,272**	**14,605**	**10,033**
Interest Payable to:					
– Senior – other entities (i)		5,029	3,608	–	–
– Other		171	101	–	–
– Shareholder Loans		1,096	11,832	1,096	11,832
		6,296	**15,541**	**1,096**	**11,832**
		37,985	**40,813**	**15,701**	**21,865**
(i) Secured by a fixed and floating charge over the consolidated entity's assets.					
17. Current Tax Liabilities					
Income Tax Payable		**13,423**	**–**	**13,423**	**–**
18. Current Provisions					
Employee entitlements	28	**4,099**	**4,020**	**–**	**–**

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
19. Non-Current Interest Bearing Liabilities					
Secured:					
Non-trade payables to:					
– Senior – bank debt (i)		216,400	409,800	–	–
– Bonds: (i)					
Tranche 1 ($300m fixed 6.75% to 15 June 2008)		300,000	300,000	–	–
Tranche 2 ($150m variable to 11 June 2008)		150,000	150,000	–	–
Tranche 3 ($250m variable to 11 June 2011)		250,000	250,000	–	–
– US Private Placement (i) Tranche 1 ($232m fixed 6.65% to 13 May 2011)		232,280	–	–	–
Unsecured:					
– Other entities		210	360	–	–
		1,148,890	**1,110,160**	**–**	**–**
Shareholder loans		68,235	178,235	68,235	178,235
Total Borrowings		**1,217,125**	**1,288,395**	**68,235**	**178,235**
(i) Secured by a fixed and floating charge over the consolidated entity's assets.					
20. Non-Interest-Bearing Liabilities					
Non-trade payables		**1,696**	**1,820**	**–**	**–**
21. Deferred Tax Liabilities					
Deferred tax liabilities		**14,148**	**12,901**	**14,148**	**–**
22. Non-Current Provisions					
Employee entitlements	28	**390**	**220**	**–**	**–**
23. Non-Current Other Liabilities					
Unearned Revenue		**6,015**	**3,152**	**–**	**–**
24. Capitalised Borrowing Costs					
Borrowing costs capitalised during the financial year	2	**503**	**499**	**–**	**–**
Weighted average capitalisation rate on funds borrowed generally		6.8%	6.0%	–	–
25. Contributed Equity					
118,100,000 Ordinary shares – fully paid (2003: 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					
26. Retained Profit/(Accumulated Losses)					
Balance at beginning of financial year		(82,163)	(101,488)	(10,226)	(10,942)
Net Profit		40,914	19,325	18,753	716
Balance at end of financial year		**(41,249)**	**(82,163)**	**8,527**	**(10,226)**

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
27. Commitments For Expenditure					
(a) Capital Expenditure Commitments					
Property, Plant and Equipment					
Not longer than 1 year		37,701	14,897	–	–
(b) Lease Commitments					
Non-cancellable operating lease commitments are disclosed in Note 35 to the financial statements.					
28. Employee Entitlements					
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:					
Provision for employee entitlements					
Current	18	4,099	4,020	–	–
Non-Current	22	390	220	–	–
		4,489	**4,240**	**–**	**–**
		No.	No.		
Number of employees at end of financial year		**188**	**179**	**–**	**–**

29. Controlled Entities

Name of Entity		Country of Incorporation	Ownership Interest 2004 %	Ownership Interest 2003 %
Parent Entity				
Australia Pacific Airports Corporation Limited		Australia		
Controlled Entities				
Australia Pacific Airports (Melbourne) Pty. Limited		Australia	100	100
Australia Pacific Airports (Property) Pty. Limited	(i) (ii)	Australia	100	100
APAC (Holdings) Pty. Limited	(i)	Australia	100	100
Australia Pacific Airports (Launceston) Pty. Limited	(i)	Australia	100	100

(i) These controlled entities are classified as small proprietary companies and in accordance with the Corporations Act 2001 are relieved from the requirement to prepare, audit and lodge financial statements.

(ii) This controlled entity was dormant during the financial year.

30. 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.

31. Related Party Disclosures

(a) Equity Interests in Related Parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 29 to the financial statements.

(b) Directors' Remuneration

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

(c) 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.

(d) 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 and 16 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 $1,274,000 (2003: $1,480,000).

During the financial year, APAC incurred fees to BAA plc and its subsidiaries based on operating results of its subsidiaries totalling $15,016,000 (2003: $11,007,000).

(e) 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.

(f) Tax Sharing

In accordance with Tax Sharing arrangements (refer to Note 4) tax payments have been received or accrued to reflect the subsidiaries' share of the tax expense of the consolidated group.

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
32. 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	**1,809**	**3,548**	**–**	**–**
(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	6,000	10,000	–	–
– Amount unused	4,000	–	–	–
Secured loan facilities with various maturity dates through to June 2006 and which may be extended by mutual agreement:				
– Amount used	210,400	399,800	–	–
– Amount unused	216,300	96,900	–	–
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	–	–
US Private Placement – Due 15 May 2011 Fixed	232,280	–	–	–

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
32. Notes to the Statement of Cash Flows (cont'd)				
(c) Reconciliation of profit from ordinary activities after related income tax to Cash Flows from Operating Activities				
Profit from Ordinary Activities after Income Tax Expense	40,914	19,325	18,753	716
Net (Profit)/Loss on Sale of Non-Current Assets	86	(140)	–	–
Depreciation and Amortisation of Property, Plant and Equipment and Lease Premium	45,050	39,931	–	–
Amortisation of Deferred Borrowing Costs	2,208	2,052	–	–
Capitalised interest during the year	(503)	(499)	–	–
(Increase)/Decrease in Assets:				
Current Receivables	(6,737)	(5,237)	(15,711)	2,102
Current Inventories	11	69	–	–
Other Current Assets	239	(193)	–	–
Deferred Tax Assets	12,351	9,163	(4,417)	(271)
Non Current Receivables	–	–	(9,629)	–
Increase/(Decrease) in Liabilities:				
Current Trade Payables	7,465	9,846	4,572	8,946
Interest Payable	(9,245)	(3,178)	(10,736)	(3,388)
Tax Payable	13,423	–	13,423	–
Current Provisions	79	133	–	–
Deferred Tax Liabilities	1,247	4,038	14,148	–
Non Current Liabilities – Other	2,863	3,152	–	–
Non Current Provisions	170	(45)	–	–
Net cash provided by operating activities	**109,621**	**78,417**	**10,403**	**8,105**

33. 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.

	Average Interest Rate		Notional Principal Amount	
Outstanding Contracts	**2004 %**	**2003 %**	**2004 $'000**	**2003 $'000**
Less than 1 year	6.2	–	7,500	–
1 to 3 years	5.8	5.8	460,000	707,500
More than 3 years	5.8	5.8	400,000	410,000
			867,500	**1,117,500**

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 and forward interest rate contracts to mitigate the risk of rising interest rates.

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

33. 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 2004.

			Fixed Interest Rate Maturity				
2004	**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	–	–	–	–	–	1,809	1,809
Current Receivables	–	–	–	–	–	23,884	23,884
		–	–	–	–	**25,693**	**25,693**
Financial Liabilities							
Current Payables	–	–	–	–	–	(37,985)	(37,985)
Tax Payable	–	–	–	–	–	(13,423)	(13,423)
Bank Loans	5.5	(216,400)	–	–	–	–	(216,400)
Other Loans	12.0	–	–	–	(210)	–	(210)
Non-trade payables	–	–	–	–	–	(1,696)	(1,696)
Bonds:							
– Tranche 1 (fixed)	6.8	–	–	–	(300,000)	–	(300,000)
– Tranche 2 (floating)	6.0	(150,000)	–	–	–	–	(150,000)
– Tranche 3 (floating)	6.0	(250,000)	–	–	–	–	(250,000)
US Private Placement	6.5	–	–	–	(232,280)	–	(232,280)
Shareholder Loans	12.0	–	–	–	(68,235)	–	(68,235)
Employee Entitlements	–	–	–	–	–	(4,489)	(4,489)
Derivatives							
Interest Rate Derivatives	5.5	617,500	–	–	–	–	617,500
Interest Rate Derivatives Floating	5.8	–	(7,500)	(50,000)	(560,000)	–	(617,500)
		1,100	**(7,500)**	**(50,000)**	**(1,160,725)**	**(57,593)**	**(1,274,718)**

33. 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.

2003	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate Maturity 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	–	–	–	–	–	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)
Non-trade payables	–	–	–	–	–	(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)**

33. 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.

Financial Assets	Maximum Credit Risk 2004 $'000	2003 $'000
Unrecognised Financial Assets		
Favourable Interest Rate Derivatives	2,217	–

(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 Inflow/(outflow)	Carrying Amount $'000 2004	2003	Net Fair Value $'000 2004	2003
Borrowings – Other Entities	(468)	(618)	(2,330)	(1,819)
Shareholder Loans	(68,235)	(178,235)	(71,256)	(201,905)
Interest Rate Derivatives	–	–	2,217	(18,752)
Fixed Debt	(532,280)	(300,000)	(535,724)	(319,145)

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.

	Consolidated		Company	
	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
34. Dividends				
No dividends were paid or proposed in the period.	–	–	–	–
Franking Account	13,423	–	13,423	–
35. 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	7	14	–	–
Longer than 1 year and not longer than 5 years	–	7	–	–
	7	**21**	**–**	**–**

36. Additional Company Information

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

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