APAC FINANCIAL REPORT 2014/2015

Australia Pacific Airports

About APAC ›

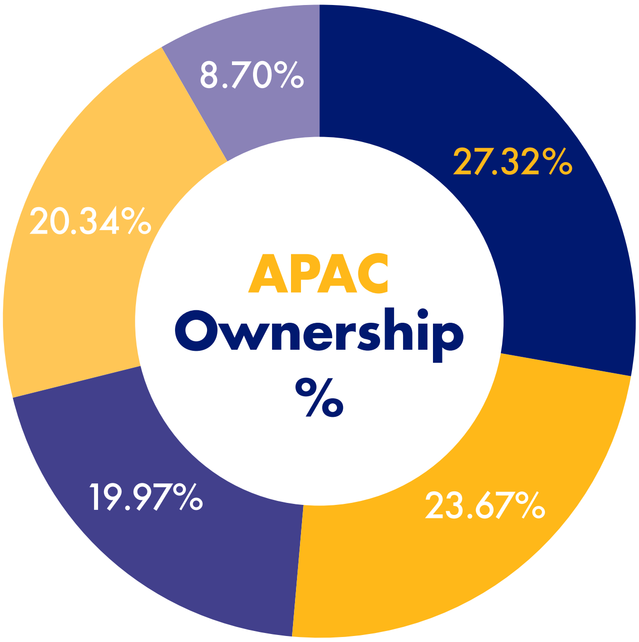
Australia Pacific Airports Corporation Limited (APAC) operates two key Australian aviation assets, Melbourne Airport and Launceston Airport. APAC acquired the lease for Melbourne Airport in July 1997. The Launceston Airport lease was acquired in partnership with Launceston City Council in May 1998.

Each airport is operated under a 50 year long-term lease from the Federal Government, with an option for a further 49 years. APAC has demonstrated consistent growth since its inception in 1997. Strong management and diverse revenue streams continue to enable APAC to capitalise on opportunities to deliver aviation excellence.

Ownership

APAC is a privately held corporation owned by institutional investors, predominantly superannuation/pension funds, managed or represented by the following entities:

- › AMP 27.32%
- › IFM Investors 23.67%
- › Deutsche Australia Ltd 19.97%
- › Future Fund 20.34%
- › Hastings Funds Management 8.70%

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Total revenue:

$773 million 8%

Operating profit:

$570 million

Net profit:

$255 million

Capital expenditure:

$812 million

Total Melbourne passengers:

32.2 million

Melbourne domestic passengers:

23.8 million

Melbourne international passengers:

8.4 million

Melbourne international seat capacity:

5%

Melbourne's air freight exports reached 36% of Australia's market share

17%

Launceston passengers:

1.27 million

Financial Results Summary 2014/2015

for the financial year ended 30 June 2015

Financial results - APAC												
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**%change** from 2014 to 2015
Aeronautical	144	149	162	192	202	218	237	248	285	315	345	**10%**
Retail	123	138	158	187	196	218	239	248	257	273	301	**10%**
Property	54	59	62	69	77	80	83	91	104	115	122	**6%**
Interest & other	2	2	2	1	1	2	2	2	2	10	4	**(60%)**
Total revenue	**323**	**348**	**384**	**449**	**476**	**518**	**561**	**589**	**649**	**713**	**773**	**8%**
Operating expenses	93	102	114	115	124	131	138	152	172	180	203	**13%**
Operating profit	**230**	**246**	**270**	**334**	**352**	**387**	**423**	**437**	**477**	**533**	**570**	**7%**
Investment property gains	0	91	77	22	(33)	11	59	17	44	(27)	61	**(326%)**
Profit before borrowing costs, depreciation and amortisation	**230**	**337**	**347**	**356**	**319**	**398**	**432**	**454**	**521**	**506**	**632**	**25%**
Depreciation and amortisation	38	34	37	39	46	53	65	75	84	90	107	**19%**
Borrowing cost	80	80	84	90	96	115	126	136	141	155	161	**4%**
Profit / (loss) before tax	**112**	**223**	**226**	**227**	**177**	**230**	**291**	**243**	**295**	**261**	**364**	**39%**
Tax expense / (benefit)	33	67	68	68	53	69	88	73	89	78	109	**40%**
Net profit / (loss)	**79**	**156**	**158**	**159**	**124**	**161**	**203**	**170**	**207**	**182**	**255**	**40%**
Capital expenditure - property, plant and equipment + investment property												
Melbourne	108	77	89	128	201	156	147	205	249	416	795	**91%**
Launceston	1	1	1	4	16	5	4	4	5	4	17	**325%**
Total	**108**	**78**	**90**	**132**	**217**	**161**	**151**	**209**	**254**	**420**	**812**	**93%**

* *figures are rounded to nearest million unless noted otherwise*
* *rounded figures are based on actual figures*

Financial results - APAC
Total revenue 2014/2015:

$773 million 8%

Capital expenditure 2015:

$812 million

Operating profit 2015:

7%

Financial Results Summary 2014/2015
(cont'd)

for the financial year ended 30 June 2015

Passenger volumes - Melbourne Airport	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	%change from 2014 to 2015
International	4	4	5	5	5	6	6	7	7	8	8	**8%**
Domestic	16	17	18	19	20	21	22	21	23	23	24	**2%**
Total (excluding transit passengers)	**21**	**21**	**22**	**24**	**25**	**26**	**28**	**28**	**30**	**31**	**32**	**5%**
Transit passengers	0	0	0	0	0	0	0	0	0	0	0	**0%**
Total (including transit passengers)	**21**	**21**	**23**	**24**	**25**	**26**	**28**	**28**	**30**	**31**	**32**	**3%**

Passenger volumes - Launceston Airport												
Domestic	0.82	0.92	0.99	1.10	1.11	1.12	1.15	1.13	1.22	1.28	1.27	**(1%)**

Aircraft movements (thousands) - Melbourne Airport												
International	28	25	24	25	27	30	33	35	36	39	42	**5%**
Domestic	151	153	155	167	166	165	172	171	181	185	188	**2%**
General aviation	1	1	1	2	1	1	1	1	1	1	1	**40%**
Total	**181**	**179**	**180**	**194**	**194**	**196**	**206**	**207**	**218**	**225**	**231**	**2%**

Aircraft movements (thousands) - Launceston Airport												
Domestic	9	10	10	11	11	11	11	11	12	13	11	**(15%)**
General aviation	6	6	5	6	6	7	7	6	6	5	6	**9%**
Total	**15**	**15**	**15**	**17**	**17**	**17**	**18**	**17**	**18**	**18**	**16**	**(6%)**

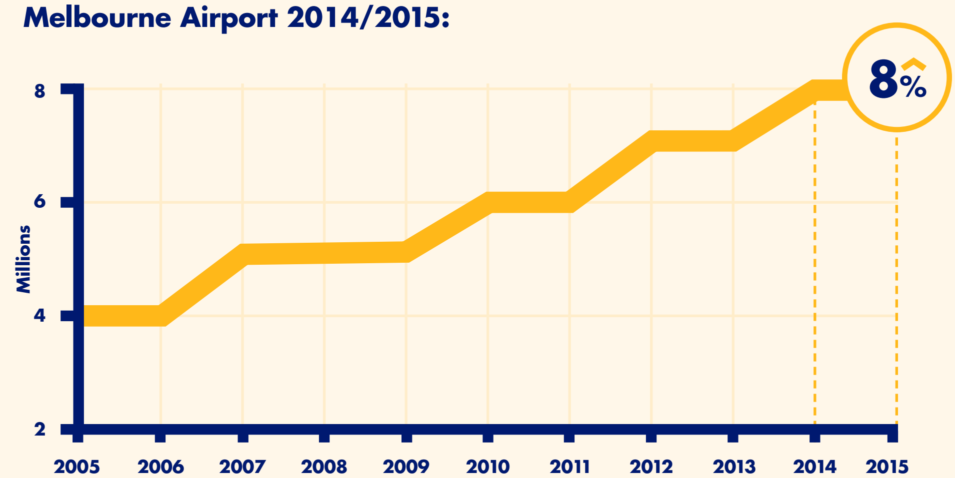
* *figures are rounded to nearest million unless noted otherwise*
* *rounded figures are based on actual figures*

Total passengers
Melbourne Airport 2014/2015:

32

million

International passengers
Melbourne Airport 2014/2015:



Statement of Profit and Loss

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
Operating revenue		
Aeronautical revenue	344,902	314,608
Retail revenue	301,461	273,145
Property revenue	122,312	114,771
Interest and other revenue	4,466	9,953
Total operating revenue	**773,141**	**712,477**
Non-operating revenue	26	107
Revenue from ordinary activities	**773,167**	**712,584**
Less: operating costs		
Staff costs	45,983	40,415
Service and utilities costs	108,745	101,090
Maintenance costs	22,660	19,379
Administration, marketing and other costs	25,473	18,824
Operating profit	**570,306**	**532,876**
Add / (less):		
Change in fair value of investment property	61,427	(27,077)
Profit before borrowing costs, depreciation and amortisation	**631,733**	**505,799**
Less:		
Depreciation and amortisation	106,654	90,275
Borrowing costs	160,792	154,880
Profit before income tax expense	**364,287**	**260,644**
Less:		
Income tax expense	109,094	78,448
Profit for the year	**255,193**	**182,196**
Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of cash flow hedges, net of income tax	(7,394)	(64,259)
Total comprehensive income for the year	**247,799**	**117,937**
Profit for the year attributable to the owners of the Company	255,193	182,196
Total comprehensive income attributable to the owners of the Company	247,799	117,937

Statement of Financial Position

as at 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
Current assets		
Cash at bank	2,594	72,334
Inventories	156	151
Receivables	68,591	57,865
Current tax receivable	3,663	-
Other current assets	3,616	3,246
Accrued revenue	7,569	7,018
Total current assets	**86,189**	**140,614**
Non-current assets		
Property, plant and equipment	2,551,360	1,904,936
Investment property	1,222,434	1,076,388
Intangible assets	673,251	673,711
Financial assets	220,719	67,702
Other assets	269	167
Accrued revenue	39,014	31,505
Total non-current assets	**4,707,047**	**3,754,409**
Total assets	**4,793,236**	**3,895,024**
Current liabilities		
Borrowings	299,775	99,300
Payables	137,457	128,055
Current tax liabilities	-	9,421
Employee benefit provisions	5,964	5,445
Financial liabilities	5,651	1,325
Total current liabilities	**448,847**	**243,546**
Non-current liabilities		
Borrowings	2,999,300	2,424,715
Payables	1,202	1,202
Deferred tax liabilities	430,714	387,690
Employee benefit provisions	1,518	1,815
Financial liabilities	60,848	47,344
Unearned income	4,045	4,332
Total non-current liabilities	**3,497,627**	**2,867,098**
Total liabilities	**3,946,474**	**3,110,644**
Net assets	**846,762**	**784,380**
Equity		
Issued capital	118,100	118,100
Reserves	(62,733)	(55,339)
Retained earnings	791,395	721,619
Total equity	**846,762**	**784,380**

Statement of Cash Flows

as at 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
Cash flows from operating activities		
Receipts from customers	828,297	758,861
Payments to suppliers and employees	(266,048)	(246,161)
Income tax paid	(75,986)	(74,871)
Interest received	2,608	6,485
Interest paid	(175,603)	(164,742)
Net cash provided by operating activities	**313,268**	**279,572**
Cash flows from investing activities		
Payment for property, plant and equipment	(694,346)	(402,493)
Proceeds from sale of property, plant and equipment	24	142
Payment for investment property	(117,220)	(17,548)
Payment for intangible assets	-	(701)
Net cash used in investing activities	**(811,542)**	**(420,600)**
Cash Flows from financing activities		
Proceeds from borrowings	723,550	785,729
Repayment of borrowings	(100,000)	(390,000)
Payment for debt issue costs	(9,559)	(17,091)
Dividend paid	(185,417)	(167,702)
Net cash provided by / (used in) financing activities	**428,534**	**210,936**
Net (decrease) / increase in cash held	**(69,740)**	**69,908**
Cash at the beginning of the financial year	**72,334**	**2,426**
Cash at the end of the financial year	**2,594**	**72,334**

Summary of Key Notes to Financial Information

for the Financial Year Ended 30 June 2015

1. Summary of key accounting policies

Basis of preparation

The financial report has been prepared on the basis of historical cost, except investment property and derivative financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. Unless otherwise indicated all amounts are presented in Australian dollars.

Going concern

As at 30 June 2015, the Consolidated Entity has a deficiency in net current assets of $362,658,000 (2014: $102,932,000). Despite the deficiency in net current assets as at 30 June 2015, the Directors are of the view that the Consolidated Entity is a going concern due to the long history of profitability, unused finance facilities of $822,580,000 (2014: $1,139,200,000), forecast positive cash flows and the strong net asset position.

As at 30 June 2015, the Company has net current assets of $20,203,000 (2014: $20,180,000).

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (listed in note 23) as at 30 June 2015 and the results of all subsidiaries for the year then ended. The accounting policies of the subsidiaries are consistent with the Consolidated Entity's accounting policies.

Subsidiaries are all entities over which the Company has power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect the amount of the investee's returns.

Consolidation of a subsidiary begins from the date on which the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Profit or loss and comprehensive income are attributable to the owners of the Company as there are no non-controlling interests in the Consolidated Entity.

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

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Assets acquired are recorded at the cost of acquisition being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition, or at current book value if transferred from Investment Property.

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

- Buildings 10–40 years
- Roads, runways and other infrastructure 13–80 years
- Plant and equipment 3–15 years

Land leased as part of the airport acquisition has been valued at acquisition at fair value. Leased land is amortised on a straight line basis over the lease term of 99 years.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

(c) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle that carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in that income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken to account in the determination of goodwill or excess.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Australia Pacific Airports Corporation Ltd ("APAC") is the head entity in the tax-consolidated group. Tax expense/recovery, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by APAC (as head entity in the tax consolidated group).

(d) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Consolidated Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 Impairment of assets.

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

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

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

(e) Impairment of assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cashflows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Investment property

Property held to earn rentals and/or for capital appreciation, is presented in the balance sheet as investment property. Investment property is initially recorded at cost, including transaction costs. Subsequent to initial recognition, investment property is recorded at fair value as determined at year end reporting date by external valuers. Gains or losses arising from a change in the fair value of this investment property are recognised in the profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(g) Critical accounting judgments and key sources of estimation uncertainty

In the preparation of the financial statements, the Directors are required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported carrying values of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Fair value of investment property

The fair value of the investment property has been arrived at on the basis of a valuations carried out by an independent valuer. The value of investment property is measured on a fair value basis utilising the discounted cash flow approach, capitalisation approach and depreciated replacement cost where applicable, to represent the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on comparable market evidence relevant to each specific property or class of properties. These calculations require the use of assumptions, including discount rates, terminal yield and industrial and retail rental growth rates.

Impairment of goodwill

Determining whether goodwill is impaired requires an annual estimation of the value in use (or fair value less costs to dispose) of the cash generating units to which goodwill has been allocated. Fair Value less cost to sell calculation is used by the Company and requires the directors to estimate the future cash flows expected to arise from the cash generating unit and application of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating units, in order to calculate present value. These calculations require the use of assumptions and the application of sensitivity analysis where appropriate (see note 6).

Where the present value of future cash flows of a cash generating unit are less than the carrying amount of those assets, an impairment loss may arise.

The carrying amount of goodwill at 30 June 2015 was $671,866,000 (2014: $671,866,000). There was no impairment loss.

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

(g) Critical accounting judgments and key sources of estimation uncertainty (cont'd)

Useful lives of property, plant and equipment

The Consolidated Entity reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

Provisions

Provisions are recognised when the Consolidated Entity has a present obligation as a result of a past event, it is probable that the Consolidated Entity will be required to settle the obligation, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is calculated using a discounted cash flow approach and using inputs based on observable market data. Where material, the credit risk associated with the derivatives is reflected in its calculation methodology. Judgement is used to determine whether the credit risk associated with the derivatives has changed materially over time based on market transactions and prices and, where this is the case, the credit factor is adjusted in the valuation calculation.

	Consolidated	
	2015 $'000	**2014 $'000**
2. Income tax recognised in profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit from operations	**364,287**	**260,644**
Income tax expense calculated at 30%	109,286	78,193
Permanent differences:		
Non-deductible expenses	568	193
Non-deductible depreciation	62	62
Derecogniton of deferred tax liabilities	(822)	-
Income tax expense	**109,094**	**78,448**
3. Current receivables		
Trade receivables	**68,591**	**57,865**

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated					
	Leasehold land	Buildings	Roads, runways and other infrastructure	Plant and equipment	Assets under construction	Total
	$'000	$'000	$'000	$'000	$'000	$'000
4. Property, plant and equipment						
Gross carrying amount – at cost						
Balance at 30 June 2014	**84,483**	**692,345**	**904,759**	**421,912**	**481,263**	**2,584,762**
Additions	-	-	-	-	716,378	**716,378**
Disposals	-	-	-	(185)	-	**(185)**
Transfers (to) / from Investment Property	36,240	-	-	-	-	**36,240**
Transfers to / (from) assets under construction	-	138,627	309,833	96,450	(544,910)	**-**
Balance at 30 June 2015	**120,723**	**830,972**	**1,214,592**	**518,177**	**652,731**	**3,337,195**
Accumulated depreciation/ amortisation						
Balance at 30 June 2014	**10,886**	**203,297**	**240,512**	**225,131**	**-**	**679,826**
Depreciation and amortisation expense	840	29,275	36,720	39,359	-	**106,194**
Disposals	-	-	-	(185)	-	**(185)**
Transfers to Investment Property	-	-	-	-	-	**-**
Balance at 30 June 2015	**11,726**	**232,572**	**277,232**	**264,305**	**-**	**785,835**
Net book value as at 30 June 2015	**108,997**	**598,400**	**937,360**	**253,872**	**652,731**	**2,551,360**

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
5. Investment properties		
Balance at beginning of financial year	1,076,388	1,085,917
Additions for the year	120,859	17,548
Transfers (to) / from property, plant and equipment	(36,240)	-
Net gain/(loss) from fair value adjustments	61,427	(27,077)
Balance at end of financial year	**1,222,434**	**1,076,388**

The fair value of the investment property as at 30 June 2015 and 30 June 2014 has been arrived at on the basis of a valuation carried out by Mr. Peter Fay AAPI in 2015 and 2014 of the firm Jones Lang LaSalle. Mr. Fay is an independent valuer, a member of the Institute of Valuers of Australia and has appropriate qualifications and extensive experience of valuing property for the Consolidated Entity.

The value of investment property is measured on a fair value basis utilising the discounted cash flow approach, capitalization approach and depreciated replacement cost where applicable, to represent the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income has been capitalised using yields derived from market evidence. The fair value measurement hierarchy used in calculating fair value has been classified as level 3 on the basis that there are significant inputs that are not based on observable market data.

Unobservable inputs include:

- A discount rate ranging from 8.5% to 9.0%;
- A terminal yield taking into account management's experience and knowledge of market conditions ranging from 7.25% to 8.25% and
- Industrial and retail rental growth rates, taking into account management's experience and knowledge of market conditions ranging from 2.49% to 3.0%.

The higher the discount rate and terminal yield the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

The Consolidated Entity has historically had a low level of void properties.

All outgoings in relation to investment properties are recoverable by the Consolidated Entity.

There has been no change to the valuation technique during the year. The Consolidated Entity reviews on an annual basis any material changes in the valuation techniques and market data inputs used.

The Consolidated Entity provided investment property (along with land and buildings in note 4) as security for loans as disclosed in note 12.

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
6. Intangible assets		
Goodwill *(i)*	671,866	671,866
Masterplan *(ii)*	1,385	1,845
	673,251	**673,711**

(i) Goodwill has been allocated for impairment testing to two cash generating units, being the Melbourne and Launceston Airports. The carrying amount of goodwill was allocated to cash-generating units as follows:

Melbourne Airport	667,700	667,700
Launceston Airport	4,166	4,166

The recoverable amount of the cash generating units is determined by a 'fair value less cost to sell' calculation using a discounted cash flow analysis. The fair value measurement of the cash generating unit is categorised as Level 3 based on the fair value hierarchy.

The methodology adopted to value the Melbourne and Launceston Airports is a discounted cash flow based on the forecast dividends to equity holders (including franking credits) at a cost of equity. The valuation derived from this discounted cash flow analysis has been cross checked to a valuation based on the capitalized earnings approach by calculating the implied multiples of the valuation and comparing these with those of comparable companies and transactions to ensure the valuation is providing a reliable measure.

The cash flows used in the discounted cash flow analysis were projected based on management's 20 year financial model. Cash flows are driven by aeronautical, retail and property revenues which are heavily dependent on passenger numbers and pricing which is determined based on known contracted terms and forecast inflation. Growth in passenger numbers over the forecast period is based on information provided by an independent firm, Tourism Futures International.

Dividends are expected to be fully franked and payout ratios are based on a range of factors including the achievement of credit metrics. Terminal value was calculated to cover the period from the twentieth year to 99th year (the government's lease period) based on a sustainable level of forecast distributions and a capitalisation amount based on a constant terminal growth rate of 2.5%.

Cash flows were discounted using a cost of equity as the cash flows are based on distributions to investors. In estimating individual components of the cost of equity, the Consolidated Entity has taken into account historical and related market data. A pre-tax discount rate in the range of 10.3% to 11.2% per annum was used (2014: 11.0% to 11.9%). The discounted cash flows are particularly sensitive to cost of equity, inflation and debt margins. Reasonable possible changes in these assumptions would not result in an impairment loss.

(ii) Masterplan		
Gross carrying amount – at cost		
Balance at 1 July 2014	2,745	2,194
Additions	-	551
Balance at 30 June 2015	**2,745**	**2,745**
Accumulated amortisation		
Balance at 1 July 2014	(900)	(439)
Amortisation expense	(460)	(461)
Balance at 30 June 2015	**1,360**	**(900)**
Net book value at 30 June 2015	**1,385**	**1,845**

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
7. Financial assets		
Cross currency interest rate swap	**220,719**	**67,702**

8. Accrued Revenue		
Accrued operating lease revenue:		
Balance at beginning of period	38,523	32,049
Accrual for the year	8,060	6,474
Balance at the end of the year	**46,583**	**38,523**
- Current	**7,569**	**7,018**
- Non-current	**39,014**	**31,505**

9. Current borrowings		
Secured:		
Domestic bonds *(i)*		
- Fixed rate notes (6.25% 25 August 2014)	-	100,000
- Fixed rate notes (6.0% 15 December 2015) *(ii)*	100,000	-
- Variable rate notes (15 December 2015) *(ii)*	200,000	-
Deferred borrowing costs	(225)	(700)
	299,775	**99,300**

(i) Secured by a fixed and floating charge over the company's assets.
(ii) Debt subject to credit wrapping by MBIA Inc.

10. Current payables		
Trade payables *(i)*	101,453	96,601
Goods and services tax payable	-	20
	101,453	**96,621**
Interest Payable to:	33,836	25,262
– Secured debt – bank *(iii)*	240	375
– Other payables *(ii)*	1,928	5,797
– Unearned revenue	**36,004**	**25,637**
	137,457	**128,055**

(i) The average credit period for purchases and services was 31 days. No interest is charged on trade payables.
(ii) The credit period for services for non trade payables to other related parties was 90 days. No interest is charged on non trade payables to other related parties.
(iii) Secured by a fixed and floating charge over the Consolidated Entity's assets. Security given is all the assets of all operating companies. There have been no defaults on loans payable during the current or prior years.

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
11. Financial liabilities		
Current		
- Interest Rate Swaps	5,651	1,325
Total Current	**5,651**	**1,325**
Non- Current		
- Interest Rate Swaps	42,058	47,344
- Cross currency interest rate swaps	18,790	-
Total Non-Current	**60,848**	**47,344**

12. Non-current borrowings		
Secured		
– Bank debt *(i)*	257,800	39,300
– Domestic Bonds *(i)*		
Fixed rate notes (6.0% 15 December 2015)	-	100,000
Variable rate notes (15 December 2015)	-	200,000
Fixed rate notes (7.0% 25 August 2016)	250,000	250,000
Fixed rate notes (5.0% 4 June 2020)	225,000	225,000
– US Private Placements *(i)*		
Fixed rate US $200m (7.8% 15 September 2021) *(ii)*	191,077	191,077
Fixed rate US $200m (7.7% 15 September 2023) *(ii)*	191,077	191,077
Fixed rate US $200m (7.6% 15 September 2026) *(ii)*	191,077	191,077
Fixed rate notes (5.95% 15 January 2028)	50,000	50,000
Fixed rate notes (5.875% 15 November 2022) *(iii)*	125,000	125,000
– European Bonds		
Variable rate notes (26 September 2023) *(iv)*	784,929	784,929
Fixed rate notes (5.05% 15 October 2024) *(v)*	505,050	-
	2,771,010	**2,347,460**
Exchange rate fluctuation (Fair value hedge)	216,069	76,283
Financial liabilities valued at fair value through profit and loss	38,638	21,810
	3,025,717	**2,445,553**
Deferred borrowing costs	(26,417)	(20,838)
	2,999,300	**2,424,715**

Amortisation of borrowings costs, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Amortisation of deferred borrowing costs	4,495	5,380

(i) Secured by a fixed and floating charge over the entity's assets
(ii) Excludes cross currency swaps that convert the US private placement notes US $600m into AUD
(iii) Converted from floating to fixed rate note per agreement on 15 November 2014
(iv) Excludes cross currency swaps that converts the Euro note €550m into AUD
(v) Excludes cross currency swaps that converts the Euro note €350m into AUD

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
13. Non-current payables		
Undistributed capital note liability	**1,202**	**1,202**
14. Capitalised interest charges		
Property, Plant and Equipment	34,973	16,043
Investment Property	3,640	244
	38,613	**16,287**
Weighted average capitalisation rate on funds borrowed during the year was 6.58% (2014: 7.00%)		
15. Issued capital		
118,100,000 Ordinary shares – fully paid (2013: 118,100,000)	**118,100**	**118,100**

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	2015 $'000	2014 $'000
16. Reserves		
Hedge reserves		
Balance at beginning of financial year	(55,339)	8,920
Gains / (loss) recognised:		
Fair value adjustment	(21,422)	(91,799)
Deferred tax arising on cashflow hedges	6,423	27,540
Transfer from hedge reserve to profit and loss	10,865	-
Deferred tax arising from adjustment	(3,260)	-
	(7,394)	**(64,259)**
Balance at end of financial year	**(62,733)**	**(55,339)**

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction occurs.

	2015 $'000	2014 $'000
17. Retained earnings		
Balance at beginning of financial year	721,619	707,125
Profit for the year	255,193	182,196
Dividends paid	(185,417)	(167,702)
Balance at end of financial year	**791,395**	**721,619**

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
18. Commitments for expenditure		
Capital expenditure commitments		
Property, plant and equipment		
Not longer than 1 year	126,511	604,149
Longer than 1 year but not longer than 5 years	151	15,407
	126,662	**619,556**

19. Subsidiaries

Name of entity		Country of incorporation	Ownership interest 2015 %	2014 %
Parent entity				
Australia Pacific Airports Corporation Limited		Australia		
Subsidiaries				
APAC (Holdings No. 2) Pty Limited		Australia	100	100
– Australia Pacific Airports (Melbourne) Pty. Limited		Australia	100	100
Australia Pacific Airports (Property) Pty. Limited	*(i) (ii)*	Australia	100	100
APAC (Holdings) Pty. Limited	*(i)*	Australia	100	100
– Australia Pacific Airports (Launceston) Pty. Limited	*(i)*	Australia	100	100

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

(ii) This subsidiary was dormant during the financial year.

Summary of Key Notes to Financial Information (cont'd)

for the Financial Year Ended 30 June 2015

	Consolidated	
	2015 $'000	**2014 $'000**
20. Dividends		
A fully franked dividend was paid during the financial year	185,417	167,702
Franking account	33,922	37,400

21. Subsequent events

The Directors declared a final dividend on 28 September 2015 of $75,000,000 (0.64 cents per share) to be paid on 9 October 2015.
On September 15, 2015 the Company successfully completed a A$250 million issue of secured Australian Medium Term Notes (AMTN) at a fixed rate of 4.0% for 7 years. Proceeds were used to pay down the drawn balance of the syndicated bank facility.

22. Additional Company Information

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

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

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

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