



annual
report

2016

it all
begins
here



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Robert Brownhall, one of the nation’s most renowned realist painters, was chosen by Brisbane Airport Corporation as its first ‘Artist-in-Residence’. The artwork created during his tenure with BNE beautifully illustrates this Annual Report. Robert is represented by Philip Bacon Galleries.



About Brisbane Airport

Brisbane Airport Corporation Pty Limited (BAC), the operator of Brisbane Airport (BNE), is a proud, private, unlisted Queensland company, helping employ thousands of Queenslanders and creating economic opportunities for the state and city of Brisbane equating to more than \$4 billion annually.

Operating 24 hours a day, seven days a week, BNE has two major terminals accommodating 29 airlines flying to 76 domestic and international destinations. It is a suburb in its own right, the largest capital city airport in Australia by land size (2,700 hectares) and the third-largest airport in Australia by passenger numbers, with more than 22.5 million passengers travelling through the airport in FY16

While maintaining its vision for BNE to be world-best and the preferred choice for passengers, airlines, business and the community, BAC manages the airport with a strong focus on community, sustainability, education, knowledge and economic growth, adopting world-leading technologies, systems and practices. Through this approach, BAC has created a prosperous airport business community within a sustainable environment; developing BNE as a premier gateway airport and a major multimodal transport hub.

Around 420 businesses are located at BNE, servicing a diverse range of industries offering services such as freight and aircraft handling, warehousing, transport and communications, manufacturing, research, property and infrastructure development, education and training, recreation, tourism, accommodation, leisure and retail.

Collectively these businesses employ more than 21,000 people, a number expected to exceed 50,000 (the size of a regional town) by 2029.

With passenger numbers also forecast to more than double by 2034, BNE is in the most exciting phase in its history with more than \$3.8 billion being invested to build critical infrastructure at the airport in the coming years. Projects include a New Parallel Runway, new car parks and access facilities, terminal expansions, road upgrades, new aprons and aeronautical facilities, and a number of new commercial buildings.

In acknowledgment of BAC's efforts, BNE is consistently recognised as a leading airport nationally and internationally including being named Capital City Airport of the Year in the Australian Airports Association National Awards for two consecutive years (2014 and 2015), and is rated as Australia's No. 1 airport for quality of service 12 years in a row in an ACCC survey.

In the 2016 Skytrax World Airport Awards, BNE was voted Best Airport in the World (Australia/Pacific), achieving 4th for Best Airports in the World (servicing 20-30 million passengers) and is currently ranked 17th in the World's Top 100 Airports list.

BAC's **vision** for Brisbane Airport is to be world-best and the preferred choice for passengers, airlines, business and the community.

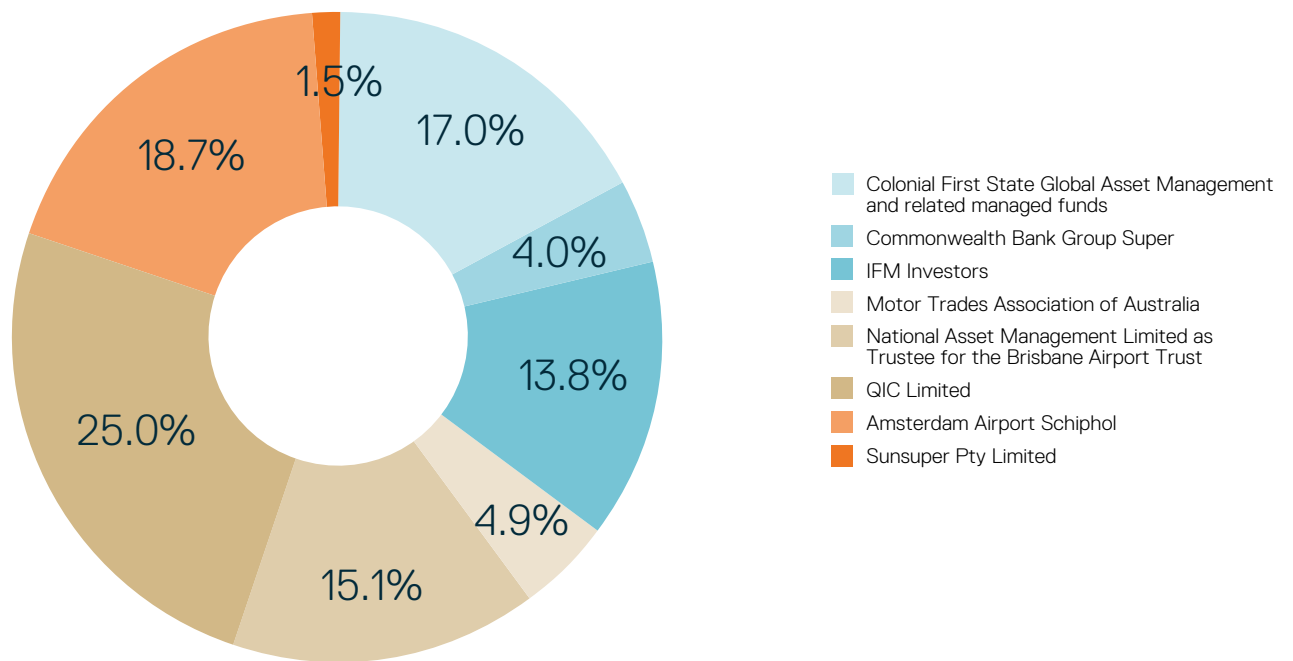
BAC's **purpose** is to grow shareholder value through the efficient and sustainable operation, management and development of Brisbane Airport.

VALUES

- Building collaborative relationships.
- Being proactive and innovative.
- Acting with integrity and commitment.
- Providing service excellence.



Ultimate ownership structure



Brisbane Airport snapshot

Airlines



Destinations



Air New Zealand

Air Niugini

Air Vanuatu

Aircalin

Air Canada

Alliance Airlines

Cathay Pacific

China Airlines

China Eastern

China Southern Airlines

Emirates

Etihad Airways

EVA Air

Fiji Airways

Fly Corporate

Hawaiian Airlines

Jetgo

Jetstar

Korean Air

Nauru Airlines

Philippine Airlines

Qantas

QantasLink

Regional Express

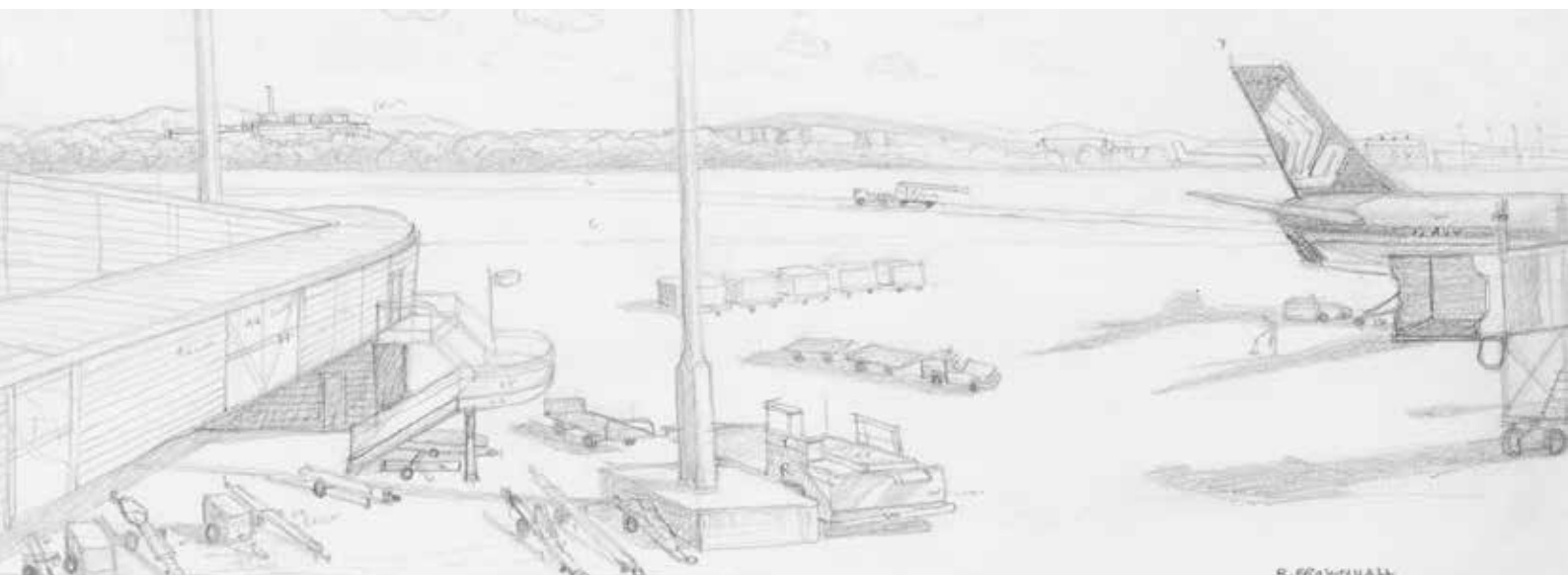
Singapore Airlines

Solomon Airlines

THAI International

Tigerair Australia

Virgin Australia





	DESTINATIONS	FREQUENCY*
DIRECT DESTINATIONS FY16		
INTERNATIONAL		
Asia	10	97
New Zealand	5	93
Pacific	8	56
North America	3	28
Middle East	2	21
Total	28	295
DOMESTIC		
Total	48	1,578

*frequencies per week, one way

Passengers	2012/13	2013/14	2014/15	2015/16
INTERNATIONAL	4,548,868	4,817,882	5,080,867	5,273,890
Growth	0.9%	5.9%	5.5%	3.8%
DOMESTIC	16,842,523	17,054,939	16,948,836	17,199,879
Growth	2.1%	1.3%	-0.6%	1.5%
TRANSITS/TRANSFERS	224,080	230,544	250,347	211,717
Growth	21.1%	2.9%	8.6%	-15.4%

Air Cargo (tonnes)	2012/13	2013/14	2014/15	2015/16
INTERNATIONAL				
Imports	45,869	44,076	42,483	40,083
Exports	45,441	51,055	59,787	66,865



Chairman's message



“BNE continues to be the most awarded airport in Australia, and to garner international recognition for the quality of its facilities, the excellence of its service and its overall performance, is a credit to all.”

BAC Holdings Ltd and its controlled entities (BAC Group) enjoyed a successful 2016 Financial Year.

A number of notable achievements included:

- Revenue of \$643.2 million was up by \$32.2 million (5.3 per cent) on prior year.
- EBITDA of \$475.0 million was up by \$22.7 million (5.0 per cent) on the prior year.
- Profit before tax of \$251.8 million was up by \$23.4 million (10.2 per cent) on the prior year.

The company's \$2.2 billion capital expenditure programme continued in 2016 with \$231.7 million invested in the growth of the airport's aeronautical and non-aeronautical facilities. More than 300 capital projects were underway or delivered during the year, including works on the New Parallel Runway which remains on schedule for commissioning in 2020. This nationally significant project will double BNE's runway capacity and deliver a regional economic benefit of around \$5 billion annually by 2035, creating an estimated 2,700 jobs during peak construction.

The year also saw the completion of the International Terminal redevelopment and the Virgin Australia Domestic Terminal upgrade, the unveiling of a major expansion of the Skygate precinct and the delivery of a new 2,550 car park facility called AIRPARK.

Significant effort is being invested in leveraging Brisbane Airport's extensive land-holding to drive the company's performance.

Over FY16 we saw Haymans Electrical choose the airport as the location for a 5,600 square metre warehouse facility. In the second half of the financial year we completed a new purpose built office and warehouse facility, the largest of its kind in the southern hemisphere, for HMG Hardchrome. And in May we delivered a new warehouse and office project for Direct Couriers in our Export Park precinct. Services and links are also being delivered for the new Brisbane Airport Hotels and Conference Centre development adjacent to the Domestic Terminal.

During the year the company also invested in the development of a new Airport Industrial Park which will unlock 25 hectares for future building development.

All of these activities are under-pinned by prudent financial management.

In November 2015, the BAC Group refinanced and increased its existing bank facilities by \$600 million with four new banks brought in alongside the existing six lenders. The facilities were spread across two, five and seven year maturities, diversifying the BAC Group's debt maturity profile. These new banks also provides the BAC Group a mechanism to enhance diversification of its derivative portfolio.

On behalf of the Board of Directors I wish to thank the BAC management team and staff for their hard work this year and to congratulate them on their achievements.

That BNE continues to be the most awarded airport in Australia, and to garner international recognition for the quality of its facilities, the excellence of its service and its overall performance, is a credit to all. I thank the shareholders for their continued commitment to the company and their shared support for the vision we have for the company and the airport.

Bill Grant
Chairman of the Board

CEO and Managing Director's message



“For the first time Brisbane Airport was named the Best Airport in the Australia/Pacific region in the Skytrax World Airports Awards, voted by travellers.”

The 2016 Financial Year saw the efforts of prior years to grow our business and improve facilities and performance realised in multiple ways.

For the first time Brisbane Airport was named the Best Airport in the Australia/Pacific region in the Skytrax World Airports Awards, voted by travellers. Perhaps even more impressively we ranked 17th in the world across all regions and categories. For an airport of our scale, this is a very significant achievement.

BAC's daily commitment to deliver safe and secure operations and world class facilities and experiences to the travelling public works hand in hand with our commitment to ensure the interests of our shareholders are always protected through sensible investment, a focus on business development and continuous, sustainable growth.

This requires balance. I am proud of the BAC team's recognition of this challenge and the need to constantly and efficiently test their strategies against this principle.

As the Chairman's Message details, our financial performance in FY16 reflects the efforts of the team to deliver profitable growth.

Whilst BAC enjoys the benefits and opportunities that its significant site offers for commercial development, at its heart is the airfield and our company's performance depends largely on aviation passenger growth. FY16 saw some very significant international growth but a tougher domestic environment.

The commencement of Qantas' Tokyo Narita service in July 2015 marked the return of direct services between Japan and BNE and has been a catalyst for increased Japanese tourism to Queensland. The success of this service has rejuvenated this market for Australia and augurs well for sustained growth into the future.

The year also saw the inaugural Air Canada service between BNE and Vancouver and the opening of another market for us. This direct service is driving excellent two-way passenger growth for both countries and is evidence of BNE's real advantage as a major gateway to Australia for travellers from the Americas, and a gateway to the Pacific region for Australians from beyond Queensland.

After a marginal decline in passenger numbers in FY15 the domestic market again proved challenging in FY16. Regional traffic continues to slow as construction on the major energy projects finishes and these projects move into the operational phase. Nevertheless, BNE added three new domestic destinations and saw good growth on the key Sydney and Melbourne routes which resulted in a 1.5 per cent increase in domestic passengers in FY16.

Our vision for the growth of our international business is reflected in the investments made in the International Terminal and the importance we placed on delivering a terminal upgrade that sent a message about the commitment we make to a quality of experience for our airline partners as well as passengers.

The airlines' recognition of the potential and importance of BNE is reflected in their investment of new lounge facilities in the International Terminal.

The role the airport and our company plays in the economy and the life of our city and state has never been more important. BAC works hard to be a good corporate citizen and a good neighbour. Our future depends on this. As we invest in the airport, particularly through catalytic projects like the New Parallel Runway, we are helping to change the face of the city and to build our State's capacity for economic growth.

I am supportive of the role our team plays in contributing to conversation about the growth of our visitor economy and the development of the cultural life of the region. BAC has taken up a leadership role in both of these areas and our contribution is now well-recognised. We do this through the investment of time and money and the talents of our people and the benefits will continue to flow back to our business.

I am particularly proud of the ways BAC gives back to our neighbours through our Community Giving Fund and our staff's strong support for this programme. This year we also became the first Australian airport to develop a Reconciliation Action Plan and, whilst it is early days, I look forward to BAC assuming an increasingly important role closing the gap through reconciliation and supporting Indigenous employment.

I thank the Board and shareholders for their support in FY16 and congratulate the BAC team, our partners and the whole airport community on another memorable year.

Julieanne Alroe
CEO and Managing Director

Our financial performance at a glance

BAC management has extensive experience in the aviation industry, in particular in the supervision and operation of airports.



This expertise has helped provide BACH with a solid track record of delivering growth by recording an EBITDA CAGR for a five year period to FY16 of 7.7 per cent. Since privatisation in 1997, total passengers have grown from 10 million to more than 22 million in FY16.

BACH has historically generated a stable and diversified revenue stream with highlights in FY16 including:

- Aeronautical revenue of \$249 million (excluding Government mandated security charges of \$27 million) representing 39 per cent of revenue.
- Landside transport revenue, which includes car parking and car rentals, contributed \$125 million, or 19 per cent of revenue.
- Retail revenue of \$73 million represents 11 per cent of revenue.
- Investment property revenue totalling \$77 million, with the majority being long term leases to quality tenants, comprised 12 per cent of total revenue.
- Operating property revenue, which includes the terminals, contributed \$44 million or 7 per cent of total revenue.
- Other revenue of \$45 million, including recharged utilities and interest received, representing 7 per cent of total revenue.
- Government mandated security charges total \$27 million representing 4 per cent of revenue.

BACH has demonstrated strong operating performance as it focuses on maximising profitability. To complement its efficient operations, BAC's partnership approach with the airlines, retailers and commercial tenants involves performance and risk sharing incentives designed to minimise risk while ensuring steady revenue growth. BACH outsources most of its non-core activities.

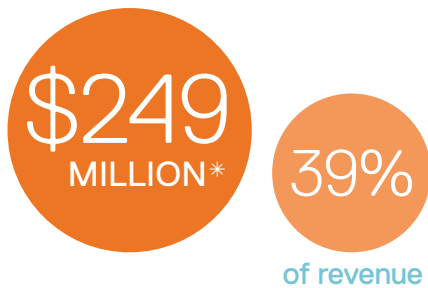
BACH maintains a solid capital structure that benefits from access to long term debt funding and a strongly committed and financially supportive shareholder group.

Equally important to its capital structure, is the blend of shareholders which combine financial strength, world-class airport expertise, and State Government ownership. 81 per cent of BACH shareholders are significant Australian institutional investors, including Queensland Investment Corporation, a state-owned entity. In addition BACH benefits from the experience and support of its international shareholder Amsterdam Airport Schiphol.

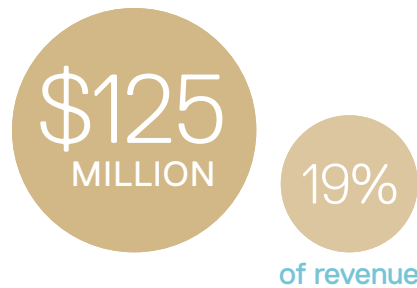
BACH shareholders are ultimately ordinary Australians with their savings invested in superannuation and other investment funds.

To complement its efficient operations, BAC's partnership approach with airlines, retailers and commercial tenants involves performance and risk-sharing incentives designed to minimise risk while ensuring steady revenue growth.

Aeronautical revenue



Landside transport revenue



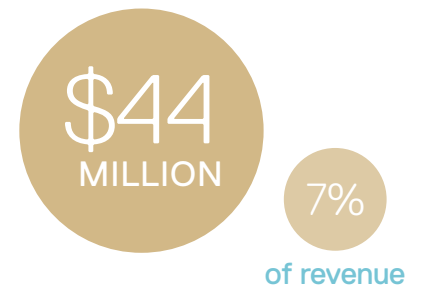
Retail revenue



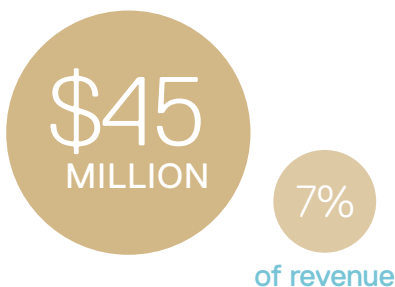
Investment property revenue



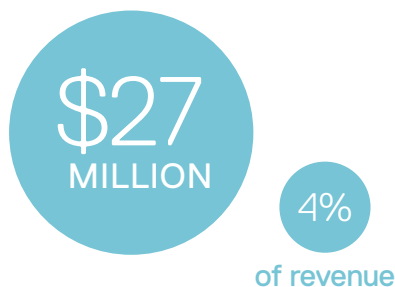
Operating property revenue



Other revenue



Government mandated security charges



* excluding Government mandated security charges of \$27 million

The year in review FY16

July 2015

- Brisbane River Grill opens at BNE International.
- Qantas BNE-Narita inaugural flight takes off.
- BNE achieves 5.5 per cent growth in international passengers in FY15.

August 2015

- BAC donates \$25,000 to charities from lost property auctions.
- Haymans Electrical makes the move to BNE.
- BAC unveils major artwork by acclaimed Indigenous artist, the late Mirdidinggathi Juwarnda Sally Gabori. **A**



- Sod turning to mark the start of construction for the new \$150 million Brisbane Hotels and Conference Centre at BNE Domestic.

September 2015

- BAC announces new Hanson Construction Materials office at Skygate.
- Refurbished Virgin Australia terminal is unveiled at BNE Domestic.
- BNE App syncs with Apple watch.

- BAC awarded twice at the Queensland Project Manager Awards for the 'G20 Project: An airport within an airport' and the 'Domestic Terminal Check-in and Baggage Reclaim Upgrade'. **B**



October 2015

- Digital Play9 kids play console launches at BNE International.
- BNE named 'Capital City Airport of the Year' at the Australian Airports Association Awards for the second consecutive year. **C**



- The unveiling of a giant reef inspired artwork by Indigenous artist Brian Robinson marks completion of \$30 million Skygate expansion.
- BAC distributes \$110k in grants to 49 community groups.

- BNE's \$45 million International Terminal Redevelopment is officially opened. **D**
- BAC wins 'Digital Strategy Award' at the 2015 Lord Mayor's Business Awards. **E**



November 2015

- BAC raises A\$600 million in bilateral bank facilities.
- QUT study finds aircraft noise has minimal if any impact on Brisbane property prices.
- BNE Airport Ambassador programme awarded gold for 'Outstanding contribution by a volunteer or Volunteer Group' at the 2015 Queensland Tourism Awards. **F**





December 2015

- BAC hosts 108 delegates for the 63rd Association of South Pacific Airlines (ASPA) conference.
- BNE Main Runway overlay works commence.
- Realist painter Robert Brownhall is named BNE's first Artist-in-Residence.

January 2016

- BNE achieves ACI Airport Carbon accreditation at Level 3 (Optimisation).
- BNE named one of the world's most punctual airports in the 2015 OAG flightview Punctuality League Report with 88.31 per cent average for flights departing on time.
- David Malek appointed as BAC's new Chief Financial Officer.

February 2016

- Brisbane announced as host of Routes Asia in 2018.
- BAC partners with Museum of Brisbane for 100% Brisbane exhibition. **G**



G

March 2016

- BNE voted Best Airport (Australia/Pacific) at the global Skytrax World Airport Awards.
- BAC develops new purpose-built office and warehouse facility, the largest of its kind in the southern hemisphere, for HMG Hardchrome.

April 2016

- Air New Zealand opens brand new premium lounge at BNE International. **H**



H

- Fly Corporate launches direct services between BNE and Coffs Harbour.

May 2016

- BAC distributes \$35k in grants to 43 community groups.
- BAC delivers new warehouse and office facility at Export Park for Direct Couriers. **I**
- Plaza Premium, Australia's first independent lounge, opens at BNE International. **J**
- Singapore Airlines opens new SilverKris Lounge at BNE International. **K**



I



J



K

June 2016

- Jetgo launches direct jet flights between BNE and Albury.
- Air Canada launches direct flights between BNE and Vancouver. **L**



L

- BNE's AIRPARK facility opens providing 2,550 new car parks.

Investing in the future

Infrastructure construction continued on many fronts during the year with more than 300 asset projects underway or delivered during FY16 including:



THE NEW PARALLEL RUNWAY

As the largest aviation infrastructure development under construction in Australia, BNE's New Parallel Runway (NPR) is a nation-building project. With the NPR effectively doubling runway capacity at Brisbane Airport it will facilitate unimpeded economic growth for the region and the nation well into the future.

The NPR is located two kilometres west of the existing main runway and includes a runway 3.3 kilometres long, 60 metres wide, many kilometres of taxiways linking to the terminals and existing system, navigational aids, airfield infrastructure and hundreds of hectares of airfield landscaping.

Following completion of the ground improvement works (Phase 1) in 2015 the NPR team continued with final design works in preparation for release of tenders for construction of the new airfield system (Phase 2). Request for tender for all three major construction contracts were released in accordance with BAC's targeted programme.

Scheduled for completion in 2020, the NPR will deliver regional economic benefit of around \$5 billion a year by 2035 with an estimated 2,700 jobs created during peak construction. It will also enable BNE to maximise the number of flights that can arrive and depart over Moreton Bay, reducing noise exposure to the Brisbane community, particularly at night.

AERONAUTICAL SERVICES AND FACILITIES

- A \$35 million overlay upgrade of BNE's Main Runway 01/19 began in March 2016. The six month project delivered new centre portion overlay, new blast protection and shoulder overlay, taxiway repairs, new line marking, new electrical infrastructure and aeronautical ground lighting upgrades.
- Completion of three new airline lounges (Air New Zealand, Singapore Airlines, Plaza Premium) and a new Day Spa facility on Level 4 of the International Terminal; all linked to Level 3 Departures via escalators and lift.
- Completion of the International Terminal ePassport Smart Gates upgrade, resulting in 12 new gates on Level 3 Departures and 11 new gates on Level 2 Arrivals.
- Completion of the first stage of the International Terminal Self-Service Check-in expansion, delivering new check-in kiosks to Rows 8 and 9 on Level 4.
- Advanced planning and design commenced for the next stage of Self-Service expansion, including more check-in kiosks and new Automated Baggage Drop facilities.
- Completion of the Terminal Escalators Safety Upgrade, delivering new glass panel fall protection, under-step and external lighting at both terminals.
- Completion of Stage 3 of the International Terminal Bathrooms Upgrade with planning and design for Stage 4 completed.



- Completion of the new Baggage Intrusion Detection System across 76 Domestic and International Terminal check-in counters.
- Completion of the major upgrade and expansion to the Southern end of the Domestic Terminal including satellite infill, expanded and upgrade Business Lounge and Valet, and seven new aerobridges.
- Major upgrade and expansion works underway to the Qantas Lounges at both the Domestic and International Terminals.
- Advanced planning and design underway for a major upgrade to Virgin Australia's Baggage Handling System at the Domestic Terminal.
- Completion of Apron Lighting Upgrade.
- Completion of Logistics Apron and Taxiways Upgrade.
- Completion of Disability Access upgrades at the International Terminal, including new tactile, upgraded handrails, stair edging and accessible ramps.
- Completion of the International Terminal Full Function Fire Test.
- Upgrade of the General Aviation Terminal underway.
- Completion of planning and design for the new \$40 million International Northern Apron expansion which will deliver 55,000m² of new apron and taxiways, as well as three new aircraft parking bays.
- Completion of planning and design for the new \$86 million International Northern Concourse expansion which will deliver an extra 11,000m² of passenger space, six more boarding zones, four new aerobridges and four new walk-out gates

Advanced planning and design is also underway for:

- The \$21 million upgrade of Fire Services at the Domestic Terminal.
- A \$25 million upgrade to Hotel Taxiway.

- A major upgrade expansion north of the Domestic Terminal.
- A new Domestic Regional Satellite north of the terminal.
- New Centralised Security at the Domestic Terminal.
- An upgraded Entry Control Point at the International Terminal.

NON-AERONAUTICAL SERVICES AND FACILITIES

- Completion of the \$45 million International Terminal redevelopment, delivering 7,500m² of extra aviation and retail space, a newly themed Departures area, 24 new retail tenancies and new walk through Duty Free stores.
- Completion of the \$15 million retail upgrade at the southern end of Domestic Terminal, delivering 16 new retail tenancies, reconfigured and upgraded Food Hall and a Premium Bar and Restaurant.
- Completion of the \$44 million Central Parking Area, delivering a new 2,550 space public car park (AIRPARK) and a 2,200 bay Staff Car Park connected to the terminals via regular bus services.
- Development underway for the new \$28 million Airport Industrial Park off Boronia Road, delivering 25 hectares for future building development.
- Works underway to deliver services for the new Brisbane Airport Hotels and Conference Centre, including a new travelator linking the complex to car parks, new tiled walkways to the Domestic Terminal, essential civil works and a new roundabout on Dryandra Road.
- Completion of the Domestic Terminal Face Roads Wet Weather Protection Upgrade, delivering covered walkways to passenger pick-up/drop-off area and limousine services.
- Completion of new cycle paths, shared pathways and pedestrian access upgrades across the airport.

BNE PROPERTY

BNE Property aims to create a unique place to attract and connect businesses, focused on delivering value and growth for BAC and its tenants.

In FY16, BNE Property continued to attract new developments with a number of key projects completed, including:

- The DFO expansion and Corso building development with around 30 new stores, plus five food and beverage outlets, multi-level car park and improved pedestrian connectivity.
- Stage 1 of the AFC4 development including three warehouses for Gate Gourmet, AIP and Carbridge.
- A warehouse expansion to Hellman's existing facility.
- The refurbishment of a warehouse for Repco.
- A purpose-built warehouse/showroom facility for Haymans Electrical.
- Aviation Australia's new training centre.

Projects due for completion in FY17 include:

- Stage 2 of the AFC4 development including two warehouses.
- Hanson's commercial office and laboratory at Skygate.
- Direct Couriers' warehouse and office facility.
- The \$150 million Brisbane Airport Hotels and Conference Centre development at the Domestic Terminal.

Our people

At BAC we know our greatest asset is our people, because it's our people who shape our unique culture and reputation.



With a workforce of close to 500 people, including consultants and contractors, we are a relatively small team. However, through large service contracts to BAC, including security, cleaning, landscaping, IT and car parking, thousands more are employed through the business.

LEARNING AND DEVELOPMENT

Learning and Development (L&D) is a key area of focus at BAC. A full-time resource is dedicated to managing the personal and professional development of our people. Over \$900,000 is spent on an annual basis on L&D activities, with all BAC employees attending at least one training and development activity each financial year, and more than 85 per cent attending an external programme.

STAFF ENGAGEMENT

This year 90 per cent of employees took part in our biannual Employee Opinion Survey, with an overall staff engagement rating of 78 per cent achieved, which continues to build on the strong ratings of previous surveys. Job satisfaction, culture, manager quality and work conditions were rated as areas of strength for BAC, with many employees describing BAC's culture as 'family-like'.

DIVERSITY

BAC's Diversity and Inclusion Programme focuses on providing a satisfying, healthy and productive work environment for all employees, this is achieved through focusing on four areas: Support Staying and Returning to BAC, Attract and Recruit a Diverse Workforce, Develop and Empower Inclusive BAC Employees and Raise Awareness and Reduce Stereotypes.

CLOSING THE GAP THROUGH RECONCILIATION

BAC is proud to be the first airport in Australia to formally commit to celebrating and promoting the traditions, laws and customs of Aboriginal and Torres Strait Islanders, with its first Innovate Reconciliation Action Plan (RAP) officially endorsed by Reconciliation Australia.

Working in close partnership with the Traditional Owners, BAC's RAP is based on building relationships, showing respect and looking for opportunities, while helping create social change and economic contributions for Aboriginal and Torres Strait Islander communities.

To help strengthen professional development, employment and economic opportunities for Aboriginal and Torres Strait Islanders, BAC's RAP includes sponsored university scholarships and work internships for Indigenous students.

Other initiatives like flying the Aboriginal and Torres Strait Islander flags alongside other national flags in front of the International Terminal and performing Acknowledgement of Country and Welcome to Country at airport events have also been introduced.

LEAN AT BAC

To achieve company targets, BAC must use its human and capital resources in the most effective and efficient manner possible. As such, the Lean methodology was introduced to the company in FY16 to foster a culture of continuous improvement that challenges and, if necessary, changes standard practices, equipping BAC's workforce to respond quickly and effectively to rapidly changing customer demands.



BAC's Lean programme educates and trains employees in practices to ensure evidence-based workforce planning, flexible management practices, streamlined processes, eliminate waste and a focus on the end customer.

'Lean Champions' have been identified and developed across the business to drive projects which will demonstrate the benefit of Lean.

The introduction of Lean practices throughout the business has already achieved some good outcomes this year including:

- Eliminating appointment booking for staff collecting access cards, freeing up time for staff and decreasing waiting time for customers by two weeks.
- Reducing administration time by aligning scope of work descriptions for newly created assets with financial standards in BAC's financial systems.
- Redesigning the electrical services team office, optimising efficiency and reducing storage and time wasted on searching for items.
- Streamlining the day-to-day processes for the Corporate and Legal Services team, allowing company lawyers to spend their time on valuable issues.



Our community



Every day tens of thousands of travellers from across the region, the nation and the world transit through BNE. While our network reaches far and wide, we are hugely conscious of the community in which we live – Brisbane.



We are committed to the Brisbane community because we're part of the Brisbane community. The nearly 22,000 people who come to work at the airport everyday are part of the community too. Our families live here, our children go to school here and we enjoy our beautiful city and all it has to offer like everyone else. That's why we are committed to connecting with our community and encouraging 'co-ownership' of BNE so we continue to build an airport that the people of Queensland are proud of.

SUPPORTING OUR COMMUNITY

BAC is a dedicated supporter of local charity, community, arts and sporting organisations distributing over \$1 million in sponsorship and philanthropic donations each year to more than 100 local community initiatives and charities.

Our major charitable partnerships include The Royal Flying Doctor Service, Crime Stoppers, RACQ Life Flight and Surf Life Saving Queensland. We also provide sponsorship support to the arts, culture and professional sporting leagues in Brisbane including Museum of Brisbane, Brisbane Roar W-League Football Club, Brisbane Festival, Queensland Theatre Company, Brisbane Powerhouse, QAGOMA, La Boite Theatre Company, Brisbane Writers Festival, Camerata of St John's and Brisbane Philharmonic Orchestra to name but a few.

The **Brisbane Airport Community Giving Fund** has been developed to provide much needed financial assistance to community organisations, community groups and schools in the Brisbane area as part of our ongoing commitment to supporting and engaging with the local community.

Under this programme, twice a year, BAC calls for applications from the community to apply for one of the two categories:

- 1. The Giving Fund:** cash grants to community groups providing health and wellbeing, safety, sport, education, environment or other community benefit initiatives.
- 2. Lunch and Learn:** opportunity for students or young entrepreneurs to spend time with a leader in the aviation industry. This category does not include cash grants but rather an opportunity to learn.

Close to 100 small to medium community groups have benefitted from individual cash grants this year.

ARTIST-IN-RESIDENCE

This year BNE appointed renowned realist painter Robert Brownhall as its first Artist-in-Residence. This unique collaboration, which is believed to be the first appointment of its kind for an Australian airport, is the latest step by BAC in its support of local performing and visual arts.

A suite of Robert's artwork from his tenure at BNE beautifully illustrates this Report.



COMMUNITY ENGAGEMENT

We proudly continue to lead the way in engaging with our community through our multi-faceted *Community Engagement Programme*. This programme is dedicated to generating informed, ongoing and interactive discussion about airport development, aircraft technologies, potential impacts from increased aircraft operations and airspace management.

Initiatives of the Programme include:

COMMUNITY EXCHANGES, TOURS AND FESTIVALS

Hosted twice a year in BNE's neighbouring suburbs, BAC's Community Exchanges allow members of the community to liaise directly with members of BAC's senior management and staff from Airservices Australia and airlines, about any questions or concerns they may have. We also participate in and support many local cultural and community activities that help make South East Queensland one of the world's great places to live, work and visit, as well as offering free guided airport tours for interested community organisations and schools.

COMMUNITY CONSULTATION

The Brisbane Airport Community Aviation Consultation Group (BACACG) is an independently-chaired meeting to promote community engagement between BNE and our surrounding communities. It focuses on issues relating to aircraft operations, airport development and aircraft noise.

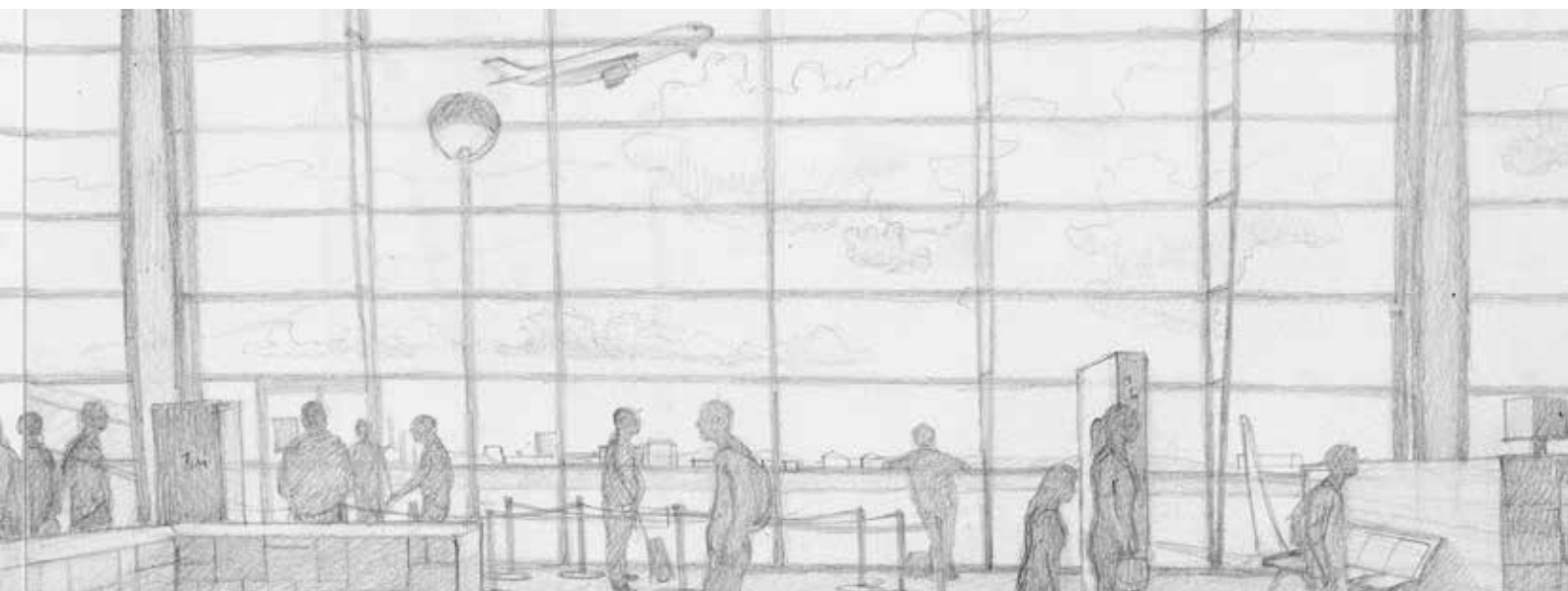
The BACACG includes members from federal electorates around BNE. It also includes representatives of the Queensland Premier, Brisbane Lord Mayor, as well as nominees from the major airlines, Airservices Australia and BAC. For more see bacacg.com.au.

COORDINATED PLANNING

The Brisbane Airport Area Round Table (BAART) is a planning forum made up of federal, state, local government and BAC. As a result of this quarterly gathering, other working groups, such as BACACG, are updated on the progress of planning issues including aircraft noise, airspace management and surface transport.

Similarly, the Brisbane Airport Technical Noise Working Group (TNWG) supplements the BACACG. Issues raised by the BACACG requiring complex or detailed responses are referred to the TNWG, which includes airline representatives, government agencies such as Airservices Australia, regulators and BAC.

There are also planning consultation groups focused on ground transport, environment, land use and aviation development as part of the Master Planning process.



Our environment

BAC adopts a global perspective on sustainability which reaches well beyond 'risk and compliance'. Instead, BAC's focus is on the responsible development of the airport precinct in a way that meets the needs of present generations and is viewed with pride by future generations.

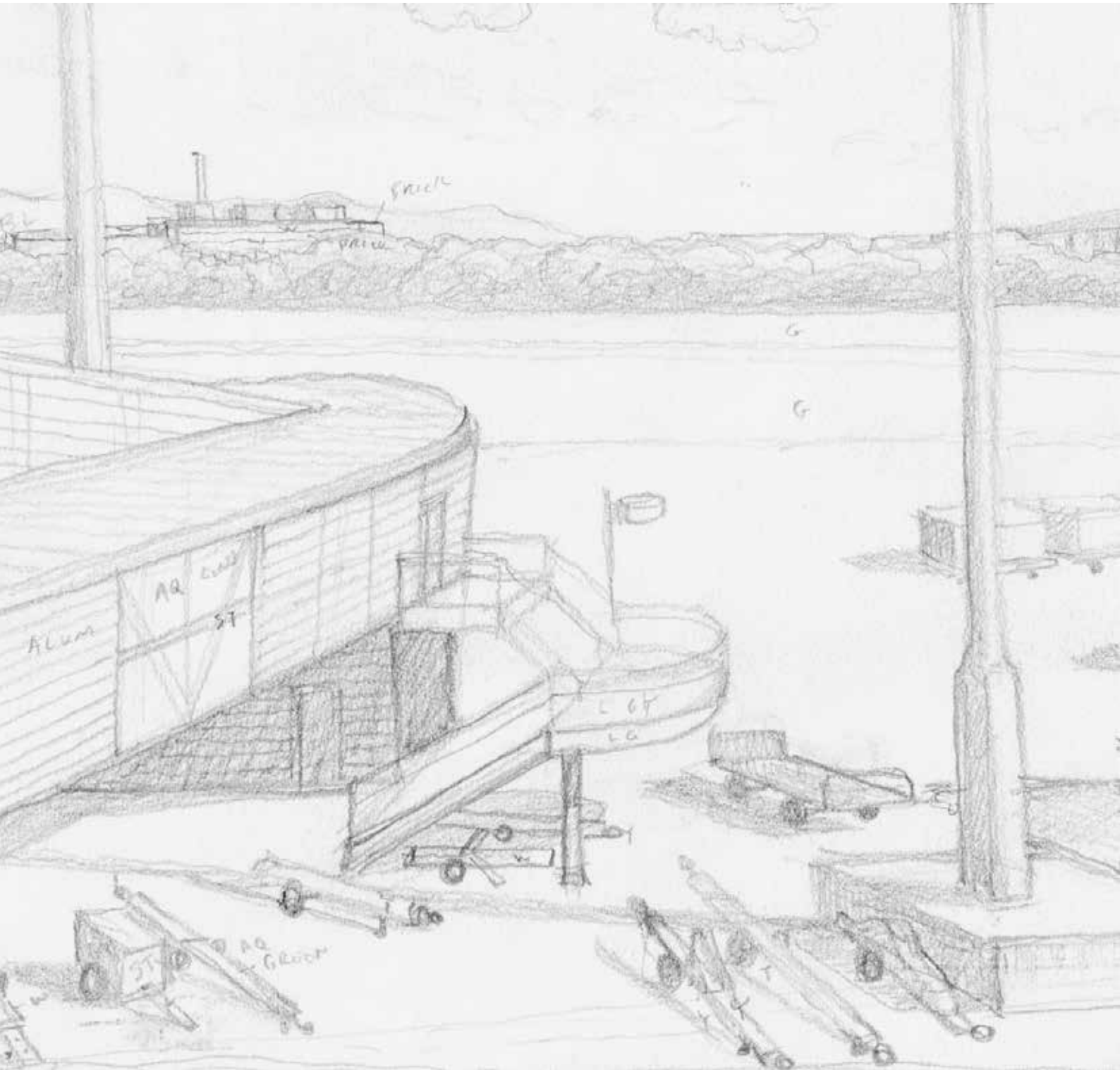


We are committed to reducing BAC's impact on the environment and putting in place programmes that help us manage and minimise the long-term impacts of climate change and adverse environmental impacts from aviation and property development activities.

The achievements of BAC's environmental sustainability performance for FY16 are listed below:

METRIC	FY16 ACHIEVEMENTS
Environmental Sustainability Performance Benchmarking	Achieved Level 3 'Optimisation' under the Airports Council International – Airport Carbon Accreditation programme
Energy consumed (GWh)	176
Amount of renewable energy generated by BAC (MWh)	300
Greenhouse Gas Emissions (t)	44,630
Potable water consumed on airport (ML)	744
Recycled water consumed on airport (ML)	199
Waste diverted from landfill (t)	570

METRIC	PLANNED INITIATIVES FOR FY17
Environmental Sustainability Performance Benchmarking	Maintain Level 3 Airport Carbon Accreditation
Energy and emissions	Finalise the BAC Energy and Carbon Management Plan
Water efficiency	Increased use of recycled water for construction
Waste and recycling	Increase waste segregation in BAC controlled buildings working in collaboration with waste and cleaning contractors
Research and innovation	Continue aviation based research out of the newly established BNE Innovation Hub



Our operations





Aviation industry overview

Every day more than 600 flights take off or touch down at BNE carrying more than 61,500 passengers to destinations as wide-ranging as Abu Dhabi, Alice Springs, Taipei and Thargomindah.



In FY16 a record number of international and domestic passenger numbers passed through BNE with total passenger numbers increasing by 2 per cent to more than 22.5 million.

INTERNATIONAL REVIEW

International passenger numbers through BNE grew by nearly 200,000 to more than 5.27 million in FY16, representing a 3.8 per cent increase on FY15.

Four of the top five growth markets for Brisbane this year came from North Asia with Japan, China, Korea and Taiwan outstanding performers.

In both volume and percentage terms, growth in the Japanese visitor market at BNE exceeded the market growth at the national level, and also exceeded growth in the Chinese visitor market at BNE.

The Chinese visitor market experienced double digit growth in eight out of 12 months during FY16, averaging a 17.2 per cent year-on-year increase across the 12 month period.

A resurgence in Korean visitation saw the market overtake the French visitor market. The Korean visitor market growth at BNE was also faster than the national.

BNE was directly connected with 27 international destinations at the start of FY16, and 28 at the end of FY16.

In August 2015, services to Kuala Lumpur ceased, but direct flights to Japan became available again as Qantas started its Tokyo (Narita) service.

A brand new international destination to BNE also became available as Air Canada launched its direct Vancouver service in June 2016.

The busiest day at the International Terminal was on 2 January 2016 with 19,348 arrivals and departures.



DOMESTIC REVIEW

Following the marginal decline in passenger numbers in FY15, domestic passenger numbers through Brisbane Airport (BNE) grew by over 250,000 to 17.2 million in FY16, representing a 1.5 per cent increase on FY15.

Fly Corporate commenced RPT operations launching a daily Coffs Harbour service in April 2016, increasing the number of domestic airlines at BNE from eight to nine.

During the course of FY16, the number of domestic destinations on offer increased with the addition of Dubbo (July 2015) and Albury (June 2016) by Jetgo, and Coffs Harbour (April 2016) by Fly Corporate.

Sydney and Melbourne city pairs were the strongest growth markets in passenger volume terms. Both city pairs also saw load factor improvements (+7.8 percentage points and +9.0 percentage points respectively).

The strongest intrastate passenger growth was on the Cairns and Townsville city pairs, which also ranked highly amongst all domestic routes (ranking within the top five for domestic passenger growth).

The highest load factor seen amongst the top 10 domestic city pairs was achieved on the Cairns-BNE route (averaging 82.8 per cent).

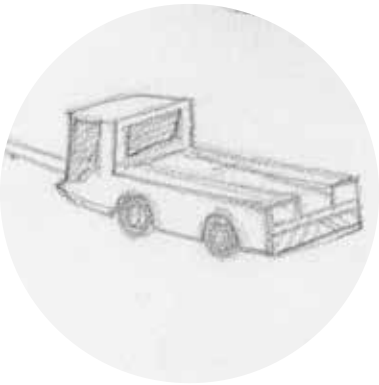
Capacity to/from some intrastate ports continued to fall as airlines responded to mining industry job losses which caused demand from the FIFO (fly-in fly-out) segment to fall.

The busiest day at the Domestic Terminal was on 5 October 2015 with 62,041 arrivals and departures.



Passenger services – a fresh welcome

Being a good host means making sure that all visitors are comfortable and provided for – whether it's assistance for a parent travelling with children, accessible parking and facilities, or multilingual signage. That's why great customer service, as opposed to good customer service, is at the heart of BNE's operations.



ACCESS FOR ALL

Access is a key focus for BAC and we have a team dedicated to ensuring our terminals are compliant and all upgrades improve access and the overall airport experience for people with special needs.

This year BAC held its first Accessibility Working Group. This group represents key disabilities groups across South East Queensland in a collaborative approach towards supporting passengers with additional needs travelling through Brisbane Airport.

QUT has also commenced a research proposal for people with dementia travelling through BNE. Audits of existing infrastructure and training material are being developed with an application to Alzheimer's Australia for BAC to be an approved Dementia-friendly organisation.

AIRPORT AMBASSADORS

Every week more than 171 volunteer Airport Ambassadors rove the Domestic and International Terminals providing courteous, friendly and free assistance to travellers and visitors. With visitors from Asia now accounting for 37.1 per cent of total international visitors to Brisbane, Chinese speaking Ambassadors are available to help and can be easily identified by their red shirts.

This year, BNE's Airport Ambassador team won gold for 'Outstanding contribution by a volunteer or Volunteer Group' at the 2015 Queensland Tourism Awards.

DIGITAL INNOVATION

BAC's digital journey is centred on assisting and supporting 'the connected traveller' through providing a seamless digital experience with real-time, relevant content across a number of virtual channels.

Initiatives introduced as part of BAC's Digital Strategy, including the BNE App and the Digital Departure Card, were instrumental in BAC winning the Digital Strategy Award in the 2015 Lord Mayor's Business Awards.

The judges were particularly impressed with how BAC engaged with the Brisbane community, including collaborating with QUT, to research and develop its digital solutions.

In FY16, some of digital innovations rolled out included:

- Releasing Version 2.1 of the Brisbane Airport App (Android and iOS) including being the first airport in Australia to extending the iOS App to the Apple Watch.
- Adding to BAC's e-commerce capability with the introduction of hotel bookings on our website www.bne.com.au in partnership with Booking.com.
- Enhanced Wi-Fi coverage to all areas of the International Terminal, along with improved analytics and communication capability.
- Introducing digital menus with foreign language translations at food and beverage outlets in the International Terminal.
- Implementing Dr Voxx feedback system to monitor customer experience in key locations throughout the International Terminal.
- Installing variable display digital signs at the car park entry points.



THE CONNECTED TRAVELLER

Social Media plays a critical role for BAC for direct engagement with our community, customers and media, especially when information needs to be shared quickly.

BAC has a significant presence on Twitter, Facebook, Instagram, LinkedIn and YouTube and continues to grow the audience for each of these important platforms through the sharing of engaging content and speedy response times.

Other communication initiatives include the bi-monthly BNE Mag which showcases Brisbane and Queensland's unique way of life, events, fashion, food and people, electronic direct mail newsletters, Project Fact Sheets and video clips highlighting exciting announcements and important project updates.

PARKING AND TRANSPORT

Convenient, secure and undercover short and long-term parking is available within walking distance to both terminals at BNE.

BAC also recently launched AIRPARK, a new centrally located open-air public car park with regular bus connections to both terminals.

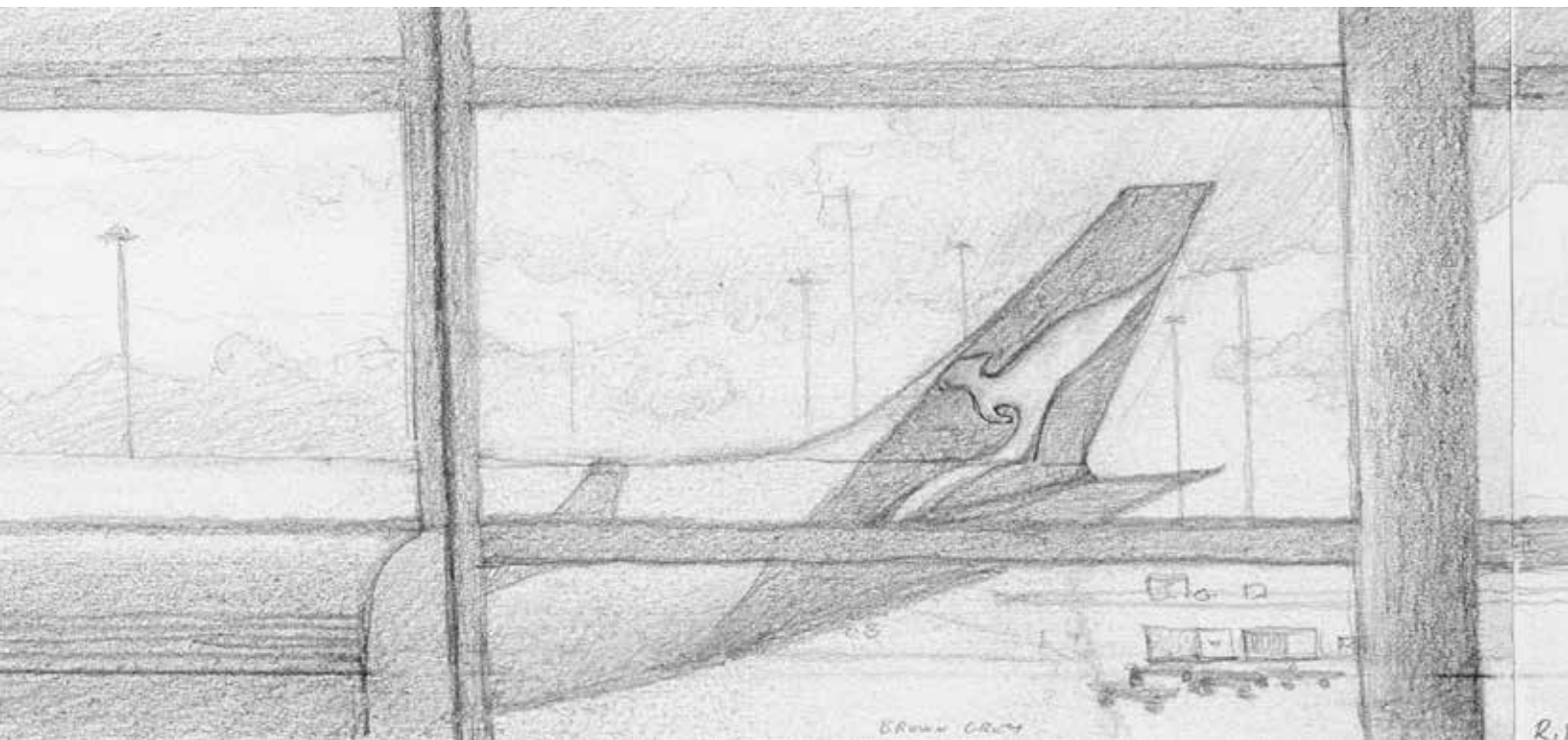
Special parking offers and the best deals are always available online and via the BNE App. A dedicated Pick-Up Waiting Area (first 30 minutes free) is located beside the long-term car park on Dryandra Road for drivers whose passengers are not yet ready to be collected, and accessible parking bays are located throughout the car parks and on the Departures/Arrivals Road under the Skywalk at the Domestic Terminal.

SHOPPING PRECINCT

Skygate, located at the entrance to BNE, is a retail, leisure and commercial hub. It's both a quality shopping environment, and a destination in itself.

Home to Queensland's first 24-hour Woolworths supermarket, the shopping precinct also has a 24-hour gym and 130 retailers including brand-name factory outlets, butcher, hairdresser, restaurants, chemist, medical clinic, hotel, beauty services, child care centres, liquor store and a golf leisure centre.

In FY16, the \$30 million transformation to the Skygate precinct was completed with an expansion to DFO, new commercial office space, alfresco dining and a new multi-level car park.



Our team

BOARD OF DIRECTORS



William (Bill) Grant
OAM, ALGA, FAICD
Chairman

Julianne Alroe
BEc, GAICD
Chief Executive
Officer and
Managing Director

Chris Freeman
AM, BCom, FAICD, FFin,
FDIA
Director

Chris McArthur
BE, MBA, FAICD
Director

Janice Morris
BCom, CA, GAICD
Director



Jos Nijhuis
Director

**Matina
Papathanasiou**
BCom, LLB, GAICD
Director

Tom Parry
AM, BEc (Hons),
MEc, PhD
Director

John Ward
BSc, FAIM, FAICD, FAMI,
FCILT, FRAeS
Director

ALTERNATE DIRECTORS



Tony Harrington
AM, FCA, SF Fin
Alternate
Alternate Director
for Jos Nijhuis

Kirsten Whitehead
BCom/LLB (Hons), GDLP
Alternate Director
for Matina
Papathanasiou
and Tom Parry

Alan Wu
MCom, CFA, GAICD
Alternate Director
for Chris McArthur

SENIOR MANAGEMENT



A

David Malek
Chief Financial
Officer

B

Andrew Brodie
General Manager
Airline and Retail
Management

C

Krishan Tangri
General Manager
Assets

D

Stephen Goodwin
General Manager
Operations

E

Roel Hellemons
General Manager
Strategic
Planning and
Development

F

Gwilym Davies
Head of People
and Culture

G

Rachel Crowley
Head of Corporate
Relations

H

H

Sarah Thornton
General Counsel and
Company Secretary

I

I

John Tormey
General Manager
Commercial
Businesses

BAC Holdings Limited financial statements for the year ended 30 June 2016

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Directors' report

The Directors present their report along with the consolidated financial report of BAC Holdings Limited ('BACH') and its controlled entities, BAC Holdings No. 2 Pty Limited and Brisbane Airport Corporation Pty Limited ('BAC') (together the 'BAC Group') for the year ended 30 June 2016.

1. Principal activities

The principal activity of the BAC Group during the course of the year was the operation and development of Brisbane Airport.

2. Operating and financial review

	2016 \$000	2015 \$000
Revenue from ordinary activities	643,175	610,998
Operating expenses	(168,153)	(158,678)
Revenue from ordinary activities less operating expenses	475,022	452,320
Depreciation and amortisation	(101,188)	(100,359)
Finance costs	(120,355)	(131,660)
Operating results	253,479	220,301
Redeemable preference shares dividend	(50,437)	(46,921)
Change in fair value of investment property	54,884	34,067
Change in fair value of non-designated derivatives	(6,120)	19,070
Unrealised foreign exchange gain	7	1,905
Profit before income tax	251,813	228,422
Income tax expense	(76,563)	(68,601)
Profit for the year	175,250	159,821

The core underlying business grew strongly in the year ended 30 June 2016, which is reflected by the increase in total revenue from ordinary activities of 5.3% from \$611.0 million in the prior year to \$643.2 million.

Revenue from aeronautical activities was \$249.3 million, an increase of \$5.7 million or 2.4%. This was due to growth in international and domestic passengers (up 2.0%) and pricing increases per aeronautical agreements.

Revenue from landside transport activities was \$124.8 million, an increase of \$5.8 million or 4.8% from the prior year. This was contributed to by passenger growth and new and improved car parking products.

Investment property revenue was \$76.7 million, an increase of \$7.3 million or 10.5% from the prior year. The increase was mainly due to new tenancies, higher turnover rent and annual rent increases.

Revenue from retail activities was \$73.1 million, an increase of \$6.3 million or 9.5% from the prior year. The increase was as result of higher duty free and terminal retail activity.

Total operating expenses were \$168.2 million, an increase of 6.0% from the prior year. Maintenance and contract services were \$41.1 million, an increase of \$4.3 million or 11.8% from prior year resulting from additional maintenance on a number of newly completed assets, new car parking products and terminal upgrades. Staff expenses were \$37.6 million, an increase of \$3.2 million or 9.4% from the prior year. This increase reflects the wage rises along with additional resourcing required due to the increased level of activity throughout the airport. Utilities were \$34.4 million, an increase of \$2.8 million or 8.8% from the prior year, reflecting growth of the airport precinct and increased electricity prices. Revenue from ordinary activities less operating expenses was \$475.0 million, an increase of 5.0% from the prior year. The BAC Group's investment property portfolio recorded a valuation increment of \$54.9 million (revaluation increase of 4.6% on the investment property value) compared to a revaluation increment of \$34.1 million (revaluation increase of 3.1% on the investment property value) in the prior year.

Profit from ordinary activities before the redeemable preference shares dividend, changes in fair value of investment property and non-designated derivatives, unrealised foreign exchange gain and income tax expense was \$253.5 million, an increase of \$33.2 million from the prior year profit of \$220.3 million. Profit before income tax was \$251.8 million (2015: \$228.4 million), an increase of \$23.4 million on the prior year. The main driver of this increase was a favourable movement in the fair value of investment property.

Directors' Report

3. Dividends

The redeemable preference shares dividend payable by BACH has been accrued in the financial statements. No dividends were declared and paid by BACH during the current financial year (2015: \$20.0 million).

4. State of affairs

There were no significant changes in the state of affairs of the BAC Group during the year.

5. Events subsequent to reporting date



In the period between the end of the financial year and the date of this report, no item, transaction or event of a material or unusual nature has arisen that is likely to significantly affect the operations of the BAC Group, the results of those operations or the state of the affairs of the BAC Group, in future financial years.

6. Likely developments

In July 2016, management commenced a detailed review of calculations and tests applied in determining the amount of historic Redeemable Preference Share dividends and Performance Share dividend payments. Investigations are continuing and final results are yet to be presented to the Board for consideration. Once the review is finalised, it may be that additional dividend payments will be made to shareholders.

7. Directors

The Directors of BACH at any time during or since the end of the financial year are:

Name and qualifications	Experience, special responsibilities and other directorships
<p>William (Bill) Grant OAM, ALGA, FAICD</p> <p>Chairman and Non-Executive Director</p> <p>Date appointed: 28/01/2009</p> 	<p>Bill was appointed to the Board on 28 January 2009 following an earlier appointment as Director from April 2007 until May 2008. He was appointed as Chairman of the Board on 25 September 2009. He was also Alternate Director for Dr Pieter Verboom from August 2008 to September 2009.</p> <p>Bill currently holds a number of other board and advisory board positions, including being a Director of New Hope Corporation Limited and Chairman of Bridgeport Energy Pty Limited (100% owned subsidiary of New Hope Corporation Limited).</p> <p>Bill has significant experience in property development, venue management, and project management. Previously, Bill held positions as CEO of Southbank Corporation and Newcastle City Council, and was Chairman of the Urban Land Development Authority of Queensland, Chairman of the Townville CBD Taskforce, a Trustee of the Queensland Performing Arts Centre (QPAC) and a Director of Brisbane Development Association.</p> <p>In January 2013 Bill was awarded the Medal of the Order of Australia for services to business and to the community.</p>
<p>Julieanne Alroe BEc, GAICD</p> <p>CEO & Managing Director</p> <p>Date appointed: 01/07/2009</p> 	<p>Julieanne Alroe was appointed to the position of CEO and Managing Director at Brisbane Airport Corporation Pty Limited in July 2009. In addition to this role, Julieanne currently holds board positions with Tourism and Events Queensland and Infrastructure Australia. She is also President of the Queensland Futures Institute.</p> <p>Prior to this recent appointment, Julieanne developed extensive experience within the aviation industry after holding a number of roles at Sydney Airport Corporation. These roles included executive management positions in the commercial, operations, corporate affairs, and planning and infrastructure departments.</p> <p>Previous board appointments include the position of Chairman of Airports Coordination Australia Ltd and Airports Council International Safety and Technical Standing Committee. She was also a Board member of The Queensland Theatre Company, Australia Trade Coast Ltd and the International Grammar School Sydney.</p> <p>Julieanne has a Bachelor of Economics from the University of Queensland and is a Graduate of the Australian Institute of Company Directors.</p>




Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Chris Freeman AM, BCom, FAICD, FFin, FDIA Non-Executive Director Date appointed: 01/03/2014</p> 	<p>Chris was born and educated in Queensland and has significant company directorship experience in Australia and abroad in the property and finance sectors. He is a Director of Sunland Group Ltd, Chair Urban Renewal Brisbane City Council, Vice President Tennis Australia and Chair of the Queensland Performing Arts Trust, and was a Director of Watpac from May 2011 and Chairman from 2012 until November 2014.</p> <p>Prior to joining Watpac, Chris held the position of Chairman, Development for Queensland, United Kingdom and United Arab Emirates at Mirvac. In this international role, he was responsible for the market review and developments within the property sector in both the UK and the UAE. Previously, Chris was the Chief Executive Officer for Mirvac Queensland from 1998 to 2008 where he was instrumental in directing the growth of Mirvac in Queensland and was responsible for the success of a range of large scale multi-awarded projects. He was Executive Chair UAE and UK for two years prior to leaving Mirvac. He resigned from his full time positions at Mirvac in January 2010 and was subsequently appointed to a consultancy position.</p> <p>Chris' former roles include Executive Director, Sunland Group for two years and the Head of Business Banking at QIDC for six years. In addition to his extensive property development experience, he has held responsibility at an executive management level in the finance markets operating in the property, corporate and agri-business sectors.</p> <p>Chris is a past President of the Urban Development Institute of Australia and remains a life member. He has a strong interest in the arts and sport and continues to hold a range of appointments in the arts, sports and government sectors at State and Federal level. He holds a Bachelor of Commerce from The University of Queensland and has completed advanced management programmes at the University of Hawai'i, INSEAD in France and Mt Eliza Staff College. In June 2009, Chris was awarded a Member in the General Division of the Order of Australia (AM) for his contribution to the property development industry, the arts and other cultural affairs.</p> <p>Chris is Chairman of the BAC Property Committee.</p>
<p>Chris McArthur BE, MBA, FAICD Non-Executive Director Alternate Director for John Ward Date appointed as Director: 25/11/2008 Date appointed as Alternate Director for John Ward: 07/12/2007</p> 	<p>Chris is a Partner, Infrastructure Investments, with Colonial First State Global Asset Management. He is responsible for the management of selected assets globally, primarily in the transport sector, including board representation on existing assets and evaluation of new investment opportunities.</p> <p>Chris was previously head of the commercial division of Pacific National, the former Toll/Patrick joint venture and Australia's largest private rail group. He also held senior management positions with Qantas in Sydney and London, including as Head of the QantasLink group of regional airlines. Chris is a current Director of Adelaide Airport and former Director of Perth Airport, and was inaugural Chairman of Airports Coordination Australia Ltd.</p> <p>As a full Director of Brisbane Airport Corporation, Chris is also Alternate Director for John Ward. Chris is Chairman of the Human Resources and Remuneration ('HRR') Committee and a member of the FARM Committee.</p>

Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Janice Morris BCom, CA, GAICD</p> <p>Non-Executive Director</p> <p>Date appointed: 01/11/2014</p> 	<p>Janice is an Executive Director in IFM Investors' Infrastructure Group. Janice's responsibilities include ongoing management of infrastructure assets and a range of portfolio matters across the Australian and global infrastructure funds, along with the origination and evaluation of fund investments.</p> <p>IFM Investors is well recognised as an asset manager of both alternative and traditional asset classes, and in infrastructure is one of the largest five managers globally, managing \$32 billion in infrastructure assets. Janice has extensive infrastructure experience and since joining in 2000 she has been involved in a range of transaction and asset management activities across IFM infrastructure funds' portfolio of assets.</p> <p>From 2006 to 2008, Janice also worked in London, where she assisted with the establishment of IFM Investors London office. She was also previously with Ernst & Young (Melbourne) with the Assurance and Advisory Business Group and Ernst & Young (London) in the Transaction Advisory Services team. Janice's current other directorships include Wyuna Water.</p> <p>Janice is a member of the FARM and HRR Committees.</p>
<p>Jos Nijhuis</p> <p>Non-Executive Director</p> <p>Date appointed: 01/01/2015</p> 	<p>Having joined Schiphol Group as a board member in 2008, Jos was appointed President & CEO from 1 January 2009 and re-appointed in 2012. He is also Non-Executive Director of Aéroports de Paris. Jos started his career as an accountant and worked for many years (1980 to 2008) at PricewaterhouseCoopers in various management capacities, most recently as CEO and Chairman of the Board of Management.</p> <p>Jos is a member of the ACI Europe Board and the Executive Committee. He is a member of the Supervisory Board and Chairman of the Audit Committee of SNS Reaal and a member of the Supervisory Board and Chairman of the Audit Committee of Aon Groep Nederland B.V. Jos is also active in the social sector as a board member of Stichting Nationale Opera & Ballet. In addition, he is a member of the Executive Board of VNO-NCW – The Confederation of Netherlands Industry and Employers and of the Amsterdam Economic Board.</p>
<p>Matina Papathanasiou BCom, LLB, GAICD</p> <p>Non-Executive Director</p> <p>Date appointed: 15/05/2009</p> 	<p>Matina co-founded QIC Global Infrastructure in 2006, which now manages \$7.1bn across 11 global direct infrastructure investments. A further \$6.6 billion has been realised for clients.</p> <p>As Deputy Head of Global Infrastructure, Matina has overall responsibility for portfolio construction. She is a member of the Investment Committee, chairs the Asset and Investments Committee, and is a member of the Management Committee. Matina has an extensive background in the finance and infrastructure industry, particularly in investment, corporate finance, business plan and strategic management of infrastructure businesses. She was previously an investment banker with Bankers Trust and Macquarie Bank. Matina commenced her career as a tax adviser with Arthur Andersen.</p> <p>Matina has completed a Bachelor of Laws and a Bachelor of Commerce from the University of NSW. Matina is currently a director of Northwestern Roads Group and EPIC Energy (alternate) and has previously served on the boards of Pacific Solar and TransGrid. Matina is a graduate of the Australian Institute of Company Directors, a member of Chief Executive Women and of the UNSW Business School Alumni Leaders.</p> <p>Matina is Chair of the FARM Committee.</p>



Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Thomas Parry AM, BEd (Hons), MEd, PhD</p> <p>Non-Executive Director</p> <p>Date appointed: 01/07/2012</p>	<p>Tom is a Director of ICON Water, ASX Compliance (the regulatory arm of the Australian Securities Exchange) and a Director of Powerco New Zealand. He was Foundation Chairman of the Australian Energy Market Operator (AEMO) from 2008-2015; Chairman of First State Super Trustee Corporation from 2000 to 2014 and Chairman of First State Super Financial Services from 2010 to 2015. He was Chairman of Sydney Water Corporation from 2006 to 2013. He also is an advisor to QIC.</p> <p>From 2004 to 2009, he had several roles with Macquarie Bank, the last four and a half years advising Macquarie Capital on utility and infrastructure assets in Australia and overseas. For the previous 12 years, Tom was Foundation Executive Chairman of the Independent Pricing and Regulatory Tribunal of NSW ('IPART') and its predecessor Government Pricing Tribunal, the first utility regulator in Australia. He was Chairman of NSW Gas Council in 1995 before its functions were absorbed into IPART. He was also the Foundation NSW Natural Resources Commissioner from 2004 to 2006. He was an ex officio Commissioner of the Australian Competition and Consumer Commission; a member of the NSW Council on the Cost and Quality of Government, a board member of SE Area Health, a foundation Director of the NSW Clinical Excellence Commission and a Director of the Children's Medical Research Institute. He was Chair of the Expert Panel for the 2011/12 review of the structure of the NSW electricity network businesses.</p> <p>Tom has had over 40 years' experience as an academic, business and public policy consultant, in the financial sector and as a regulator. He has been Head of the School of Economics, The University of New South Wales and Dean, Faculty of Commerce, University of Wollongong.</p> <p>Tom is a member of the HRR Committee.</p>
	
<p>John Ward BSc, FAIM, FAICD, FAMI, FCILT, FRAeS</p> <p>Non-Executive Director</p> <p>Date appointed: 24/11/1997</p>	<p>John is a professional company director and corporate advisor. He was interim Chairman of the Board from 30 January 2009 to 25 September 2009, and is a member of the FARM Committee, previously holding the position of Committee Chairman for 13 years.</p> <p>John retired as the General Manager Commercial of News Limited in May 2001. Prior to joining News Corporation in mid-1994, he was Managing Director and Chief Executive of Qantas Airways Limited. This culminated a 25-year career with the airline in a variety of corporate and line management roles covering Australia, Asia, Europe and North America.</p> <p>John is an Honorary Life Governor of the Research Foundation of Information Technology and a Director of Adelaide Airport Limited, Ward Advisory Services and Ward Securities Pty Limited. He was the Chairman of Wolseley Private Equity for 10 years until July 2014 and Chairman of the NSW Freight Advisory Council from June 2010 until its dissolution in January 2012.</p>
	
<p>John Allpass FCA, FCPA, FAICD</p> <p>Alternate Director for Jos Nijhuis</p> <p>Date appointed: 01/01/2015 Date resigned: 31/12/2015</p> <p>Alternate Director for Pieter Verboom from 17/09/2009 until 01/01/2015</p>	<p>John was Alternate Director for Jos Nijhuis until 31 December 2015 and served on the Board from 2009 until 2015. He was a member of the FARM Committee from September 2009 and Chairman of the FARM Committee from July 2011 until December 2015. He has for more than 20 years been an independent Non-Executive Director of various companies.</p> <p>John was a Director of Schiphol Australia Pty Limited until 2015. His other board appointments have included Chairman of Envestra Limited from 2002 to 2014 and Director since 1997, Bupa Australia Group (2008 to 2013), BrisConnections Management Company Limited Group (2008 to 2013), MBF Australia Limited (1999 to 2008), Macquarie Bank Limited (1994 to 2007) and QIC (1991 to 2008).</p>
	<p>John is a Chartered Accountant by profession and was a Partner in KPMG for 22 years and Queensland Managing Partner from 1984 to 1993. During his career in KPMG, he acted as an Auditor of publicly listed companies and other non-listed enterprises. He also established a substantial corporate recovery practice and acted as Receiver and Manager or Liquidator of many companies.</p>



Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Tony Harrington AM, FCA, SF Fin</p> <p>Alternate Director for Jos Nijhuis</p> <p>Date appointed: 01/01/2016</p> 	<p>Mr Harrington is the Chief Executive of MinterEllison. He has a distinguished career in financial and professional services, with over 35 years of business and strategic leadership experience, in Australia and internationally.</p> <p>Most recently, Mr Harrington was Managing Director of the fast-growing and innovative global investment bank, Moelis & Company. Prior to that, he was Global Managing Partner, Strategy & Transformation at PricewaterhouseCoopers ('PwC') and was a member of the PwC Global Executive Leadership Team. From 2000 to 2008, Mr Harrington was Australian Senior Partner and Chief Executive of PwC, coming into the position not long after the merger of Price Waterhouse with Coopers & Lybrand, and oversaw the successful cultural integration and significant growth of the merged firm in Australia. At Coopers & Lybrand, Mr Harrington was Deputy Chairman of the Firm and National Managing Partner of Taxation Services.</p> <p>Mr. Harrington holds a Bachelor of Commerce from the University of New South Wales. He is a Fellow of the Institute of Chartered Accountants, a Senior Fellow of FINSIA, Chairman of The Australian Charities Fund and advisor to the Sydney University Medical School.</p> <p>He was appointed a Member of the Order of Australia (AM) in 2011 in recognition of his charitable work.</p>
<p>Perry Clausen BCom, CA (Canada), MTax, MAICD</p> <p>Alternate Director for Chris McArthur</p> <p>Date appointed: 25/11/2008</p> <p>Date resigned: 03/11/2014</p> <p>Date re-appointed: 13/08/2015</p> <p>Date resigned: 08/04/2016</p> 	<p>Perry is Global Head of Infrastructure Investment at Colonial First State Global Asset Management ('CFSGAM'), having commenced with CFSGAM in March 2007.</p> <p>Perry has overall responsibility for the global unlisted infrastructure investment business, with a primary focus on direct investment in and management of major infrastructure businesses including airports, toll roads, water distribution, and pipelines. In his prior role, he was Director of infrastructure investments for Super Investment Management Pty Limited, a wholly owned funds management company of Retail Employees Superannuation Trust ('REST'). Perry was responsible for establishing a direct infrastructure portfolio and for managing REST's investment in a number of entities.</p> <p>Perry has over 25 years of infrastructure and financial experience including nine years at the National Australia Bank where he was a Director in the Project and Structured Finance Group. He was for six years a Director and Investment Committee member of National Australia Bank Superannuation Pty Ltd, the trustee of the \$2 billion National Australia Bank Group Superannuation Fund. Perry is a Director of a number of CFSGAM corporate entities.</p>

Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Ross Israel BCom, LLB, SFFin</p> <p>Alternate Director for Matina Papathanasiou and Tom Parry</p> <p>Date appointed as Alternate Director for Matina Papathanasiou: 15/05/2009</p> <p>Date resigned: 19/11/2015</p> <p>Date appointed as Alternate Director for Tom Parry: 01/07/2012</p> <p>Date resigned: 19/11/2015</p>	<p>Ross co-founded QIC's Global Infrastructure ('GI') division in early 2006. Ross provides overall leadership to the team and has oversight on all of the team's investments.</p> <p>Ross is a member of the GI Investment Committee and on QIC's Executive Committee. Ross has over 24 years of experience in the field of corporate finance and funds management with specialist skills in infrastructure, capital raisings and M&A.</p> <p>Prior to QIC, Ross was with AMP Capital from 2000 to 2005. He co-led the AMP team responsible for the creation of the Diversified Utility and Energy Trusts ('DUET'). He was then seconded into the management joint venture between AMP Capital and Macquarie Bank established prior to DUET's listing on the ASX in August 2004. He was DUET's Chief Operating Officer until his departure to QIC. Prior to AMP Capital, Ross worked for ABN AMRO and BZW in their Australian Infrastructure Corporate Advisory and London M&A teams, and with Ernst & Young in their Sydney Corporate Tax division.</p> <p>Ross is currently a Director of CampusParc (OSU Car Parking) and an Alternate Director of Port of Brisbane.</p>
	
<p>Kirsten Whitehead BCom/LLB (Hons), GDLP</p> <p>Alternate Director for Matina Papathanasiou and Tom Parry</p> <p>Date appointed as Alternate Director for Matina Papathanasiou: 19/11/2015</p> <p>Date appointed as Alternate Director for Tom Parry: 19/11/2015</p>	<p>Kirsten joined QIC in early 2010 and is currently responsible for portfolio management for QIC Global Infrastructure's separately managed accounts and large co-investors. Her role is focused on infrastructure investment management, investment structuring, associated portfolio construction, managing client mandate requirements and asset management. Kirsten is also a member of the QIC Global Infrastructure Asset and Investment Management Committee.</p> <p>Since joining QIC, Kirsten has had a broad exposure to a variety of sub-sectors from both an investment origination and asset management perspective. This has included being an integral part of the teams that successfully acquired Epic Energy South Australia, Heathrow Toggle and implementing the strategy for the US public private partnership investments. She has also held asset management roles in the transport and utilities sectors, in particular with respect to Brisbane Airport, Port of Brisbane and Thames Water. Kirsten has also had a long standing involvement in the management of QIC's investment in Brisbane Airport.</p> <p>Prior to working with QIC, Kirsten was employed by the Virgin Group in London for two years where she evaluated and managed a portfolio of investments in various sectors including renewable energy, telecommunications, healthcare and aviation. Previously, Kirsten was employed as a corporate solicitor at King & Wood Mallesons where she had experience in mergers and acquisitions, joint venture arrangements, corporate restructurings and acting for investors in infrastructure and resource projects.</p> <p>Kirsten holds a Bachelor of Commerce / Bachelor of Laws (Honours) from the University of Queensland and a Graduate Diploma of Legal Practice from the College of Law, New South Wales.</p>
	

Directors' Report

7. Directors (continued)

Name and qualifications	Experience, special responsibilities and other directorships
<p>Alan Wu MCom, CFA, GAICD</p> <p>Alternate Director for Chris McArthur</p> <p>Date appointed: 03/11/2014</p> 	<p>Alan is Director, Infrastructure Investment for Colonial First State Global Asset Management. He is responsible for the management of transport and utilities infrastructure assets, as well as sourcing, evaluating and securing investment opportunities within the Infrastructure team. He currently serves as a Director on the boards of International Parking Group, Etihad Stadium, and First Gas, and as an Alternate Director of Adelaide Airport. He has previously served as a Director of Bankstown and Camden Airports and an Alternate Director of Perth Airport.</p> <p>Alan has over 14 years of experience in the investment, management and divestment of infrastructure assets, as well as portfolio management. Prior to being appointed Director, Alan held various roles within the team including Head of the Analytics team. Alan was also actively involved in the establishment and growth of CFSGAM's flagship infrastructure funds in Australia.</p> <p>Alan holds a Master of Commerce (Funds Management) from The University of New South Wales, and Bachelor of Commerce (Accounting and Finance) from the same university. He is a CFA charter holder and a graduate member of the Australian Institute of Company Directors.</p>

8. Company Secretary

Name and qualifications	Experience
<p>Sarah Thornton BA, DipEd, LLB (Hons), GradDipACG, FGIA, GAICD</p> <p>General Counsel and Company Secretary</p> 	<p>Sarah is Company Secretary and General Counsel for each company of the BAC Group consolidated entity.</p> <p>Sarah commenced with BAC in November 2010 and was appointed to the Senior Management Team on 4 March 2013. She is responsible for managing the delivery of legal services across the business as well as company secretarial and related governance duties.</p> <p>Sarah has a diverse background in commercial roles including customer service management, sales management and as project manager for Virgin Australia's venture into long haul operations. After taking up a legal career, Sarah was a Solicitor with Clayton Utz, moving to Virgin Australia (formerly Virgin Blue Airlines) as its first in house counsel in 2002 and then on to become the first South East Asia/Australasia Regional General Counsel for global mining equipment manufacturer, Joy Global, Inc, in 2008.</p> <p>Sarah has over 10 years' experience in governance roles including Alternate Director on the board of Polynesian Blue Airlines (a joint venture with the Samoan Government) and Company Secretary for the Australian-based subsidiaries of the Joy Global group.</p>

Directors' Report

9. Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the financial year were:

DIRECTOR	BOARD MEETINGS		FARM COMMITTEE MEETINGS		HRR COMMITTEE MEETINGS		PROPERTY COMMITTEE MEETINGS	
	A	B	A	B	A	B	A	B
W Grant (Chairman of the Board)	10	10	4 [#]	–	3 [#]	–	3	3
J Alroe (CEO & Managing Director)	10	10	4 [#]	–	1 [#]	–	3	3
C Freeman	10	10	3	5	1 [#]	–	3	3
C McArthur (Director and also Alternate Director for J Ward)	9	10	4	5	3	3	3	3
J Morris	10	10	3 [#]	–	3	3	3	3
J Nijhuis	2	10	1	–	–	–	–	3
M Papathanasiou	9	10	4	5	–	–	3	3
T Parry	10	10	–	–	2	3	3	3
J Ward	9	10	4	5	–	–	2	3
J Allpass (Alternate Director for J Nijhuis until 31 Dec 2015)	4 [*]	4	2	2	–	–	2	2
P Clausen (Alternate Director for C McArthur from 13 Aug 2015 until 8 Apr 2016)	1	1	–	–	–	–	–	–
T Harrington (Alternate Director for J Nijhuis from 1 Jan 2016)	6 [*]	6	3 [#]	–	1 [#]	–	–	–
R Israel (Alternate Director for M Papathanasiou until 19 Nov 2015)	–	–	–	–	–	–	–	–
R Israel (Alternate Director for T Parry until 19 Nov 2015)	–	–	–	–	–	–	–	–
K Whitehead (Alternate Director for M Papathanasiou from 19 Nov 2015)	1	1	1	1	–	–	–	–
K Whitehead (Alternate Director for T Parry from 19 Nov 2015)	–	–	–	–	–	–	–	–
A Wu (Alternate Director for C McArthur)	–	–	1	1	–	–	–	–

A - Number of meetings attended.

B - Number of meetings held during the year where the Director held office or was a member of the relevant committee.

* In capacity of invitee for one meeting.

Attended the relevant committee meeting as an invitee.

If any Circulating Written Resolutions of Directors were made during the year pursuant to rule 20.17 of the Constitution, these would be included in the number of Board meetings held and attended. Rule 20.17 states that such a resolution is 'as valid and effectual as if it had been passed at a duly convened meeting of the Board'. No such resolutions were made in the 2016 financial year.

Directors' Report

10. Indemnification

BACH on behalf of itself and its subsidiaries (including BAC) has entered into Deeds of Indemnity, Insurance and Access ('Deeds') with each Director, Alternate Director and Company Secretary and certain BAC senior managers ('Officers').

BACH has agreed to indemnify and maintain insurance in favour of each Officer with respect to certain liabilities which the Officer may incur acting as an Officer in accordance with the terms of the Deeds.

11. Insurance

During the year, the BAC Group has paid insurance premiums in respect of a Directors' and Officers' Liability Insurance Contract for current and former Directors and Officers, including officers of the BAC Group.

12. Environmental regulation

The operations of BAC are subject to a range of both Commonwealth and State legislation. Primary environmental compliance is governed by the Airports Act 1996 (Cth) and associated Airports Regulations 1997 and the Airports (Environment Protection) Regulations 1997 (Cth). The latter legislation specifically addresses issues of soil, air, water, preservation of habitat and excessive noise, but excludes gaseous emissions or noise from aircraft. Governance of environmental issues not specifically dealt with by the Commonwealth legislation reverts to the appropriate State legislation and local government by-laws. Locally, the Airport Environment Officer ('AEO'), appointed by the Department of Infrastructure and Regional Development ('DIRD'), is responsible for administering the Airports (Environment Protection) Regulations 1997 (Cth).

There have been no significant breaches of any environmental regulations to which BAC is subject.

13. Non-audit services

During the year, KPMG, the BAC Group's auditor, performed certain other services in addition to their statutory duties.

The Board considered the non-audit services provided during the year by the auditor and, in accordance with the recommendation provided by the FARM Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 (Cth) for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the BAC Group and have been reviewed by the FARM Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided are consistent with the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the BAC Group, acting as an advocate for the BAC Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of BACH, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 2.4 to the financial statements.

14. Lead auditor's independence declaration

The lead auditor's independence declaration is included on page 61 of the 2016 Annual Report and forms part of the Directors' Report for year ended 30 June 2016.

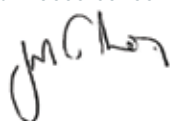
15. Rounding off

BACH is an entity of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in Brisbane on 30 September 2016 in accordance with a resolution of the Directors:



Bill Grant
Director



Julieanne Alroe
Director

Corporate Governance Statement

BACH is an unlisted public company limited by shares, primarily subject to the corporate governance requirements of the BACH Shareholders' Agreement, the BACH Constitution, the Corporations Act 2001(Cth) and common law principles. The Directors of the BAC Group are committed to embracing good corporate governance policies, practices and procedures. Fundamentally, the BAC Group believes good corporate governance is based on a strong organisational culture underpinned by shared principles and values.

The Board and management acknowledge that there are a number of models for good corporate governance, each of which has some principles of commonality, with other areas tailored for varying corporate structures, legal jurisdictions and local conditions. In Australia, these models include:

- the Australian Securities Exchange ('ASX') Corporate Governance Council 'Corporate Governance Principles and Recommendations' (3rd Edition);
- Investment and Financial Services Association Limited (IFSA) 'Blue Book: Corporate Governance – a Guide for Fund Managers and Corporations';
- the Governance Institute of Australia 'The Guidelines: Whole-of-organisation governance' (October 2015); and
- the Corporate Governance Standards issued by Standards Australia.

As an unlisted public company, BACH has no obligation to comply with or report against ASX guidelines or listing rules. Nor are many of the ASX (or other aforementioned entities) principles necessarily applicable or appropriate to the BAC Group's corporate arrangements. Therefore, the Board has considered each model and adopted a number of key common aspects consistent with the BAC Group's particular circumstances and overarching governance documents – the Constitution and the BACH Shareholders' Agreement.

This statement, which was issued by the Board on 30 September 2016, outlines the main corporate governance practices that were in place during the 2016 financial year.

(a) Board of Directors

Role of the Board

The Board is responsible for the overall corporate governance of the BAC Group including participation in charting its strategic direction, objective setting, policy guidelines, goals for management and monitoring of the achievement of these matters. It actively engages in and guides development of strategy and approves the Business Plan and Operating and Capital Budgets each financial year. The Board also reviews matters of a major or unusual nature which are not in the ordinary course of business.

Having set the BAC Group's direction, the Board delegates management responsibility to the CEO & Managing Director. The Board has also established a risk management framework including a system of internal control, a business risk management process and a delegation policy.

To augment the roles, responsibilities and functions of the Board and individual Directors as described in the Constitution and the BACH Shareholders' Agreement, the Board has a complementary Board Charter and Board Code of Conduct.

The BAC Group has written agreements in place with each Director and senior executive setting out the terms of their appointment. New Directors participate in a comprehensive induction programme and all Directors participate in various ongoing professional development activities. The Company Secretary also has a dual line of reporting to the Board and the CEO & Managing Director.

Size and composition of the Board

The BACH Constitution, the BACH Shareholders' Agreement and the Board Charter determine the number of Directors on and composition of the Board, including that there must be not less than three and no more than nine Directors (excluding Alternate Directors). Currently, there are nine Director positions. The nine Director positions comprise eight Non-Executive Directors, including the Chairman, and one Executive Director, being the CEO & Managing Director.

A Director may from time to time appoint an Alternate Director by giving notice in writing in the prescribed form. At the date of this statement, four Alternate Directors are appointed.

The names of the Directors and Alternate Directors of the BAC Group in office at the date of this statement are set out in the Directors' Report.

Corporate Governance Statement

(a) Board of Directors (continued)

Key meeting protocols

Resolutions at Board meetings are decided by a simple majority of votes cast by Directors, with each Director entitled to cast one vote. The Chairman does not have a casting vote.

A quorum for Board meetings is five Directors. The Chief Financial Officer is invited to the meetings at the discretion of the Board.

The Board holds approximately eight meetings each year, plus a strategy workshop and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise outside the normal Board meeting schedule. In addition, the Board also utilises Circulating Written Resolutions of Directors pursuant to the Constitution and *Corporations Act 2001* (Cth) if required.

To assist in the execution of its responsibilities, the Board has established a number of Board committees, being the:

- Finance, Audit and Risk Management ('FARM') Committee;
- Human Resources and Remuneration ('HRR') Committee; and
- Property Committee,

(see below for further details).

The Board has also established a risk management framework for the BAC Group including a system of internal control, and a business risk management process. Further details of the BAC Group's risk management system are provided later in this statement.

Board performance assessment

During the 2014 financial year, the Board undertook a comprehensive board evaluation that was facilitated by an external independent specialist organisation. A detailed report was provided which commented on the well-developed system of governance within the BAC Group and the depth and broad range of skills amongst Directors. All Directors participated in a workshop to review the findings of the report. The findings of the report were implemented in the 2015 financial year.

(b) FARM Committee

As mentioned above, to assist in the execution of its responsibilities, the Board established the FARM Committee, the composition, role and responsibilities of which are governed by a Charter. The role of the Committee is wide ranging to include matters of a financial, accounting, audit, risk and insurance nature.

The role includes monitoring the established framework of internal control and risk management for the BAC Group and reviewing any changes to or improvements of that framework. It also gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies, or for inclusion in the financial report.

The members of the Committee during the 2016 financial year were:

- John Allpass, Chairman (from 1 July 2015 to 31 December 2015);
- Matina Papatthasiou, Chair (from 1 January 2016 to present) and member (from 1 July 2015 to 31 December 2015);
- Chris Freeman;
- Chris McArthur; and
- John Ward.

The CEO & Managing Director and the Chief Financial Officer, along with the external auditors and internal auditors (as appropriate), are invited to the meetings at the discretion of the Committee. The Company Secretary is Secretary for the Committee.

The overall objective of the Committee is to assist the Board to discharge its corporate governance responsibilities to exercise due care, diligence and skill in relation to the BAC Group's:

- reporting of financial information to users of financial reports;
- application of accounting policies;
- financial management;
- internal control system;
- financial policies and practices;
- compliance systems and oversight; and
- monitoring and controlling risk management systems.

Corporate Governance Statement

(b) FARM Committee (continued)

The Board has an External Audit Policy which covers:

- appointment, removal and rotation of the external auditor;
- performance of the external auditor;
- external auditor independence;
- provision of non-audit related services;
- responsibility of the external auditor; and
- audit delivery and reporting.

Both the BAC Group and its external auditor comply with the requirements of the Corporations Act 2001 (Cth) and APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

The external auditor, KPMG, has declared its independence to the Board and has confirmed its audit signing partner will be rotated every five years. The FARM Committee has examined material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues are fully complied with.

The following processes have also been implemented to further reinforce control of external auditor independence:

- the external auditor is to provide the BAC Group with annual independence declarations;
- the FARM Committee's Charter specifically makes reference to its role in establishing and monitoring external auditor independence; and
- the Finance Department Quarterly Compliance Report includes a specific declaration regarding external auditor independence.

Directors who are not members are also invited to attend meetings. The Board receives access to all Committee agendas and papers, copies of all FARM Committee meeting minutes and oral briefings from the Committee Chair.

(c) HRR Committee

The BAC Board established the HRR Committee, the composition, role and responsibilities of which are governed by a Charter.

The Committee's role is to undertake appropriate activities to enable it to recommend to the Board, and thereafter monitor and report to the Board, on the following:

Board and Board committees:

- the aggregate level of Board remuneration for Non-Executive Directors and fees for membership of any Board committees;
- the level of individual Directors' Board remuneration and committee fees by category of directorship or membership respectively; and
- professional training and development for Non-Executive Directors.

Management and staff:

- CEO & Managing Director remuneration benchmarking, KPI performance and assessment;
- staff remuneration design, policies and practices (including short, medium and long term incentive and bonus arrangements) in line with market conditions, industry standards and legal obligations;
- performance review and performance management systems;
- staff development policies and practices;
- management succession planning at the senior level and other business critical roles;
- work health and safety ('WHS') planning and compliance, consistent with the FARM Committee's overarching responsibility for oversight of key risk management and compliance matters;
- management systems to ensure compliance with various regulatory requirements in respect of human resources management; and
- provision of advice on any other human resource or remuneration matters referred to the Committee by the Board.

Corporate Governance Statement

(c) HRR Committee (continued)

The members of the Committee during the 2016 financial year were:

- Chris McArthur, Chairman;
- Janice Morris; and
- Tom Parry.

Directors who are not members are also invited to attend meetings.

The Head of People and Culture is Secretary for the Committee. The Board receives copies of all HRR Committee meeting minutes and oral briefings from the Committee Chair.

(d) Property Committee

The BAC Board established the Property Committee, the composition, role and responsibilities of which are governed by a Charter.

The Committee's key objectives are to:

- enable greater Director focus on BAC's property business generally;
- consider alternative funding options for property development; and
- provide management with timely feedback and guidance on major property proposals.

All BAC Directors are members of the Committee. The Board receives copies of all Property Committee meeting minutes. The Company Secretary is the Committee Secretary.

(e) Shareholder relations

The Board has approved a Shareholder Investor Relations Policy, the purposes of which are to promote and enhance:

- effective and clear communications with shareholders;
- regular and timely updates on business performance;
- balanced information sharing across the shareholder group;
- access to key corporate documents;
- access to balanced and readily understandable information about key corporate proposals;
- a disciplined, professional approach to the flow of information from the BAC Group to shareholders at all times; and
- the use of appropriate channels of effective two-way communications at all levels.

The policy sets out a series of scheduled communication with Shareholders, as well as materiality threshold for notification to Shareholders.

(f) Risk management

Financial control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has established an internal control framework that can be generally described as follows:

- financial and management reporting – there is a comprehensive budgeting system with an annual budget and five year Business Plan approved by the Board. Actual results are reported against budget and revised forecasts for the year are prepared regularly. BACH and BAC report to equity and debt holders on a quarterly basis;
- quality and integrity of personnel – BAC's standards in respect of values and expectations of employees and contractors are clearly defined, including through induction programmes. Formal appraisals are conducted at least annually for all employees;
- operating unit controls – the BAC Group adopts financial controls and procedures including information system controls;
- functional speciality reporting – the BAC Group prepares Board information papers as required on various issues which arise in the course of operations in addition to Board requested information;
- investment appraisal – the BAC Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures and levels of authority;

Corporate Governance Statement

(f) Risk management (continued)

Financial control framework (continued)

- BAC has established the Confidential Reporting Policy to encourage Directors, management, other employees, contractors and suppliers who have witnessed, or know about, any misconduct to report it to the Corporate Risk and Compliance Manager. The policy sets out how BAC will respond to, and investigate reports of, misconduct, and outlines the protections available to those who lodge a report in good faith; and
- BAC also has a separate Fraud and Corruption Control Policy that sets out the procedures for the investigation of reports of fraudulent or corrupt conduct that are made under the Confidential Reporting Policy.

Each year, the CEO & Managing Director and Chief Financial Officer provide a Management Representation Letter to the BAC Group's external auditors and formally provide sign-off to the Board addressing matters such as internal control, compliance with accounting standards, asset values, liabilities, related party transactions and contingencies. In addition, the CEO & Managing Director provides a Compliance Report from management to the Board each quarter which, amongst other things, addresses matters of legal compliance and enterprise risk management. The BAC Group's external auditor also attends the Annual General Meeting and is available to answer questions from shareholders relevant to the audit.

Business risk management

The BAC Group has established a system of risk oversight and management that encompasses the culture, processes and structures that are directed towards identifying, assessing and managing risks that could have a material impact on the business. To this end, the BAC Group has formal Board Policies on Risk Management and Legal Compliance, with the objective of these programmes being to provide management with the guidelines and framework consistent with the respective Australian Standard AS/NZS ISO 31000:2009 'Risk management – Principles and guidelines' and compliance framework through Australian Standard AS 3806-2006. The BAC Group continues to facilitate and encourage a culture of appropriate risk management and compliance amongst its staff.

Further, sound risk management practice underpins the BAC Group's planning and decision making. As such, the BAC Group has established a Compliance and Risk Management Committee which is chaired by the CEO & Managing Director, to oversee the integration and application of risk management principles across the operations of the business.

In particular, the BAC Group has adopted a multi-faceted approach which reflects the current nature of its business activities. This comprises generalised and specific risk management initiatives including:

- enterprise-wide strategic risk identification, evaluation and treatment;
- major project risk identification, evaluation and treatment;
- significant contract risk assessments;
- regulatory compliance;
- insurance policy audits;
- WHS management systems based on Australian Standard AS/NZS 4801:2001 'Occupational health and safety management systems – Specification with guidance for use' (see further details later in this statement); and
- environmental risk programme.

Risk analysis is also embedded in the BAC Group's annual business planning process and Board strategy workshop. During the year, management reported to the Board as to the effectiveness of the BAC Group's management of its material business risks and the Board satisfied itself that these material business risks are being managed effectively.

Internal audit

Internal auditor services are provided by Deloitte. The internal auditor conducts a series of risk-based and routine reviews based on an annual plan agreed with management and the FARM Committee, with the objective of providing assurance to the Board on the adequacy of the BAC Group's risk framework and the completeness and accuracy of risk reporting by management.

The BAC Group has a Board approved Internal Audit Policy and a three year Internal Audit programme in place, which considers emerging risks and is integrated with risk management, compliance and the external statutory audit.

Corporate Governance Statement

(f) Risk management (continued)

Financial reporting

The CEO & Managing Director and the Chief Financial Officer have provided a written statement to the Board that:

- in their view, the BAC Group's financial reports are founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- the BAC Group risk management and internal compliance and control system is operating effectively in all material respects.

Monthly results are reported against the budget approved by the Board and revised forecasts for the year are prepared regularly.

(g) Environmental management

Airport Environment Strategy

The Airports Act 1996 (Cth) ('Airports Act') outlines the requirement for BAC to include in its Master Plan, an Airport Environment Strategy ('AES') which, at five yearly intervals, must undergo a review and reissue process. The Commonwealth Government approved Brisbane Airport's 2014 Master Plan and AES on 13 January 2015. The AES continues to set the strategic direction for environmental management and sustainability until the end of 2019. The range of the environmental legislation which applies to Brisbane Airport is identified throughout the document.

Environmental performance

The AES outlines a range of action items to demonstrate compliance with the Airports Regulations 1997 (Cth) and the Airports (Environment Protection) Regulations 1997 (Cth). The most significant includes the ongoing management of its Environmental Management System consistent with ISO 14001 and accreditation under the Airports Council International ('ACI') Airport Carbon Accreditation programme.

Environmental compliance

Compliance is overseen by a range of regulatory and self-monitoring initiatives. BAC's performance against the implementation of the commitments in the AES has been and will continue to be reviewed on a monthly basis in consultative meetings with the AEO and annually in the Annual Environment Report to the DIRD. BAC maintains registers and records pursuant to the Airports Act and Regulations.

BAC regularly reviews emission levels associated with processes for which BAC has operational control and compares those results to reporting thresholds outlined in the National Greenhouse and Energy Reporting Act 2007 (Cth). BAC also reports emission data to the National Pollutant Inventory.

Major developments

All large development projects on airport are assessed against the Airports Act requirements for a Major Development Plan ('MDP'). When triggered, BAC must submit a MDP for the approval of the DIRD Minister. The MDP process includes an automatic referral from the DIRD Minister to the Environment Minister under section 160 of the Environment Protection and Biodiversity Conservation Act 1999 (Cth) ('EPBC Act') for determination of the environmental assessment process and to provide advice on environmental matters back to the DIRD Minister.

Typically, the Environment Minister will accredit the Airports Act MDP process as the appropriate assessment vehicle for a major development but may decide an alternative assessment, as provided for in the EPBC Act, is appropriate. All MDPs must contain an assessment of the environmental impacts of the project and detail plans for addressing the impacts. All MDPs, prior to submission, are subject to a mandatory 60 business day public comment period.

Sustainability

To embed sustainability into the BAC Group's culture, a dedicated sustainability section was included in the 2014 BAC Airport Master Plan within the AES. In 2016, BAC also prepared a Corporate Sustainability Programme ('CSP') and is currently implementing the actions within the CSP. The CSP and sustainability section of the AES outline specific initiatives and projects with the aim to make BAC recognised as a leader in sustainability in Queensland.

New Parallel Runway

The New Parallel Runway ('NPR') received Australian and Queensland Government approval in late 2007, and is needed to address the continuing growth in air travel through Brisbane Airport. This growth is expected to exceed peak hour capacity of the airport's current runway system in the busy periods of the day.

Phase 1 (site clearing, drainage works, dredging and reclamation of the NPR footprint) was successfully completed in June 2015. BAC awarded the Phase 2 Engineering Design consultancy in January 2015 and design work is well underway. Phase 2 construction works for the airfield and associated works commenced in July 2016, with the NPR expected to be operational by September 2020.

Corporate Governance Statement

(h) Work health and safety

Overview

The business is subject to State legislation in the WHS field. WHS compliance is primarily governed by the Work Health and Safety Act 2011 (Qld) and the associated Work Health and Safety Regulation 2011 (Qld). This legislation provides a range of duties for ensuring the health and safety of persons who may be affected by the undertakings of the BAC Group. Further guidance on how to manage health and safety risks is provided through additional legislation such as the Electrical Safety Act 2002 (Qld) (and its associated Regulation) as well as various other documents including Codes of Practice and Australian Standards. Workplace Health and Safety Queensland and the Electrical Safety Office (Office of Industrial Relations, reporting to the Queensland Minister for Employment and Industrial Relations) are the regulators for this legislation.

Work health and safety compliance

BAC's WHS management system is certified to AS/NZS 4801:2001 and the system is externally reviewed against this standard every six months in order to retain accreditation. BAC successfully maintained its accreditation following two surveillance audits during the 2016 financial year.

The compliance framework forms the basis of a holistic methodology to health and safety driven by the Board and senior management and is underpinned by a cooperative, consultative approach by all relevant parties (including employees, contractors and tenants) to managing WHS risks arising out of BAC's business activities. This, combined with ongoing reviews of BAC's WHS performance against measureable objectives and targets, ensures that "due diligence" is exercised in the management of WHS risks.

(i) Diversity

Overview

The BAC Group is a values-based organisation whose vision includes creating a business environment that values partnerships and people. This vision is supported by a number of workplace strategies that promote diversity and inclusion in all elements of the work environment, including Bullying, Harassment and Unlawful Discrimination Policies which were reviewed in early 2014 and the Diversity Policy which was reviewed in early 2015. These policies:

- provide guidance for the development and implementation of programmes and initiatives aimed at promoting diversity and inclusion across all levels including staff, management and the Board. The BAC Group's definition of diversity extends beyond gender and also includes origin, age, race, cultural heritage, lifestyle, education, physical ability, appearance, language and other factors;
- require the establishment of clear measurements and reporting to management, the Board and the HRR Committee;
- encourage the adoption of diversity and inclusion strategies and incorporate flexible approaches to the individual needs of the workforce; and
- prohibit any form of unlawful discrimination, harassment or bullying.

Diversity compliance

Compliance in this area is in accordance with a number of pieces of legislation (including the Anti-Discrimination Act 1991 (Qld) and the Workplace Gender Equality Act 2012 (Cth)). In terms of gender diversity in the BAC Group's senior leadership positions, in 2016 there were:

- three women Directors on the Board of nine Directors; and
- three women senior managers on the 10 member senior management team.

As part of its compliance programme, BAC also reports annually to the Workplace Gender Equality Agency on gender composition, remuneration and availability of employment terms, conditions and practices.

BAC Holdings Limited

Financial statements

30 June 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$000	2015 \$000
Revenue from ordinary activities			
Aeronautical		249,316	243,576
Landside transport		124,799	119,048
Investment property		76,660	69,360
Retail		73,130	66,788
Operating property		43,773	42,635
Government mandated security		26,935	26,980
Interest		3,396	3,708
Other		45,166	38,903
Total revenue from ordinary activities		643,175	610,998
Operating expenses			
Maintenance and contract services		(41,074)	(36,730)
Staff		(37,570)	(34,351)
Utilities		(34,431)	(31,645)
Corporate and administration		(28,143)	(28,972)
Government mandated security		(26,935)	(26,980)
Total operating expenses		(168,153)	(158,678)
Revenue from ordinary activities less operating expenses		475,022	452,320
Depreciation and amortisation		(101,188)	(100,359)
Finance costs		(120,355)	(131,660)
Operating results		253,479	220,301
Redeemable preference shares dividend		(50,437)	(46,921)
Change in fair value of investment property	3.6	54,884	34,067
Change in fair value of non-designated derivatives	4.3(e)	(6,120)	19,070
Unrealised foreign exchange gain		7	1,905
Profit before income tax		251,813	228,422
Income tax expense	2.5	(76,563)	(68,601)
Profit for the year		175,250	159,821
Items that will not be reclassified subsequently to profit or loss			
Defined benefit superannuation fund actuarial gain/(loss), net of tax		(916)	773
Items that may be reclassified subsequently to profit or loss			
Hedge reserve, net of tax	4.3(e)	(94,494)	(46,400)
Total other comprehensive income		(95,410)	(45,627)
Total comprehensive income		79,840	114,194

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	2016 \$000	2015 \$000
Current assets			
Cash	3.1	32,674	34,010
Trade receivables and other	3.2	65,933	70,936
Inventories		907	800
Total current assets		99,514	105,746
Non-current assets			
Trade receivables and other	3.2	62,975	63,004
Intangible assets	3.3	823,014	823,014
Property, plant and equipment	3.4	2,890,469	2,771,069
Investment property	3.6	1,245,880	1,137,245
Derivative instruments	4.3(d)	271,800	192,328
Total non-current assets		5,294,138	4,986,660
Total assets		5,393,652	5,092,406
Current liabilities			
Trade payables and other	3.8	101,926	133,733
Interest-bearing liabilities and borrowings	4.1	-	105,167
Current tax payable		16,430	20,925
Total current liabilities		118,356	259,825
Non-current liabilities			
Interest-bearing liabilities and borrowings	4.1	2,989,153	2,876,925
Deferred tax liabilities	2.6	447,923	450,788
Derivative instruments	4.3 (d)	430,558	274,229
Other liabilities	3.10	102,704	5,521
Total non-current liabilities		3,970,338	3,607,463
Total liabilities		4,088,694	3,867,288
Net assets		1,304,958	1,225,118
Equity			
Issued capital		78,388	78,388
Reserves		(143,488)	(48,078)
Retained earnings		1,370,058	1,194,808
Total equity		1,304,958	1,225,118

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$000	2015 \$000
Cash flows from operating activities			
Cash receipts from customers		632,918	619,208
Payments to suppliers and employees		(146,899)	(137,485)
Cash generated from operations		486,019	481,723
Interest paid		(156,258)	(161,459)
Interest received		3,422	3,712
Income taxes paid		(43,031)	(17,482)
Net cash from operating activities	3.1	290,152	306,494
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		342	196
Acquisitions of property, plant and equipment		(172,747)	(418,873)
Acquisitions of investment property		(58,976)	(43,817)
Net cash used in investing activities		(231,381)	(462,494)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities and borrowings		566,893	520,440
Repayments of interest-bearing liabilities and borrowings		(627,000)	(293,000)
Redeemable preference shares dividend paid		-	(56,459)
Dividend paid to ordinary shareholders		-	(20,000)
Net cash (used in)/from financing activities		(60,107)	150,981
Net decrease in cash held		(1,336)	(5,019)
Cash and cash equivalents at 1 July		34,010	39,029
Cash and cash equivalents at 30 June	3.1	32,674	34,010

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Issued capital \$000	Defined benefit superannuation fund deficit reserve \$000	Hedge reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 July 2015	78,388	(1,678)	(46,400)	1,194,808	1,225,118
Total comprehensive income					
Profit for the year	-	-	-	175,250	175,250
Other comprehensive income					
Defined benefit superannuation fund actuarial (loss)	-	(916)	-	-	(916)
Hedge reserve	-	-	(94,494)	-	(94,494)
Total other comprehensive income	-	(916)	(94,494)	-	(95,410)
Total comprehensive income	-	(916)	(94,494)	175,250	79,840
Dividend paid to ordinary shareholders	-	-	-	-	-
Balance at 30 June 2016	78,388	(2,594)	(140,894)	1,370,058	1,304,958

	Issued capital \$000	Defined benefit superannuation fund deficit reserve \$000	Hedge reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 July 2014	78,388	(2,451)	-	1,054,987	1,130,924
Total comprehensive income					
Profit for the year	-	-	-	159,821	159,821
Other comprehensive income					
Defined benefit superannuation fund actuarial gain	-	773	-	-	773
Hedge reserve	-	-	(46,400)	-	(46,400)
Total other comprehensive income	-	773	(46,600)	-	(45,627)
Total comprehensive income	-	773	(46,400)	159,821	114,194
Dividend paid to ordinary shareholders	-	-	-	(20,000)	(20,000)
Balance at 30 June 2015	78,388	(1,678)	(46,400)	1,194,808	1,225,118

The amounts recognised directly in equity are disclosed net of tax.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1: BASIS OF PREPARATION

1.1 Defined terms

Entity names

BACH	BAC Holdings Limited
BACH No. 2	BAC Holdings No. 2 Pty Limited
BAC	Brisbane Airport Corporation Pty Limited
BAC Group	The consolidated entity comprising BACH, BACH No. 2 and BAC

Other

AASB	Australian Accounting Standard
ATO	Australian Taxation Office
AUD	Australian dollar
BBSW	Bank bill swap reference
BBSY	Bank bill swap bid
DCF	Discounted cash flow
ELTIP	Executive Long Term Incentive Plan
FARM	Finance, Audit and Risk Management
GST	Goods and services tax
HVAC	Heating, ventilation and air conditioning
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
NPR	New Parallel Runway
RPS	Redeemable preference shares
USD	United States dollar
USPP	United States Private Placement

1.2 Reporting entity

BACH is a company incorporated and domiciled in Australia. The consolidated financial statements of the BAC Group ('financial statements') comprise BACH and its subsidiaries, BACH No. 2 and BAC. The BAC Group is a for profit entity and is primarily involved in the operation and development of Brisbane Airport.

The nature of the operations and principal activities of the BAC Group are described in the Directors' Report.

1.3 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with AASBs adopted by the Australian Accounting Standards Board and the Corporations Act 2001 (Cth). The financial report complies with the IFRSs as issued by the IASB.

The accounting policies have been applied consistently to all years presented in these financial statements.

The financial statements were approved by the Board of Directors on 30 September 2016.

1.4 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position which are measured at fair value:

- investment property - note 3.6;
- defined benefit obligation - note 3.9; and
- derivative financial instruments - note 4.2.

1.5 Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

BACH and the BAC Group have the ability to pay their debts in full as and when they become due and payable. Refer to note 4.1 for details of the BAC Group's finance facilities.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1: BASIS OF PREPARATION (continued)

1.6 Use of estimates and judgements

The financial statements are subject to the use of estimates and judgements. The estimates and judgements that could have a significant impact on the financial statements are as follows:

- taxation - note 2.5;
- depreciation - note 3.4;
- investment property - note 3.6;
- fair value of financial instruments - note 4.3;
- fair value of hedge reserve - note 4.3; and
- fair value of interest-bearing liabilities and borrowings - note 4.3.

The BAC Group acquired Brisbane Airport in 1997 under a 50 year lease with the option to extend 49 years. The investment property valuation, depreciation and impairment modelling are based on the assumption that the BAC Group intends to exercise this option.

1.7 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by BACH. The financial statements of subsidiaries are included in the consolidated financial statements.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-company balances resulting from transactions with or between controlled entities are eliminated on consolidation.

1.8 Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of BACH and each controlled entity is AUD.

Transactions and balances

Transactions in foreign currencies are translated to AUD at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. Foreign currency differences on translation are recognised in the hedge reserve and the consolidated statement of profit or loss and other comprehensive income.

1.9 New and amended accounting standards

Accounting policies and disclosures

The accounting policies applied are consistent with those of the previous financial year.

Accounting standards and interpretations recently issued or amended but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the BAC Group are set out below. The BAC Group plans to adopt these standards when mandatory. The BAC Group is currently assessing the impact of these standards.

AASB 9 Financial Instruments

AASB 9 is a new standard which replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. This standard will be mandatory for the BAC Group's 30 June 2019 financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15, which is a new standard, was issued by the Australian Accounting Standards Board in December 2014. It specifies the accounting treatment for revenue arising from contracts with customers. The core principle of AASB 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This standard will be mandatory for the BAC Group's 30 June 2019 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1: BASIS OF PREPARATION (continued)

1.9 New and amended accounting standards (continued)

Accounting standards and interpretations recently issued or amended but not yet effective (continued)

AASB 16 Leases

AASB 16, which is a new standard, was issued by the Australian Accounting Standards Board in February 2016. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most operating leases, even when they pay constant annual rentals. This standard will be mandatory for the BAC Group's 30 June 2020 financial statements.

1.10 Determination of fair values

A number of the BAC Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability. Assets and liabilities for which a determination of fair value is required are as follows:

- investment property - note 3.6;
- defined benefit obligation - note 3.9;
- interest bearing liabilities and borrowings (USPP) – note 4.3; and
- derivative financial instruments - note 4.2.

Fair value measurements hierarchy

In fair value measurement, the BAC Group uses the following fair value measurements hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities;
- Level 2: valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: valuation techniques using inputs that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2: RESULTS

2.1 Revenue

Aeronautical revenue

Aeronautical revenue comprises runway and terminal charges. Domestic and international flights are generally charged on a per passenger basis for landings and departures. General aircraft and dedicated freight flights are charged based on the maximum take-off weight of aircraft on landings only.

Landside transport revenue

Landside transport revenue comprises revenue from public and staff car parks, ground facilities fees and car rental operators.

Property revenue

Investment property revenue comprises rental revenue from the BAC Group's owned buildings and leased areas held for investment (see note 3.6).

Operating property revenue comprises rental revenue from the BAC Group's owned terminals, buildings and other leased areas.

Property rental revenue is accounted for on a straight-line basis over the lease terms.

Retail revenue

Retail revenue comprises base rent, concessionaire rent, other charges received and advertising revenue. Retail rent revenue is accounted for on a straight-line basis over the lease terms.

Government mandated security revenue

The BAC Group is required by the Australian Government to undertake certain security measures, the costs of which are recoverable in full from the airlines. Government mandated security revenue comprises recharges of expenditure incurred by the BAC Group in respect of security services such as passenger and checked baggage screening. Revenue and expenses are disclosed separately.

Interest revenue

Interest received from other parties is recognised as it accrues, taking into account the effective yield of the financial asset.

2.2 Finance costs

Accounting policies

Finance costs comprise interest payable on borrowings and are calculated using the effective interest basis. Borrowing costs are expensed as incurred and included in net financing costs unless they are capitalised to capital work in progress for qualifying assets.

Performance share dividends, if payable, are recognised in profit or loss in the year in which they are paid, because that is the year that the liability arises. RPS dividends are recognised in profit or loss as a finance cost, and calculated on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2: RESULTS (continued)

2.3 Other commitments

Operating lease receivable commitments

The BAC Group has entered into commercial property leases on its property portfolio. Future minimum lease receipts under non-cancellable operating leases are as follows:

	2016	2015
	\$000	\$000
Within one year	208,076	198,411
One year or later and no later than five years	540,048	576,938
Later than five years	854,747	651,557
	<u>1,602,871</u>	<u>1,426,906</u>

The above amounts do not include concession arrangements which may become receivable under certain leases and do not include the recovery of outgoings.

Finance lease receivable

The finance lease receivable relates to an asset held under a finance lease recognised at its fair value at inception of the lease. The lease is due to expire in 2047.

	2016	2015
	\$000	\$000
Within one year	2,488	2,488
One year or later and no later than five years	12,440	12,440
Later than five years	62,407	64,895
	<u>77,335</u>	<u>79,823</u>
Future finance charges	(55,518)	(57,939)
	<u>21,817</u>	<u>21,884</u>

2.4 Auditor's remuneration

	2016	2015
	\$	\$
Amounts received or due and receivable by the auditor for:		
Audit services		
Audit fees - 2016 financial year	214,000	-
Audit fees - 2015 financial year	-	210,000
Audit fees - 2014 financial year	-	35,000
Other regulatory/contract audit services	99,500	109,500
	<u>313,500</u>	<u>354,500</u>
Other services		
Transactional related advisory	-	75,124
Other advisory	438,179	79,814
	<u>438,179</u>	<u>154,938</u>

2.5 Taxation

Accounting policies

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts applicable for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2: RESULTS (continued)

2.5 Taxation (continued)

Accounting policies (continued)

Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied on the same taxable entity, or on different tax entities, but those entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax consolidation

BACH is the head entity in the tax-consolidated group comprising all wholly owned subsidiaries, being BACH No. 2 and BAC. The implementation date for the tax-consolidated group was 30 June 2004.

The tax-consolidated group has entered into a tax sharing and funding agreement that requires wholly owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax sharing and funding agreement, the contributions are calculated on a “stand-alone basis” so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the entity’s obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax sharing and funding agreement are recognised as inter-company assets and liabilities with a consequential adjustment to income tax expense/(benefit).

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of GST.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Taxation recognised in profit or loss and other comprehensive income

	2016 \$000	2015 \$000
Current tax expense		
Current year expense	(37,554)	(39,198)
(Under)/over provided in prior years	(984)	791
	(38,538)	(38,407)
Deferred tax expense		
Origination and reversal of temporary differences:		
Derivatives	(17,440)	(47,899)
Other	(20,585)	17,705
	(38,025)	(30,194)
Total income tax expense recognised in profit or loss	(76,563)	(68,601)
Defined benefit superannuation fund actuarial gain/(loss)	392	(331)
Hedge reserve	40,498	19,886
Total income tax expense recognised in other comprehensive income	40,890	19,555

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2: RESULTS (continued)

2.5 Taxation (continued)

Taxation recognised in profit or loss and other comprehensive income (continued)

The reconciliation between income tax expense and pre-tax accounting profit is as follows:

	2016 \$000	2015 \$000
Profit for the year	175,250	159,821
Income tax expense	76,563	68,601
Profit before income tax	251,813	228,422
Income tax using the corporate tax rate of 30%	(75,544)	(68,527)
(Increase)/decrease in income tax due to:		
Other non-deductible expenses	(35)	(74)
(Under)/over provided in prior years	(984)	-
Income tax expense on pre-tax accounting profit	(76,563)	(68,601)

2.6 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Property, plant and equipment	-	-	(560,051)	(516,983)	(560,051)	(516,983)
Finance lease receivable	-	-	(1,298)	(1,042)	(1,298)	(1,042)
Derivatives	47,628	24,570	-	-	47,628	24,570
Lease incentive asset	-	-	(7,068)	(3,517)	(7,068)	(3,517)
Inventories	-	-	(272)	(240)	(272)	(240)
Prepayments	-	-	(8,842)	(12,379)	(8,842)	(12,379)
Employee benefits	1,966	1,389	-	-	1,966	1,389
Other provisions	2,819	1,340	-	-	2,819	1,340
Interest-bearing liabilities and borrowings	70,969	51,695	-	-	70,969	51,695
Borrowing costs	-	93	-	-	-	93
Accruals	6,226	4,286	-	-	6,226	4,286
Tax assets/(liabilities)	129,608	83,373	(577,531)	(534,161)	(447,923)	(450,788)

NOTES TO THE FINANCIAL STATEMENTS
SECTION 2: RESULTS (continued)

2.6 Deferred tax assets and liabilities (continued)

The movement in temporary differences during the year is as follows:

	Balance at 1 July 2015 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Balance at 30 June 2016 \$000
Property, plant and equipment	(516,983)	(43,068)	-	(560,051)
Finance lease receivable	(1,042)	(256)	-	(1,298)
Derivatives	24,570	(17,440)	40,498	47,628
Lease incentive asset	(3,517)	(3,551)	-	(7,068)
Inventories	(240)	(32)	-	(272)
Prepayments	(12,379)	3,537	-	(8,842)
Employee benefits	1,389	185	392	1,966
Other provisions	1,340	1,479	-	2,819
Interest-bearing liabilities and borrowings	51,695	19,274	-	70,969
Borrowing costs	93	(93)	-	-
Accruals	4,286	1,940	-	6,226
Tax (liabilities)/assets	(450,788)	(38,025)	40,890	(447,923)

	Balance at 1 July 2014 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Balance at 30 June 2015 \$000
Property, plant and equipment	(489,211)	(27,772)	-	(516,983)
Finance lease receivable	(747)	(295)	-	(1,042)
Derivatives	52,583	(47,899)	19,886	24,570
Lease incentive asset	(2,144)	(1,373)	-	(3,517)
Inventories	(235)	(5)	-	(240)
Prepayments	(15,686)	3,307	-	(12,379)
Employee benefits	1,597	123	(331)	1,389
Other provisions	1,752	(412)	-	1,340
Interest-bearing liabilities and borrowings	10,089	41,606	-	51,695
Borrowing costs	(723)	816	-	93
Accruals	2,576	1,710	-	4,286
Tax (liabilities)/assets	(440,149)	(30,194)	19,555	(450,788)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES

3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits are as follows:

	2016 \$000	2015 \$000
Cash in bank	32,664	34,002
Cash on hand	10	8
Cash and cash equivalents	32,674	34,010

	Note	2016 \$000	2015 \$000
The reconciliation of cash flows from operating activities is as follows:			
Profit for the year		175,250	159,821
Adjustments for:			
Depreciation and amortisation		101,188	100,359
Capitalised interest		(39,918)	(33,317)
Change in fair value of investment property	3.6	(54,884)	(34,067)
Change in fair value of non-designated derivatives	4.3(e)	6,120	(19,070)
Unrealised foreign exchange gain		(7)	(1,905)
Amortisation of borrowing costs		3,061	2,887
Loss on sale of property, plant and equipment		482	204
RPS dividend		50,437	46,921
Income tax expense	2.5	76,563	68,601
Profit before changes in working capital and provisions		318,292	290,434
Change in trade receivables and other		5,032	23,194
Change in inventories		(107)	(15)
Change in trade payables and other		9,966	10,363
Income taxes paid		(43,031)	(17,482)
Net cash from operating activities		290,152	306,494

3.2 Trade receivables and other

Accounting policies

Trade receivables and other are recognised initially at fair value and subsequently stated at their amortised cost less impairment losses. Trade receivables are normally settled within 30 days.

Trade receivables and other are as follows:

	2016 \$000	2015 \$000
Current		
Trade receivables and accrued income	49,705	52,516
Sundry receivables	1,502	4,054
Prepayments	14,640	14,289
Finance lease receivable	86	77
	65,933	70,936
Non-current		
Finance lease receivable	21,731	21,807
Sundry receivables	23,560	11,724
Prepayments	17,684	29,473
	62,975	63,004

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.3 Intangible assets

Accounting policies

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested annually for impairment (see note 3.7).

The cost and carrying amount of goodwill are as follows:

	2016 \$000	2015 \$000
Goodwill	823,014	823,014

3.4 Property, plant and equipment

Accounting policies

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and amortisation.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased land

Leased land represents prepaid rental payments on land leased by the BAC Group from the Australian Government and is classified as a finance lease as substantially all the risks and rewards of ownership have been transferred to the BAC Group. On initial recognition, the leased land is accounted for at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, leased land is amortised over the life of the lease.

Capital work in progress

Capital work in progress is measured at cost and includes all expenditure directly attributable to specific projects not yet commissioned and includes contractor charges, materials and direct labour and related overheads. The most significant current project is the NPR.

Borrowing costs are capitalised to qualifying assets as set out in note 4.1.

Maintenance

Pavement surfacing costs incurred on runways, taxiways and aprons are capitalised and are depreciated over the period between surfacing projects. This recognises that the benefit relates to both current and future years.

Aircraft pavements, roads, leasehold improvements, plant and equipment are required to be maintained on a periodic basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred. Other routine operating maintenance, repair and minor renewal costs are expensed as incurred.

Depreciation and amortisation

Depreciation and amortisation are charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.4 Property, plant and equipment (continued)

Accounting policies (continued)

Depreciation and amortisation (continued)

The annual depreciation and amortisation rates used for each class of asset in the current and prior year are as follows:

Item	Rate %
Runways, taxiways and aprons	
Runways, taxiways and aprons (original)	1.0
Expansion, extension, line marking, earthworks and overlay	2.5 – 5.0
Runway overlay	8.3
Roads and car parks	
Roads and car park infrastructure	2.5
Security, signage, lighting and other	2.5 – 10.0
Buildings	
Passenger terminal buildings and other permanent buildings	2.5
Fit-out, finishing, services and HVAC	5.0 – 10.0
Security, signage, lighting and other	10.0 – 33.3
Minor assets less than \$1,000	100
Plant and equipment	
Mains services and fences and gates	2.0 – 20.0
Mobile plant and equipment (including motor vehicles)	6.7 – 25.0
Computer equipment and software	10.0 – 33.3
Furniture and fittings, office equipment and artwork	1.3 – 33.3
Minor assets less than \$1,000	100
Leased land	
Operating land	1.0

The residual value, the useful life and the depreciation and amortisation methods applied to assets are reassessed annually.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.4 Property, plant and equipment (continued)

Property, plant and equipment can be analysed as follows:

	Runways, taxiways and aprons \$000	Roads and car parks \$000	Buildings \$000	Plant and equipment \$000	Leased land \$000	Capital work in progress \$000	Total \$000
Cost or deemed cost							
At 1 July 2015	830,380	489,979	819,163	567,081	97,660	611,937	3,416,200
Additions/transfers	4,131	32,387	55,140	57,980	5,225	66,546	221,409
Disposals	-	(540)	-	(1,017)	-	-	(1,557)
At 30 June 2016	834,511	521,826	874,303	624,044	102,885	678,483	3,636,052
Cost or deemed cost							
At 1 July 2014	793,292	468,920	753,006	503,907	97,660	374,985	2,991,770
Additions/transfers	37,088	21,218	67,362	64,455	-	236,952	427,075
Disposals	-	(159)	(1,205)	(1,281)	-	-	(2,645)
At 30 June 2015	830,380	489,979	819,163	567,081	97,660	611,937	3,416,200
Accumulated depreciation and amortisation							
At 1 July 2015	98,763	74,336	237,426	222,104	12,502	-	645,131
Depreciation and amortisation	12,406	12,860	37,094	37,710	1,117	-	101,187
Disposals	-	(49)	-	(686)	-	-	(735)
At 30 June 2016	111,169	87,147	274,520	259,128	13,619	-	745,583
Accumulated depreciation and amortisation							
At 1 July 2014	87,300	62,002	199,801	186,464	11,450	-	547,017
Depreciation and amortisation	11,463	12,386	38,752	36,706	1,052	-	100,359
Disposals	-	(52)	(1,127)	(1,066)	-	-	(2,245)
At 30 June 2015	98,763	74,336	237,426	222,104	12,502	-	645,131
Carrying amounts							
At 30 June 2016	723,342	434,679	599,783	364,916	89,266	678,483	2,890,469
At 30 June 2015	731,617	415,643	581,737	344,977	85,158	611,937	2,771,069

A total of \$39.9 million (2015: \$33.3 million) of borrowing costs was capitalised to capital work in progress at interest rates ranging from 6.31% to 6.69% (2015: 6.9% to 7.2%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.5 Capital commitments

Capital expenditure commitments can be analysed as follows:

	2016 \$000	2015 \$000
Contracted for but not provided for and payable:		
Within one year	125,368	136,392
One year or later and no later than five years	26,251	26,029
	151,619	162,421

3.6 Investment property

Accounting policies

Investment properties are initially measured at cost and subsequently stated at fair value with any change therein recognised in profit or loss. When the use of property changes such that it is reclassified as property, plant and equipment including capital work in progress, its fair value at the date of reclassification becomes its cost for subsequent accounting.

An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio annually. The basis of the valuation of the properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and same condition and subject to similar leases. The determination of fair value is therefore more heavily supported by market evidence as opposed to other factors. The 2016 valuation was based on independent assessments made by CBRE, an accredited independent valuer (2015: CBRE).

In undertaking their valuation, CBRE adopted the capitalisation approach as the primary method, with DCF analysis as a secondary supporting method for income producing properties and the direct comparison approach as a secondary method for the commercial real estate land bank.

- The capitalisation approach converts future amounts (cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- The DCF analysis uses future annual income and discounts each year of cash flow on a midpoint basis. The annual income stream adopted has regard for a wide range of assumptions including a target or pre-selected internal rate of return (derived from analysis of investment sales), rental growth, occupancy, sale price of the property at the end of the investment horizon, potential capital expenditure, costs associated with the initial purchase of the property, and also its disposal at the end of the investment period.
- The direct comparison approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities or a group of assets and liabilities, such as a business.

Fair market value has been adopted taking into consideration such influencing elements as the current approved master plan, head lease tenure and conditions, location, quality of building structures, lease covenants, lease terms and conditions, fair market rental, recent transactions and the size of the market for the asset type.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Any gain or loss arising from a change in fair value is recognised in profit or loss under change in fair value of investment property.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.6 Investment property (continued)

The movement in investment property is as follows:

	2016 \$000	2015 \$000
Balance at 1 July	1,137,245	1,066,910
Acquisitions	58,976	36,268
Transfer to property, plant and equipment	(5,225)	-
Fair value adjustments	54,884	34,067
Balance at 30 June	1,245,880	1,137,245

Investment property comprises commercial properties that are leased or are intended to be leased to third parties.

Contractual obligations to purchase, construct or develop investment property are included within note 3.5.

Investment property measured at fair value and its categorisation in the fair value hierarchy are as follows:

Input	2016 \$000
Level 1 Quoted prices in active markets for identical assets	-
Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset	-
Level 3 Inputs for the asset that are based on unobservable market data	1,245,880
	1,245,880

Significant unobservable inputs

Annual net property income (price per square metre): the annual rent per square metre at which space could be let in the market conditions prevailing at the date of valuation.

Capitalisation rate: the rate at which net property income is capitalised to determine the value of a property. The rate is determined with regard to market evidence. The rates used in the valuation range between 6.25% and 9.5%.

Discount rate: the rate used to discount the net cash flows generated from rental and investment activities during the period of analysis. The discount rates used in the valuation range between 7.75% and 11%.

Sensitivity to changes in significant unobservable inputs

The relationship between the significant unobservable inputs and fair value is as follows:

- annual net property income: the higher the income, the higher the likelihood of a higher valuation;
- capitalisation rate: the lower the capitalisation rate, the higher the likelihood of a higher valuation; and
- discount rate: the lower the discount rate, the higher the likelihood of a higher valuation.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.7 Impairment

Accounting policies

The carrying amounts of the BAC Group's non-current assets, other than investment property (note 3.6) and deferred tax assets (note 2.6), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated on an annual or more frequent basis as may be required.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ('cash-generating unit'). The BAC Group is treated as a single cash-generating unit and goodwill has been allocated for impairment on this basis.

Key assumptions used in value in use calculation

The BAC Group undertakes an annual assessment of goodwill impairment based on a value in use calculation which uses cash flow forecasts for five years (from its Business Plan), with key assumptions of a terminal growth rate of 2.5% (2015: 2.5%) and a pre-tax discount rate of 10.64% (2015: 10.8%) per annum.

Sensitivity to changes in assumptions

With regard to the assessment of value in use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill to materially exceed its recoverable amount.

3.8 Trade payables and other

Accounting policies

Trade payables and other are stated at their amortised cost. Trade payables are non-interest-bearing and are normally settled on 30 day terms.

Trade payables and other are as follows:

	Note	2016 \$000	2015 \$000
Trade payables and accruals		85,275	70,426
RPS dividend		-	47,049
Employee benefits	3.9	6,515	6,849
Unearned revenue		7,636	6,570
Retentions and deposits held on behalf of third parties		2,500	2,839
		101,926	133,733

RPS dividends have been reclassified to Other liabilities (note 3.10) as at 30 June 2016.

3.9 Employee benefits

Accounting policies

Defined contribution superannuation funds

Obligations in respect of defined contribution superannuation funds are recognised as an expense in profit or loss as incurred.

Defined benefit superannuation funds

The BAC Group's obligation in respect of defined benefit superannuation funds is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any fund assets are deducted. The discount rate is the yield at the reporting date on Australian corporate bonds that have maturity dates approximating to the terms of the BAC Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses are recognised in other comprehensive income in the year in which the actuarial gains or losses arise.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3: OPERATING ASSETS AND LIABILITIES (continued)

3.9 Employee benefits (continued)

Accounting policies (continued)

Long term service benefits

The BAC Group's net obligation in respect of long term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior years. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to Australian corporate bonds at the reporting date which have maturity dates approximating the terms of the BAC Group's obligations. Re-measurements are recognised in profit or loss in the period in which they arise.

In determining the liability, consideration has been given to the BAC Group's experience with staff departures.

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the BAC Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

ELTIP

The cost of cash settled transactions is measured initially at fair value. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in staff expenses.

Liabilities for employee benefits can be analysed as follows:

	Note	2016 \$000	2015 \$000
Current			
Wages and salaries accrued		328	1,252
Liability for annual leave		2,475	2,387
Liability for long service leave		3,712	3,210
	3.8	6,515	6,849
Non-current			
Present value of unfunded obligation		10,825	8,930
Fair value of plan assets		(12,194)	(11,562)
Recognised asset for defined benefit obligation		(1,369)	(2,632)
Liability for long service leave		1,738	1,664
ELTIP		160	1,795
	3.10	529	827

3.10 Other liabilities

Other non-current liabilities can be analysed as follows:

	Note	2016 \$000	2015 \$000
RPS dividend		97,627	-
Unearned revenue		4,548	4,694
Employee benefits	3.9	529	827
		102,704	5,521

The payment of RPS dividends is subject to an annual free cash flow test. Should the test not be met, a waiver is required to be sought and granted prior to 30 June of each year for payment to be made, otherwise the outstanding RPS liability is classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS

4.1 Interest-bearing liabilities and borrowings

Accounting policies

Interest-bearing liabilities and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities and borrowings are stated at amortised cost with any difference between cost and redemption value (i.e. transaction costs) being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Borrowing costs include interest, amortisation of deferred borrowing costs and finance charges on capitalised leases. Establishment costs incurred in connection with the arrangement of borrowings are capitalised and recognised on an effective interest basis over the anticipated term of the applicable borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which generally take a substantial period of time to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset. Borrowing costs are capitalised using a weighted average capitalisation rate.

This note provides information about the contractual terms of the BAC Group's interest-bearing liabilities and borrowings. For more information about the BAC Group's exposure to interest rate risk, see note 4.3(c).

	2016	2015
	\$000	\$000
Current		
Secured bank loan	-	107,000
Secured bank loan transaction costs	-	(1,833)
	<u>-</u>	<u>105,167</u>
Non-current		
Secured bank loan	450,000	-
Secured bank loan transaction costs	(3,817)	-
Secured domestic and wrapped bond issues	850,000	1,250,000
Secured domestic and wrapped bond issue transaction costs	(3,102)	(4,491)
Secured USPP bond issues	1,229,449	1,165,195
Secured USPP bond issue transaction costs	(5,065)	(5,608)
RPS	471,688	471,829
	<u>2,989,153</u>	<u>2,876,925</u>
Total interest-bearing liabilities and borrowings	<u>2,989,153</u>	<u>2,982,092</u>

NOTES TO THE FINANCIAL STATEMENTS
SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.1 Interest-bearing liabilities and borrowings (continued)

Annual nominal interest rate	Financial year of maturity	Face value 2016 \$000	Carrying amount 2016 \$000	Face value 2015 \$000	Carrying amount 2015 \$000
Bank loan - AUD					
BBSY + margin*	2016	-	-	107,000	105,167
BBSY + margin - Tranche A	2018	150,000	148,741	-	-
BBSY + margin - Tranche B	2019	90,000	89,236	-	-
BBSY + margin - Tranche C	2021	210,000	208,206	-	-
BBSY + margin - Tranche D	2023	-	-	-	-
		<u>450,000</u>	<u>446,183</u>	<u>107,000</u>	<u>105,167</u>
Domestic bonds - AUD					
Fixed 8.0%	2020	200,000	199,166	200,000	198,890
Fixed 6.0%	2021	350,000	348,342	350,000	347,958
		<u>550,000</u>	<u>547,508</u>	<u>550,000</u>	<u>546,848</u>
Wrapped bonds - AUD					
BBSW + margin	2017	-	-	400,000	399,660
BBSW + margin	2018	300,000	299,390	300,000	299,001
		<u>300,000</u>	<u>299,390</u>	<u>700,000</u>	<u>698,661</u>
USPP bonds - AUD					
BBSW + margin	2026	100,000	99,569	100,000	99,524
Fixed 6.8%	2023	30,000	29,912	30,000	29,898
Fixed 8.3%	2027	98,863	98,233	98,863	98,169
Fixed 5.6%	2030	152,550	151,570	152,550	151,525
		<u>381,413</u>	<u>379,284</u>	<u>381,413</u>	<u>379,116</u>
USPP bonds - USD					
Fixed 5.2%	2022	201,993	205,743	195,313	195,483
Fixed 3.9%	2023	63,291	65,263	61,198	61,206
Fixed 5.3%	2024	201,993	213,951	195,313	197,367
Fixed 3.6%	2025	33,665	34,238	32,552	31,755
Fixed 4.0%	2025	80,797	85,574	78,125	78,368
Fixed 3.7%	2027	87,530	89,970	84,635	82,216
Fixed 4.2%	2028	105,036	115,228	101,563	102,566
Fixed 3.9%	2030	33,665	35,133	32,552	31,510
		<u>807,970</u>	<u>845,100</u>	<u>781,251</u>	<u>780,471</u>
RPS - AUD					
Fixed 10.0%	2022	471,688	471,688	471,829	471,829
		<u>2,961,072</u>	<u>2,989,153</u>	<u>2,991,493</u>	<u>2,982,092</u>

* refinanced in November 2015 – refer to bank loan Tranche A.

RPS are subject to a fixed interest rate and accounted for using an effective interest rate of 9.9% (2015: 9.4%) per annum. The fixed interest rate is 10.0% (2015 to 2022) per annum. The holders of RPS are entitled to fixed rate dividends, declared annually (in arrears) in relation to the prior financial year, and on redemption (to the extent of the level of Free Cash, as defined by the BACH Shareholders' Agreement, and available profits in the company). RPS rank equally with each other, but in priority over ordinary shares for the payment of dividends and repayment of capital. Holders of RPS are not entitled to voting rights except in the event of winding up of the company, or any resolution impacting on the rights applicable to RPS. The percentage of RPS held by a shareholder must be equal at all times to the percentage of ordinary shares held.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.1 Interest-bearing liabilities and borrowings (continued)

Finance facilities

Current liabilities of \$118.4 million exceed current assets of \$99.5 million. Following a refinancing completed in November 2015, the BAC Group has bank facilities of \$900 million (2015: \$500 million), of which \$450 million has been drawn. \$150 million expires in November 2017, \$300 million expires in December 2018, \$225 million expires in November 2020 and \$225 million expires in November 2022. Unutilised bank facilities of \$450 million (2015: \$393 million) are sufficient to cover the net current asset deficiency and ongoing operations.

Security for financing arrangements

The bank loan and the domestic and international bond issues are secured by a first ranking mortgage over the airport lease and a fixed and floating charge over the BAC Group's other assets and undertakings.

Bank overdraft

The bank overdraft facility of \$4.0 million (2015: \$4.0 million) was undrawn as at 30 June 2016 (2015: undrawn).

4.2 Derivative financial instruments

Accounting policies

The BAC Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk.

Derivative financial instruments are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value and changes therein are recognised in profit or loss.

The fair value of interest rate and cross currency swaps is the estimated amount that the BAC Group would receive or pay to terminate the swap at the reporting date, taking into account current interest and foreign exchange rates and the current creditworthiness of the swap counterparties.

Current versus non-current classification

Derivative financial instruments are classified as non-current or separated into current and non-current portions when the BAC Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date.

Hedge accounting

In the prior year, the BAC Group redesignated the borrowings into effective hedge relationships for accounting purposes. On entering into a hedging relationship, the BAC Group formally designated and documented the hedge relationship and the risk management objective and strategy for undertaking the hedge. Hedge relationships are assessed on an ongoing basis to determine that they are effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.2 Derivative financial instruments (continued)

Accounting policies (continued)

Fair value hedges

Where a derivative or financial instrument is designated as hedging the change in fair value of a recognised asset or liability, the gain or loss on the derivative or financial instrument is recognised in profit or loss immediately, together with the gain or loss on the hedged asset or liability that is attributable to the hedge risk.

4.3 Financial risk management

Overview

The BAC Group's principal financial instruments comprise receivables, payables, bonds, bank loans, cash and short term deposits and derivatives.

The BAC Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The BAC Group manages its exposure to key financial risks, including interest rate and currency risk, in accordance with the BAC Group's financial risk management policies. The objective of these policies is to support the delivery of the BAC Group's financial targets while protecting future financial security and reducing volatility on financial performance.

Risk management policies are established to identify and analyse the risks faced by the BAC Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the BAC Group's activities.

The FARM Committee oversees how management monitors compliance with the BAC Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the BAC Group. The FARM Committee is assisted in its oversight role by regular internal audits conducted by Deloitte. The internal audit reviews risk management controls and procedures and the results are reported to the FARM Committee.

The BAC Group's policy is not to enter, issue or hold derivative financial instruments for speculative trading purposes. Derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from business activities.

(a) Credit risk

Credit risk is the risk of financial loss to the BAC Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the BAC Group's receivables from customers.

The BAC Group has policies in place to ensure that transactions are made with commercial customers with an appropriate credit history. However, as an operator of large infrastructure assets, the BAC Group is exposed to credit risk with its financial counterparties through undertaking financial transactions intrinsic to its business. These include funds held on deposit, cash investments and the market value of derivative transactions.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(a) Credit risk (continued)

The BAC Group assesses the credit strength of potential financial counterparties using objective ratings provided by multiple independent rating agencies. Board approved limit allocation rules ensure higher limits are granted to higher rated counterparties. The BAC Group also seeks to mitigate its total credit exposure to counterparties by only dealing with creditworthy counterparties, limiting the exposure to any one counterparty, minimising the size of the exposure where possible through netting offsetting exposures, diversifying exposures across counterparties, closely monitoring changes in total credit exposures and changes in credit status, and taking mitigating action when necessary.

Trade and other receivables

The BAC Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographic of the customer base, including default risk of the industry and country in which the customer operates, has less of an influence on credit risk.

The Board has established a credit policy under which customers are analysed individually for creditworthiness before the standard payment terms and conditions are offered. The review of creditworthiness includes external ratings, when available, and/or the possible requirement of bank guarantees or cash deposits of up to three to six months' rent plus outgoings.

Aeronautical customers are analysed individually for creditworthiness and where required, they provide an unconditional bank guarantee.

The majority of customers have been transacting with the BAC Group for over 10 years and losses have been incurred infrequently. In monitoring customer credit risk, customers are classified according to their credit characteristics.

An allowance for impairment has been established that represents the BAC Group's estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Cash and swaps

Cash, interest rate and cross currency swaps and bank loans are held with banks with credit ratings of not less than either A- (Standard & Poor's) or A3 (Moody's) in line with the BAC Group's credit rating policy.

Exposure to credit risk

The carrying amounts of the financial assets represent the maximum credit exposure. The financial assets at the reporting date are as follows:

	Note	2016 \$000	2015 \$000
Cash and cash equivalents	3.1	32,674	34,010
Trade receivables and accrued income – current	3.2	49,705	52,516
Finance lease receivable – current	3.2	86	77
Finance lease receivable – non-current	3.2	21,731	21,807
Derivative instruments – non-current	4.3(d)	271,800	192,328
		375,996	300,738

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

The maximum exposure to credit risk for trade receivables and accrued income at the reporting date by customer type was:

	2016	2015
	\$000	\$000
Aeronautical	34,021	32,139
Property	15,048	19,400
Other	636	977
	49,705	52,516

The most significant customer accounted for 30.4% of the trade receivables and accrued income carrying amount at 30 June 2016 (2015: 25%).

Impairment losses

The aging of the trade receivables and accrued income at reporting date was as follows:

	2016	2016	2016
	Gross	Impairment	Net
	\$000	\$000	\$000
Not past due (0 – 30 days)	21,255	-	21,255
Past due (31 – 60 days)	16,968	-	16,968
Past due (61 – 90 days)	5,975	-	5,975
Past due (more than 90 days)	5,657	(150)	5,507
	49,855	(150)	49,705
	2015	2015	2015
	Gross	Impairment	Net
	\$000	\$000	\$000
Not past due (0 – 30 days)	38,202	-	38,202
Past due (31 – 60 days)	11,033	-	11,033
Past due (61 – 90 days)	1,868	-	1,868
Past due (more than 90 days)	1,448	(35)	1,413
	52,551	(35)	52,516

(b) Liquidity risk

Liquidity risk is the risk that the BAC Group will not be able to meet its financial obligations as they fall due. The approach to managing liquidity is to ensure, as far as possible, that the BAC Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unreasonable costs or risking damage to the BAC Group's reputation.

The BAC Group actively monitors cash flow requirements to manage liquidity risk. Typically, the BAC Group ensures that it has sufficient cash and available debt facilities to meet expected operational expenses for a minimum period of 12 months, including the servicing of financial obligations and the funding of the capital expenditure program.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(b) Liquidity risk (continued)

Funding

The BAC Group minimises exposure and refinance risk with any one lending source. This is achieved by having a range of lending sources and financial guarantors (if a necessity of the lending instrument). To minimise refinance risk, the BAC Group ensures that no more than 20% of total debt matures within a 12 month period, and no more than 50% in any 36 month period.

The following are the principal and interest contractual maturities of financial liabilities:

2016	Note	6 months or less \$000	6 – 12 months \$000	1 – 2 years \$000	2 – 5 years \$000	More than 5 years \$000
Floating bank loan		6,519	6,157	160,237	318,645	-
Floating bonds		5,419	5,419	306,994	13,027	120,541
Fixed bonds		41,247	41,247	81,937	768,037	1,100,196
RPS		-	-	94,099	141,148	517,543
		53,185	53,185	643,267	1,240,857	1,783,280
Trade payables and accruals	3.8	85,275	-	-	-	-
RPS dividend	3.10	-	-	97,627	-	-
Derivatives		23,700	23,700	48,820	137,776	232,970

2015	Note	6 months or less \$000	6 – 12 months \$000	1 – 2 years \$000	2 – 5 years \$000	More than 5 years \$000
Floating bank loan		108,610	-	-	-	-
Floating bonds		10,795	10,795	417,424	319,197	127,998
Fixed bonds		42,128	42,128	85,118	456,031	1,519,293
RPS		47,050	-	47,049	141,148	564,593
		208,583	52,923	549,591	916,376	2,211,884
Trade payables and accruals	3.8	70,426	-	-	-	-
RPS dividend	3.8	47,049	-	-	-	-
Derivatives		21,885	21,885	41,511	104,785	237,396

Interest payments (and receipts) on the floating interest rate instruments are paid quarterly, at the BBSW rate or the BBSY rate plus the applicable margin.

Interest payments on the fixed interest rate bonds are paid semi-annually.

Trade payables and accruals are generally payable in less than six months.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the BAC Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The BAC Group enters into derivatives in order to manage market risk. All such transactions are carried out within the guidelines set by the Board. Components of market risk to which the BAC Group is exposed are discussed below.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The BAC Group's borrowings are sourced from a number of financial markets covering domestic and offshore, and short term and long term funding. These borrowings are managed in accordance with targeted currency, interest rate, liquidity and debt portfolio maturity profiles.

Currency and interest rate risk on foreign currency borrowings are hedged by entering into cross currency principal swaps and interest rate swaps at inception to maturity, which have the economic effect of converting foreign currency borrowings into AUD borrowings.

BAC Group policy

The BAC Group's intended long term interest rate cover target is to maintain the following minimum levels of economic hedging of its forecast average debt exposure in each year:

Period	%
Years 1 – 3	75 – 100
Years 4 – 5	60 – 90
Years 6 – 10	30 – 70

Minimum economic hedging requirement under finance documents

The BAC Group's minimum economic hedging requirement under finance documents is that its exposure to changes in interest rates on current borrowings is on a fixed interest rate basis as follows:

- years 1 – 3: 75% per annum; and
- years 4 – 5: 60% per annum of actual debt levels on 1 July each year.

Profile

At the reporting date, the interest rate profile of the interest-bearing financial instruments, ignoring economic hedging, was as follows:

	2016 \$000	2015 \$000
Nominal fixed interest rate instruments		
Financial liabilities	<u>(2,111,072)</u>	<u>(2,084,493)</u>
Variable interest rate instruments		
Financial assets - cash and cash equivalents	32,674	34,010
Financial liabilities	<u>(850,000)</u>	<u>(907,000)</u>
Net financial liabilities	<u>(817,326)</u>	<u>(872,990)</u>

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(c) Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of the risk arise from operations, capital expenditure and translation risk.

Cross currency swaps are used to convert long term foreign currency borrowings into AUD to meet the principal and interest obligations under the swaps. These foreign currency borrowings typically have an initial maturity between 10 and 15 years.

BAC Group policy

The BAC Group's policy is to minimise foreign exchange exposures where practical, and to hedge back to AUD any combination of foreign exchange exposures to avoid unhedged foreign exchange exposures in excess of AUD 5 million.

Fixed interest rate secured international bonds denominated in USD

At the reporting date, the BAC Group had the following foreign exchange exposures which had been economically hedged back to AUD for the duration of the issue:

	Face value 2016 USD000	Face value 2016 AUD000	Face value 2015 USD000	Face value 2015 AUD000
Total foreign exchange exposures hedged	600,000	807,970	600,000	781,251

Sensitivity on interest rate and foreign exchange risk

The tables below summarise the gain or loss impact of reasonably possible changes in market risk, relating to existing financial instruments, on profit or loss before tax and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 100 basis point increase and decrease in all relevant interest rates;
- 10% (2015: 10%) USD depreciation and USD appreciation; and
- isolation of sensitivity analysis for each risk. For example, the interest rate sensitivity analysis assumes the foreign exchange rates remain constant.

The 30 June 2016 foreign exchange rate of AUD 1 to USD 0.74 (2015: AUD 1 to USD 0.77) has been used in the translation of USD denominated borrowings.

Analysis for fixed interest rate instruments

The BAC Group does not account for any fixed interest rate financial assets and liabilities at fair value through profit or loss, and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value accounting model. Therefore, a change in interest rates at the reporting date would not affect profit/(loss) for fixed interest rate instruments.

Analysis for variable interest rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit/(loss) and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(c) Market risk (continued)

Sensitivity on interest rate and foreign exchange risk (continued)

Analysis for variable interest rate instruments (continued)

An increase/(decrease) in interest rates (holding all other variables constant), impacts interest expense on variable rate instruments and fair value of interest rate swaps and currency swaps as follows:

	Profit/(loss) before tax		Increase/(decrease) in equity (before tax)	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Movement in interest rates				
100 basis point increase in interest rates:				
Interest expense on variable interest rate instruments	(8,173)	(8,730)	-	-
Fair value of interest rate swaps	32,680	43,148	101,180	87,479
Fair value of cross currency swaps	(47,308)	(49,274)	(9,378)	(7,185)
Net impact	(22,801)	(14,856)	91,802	80,294
100 basis point decrease in interest rates:				
Interest expense on variable interest rate instruments	8,173	8,730	-	-
Fair value of interest rate swaps	(26,762)	(33,350)	(121,136)	(112,125)
Fair value of cross currency swaps	54,043	51,568	6,895	10,347
Net impact	35,454	26,948	(114,241)	(101,778)

Movements in interest rates over time influence the rate of return achievable on the aeronautical assets. The effect of such movements may be impacted by the length of aeronautical pricing agreements, which have been typically five years. Once pricing is determined for a period, movements in interest rates may not affect aeronautical revenues but an alteration in rates may impact actual results.

Analysis for USD rate movements

An increase/(decrease) in USD rates impacts depreciation and appreciation on financial instruments as follows:

	Profit/(loss) before tax		Increase/(decrease) in equity (before tax)	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Movement in USD rates				
10% depreciation	-	(4)	(17,048)	(14,848)
10% appreciation	-	-	17,048	14,852

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(d) Fair value

Fair value versus carrying amounts

The carrying amounts shown in the consolidated statement of financial position, together with the fair value of financial assets and liabilities are as follows:

	Note	Carrying amount 2016 \$000	Fair value 2016 \$000	Carrying amount 2015 \$000	Fair value 2015 \$000
Assets carried at fair value					
Interest rate and cross currency swaps		271,800	271,800	192,328	192,328
Assets carried at amortised cost					
Cash and cash equivalents	3.1	32,674	32,674	34,010	34,010
Trade receivables and other - non-current	3.2	21,731	21,731	21,807	21,807
		54,405	54,405	55,817	55,817
Liabilities carried at fair value					
Interest rate and cross currency swaps - current		-	-	-	-
Interest rate and cross currency swaps - non-current		430,558	430,558	274,229	274,229
		430,558	430,558	274,229	274,229
Liabilities carried at amortised cost					
Secured bank loan	4.1	446,183	450,000	105,167	105,167
Secured domestic bond issues	4.1	547,508	647,165	546,848	649,017
Secured wrapped bond issues	4.1	299,390	301,808	698,661	703,868
Secured USPP bond issues	4.1	1,224,384	1,529,203	1,159,587	1,406,997
RPS	4.1	471,688	471,688	471,829	471,829
RPS dividend	3.10	97,627	97,627	47,049	47,049
		3,086,780	3,497,491	3,029,141	3,383,927
Net liabilities		3,191,133	3,601,844	3,055,225	3,410,011

Fair value of financial instruments

As at 30 June 2016, the fair value of derivative instruments that are held for liquidity management, which are the BAC Group's only financial instruments carried at fair value, resulted in a net loss of \$76.9 million (2015: net gain of \$93.4 million) measured based on Level 2 valuation techniques as defined in the fair value hierarchy shown in note 1.10.

(e) Non-designated derivatives in profit or loss

The changes in the fair value of any derivative instrument in a cash flow hedge are as follows:

	2016 \$000	2015 \$000
Change in fair value of non-designated derivatives		
Interest rate derivatives gain/(loss)	79,472	(58,869)
Foreign currency derivatives gain/(loss)	(156,329)	152,245
Change in fair value of non-designated derivatives before hedge accounting	(76,857)	93,376
Hedge reserve, net of tax	94,494	46,400
Tax effect on hedge reserve	40,498	19,886
Foreign exchange loss incorporated in hedge effectiveness	(64,255)	(140,592)
	(6,120)	19,070

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4: CAPITAL STRUCTURE AND FINANCING COSTS (continued)

4.3 Financial risk management (continued)

(f) Capital management

The Board's policy is to maintain a strong capital base to maintain shareholder, lender and market confidence and to sustain future development of the business.

There were no changes to the capital management approach during the year.

4.4 Equity and reserves

Dividends are recognised as a liability in the year in which they are declared.

There has been no movement in issued shares.

	2016	2015
	000	000
Ordinary shares		
On issue at 30 June	681,887	681,887

The holders of ordinary shares in BACH are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of BACH. In the event of winding up of BACH, ordinary shareholders rank after all other shareholders and creditors and are entitled to any net residual proceeds of liquidation.

Defined benefit superannuation fund deficit reserve

The defined benefit superannuation fund deficit reserve is used to recognise actuarial gains and losses.

Hedge reserve

As the BAC Group redesignated the borrowings using existing hedges to undertake hedge accounting, the hedge reserve recognises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be effective. Amounts are reclassified to profit or loss if they become ineffective or in the same period or periods during which the hedged forecast cashflows affect the profit or loss.

Performance shares

The controlled entity (BAC) has issued 100 performance shares to its parent entity, BACH No. 2, which in turn has issued 100 performance shares to BACH on the same terms and conditions. Holders of performance shares are not entitled to vote at shareholders' meetings or to receive notices, reports, audited accounts and statements of financial position of BACH. Dividends on performance shares are received by BACH based on the Group reaching financial targets and having sufficient Free Cash.

Dividends

No dividends were declared and paid by BACH during the current financial year (2015: \$20.0 million) by BACH.

	2016	2015
	\$000	\$000
Dividend franking account:		
The taxable value of franking credits for subsequent financial years	179,481	137,452

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5: OTHER

5.1 Related parties

The Directors of BACH at any time during the reporting year are disclosed in the Directors' Report. Other Key Management Personnel of the BAC Group at any time during the reporting year were the following:

Executives

David Malek	Chief Financial Officer (appointed 1 February 2016)
Michael Bradburn	Chief Financial Officer (resigned 27 November 2015)
Andrew Brodie	General Manager – Airline and Retail Management
Rachel Crowley	Head of Corporate Relations
Gwilym Davies	Head of People and Culture
Stephen Goodwin	General Manager – Operations
Roel Hellemons	General Manager – Strategic Planning and Development
Krishan Tangri	General Manager – Assets
Sarah Thornton	General Counsel and Company Secretary
John Tormey	General Manager – Commercial Businesses.

Transactions with Key Management Personnel

In addition to the salaries of Key Management Personnel, the BAC Group contributes to a post-employment defined benefit superannuation fund or a post-employment defined contribution superannuation fund on behalf of certain Key Management Personnel. In accordance with the terms of the defined benefit superannuation fund, Key Management Personnel are entitled to receive their retirement benefits up to age 70, calculated as a multiple of their salary plus members' contributions made to the fund.

ELTIP

Key Management Personnel also participate in the BACH ELTIP.

The ELTIP is a bonus incentive plan that provides eligible employees with the opportunity to receive bonus remuneration which is calculated with reference to long term increases in the value of ordinary shares in BACH and total shareholder returns. The plan is settled in cash.

Under the plan, eligible employees have been and may be issued with units which notionally represent ordinary shares in BACH. The plan includes a mechanism for calculating the bonus remuneration in the event certain requirements as set out in the plan rules are satisfied. The plan does not confer upon eligible employees any right, entitlement or interest in shares in BACH or an option to acquire shares in BACH.

Eligibility has been determined by the Board based on the individual's ability to influence the future growth, direction and performance of the BAC Group. Entitlement to this payment is conditional upon continuous employment during the period.

The grant date of units for the ELTIP 6 ('Plan 6') was 1 July 2014, with an initial base value of \$1 per unit. Total units issued under Plan 6 were 763,708. Since the grant date, 94,543 units were cancelled upon termination of participant employment. The value of entitlements under Plan 6 payable at 30 June 2016 was \$107,277 (2015: \$85,507).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5: OTHER (continued)

5.1 Related parties (continued)

Key Management Personnel compensation

The Key Management Personnel compensation for the year was as follows:

	2016	2015
	\$	\$
Short term employee benefits	5,553,387	5,458,706
Post-employment benefits	326,406	309,324
Other long term benefits	1,100,281	84,123
	6,980,074	5,852,153

The terms and conditions of transactions with Key Management Personnel were no more favourable than those available or which might reasonably be expected to be available, on similar transactions with non-Key Management Personnel or their related parties on an arm's length basis.

Other related party transactions

Amounts recognised during the year relating to other related parties (excluding shareholder payments that relate directly to shareholdings) were as follows:

Technical Services Agreement

BAC has a Technical Services Agreement with Schiphol Nederland BV which provides technical services including:

- advisory services, including staffing, planning, operations, marketing and third party liaison; and
- qualified personnel to fulfil various management positions.

The total fee for the year was \$613,839 (2015: \$596,055). As at 30 June 2016, the amount payable was nil (2015: \$15,140).

Intellectual Property Agreement

BAC has an Intellectual Property Agreement with Schiphol International BV that provides BAC with a licence to use any intellectual property rights owned or licensed by Schiphol International BV which may be applied in operating and developing Brisbane Airport, including in relation to marketing, operations, planning, staffing and third party liaison.

The total fee for the year was \$3,442,380 (2015: \$3,391,096). As at 30 June 2016, the amount payable was \$3,442,380 (2015: \$3,391,096).

Board fees and travel expenses

Board fees and travel expenses paid to the Directors for the year amounted to \$1,060,302 (2015: \$1,004,748).

Board fees, on behalf of the Directors, were paid to the following companies:

- Colonial First State Asset Management (Australia) Limited, a company related to C McArthur, received \$125,555 for the year (2015: \$120,813);
- QIC Private Capital Pty Ltd, a company related to M Papathanasiou, received \$116,768 for the year (2015: \$106,386); and
- IFM Investors (Nominees) Limited, a company related to J Morris, received \$99,195 for the year (2015: \$61,662 related to J Morris and \$41,233 related to J Rossouw (resigned as a Director in November 2014)).

NOTES TO THE FINANCIAL STATEMENTS

Section 5: Other (continued)

5.2 Parent entity disclosures

	2016 \$000	2015 \$000
Results of BACH		
Profit for the year	7,776	31,156
Total comprehensive income	<u>7,776</u>	<u>31,156</u>
Financial position of BACH		
Current assets	42,947	75,176
Non-current assets	1,018,636	932,688
Total assets	<u>1,061,583</u>	<u>1,007,864</u>
Current liabilities	16,430	67,974
Non-current liabilities	569,316	471,829
Total liabilities	<u>585,746</u>	<u>539,803</u>
Net assets	<u>475,837</u>	<u>468,061</u>
Equity		
Issued capital	470,494	470,494
Retained profits/(accumulated losses)	5,343	(2,433)
Total equity	<u>475,837</u>	<u>468,061</u>

5.3 Events subsequent to reporting date and other matters

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the BAC Group in future financial years.

In July 2016, management commenced a detailed review of calculations and tests applied in determining the amount of historic Redeemable Preference Share dividends and Performance Share dividend payments. Investigations are continuing and final results are yet to be presented to the Board for consideration. Once the review is finalised, it may be that additional dividend payments will be made to shareholders.

DIRECTORS' DECLARATION

In the opinion of the Directors of BAC Holdings Limited:

- (a) the financial statements and notes set out on pages 22 to 57 are in accordance with the Corporations Act 2001 (Cth), including:
 - (i) giving a true and fair view of the BAC Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001 (Cth); and
- (b) there are reasonable grounds to believe that the BAC Group will be able to pay its debts as and when they become due and payable.

The Directors draw attention to note 1.3 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in Brisbane on 30 September 2016 in accordance with a resolution of the Directors:



Bill Grant
Director



Julieanne Alroe
Director



Independent auditor's report to the members of BAC Holdings Limited

We have audited the accompanying financial report of BAC Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1.1 to 5.3 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.3, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.3.

KPMG

Matthew McDonnell
Partner

Brisbane
30 September 2016



Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To: the directors of BAC Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Matthew McDonnell
Partner

Brisbane
30 September 2016

BAC Holdings Limited financial statements
for the year ended 30 June 2016

ADDITIONAL INFORMATION

BAC Holdings Limited, ACN 108 568 038, incorporated and domiciled in Australia, is an unlisted public company limited by shares.

Registered office:

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