

Australia Pacific Airports (Melbourne) Pty. Limited

ACN 076 999 114

Financial Statements - 30 June 2021

Australia Pacific Airports (Melbourne) Pty. Limited

Directors' report

30 June 2021

The Directors of Australia Pacific Airports (Melbourne) Pty. Limited ("APAM" or the "Company") ACN 076 999 114 submit herewith the annual financial report of the Company for the financial year ended 30 June 2021.

Principal activities

During the financial year, the principal activity of the Company was the ownership and management of Melbourne Airport.

Review of operations

The Company continues to navigate the impacts of the evolving COVID crisis. With the emergence of the Delta variant and relatively low vaccination rates, there is an increased frequency of lockdowns to control outbreaks that will continue to impact the Company through FY2022.

In relation to the year ended 30 June 2021, prior to the emergence of Delta, the Company saw a positive rebound of domestic travel following the reopening of domestic borders after successive lockdowns from July 2020 to November 2020, with early signs of traveller confidence. Domestic passengers reached 64% of 2019 passenger volumes (pre COVID) in April 2021. Overall domestic passengers for APAM for the year were 5.9 million, 23% of 2019 passenger volumes, 5.0 million for the six months to June 2021 (39% of 2019 passenger volumes).

International travel remains at historic low levels, with the ban on international arrivals into Victoria lifted in December 2020 and replaced with a cap on international arrivals per week to facilitate repatriation flights only.

The Company is well positioned to manage through the recovery given:

- As at 30 June 2021, the Company had \$1,406 million of undrawn facilities in the form of unused revolving bank debt, working capital facilities and cash at bank of \$27 million as at 30 June 2021, which the Directors believe to be sufficient to cover the Company's funding needs for at least the next 12 months.
- In April 2021, the Company extended its A\$400 million Syndicated Facility tranche A by 3 years from 30-Sep-21 to 30-Sep-24 and established a new 5-year \$200 million bilateral facility to early refinance the \$191 million USPP which is due to mature in September 2021.
- The Company continued to progress critical capital projects, with investment focussed on critical aviation infrastructure and investment in the commercial property portfolio. The forward capital program is under continuous review, with opportunities taken to defer or reduce the costs of capital projects.
- The Company also continue to work with suppliers to continually manage costs tightly while ensuring a safe travel experience for passengers.
- As a direct result of the on-going impact of COVID-19, unfortunately a number of roles were made redundant in September 2020, with 69 roles impacted overall, which represents 16.5% of total jobs across the Company.
- Due to a decline in revenue of \$694.7 million against 2019 (68.1%), the Company qualified for \$8.3 million in wage assistance in the period as a result of the Federal Government's JobKeeper scheme.
- The Company continued supporting our airport partners, with the Board approving assistance packages to the value of \$263.0 million for Airlines, Retailers, Landside Access and Property tenants affected by the ongoing reduction in aviation activity since the beginning of the pandemic to 30 June 2021. Parking was free of charge to guests, Airport partners and Melbourne Airport staff, until 1 November when car parking charges recommenced, aligning to the opening of domestic borders.
- Cash collection continues to be a key focus area, with benefits realised in the Company's net operating cash flows.
- A further two significant development projects were delivered in commercial property, with Bapcor (48,000 sqm) and Agility (32,000 sqm) welcomed to the Melbourne Airport Business park (MABP).

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- The Company continues to leverage opportunities for long term growth outside of our Aviation business. In November 2020, Melbourne Airport announced the development of a Seqirus / CSL vaccine manufacturing facility, to be built over the next 3 years in Melbourne Airport Business Park. This deal is considered a major breakthrough, securing a long-term deal with the country's largest manufacturer of vaccines, continuing to diversify our revenue and demonstrating the potential for at scale and diverse development on the estate.
- The Board note the major role of vaccinations in protecting the population and unlocking air travel, especially overseas markets. The Company is incentivising Victorians to be fully vaccinated against COVID-19 by giving six holidaymakers \$10,000 in cash to spend on travel. The intent is to assist in incentivising others to vaccinate when further vaccine supplies become available.

Financial results:

As noted in the review of operations, the Company continues to be significantly impacted by COVID-19, with domestic passengers reaching only 23% of 2019 passenger volumes, generating revenue of \$325.4 million and reported Operating Profit for the year of \$159.2 million, significantly lower than 2020.

The result was supported by strong performance in the commercial property business, with the portfolio having low reliance on international and domestic travel, generating revenue of \$109.8 million, an increase of \$9.8 million on the prior period. This performance was driven by the completion of new MABP developments, new long term MABP leases and the commencement of ground rent for the Seqirus / CSL vaccine manufacturing facility. The additional revenue was partially offset by assistance packages provided to those tenants affected by the ongoing reduction in aviation activity and those meeting the criteria for assistance as legislated under the *Commercial Tenancy Relief Scheme*.

Aeronautical revenue was \$83.0 million, largely driven by domestic activity in the second half of the financial year and was supported by increased freight revenues, up \$8.6 million on 2020.

Ground Transport revenue was \$55.2 million, again largely driven by domestic activity in the second half of the financial year, with parking charges recommencing from 1 November 2020. Revenue was impacted by the support provided to car rental operators. Total revenue per passenger grew from \$5.72 to \$8.95 over the year, driven largely by a mode share shift towards parking and higher transaction values.

Retail revenue was \$14.8 million, with the majority of international retail remaining closed given the restriction on international travel, combined with on-going rental support provided to our retail partners.

Security costs and recoveries have decreased in line with the decline in passenger volumes, with charges based on a per passenger basis.

Operating costs were \$166.2 million (2020: \$277.9 million). Excluding the write back of \$9.2 million of the Company's allowance for expected credit losses (2020: \$33.3 million expense) and the impact of the change in accounting policy for Software-as-a-Service which resulted in an expense of \$13.3 million, operating costs decreased by \$75.2 million to \$162.1 million, a year on year a decrease of 31.7%, or \$53.4 million (28.4%) excluding security costs.

Operating costs continue to be managed proactively to respond to the lower passenger levels. Given the 59.1% reduction in revenue, the Company qualified for \$8.3 million from the JobKeeper scheme.

The results include a gain on revaluation of investment property of \$386.2 million, with the portfolio valued at \$2.0 billion. This revaluation gain was driven by the completion of developments in the MABP, compression of capitalisation rates in the industrial sector, rental growth and an increase of the value of developable land.

After interest and depreciation, the Company generated a statutory profit before tax of \$87.8 million.

Change in accounting policy - Software-as-a-Service (SaaS) arrangements

In March 2021, the IFRS Interpretations Committee ("IFRIC") issued an agenda decision to clarify the accounting treatment for SaaS arrangements, including the accounting for related implementation, customisation and configuration costs. The IFRIC clarified that SaaS arrangements are service contracts that provide the Company with the right to access the cloud provider's software over a period of time. As a result, the underlying software the Company has the right to access is not controlled by the Company and therefore ongoing access fees as well as costs incurred to implement, customise and configure the cloud provider's software are recognised as an expense when incurred. Costs incurred related to software controlled by the Company are capitalised and amortised on a straight-line basis over their useful life.

Accordingly, the Company has revised its accounting policy in relation to SaaS arrangements in line with the new guidance. The Company's revised accounting policy is presented in Note 2 *Significant accounting policies*.

All expenditure in the current financial year in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$13.3 million of SaaS related costs have been recognised as an expense in the current year, which previously would have been capitalised and amortised over their useful life. The costs relate to the implementation of an enterprise resource planning system and the cost of the implementation of Cyber Security applications, all of which are SaaS arrangement.

The change in accounting policy is required to be applied retrospectively. As a result, the Company has restated its prior year comparative and opening retained earnings as at 1 July 2019 (the start of the comparative period). Refer to Note 4 for an overview of the impact of the change in accounting policy on these periods.

Underlying Operating Profit for the period

As disclosed in the Statement of Profit or Loss and Other Comprehensive Income, "Operating Profit" represents profit before finance costs, income tax, depreciation and amortisation, impairment losses associated with assets under construction and changes in the fair value of investment properties.

Underlying Operating Profit further excludes certain significant income and expense items that qualify for adjustment as part of the Company's reporting on covenant compliance to its lenders, as further described in Note 5.

Summarised below is a reconciliation between reported Operating Profit and underlying Operating Profit:

	Note	2021 \$'000	2020 \$'000
Operating Profit (reported)		<u>159,163</u>	<u>518,217</u>
Impairment of accrued retail revenue	5	-	26,332
Allowance for expected credit losses - (Reversal)/expense	5	(9,246)	33,286
Software as a Service expense	5	<u>13,303</u>	<u>7,251</u>
Underlying Operating Profit for the period		<u><u>163,220</u></u>	<u><u>585,086</u></u>

Significant changes in the state of affairs

Aside from the matters discussed in the "Review of Operations" section, there were no significant changes in the state of affairs of the Company during the financial year.

Dividends

No dividend has been declared for the year ended 30 June 2021. On 24 February 2020, the Directors declared an interim dividend of \$100.8 million (\$1.01 per share). On 26 March 2020, the Board resolved that the dividend declared on 24 February 2020 be cancelled.

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30 June 2021

Events occurring after balance sheet date

The Directors note the emergence of the Delta variant and relatively low vaccination rates have increased the frequency of lockdowns to control outbreaks. While there is a preference, based on limiting the economic damage, for short, sharp interventions, the outlook to the end of December 2021 is for rolling disruptions across state jurisdictions to continue. In August 2021, Victoria entered the state's sixth lockdown, with Metropolitan Melbourne subject to stay-at-home directions, including a curfew. The New South Wales outbreak has not yet peaked and is likely to have a long tail. A rapid acceleration of Australia's vaccination program is underway, with 70% and 80% thresholds identified as part of a plan to reduce the frequency and severity of lockdowns, keep interstate borders open and reopen Australia to the world.

The expected impacts of the lockdowns are reflected in the scenarios modelled by the Company which informed the Company's key estimates and judgements and the Directors conclusion that the Company is a going concern. However, the exact impact on the financial position and performance of the Company in the future as a result of the ongoing developments cannot be predicted. Refer to Note 1 to the Financial Statements for Going Concern disclosure.

On 3 August 2021, the Board approved a further restructure of the Company's hedge portfolio. This continues the Company's strategy to minimise cash interest paid. The restructure was executed in August 2021 and is expected to deliver a further \$26 million reduction in future interest payments bringing the total reduction to \$120 million to 30 June 2022.

Other than the above, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years

Directors

Name	Position	Period of directorship
Lyell Strambi	Managing Director	Appointed 9 November 2015
Grant Devonport	Director	Appointed 1 March 2019
Andrew Gardiner	Director	Appointed 10 July 2019

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	Full Board	
	Held	Attended
Lyell Strambi	2	2
Grant Devonport	2	2
Andrew Gardiner	2	2

Those attended by the Company Secretary were:

	Held	Attended
Aaron Gant	2	2

Future developments

The Company's future developments and operations are included within the Master Plan of Melbourne Airport (2018). The document, published every five years, include setting the strategic direction for the airport, providing plans for development, documenting to the public the intended uses of the sites and development proposals and ensuring compliance with environmental legislation and standards.

The impact of COVID-19 on the Company's future plan has been considered and disclosed in the financial report.

Environmental regulation

In relation to environmental matters, the Company is subject to the Airports Act 1996 ("the Act") and the Airports (Environment Protection) Regulations 1997 ("the Regulations"). The Board is satisfied that the results of environmental monitoring conducted by internal and external specialists during the year ended 30 June 2021 demonstrate compliance with the Act and the Regulations.

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Like other airports around Australia, fire-fighting foams containing per- and poly- fluoroalkyl substances (PFAS) have historically been used by Air Services Australia at Melbourne Airport. Melbourne Airport continues to investigate, manage and monitor PFAS at the airport.

Indemnity and insurance of officers and auditors

Each officer (including each Director) of the Company is indemnified, to the maximum extent permitted by law, against any liabilities incurred as an officer of the Company pursuant to agreements with the Company. Each officer is also indemnified against reasonable costs (whether legal or otherwise) incurred in relation to relevant proceedings in which the officer is involved because the officer is or was an officer.

The Company has arranged to pay a premium for a Director's and officer's liability insurance policy to indemnify Directors and officers in accordance with the terms and conditions of the policy.

This policy is subject to a confidentiality clause which prohibits disclosure of the nature of the liability covered, the name of the insurer, the limit of liability and the premium paid for this policy.

The auditor of the Company is in no way indemnified out of the assets of the Company.

No application has been made and no proceedings have been brought or intervened in on behalf of APAM under section 237 of the Corporations Act.

Auditor's independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Rounding off of amounts

The Company is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information has been rounded to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors.

On behalf of the Directors



Mr L. Strambi
Managing Director



Mr G. Devonport
Director

23 August 2021
Melbourne

23 August 2021

The Board of Directors
Australia Pacific Airports (Melbourne) Pty Limited
Level 2, Terminal 2
Melbourne Airport VIC 3043

Dear Board Members,

Auditors Independence Declaration - Australia Pacific Airports (Melbourne) Pty Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Australia Pacific Airports (Melbourne) Pty Limited.

As lead audit partner for the audit of the financial statements of Australia Pacific Airports (Melbourne) Pty Limited for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


Travis Simkin
Partner
Chartered Accountants

Australia Pacific Airports (Melbourne) Pty. Limited

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General information

The financial statements reflect Australia Pacific Airports (Melbourne) Pty. Limited as a single entity. The financial statements are presented in Australian dollars, which is Australia Pacific Airports (Melbourne) Pty. Limited's functional and presentation currency.

Australia Pacific Airports (Melbourne) Pty. Limited ACN 076 999 114 is a proprietary company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Level 2, Terminal 2,
Melbourne Airport VIC 3043
(03) 9297 1600
website: www.melbourneairport.com.au
Email: reception@melair.com.au

A description of the nature of the Company's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 August 2021.

Australia Pacific Airports (Melbourne) Pty. Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	2021 \$'000	2020 Restated \$'000
Revenue			
Aeronautical		82,967	340,385
Security	7	30,066	51,329
Retail		14,832	113,131
Ground Transport		55,248	155,948
Property		109,804	99,984
Outgoings/recharges		28,442	31,349
Interest		47	274
Other income		3,958	3,669
Profit on sale of fixed assets		-	26
Total revenue		<u>325,364</u>	<u>796,095</u>
Expenses			
Staff costs		(42,675)	(41,351)
Security	7	(27,217)	(48,980)
Service and utilities		(65,737)	(97,606)
Maintenance costs		(14,314)	(29,660)
Administration and marketing costs		(4,323)	(11,116)
Other costs		(8,158)	(9,397)
Software as a Service expense	4	(13,303)	(7,251)
Allowance for expected credit losses - reversal/(expense)	5	9,526	(32,517)
Total expenses		<u>(166,201)</u>	<u>(277,878)</u>
Operating Profit		159,163	518,217
Change in fair value of investment property	13	386,177	96,885
Depreciation and amortisation	4,6	(270,035)	(249,125)
Impairment of assets under construction	5	-	(40,738)
Borrowing costs	6	<u>(187,545)</u>	<u>(187,793)</u>
Profit before income tax expense		87,760	137,446
Income tax expense	8	<u>(27,810)</u>	<u>(39,010)</u>
Profit after income tax expense for the year	23	59,950	98,436
Other Comprehensive profit/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		17,882	(438)
Other Comprehensive profit/(loss) for the year, net of tax		<u>17,882</u>	<u>(438)</u>
Total Comprehensive income for the year		<u><u>77,832</u></u>	<u><u>97,998</u></u>

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

Australia Pacific Airports (Melbourne) Pty. Limited
Statement of financial position
As at 30 June 2021

	Note	2021 \$'000	2020 Restated \$'000
Assets			
Current assets			
Cash and cash equivalents		27,653	132,704
Trade and other receivables	9	34,738	37,098
Derivative financial instruments	17	76,704	-
Income tax receivable		-	41,231
Accrued revenue	10	21,775	11,101
Other assets	11	4,399	3,676
Total current assets		<u>165,269</u>	<u>225,810</u>
Non-current assets			
Property, plant and equipment	4,12	3,467,956	3,536,543
Investment properties	13	2,044,136	1,586,786
Intangible assets	14	669,497	670,241
Derivative financial instruments	17	300,707	515,870
Accrued revenue	10	134,202	105,110
Other assets	11	8,990	9,603
Total non-current assets		<u>6,625,488</u>	<u>6,424,153</u>
Total assets		<u>6,790,757</u>	<u>6,649,963</u>
Liabilities			
Current liabilities			
Payables	15	161,307	237,470
Borrowings	16	266,610	-
Employee benefit provisions		14,427	11,785
Derivative financial instruments	17	6,948	22,796
Lease liabilities	19	1,287	1,287
Unearned income		2,102	3,100
Total current liabilities		<u>452,681</u>	<u>276,438</u>
Non-current liabilities			
Payables	15	3,750	-
Borrowings	16	4,683,108	4,772,623
Deferred tax liability	4,8	555,560	517,629
Employee benefit provisions		1,640	1,484
Derivative financial instruments	17	134,845	198,197
Lease liabilities	19	3,776	4,725
Unearned income		3,968	5,270
Total non-current liabilities		<u>5,386,647</u>	<u>5,499,928</u>
Total liabilities		<u>5,839,328</u>	<u>5,776,366</u>
Net assets		<u>951,429</u>	<u>873,597</u>
Equity			
Issued capital	21	100,000	100,000
Hedging reserves	22	(139,795)	(157,677)
Retained profits	4,23	991,224	931,274
Total equity		<u>951,429</u>	<u>873,597</u>

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

Australia Pacific Airports (Melbourne) Pty. Limited
Statement of changes in equity
For the year ended 30 June 2021

	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019 (reported)	100,000	(157,239)	1,115,302	1,058,063
Adjustment for change in accounting policy (Note 4)	-	-	(8,352)	(8,352)
Adjusted balance at 1 July 2019	100,000	(157,239)	1,106,950	1,049,711
Profit after income tax expense for the year	-	-	98,436	98,436
Other Comprehensive loss for the year, net of tax	-	(438)	-	(438)
Total Comprehensive profit/(loss) for the year	-	(438)	98,436	97,998
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (Note 28)	-	-	(274,112)	(274,112)
Balance at 30 June 2020	<u>100,000</u>	<u>(157,677)</u>	<u>931,274</u>	<u>873,597</u>
	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	100,000	(157,677)	931,274	873,597
Profit after income tax expense for the year	-	-	59,950	59,950
Other Comprehensive income for the year, net of tax	-	17,882	-	17,882
Total Comprehensive income for the year	-	17,882	59,950	77,832
Balance at 30 June 2021	<u>100,000</u>	<u>(139,795)</u>	<u>991,224</u>	<u>951,429</u>

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

Australia Pacific Airports (Melbourne) Pty. Limited
Statement of cash flows
For the year ended 30 June 2021

	Note	2021 \$'000	2020 Restated \$'000
Cash flows from operating activities			
Receipts from customers		341,353	952,935
Payments to suppliers and employees		(189,381)	(342,835)
Payments for Software as a Service	4	(11,440)	(7,251)
Interest received		47	274
Interest paid		(176,168)	(177,469)
Income tax paid		43,688	(84,794)
Net cash from operating activities	26	8,099	340,860
Cash flows from investing activities			
Payments for investment property	13	(71,173)	(99,030)
Payments for property, plant and equipment	4	(274,836)	(356,727)
Payments for intangibles	14	-	55
Proceeds from disposal of property, plant and equipment		-	26
Net cash used in investing activities		(346,009)	(455,676)
Cash flows from financing activities			
Proceeds from borrowings	16	622,000	1,963,688
Repayment of borrowings	16	(291,000)	(1,455,000)
Payment for hedging restructure	16	(94,883)	-
Dividends paid	28	-	(274,112)
Repayment of lease liabilities		(949)	(939)
Payment for debt issue costs		(2,309)	(9,387)
Net cash from financing activities		232,859	224,250
Net increase/(decrease) in cash and cash equivalents		(105,051)	109,434
Cash and cash equivalents at the beginning of the financial year		132,704	23,270
Cash and cash equivalents at the end of the financial year		<u>27,653</u>	<u>132,704</u>

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

Australia Pacific Airports (Melbourne) Pty. Limited
Notes to the financial statements
30 June 2021

1. Basis of preparation

Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements were authorised for issue by the Directors on 23 August 2021.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and derivative financial instruments. All amounts are presented in Australian dollars unless otherwise noted.

Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation. Impact on comparatives due to change in accounting policy set out in Note 4.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar, unless otherwise indicated.

Going concern

In assessing the overall position of the Company, the Directors are of the view that the Company is positioned to continue operations and has sufficient liquidity available to meet all of its operating and funding costs requirements for the 12 month period following 23 August 2021 and remain confident of the viability of the long term plan of the Company.

As at 30 June 2021, the Company had net current liabilities of \$287 million (30 June 2020: net current liabilities \$51 million), driven by cash on hand of \$27 million, offset by the timing of payables for operating costs and capital, and the maturity in September 2021 of the A\$191 million of USPP notes.

As at 30 June 2021, the Company had \$1,406 million of undrawn facilities in the form of unused revolving bank debt, working capital facilities and cash at bank, which is sufficient to cover the Company's funding needs for at least the next 12 months.

In April 2021, the Company extended its A\$400 million Syndicated Facility tranche A by 3 years from 30-Sep-21 to 30-Sep-24, established a new 5 year \$200 million bilateral facility to early refinance the \$191 million USPP September 2021 maturity.

The Directors secured a deferral of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for the 31 December 2020 and 30 June 2021 testing periods.

The Company complied with CCR covenants for the six months to 30 June 2021, driven by the strength of domestic passenger recovery when domestic borders re-opened, combined with actions taken to reduce operating costs, capex and the Company's interest minimisation program.

The Company reviewed and implemented strategies targeted at minimising further interest expense in the short term. This included three tranches of restructures of certain elements of its derivative portfolio resetting out of the money fixed rate interest rate swaps to current market rates. This is expected to deliver a total reduction in interest payments by approximately \$120 million to 30 June 2022. Tranche 3 was approved by the Board in August 2021 and has been disclosed in Note 30 Events after the reporting period.

The Company is required to comply with the CCR covenant from December 2021. The Directors have reviewed the cash flow projections factoring in the impact of the COVID-19 pandemic on the Company covering the period for 12 months after the accounts are approved. This takes into account forecast revenue, operating cash flows including operating and capital expenditure, interest minimisation program and the Company's liquidity position.

1. Basis of preparation (continued)

The forecasted domestic passenger scenarios for the six months to 31 December 2021 assume a staged reopening of domestic borders with all states, commencing from September through to December 2021. This assumption is underpinned by a successful COVID-19 vaccination roll out in Australia and decisions by each state on domestic border openings.

In arriving at the passenger scenarios, the Directors noted the emergence of the Delta variant and relatively low vaccination rates have increased the frequency of lockdowns to control outbreaks. While there is a preference, based on limiting the economic damage, for short, sharp interventions, the outlook to the end of December 2021 is for rolling disruptions across state jurisdictions to continue. In August 2021, Victoria entered the State's sixth lockdown, with Metropolitan Melbourne subject to stay-at-home directions, including a curfew. The New South Wales outbreak has not yet peaked and is likely to have a long tail. A rapid acceleration of Australia's vaccination program is underway, with 70% and 80% thresholds identified as part of a plan to reduce the frequency and severity of lockdowns, keep interstate borders open and reopen Australia to the world.

Based on these passenger forecasts, the Company still expects to achieve compliance with the CCR covenant for 31 December 2021 and 30 June 2022. However, given the uncertainty around domestic borders and passenger numbers which are embedded within these forecasts, should the phased reopening not commence in September 2021, the Directors will seek to secure a deferral of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for 31 December 2021 and consider information available at the time with respect to June 2022.

The Company continues to engage with lenders and rating agencies on current operating performance providing transparency on commercial and financial performance. The Company's shareholders are committed to ensuring it retains its investment grade credit rating throughout the COVID-19 impacted period. The Directors are satisfied that the Company has available liquidity to support its operating activities over the course of the next 12 months and the Company will be able to meet its debts as and when they are due. On this basis, the financial statements have been approved by the Directors on a going concern basis.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Change in accounting policy

Software-as-a-Service (SaaS) arrangements

In March 2021, the IFRS Interpretations Committee ("IFRIC") issued an agenda decision to clarify the accounting treatment for SaaS arrangements, including the accounting for related implementation, customisation and configuration costs. The IFRIC clarified that SaaS arrangements are service contracts that provide the Company with the right to access the cloud provider's software over a period of time. As a result, the underlying software the Company has the right to access is not controlled by the Company and therefore ongoing access fees as well as costs incurred to implement, customise and configure the cloud provider's software are recognised as an expense when incurred. Costs incurred related to software controlled by the Company are capitalised and amortised on a straight-line basis over their useful life.

Accordingly, the Company has revised its accounting policy in relation to SaaS arrangements in line with the new guidance. The Company's revised accounting policy is presented below.

All expenditure in the current financial year in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$13.3 million of SaaS related costs have been recognised as an expense in the current year, which previously would have been capitalised and amortised over their useful life. The costs relate to the implementation of an enterprise resource planning system and the cost of the implementation of Cyber Security applications, all of which are SaaS arrangement.

The change in accounting policy is required to be applied retrospectively. As a result, the Company has restated its prior year comparative and opening retained earnings as at 1 July 2019 (the start of the comparative period). Refer to Note 4 for an overview of the impact of the change in accounting policy on these periods.

2. Significant accounting policies (continued)

New accounting policy: Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Adoption of new and revised accounting policies

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following Accounting Standards and Interpretations have been adopted for the period:

AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform

The Company early adopted the amendments in its financial statements for the year ended 30 June 2020 retrospectively. AASB 2019-3 makes amendments to AASB 7, AASB 9 and AASB 139 which allows the Company to apply certain exceptions to the standard hedging requirements in respect of hedge relationships that are impacted by a market wide interest rate benchmark reform. The specific interest rate benchmark reform that this amendment currently applies to is the planned discontinuation of the London Interbank Offered Rate ('USD LIBOR') immediately after 30 June 2023.

At 30 June 2021 the Company does not have:

- any debt instruments linked to USD LIBOR as all USD bonds issued are fixed rate; or
- any interest rate swaps or cross currency interest rate swaps directly linked to LIBOR as these instruments swap the fixed foreign denominated interest rate to either a fixed or floating BBSW(Y) interest rate.

Despite not having any direct USD LIBOR linked debt or swap instruments, some cross currency swap hedge relationships reference USD LIBOR for both hedge accounting and valuation purposes. The Company has performed an initial high level LIBOR exposure review and has not identified any direct USD LIBOR exposures. For hedge relationships with indirect USD LIBOR exposures, management has assessed that overall economics of the hedging transactions will not be modified as part of the transition process as there is no direct exposure to LIBOR, however, should any benchmark rates change this will be effected in the underlying hedge relationships.

Other new and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Company are:

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*
- AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

2. Significant accounting policies (continued)

Standards in issue but not yet effective

The following standards are in issue but not yet effective:

Amendments to AASB 101

The amendments to AASB 101 may impact the classification of bank debt, where the terms of the bank debt as at the reporting date have not been met irrespective of any waivers obtained, in that they may be classified under current liabilities where the Company does not have an unconditional right to defer settlement. The Company has not early adopted the amendments to AASB 101 as at the reporting date. However, there would be no impact as at 30 June 2021.

Cash

Cash comprises of cash on hand, cash in banks and investments in money market instruments.

Revenue from contracts with customers

Aeronautical revenue

Aeronautical revenue is primarily generated from contracts with airlines for the provision of access to terminals, infrastructure, apron parking, airfield and terminal facilities. Revenue is recognised as the service is provided as follows:

- Passenger charges: On a per passenger basis as they arrive or depart
- Runway charges: On a per passenger basis or on the basis of maximum take-off weight
- Aircraft parking charges: Over the duration of time the aircraft is parked and maximum take-off weight

Aeronautical revenues are billed on a monthly basis.

Incentives or discounts are provided in line with terms of contracts with airlines and are generally based on passenger numbers, flight frequency and or new routes. Revenues from passenger charges are therefore variable consideration and estimated monthly. Variable revenue is only recognised when it is highly probable the revenues will not reverse.

Discounts and incentives are generally paid annually based on contract commencement date and any unpaid amount is recognised as a payable.

Security recovery revenues

Revenue is a pass-through of security operating costs and a capital recovery on depreciation and is based on the recognition of actual security costs and depreciation incurred.

Security recovery revenues are billed on a monthly basis.

Ground Transport revenues

Parking and ground transport revenue is primarily generated from passengers and staff for the provision of car parking and from taxis, ride share services, busses and private vehicles for the provision of ground access services.

Revenue is recognised for car parking on exit and ground access services over the period of time the service is provided.

Retail revenues

This comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, and financial and advertising services. These contracts contain lease components with revenue recognised in line with the terms of the lease and the requirements of AASB 16: Leases.

Property revenues

This comprises the lease of terminal space, buildings and other space on Melbourne Airport. These contracts contain only lease components with revenue recognised in line with the terms of the lease and the requirements of AASB 16: Leases.

Financial instruments

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in their respective notes.

2. Significant accounting policies (continued)

Impairment of assets

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

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

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

Capitalised borrowings costs

Interest costs directly attributable to assets under construction are capitalised as part of the costs of those assets up to the date of completion of each asset.

Investments

Investments in controlled entities are recorded at cost.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Superannuation

The Company makes contributions to accumulation funds on behalf of its employees. These contributions are expensed when incurred.

Employee benefits

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

Liabilities recognised in respect of wages and salaries, annual leave and long service leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of annual leave and long service leave not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

Income tax

Income tax

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

2. Significant accounting policies (continued)

The Directors of Australia Pacific Airports Corporations Limited (head entity) have elected for those entities within the consolidated group that are wholly-owned Australian resident entities to be taxed as a single entity from 1 July 2003. Accordingly, the Company became part of a tax consolidated group with effect from 1 July 2003.

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

2. Significant accounting policies (continued)

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 Impairment of assets.

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

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

3. Critical accounting judgements, estimates and assumptions

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

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

At 30 June 2021 the Company has made significant judgements and estimates impacting the financial position in particular in relation to going concern (Note 1), the fair value of investment properties (Note 13) and impairment of goodwill (Note 14).

At 30 June 2020 the Company has significant judgements and estimates impacting the financial result and position, including, but not limited to, expected credit loss, impairment of non-current assets, the fair value of debt and associated instruments as well as other provisions and estimates.

Software-as-a-Service (SaaS) arrangements

Note 2 describes the Company's accounting policy in respect of right to access fees as well as customisation and configuration costs incurred in implementing SaaS arrangements. In applying the Company's accounting policy, the Directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

4. Restatement of comparatives - change in accounting policy

In March 2021, the IFRS Interpretations Committee ("IFRIC") issued an agenda decision to clarify the accounting treatment for Software-as-a-Service (SaaS) arrangements, including the accounting for related implementation, customisation and configuration costs. The IFRIC clarified that SaaS arrangements are service contracts that provide the Company with the right to access the cloud provider's software over a period of time. As a result, the underlying software the Company has the right to access is not controlled by the Company and therefore ongoing access fees as well as costs incurred to implement, customise and configure the cloud provider's software are recognised as an expense when incurred. Costs incurred related to software controlled by the Company are capitalised and amortised on a straight-line basis over their useful life

Accordingly, the Company has revised its accounting policy in relation to SaaS arrangements in line with the new guidance. The Company's revised accounting policy is presented in Note 2 *Significant accounting policies*.

Management undertook a review of previously capitalised costs to identify those impacted by the change in accounting policy and assessed them with reference to the clarification in the interpretation of SaaS arrangements.

In the current year, \$13.3 million has been recorded in operating expenses in respect of SaaS costs, which previously would have been capitalised and amortised over their useful life. The costs relate to the implementation of an enterprise resource planning system and the cost of the implementation of Cyber Security applications, all of which are SaaS arrangement. The impact on profit before tax has been offset by the reversal of depreciation of \$5.3 million, resulting in a net impact of \$8.0 million on profit before tax in the current year.

The change in accounting policy is required to be applied retrospectively. As a result, the Company has restated its prior year comparative financial information and opening retained earnings as at 1 July 2019 (the start of the comparative period) as disclosed in notes 8, 12 and in the Statement of Changes in Equity, resulting from the following restatements:

	30 June 2020 Restatement \$'000	1 July 2019 Restatement \$'000
Statement of financial position		
Property, plant and equipment	(4,821)	(11,289)
Deferred tax liability	1,190	2,937
Net assets	<u>(3,631)</u>	<u>(8,352)</u>
Retained earnings	<u>(3,631)</u>	<u>(8,352)</u>
	30 June 2020 Restatement \$'000	1 July 2019 Restatement \$'000
Statement of profit or loss and other comprehensive income		
Software as a Service expense	(7,251)	(12,998)
Depreciation and amortisation reversal	2,430	1,709
Income tax expense	1,190	2,937
Profit after tax	<u>(3,631)</u>	<u>(8,352)</u>
	30 June 2020 Restatement \$'000	1 July 2019 Restatement \$'000
Statement of cashflows		
Payments to suppliers and employees	(7,251)	(12,998)
Net cash from operating activities	<u>(7,251)</u>	<u>(12,998)</u>
Payments for property, plant and equipment	7,251	12,998
Net cash used in investing activities	<u>7,251</u>	<u>12,998</u>

4. Restatement of comparatives - change in accounting policy (continued)

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of and recognition criteria for an intangible asset in AASB 138 Intangible Assets. During the year, the Company recognised no amounts (2020: Nil) as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access.

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the Directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software that would be deemed significant. During the year, the Company recognised no amounts (2020: Nil) as prepayments in respect of customisation and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

5. Significant income and expense items

Included in the financial statements are a number of significant income and expense items that qualify for adjustment as part of the Company's reporting on covenant compliance to its lenders.

	2021 \$'000	2020 \$'000
Revenue		
Impairment of accrued retail revenue	-	(26,332)
Expenses		
Allowance for expected credit losses - reversal/(expense) (i)	9,246	(33,286)
Software as a Service expense (ii)	(13,303)	(7,251)
	(4,057)	(40,537)
Depreciation, amortisation and impairment		
Impairment of assets under construction	-	(40,738)

(i) Allowance for expected credit losses

The reversal of the allowance for expected credit losses of \$9.2 million relates to better than expected recovery in relation to outstanding amounts for Virgin Australia Holdings that had been provided for at 30 June 2020 and a reduction in overall outstanding balances that formed the basis of the allowance for expected credit losses at 30 June 2021.

(ii) Software as a Service (SaaS)

As outlined in Note 4, the Company has revised its accounting policy in relation to SaaS arrangements in line with IFRIC guidance. All expenditure in the current financial year in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$13.3 million of SaaS related costs have been recognised as an expense in the current year, which previously would have been capitalised and amortised over their useful life. The costs relate to the implementation of an enterprise resource planning system and the cost of the implementation of Cyber Security applications, all of which are SaaS arrangement.

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5. Significant income and expense items (continued)

The change in accounting policy is required to be applied retrospectively. As a result, the Company has restated its prior year comparative and opening retained earnings as at 1 July 2019 (the start of the comparative period). Refer to Note 4 for an overview of the impact of the change in accounting policy on these periods.

6. Profit for the year

The profit before tax for the year includes the following specific items:

	2021 \$'000	2020 Restated \$'000
Employee benefits expense - superannuation contributions	4,566	4,964
Depreciation and amortisation:		
Depreciation of property, plant and equipment	269,291	248,244
Amortisation of masterplan	744	881
Total depreciation and amortisation	<u>270,035</u>	<u>249,125</u>
Borrowing costs:		
Interest:		
- Secured debt	174,053	196,138
- Interest capitalised during the period	(16,068)	(16,618)
- Amortisation of deferred borrowing costs	6,719	6,254
Hedge reserve unwind	21,372	669
Interest - Lease liabilities	446	352
Other costs	1,023	998
Total borrowing costs	<u>187,545</u>	<u>187,793</u>

7. Security

	2021 \$'000	2020 \$'000
Security revenue	30,066	51,329
Security cost	(27,217)	(48,980)
Security depreciation and other costs	(2,849)	(2,349)
	<u>-</u>	<u>-</u>

Security revenue is a pass-through of security operating costs and a capital recovery on depreciation and is based on the recognition of actual security costs and depreciation incurred.

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8. Income tax

(a) Income tax recognised in profit

	2021 \$'000	2020 Restated \$'000
<i>Income tax expense comprises of:</i>		
Current tax expense	-	21,794
Deferred tax expense	28,109	19,651
Current tax expense in respect of prior years	(2,458)	(263)
Deferred tax in respect of prior years	2,159	(2,172)
Aggregate income tax expense	<u>27,810</u>	<u>39,010</u>
<i>The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:</i>		
Profit before income tax expense	<u>87,760</u>	<u>137,446</u>
Tax at the statutory tax rate of 30%	26,328	41,234
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	-	362
Non-assessable income	1,781	(151)
Deferred tax in respect of prior years	2,159	(2,172)
Current tax expense in respect of prior years	<u>(2,458)</u>	<u>(263)</u>
Income tax expense	<u>27,810</u>	<u>39,010</u>

(b) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

2021

	Opening balance 1 July 2020 \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance 30 June 2021 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(196,622)	16,929	-	(179,693)
Accrued revenue	(33,334)	(5,152)	-	(38,486)
Investment property	(358,715)	(121,817)	-	(480,532)
Other assets	(3,600)	600	-	(3,000)
Deferred borrowing costs	(1,817)	643	-	(1,174)
	<u>(594,088)</u>	<u>(108,797)</u>	<u>-</u>	<u>(702,885)</u>
Gross deferred tax assets:				
Provisions & accruals	5,899	222	-	6,121
Unearned income	2,511	(1,368)	-	1,143
Hedge reserve	67,577	-	(7,664)	59,913
Tax losses	-	80,144	-	80,144
Other	472	(468)	-	4
	<u>76,459</u>	<u>78,530</u>	<u>(7,664)</u>	<u>147,325</u>
Net deferred tax liability	<u>(517,629)</u>	<u>(30,267)</u>	<u>(7,664)</u>	<u>(555,560)</u>

8. Income tax (continued)

2020

	Opening Balance 1 July 2019 \$'000	Restatement for change in accounting policy (Note 4) \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance 30 June 2020 \$'000
Gross deferred tax liabilities:					
Property, plant & equipment	(143,278)	2,937	(56,281)	-	(196,622)
Accrued revenue	(35,104)	-	1,770	-	(33,334)
Investment property	(397,144)	-	38,429	-	(358,715)
Other assets	(3,814)	-	214	-	(3,600)
Deferred borrowing costs	(1,817)	-	-	-	(1,817)
	<u>(581,157)</u>	<u>2,937</u>	<u>(15,868)</u>	<u>-</u>	<u>(594,088)</u>
Gross deferred tax assets:					
Provisions & accruals	7,785	-	(1,886)	-	5,899
Unearned income	2,104	-	407	-	2,511
Hedge reserve	67,389	-	-	188	67,577
Other	603	-	(131)	-	472
	<u>77,881</u>	<u>-</u>	<u>(1,610)</u>	<u>188</u>	<u>76,459</u>
Net deferred tax liability	<u>(503,276)</u>	<u>2,937</u>	<u>(17,478)</u>	<u>188</u>	<u>(517,629)</u>

9. Trade and other receivables

	2021 \$'000	2020 \$'000
Trade and other receivables	35,888	56,628
Less: Allowance for expected credit losses	<u>(2,621)</u>	<u>(26,520)</u>
Net trade and other receivables	<u>33,267</u>	<u>30,108</u>
GST receivables	<u>1,471</u>	<u>6,990</u>
Total trade and other receivables	<u>34,738</u>	<u>37,098</u>

Included in the Company's trade receivables balance are debtors with a carrying amount of \$2,695,156 (2020: \$26,116,114), which were overdue (90 days +) as at the reporting date.

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Revenue is invoiced on 30 day terms, with the exception of property and rental revenue which is invoiced in advance.

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10. Accrued revenue

	2021 \$'000	2020 Restated \$'000
Current:		
Straight line leases	10,327	6,002
Other accrued revenue	11,448	5,099
Total current	<u>21,775</u>	<u>11,101</u>
Non-current:		
Straight line leases	<u>134,202</u>	<u>105,110</u>

11. Other assets

	2021 \$'000	2020 \$'000
<i>Current assets</i>		
Prepayments	1,939	1,216
Airline rebates	2,000	2,000
Term deposits	460	460
Total current	<u>4,399</u>	<u>3,676</u>
<i>Non-current assets</i>		
Airline rebates	6,723	8,723
Other non-current assets	2,267	880
Total non-current	<u>8,990</u>	<u>9,603</u>

12. Property, plant and equipment

	Leasehold land \$000	Buildings and services \$000	Roads, runway & other infra- structure \$000	Restated Plant and equipment \$000	Restated Assets under construction \$000	Total \$000
Gross carrying amount						
Balance at 1 July 2020 (restated)	243,890	2,283,028	1,233,485	904,566	518,630	5,183,599
Additions	-	-	-	-	200,329	200,329
Transfers to/(from) assets under construction	(116)	158,078	212,185	6,969	(377,116)	-
Balance at 30 June 2021	<u>243,774</u>	<u>2,441,106</u>	<u>1,445,670</u>	<u>911,535</u>	<u>341,843</u>	<u>5,383,928</u>
Accumulated depreciation						
Balance at 1 July 2020 (restated)	(19,504)	(672,701)	(397,958)	(556,893)	-	(1,647,056)
Depreciation expense	(2,572)	(145,147)	(47,065)	(74,132)	-	(268,916)
Balance at 30 June 2021	<u>(22,076)</u>	<u>(817,848)</u>	<u>(445,023)</u>	<u>(631,025)</u>	<u>-</u>	<u>(1,915,972)</u>
Net book value at 30 June 2021	<u>221,698</u>	<u>1,623,258</u>	<u>1,000,647</u>	<u>280,510</u>	<u>341,843</u>	<u>3,467,956</u>

12. Property, plant and equipment (continued)

	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & other infra- structure \$'000	Restated Plant and equipment \$'000	Restated Assets under construction \$'000	Total \$'000
Gross carrying amount						
Balance at 1 July 2019 (restated)	240,617	2,187,790	1,195,519	827,975	338,745	4,790,646
Additions	-	-	-	-	430,427	430,427
Impairment	-	-	(282)	-	(40,456)	(40,738)
Transfers from investment property	3,200	1,720	-	-	5,595	10,515
Transfers to/(from) assets under construction	73	93,518	38,248	83,347	(215,186)	-
Restatement for change in accounting policy (Note 4)	-	-	-	(6,756)	(495)	(7,251)
Balance at 30 June 2020 (restated)	243,890	2,283,028	1,233,485	904,566	518,630	5,183,599
Accumulated depreciation						
Balance at 1 July 2019 (restated)	(16,934)	(544,223)	(355,174)	(482,481)	-	(1,398,812)
Depreciation expense	(2,570)	(128,478)	(42,784)	(76,842)	-	(250,674)
Restatement for change in accounting policy (Note 4)	-	-	-	2,430	-	2,430
Balance at 30 June 2020 (restated)	(19,504)	(672,701)	(397,958)	(556,893)	-	(1,647,056)
Net book value at 30 June 2020 (restated)	<u>224,386</u>	<u>1,610,327</u>	<u>835,527</u>	<u>347,673</u>	<u>518,630</u>	<u>3,536,543</u>

Accounting policy for property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment.

Assets acquired are recorded at the cost of acquisition being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisitions, or at fair value if transferred from investment property.

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

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

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

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

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

13. Investment properties

The Company classifies certain areas of the Airport precinct as investment property and they are held for rental income. These areas include Melbourne Airport Business Park, Hotels, Industrial Buildings and Vacant Land.

The profit for the year includes a gain on revaluation of investment properties of \$386.2 million, driven by the completion of developments in the Melbourne Airport Business Park, compression of capitalisation rates in the industrial sector, rental growth and an increase of the value of developable land.

	2021 \$'000	2020 \$'000
Balance at beginning of the year	1,586,786	1,401,386
Additions for the year	71,173	99,030
Transfer (to)/from property, plant and equipment	-	(10,515)
Net gain from fair value adjustments for the year	386,177	96,885
Balance at end of the year	<u>2,044,136</u>	<u>1,586,786</u>

Accounting policy for investment properties

The Company's investment properties represent interests in land and buildings held to derive rental income. They are initially measured at cost, including transaction costs. Subsequently, at each year end reporting date, they are carried at their fair values based on the market value determined by independent (external) valuers. Gains or losses arising from a change in the fair value of investment properties are recognised in the profit or loss for the period in which they arise.

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

Critical accounting estimates and judgements - investments properties

The fair value of the investment property has been arrived at on the basis of a valuation carried out by an independent valuer. The value of investment property is measured on a fair value basis utilising the discounted cash flow approach, capitalisation approach and depreciated replacement cost where applicable. These calculations require the use of assumptions, including discount rates, terminal yield and industrial and retail rental growth rates.

Valuation of investment properties

Each investment property is valued independently (externally) in June each year as part of the annual valuation process. The valuation process requires that the independent valuer (who are approved by the Board of Directors) be appropriately qualified. For the current financial year, CBRE have conducted the valuation.

To determine fair value, the independent valuation has used the midpoint of the capitalisation of net income approach and discounted cash flow (DCF) analysis, as well as the direct comparison approach for vacant land. The valuation employs the residual value method when valuing development properties.

13. Investment properties (continued)

<u>Valuation method</u>	<u>Description</u>
Capitalisation of net income	The fully leased net income for each precinct has been discounted on a leasehold basis (present value of the net income for the remaining term) from the valuation date at an appropriate capitalisation rate which reflects the nature, location, land value content condition and tenancy profile of each property when compared with current market investment criteria. The valuation does not capitalise into perpetuity as the asset is not freehold. Various adjustments are then made to the calculated result, including estimated future incentives, capital expenditure, vacancy allowances and reversions to market rent.
Discounted cash flow	The discounted cash flow analysis allows the assessment of the long-term return that is likely to be derived from a property with a combination of both rental and capital growth over an assumed investment horizon. A wide range of assumptions are made including a target internal rate of return, rental growth, occupancy, sale price of the property at the end of the investment horizon, potential capital expenditure and costs associated with its disposal at the end of the investment period.
Direct comparison approach	The cash flow analysis comprises annual income streams. This approach has been completed for the vacant land allotments. The most appropriate form of assessment is considered to be the dollar per square metre (\$psm) of site area basis.

Key inputs and sensitivities

The Company has classified fair value measurements (such as those performed on investment properties) into the following hierarchy as required by AASB 13 Fair Value Measurement:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Inputs to investment property valuations are considered Level 3 of the fair value hierarchy as the capitalisation of income and DCF methods require assumptions to be made to determine certain inputs that are not based on observable market data. At reporting date, the key unobservable inputs used by the Company in determining fair value of its investment properties are summarised below:

- A capitalisation rate ranging from 4.25% to 6.75%;
- A discount rate ranging from 5.50% to 7.00%;
- A terminal yield ranging from 4.75% to 7.00%; and
- Market rental growth ranging from 3.00% to 3.25%.

The higher the capitalisation rate, discount rate and terminal yield, the lower the fair value. The higher the rental growth, the higher the fair value. All of the above assumptions have been taken from the latest external valuation report. The Company provided investment property (along with land and buildings in Note 12) as security for loans as disclosed in Note 16.

14. Intangible assets

	2021 \$'000	2020 \$'000
Goodwill (i)	667,700	667,700
Masterplan (ii)	1,797	2,541
	<u>669,497</u>	<u>670,241</u>

Critical accounting estimates and judgements - impairment of goodwill

Determining whether goodwill is impaired requires an annual estimation of the recoverable amount of the cash generating units to which goodwill has been allocated. The Company uses the fair value less cost to sell methodology to estimate the future cash flows expected to arise from the cash generating unit and applies a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating units, in order to calculate present value. These calculations require the use of assumptions and the application of sensitivity analysis where appropriate.

Accounting policy for goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually or earlier if there is an indication that the goodwill may be impaired. An impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

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

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

The cash flows used in the discounted cash flow analysis were projected based on management's 20 year financial model. Cash flows are driven by aeronautical, retail and property revenues which are heavily dependent on passenger numbers and pricing which is determined based on known contracted terms and forecast inflation. Growth in passenger numbers over the forecast period is based on internal forecasting and information provided by an independent firm, which takes into account the effects of the COVID-19 pandemic on current and expected future passenger numbers.

Terminal value was calculated for the period beyond the 20-year forecast based on a sustainable level of forecast distributions and a capitalisation amount based on a constant terminal growth rate of 3.0%.

Post-tax cash flows are discounted to their present value using a post-tax discount rate of 9.58%. The discount rate used reflects current market assessment of the time value of money and the risks specific to the cash generating unit.

Melbourne Airport has significant headroom between the recoverable amount and the carrying value of the cash generating unit. In the current year the valuation has seen an uplift in this headroom, which remains significantly in excess of the carrying value.

There are no reasonably possible changes in assumptions that would result in impairment.

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14. Intangible assets (continued)

(ii) *Master Plan*

	2021 \$'000	2020 \$'000
Balance at beginning of the year	2,541	3,477
Cost adjustment	-	(55)
Amortisation	(744)	(881)
Balance at end of the year	<u>1,797</u>	<u>2,541</u>

Accounting policy for Master Plan intangible asset

Under the Airports Act 1996, Melbourne is required every 5 years to prepare Master Plan to guide the development of the airport for the next 20 years. The costs associated with the Master Plan are recognised as intangible assets amortised over the 5 year period.

15. Payables

	2021 \$'000	2020 \$'000
Current liabilities		
Trade and other payables (i)	76,261	97,351
Accrual for assets under construction	15,461	53,721
Intercompany payables	48,064	48,163
	<u>139,786</u>	<u>199,235</u>
Interest payable to:		
- Secured debt - bank (ii)	<u>21,521</u>	<u>38,235</u>
	<u>161,307</u>	<u>237,470</u>
	2021 \$'000	2020 \$'000
Non-current liabilities		
Other non-current liabilities	<u>3,750</u>	<u>-</u>

(i) The average credit period for purchases and services is 30 days.

(ii) Secured by a fixed and floating charge over the Company's assets. There have been no defaults on loans payable during the current or prior years.

Accounting policy for trade and other payables

Trade payables and other accounts payable are measured at amortised cost and recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

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16. Borrowings

At the reporting date the Company's debt comprises: Bank facilities (Syndicated and bilateral); term bank debt; domestic bonds (AMTN); Euro bonds (EMTN); and USD private placement bonds (USPP).

The balances and other details related to the Company's interest bearing liabilities are presented in the tables below.

	Face value		
	Drawn	Undrawn	Drawn
	(\$'000)	(\$'000)	(\$'000)
	2021	2021	2020
			Undrawn
			(\$'000)
			2020
Drawn and undrawn			
Unsecured bank overdraft	-	20,668	-
Term bank debt	500,000	-	300,000
Bank facilities	561,000	1,379,000	430,000
	<u>1,061,000</u>	<u>1,399,668</u>	<u>730,000</u>
			<u>1,580,087</u>
Capital markets debt	3,554,892	-	3,554,892
	<u>3,554,892</u>	<u>-</u>	<u>3,554,892</u>
Total Borrowings	<u>4,615,892</u>	<u>1,399,668</u>	<u>4,284,892</u>
			<u>1,580,087</u>

Accounting policy for borrowings

Borrowings are recorded at an amount equal to the net proceeds received. Borrowing costs are recognised on an accrual basis. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowing using the effective interest rate method.

Ancillary costs incurred by the Company in establishing funding facilities are capitalised and amortised over the term of the facilities. These costs are netted off against the loan in the Statement of Financial Position.

Foreign currency borrowings are reported at spot exchange rates with movement in the spot rate reflected in the Statement of Profit or Loss and Other Comprehensive Income to the extent the borrowings are unhedged and in the hedge reserve if the borrowings are effectively hedged.

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16. Borrowings (continued)

Type	Maturity	Currency	Principal Drawn		Carrying Amount (ii)	
			Original Currency \$'000	Face Value (AUD) (i) \$'000	2021 \$'000	2020 \$'000
Capital Markets Debt						
USPP	15-Sep-21	USD	200,000	191,077	266,699	289,729
AMTN	15-Sep-22	AUD	250,000	250,000	250,000	250,000
USPP (\$A)	15-Nov-22	AUD	125,000	125,000	125,000	125,000
USPP	15-Sep-23	USD	200,000	191,077	266,699	289,729
EMTN (iii)	26-Sep-23	EUR	550,000	784,929	869,583	895,037
EMTN	15-Oct-24	EUR	350,000	505,050	553,371	569,569
AMTN	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	266,699	289,729
AMTN	4-Nov-26	AUD	200,000	200,000	200,000	200,000
USPP (\$A)	15-Jan-28	AUD	50,000	50,000	50,000	50,000
EMTN	27-Sep-30	NOK	1,500,000	242,994	232,459	225,786
USPP (iii) (vi)	4-Dec-31	USD	105,000	151,844	140,017	152,108
USPP	4-Dec-34	USD	105,000	151,844	140,017	152,108
USPP (vi)	4-Dec-39	AUD	150,000	150,000	150,000	150,000
USPP	4-Dec-44	AUD	250,000	250,000	250,000	250,000
Total Capital Market Debt			4,355,000	3,554,892	3,880,544	4,008,795
Bank Debt						
Syndicated Facility (v)	30-Sep-24	AUD		400,000	400,000	330,000
Working Capital Facility	12-Apr-22	AUD		-	-	-
Bilateral Facility	15-Jul-22	AUD		100,000	100,000	100,000
Syndicated Facility (iv)	30-Sep-22	AUD		60,000	60,000	-
Bilateral Facility (v)	8-Apr-26	AUD		1,000	1,000	-
Term Bank Debt	16-Jun-26	AUD		200,000	200,000	120,000
Term Bank Debt	16-Jun-29	AUD		300,000	300,000	180,000
Total Bank Debt				1,061,000	1,061,000	730,000
Total Borrowings				4,615,892	4,941,544	4,738,795
Fair value adjustments					34,896	64,451
Deferred upfront borrowing costs					(26,722)	(30,623)
Total Net Borrowings					4,949,718	4,772,623

Notes:

All the above is secured by a fixed and floating charge over the Company's assets.

(i) Face values of foreign debt shown reflect the AUD value of the hedged principal amount at inception of the debt.

(ii) Carrying amounts of foreign debt reflect revalued debt in AUD at spot rates as at 30 June 2021.

(iii) Excludes fair value adjustments.

(iv) Bilateral facilities (AUD \$650m) are 5-year facilities with maturity dates ranging from 3 April 2025 to 30 April 2025.

(v) On 8 April 2021, APAM extended its Syndicated Facility tranche A maturity from 30 September 2021 to 30 September 2024 and the tranche B limit was reduced by A\$60m. APAM also established a new 5 year bilateral facility maturing on 8 April 2026 with a limit of A\$200m, which will be used to early refinance the \$191 million USPP due to mature in September 2021.

(vi) In the prior period, the USPP debt maturing 4 December 2031 and the USPP debt maturing 4 December 2039 were incorrectly reported as \$174,102,000 and \$128,006,000 respectively. The comparative amounts for each have now been adjusted to reflect their correct carrying amount at 30 June 2020.

16. Borrowings (continued)

Reconciliation of movement of liabilities to cash flows arising from financing activities:

	Long term borrowings (i) 2021 \$'000	Short-term borrowings (i) 2021 \$'000	Derivative assets held to hedge long-term borrowings (Note 17) 2021 \$'000	Long term borrowings 2020 \$'000	Short-term borrowings 2020 \$'000	Derivative assets held to hedge long-term borrowings (Note 17) 2020 \$'000
Balance at 1 July	4,738,795	-	(294,877)	4,007,646	225,000	(287,880)
Proceeds from borrowings	622,000	-	-	1,963,688	-	-
Repayments from borrowings	(291,000)	-	-	(1,230,000)	(225,000)	-
Cash outlay for hedging restructure	-	-	(94,883)	-	-	-
	331,000	-	(94,883)	733,688	(225,000)	-
Non-cash movements						
Reclassification	(289,729)	289,729	-	(2,539)	-	-
Foreign exchange movement	(105,221)	(23,030)	-	-	-	(6,997)
Fair value changes	-	-	154,142	-	-	-
	(394,950)	266,699	154,142	(2,539)	-	(6,997)
Total	4,674,845	266,699	(235,618)	4,738,795	-	(294,877)

Note:

(i) The total borrowings balance (long-term and short-term) as at 30 June 2021 is \$4,941,544,000 before fair value adjustments and deferred upfront borrowing costs.

17. Derivative financial instruments

The Company uses derivative financial instruments to mitigate its exposure to foreign currency and interest rate risks.

During the year, the Company undertook a restructure in December 2020 and February 2021 of certain elements of its derivative portfolio, aimed at reducing interest payments in the short term. The restructure reset out of the money fixed rate cross currency and interest rate swaps to current market interest rates, retaining the historic credit margin. This is expected to deliver a reduction in interest payments of \$94 million over the next 15 months from December 2020, with termination payments funded by drawing on existing bank lines.

The restructure triggered a discontinuation of existing hedge relationships resulting in a hedge accounting impact to profit and loss which is further detailed in Note 18 under interest rate risk management.

The net derivative position (before application of hedge accounting) at reporting date is presented below:

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17. Derivative financial instruments (continued)

	Current 2021 \$'000	Non-current 2021 \$'000	Total 2021 \$'000	Current 2020 \$'000	Non-current 2020 \$'000	Total 2020 \$'000
Assets						
Cross currency swaps	76,588	300,707	377,295	-	515,870	515,870
Interest rate swaps	116	-	116	-	-	-
	<u>76,704</u>	<u>300,707</u>	<u>377,411</u>	<u>-</u>	<u>515,870</u>	<u>515,870</u>
Liabilities						
Cross currency swaps	-	(46,362)	(46,362)	-	(42,238)	(42,238)
Interest rate swaps	(6,948)	(88,483)	(95,431)	(22,796)	(155,959)	(178,755)
	<u>(6,948)</u>	<u>(134,845)</u>	<u>(141,793)</u>	<u>(22,796)</u>	<u>(198,197)</u>	<u>(220,993)</u>
Net derivative position assets/(liabilities)	<u>69,756</u>	<u>165,862</u>	<u>235,618</u>	<u>(22,796)</u>	<u>317,673</u>	<u>294,877</u>

Accounting policy for derivative financial instruments

The Company enters into interest rate swaps, swaptions and cross currency interest rate swaps. The swaps have been allocated against the underlying or forecast cross currency and interest rate exposure and to this extent modify the cross currency and interest rate risk of the underlying and forecast debt. These instruments are initially recognised at fair value on the date a contract is entered into, and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss, unless the derivative is designated and effective as a hedging instrument, in which event, the timing of recognition in profit or loss depends on the nature of the hedge relationship.

18. Financial risk management

(a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt while maintaining a strong investment grade credit rating

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 16, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. In addition, the Company has implemented risk management strategies to mitigate against adverse increases to interest rates on future borrowings.

The Company is required to comply with certain financial covenants for its bank debt and various long-term capital markets debt which is tested periodically. Cashflow Cover Ratio (CCR) compliance waivers were obtained by the Company in respect of the Common Terms Deed (\$A2.4 billion) for periods 30 June 2020, 31 December 2020 & 30 June 2021 executed 28th May 2020. Waivers for outstanding USPP notes (\$A1.45 billion equivalent for periods 31 December 2020 & 30 June 2021) (Note 16: USPP), executed 23rd July 2020. The Company is obligated to provide a complying compliance certificate for the testing period ending 31 December 2021 and testing periods subsequent to this. Refer to Note 1 – Going Concern, for disclosures in relation to compliance with the CCR covenant for 31 December 2021 and 30 June 2022.

As at 30 June 2021, the Company had \$1.4bn of available liquidity in the form of bank facilities which the Directors believe to be sufficient to cover the Company's funding needs for at least the next 12 months. In April 2021, the Company extended its A\$400m Syndicated Facility tranche A by 3 years from 30-Sep-21 to 30-Sep-24 and also established a new 5 year A\$200m bilateral facility which matures on 8 April 2026 to early refinance the \$191 million USPP which is due to mature in September 2021. Additionally, the Syndicated Facility tranche B limit was reduced by A\$60m as part of the facility extension. Debt maturing in the next 12 months includes a A\$191m USPP bond (which will be refinanced as discussed above) and a A\$50m working capital facility (undrawn as at 30 June 2021).

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18. Financial risk management (continued)

(b) Categories of financial instruments

	At amortised cost \$'000	Derivatives designated: as fair value hedge \$'000	as cash flow hedge \$'000	2021 Total \$'000
Financial Assets				
Cash and cash equivalents	27,653	-	-	27,653
Trade and other receivables	34,738	-	-	34,738
Current - Cross currency interest rate swaps	-	-	76,588	76,588
Current - Interest rate swaps	-	-	116	116
Non-current cross currency interest rate swaps	-	36,155	264,552	300,707
	62,391	36,155	341,256	439,802
Financial liabilities				
Trade and other payables	139,786	-	-	139,786
Interest payable	21,521	-	-	21,521
Non-current payables	3,750	-	-	3,750
Lease liabilities	5,063	-	-	5,063
Current borrowings	266,610	-	-	266,610
Non-current borrowings	4,648,212	34,896	-	4,683,108
Non-current interest rate swaps	-	-	88,483	88,483
Non-current cross currency interest rate swaps	-	470	45,892	46,362
Current interest rate swaps	-	-	6,948	6,948
	5,084,942	35,366	141,323	5,261,631
	At amortised cost \$'000	Derivatives designated: as fair value hedge \$'000	as cash flow hedge \$'000	2020 Total \$'000
Financial Assets				
Cash and cash equivalents	132,704	-	-	132,704
Trade and other receivables	37,098	-	-	37,098
Income tax receivable	41,231	-	-	41,231
Non-current cross currency interest rate swaps	-	63,250	452,620	515,870
	211,033	63,250	452,620	726,903
Financial liabilities				
Trade and other payables	199,235	-	-	199,235
Interest payable	38,235	-	-	38,235
Lease liabilities	6,012	-	-	6,012
Non-current borrowings	4,708,172	64,451	-	4,772,623
Non-current interest rate swaps	-	-	155,959	155,959
Non-current cross currency interest rate swaps	-	-	42,238	42,238
Current interest rate swaps	-	-	22,796	22,796
	4,951,654	64,451	220,993	5,237,098

18. Financial risk management (continued)

(c) Financial risk management objectives

The Company's corporate treasury function provides financing, investing and financial risk management services to the business. The strategic objectives of the corporate treasury function are to manage all material financial risks related to the Company's treasury activities including funding, liquidity, interest rate, foreign exchange, counterparty credit, operational and compliance risks. Corporate Treasury also provides support to the Company by ensuring financial metrics are maintained at levels that support a strong and stable standalone investment grade corporate credit rating.

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

The Company's exposures to interest rates on the financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(d) Interest rate risk management

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rates, including interest rate swaps, swaptions and cross currency hedges to mitigate the risk of rising interest rates.

The Company's exposures to interest rates on the financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

During the year, the Company executed interest rate restructure transactions (Note 17). This involved making upfront payments totalling \$94.8m million to reduce the contracted fixed interest rates to lower current market rates for a period of approximately 15 months from December 2020. Associated interest expense reductions have been recognised during the year ended 30 June 2021 with the remainder to be incorporated in the results of future reporting periods.

The restructure triggered a discontinuation of existing hedge relationships resulting in a hedge accounting impact to profit and loss (\$8.6 million pre-tax loss), for the year ended 30 June 2021. Due to the discontinuation of hedge accounting for certain hedge relationships affected by the restructure an amount of \$181 million (pre-tax) in the cash flow hedge reserve at the date of restructure will be amortised to profit and loss over the remaining life of the underlying hedged items which remain in existence. This amortisation effect recorded in profit and loss will be offset by the unwind of the non-zero fair values of derivatives re-designated in hedge relationships (\$94.8 million pre-tax) over the same period. The impact on the Hedge Reserve is set out in Note 22.

Amortisation of \$23 million was recognised in other comprehensive income during the year ended 30 June 2021. This amount is included in the change in fair value of the swaps.

(e) Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's:

- Net profit would increase/ decrease by \$3,864,000 (2020: increase/ decrease \$3,321,000). This is due to interest rates on its variable borrowings.
- Other equity reserves would increase/ decrease by \$67,803,000 (2020: increase/ decrease \$100,280,000) mainly as a result of the changes in fair value through other comprehensive income for fixed rate instruments.

(f) Cross currency sensitivity

Cross currency exposures for the Company are predominantly arising from foreign denominated interest bearing liabilities. The Company's policy is to hedge 100% of cross currency risk for both capital and interest for the life of the exposure. As at 30 June 2021 and 2020, these cross currency exposures were 100% hedged through cross currency swaps until maturity resulting in no other material cross currency risk exposure.

18. Financial risk management (continued)

(g) Interest rate derivative contracts

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

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

	Average contracted fixed interest rate		Notional principal amount		Fair value of interest rate derivatives	
	2021 %	2020 %	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Less than 1 year	3.5%	-	59,000	-	(6,832)	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	3.1%	4.2%	729,000	729,000	(33,833)	(72,495)
5 years +	2.6%	3.2%	600,000	659,000	(54,650)	(106,261)
			<u>1,388,000</u>	<u>1,388,000</u>	<u>(95,315)</u>	<u>(178,756)</u>

The fair value of these contracts as at 30 June 2021 is disclosed in Note 17.

(h) Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

(i) Foreign currency exchange contracts

The Company enters cross currency interest rate swaps. The swaps have been allocated against the underlying cross currency exposure and to this extent modify the cross currency risk of the underlying debt. The cross currency interest rate swaps are initially recognised at fair value on the date a contract is entered into, and are subsequently remeasured to their fair value at each reporting date.

	Average Contracted Fixed Interest Rate		Average Exchange Rate		Notional Principal Amount		Fair Value of Cross Currency Interest Rate Derivatives	
	%				1 to 5 years \$'000	> 5 years \$'000	1 to 5 years \$'000	> 5 years \$'000
Consolidated 2021								
USD (810m)	4.60%	0.9414			382,153	494,764	153,757	60,758
EUR (900m)	4.00%	0.6977			1,289,974	-	153,119	-
NOK (1,500m)	4.20%	6.1730			-	242,994	-	(36,701)
					<u>1,672,127</u>	<u>737,758</u>	<u>306,876</u>	<u>24,057</u>

18. Financial risk management (continued)

	Average Contracted Fixed Interest Rate %	Average Exchange Rate	Notional Principal Amount		Fair Value of Cross Currency Interest Rate Derivatives	
			1 to 5 years \$'000	> 5 years \$'000	1 to 5 years \$'000	> 5 years \$'000
Consolidated 2020						
USD (810m)	6.00%	0.6903	382,153	494,764	190,198	125,650
EUR (900m)	5.10%	0.6145	1,289,974	-	200,023	-
NOK (1,500m)	4.20%	6.6434	-	242,994	-	(42,238)
			<u>1,672,127</u>	<u>737,758</u>	<u>390,221</u>	<u>83,412</u>

(j) Liquidity risk

The following table details the Company's exposure to liquidity risk as at 30 June 2021. All domestic bonds, US private placements and European bonds listed are fixed rate notes unless otherwise stated.

2021	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash and cash equivalents		27,653	-	-	-	27,653
Trade and other receivables		34,738	-	-	-	34,738
Cross currency interest rate swaps	(ii)					
- Outflow		202,135	25,211	1,641,436	205,661	2,074,443
- Inflow		(313,213)	(22,139)	(1,842,182)	(273,024)	(2,450,558)
		<u>(48,687)</u>	<u>3,072</u>	<u>(200,746)</u>	<u>(67,363)</u>	<u>(313,724)</u>

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18. Financial risk management (continued)

	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Trade and other payables		139,786	-	-	-	139,786
Interest payable		21,521	-	-	-	21,521
Lease liability		322	965	2,598	1,178	5,063
Non-current payables		-	-	3,750	-	3,750
		<u>161,629</u>	<u>965</u>	<u>6,348</u>	<u>1,178</u>	<u>170,120</u>
Borrowings:						
Term bank debt	2.66%	1,811	5,667	249,619	333,312	590,409
Bank facilities	2.15%	1,424	4,556	622,277	-	628,257
AMTN	4.01%	5,041	17,919	454,236	203,781	680,977
USPP	4.25%	286,602	45,590	572,995	1,325,864	2,231,051
EMTN	4.81%	33,358	9,684	1,531,420	263,807	1,838,269
		<u>328,236</u>	<u>83,416</u>	<u>3,430,547</u>	<u>2,126,764</u>	<u>5,968,963</u>
Cross currency interest rate swaps						
- Outflow	(ii)	5,683	11,964	76,458	666,988	761,093
- Inflow		(6,259)	(8,983)	(60,823)	(606,582)	(682,647)
Interest rate swaps	(ii)	1,664	3,796	84,705	8,628	98,793
		<u>1,088</u>	<u>6,777</u>	<u>100,340</u>	<u>69,034</u>	<u>177,239</u>
		<u>490,953</u>	<u>91,158</u>	<u>3,537,235</u>	<u>2,196,976</u>	<u>6,316,322</u>

Notes:

(i) Weighted average effective interest rate calculation includes duration and volume.

ii) Swap rates embedded into the weighted average effective interest rates of USPP and EMTN bonds.

As at 30 June 2021, the Company has undrawn facilities of \$1.4 billion total and cash of \$27 million, which provides sufficient liquidity to cover all financial liabilities due within 1 year in the above table. During the year, the Company established a new A\$200m bilateral facility in April 2021 to prefund the upcoming USPP maturity of A\$191m in September 2021.

2020	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash and cash equivalents		132,704	-	-	-	132,704
Trade and other receivables		37,098	-	-	-	37,098
Income tax receivable		41,231	-	-	-	41,231
Cross currency interest rate swaps						
- Outflow	(ii)	27,008	65,502	1,855,205	594,299	2,542,014
- Inflow		(48,020)	(39,678)	(2,301,440)	(692,462)	(3,081,600)
		<u>190,021</u>	<u>25,824</u>	<u>(446,235)</u>	<u>(98,163)</u>	<u>(328,553)</u>

18. Financial risk management (continued)

	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Trade and other payables		199,235	-	-	-	199,235
Interest payable		38,235	-	-	-	38,235
Lease liability		210	631	2,598	2,573	6,012
		<u>237,680</u>	<u>631</u>	<u>2,598</u>	<u>2,573</u>	<u>243,482</u>
Borrowings: (iii)						
Term bank debt	2.10%	1,148	3,562	22,077	322,239	349,026
Bank facilities	1.48%	1,148	3,629	479,300	-	484,077
AMTN	4.01%	5,041	17,919	316,952	333,998	673,910
USPP	4.37%	21,382	53,822	922,045	1,420,742	2,417,991
EMTN	4.87%	34,238	9,967	1,612,597	262,364	1,919,166
		<u>62,957</u>	<u>88,899</u>	<u>3,352,971</u>	<u>2,339,343</u>	<u>5,844,170</u>
Cross currency interest rate swaps						
- Outflow	(ii)	5,151	5,068	40,624	298,960	349,803
- Inflow		(6,113)	-	(24,368)	(262,364)	(292,845)
Interest rate swaps	(ii)	<u>15,331</u>	<u>19,684</u>	<u>126,168</u>	<u>31,025</u>	<u>192,208</u>
		<u>14,369</u>	<u>24,752</u>	<u>142,424</u>	<u>67,621</u>	<u>249,166</u>
		<u>315,006</u>	<u>114,282</u>	<u>3,497,993</u>	<u>2,409,537</u>	<u>6,336,818</u>

Notes:

(i) Weighted average effective interest rate calculation includes duration and volume.

(ii) Swap rates embedded into the weighted average effective interest rates of USPP and EMTN bonds.

(k) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Significant classes of financial assets of the Company may include trade and other receivables and derivative financial instruments.

The carrying amount of each class of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral or other security. As the Company does not have enforceable offsetting arrangements for its financial instruments, gross amounts have been recognised in the Statement of Financial Position.

For derivative financial instruments, treasury counterparties may include banks and other financial institutions with which the Company may engage for banking, lending, derivatives and other treasury activities. The Company require these counterparties to meet minimum ratings thresholds and concentration limits in line with policies, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

For trade receivables, the Company adopts a policy of dealing with customers with appropriate credit quality and obtaining collateral support where appropriate for risk mitigation. With ongoing COVID-19 impacts, the Company continues to monitor its trade receivables ageing and engages in follow up activity, which may include enforcement where receivables are overdue. A write off is recognised when there is no reasonable expectation of recovery.

18. Financial risk management (continued)

(l) Fair value

Except as detailed below, the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements.

All of the Company's financial instruments measured, recognised and disclosed at fair value were valued using market observable inputs (Level 2), as defined in Note 2. There were no transfers between levels during the year and there has been no change in valuation techniques applied.

The fair value of all financial instruments is derived from quoted market interest rates which are subsequently incorporated within generally applied discounted cash flow models. The amounts carried on the Statement of Financial Position approximate the fair value with the following exceptions:

	Fair Value of Financial Instruments			
	Carrying Amount 2021	Carrying Amount 2020	Fair Value 2021	Fair Value 2020
Consolidated				
Bank Facilities	(1,061,000)	(730,000)	(1,060,554)	(695,958)
AMTN	(570,000)	(570,000)	(607,639)	(597,325)
USPP A\$	(575,000)	(575,000)	(598,551)	(558,342)
USPP	(1,087,512)	(1,195,397)	(1,130,987)	(1,194,881)
EMTN - EUR	(1,450,469)	(1,507,062)	(1,447,513)	(1,471,358)
EMTN - NOK	(232,459)	(225,787)	(223,297)	(215,037)
Deferred upfront borrowing costs	26,722	30,623	-	-
	<u>(4,949,718)</u>	<u>(4,772,623)</u>	<u>(5,068,541)</u>	<u>(4,732,901)</u>

(m) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Directors, who has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(n) Hedge accounting

Hedging refers to the way in which the Company uses derivative financial instruments, to manage its exposure to financial risks as described below under "Types of hedging instruments". The gain or loss on the underlying instrument ("hedged item") is expected to move in the opposite direction to the gain or loss on the derivative ("hedging instrument"), therefore offsetting the Company's risk position. Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in Profit or Loss.

The Company's major exposure to interest rate risk and foreign currency risk arises from its long-term borrowings.

(o) Cross-currency, interest rate swaps and option contracts

The Company is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out above, the Company holds the following types of derivative instruments:

Interest rate swap and option contracts: the Company agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.

18. Financial risk management (continued)

Cross-currency swap contracts: the Company agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Company to mitigate the risk of adverse movements in foreign exchange rates.

The Company enters into the above derivative instruments to offset the risks arising from its long-term borrowings. To the extent permitted by AASB 9, the Company formally designates and documents these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument;
- the effect of credit risk does not dominate the value changes resulting from the economic relationship;
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

As a result of borrowing in foreign currency, the Company is exposed to foreign exchange and foreign interest rate risk. Cross-currency swaps are used to hedge both the foreign exchange risk and foreign interest rate risk over the full term of the foreign currency borrowing. The swaps are designated as cash flow hedges of foreign currency/AUD forward foreign exchange risk of the foreign currency borrowing, fair value hedge of the foreign currency benchmark interest rate risk of the foreign currency benchmark component and cash flow hedge of foreign currency/AUD spot foreign exchange risk of the foreign currency borrowing principal.

(p) Fair value hedges

The objective of the Company's fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

The Company enters into cross-currency swaps to mitigate its exposure to changes in the fair value of long-term offshore borrowings. Changes in the fair value of the hedging instrument, and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in profit or loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument. AASB 9 allows a component of the Company's borrowing margin associated with cross-currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in profit or loss over the remaining maturity of the borrowing.

The Company's fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below. This relates to the issue of cross currency swaps over the European bonds (26 September 2023) and USPP 2031 as they are the only instruments with a fair value hedge.

	2021	2020
	\$'000	\$'000
Fixed rate instruments		
Face value	936,773	936,767
Foreign exchange adjustments	72,827	110,635
Cumulative fair value hedge adjustments	34,896	64,451
Carrying amount	<u>1,044,496</u>	<u>1,111,853</u>

(q) Cash flow hedges

The objective of the Company's cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency.

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18. Financial risk management (continued)

Hedge Accounting Relationship	Fair Value Hedge		Cash Flow Hedge				Total
Hedging Instrument	USD - CCIRS	EUR - CCIRS	USD - CCIRS	EUR - CCIRS	NOK - CCIRS	AUD - IRS	
Hedged Item	USD Fixed Debt	EUR Fixed Debt	USD Fixed Debt	EUR Fixed Debt	NOK Fixed Debt	AUD Floating Debt	
Notional Amount	USD 810,000	EUR 900,000	USD 810,000	EUR 900,000	NOK 1,500,000	AUD 1,388,000	
Hedge Ratio	1:1	1:1	1:1	1:1	1:1	1:1	
Denomination	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's
At 30-June-2021							
Carrying amount of hedging instruments							
Assets - Current	-	-	76,588	-	-	-	76,588
Assets - Non-current	7,546	28,612	147,598	125,459	-	116	309,331
Liabilities - Current	-	-	-	-	-	-	-
Liabilities - Non-current	-	(471)	(17,208)	(491)	(36,700)	(95,432)	(150,301)
Total	7,546	28,141	206,978	124,968	(36,700)	(95,316)	235,617
Cumulative fair value adjustment on hedged item*	(7,382)	(27,514)	-	-	-	-	(34,896)
Carrying amount of the hedged item recognised in the statement of financial position	(146,298)	(894,006)	-	-	-	-	(1,040,303)
Balance in cash flow hedge reserve for continuing hedges	-	-	(3,526)	10,913	26,166	8,017	41,570
Balance in cash flow hedge reserve from discontinued hedges	-	-	24,277	19,659	-	114,131	158,067
During the Year							
Change in fair value of hedging instrument							
used for calculating hedge effectiveness	(16,472)	(13,761)	(302,560)	(89,878)	4,628	78,820	(339,224)
due to cash payment on restructure of hedges	-	-	28,420	46,286	-	20,177	94,883
Change in fair value of hedged item							
used for calculating hedge effectiveness	14,610	15,063	269,255	37,611	(1,858)	(121,073)	213,608
Change in cash flow hedge reserve							
for continuing hedge relationships	-	-	(5,811)	(79,154)	2,045	(100,895)	(183,815)
for discontinued hedge relationships	-	-	24,277	19,659	-	114,131	158,067
Change in profit or loss							
Ineffectiveness recognised in profit and loss	1,862	(1,301)	(277)	139	-	1,205	1,628
Unwind of inception fair value	-	-	2,412	2,846	-	(13,779)	(8,521)
Reclassified from CFHR to profit and loss on continued hedge relationships	-	-	(93,273)	(41,651)	6,673	-	(128,252)
Reclassified from CFHR to profit and loss on discontinued hedge relationships	-	-	3,872	11,667	-	8,216	23,756
Restructure impacts on profit and loss	-	-	(2,105)	9,078	-	1,589	8,562

* excluding impact of changes in foreign exchange rates on notional amount

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18. Financial risk management (continued)

Hedge Accounting Relationship	Fair Value Hedge		Cash Flow Hedge				Total
Hedging Instrument	USD - CCIRS	EUR - CCIRS	USD - CCIRS	EUR - CCIRS	NOK - CCIRS	AUD - IRS	
Hedged Item	USD Fixed Debt	EUR Fixed Debt	USD Fixed Debt	EUR Fixed Debt	NOK Fixed Debt	AUD Floating Debt	
Notional Amount	USD 810,000	EUR 900,000	USD 810,000	EUR 900,000	NOK 1,500,000	AUD 1,388,000	
Hedge Ratio	1:1	1:1	1:1	1:1	1:1	1:1	
Denomination	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's	A\$'000's
At 30-June-2020							
Carrying amount of hedging instruments							
Assets - Current	-	-	-	-	-	-	-
Assets - Non-current	22,600	43,626	295,425	156,396	-	-	518,048
Liabilities - Current	-	-	-	-	-	-	-
Liabilities - Non-current	-	-	(2,177)	-	(42,238)	(178,755)	(223,171)
Total	22,600	43,626	293,247	156,396	(42,238)	(178,755)	294,877
Cumulative fair value adjustment on hedged item*	(21,994)	(42,457)	-	-	-	-	(64,451)
Carrying amount of the hedged item recognised in the statement of financial position	(174,102)	(937,751)	-	-	-	-	(1,111,853)
Balance in cash flow hedge reserve for continuing hedges	-	-	3,238	18,229	25,031	178,755	225,253
Balance in cash flow hedge reserve from discontinued hedges	-	-	-	-	-	-	-
During the Year							
Change in fair value of hedging instrument							
used for calculating hedge effectiveness	22,600	(12,439)	68,508	(8,911)	(19,225)	(43,536)	6,997
due to cash payment on restructure of hedges	-	-	-	-	-	-	-
Change in fair value of hedged item							
used for calculating hedge effectiveness	(21,994)	10,566	(68,508)	8,911	19,225	43,536	(8,264)
Change in cash flow hedge reserve							
for continuing hedge relationships	-	-	(53,432)	15,909	(5,387)	43,536	625
for discontinued hedge relationships	-	-	-	-	-	-	-
Change in profit or loss							
Ineffectiveness recognised in profit and loss	(606)	1,873	-	-	-	-	1,267
Unwind of inception fair value	-	-	-	-	-	-	-
Reclassified from CFHR to profit and loss on continued hedge relationships	-	-	15,075	6,997	(24,612)	(596)	(3,135)
Reclassified from CFHR to profit and loss on discontinued hedge relationships	-	-	-	-	-	-	-
Restructure impacts on profit and loss	-	-	-	-	-	-	-

* excluding impact of changes in foreign exchange rates on notional amount

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19. Lease liabilities

	2021	2020
	\$'000	\$'000
Lease liabilities		
Current	1,287	1,287
Non-current	3,776	4,725
	<u>5,063</u>	<u>6,012</u>
	2021	2020
	\$'000	\$'000
Commitments for leases		
Lease commitments		
Within one year	1,287	1,287
Later than one year but not later than five years	5,150	5,150
More than five years	7,725	9,012
	<u>14,162</u>	<u>15,449</u>
 Lease commitments present value		
Within one year	649	841
Later than one year but not later than five years	2,336	2,598
More than five years	2,078	2,573
	<u>5,063</u>	<u>6,012</u>

Accounting policy for lease liabilities

The Company recognises assets and lease liabilities in respect of leased assets at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method.

20. Lease arrangements - Lessor

Some properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of properties are as follows:

	2021	2020
	\$'000	\$'000
Within one year	104,781	85,579
Later than one year but not later than 5 years	412,182	419,762
Later than 5 years	1,099,579	866,746
	<u>1,616,542</u>	<u>1,372,087</u>

Minimum lease payments have increased year on year as a result of significant new leases entered into in FY21. Due to the impact of COVID-19, retail tenant agreements were renegotiated to reflect a variable charge until minimum passenger thresholds are achieved. At 30 June 2021, these thresholds were not met resulting in no commitment amounts being recognised in respect of retail tenants.

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21. Issued capital

	2021 \$'000	2020 \$'000
100,000,000 Ordinary Shares - fully paid (30 June 2020: 100,000,000)	100,000	100,000

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

Accounting policy for issued capital

Ordinary shares are classified as equity.

22. Hedging reserves

	2021 \$'000	2020 \$'000
Consolidated		
Opening balance	157,677	157,239
(Gain) / loss recognised on derivative financial instruments (unrealised)	(187,743)	(21,863)
(Gain) / loss recognised on derivative financial instruments (realised)	25,029	25,624
(Gain) / loss on foreign exchange remeasurement transferred to profit and loss	128,252	(2,539)
(Gain) / loss on hedge ineffectiveness transferred to profit and loss	1,628	-
(Gain) / loss on unwind of discontinued hedge relationships transferred to profit and loss	23,755	(596)
(Gain) / loss on restructure impacts transferred to profit and loss	8,562	-
(Gain) / loss on cash flow hedges transferred to profit and loss	(25,029)	-
Income tax related to amounts above	7,664	(188)
Closing balance	<u>139,795</u>	<u>157,677</u>

Accounting policy for hedging reserve

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

23. Retained profits

	2021 \$'000	2020 Restated \$'000
Retained profits at the beginning of the financial year	931,274	1,106,950
Profit after income tax expense for the year	59,950	98,436
Dividends paid (Note 28)	-	(274,112)
Retained profits at the end of the financial year	<u>991,224</u>	<u>931,274</u>

24. Capital expenditure commitments

	2021	2020
	\$'000	\$'000
Capital expenditure commitments		
Not longer than 1 year	144,691	251,091
Longer than 1 year but not longer than 5 years	140,887	111,926
Total Property, plant and equipment commitments	<u>285,578</u>	<u>363,017</u>

25. Related party transactions

(a) Key management personnel compensation

The aggregate compensation of the key management personnel of the Company is set out below. The key management personnel during the year were: L. Strambi, G. Devonport, S. Gandy, L. Argus, A. Gardiner and S. O'Hare. S. O'Hare resigned as Chief of Aviation in March 2021.

	2021	2020
	\$	\$
Short-term employee benefits	4,723,872	3,908,533
Long-term incentives	1,258,638	886,871
Resignations	405,032	307,683
	<u>6,387,542</u>	<u>5,103,087</u>

Included within Short-term benefits and Long-term incentives are amounts for short-term and long-term incentives which are subject fully to board discretion. As a result of the impact of COVID-19, there were no short-term incentives provided during the year ended 30 June 2020.

(b) Transactions within the wholly-owned group

The ultimate parent entity of the wholly owned group is Australia Pacific Airports Corporation Limited (APAC).

The immediate parent entity is APAC (Holdings No. 2) Pty. Limited)

In accordance with tax sharing arrangements (refer to Note 8) tax payments have been received or accrued to reflect the wholly owned Controlled Entity's share of the tax expense of the tax consolidated group.

(c) Transactions with Shareholders

During FY21, IFM Investors Pty Ltd provided resourcing for the Melbourne Airport Rail project. At 30 June 2021, an amount of \$105,600 was accrued to reflect the services provided to during the year.

In FY20, AMP Capital Investors Ltd were engaged to provide debt advisory services to APAM. As at 30 June 2020 \$50,000 was accrued. This amount was paid on October 2020.

IFM Investors Pty Ltd and AMP Capital Investors Ltd, being a shareholder, are considered to be related parties.

26. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

	2021 \$'000	2020 \$'000
Cash and cash equivalents	27,653	132,704

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position.

(b) Reconciliation of profit after related income tax to net cash flows from operating activities

	2021 \$'000	2020 Restated \$'000
Profit after income tax expense for the year	59,950	98,436
Adjustments for:		
Net profit on sale of non-current assets	-	(26)
Amortisation of deferred borrowing costs	6,719	6,254
Hedge reserve unwind	21,372	669
Depreciation and amortisation of non-current assets	270,035	251,555
Gain on investment property	(386,177)	(96,885)
Impairment of assets under construction	-	40,738
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	2,360	95,294
(Increase)/decrease in other current assets	(723)	316
(Increase)/decrease in other non-current assets	613	2,492
(Increase)/decrease in accrued revenue	(39,766)	22,399
Increase/(decrease) in trade payables	18,435	(20,099)
Increase in deferred tax liabilities	30,267	15,048
Increase/(decrease) in interest payables	(16,714)	3,402
Increase/(decrease) in tax payable	41,230	(63,263)
Increase/(decrease) in employee provisions	2,798	(7,853)
Increase/(decrease) in unearned revenue	(2,300)	(7,617)
Net cash from operating activities	<u>8,099</u>	<u>340,860</u>

27. Remuneration of auditors

Audit fees for Australia Pacific Airports (Melbourne) Limited are included in the Audit Fees for the ultimate parent entity Australia Pacific Airports Corporation Limited.

28. Dividends

	2021 \$'000	2020 \$'000
Dividends paid (2021: Nil, 2020: \$2.74 per share)	<u>-</u>	<u>274,112</u>

29. Contingent liabilities

Legal Claims

In the ordinary course of business the Company receives legal claims, the Directors do not consider there to be any other matters to disclose.

30. Events after the reporting period

The Directors note the emergence of the Delta variant and relatively low vaccination rates have increased the frequency of lockdowns to control outbreaks. While there is a preference, based on limiting the economic damage, for short, sharp interventions, the outlook to the end of December 2021 is for rolling disruptions across state jurisdictions to continue. In August 2021, Victoria entered the state's sixth lockdown, with Metropolitan Melbourne subject to stay-at-home directions, including a curfew. The New South Wales outbreak has not yet peaked and is likely to have a long tail. A rapid acceleration of Australia's vaccination program is underway, with 70% and 80% thresholds identified as part of a plan to reduce the frequency and severity of lockdowns, keep interstate borders open and reopen Australia to the world.

The expected impacts of the lockdowns are reflected in the scenarios modelled by the Company which informed the Company's key estimates and judgements and the Directors conclusion that the Company is a going concern. However, the exact impact on the financial position and performance of the Company in the future as a result of the ongoing developments cannot be predicted. Refer to Note 1 to the Financial Statements for Going Concern disclosure.

On 3 August 2021, the Board approved a further restructure of the Company's hedge portfolio. This continues the Company's strategy to minimise cash interest paid. The restructure was executed in August 2021 and is expected to deliver a further \$26 million reduction in future interest payments bringing the total reduction to \$120 million to 30 June 2022.

Other than the above, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years

Australia Pacific Airports (Melbourne) Pty. Limited
Directors' declaration
30 June 2021

The Directors declare that:

- (a) The attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company;
- (b) The attached financial statements and notes thereto are in compliance with International Financial Reporting Standards as stated in Note 1 to the financial statements;
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors

On behalf of the Directors



Mr L. Strambi
Managing Director



Mr G. Devonport
Director

23 August 2021
Melbourne

Independent Auditor's Report to the members of Australia Pacific Airports (Melbourne) Pty Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australia Pacific Airports (Melbourne) Pty Limited (the "Company"), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Company, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Travis Simkin

Travis Simkin
Partner
Chartered Accountants
Melbourne, 23 August 2021