

Australia Pacific Airports (Melbourne) Pty. Limited

ACN 076 999 114

Half Year Report - 31 December 2021

Australia Pacific Airports (Melbourne) Pty. Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2021

	Note	31 December 2021 \$'000	31 December 2020 \$'000
Revenue			
Aeronautical		40,373	26,319
Security	5	19,421	10,582
Retail		5,731	6,579
Landside Access		23,271	10,453
Property		58,785	51,410
Outgoings/recharges		15,959	11,628
Interest		5	42
Other income		1,155	2,436
Profit on sale of fixed assets		19	-
Total revenue		<u>164,719</u>	<u>119,449</u>
Expenses			
Staff costs	2	(27,405)	(20,759)
Security	5	(18,408)	(8,758)
Service and utilities		(36,932)	(28,087)
Maintenance costs		(8,076)	(6,246)
Administration and marketing costs		(3,014)	(1,509)
Other costs		(3,984)	(4,017)
Software as a Service expense	2	(9,178)	(6,212)
Allowance for expected credit losses		(29)	7,926
Total expenses		<u>(107,026)</u>	<u>(67,662)</u>
Operating profit		57,693	51,787
Depreciation, amortisation and impairment	4	(132,231)	(132,749)
Finance costs	4	<u>(82,227)</u>	<u>(103,762)</u>
Loss before income tax benefit		(156,765)	(184,724)
Income tax benefit	6	<u>47,904</u>	<u>53,870</u>
Loss after income tax benefit for the period		(108,861)	(130,854)
Other Comprehensive income/(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	16	<u>28,886</u>	<u>(14,858)</u>
Other Comprehensive income/(loss) for the period, net of tax		<u>28,886</u>	<u>(14,858)</u>
Total Comprehensive loss for the period		<u><u>(79,975)</u></u>	<u><u>(145,712)</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 31 December 2021

	Note	31 December 2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		39,533	27,653
Trade and other receivables	7	21,053	34,738
Derivative financial instruments	15	13,729	76,704
Income tax receivable		7,343	-
Other assets	8	6,182	4,399
Accrued revenue	9	34,238	21,775
Total current assets		<u>122,078</u>	<u>165,269</u>
Non-current assets			
Derivative financial instruments	15	296,532	300,707
Investment properties	10	2,055,141	2,044,136
Property, plant and equipment	11	3,399,887	3,457,341
Intangible assets	12	675,491	680,112
Other assets	8	8,252	8,990
Accrued revenue	9	136,787	134,202
Total non-current assets		<u>6,572,090</u>	<u>6,625,488</u>
Total assets		<u>6,694,168</u>	<u>6,790,757</u>
Liabilities			
Current liabilities			
Payables	13	151,941	161,307
Borrowings	14	474,244	266,610
Employee benefit provisions		14,353	14,427
Derivative financial instruments	15	-	6,948
Lease liabilities		1,287	1,287
Unearned income		3,075	2,102
Total current liabilities		<u>644,900</u>	<u>452,681</u>
Non-current liabilities			
Payables	13	3,750	3,750
Borrowings	14	4,533,091	4,683,108
Deferred tax liability	6	527,277	555,560
Employee benefit provisions		1,883	1,640
Derivative financial instruments	15	103,236	134,845
Lease liabilities		3,505	3,776
Unearned income		5,072	3,968
Total non-current liabilities		<u>5,177,814</u>	<u>5,386,647</u>
Total liabilities		<u>5,822,714</u>	<u>5,839,328</u>
Net assets		<u>871,454</u>	<u>951,429</u>
Equity			
Issued capital		100,000	100,000
Hedging reserves	16	(110,909)	(139,795)
Retained profits		882,363	991,224
Total equity		<u>871,454</u>	<u>951,429</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 period ended 31 December 2021

	Issued capital \$'000	Hedging reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	100,000	(157,677)	943,257	885,580
Adjustment for change in accounting policy (note 3)	-	-	(11,983)	(11,983)
Balance at 1 July 2020 - restated	100,000	(157,677)	931,274	873,597
Loss after income tax benefit for the period	-	-	(130,854)	(130,854)
Other Comprehensive loss for the period, net of tax	-	(14,858)	-	(14,858)
Total Comprehensive loss for the period	-	(14,858)	(130,854)	(145,712)
Balance at 31 December 2020	<u>100,000</u>	<u>(172,535)</u>	<u>800,420</u>	<u>727,885</u>
	Issued capital \$'000	Hedging reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	100,000	(139,795)	991,224	951,429
Loss after income tax benefit for the period	-	-	(108,861)	(108,861)
Other Comprehensive income for the period, net of tax	-	28,886	-	28,886
Total Comprehensive income/(loss) for the period	-	28,886	(108,861)	(79,975)
Balance at 31 December 2021	<u>100,000</u>	<u>(110,909)</u>	<u>882,363</u>	<u>871,454</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 period ended 31 December 2021

	Note	31 December 2021 \$'000	31 December 2020 \$'000
Cash flows from operating activities			
Receipts from customers		183,371	126,756
Payments to suppliers and employees		(123,968)	(73,144)
Interest received		5	42
Interest paid		(58,156)	(92,619)
Income tax received		-	40,673
Payment for Software as a Service		(9,872)	(5,886)
Net cash used in operating activities	18	(8,620)	(4,178)
Cash flows from investing activities			
Payments for investment property		(11,005)	(27,966)
Payments for property, plant and equipment		(68,580)	(215,341)
Payments for intangibles		(27)	-
Proceeds from disposal of property, plant and equipment		19	-
Net cash used in investing activities		(79,593)	(243,307)
Cash flows from financing activities			
Proceeds from borrowings		1,110,000	380,000
Repayment of borrowings		(981,077)	(160,000)
Cash outlay from hedging restructure		(26,139)	(47,977)
Repayment of lease liabilities		(271)	(422)
Payment for debt issue costs		(2,420)	(299)
Net cash from financing activities		100,093	171,302
Net increase/(decrease) in cash and cash equivalents		11,880	(76,183)
Cash and cash equivalents at the beginning of the financial period		27,653	132,704
Cash and cash equivalents at the end of the financial period		<u>39,533</u>	<u>56,521</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
31 December 2021

1. Significant accounting policies

The half-year financial report has been prepared in accordance with the requirements of AASB 134 Interim Financial Reporting.

The half year financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report of Australian Pacific Airports (Melbourne) Pty. Limited for the year ended 30 June 2021.

Basis of preparation

The financial report has been prepared on the basis of historical cost except for certain non-current assets and financial instruments that are measured at fair value. Historical cost is based on fair value of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2021 annual financial report for the financial year ended 30 June 2021.

Comparative amounts

Software previously classified as part of Property, plant and equipment (Note 11) in the prior period has been reclassified to Intangible assets (Note 12) concurrent with the Company's change in accounting policy for Software as a Service (SaaS), in line with IFRIC guidance (refer to Note 3). An overview of the amounts reclassified is set out in Note 3.

Rounding

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.

1. Significant accounting policies (continued)

Going Concern

In assessing the financial 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 its operating and funding cost requirements over the course of the next 12 months, and remain confident of the viability of the long term plan of the Company.

In November 2021, \$700 million was raised through the issue of a 10-year domestic bond, to early refinance upcoming maturities. The Company was in a net current liability position of \$523 million at 31 December 2021 (30 June 2021: net current liabilities \$287 million), however this deficit was comfortably covered by available liquidity as at 31 December 2021 in the form of cash and undrawn bank facilities of \$1,798 million (June 2021, \$1,406 million).

Management continues to implement a range of measures to minimise short term interest expense, restructuring certain elements of the derivative portfolio, resetting out-of-the-money fixed interest rates to current market rates. These actions are expected to deliver a total reduction in interest payments of approximately \$71 million to 31 December 2022. A further tranche of interest minimisation was approved by the Board in February 2022.

The Directors secured a financial covenant waiver in respect of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for the 31 December 2021 testing period. The strong passenger performance in December assisted the Company in achieving a CCR ratio of 1.18 times for the 6 month period ended 31 December 2021, just short of the 1.2 times requirement.

The Directors have reviewed detailed cash flow projections prepared by management covering a period of 12 months from the date of approval for these half year financial statements, factoring in the expected impact of the COVID-19 pandemic on the Company. This takes into account forecast revenue, operating cash flows including operating and capital expenditure, interest minimisation program and the Company's liquidity position.

The forecast passenger numbers underpinning the financial projections assume no major changes to current border settings within Australia, facilitating domestic travel for fully vaccinated travellers. Based on these passenger forecasts the Company expects to achieve compliance with the CCR covenant for 30 June 2022 and 31 December 2022.

The Company continues to engage with lenders and rating agencies on current operating performance, 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.

In summary, the Directors are satisfied that the Company has available liquidity to support its operating activities over the course of the next 12 months and will be able to meet its debts as and when they fall due. As a result, the financial statements have been approved on a going concern basis.

New or amended Accounting Standards and Interpretations adopted

The Company has adopted all new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Company are:

1. Significant accounting policies (continued)

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

Interest Rate Benchmark Reforms

The interest rate benchmark reforms aim to discontinue Interbank Offered Rates (IBOR) and replace these with alternative benchmark interest rates referred to as 'risk free rates' (RFRs). IBORs are interest rate benchmarks that are used in a wide variety of financial instruments such as derivatives and lending arrangements. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate) and 'BBSW' (the Australian Bank Bill Swap Rate).

The nature of the reforms varies across different jurisdictions. For example, in Australia the existing IBOR benchmark (BBSW) has undergone reform and is expected to continue for the foreseeable future alongside the nominated RFR for AUD which is AONIA (AUD Overnight Index Average). By contrast, LIBOR publication is expected to cease. A transition away from LIBOR is therefore necessary. The cessation date for all tenors of LIBOR and the one week and two-month tenors for USD LIBOR was 31 December 2021. The cessation date for the remaining USD LIBOR tenors is 30 June 2023. There is no intention of the regulator to replace EURIBOR at this time.

In response to the interest rate benchmark reforms, the Australia Accounting Standards Board (AASB) issued:

AASB 2019-3 Interest Rate Benchmark Reform (AASB 2019-3)

AASB 2020-8 Interest Rate Benchmark Reform – Phase 2 (AASB 2020-8)

AASB 2019-3 provides relief from certain hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the reforms. The Company early adopted these amendments for the year ended 30 June 2020.

AASB 2020-8 addresses accounting issues following the transition to RFR. The amendments provide relief from applying certain requirements related to hedge accounting and the modification of financial assets and financial liabilities if certain criteria are met. These amendments enable the Company to reflect the effects of transitioning IBORs to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements. As required, these amendments have been adopted by the Company in the current year, effective from 1 July 2021.

Impact on financial reporting

The Company has performed an assessment of exposures linked to LIBOR at 31 December 2021, the results of which were as follows:

- *Debt and hedging instruments*: The Company has not identified any debt or hedging instruments directly linked to LIBOR as all offshore bonds have been issued in fixed rate and any swap instruments swap the fixed foreign denominated interest rate to either a fixed or floating BBSW interest rate.
- *Leases*: The Company currently does not have any leases with an IBOR as the basis for lease payments.

Whilst not having any direct LIBOR linked debt or swap instruments:

- The Company has designated derivative hedging instruments in hedge accounting relationships against the fair value exposure of the Company's USD fixed rate debt associated with USD LIBOR benchmark interest rate risks, resulting in an indirect exposure to the transition away from USD LIBOR to the Secured Overnight Financing Rate (SOFR) – a benchmark rate, which is expected to be widely adopted and to effectively replace the US LIBOR in new contracts from 2022.
- The Company has identified certain CCIRS hedging instruments, swapping fixed USD rate to floating AUD BBSW, referencing 3-month USD LIBOR for both hedge accounting and valuation purposes, which will be impacted upon discontinuation of 3-month US LIBOR on 30 June 2023

1. Significant accounting policies (continued)

Hedging instruments that reference the 3-month US LIBOR:

Notional in USD	Notional in AUD	Maturing in	Hedge Relationship	Hedging Instrument (prior to transition)	Hedged Item
USD 105m	AUD 152m	2031	Fair Value Hedge	Receive benchmark interest rate (LIBOR3m) portion of USD coupon, pay LIBOR3m.	Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond.
			Cash Flow Hedge	Receive LIBOR3m, pay AUD BBSW3m combined with USD and AUD principal exchanges at effective and maturity date.	USD principal repayment of the bond from first repayment date until maturity of the bond.
			Cash Flow Hedge	Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m.	USD Margin above benchmark rate component of the USD fixed coupon payable on the Bond (equivalent to credit margin on debt) over the term of the bond.

For these hedge relationships, management has assessed that the 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.

The Company plans to transition its hedge documentation and valuations prior to the cessation of the 3-month US LIBOR on 30 June 2023 and is working closely with its treasury management system vendor and swap counterparties to understand the impact that the transition might have on the availability and liquidity in forward interest rate curves and any impact on the valuation of the CCIRS.

At 31 December 2021, no hedging instruments or hedged items have transitioned to RFRs and there have been no changes in risk management practices.

AASB 2021-3 Covid 19-Related Rent Concessions beyond 30 June 2021

In the prior year the Company adopted AASB 2020-4 COVID-19 -Related Rent Concessions that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to AASB 16.

In April 2021, the AASB issued AASB 2021-3 COVID-19 - Related Rent Concessions beyond 30 June 2021. When the AASB published the amendments to AASB 16 in June 2020, a lessee was permitted to apply the practical expedient to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021. Due to the ongoing nature of the COVID-19 pandemic, the April 2021 amendment extends the practical expedient to apply to such payments originally due on or before 30 June 2022.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession applying AASB 16 as if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if certain conditions are met.

In the current period, the Company has received no rent concessions that are eligible for the practical expedient.

2. 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.

	31 December 2021	31 December 2020
	\$'000	\$'000
Expenses		
Allowance for expected credit losses - (reversal)/expense (i)	-	(7,646)
Software as a Service expense (ii)	8,750	6,212
	<u>8,750</u>	<u>(1,434)</u>

(i) Expected credit loss provision release

The reversal of the allowance for expected credit losses of \$7.6 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 31 December 2020.

(ii) Software as a Service (SaaS)

As noted in the Company's annual report for the financial year ended 30 June 2021, the Company revised its accounting policy in relation to SaaS arrangements in line with IFRIC guidance.

All expenditure in the current financial period in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$9.2 million of SaaS related costs have been recognised as an expense for the current period with \$8.75 million qualifying for adjustment as part of the Company's reporting on covenants.

These costs previously would have been capitalised and amortised over the useful life of the asset. The costs relate to the implementation of a cloud-based enterprise resource planning system. The change in accounting policy was applied retrospectively. As a result, the Company has restated its prior period comparative and opening retained earnings as at 1 July 2020. Refer to Note 3 for an overview of the impact of the change in accounting policy.

(iii) JobKeeper

Included in staff costs for the period ended 31 December 2020 is \$6.6m (December 2021: Nil) from the JobKeeper scheme implemented by the Australian Government. The JobKeeper scheme is not considered an exceptional item and does not qualify for adjustment as part of the Company's reporting on covenant compliance to its lenders.

3. Restatement of comparatives - Change in accounting policy

Change in accounting policy

In 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.

As noted in the Company's annual report for the financial year ended 30 June 2021, the Company revised its accounting policy in relation to SaaS arrangements in line with the new guidance. This change was retrospectively accounted for as a change in accounting policy during the prior financial year. The Company's revised accounting policy is presented in Note 1 Significant accounting policies in the Company's annual financial report for the year ended 30 June 2021.

In this half-year report, the historical financial information in the statement of profit or loss and other comprehensive income and the statement of cash flows and statement of changes in equity has been restated to retrospectively account for the impact of the change in accounting policy, as follows:

3. Restatement of comparatives - Change in accounting policy (continued)

	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of profit or loss and other comprehensive income			
Software as a Service expense	-	(6,212)	(6,212)
Depreciation and amortisation	(134,682)	1,933	(132,749)
Income tax benefit	52,570	1,300	53,870
Net impact on profit for the period	<u>(82,112)</u>	<u>(2,979)</u>	<u>(85,091)</u>
	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of cash flows			
Payments to suppliers and employees	-	(5,886)	(5,886)
Payments for property, plant and equipment	(221,227)	5,886	(215,341)
Impact on net cash flows for the period	<u>(221,227)</u>	<u>-</u>	<u>(221,227)</u>
	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of changes in equity			
Loss after income tax for the period	<u>(127,875)</u>	<u>(2,979)</u>	<u>(130,854)</u>

The comparative information in the statement of financial position as at 30 June 2021 already reflects the revised accounting policy, therefore it has not been restated.

Statement of profit or loss and other comprehensive income

When there is a restatement of comparatives, it is mandatory to provide a statement of profit or loss and other comprehensive income for the period ended 31 December 2020. However, as there were no adjustments made, the company has elected not to show the statement of profit or loss and other comprehensive income.

Statement of financial position at the beginning of the earliest comparative period

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2020. However, as there were no adjustments made as at 1 July 2020, the company has elected not to show the 1 July 2020 statement of financial position.

4. Profit for the period

31 December	31 December
2021	2020
\$'000	\$'000

Profit for the period has been derived after charging the following specific expenses:

Depreciation of property, plant and equipment	126,472	127,222
Amortisation of intangible assets	4,602	5,377
Impairment of assets under construction	1,157	150
Total Depreciation, amortisation and impairment	<u>132,231</u>	<u>132,749</u>
Interest:		
- Secured debt	56,157	103,847
- Interest capitalised during the period	(2,055)	(10,338)
- Amortisation of deferred borrowing costs	3,674	3,275
Hedge ineffectiveness and other hedge accounting	23,438	6,416
Unwind of discount on finance lease liability	265	223
Other finance costs	748	339
Total finance costs	<u>82,227</u>	<u>103,762</u>
Employee benefits expense - superannuation contributions	<u>2,274</u>	<u>2,370</u>

5. Security

31 December	31 December
2021	2020
\$'000	\$'000

Security revenue	19,421	10,582
Security cost	(18,408)	(8,758)
Security depreciation and other costs	<u>(1,013)</u>	<u>(1,824)</u>
	<u>-</u>	<u>-</u>

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.

Australia Pacific Airports (Melbourne) Pty. Limited
Notes to the financial statements
31 December 2021

6. Income tax

(a) Income tax recognised in profit

	31 December 2021 \$'000	31 December 2020 \$'000
<i>Income tax expense comprises of:</i>		
Deferred tax	(47,006)	(53,779)
Current tax expense in respect of prior years	103	(1,441)
Deferred tax in respect of prior years	<u>(1,001)</u>	<u>1,350</u>
Aggregate income tax benefit	<u><u>(47,904)</u></u>	<u><u>(53,870)</u></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>		
Loss before income tax benefit	<u>(156,765)</u>	<u>(184,724)</u>
Tax at the statutory tax rate of 30%	(47,030)	(55,417)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-taxable income	(55)	1,638
Non-deductible expenses	79	-
Deferred tax in respect of prior years	<u>(1,001)</u>	<u>1,350</u>
	(48,007)	(52,429)
Current tax expense in respect of prior years	<u>103</u>	<u>(1,441)</u>
Income tax benefit	<u><u>(47,904)</u></u>	<u><u>(53,870)</u></u>

(b) Deferred tax balances

	Opening balance 1 July 2021 \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance 31 Dec 2021 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(179,693)	9,392	-	(170,301)
Investment property	(480,532)	-	-	(480,532)
Accrued revenue	(38,486)	323	-	(38,163)
Other assets	(3,000)	300	-	(2,700)
Deferred borrowing costs	<u>(1,174)</u>	<u>(192)</u>	<u>-</u>	<u>(1,366)</u>
	<u>(702,885)</u>	<u>9,823</u>	<u>-</u>	<u>(693,062)</u>
Gross deferred tax assets:				
Provisions & accruals	6,121	(175)	-	5,946
Unearned income	1,143	624	-	1,767
Hedge reserve	59,913	-	(12,380)	47,533
Other	4	-	-	4
Tax losses	<u>80,144</u>	<u>30,391</u>	<u>-</u>	<u>110,535</u>
	<u>147,325</u>	<u>30,840</u>	<u>(12,380)</u>	<u>165,785</u>
Net deferred tax liability	<u><u>(555,560)</u></u>	<u><u>40,663</u></u>	<u><u>(12,380)</u></u>	<u><u>(527,277)</u></u>

Australia Pacific Airports (Melbourne) Pty. Limited
Notes to the financial statements
31 December 2021

7. Trade and other receivables

	31 December 2021 \$'000	30 June 2021 \$'000
Trade and other receivables	23,674	35,888
Less: Allowance for expected credit losses	<u>(2,621)</u>	<u>(2,621)</u>
Net trade receivables	<u>21,053</u>	<u>33,267</u>
 GST receivables	 <u>-</u>	 <u>1,471</u>
	<u><u>21,053</u></u>	<u><u>34,738</u></u>

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

Included in the Company's trade receivable balance are debtors with a carrying amount of \$1,181,510 (June 2021: \$2,695,156), which were overdue (90 days +) as at the reporting date.

8. Other assets

	31 December 2021 \$'000	30 June 2021 \$'000
<i>Current assets</i>		
Prepayments	3,722	1,939
Airline rebates	2,000	2,000
Bond	<u>460</u>	<u>460</u>
Total current	<u>6,182</u>	<u>4,399</u>
<i>Non-current assets</i>		
Airline rebates	5,723	6,723
Other non-current assets	<u>2,529</u>	<u>2,267</u>
Total non-current	<u>8,252</u>	<u>8,990</u>
	<u><u>14,434</u></u>	<u><u>13,389</u></u>

9. Accrued revenue

	31 December 2021 \$'000	30 June 2021 \$'000
<i>Current assets</i>		
Straight line leases	7,644	10,327
Accrued revenue	<u>26,594</u>	<u>11,448</u>
Total current	<u>34,238</u>	<u>21,775</u>
<i>Non-current assets</i>		
Straight line leases	<u>136,787</u>	<u>134,202</u>
	<u><u>171,025</u></u>	<u><u>155,977</u></u>

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10. Investment properties

	31 December 2021 \$'000	30 June 2021 \$'000
<i>Non-current assets</i>		
Investment property at cost	2,049,287	2,029,830
Investment property - WIP	5,854	14,306
	<u>2,055,141</u>	<u>2,044,136</u>

11. Property, plant and equipment

	Leasehold land \$'000	Buildings and services \$'000	Roads, runway, and other infrastructure \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Gross carrying amount						
Balance at 1 July 2021 (i)	243,774	2,441,106	1,445,670	879,179	341,843	5,351,572
Additions	-	-	-	-	70,201	70,201
Disposals	-	-	-	(26)	-	(26)
Impairment	-	-	-	-	(1,157)	(1,157)
Transfers to/(from) assets under construction	-	18,708	12,162	4,354	(35,224)	-
Balance at 31 December 2021	<u>243,774</u>	<u>2,459,814</u>	<u>1,457,832</u>	<u>883,507</u>	<u>375,663</u>	<u>5,420,590</u>
Accumulated depreciation						
Balance at 1 July 2021	(22,076)	(817,848)	(445,023)	(609,284)	-	(1,894,231)
Depreciation expense	(1,289)	(69,409)	(27,424)	(28,350)	-	(126,472)
Balance at 31 December 2021	<u>(23,365)</u>	<u>(887,257)</u>	<u>(472,447)</u>	<u>(637,634)</u>	<u>-</u>	<u>(2,020,703)</u>
Net book value at 31 December 2021	<u>220,409</u>	<u>1,572,557</u>	<u>985,385</u>	<u>245,873</u>	<u>375,663</u>	<u>3,399,887</u>
	Leasehold land \$'000	Buildings and services \$'000	Roads, runways and other infrastructure \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Gross carrying amount						
Balance at 1 July 2020	243,890	2,283,028	1,233,485	904,566	518,630	5,183,599
Additions	-	-	-	-	200,329	200,329
Restatement from change in accounting policy (i)	-	-	-	(32,356)	-	(32,356)
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>879,179</u>	<u>341,843</u>	<u>5,351,572</u>
Accumulated depreciation						
Balance at 1 July 2020	(19,504)	(672,701)	(397,958)	(556,893)	-	(1,647,056)
Depreciation expense	(2,572)	(145,147)	(47,065)	(74,132)	-	(268,916)
Restatement from change in accounting policy (i)	-	-	-	21,741	-	21,741
Balance at 30 June 2021	<u>(22,076)</u>	<u>(817,848)</u>	<u>(445,023)</u>	<u>(609,284)</u>	<u>-</u>	<u>(1,894,231)</u>
Net book value at 30 June 2021	<u>221,698</u>	<u>1,623,258</u>	<u>1,000,647</u>	<u>269,895</u>	<u>341,843</u>	<u>3,457,341</u>

11. Property, plant and equipment (continued)

(i) Software previously classified as part of Property, plant and equipment (as above) in the prior period has been reclassified to Intangible assets (note 12) concurrent with the Company's change in accounting policy for Software as a Service (SaaS), in line with IFRIC guidance (refer to note 3).

12. Intangible assets

	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Balance at 1 July 2021 (i)	667,700	1,797	10,615	680,112
Additions/(Disposals)	-	(45)	26	(19)
Amortisation charge	-	(363)	(4,239)	(4,602)
Net book value at 31 December 2021	<u>667,700</u>	<u>1,389</u>	<u>6,402</u>	<u>675,491</u>
Cost	667,700	3,674	32,382	703,756
Accumulated amortisation and impairment	-	(2,285)	(25,980)	(28,265)
Net book value at 31 December 2021	<u>667,700</u>	<u>1,389</u>	<u>6,402</u>	<u>675,491</u>

	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Balance at 1 July 2020	667,700	2,541	-	670,241
Restatement from change in accounting policy (i)	-	-	19,272	19,272
Additions/(Disposals)	-	-	701	701
Amortisation charge	-	(744)	(9,358)	(10,102)
Net book value at 30 June 2021	<u>667,700</u>	<u>1,797</u>	<u>10,615</u>	<u>680,112</u>
Cost	667,700	3,719	32,356	703,775
Accumulated amortisation and impairment	-	(1,922)	(21,741)	(23,663)
Net book value at 30 June 2021	<u>667,700</u>	<u>1,797</u>	<u>10,615</u>	<u>680,112</u>

(i) Software previously classified as part of Property, plant and equipment (note 11) in the prior period has been reclassified to Intangible assets (as above) concurrent with the Company's change in accounting policy for Software as a Service (SaaS), in line with IFRIC guidance (refer to note 3).

13. Payables

	31 December 2021 \$'000	30 June 2021 \$'000
Current liabilities		
Trade and other payables (i)	67,112	76,261
Accrual for assets under construction	16,677	15,461
Intercompany payables	48,132	48,064
GST payable	1,540	-
	<u>133,461</u>	<u>139,786</u>
Interest payable to:		
- Secured debt - bank (ii)	<u>18,480</u>	<u>21,521</u>
	<u>151,941</u>	<u>161,307</u>
Non-current liabilities		
Other non-current liabilities	<u>3,750</u>	<u>3,750</u>

(i) The average credit period for purchases and services is 30 days. No interest is charged on trade payables.

(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.

14. 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.

	Drawn (\$'000) Dec 21	Undrawn (\$'000) Dec 21	Drawn (\$'000) Jun 21	Undrawn (\$'000) Jun 21
Drawn and undrawn				
Unsecured bank overdraft	-	21,015	-	20,668
Term bank debt	500,000	-	500,000	-
Bank facilities	181,000	1,759,000	561,000	1,379,000
Total bank debt	<u>681,000</u>	<u>1,780,015</u>	<u>1,061,000</u>	<u>1,399,668</u>
Capital markets debt	4,063,815	-	3,554,892	-
Total borrowings (face value)	<u>4,744,815</u>	<u>1,780,015</u>	<u>4,615,892</u>	<u>1,399,668</u>

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14. Borrowings (continued)

			Principal (Original Currency) \$'000	Drawn Face Value (AUD) (i) \$'000	Carrying Dec 21 \$'000	Amount (ii) Jun 21 \$'000
	Maturity	Currency				
Capital Markets						
Debt						
USPP	15-Sep-21	USD	200,000	-	-	266,699
AMTN (iii)	15-Sep-22	AUD	250,000	250,000	250,000	250,000
USPP (\$A) (iii)	15-Nov-22	AUD	125,000	125,000	125,000	125,000
USPP	15-Sep-23	USD	200,000	191,077	275,353	266,699
EMTN (iii)	26-Sep-23	EUR	550,000	784,929	860,935	869,583
EMTN	15-Oct-24	EUR	350,000	505,050	547,868	553,371
AMTN (iii)	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	275,353	266,699
AMTN (iii)	4-Nov-26	AUD	200,000	200,000	200,000	200,000
USPP (\$A) (iii)	15 Jan-28	AUD	50,000	50,000	50,000	50,000
EMTN	27-Sep-30	NOK	1,500,000	242,994	234,188	232,459
AMTN	25-Nov-31	AUD	700,000	700,000	700,000	-
USPP (iii)	4-Dec-31	USD	105,000	151,844	144,560	140,017
USPP	4-Dec-34	USD	105,000	151,844	144,560	140,017
USPP (iii)	4-Dec-39	AUD	150,000	150,000	150,000	150,000
USPP (iii)	4-Dec-44	AUD	250,000	250,000	250,000	250,000
Total capital markets				4,063,815	4,327,817	3,880,544
Working Capital Facility	12-Apr-22	AUD		-	-	-
Bilateral Facility	15-Jul-22	AUD		100,000	100,000	100,000
Syndicated Facility	30-Sep-22	AUD		-	-	60,000
Syndicated Facility	30-Sep-24	AUD		80,000	80,000	400,000
Bilateral Facilities (iv)	8-Apr-26	AUD		1,000	1,000	1,000
Term Bank Debt	16-Jun-26	AUD		200,000	200,000	200,000
Term Bank Debt	16-Jun-29	AUD		300,000	300,000	300,000
Total Bank Debt				681,000	681,000	1,061,000
Financial Liabilities Valued at Fair Value through Profit and Loss				-	24,358	34,896
Deferred Borrowing Costs				-	(25,840)	(26,722)
Total Net Borrowings				4,744,815	5,007,335	4,949,718

(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 31 December 2021.

(iii) Excludes fair value adjustments (refer to Financial Liabilities Valued at Fair Value through Profit and Loss).

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

(v) The balance of \$5,007,335 is split between current borrowing \$474,244 and non-current borrowings \$4,533,091.

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15. Derivative financial instruments

On 4 August 2021, the company undertook a further restructure of the Company's hedge portfolio. This continues the Company's strategy to minimise cash interest paid. The restructure is expected to deliver a further \$26 million reduction in future interest cash payments bringing the total reduction to \$120 million to 30 June 2022. The unwind of the non-zero fair values of derivatives designated in fair value hedge relationships will be recorded in profit and loss (\$26 million pre-tax) over the hedged period ending 30 June 2022.

The net derivative position at reporting date is presented below:

	Current Dec 21 \$'000	Non-current Dec 21 \$'000	Total Dec 21 \$'000	Current Jun 21 \$'000	Non-Current Jun 21 \$'000	Total Jun 21 \$'000
Cross currency swaps	-	296,532	296,532	76,588	300,707	377,295
Interest rate swaps	13,729	-	13,729	116	-	116
	<u>13,729</u>	<u>296,532</u>	<u>310,261</u>	<u>76,704</u>	<u>300,707</u>	<u>377,411</u>
Cross currency swaps	-	(31,338)	(31,338)	-	(46,361)	(46,361)
Interest rate swaps	-	(71,898)	(71,898)	(6,948)	(88,484)	(95,432)
	<u>-</u>	<u>(103,236)</u>	<u>(103,236)</u>	<u>(6,948)</u>	<u>(134,845)</u>	<u>(141,793)</u>
Net derivative position assets/ (liabilities)	<u>13,729</u>	<u>193,296</u>	<u>207,025</u>	<u>69,756</u>	<u>165,862</u>	<u>235,618</u>

16. Hedging reserves

	31 December 2021 \$'000	30 June 2021 \$'000
Balance at beginning of financial period	139,795	157,677
(Gain) / loss recognised on derivative financial instruments (unrealised)	(10,278)	136,652
(Gain) / loss recognised on derivative financial instruments (realised)	(45,100)	25,029
(Gain) / loss on foreign exchange remeasurement transferred to profit and loss	(10,660)	(128,252)
(Gain) / loss on hedge ineffectiveness transferred to profit and loss	230	(1,628)
(Gain) / loss on unwind of discontinued hedge relationships transferred to profit and loss	(20,557)	(23,756)
(Gain) / loss on restructure impacts transferred to profit and loss	-	(8,562)
(Gain) / loss on cash flow hedges transferred to profit and loss	45,099	(25,029)
Income tax related to amounts above	12,380	7,664
Closing Balance	<u>110,909</u>	<u>139,795</u>

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.

17. Commitments for expenditure

	31 December 2021 \$'000	30 June 2021 \$'000
Commitments for expenditure		
Not longer than 1 year	210,837	144,691
Longer than 1 year but not longer than 5 years	45,025	140,887
Total Property, plant and equipment commitments	<u>255,862</u>	<u>285,578</u>

18. Notes to the Statement of Cash Flows

Reconciliation of loss after income tax to net cash used in operating activities

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, net of outstanding bank overdrafts. Cash at the end of the financial 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

	31 December 2021 \$'000	31 December 2020 \$'000
Loss after income tax benefit for the period	(108,861)	(130,854)
Adjustments for:		
Net profit on sale of non-current assets	(19)	-
Amortisation of deferred borrowing costs	3,674	3,275
Hedge reserve unwind	11,059	6,416
Depreciation and amortisation of non-current assets	131,074	132,599
Impairment of property, plant and equipment	1,157	150
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	12,215	10,981
(Increase)/decrease in other assets	(1,045)	(972)
(Increase)/decrease in accrued revenue	(15,048)	(17,888)
Increase/(decrease) in trade payables	(6,406)	1,802
Increase/(decrease) in interest payables	(3,041)	1,452
Increase/(decrease) in tax payable	(7,343)	38,485
Increase/(decrease) in employee provisions	169	1,684
Increase/(decrease) in unearned revenue	2,078	48
Increase/(decrease) in deferred tax liabilities	(28,283)	(51,356)
Net cash used in operating activities	<u>(8,620)</u>	<u>(4,178)</u>

19. Events after the reporting period

The Directors note the emergence of the Omicron variant and the transition from management of COVID-19 outbreaks through severe restrictions and lockdowns, which characterized the six months to December 2021, to targeted restrictions with consistent border policy settings facilitated by Australia's high vaccination rates and the booster program, which are expected to continue through 2022. Refer to note 1 to the Financial Statements for Going Concern disclosure for the Directors assessment on going concern.

On 23 February 2022, 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 is expected to deliver a further \$39 million reduction in future interest payments until 31 December 2022.

Other than the above, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Group's state of affairs in future financial years.