

Australia Pacific Airports Corporation Limited

ACN 069 775 266

Consolidated Financial Statements - 30 June 2022

Australia Pacific Airports Corporation Limited
Directors' report
30 June 2022

The Directors of Australia Pacific Airports Corporation Limited (the Company) and its controlled entities (the Group or APAC) present their report for the financial year ended 30 June 2022.

Principal activities

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

Review of operations

After more than two years of uncertainty, 2022 marked the return of travel, with just short of 14 million passengers welcomed through Melbourne Airport and Launceston Airport, 12 million of those since the gradual reopening of borders from November 2021. It was in stark contrast to the beginning of the financial year, which was marked by severe lockdowns and travel restrictions, with the vaccine providing a pathway out for Melbourne, Australia and the aviation industry.

Following the easing of restrictions in January, domestic travel rebounded quickly. Australian's embraced domestic leisure travel through the Easter holidays period. Domestic travel returned to 94 percent of 2019 levels by June 2022 supported by holiday traffic with levels at above 80% for July and August 2022. Operationally, the pace of recovery presented new challenges, the Airport and its partners stepping up to ensure passengers were being well served.

With the relaxing of most travel restrictions in and out of Australia, international travel has since also returned albeit the pace of recovery being far slower. With the key mainland China market remaining closed, the focus is on expanding underserved markets such as India, Vietnam, Korea and North America. International travel returned to 50 percent of 2019 levels by June 2022.

As the recovery from the pandemic progresses, the Group is focused on recovering even more strongly. Key highlights from FY22 include:

- The Group focussed on restoring lost capacity, working in collaboration with the Victorian government on the reattraction of international airlines to Victoria.
- Qantas Group had one of its most successful launches to date, when it began flights from Melbourne to Delhi in December 2021, servicing Melbourne's significant Indian population. The Indian route is a significant driver of passenger return.
- Jetstar resumed flights to popular leisure destinations including Bali, Vietnam and Hawaii.
- As demand for travel to Europe increased, key carriers such as Singapore Airlines, Etihad and Qatar increased frequencies from Melbourne, with Emirates returning the double daily A380 service to Dubai.
- Low cost start up airline Bonza announced Melbourne Airport as its capital city base, initially servicing 9 routes from Melbourne, including many not currently serviced by established Airlines.
- The Group delivered several developments across the precinct focused delivering an improved traveller experience, including terminal 3 and 4 link, providing greater connectivity across terminals and an enhanced retail experience.
- Terminal 1 retail is being reimaged, with a uniquely Melbourne offering, 28 stores will progressively open through FY23.
- Uber kerbside launched in 2022, leveraging Uber's PIN technology and providing travellers with significantly reduced wait times and the additional benefit of improved safety and relocation of travellers closer to the terminal.
- Construction commenced of a one-way elevated road connecting the Tullamarine freeway to T4 and T1,2,3, with a reconfigured transport hub which will provide intersection free connectivity to alleviate traffic congestion.
- The development plan for Melbourne Airport's proposed third runway went on public exhibition along with the 2022 Masterplan, from February to May 2022 and together they received over 2,800 public submissions.
- The Property portfolio continues to perform well, providing diversification of revenues that underpinned the business resilience through COVID. The Seqirus /CSL vaccine facility is in construction and remains on track to be complete by FY25.
- The Board approved the restart of the Square Hotel development, which was paused during COVID. The hotel has 464 rooms, 350 banquet seated conference centre, restaurants, wine bar and a wellness centre.

Australia Pacific Airports Corporation Limited
Directors' report
30 June 2022

The company's financial performance improved significantly as passengers returned, reporting an underlying EBITDA of \$311 million, a \$140 million increase over 2021.

APAC's balance sheet remains strong. The Group has \$1,778 million of liquidity at balance date and continued to access capital markets during the year, with a \$700 million 10-year domestic bond issued, an extension of maturity for bank facilities including the \$540 million Syndicated Facility (extended to 31 March 2024) and the \$100 million bilateral (extended to 15 January 2024). The Group also established a new 3 year \$50 million bilateral (maturing 26 May 2025). These funding outcomes demonstrate the strong fundamentals of the business and its resilience. APAC values the support of its lenders through the pandemic and is pleased to report a return to financial covenant compliance for the period ended 30 June 2022.

Lyell Strambi retired from his role as Chief Executive Officer, Lorie Argus, former Chief of Aviation was appointed CEO from 1 July 2022.

Financial results:

Group revenue was \$538.5 million for the year, \$199 million above FY21 and Operating Profit was \$297.9 million, representing an 78% increase on FY21.

Passenger levels increased to 13.7 million passengers for FY22 compared to 6.7 million in FY21. The higher passenger levels contributed to improved aeronautical revenue with an overall increase of \$93.7 million to \$182.8m in FY22.

Ground Transport revenue experienced significant uplift with a 90% increase in revenues to \$112.6m in FY22 with the recommencement of parking charges from 1 November 2021, increased passenger numbers, and a benefit from traveller preference for driving and parking rather than utilising public transport.

Retail revenue increased \$23.2 million to \$38.8 million in FY22 aligned to passenger recovery, reopening of stores and associated retail spend.

Property delivered \$119.2 million in revenue, an increase of 8% on FY21, supported by lower levels of tenant rent relief, increase in rent escalations and the addition of new developments.

Security costs and recoveries have increased in line with increase in passenger volumes, with charges based on a per passenger basis.

Underlying operating costs excluding security passthrough, software as a service costs (SaaS) (\$21.9 million) and the benefit arising from a reduction in the Group's expected credit loss provision (\$7.1 million) were \$181.3 million, 29% higher than FY21, driven by increases in staff costs, maintenance required to return critical assets from hibernation and increased cleaning supporting higher passenger levels.

Depreciation remained relatively consistent to FY21 whilst overall finance costs decreased by \$6.6 million in FY22 in line with the staged interest minimisation program.

The results include a gain on revaluation of investment property of \$119.3 million, with the portfolio valued at \$2.2 billion. This revaluation gain was driven by the compression of capitalisation rates in the industrial sector, rental growth and an increase of the value of development land.

The Group generated a statutory loss before tax of \$31.1 million (FY21 profit \$92.8 million).

Underlying Operating Profit for the year

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 Group's reporting on covenant compliance to its lenders, as further described in Note 4.

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

Australia Pacific Airports Corporation Limited
Directors' report
30 June 2022

	Note	2022 \$'000	2021 \$'000
Operating Profit (reported)		<u>297,924</u>	<u>167,160</u>
Allowance for expected credit losses - (reversal)/expense	4	(6,766)	(9,503)
Software as a Service expense	4	<u>19,833</u>	<u>13,303</u>
Underlying Operating Profit		<u><u>310,991</u></u>	<u><u>170,960</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 Group during the financial year.

Dividends

No dividend has been declared for the year ended 30 June 2022 (2021: Nil).

Events occurring after balance sheet date

On 29 June 2022, the Board approved the Group's funding and interest rate management strategy. The interest rate management strategy aims to increase the level of interest cost certainty given the rising interest rates environment. The Group executed \$400m of interest rate hedging in early July 2022, which gives the Group protection against rising interest rates within a protected range for 4 years from September 2023.

The Group executed \$380m term loan with existing Asian term loan investors (\$139m at 5 year tenor, \$241m at 7 year tenor), with financial close on 19 August 2022.

Other than stated, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors

Name	Position	Period of directorship
Peter Hay	Chair	Appointed 1 June 2019
Michael Cummings	Director	Appointed 19 March 2015
Danny Elia	Director	Appointed 6 October 2015
James Fraser-Smith	Director	Appointed 15 September 2016
Raphael Arndt	Director	Appointed 29 August 2019
Talieh Williams	Director	Appointed 1 January 2022
David Dowling	Director	Appointed 14 June 2022
Lyell Strambi	Managing Director	Appointed 9 November 2015, resigned 30 June 2022
Lianne Buck	Director	Appointed 14 October 2016, resigned 1 January 2022
Debbie Goodin	Director	Appointed 1 March 2020, resigned 8 June 2022
David Kenny	Director	Appointed 7 December 2015, resigned 14 June 2022

Peter Hay
Chair

Mr Hay has a strong background and breadth of experience in business, corporate law, finance and investment banking advisory work, with particular expertise in relation to mergers and acquisitions. He has also had significant involvement in advising governments and government-owned enterprises. Peter's board experience spans mining and resources, manufacturing, retail, property, and financial services. He is currently Chairman of Mutual Trust. He is a former Director on the boards of Vicinity Centres, GUD Holdings, Novion, Myer, ANZ Bank, Alumina and Newcrest Mining.

Michael Cummings
Director and Chair of Remuneration Committee

Mr Cummings is Co-Head of AMP Capital's Australian Infrastructure business. In addition to APAC, Mr Cummings is on the boards of Powerco NZ, Endeavour Energy, Opal Health Care and Chairman of Evergen. Mr Cummings has over 30 years of international experience in the infrastructure sector – having held senior executive positions in a number of major energy infrastructure companies. Mr Cummings is a Fellow of the Australian Institute of Company Directors, and a Chartered Member of Engineering New Zealand.

James Fraser-Smith
Director

Mr Fraser-Smith is a senior infrastructure investment professional with over 20 years of experience. As the Head of Unlisted Infrastructure and Timberland at Future Fund, he manages a global portfolio in excess of A\$10 billion and leads the team responsible for infrastructure strategy, transactions and asset management. Mr Fraser-Smith represents Future Fund as a Director on the Boards of Melbourne Airport and Amplitel. Mr Fraser-Smith holds Civil Engineering and Commerce degrees from the University of Melbourne and has completed a Master of Applied Finance. He is also a graduate member of the Australian Institute of Company Directors.

Lyell Strambi
Managing Director and Chief Executive Officer

Mr Strambi has extensive aviation experience spanning more than 40 years both in Australia and overseas. Before joining APAC, Mr Strambi spent six years at Qantas, the last two as CEO of Qantas Domestic. Prior to this, Mr Strambi worked for eight years at Virgin Atlantic Airways based in London. Mr Strambi is currently a Director of Aurizon Holdings Limited. Mr Strambi resigned effective 30 June 2022.

Danny Elia
Director

Mr Elia is the Global Head of Asset Management at IFM Investors where he is responsible for driving IFM Infrastructure's asset management strategy across the Australian and Global Infrastructure funds. Previous roles include CEO of South Australian Health Partnerships, Director of Public Private Partnerships for Leighton Contractors, General Manager of Transurban Victoria and Finance Director of Linfox Logistics Asia Pacific. Mr Elia is currently a Director on the board of Committee for Melbourne.

Raphael Arndt
Director

Dr Arndt is the Chief Executive Officer of the Future Fund after serving as the Chief Investment Officer of the Future Fund from 2014 to 2020. He leads a multi-disciplinary organisation, managing A\$245 billion on behalf of the Commonwealth of Australia. Dr Arndt was previously the Fund's Head of Infrastructure and Timberland where he was responsible for establishing both the Timberland and Infrastructure investment programs. Dr Arndt is also Chairman of the Investment Committee and a Board Member of the Melbourne Lord Mayor's Charitable Foundation, Australia's largest community foundation. Dr Arndt started his career as an engineer working with Ove Arup & Partners in Melbourne and London. He holds Engineering and Commerce degrees and a PhD from the University of Melbourne which focused on risk allocated in Public Private Partnerships.

Australia Pacific Airports Corporation Limited
Directors' report
30 June 2022

Talieh Williams
Director

Ms Williams is a senior sustainable investment and ESG executive, having led the investment stewardship teams at both the Victorian Funds Management Corporation and UniSuper. Ms Williams has also worked in sustainability consulting, the oil industry and commercial legal practice. Ms Williams is a Trustee Director at the Shrine of Remembrance, sits on the Climate Bonds Standards Board and has previously been a director of the Australian Council of Super Investors, the Responsible Investment Association of Australasia and the Investor Group on Climate Change. Ms Williams holds a Master of Social Science (International Development), a Bachelor of Laws (Honours) and a Bachelor of Planning and Design (Urban Design).

David Dowling
Director

Mr Dowling is the Managing Director Airports at AMP Capital. In this role, he is responsible for the management of AMP Capital's Australian airport investments. Prior to joining AMP Capital, Mr Dowling worked at Sydney Airport, MAp Airports and Macquarie Capital. He holds a Bachelor of Commerce from the University of Melbourne and a Bachelor of Laws from the University of Sydney and is a graduate of the Australian Institute of Company Directors. Mr Dowling is currently a Director of Port Hedland International Airport and a Director of Reliance Rail.

Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each Director were:

	Full Board		Remuneration Committee		Audit, Risk and Finance Committee	
	Held	Attended	Held	Attended	Held	Attended
Peter Hay	8	8	3	3	5	4
Lyell Strambi	8	8	3	3	5	5
Raphael Arndt	8	6	-	-	-	-
Lianne Buck	4	4	1	1	4	4
Michael Cummings	8	7	3	3	-	-
<i>Alternate - David Dowling</i>	-	1	-	-	-	-
Danny Elia	8	8	3	3	-	-
Debbie Goodin	7	7	-	-	5	5
James Fraser-Smith	8	7	3	3	-	-
David Kenny	7	7	-	-	5	4
<i>Alternate - David Dowling</i>	1	1	-	-	-	-
Talieh Williams	4	4	2	2	1	1

Those attended by the Company Secretary were:

	Held	Attended	Held	Attended	Held	Attended
Aaron Gant	8	8	3	3	5	5

Future developments

The Group's future developments and operations are included within the Master Plans of Melbourne Airport (2018) and Launceston Airport (2020). The documents, published every five years for Melbourne and eight years for Launceston, include setting the strategic direction for each 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.

Formal exhibition of APAM's preliminary 2022 Master Plan and preliminary draft Major Development Plan were on display from 1 February 2022 to 16 May 2022.

The plans include details of APAM's plan to build a third runway with the community invited to provide feedback during the exhibition period. The new 3000 meter runway will run parallel to the existing North-South runway and will increase the airport's capacity allowing for simultaneous arrivals and departures.

Environmental regulation

In relation to environmental matters, the Group is subject to the Airports Act 1996 (Cth) ("the Act") and the Airports (Environment Protection) Regulations 1997 ("the Regulations"). The Group is satisfied that the results of environmental monitoring conducted by internal and external specialists during the year ended 30 June 2022 demonstrate compliance with the Act and the Regulations in all material respects.

Like other airports around Australia, fire-fighting foams containing per- and poly- fluoroalkyl substances ("PFAS") have historically been used by Airservices Australia at Melbourne and Launceston Airports. Melbourne and Launceston Airports continue to investigate, manage and monitor PFAS at both airports.

Indemnity and insurance of officers and auditors

Each officer (including each Director) of the Group is indemnified, to the maximum extent permitted by law, against any liabilities incurred as an officer of the Group pursuant to agreements with the Group. 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 Group 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 Group is in no way indemnified out of the assets of the Group.

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

Auditor's independence

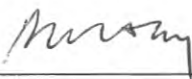
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Rounding off of amounts

The Group 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 P. Hay
Chairman

31 August 2022
Melbourne

31 August 2022

The Board of Directors
Australia Pacific Airports Corporation Limited
Level 2, Terminal 2
MELBOURNE AIRPORT VIC 3043

Dear Board Members,

Auditor's Independence Declaration to Australia Pacific Airports Corporations 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 Corporation Limited.

As lead audit partner for the audit of the financial report of Australia Pacific Airports Corporation Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully


DELOITTE TOUCHE TOHMATSU



Travis Simkin
Partner
Chartered Accountants

Australia Pacific Airports Corporation Limited
Contents
30 June 2022

Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13
Directors' declaration	48
Independent auditor's report to the members of Australia Pacific Airports Corporation Limited	49

General information

The financial statements represent Australia Pacific Airports Corporation Limited and its controlled entities as a consolidated group. The financial statements are presented in Australian dollars, which is Australia Pacific Airports Corporation Limited's functional and presentation currency.

Australia Pacific Airports Corporation Limited ACN 069 775 266 is an unlisted public 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 Group's operations and its principal activities are included in the Directors' report.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 31 August 2022.

Australia Pacific Airports Corporation Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Revenue			
Aeronautical		182,770	89,073
Security	6	49,362	31,598
Retail		38,808	15,603
Ground Transport		112,587	59,387
Property		119,212	110,870
Outgoings/recharges		31,612	28,885
Interest		25	47
Other income		4,021	4,023
Profit on sale of property, plant and equipment		106	-
Total revenue		<u>538,503</u>	<u>339,486</u>
Expenses			
Staff costs		(62,386)	(45,336)
Security	6	(44,471)	(28,350)
Services and utilities		(80,378)	(67,502)
Maintenance costs		(20,745)	(14,634)
Administration and marketing costs		(9,103)	(4,529)
Other costs		(8,650)	(8,455)
Software as a Service expense		(21,924)	(13,303)
Allowance for expected credit losses - reversal/(expense)		7,078	9,783
Total expenses		<u>(240,579)</u>	<u>(172,326)</u>
Operating Profit		297,924	167,160
Change in fair value of investment property	12	119,276	387,977
Depreciation, amortisation and impairment losses	5	(267,110)	(274,482)
Borrowing costs	5	<u>(181,227)</u>	<u>(187,818)</u>
Profit/(loss) before income tax (expense)/benefit		(31,137)	92,837
Income tax (expense)/benefit	7	<u>10,684</u>	<u>(29,282)</u>
Profit/(loss) after income tax (expense)/benefit for the year		(20,453)	63,555
Other comprehensive income			
<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		<u>104,024</u>	<u>17,882</u>
Other comprehensive income for the year, net of tax		<u>104,024</u>	<u>17,882</u>
Total comprehensive income for the year		<u><u>83,571</u></u>	<u><u>81,437</u></u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of financial position
As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		53,445	32,186
Trade and other receivables	8	80,086	36,964
Derivative financial instruments	16	-	76,704
Accrued revenue	9	24,852	24,369
Other assets	10	13,309	2,515
Total current assets		<u>171,692</u>	<u>172,738</u>
Non-current assets			
Property, plant and equipment	11	3,444,310	3,507,868
Investment properties	12	2,199,574	2,060,686
Intangible assets	13	677,001	684,875
Derivative financial instruments	16	307,208	300,707
Accrued revenue	9	138,902	141,552
Other assets	10	2,057	2,267
Total non-current assets		<u>6,769,052</u>	<u>6,697,955</u>
Total assets		<u>6,940,744</u>	<u>6,870,693</u>
Liabilities			
Current liabilities			
Payables	14	81,995	114,357
Borrowings	15	374,873	266,610
Employee benefit provisions		22,633	15,279
Derivative financial instruments	16	-	6,948
Lease liabilities	18	1,287	1,287
Unearned income		19,809	4,925
Total current liabilities		<u>500,597</u>	<u>409,406</u>
Non-current liabilities			
Payables	14	3,702	4,952
Borrowings	15	4,684,575	4,728,078
Deferred tax liability	7	599,927	566,050
Employee benefit provisions		1,811	1,699
Derivative financial instruments	16	40,359	134,845
Lease liabilities	18	3,127	3,776
Unearned income		5,156	3,968
Total non-current liabilities		<u>5,338,657</u>	<u>5,443,368</u>
Total liabilities		<u>5,839,254</u>	<u>5,852,774</u>
Net assets		<u>1,101,490</u>	<u>1,017,919</u>
Equity			
Issued capital	20	118,100	118,100
Hedging reserves	21	(35,771)	(139,795)
Retained profits		1,019,161	1,039,614
Total equity		<u>1,101,490</u>	<u>1,017,919</u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of changes in equity
For the year ended 30 June 2022

	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	118,100	(157,677)	988,041	948,464
Adjustment for change in accounting policy	-	-	(11,982)	(11,982)
Balance at 1 July 2020 - restated	118,100	(157,677)	976,059	936,482
Profit after income tax expense for the year	-	-	63,555	63,555
Other comprehensive income for the year, net of tax	-	17,882	-	17,882
Total comprehensive income for the year	-	17,882	63,555	81,437
Balance at 30 June 2021	<u>118,100</u>	<u>(139,795)</u>	<u>1,039,614</u>	<u>1,017,919</u>
	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	118,100	(139,795)	1,039,614	1,017,919
Loss after income tax benefit for the year	-	-	(20,453)	(20,453)
Other comprehensive income for the year, net of tax	-	104,024	-	104,024
Total comprehensive profit/(loss) for the year	-	104,024	(20,453)	83,571
Balance at 30 June 2022	<u>118,100</u>	<u>(35,771)</u>	<u>1,019,161</u>	<u>1,101,490</u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of cash flows
For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers		573,615	354,996
Payments to suppliers and employees		(296,475)	(196,519)
Payments for Software as a Service		(22,862)	(11,440)
Interest received		25	47
Interest paid		(113,162)	(176,669)
Income tax (refund)/paid		(21)	42,608
Net cash from operating activities	25	141,120	13,023
Cash flows from investing activities			
Payments for investment property	12	(19,612)	(71,173)
Payments for property, plant and equipment		(214,052)	(275,292)
Payments for intangibles		(405)	(25)
Proceeds from disposal of property, plant and equipment		106	-
Net cash used in investing activities		(233,963)	(346,490)
Cash flows from financing activities			
Proceeds from borrowings	15	1,211,500	624,000
Repayment of borrowings	15	(1,027,877)	(294,000)
Payment for hedging restructure	15	(65,853)	(94,883)
Repayment of lease liabilities		(649)	(949)
Payment for debt issue costs		(3,019)	(2,308)
Net cash from financing activities		114,102	231,860
Net increase/(decrease) in cash and cash equivalents		21,259	(101,607)
Cash and cash equivalents at the beginning of the financial year		32,186	133,793
Cash and cash equivalents at the end of the financial year		53,445	32,186

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

1. Basis of preparation

Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB), and comply with other requirements of the law. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements comprise the consolidated financial statements of Australia Pacific Airports Corporation Limited (the Company) and the entities it controls (together the Group). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The presentation currency used in these financial statements is Australian dollars (\$). Amounts in these financial statements are stated in Australian dollars unless otherwise noted.

The financial statements have been prepared under the historical cost convention, except for measurement of investment properties and derivative financial instruments, which are measured at fair value through profit or loss or other comprehensive income, as described in Note 12 and Note 16.

The financial statements were authorised for issue by the Directors on 31 August 2022.

Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

Rounding of amounts

The Group 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 financial position of the Group, the Directors are of the view that the Group is positioned to continue operations and has sufficient liquidity available to meet all its operating, refinancing 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 Group.

During the year the Group issued a \$700 million 10-year domestic bond and extended the maturity of certain bank facilities including the \$540 million Syndicated Facility (extended to 31 March 2024) and the \$100 million bilateral (extended to 15 January 2024). The Group also established a new 3 year \$50 million bilateral (maturing 26 May 2025).

The Group was in a net current liability position of \$329 million at 30 June 2022 (30 June 2021: net current liability \$237 million). The net current liability position is comfortably covered by available liquidity as at 30 June 2022 in the form of cash and undrawn bank facilities of \$1,778 million (June 2021, \$1,431 million).

Management have commenced debt raising activities with the aim of pre-funding bonds maturing in September 2023 for an amount of \$976 million.

Over the past 2 years, the Group has restructured certain elements of its derivative portfolio, aimed at reducing interest payments in the short term. The restructures reset out of the money fixed rate cross currency and interest rate swaps to current market interest rates, retaining the historic credit margin. This interest minimisation strategy reduced interest by \$106 million in FY22 (FY2021: \$36 million) and is expected to deliver a final \$15 million reduction in interest for FY23.

The Group achieved compliance with its financial covenants in respect of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for the 30 June 2022 testing period. Strong passenger performance, together with the impact of interest minimisation, assisted the Group in achieving a CCR ratio of 3.86 times for the 6-month period ended 30 June 2022, exceeding 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 year-end financial statements, factoring in the expected impact of the continued recovery from the COVID-19 pandemic on the Group. This considers forecast revenue, operating cash flows including operating and capital expenditure, interest minimisation program and the Group's liquidity position.

1. Basis of preparation (continued)

The forecast passenger numbers underpinning the financial projections assume no major changes to current border settings within Australia. Based on these passenger forecasts the Group expects to continue to be compliant with its covenants, including the CCR covenant, for the 6 month testing periods ending 31 December 2022 and 30 June 2023.

The Group continues to engage with lenders and rating agencies on current operating performance, commercial and financial performance. The Group'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 Group 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.

2. Significant accounting policies

Revenue

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 and discounts are recognised 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. Revenue is recognised as the expense is 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 on a straight-line basis over the lease term.

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 on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

New or amended Accounting Standards and Interpretations adopted

The Group 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. The adoption of these Accounting Standards and interpretations did not have a material impact on the financial performance or position of the Group.

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. 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 Group 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 Group 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 Group in the current year, effective from 1 July 2021.

Impact on financial reporting

The Group has performed an assessment of exposures linked to LIBOR at 30 June 2022, the results of which were as follows:

- *Debt and hedging instruments:* The Group 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 Group 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 Group has designated derivative hedging instruments in hedge accounting relationships against the fair value exposure of the Group'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 Group 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

2. 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 Group 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 30 June 2022, 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 Group 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, through a practical expedient.

In the current period, the Group has received no rent concessions that are eligible for the practical expedient to AASB 16.

2. Significant accounting policies (continued)

Standards in issue not yet effective

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date. Effective date: 1 January 2023

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments. Effective date: 1 January 2022

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates. Effective date: 1 January 2023

AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. Effective date: 1 January 2023

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.

Details of the critical judgements and key sources of estimation uncertainty are set out in the following notes:

Critical judgements

- Going Concern (Note 1)

Key sources of estimation uncertainty

- Allowance for expected credit losses (Note 8)
- Fair value of investment properties (Note 12)
- Impairment of goodwill (Note 13)
- Fair value of derivative financial instruments (Note 16)

4. 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 Group's reporting on covenant compliance to its lenders.

	2022 \$'000	2021 \$'000
Expenses		
Allowance for expected credit losses - reversal/(expense) (i)	6,766	9,503
Software as a Service expense (ii)	(19,833)	(13,303)
	<u>(13,067)</u>	<u>(3,800)</u>

(i) Allowance for expected credit losses

The reversal of the allowance for expected credit losses of \$6.8 million relates to better than expected recovery of international security revenue previously provided for against accrued revenue. The prior year reversal of \$9.2 million relates 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.

4. Significant income and expense items (continued)

(ii) Software as a Service expense

The Group revised its accounting policy in relation to SaaS arrangements in line with IFRIC guidance in 2021. All expenditure in both financial years in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$19.8 million of SaaS related costs have been recognised as an expense in the current year. The costs relate to the implementation of an enterprise resource planning system, the cost of the implementation of Enterprise Data Program and Cyber Security applications, all of which are SaaS arrangements.

5. Profit for the year

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

	2022 \$'000	2021 \$'000
Employee benefits expense - superannuation contributions	5,006	4,687
Depreciation, amortisation and impairment losses:		
Depreciation of property, plant and equipment	257,344	263,937
Amortisation of intangible assets	8,279	10,171
Impairment of asset under construction	1,487	374
Total depreciation, amortisation and impairment losses	<u>267,110</u>	<u>274,482</u>
Borrowing costs:		
Interest:		
- Secured debt	117,589	174,555
- Interest capitalised during the period	(5,261)	(16,068)
- Amortisation of deferred borrowing costs	7,244	6,784
Hedge reserve unwind	60,116	21,372
Interest - Lease liabilities	531	446
Other finance costs	1,008	729
Total borrowing costs	<u>181,227</u>	<u>187,818</u>

6. Security

	2022 \$'000	2021 \$'000
Security revenue	49,362	31,598
Security costs	(44,471)	(28,350)
Security depreciation and other costs	(4,891)	(3,248)
	<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.

7. Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset. Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Australia Pacific Airports Corporation Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

7. Income tax (continued)

(a) Income tax recognised in profit

	2022	2021
	\$'000	\$'000
Income tax expense comprises of:		
Deferred tax expense	(9,180)	29,307
Current tax in respect of prior years	-	(1,696)
Deferred tax in respect of prior years	(1,504)	1,671
Aggregate income tax expense	<u>(10,684)</u>	<u>29,282</u>

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

(Loss)/ profit before income tax expense	(31,140)	92,837
Tax at the statutory tax rate of 30% (2021: 30%)	(9,342)	27,851
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:	-	-
Non-deductible expenses	162	1,456
Deferred tax in respect of prior years	(1,504)	1,671
Current tax in respect of prior years	-	(1,696)
Income tax expense	<u>(10,684)</u>	<u>29,282</u>

(b) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

2022	Consolidated		
	Opening balance 1 July 2021 \$'000	Charged to income \$'000	Charged to equity \$'000
			Closing balance 30 June 2022 \$'000
Gross deferred tax liabilities:			
Property, plant & equipment incl. software	(185,005)	16,506	-
Accrued revenue	(38,838)	926	-
Investment property	(484,435)	(37,085)	-
Other assets	(3,000)	1,653	-
Deferred borrowing costs	(1,174)	1,174	-
	<u>(712,452)</u>	<u>(16,826)</u>	<u>-</u>
			<u>(729,278)</u>
Gross deferred tax assets:			
Provisions & accruals	6,440	1,577	-
Unearned income	1,125	(1,130)	-
Hedge reserve	59,913	-	(44,561)
Tax losses	78,920	27,031	-
Other	4	32	-
	<u>146,402</u>	<u>27,510</u>	<u>(44,561)</u>
			<u>129,351</u>
Net deferred tax liability	<u>(566,050)</u>	<u>10,684</u>	<u>(44,561)</u>
			<u>(599,927)</u>

7. Income tax (continued)

2021	Opening Balance 1 July 2020 \$'000	Consolidated Charged to income \$'000	Charged to equity \$'000	Closing balance 30 June 2021 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment incl. software	(203,223)	18,218	-	(185,005)
Accrued revenue	(33,490)	(5,348)	-	(38,838)
Investment property	(362,053)	(122,382)	-	(484,435)
Other assets	(3,600)	600	-	(3,000)
Deferred borrowing costs	(1,817)	643	-	(1,174)
	<u>(604,183)</u>	<u>(108,269)</u>	<u>-</u>	<u>(712,452)</u>
Gross deferred tax assets:				
Provisions & accruals	6,180	260	-	6,440
Unearned income	2,511	(1,386)	-	1,125
Hedge reserve	67,577	-	(7,664)	59,913
Tax losses	-	78,920	-	78,920
Other	507	(503)	-	4
	<u>76,775</u>	<u>77,291</u>	<u>(7,664)</u>	<u>146,402</u>
Net deferred tax liability	<u>(527,408)</u>	<u>(30,978)</u>	<u>(7,664)</u>	<u>(566,050)</u>

8. Trade and other receivables

	2022 \$'000	2021 \$'000
Trade and other receivables	82,294	38,383
Less: Allowance for expected credit losses	<u>(2,208)</u>	<u>(2,769)</u>
Net trade and other receivables	<u>80,086</u>	<u>35,614</u>
GST receivables	-	1,350
Total trade and other receivables	<u>80,086</u>	<u>36,964</u>

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

Allowance for expected credit losses

The Group recognises a loss allowance for expected credit losses on trade receivables and accrued revenue. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the trade receivable.

The Group always recognises lifetime ECL for trade receivables and accrued revenue. The expected credit losses on trade receivables and accrued revenue are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Set out below is an overview of the ageing of trade and other receivables and an overview of the associated allowance for expected credit losses held:

8. Trade and other receivables (continued)

	Carrying amount 2022 \$'000	Carrying amount 2021 \$'000	Allowance for expected credit losses 2022 \$'000	Allowance for expected credit losses 2021 \$'000
Not overdue	58,753	29,669	480	831
31 - 60 Days	16,038	2,317	147	455
61 - 90 Days	2,063	2,105	103	192
> 90 Days	3,232	1,523	1,478	1,291
	<u>80,086</u>	<u>35,614</u>	<u>2,208</u>	<u>2,769</u>

Movements in the allowance for expected credit losses are as follows:

	2022 \$'000	2021 \$'000
Opening balance	2,769	27,327
Receivables written off during the year as uncollectable	(218)	(15,055)
Unused amounts reversed	(343)	(9,503)
Closing balance	<u>2,208</u>	<u>2,769</u>

9. Accrued revenue

	2022 \$'000	2021 \$'000
<i>Current:</i>		
Straight line leases	8,479	10,348
Other accrued revenue	14,373	12,021
Accrued rebates	2,000	2,000
Total current	<u>24,852</u>	<u>24,369</u>
<i>Non-current:</i>		
Straight line leases	134,179	134,829
Accrued rebates	4,723	6,723
Total non-current	<u>138,902</u>	<u>141,552</u>

Accrued revenue represents amounts the Group is entitled to receive but has not invoiced at reporting date. When the customer is invoiced, the amount is reclassified to trade receivables. In FY21 the balance for other accrued revenue was presented net of an allowance for expected credit losses of \$6.8 million. The allowance was released in FY22 due to improvement in the expected recovery accrued revenue associated with International Security charges. The allowance release is presented in Note 4.

Straight line leases represent accrued revenue arising from straight line recognition of lease income and from the provision of lease incentives as part of lease contracts with customers. Lease incentives are typically provided at the commencement of a lease which effects the timing of cash flows at the start of the lease, whilst rental revenue is recognised on a straight line basis over the lease term.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

10. Other assets

	2022 \$'000	2021 \$'000
<i>Current assets</i>		
Prepayments	12,753	1,949
Bond	460	460
Other current assets	96	106
Total current	13,309	2,515
<i>Non-current assets</i>		
Other non-current assets	2,057	2,267
	<u>15,366</u>	<u>4,782</u>

11. Property, plant and equipment

	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & infrastructure \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
2022						
Gross carrying amount						
Balance at 1 July 2021	244,800	2,482,647	1,488,456	892,970	342,157	5,451,030
Additions	-	-	-	-	195,294	195,294
Disposals	-	-	-	(21)	-	(21)
Impairment	-	-	-	-	(1,487)	(1,487)
Transfers to/(from) assets under construction	-	19,246	55,732	22,495	(97,473)	-
Balance at 30 June 2022	244,800	2,501,893	1,544,188	915,444	438,491	5,644,816
Accumulated depreciation						
Balance at 1 July 2021	(22,302)	(836,212)	(463,347)	(621,301)	-	(1,943,162)
Depreciation expense	(2,589)	(140,395)	(58,080)	(56,280)	-	(257,344)
Balance at 30 June 2022	(24,891)	(976,607)	(521,427)	(677,581)	-	(2,200,506)
Net book value at 30 June 2022	<u>219,909</u>	<u>1,525,286</u>	<u>1,022,761</u>	<u>237,863</u>	<u>438,491</u>	<u>3,444,310</u>
2021						
Gross carrying amount						
Balance at 1 July 2020	244,916	2,324,014	1,276,256	918,308	519,106	5,282,600
Additions	-	-	-	-	200,786	200,786
Transfers to/(from) assets under construction	(116)	158,633	212,200	7,018	(377,735)	-
Transfer to software (Note 13)	-	-	-	(32,356)	-	(32,356)
Balance at 30 June 2021	244,800	2,482,647	1,488,456	892,970	342,157	5,451,030
Accumulated depreciation						
Balance at 1 July 2020	(19,713)	(689,217)	(414,404)	(568,274)	-	(1,691,608)
Depreciation expense	(2,589)	(146,995)	(48,943)	(74,768)	-	(273,295)
Transfer to software (Note 13)	-	-	-	21,741	-	21,741
Balance at 30 June 2021	(22,302)	(836,212)	(463,347)	(621,301)	-	(1,943,162)
Net book value at 30 June 2021	<u>222,498</u>	<u>1,646,435</u>	<u>1,025,109</u>	<u>271,669</u>	<u>342,157</u>	<u>3,507,868</u>

11. Property, plant and equipment (continued)

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
Assets under construction	Not depreciated

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

12. Investment properties

The Group classifies certain areas of the Airport precinct as investment property as they are held for rental income. These areas include Melbourne Airport Business Park, Hotels, Industrial Buildings and Vacant Land. The Group provide investment properties (along with land and buildings in Note 11) as security for loans as disclosed in Note 15.

The profit for the year includes a gain on revaluation of investment properties of \$119.3 million, driven by the completion of developments in the Melbourne Airport Business Park, movement of capitalisation rates in the industrial sector, rental growth and an increase in the value of developable land.

	2022	2021
	\$'000	\$'000
Balance at beginning of the period	2,060,686	1,601,536
Additions for the period (at cost)	19,612	71,173
Net gain from fair value adjustments for the year	119,276	387,977
Balance at end of the period	<u>2,199,574</u>	<u>2,060,686</u>

The Group'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.

Valuation of investment properties

Each year the Board of Directors appoint an independent professionally qualified valuer to determine the fair value of the Group's investment properties as at balance date (30 June). The external valuer appointed in the current year was Jones Lang LaSalle.

The investment properties held by the Group are held on a leasehold basis (99 year lease, with 74 years remaining as at 30 June 2022). Taking this into consideration, each investment property has been valued by the external valuer as follows:

12. Investment properties (continued)

Valuation method	Description
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. The cash flow analysis comprises annual income streams.
Direct comparison approach	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.

The external valuer has used the midpoint of the capitalisation of net income approach and discounted cash flow approach as the basis for determining the fair value of each investment property.

Development land has been assessed on a direct comparison basis, on a rate per square metre of site area basis.

Key inputs and sensitivities

Measuring the fair value of the Group's investment properties requires estimates and assumptions which are based on historical experience and expectations of future events that are believed to be reasonable at the date of valuation. Key assumptions include market rents, market rental growth, capitalisation rates, discount rates and terminal yields. Recent and relevant sales evidence and other market data are also considered.

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 Group in determining fair value of its investment properties are summarised below:

- Capitalisation rates ranging from 4.23% to 7.04%
- Discount rates ranging from 6% to 8%
- A terminal yields ranging from 4.48% to 7.29% and
- Market rental growth rates ranging from 2.49% to 3.25%

All of the above assumptions have been taken from the latest external valuation report.

13. Intangible assets

	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
2022				
Net book value				
Balance at 1 July 2021	671,866	2,394	10,615	684,875
Disposal	-	(46)	-	(46)
Additions	-	-	450	450
Amortisation charge	-	(809)	(7,469)	(8,278)
	<u>671,866</u>	<u>1,539</u>	<u>3,596</u>	<u>677,001</u>
Cost	671,866	4,186	32,806	708,858
Accumulated amortisation and impairment	-	(2,647)	(29,210)	(31,857)
Net book value at 30 June 2022	<u>671,866</u>	<u>1,539</u>	<u>3,596</u>	<u>677,001</u>
2021				
Net book value				
Balance at 1 July 2020	671,866	3,182	-	675,048
Transfers from property, plant and equipment (Note 11)	-	-	19,272	19,272
Additions	-	25	701	726
Amortisation charge	-	(813)	(9,358)	(10,171)
	<u>671,866</u>	<u>2,394</u>	<u>10,615</u>	<u>684,875</u>
Cost	671,866	4,228	32,356	708,450
Accumulated amortisation and impairment	-	(1,834)	(21,741)	(23,575)
Net book value at 30 June 2021	<u>671,866</u>	<u>2,394</u>	<u>10,615</u>	<u>684,875</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 Group 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. The company consider Melbourne and Launceston Airports to be separate cash generating units.

The methodology adopted to value the Melbourne and Launceston Airports is a discounted cash flow based on the forecast dividends to equity holders (including franking credits) at a cost of equity. The valuation derived from this discounted cash flow analysis has been cross checked to a valuation based on the 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%.

Post-tax cash flows are discounted to their present value using a post-tax discount rate of 9.95%. The discount rate used reflects current market assessment of the time value of money and the risks specific to the cash generating unit.

13. Intangible assets (continued)

Both Melbourne and Launceston Airports have significant headroom between their recoverable amount and the carrying value of their 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.

Accounting policy for Master Plan intangible asset

Under the Airports Act 1996, Melbourne Airport are required every 5 years and Launceston Airports every 8 years to prepare Master Plans to guide the development of the airports for the next 20 years. The costs associated with the Melbourne Airport Master Plan is recognised as intangible assets amortised over the 5 year period and Launceston Airport over an 8 year period.

Software

Software controlled by the Group is capitalised and amortised over the useful life of the software on a straight-line basis.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group 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.

14. Payables

	2022 \$'000	2021 \$'000
Current liabilities		
Trade and other payables (i)	40,771	77,362
GST payable	1,211	-
Accrual for assets under construction	17,774	15,461
	<u>59,756</u>	<u>92,823</u>
Interest payable to:		
- Secured debt - bank (ii)	<u>22,239</u>	<u>21,534</u>
	<u>81,995</u>	<u>114,357</u>
	2022 \$'000	2021 \$'000
Non-current liabilities		
Undistributed capital note liability (iii)	1,202	1,202
Other non-current liabilities	2,500	3,750
	<u>3,702</u>	<u>4,952</u>

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

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

(iii) Capital notes are entitled to 1/9th of net profit of APAL with distribution equal to 1/9th of declared dividends. Capital notes are redeemable at the end of the Launceston Airport lease.

15. Borrowings

At the reporting date the Group'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 Group's interest bearing liabilities are presented in the tables below.

	Face value			
	Drawn (\$'000) 2022	Undrawn (\$'000) 2022	Drawn (\$'000) 2021	Undrawn (\$'000) 2021
Drawn and undrawn				
Unsecured bank overdraft	-	21,627	-	20,668
Secured term bank debt	500,000	-	500,000	-
Secured bank facilities	280,800	1,724,200	606,100	1,398,900
	<u>780,800</u>	<u>1,745,827</u>	<u>1,106,100</u>	<u>1,419,568</u>
 Secured capital markets debt	 4,063,815	 -	 3,554,892	 -
 Total Borrowings	 <u>4,844,615</u>	 <u>1,745,827</u>	 <u>4,660,992</u>	 <u>1,419,568</u>

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 Group 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.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

15. Borrowings (continued)

Type			Principal Drawn		Carrying Amount (ii)	
			Original Currency \$'000	Face Value (AUD) (i) \$'000	2022 \$'000	2021 \$'000
Capital Markets Debt						
	Maturity	Currency				
USPP	15-Sep-21	USD	-	-	-	266,699
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	290,681	266,699
EMTN (iii)	26-Sep-23	EUR	550,000	784,929	834,658	869,583
EMTN	15-Oct-24	EUR	350,000	505,050	531,146	553,371
AMTN	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	290,681	266,699
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	219,540	232,459
AMTN	25-Nov31	AUD	700,000	700,000	700,000	-
USPP (iii)	4-Dec-31	USD	105,000	151,844	152,607	140,017
USPP	4-Dec-34	USD	105,000	151,844	152,607	140,017
USPP	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				4,063,815	4,316,920	3,880,544
Bank Debt						
Syndicated Facility	30-Sep-24	AUD		140,000	140,000	400,000
Bilateral Facility (v)	15-Jan-24	AUD		100,000	100,000	100,000
Syndicated Facility (v)	31-Mar-24	AUD		-	-	60,000
Cash Advance Facility (iv)	30-Jul-23	AUD		39,800	39,800	45,100
Bilateral Facility (v)	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
				780,800	780,800	1,106,100
Total Borrowings				4,844,615	5,097,720	4,986,644
Fair value adjustments				-	(14,927)	34,896
Deferred upfront borrowing costs				-	(23,345)	(26,852)
Total Net Borrowings				4,844,615	5,059,448	4,994,688
					2022	2021
					\$'000	\$'000
Current					374,873	266,610
Non-current					4,684,575	4,728,078
Total Net Borrowings					5,059,448	4,994,688

15. Borrowings (continued)

Notes:

All the above borrowings are secured by fixed and floating charges over the Group's assets.

(i) Face values of foreign debt shown reflects 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 2022.

(iii) Excludes fair value adjustments.

(iv) Cash Advance Facility refers to the bank facility for Australia Pacific Airports (Launceston) Pty Ltd.

(v) On 26 May 2022, APAM extended its \$540 million Syndicated Facility tranche B maturity from 30 September 2022 to 31 March 2024. APAM also established an additional new 3 year bilateral facility maturing on 26 May 2025 with a limit of A\$50m and extended A\$100million bilateral facility that was due to mature on 15 July 2022 to 15 January 2024.

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

	Long term borrowings (i) 2022 \$'000	Short-term borrowings (i) 2022 \$'000	Derivative assets held to hedge long-term borrowings (Note 16) 2022 \$'000	Long term borrowings 2021 \$'000	Short-term borrowings 2021 \$'000	Derivative assets held to hedge long-term borrowings (Note 16) 2021 \$'000
Balance at 1 July	4,719,945	266,699	(235,618)	4,784,895	-	(294,877)
Proceeds from borrowings	1,211,500	-	-	624,000	-	-
Repayments from borrowings	(836,800)	(191,077)	-	(294,000)	-	-
Cash outlay for hedging restructure	-	-	(65,853)	-	-	(94,883)
	374,700	(191,077)	(65,853)	330,000	-	(94,883)
Non-cash movements						
Reclassification	(375,000)	375,000	-	(289,729)	289,729	-
Foreign exchange movement	3,075	(75,622)	-	(105,221)	(23,030)	-
Fair value changes	-	-	34,621	-	-	154,142
	(371,925)	299,378	34,621	(394,950)	266,699	154,142
Total	4,722,720	375,000	(266,850)	4,719,945	266,699	(235,618)

Note:

(i) The total borrowings balance (long-term and short-term) as at 30 June 2022 is \$5,097,720,000 before fair value adjustments and deferred upfront borrowing costs.

16. Derivative financial instruments

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

Over the past 2 years, the Company has restructured certain elements of its derivative portfolio, aimed at reducing interest payments in the short term. The restructures reset out of the money fixed rate cross currency and interest rate swaps to current market interest rates, retaining the historic credit margin. This involved making upfront payments totalling \$94.8m million to reduce the contracted fixed interest rates to lower current market rates. The current financial year involved a further two interest rate restructure transactions with upfront payments totalling \$65.9 million to further reduce contracted fixed interest rates to lower current market rates. Termination payments were funded by drawing on existing bank lines.

The restructures were completed over four tranches, the effects of which were as follows:

- Tranche 1 & 2 completed in December 2020 and February 2021, resulting in a reduction of interest of \$94 million from December 2020 to March 2022.
- Tranche 3 completed in August 2021, resulting in a reduction of interest of \$22 million to June 2022.
- Tranche 4 completed in February 2022 which is expected to deliver \$39 million over 8 months to October 2022.

16. Derivative financial instruments (continued)

Overall, the Company's interest minimisation strategy reduced interest by \$107 million in FY 2022 (FY 2021: \$36 million)

The restructures triggered a discontinuation of existing hedge relationships resulting in hedge accounting impacts to profit and loss which are further detailed in Note 17(d) under interest rate risk management.

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

	Current 2022 \$'000	Non-current 2022 \$'000	Total 2022 \$'000	Current 2021 \$'000	Non-current 2021 \$'000	Total 2021 \$'000
Assets						
Cross currency swaps	-	274,164	274,164	76,588	300,707	377,295
Interest rate swaps	-	33,044	33,044	116	-	116
	-	307,208	307,208	76,704	300,707	377,411
Liabilities						
Cross currency swaps	-	(38,459)	(38,459)	-	(46,362)	(46,362)
Interest rate swaps	-	(1,900)	(1,900)	(6,948)	(88,483)	(95,431)
	-	(40,359)	(40,359)	(6,948)	(134,845)	(141,793)
Net derivative position assets/(liabilities)	-	266,849	266,849	69,756	165,862	235,618

Accounting policy for derivative financial instruments

The Group 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.

17. Financial risk management

(a) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 15, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings. In addition, the Group has implemented risk management strategies to mitigate against adverse increases to interest rates on future borrowings.

The Group is required to comply with certain financial covenants for its bank debt and various long-term capital markets debt which are tested periodically.

In October 2021, Cashflow Cover Ratio (CCR) compliance waivers were obtained in respect of:

- The Common Terms Deed (\$A2.4 billion) for the 6-month testing period ended 31 December 2021
- Outstanding USPP notes (\$A1.45 billion equivalent) for the 6-month testing period ended 31 December 2021

The Group is obligated to provide a complying compliance certificate for the testing period ended 30 June 2022 and testing periods subsequent to this. Refer to Note 1 – Going Concern, for disclosures in relation to compliance with the CCR covenant for 30 June 2022 and expected compliance subsequent to this.

17. Financial risk management (continued)

As at 30 June 2022, the Group had \$1,778 million of available liquidity in the form of bank facilities and cash and cash equivalents which is sufficient to cover the Group's funding needs for at least the next 12 months.

During the year the Group issued a \$700 million 10-year AMTN domestic bond and extended certain bank facilities, including the \$540 million Syndicated Facility (extended to 31 March 2024) and the \$100 million bilateral (extended to 15 Jan 2024). The Group also established a new 3 year \$50 million bilateral (maturing 26 May 2025).

Management have commenced debt raising activities with the aim of pre-funding bonds maturing in September 2023 for an amount of \$976 million.

(b) Categories of financial instruments

	At amortised cost \$'000	Derivatives designated:		Total \$'000
		as fair value hedge \$'000	as cash flow hedge \$'000	
2022				
Financial Assets				
<i>Current financial assets</i>				
Cash and cash equivalents	53,445	-	-	53,445
Trade and other receivables	80,086	-	-	80,086
<i>Non-current financial assets</i>	-	-	-	-
Non-current cross currency interest rate swaps	-	5,827	275,659	281,486
Non-current interest rate swaps	-	-	33,044	33,044
	<u>133,531</u>	<u>5,827</u>	<u>308,703</u>	<u>448,061</u>
Financial liabilities				
<i>Current financial liabilities</i>				
Trade and other payables	58,545	-	-	58,545
Interest payable	22,239	-	-	22,239
Lease liabilities	1,287	-	-	1,287
Current borrowings	374,873	-	-	374,873
<i>Non-current financial liabilities</i>	-	-	-	-
Non-current borrowings	4,699,502	(14,927)	-	4,684,575
Non-current interest rate swaps	-	-	1,900	1,900
Non-current cross currency interest rate swaps	-	20,550	25,231	45,781
Non-current payables	3,702	-	-	3,702
Non-current lease liabilities	3,127	-	-	3,127
	<u>5,163,275</u>	<u>5,623</u>	<u>27,131</u>	<u>5,196,029</u>

17. Financial risk management (continued)

	At amortised cost \$'000	Derivatives designated: as fair value hedge \$'000	as cash flow hedge \$'000	Total \$'000
2021				
Financial Assets				
<i>Current financial assets</i>				
Cash and cash equivalents	32,186	-	-	32,186
Trade and other receivables	36,964	-	-	36,964
Current - Cross currency interest rate swaps	-	-	76,588	76,588
Current - Interest rate swaps	-	-	116	116
<i>Non-current financial assets</i>	-	-	-	-
Non-current cross currency interest rate swaps	-	36,155	264,552	300,707
	<u>69,150</u>	<u>36,155</u>	<u>341,256</u>	<u>446,561</u>
Financial liabilities				
<i>Current financial liabilities</i>				
Trade and other payables	92,823	-	-	92,823
Interest payable	21,534	-	-	21,534
Lease liabilities	1,287	-	-	1,287
Current borrowings	266,610	-	-	266,610
Current interest rate swaps	-	-	6,948	6,948
<i>Non-current financial liabilities</i>	-	-	-	-
Non-current borrowings	4,693,182	34,896	-	4,728,078
Non-current interest rate swaps	-	-	88,483	88,483
Non-current cross currency interest rate swaps	-	470	45,892	46,362
Non-current payables	4,952	-	-	4,952
Non-current lease liabilities	3,776	-	-	3,776
	<u>5,084,164</u>	<u>35,366</u>	<u>141,323</u>	<u>5,260,853</u>

(c) Financial risk management objectives

The Group'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 Group's treasury activities including funding, liquidity, interest rate, foreign exchange, counterparty credit, operational and compliance risks. Corporate Treasury also provides support to the Group by ensuring financial metrics are maintained at levels that support a strong and stable standalone investment grade corporate credit rating.

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

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

Over the past 2 years, the Group executed interest rate restructure transactions (Note 16). This involved making upfront payments totalling \$94.8m million to reduce the contracted fixed interest rates to lower current market rates.

The current financial year involved a further two interest rate restructure transactions with upfront payments totalling \$65.9 million to further reduce contracted fixed interest rates to lower current market rates.

17. Financial risk management (continued)

The restructure undertaken in the prior year delivered a reduction in interest payments of \$94 million over a 15 month period from December 2020, with termination payments funded by drawing on existing bank lines.

Associated interest expense reductions have been recognised during the year ended 30 June 2022 with the remainder to be incorporated in the results of future reporting periods.

The restructures triggered a discontinuation of existing hedge relationships resulting in a hedge accounting impact to profit and loss (\$6.3 million pre-tax loss), for the year ended 30 June 2022.

Due to the discontinuation of hedge accounting for certain hedge relationships affected by the restructures an amount of \$8.8 million (pre-tax) has been crystallised in the cash flow hedge reserve at the date of restructure, which will be amortised to profit and loss over the remaining life of the underlying hedged items which remain in existence. This amortisation will be offset by the unwind of the non-zero fair values of derivatives re-designated in hedge relationships (\$32.1 million pre-tax) over the same period and the continued unwind of the August 2021 restructure of \$26.1 million. The impact on the Hedge Reserve is set out in Note 21.

(e) Interest rate sensitivity

The sensitivity analyses below have been determined based on the Group's 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 Group's:

- Net profit would increase/ decrease by \$1,449,000 (2021: increase/ decrease \$3,864,000) as a result of the Group's exposure to variable interest rates on certain borrowings.
- Other equity reserves would increase/ decrease by \$37,679,000 (2021: increase/ decrease \$67,803,000) mainly as a result of changes in fair value through other comprehensive income for fixed rate derivative instruments.

(f) Cross currency sensitivity

Cross currency exposures for the Group are predominantly arising from foreign denominated interest bearing liabilities. The Group's policy is to hedge 100% of cross currency risk for both capital and interest for the life of the exposure. In both the current and prior year, these cross currency exposures were 100% hedged through cross currency swaps until maturity resulting in no other material cross currency risk exposure.

(g) Interest rate derivative contracts

Under interest rate derivative contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group 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	
	2022 %	2021 %	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Less than 1 year	-	3.5%	-	59,000	-	(6,832)
1 to 2 years	3.4%	-	729,000	-	3,386	-
2 to 5 years	2.1%	3.1%	346,000	729,000	14,677	(33,833)
5 years +	2.6%	2.6%	313,000	600,000	13,081	(54,650)
			<u>1,388,000</u>	<u>1,388,000</u>	<u>31,144</u>	<u>(95,315)</u>

The fair value of these contracts as at 30 June 2022 is disclosed in Note 16.

17. Financial risk management (continued)

(h) Foreign currency risk management

As the Group has certain borrowings denominated in foreign currencies, it is exposed to exchange rate fluctuations. These exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

(i) Foreign currency exchange contracts

The Group enters cross currency interest rate swaps to manage its foreign currency risk on foreign denominated borrowings. 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 2022						
USD (610m)	6.10%	0.8894	382,153	303,688	184,780	(3,128)
EUR (900m)	4.40%	0.6977	1,289,974	-	76,151	-
NOK (1,500m)	4.20%	6.1730	-	242,994	-	(22,097)
			<u>1,672,127</u>	<u>546,682</u>	<u>260,931</u>	<u>(25,225)</u>

	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>

17. Financial risk management (continued)

(j) Liquidity risk

The following table details the Group's exposure to liquidity risk as at 30 June 2022. All domestic bonds, US private placements and European bonds listed are fixed rate notes unless otherwise stated.

2022	Weighted average effective interest rate (i)	1 to 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial assets						
Cash and cash equivalents		53,445	-	-	-	53,445
Trade and other receivables		80,086	-	-	-	80,086
Interest rate swaps		1,071	(5,857)	(28,452)	(3,152)	(36,390)
Cross currency interest rate swaps (ii)						
- Outflow		11,433	63,195	1,807,755	189,353	2,071,736
- Inflow		(39,585)	(27,852)	(2,066,722)	(189,691)	(2,323,850)
		<u>106,450</u>	<u>29,486</u>	<u>(287,419)</u>	<u>(3,490)</u>	<u>(154,973)</u>
Financial liabilities						
Trade and other payables		58,545	-	-	-	58,545
Interest payable		22,239	-	-	-	22,239
Lease liability		322	966	5,150	6,437	12,875
Non-current payables		-	-	3,702	-	3,702
		<u>81,106</u>	<u>966</u>	<u>8,852</u>	<u>6,437</u>	<u>97,361</u>
Borrowings:						
Term bank debt	3.18%	5,371	24,549	447,059	335,097	812,076
Bank facilities	2.77%	269	2,949	104,669	-	107,887
AMTN	3.80%	262,427	29,395	465,425	818,715	1,575,962
USPP	4.14%	15,046	168,629	748,261	1,055,712	1,987,648
EMTN	4.72%	31,938	9,347	1,434,152	243,234	1,718,671
		<u>315,051</u>	<u>234,869</u>	<u>3,199,566</u>	<u>2,452,758</u>	<u>6,202,244</u>
Cross currency interest rate swaps (ii)						
- Outflow		6,152	10,814	74,217	470,597	561,780
- Inflow		(5,928)	(4,779)	(42,881)	(417,405)	(470,993)
Interest rate swaps (ii)		606	(2,764)	5,988	-	3,830
		<u>830</u>	<u>3,271</u>	<u>37,324</u>	<u>53,192</u>	<u>94,617</u>
		<u>396,987</u>	<u>239,106</u>	<u>3,245,742</u>	<u>2,512,387</u>	<u>6,394,222</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 2022, the Group has available liquidity of \$1,778 million comprising undrawn facilities of \$1,725 million and cash of \$53 million, which provides sufficient liquidity to cover all financial liabilities due in the next 12 months.

17. Financial risk management (continued)

2021	Weighted average effective interest rate (i)	1 to 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial assets						
Cash and cash equivalents		32,186	-	-	-	32,186
Trade and other receivables		36,964	-	-	-	36,964
Income tax receivable		-	-	-	-	-
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)
		(41,928)	3,072	(200,746)	(67,363)	(306,965)
	Weighted average effective interest rate (i)	1 to 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial liabilities						
Trade and other payables		92,823	-	-	-	92,823
Interest payable		21,534	-	-	-	21,534
Lease liability		322	966	5,150	7,725	14,163
Non-current payables		-	-	4,952	-	4,952
		114,679	966	10,102	7,725	133,472
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
		328,236	83,416	3,430,547	2,126,764	5,968,963
Cross currency interest rate swaps (ii)						
- Outflow		5,683	11,964	76,452	666,988	761,087
- 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
		1,088	6,777	100,334	69,034	177,233
		444,003	91,159	3,540,983	2,203,523	6,279,668

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 Group. Significant classes of financial assets of the Group 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 Group's maximum exposure to credit risk without taking account of the value of any collateral or other security. As the Group does not have enforceable offsetting arrangements for its financial instruments, gross amounts have been recognised in the Statement of Financial Position.

17. Financial risk management (continued)

For derivative financial instruments, treasury counterparties may include banks and other financial institutions with which the Group may engage for banking, lending, derivatives and other treasury activities. The Group 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 Group measures credit risk on a fair value basis.

For trade receivables, the Group 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 Group 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. Refer to Note 8 for details on Expected Credit Losses.

(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 the financial statements.

All of the Group's financial instruments measured, recognised and disclosed at fair value were valued using market observable inputs (Level 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 2022	Carrying Amount 2021	Fair Value 2022	Fair Value 2021
Consolidated				
Bank Facilities	(780,800)	(1,106,100)	(788,364)	(1,105,948)
AMTN	(1,270,000)	(570,000)	(1,176,306)	(607,639)
USPP A\$	(575,000)	(575,000)	(428,472)	(598,551)
USPP	(872,583)	(1,087,512)	(877,037)	(1,130,987)
EMTN - EUR	(1,364,870)	(1,450,469)	(1,362,163)	(1,447,513)
EMTN - NOK	(219,540)	(232,459)	(217,362)	(223,297)
Deferred upfront borrowing costs	23,345	26,852	-	-
	<u>(5,059,448)</u>	<u>(4,994,688)</u>	<u>(4,849,704)</u>	<u>(5,113,935)</u>

(m) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group 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 Group'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 Group's major exposure to interest rate risk and foreign currency risk arises from its borrowings.

17. Financial risk management (continued)

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

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

Interest rate swap and option contracts: the Group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group 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.

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

The Group enters into the above derivative instruments to offset the risks arising from its long-term borrowings. To the extent permitted by AASB 9, the Group 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 Group 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.

17. Financial risk management (continued)

(p) Fair value hedges

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

The Group 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 Group'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 Groups 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.

	2022 \$'000	2021 \$'000
Fixed rate instruments		
Face value	936,773	936,773
Foreign exchange adjustments	50,492	72,827
Cumulative fair value hedge adjustments	(14,927)	34,896
Carrying amount	<u>972,338</u>	<u>1,044,496</u>

(q) Cash flow hedges

The objective of the Group'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.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

Hedge Accounting Relationship	Fair Value Hedge		Cash Flow Hedge				
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 105,000,000	EUR 550,000,000	USD 610,000,000	EUR 900,000,000	NOK 1,500,000,000	AUD 1,388,000,000	
Hedge Ratio	1:1	1:1	1:1	1:1	1:1	1:1	Total
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 2022							
Carrying amount of hedging instruments							
Assets - Current	-	-	-	-	-	-	-
Assets - Non-current	-	5,827	198,168	77,492	-	33,044	314,530
Liabilities - Current	-	-	-	-	-	-	-
Liabilities - Non-current	(13,916)	(6,634)	(2,600)	(534)	(22,097)	(1,900)	(47,681)
Total	(13,916)	(807)	195,568	76,958	(22,097)	31,144	266,849
Cumulative fair value adjustment on hedged item*	13,993	934	-	-	-	-	14,928
Carrying amount of the hedged item recognised in the statement of financial position	(137,587)	(832,009)	-	-	-	-	(969,596)
Balance in cash flow hedge reserve for continuing hedges	-	-	986	(3,267)	(1,356)	(54,685)	(58,322)
Balance in cash flow hedge reserve from discontinued hedges	-	-	32,113	1,218	-	76,092	109,423
During the Year							
Change in fair value of hedging instrument							
used for calculating hedge effectiveness	(21,462)	(28,948)	45,473	31,037	(58,797)	48,656	15,960
due to cash payment on restructure of hedges	-	-	10,492	7,053	-	17,705	35,250
Change in fair value of hedged item							
used for calculating hedge effectiveness	21,376	28,448	(65,240)	(45,363)	62,365	(72,583)	(70,998)
Change in cash flow hedge reserve							
for continuing hedge relationships	-	-	4,512	(14,180)	(27,522)	(62,702)	(99,892)
for discontinued hedge relationships	-	-	7,835	(18,440)	-	(38,039)	(48,644)
Change in profit or loss							
Ineffectiveness recognised in profit and loss	86	500	288	7,944	-	(1,322)	7,496
Unwind of inception fair value	-	-	834	4,285	-	(19,179)	(14,061)
Reclassified from CFHR to profit and loss on continued hedge relationships	-	-	(2,477)	(57,150)	(12,919)	-	(72,546)
Reclassified from CFHR to profit and loss on discontinued hedge relationships	-	-	9,276	21,718	-	12,063	43,056
Restructure impacts on profit and loss	-	-	(3,319)	(3,413)	-	425	(6,307)

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

17. Financial risk management (continued)

Hedge Accounting Relationship	Fair Value Hedge		Cash Flow Hedge				
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	Total
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							
<i>Carrying amount of hedging instruments</i>							
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)	(17,207)	(491)	(36,700)	(95,432)	(150,300)
Total	7,546	28,141	206,979	124,968	(36,700)	(95,316)	235,618
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							
<i>Change in fair value of hedging instrument</i>							
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
<i>Change in fair value of hedged item</i>							
used for calculating hedge effectiveness	14,610	15,063	269,255	37,611	(1,858)	(121,073)	213,608
<i>Change in cash flow hedge reserve</i>							
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
<i>Change in profit or loss</i>							
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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2022

18. Lease liabilities

	2022 \$'000	2021 \$'000
Lease liabilities		
Current	1,287	1,287
Non-current	3,127	3,776
	<u>4,414</u>	<u>5,063</u>

The maturity profile of the Group's lease liabilities based on contractual undiscounted payments is set out in Note 17(j).

19. 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:

	2022 \$'000	2021 \$'000
Within one year	107,278	105,632
Later than one year but not later than 5 years	450,992	414,252
Later than 5 years	1,103,459	1,101,409
	<u>1,661,729</u>	<u>1,621,293</u>

20. Issued capital

	2022 \$'000	2021 \$'000
118,100,000 Ordinary Shares - fully paid (30 June 2021: 118,100,000)	118,100	118,100

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

21. Hedging reserves

	2022 \$'000	2021 \$'000
Consolidated		
Opening balance	139,795	157,677
(Gain) / loss recognised on derivative financial instruments (unrealised)	(177,493)	136,652
(Gain) / loss recognised on derivative financial instruments (realised)	28,155	25,029
(Gain) / loss on foreign exchange remeasurement transferred to profit and loss	72,546	(128,252)
(Gain) / loss on hedge ineffectiveness transferred to profit and loss	(6,910)	(1,628)
(Gain) / loss on unwind of discontinued hedge relationships transferred to profit and loss	(43,056)	(23,756)
(Gain) / loss on restructure impacts transferred to profit and loss	6,307	(8,562)
(Gain) / loss on cash flow hedges transferred to profit and loss	(28,155)	(25,029)
Income tax related to amounts above	44,582	7,664
	<u>35,771</u>	<u>139,795</u>
Closing balance	35,771	139,795

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.

22. Capital expenditure commitments

	2022 \$'000	2021 \$'000
Capital expenditure commitments		
No longer than 1 year	182,278	145,829
Longer than 1 year but no longer than 5 years	140,477	140,887
Total Property, plant and equipment commitments	<u>322,755</u>	<u>286,716</u>

23. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2022 %	2021 %
Parent entity			
Australia Pacific Airports Corporation Limited	Australia	-	-
Subsidiaries			
APAC (Holdings No.2) Pty. Limited	Australia	100%	100%
Australia Pacific Airports (Melbourne) Pty. Limited	Australia	100%	100%
Australia Pacific Airports (Property) Pty. Limited (i) (ii)	Australia	100%	100%
APAC (Holdings) Pty. Limited (i)	Australia	100%	100%
Australia Pacific Airports (Launceston) Pty. Limited (i)	Australia	100%	100%

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

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

24. Related party transactions

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 23 to the financial statements.

(b) Key management personnel compensation

The aggregate compensation of the key management personnel of the Group is set out below.

	2022 \$	2021 \$
Current		
Short-term employee benefits	4,560,777	3,671,842
Long-term incentives	438,836	571,660
Resignations	-	405,032
	<u>4,999,613</u>	<u>4,648,534</u>
Exiting		
Short-term employee benefits	2,876,982	1,052,030
Long-term incentives	495,985	686,978
Resignations	631,500	-
	<u>4,004,467</u>	<u>1,739,008</u>
	<u>9,004,080</u>	<u>6,387,542</u>

24. Related party transactions (continued)

Lyell Strambi retired from his role as Chief Executive Officer, effective 30 June 2022. Remuneration paid to Mr. Strambi has been presented as part of the exiting remuneration to enhance the comparability of the aggregate remuneration paid to other key management personnel within the group in the current and prior year.

(c) Transactions within the wholly-owned group

Australia Pacific Airports Corporation Limited (APAC) is the ultimate parent entity of the wholly owned group, and the parent entity of the tax consolidated group.

In accordance with tax sharing arrangements (refer to Note 7) 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.

(d) Transactions with Shareholders

IFM Investors Pty Ltd being shareholders are considered related parties of the Group.

During FY22, IFM Investors Pty Ltd provided resourcing for the Melbourne Airport Rail project. At 30 June 2022, an amount of \$239,900 was accrued to reflect the services provided during the year.

25. Notes to the Statement of Cash Flows

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.

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

	2022 \$'000	2021 \$'000
Profit/(loss) after income tax (expense)/benefit for the year	(20,453)	63,555
Adjustments for:		
Impairment of property, plant and equipment	1,487	-
Amortisation of deferred borrowing costs	7,244	6,784
Hedge reserve unwind	60,116	21,372
Depreciation and amortisation of non-current assets	265,623	274,482
Gain on sale of non-current assets	(106)	-
Gain on investment property	(119,276)	(387,977)
Movement in income tax expenses	-	40,912
Movement in deferred taxes	(10,705)	30,978
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(41,911)	885
(Increase)/decrease in other current assets	(1,411)	(716)
(Increase)/decrease in other non-current assets	2,210	613
(Increase)/decrease in accrued revenue	167	(40,380)
Increase/(decrease) in trade payables	(26,108)	19,101
Increase/(decrease) in interest payables	705	(17,007)
Increase/(decrease) in employee provisions	7,466	2,781
Increase/(decrease) in unearned income	16,072	(2,360)
Net cash from operating activities	<u>141,120</u>	<u>13,023</u>

26. Remuneration of auditors

	2022 \$	2021 \$
Audit or review of the Group financial report and subsidiary financial reports	421,000	318,050
Other assurance services and agreed-upon procedures under other legislation or contractual arrangements	129,000	82,950
	<u>550,000</u>	<u>401,000</u>

The auditor of Australia Pacific Airports Corporation Limited is Deloitte Touche Tohmatsu.

27. Dividends

Franking account	7,343	7,343
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28. Company disclosures

The financial information below relates to APAC as a standalone entity:

	2022 \$'000	2021 \$'000
(a) Financial position:		
Assets:		
Current assets	19,289	19,289
Non-current assets	128,032	128,032
Total assets	147,321	147,321
Liabilities:		
Current liabilities	(14)	(14)
Non-current liabilities	-	-
Total liabilities	(14)	(14)
Net assets	147,307	147,307
Equity:		
Issued capital	118,100	118,100
Retained earnings	29,207	29,207
	147,307	147,307
(b) Financial performance		
Other comprehensive income	-	-
Total other comprehensive income	-	-

29. Contingent liabilities

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

30. Events after the reporting period

On 29 June 2022, the Board approved the Group's funding and interest rate management strategy. The interest rate management strategy aims to increase the level of interest cost certainty given the rising interest rates environment. The Group executed \$400m of interest rate hedging in early July 2022, which gives the Group protection against rising interest rates within a protected range for 4 years from September 2023.

The Group executed \$380m term loan with existing Asian term loan investors (\$139m at 5 year tenor, \$241m at 7 year tenor), with financial close on 19 August 2022.

Other than stated, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

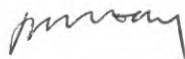
Australia Pacific Airports Corporation Limited
Directors' declaration
30 June 2022

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 consolidated entity;
- (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 Group 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 P. Hay
Chairman

31 August 2022
Melbourne

Independent Auditor's Report to the Members of Australia Pacific Airports Corporation Limited

Opinion

We have audited the financial report of Australia Pacific Airports Corporation Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- 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 Group 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 2022, 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 ability of the Group 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 Group or to cease operations, or has 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 Group'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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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, 31 August 2022