

Australia Pacific Airports Corporation Limited

ACN 069 775 266

Half Year Report - 31 December 2022

Australia Pacific Airports Corporation Limited
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31 December 2022

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General information

This half year report reflects Australia Pacific Airports Corporation Limited and its subsidiaries as a consolidated group. The financial statements contained within this half year report are presented in Australian dollars, which is Australia Pacific Airports Corporation Limited's functional and presentation currency.

Australia Pacific Airports Corporation Limited 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 1 March 2023.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2022

The Directors of Australia Pacific Airports Corporation Limited (the Company) and its controlled entities (the Group or APAC) present their report for the period ended 31 December 2022.

Directors

The following persons were directors of the Group during the whole of the financial period and up to the date of this report, unless otherwise stated:

Name	Position	Period of directorship
Peter Hay	Chairman	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
Samantha Lewis	Director	Appointed 24 October 2022

Principal activities

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

Dividends

No dividend has been declared for the half year ended 31 December 2022. No dividend was declared in respect of the year end 30 June 2022.

Review of operations

HY23 has seen the Group return to profit for the first six months delivering a profit after tax of \$61.9m. The result has been driven by recovery of passenger volumes with 15.7 million passengers travelling through Melbourne and Launceston Airport. An uplift of 13.3 million passengers from HY22 as domestic and international travel restrictions lifted.

At 31 December 2022, domestic capacity is 85% and international 73% of pre-COVID levels with 11 international carriers and one domestic airline (Virgin) reaching pre-COVID capacity.

International capacity continues to trend upwards with a strong passenger loads through the summer holiday period. The announcement of the removal of travel restrictions with China in January 2023 will further improve international capacity in the second half of the year. The first inbound flights from China commenced in mid-January 2023, with strong return of capacity.

Passenger recovery is being supported by strong business development and partnership with the Victorian Government, working with existing and new airline partners to increase route offerings.

International services saw new airlines in Air Asia X, Thai Air Asia X and VietJet choose Melbourne, with Thai Airlines and Garuda Airlines also returning to Melbourne Airport, increasing the reach into South East Asia. Melbourne Airport also welcomed back United Airlines with daily flights to San Francisco and Los Angeles. Qantas commenced three-a-week flights to Dallas/Fort Worth with this hub offering over 200 connections across North America.

New domestic low-cost airline Bonza was granted its operating licence in late January, commencing operations from their Sunshine Coast hub in late February with operations from Melbourne expected to commence in the last quarter of FY23.

Lorie Argus commenced as APAC's CEO on 1 July 2022.

The Group's focus is its strategy to Grow, Delight and Inspire with key highlights for the half year ended 31 December 2022:

- The Group finalised agreements with all key aviation partners on Aeronautical Service Agreements for the next three years, securing APAC's key revenue streams.
- In November, APAM's Master Development Plan was approved by the Federal Minister for Infrastructure, creating a clear pathway for the airport's long-term strategy. This is a vital step in securing Melbourne Airports future and an enabler for approval of the third runway.
- Finalisation of the duty-free tender saw 11 potential providers considered with Lotte Duty Free being awarded the contract. Planned transition will occur in the coming months with a 1 June 2023 launch date.
- Retail strategy has seen the continuing redevelopment and refresh of stores across terminals with 23 new retail stores opened in the period.
- Ground transport continues to see strong performance in car parking and car rental indicating a customer preference to 'private' vehicles versus public transport options. Additional value car parking was opened in December 2022 to satisfy peak demand over the holiday period.
- Property continued their focus on the delivery of key projects with Honda, Speculative Warehouse and Seqirus/CSL infrastructure set to be delivered by 30 June 2023.
- APAM partnered with Foodbank, Victoria's largest food relief organisation, to provide resourcing over the next two years as part of the Group's Social Impact Days employee value proposition.
- Capital projects have continued in the period with key projects in delivery:
 - T3/T4 Link opened in August 2022, providing complete connectivity across all terminals, consolidating security screening and improving traveller experience.
 - The amenities program continued its staged rollout ensuring uniformity of facilities across the terminal precinct.
 - Terminal 1 retail development continues. Three stores opened in December 2022, with a further 25 to open before the end of the financial year.
 - Elevated road stage 1 construction continued with a one-way elevated road providing direct connection from the Tullamarine Freeway to the T4 Transport Hub, reducing congestion during peak periods. The project is expected to open in June 2023.
 - The three-year Northern Infill Security Enhancement (NISE) project commenced, with works on stage one for security and next generation baggage equipment. Once completed this project also has the capability to deliver an improved baggage model and incremental capacity in this area.
 - Airfield maintenance programs have seen further investment in pavement infrastructure including a one in ten-year replacement of pavement on runway 16/34, requiring complex overnight closures through the course of the 11 month program of work.
 - APAL commenced construction on the \$11m Terminal Expansion and Security Enhancement Project, which is APAL's biggest infrastructure expansion in six years and is due for delivery in mid-FY24.
 - APAM continues to work with Rail Projects Victoria on the airport rail link. APAM has advocated strongly for scope to optimise the passenger experience and deliver an outcome appropriate for Victoria's international aviation gateway.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2022

The Group's financial performance continues to improve reporting an Operating Profit of \$331.1m (HY22: 59.4m).

APAC's balance sheet remains strong with \$1,927.1 million of liquidity at balance date including undrawn bank facilities of \$1,740.2 million and cash of \$165.1 million. The Group continued to access funding markets executing \$800 million term loan with existing and new term loan investors. \$665 million has been drawn down in the current period with a further \$135 million drawn in January 2023. The Group continues to be compliant with financial covenants for the period ended 31 December 2022.

Included in Note 3 of the financial report are details of a prior period restatement associated with straight line accounting for certain long-term ground lease contracts. The prior period error was identified on transition to a system-based lease accounting platform as part of the Group's finance transformation project (Project Catalyst), resulting in:

- a \$21.5m increase in opening retained earnings as at 1 July 2021;
- a \$0.02m reduction in net loss for the period ended 31 December 2021; and
- an \$31.1m increase in accrued revenue and \$9.2m increase in deferred tax liabilities as at 30 June 2022.

Financial results:

The Group's continuing financial recovery is underpinned by strong passenger numbers with revenue increasing by \$332.9 million to \$504.0 million in HY23 delivering an operating profit of \$331.1million.

Improving passenger numbers have positively impacted aeronautical, retail and ground transport revenues.

Aeronautical revenue increased \$166.4 million to \$209.0 million from improved passenger levels complimented by annual price increases.

Ground Transport revenue increased to \$113.4 million with car parking revenue and car rental driving the increase as mode share continues to favour 'private' transport options.

Retail revenue improved to \$57.8 million aligned with passenger recovery, reopening of stores and associated retail spend.

Property delivered \$60.2 million in revenue, remaining stable for the period.

Interest income has increased \$2.5 million due to cash on deposit increasing to \$100 million.

Underlying costs excluding security passthrough, software as a service cost and the benefit arising from a reduction in the Group's expected credit loss provision were \$127.5m, 39.3% higher than HY22, driven by increases in cleaning and operations cost aligned to the recovery of passenger volumes and maintenance required to return critical assets from hibernation.

Depreciation and amortisation have reduced as software assets unwind and APAM Masterplan 2018 is fully amortised, with finance costs increased by \$39.9 million for HY23 as a result of increasing interest rates and additional debt offset by \$15.4 million of final hedge overlay savings.

The Group generated a statutory profit before tax of \$89.3m (HY22 loss \$157.6m)

Underlying Operating Profit for the period

Summarised below is a reconciliation between Operating Profit (as disclosed in the Statement of Profit or Loss and Other Comprehensive Income) and underlying Operating Profit (which is a non IFRS measure of profit before interest, income tax, depreciation and amortisation excluding 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 2).

	31 December 2022	31 December 2021 Restated
	\$'000	\$'000
Operating profit	331,142	59,417
Software as a Service expense (Note 2)	9,790	8,750
Underlying operating profit for the period (unaudited)	<u>340,932</u>	<u>68,167</u>

Significant changes in the state of affairs

The Group's continuing recovery from COVID-19 and its impact on the state of affairs of the Group has been outlined in the review of operations. Other than those impacts noted, there were no significant changes in the state of affairs of the Group during the period.

Events occurring after balance sheet date

No matter or circumstance has arisen since 31 December 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.

Future developments

The Group's future developments and operations are included within the Master Plans of Melbourne Airport (2022) and Launceston Airport (2020). The documents, published every five years, 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 approval of APAM's 2022 Master Plan was obtained in November 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 impact of COVID-19 on the Group's future plans was considered and disclosed in the Group's financial report at 30 June 2022, with further consideration discussed above in the review of operations.

Rounding

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission (ASIC), 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.

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

On behalf of the directors



Mr P. Hay
Chairman

1 March 2023
Melbourne

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

Report on the Half-Year Financial Report

We have reviewed the half-year 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 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of the Group is not in accordance with the recognition and measurement requirements of AASB 134 *Interim Financial Reporting*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report.

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* including Independence Standards that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to Note 1 to the half-year financial report, which describes the basis of accounting. The half-year financial report has been prepared by the directors to meet the financial reporting requirements of the Company. As a result, the half-year financial report may not be suitable for another purpose. Our report is intended solely for the directors and should not be distributed to or used by parties other than the directors.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the recognition and measurement requirements of AASB 134 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report does not present fairly the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date and in accordance with the recognition and measurement requirements of AASB 134 *Interim Financial Reporting*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Travis Simkin
Partner
Chartered Accountants
Melbourne, 1 March 2023

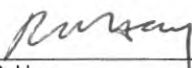
Australia Pacific Airports Corporation Limited
Directors' declaration
31 December 2022

In the directors' opinion:

- the attached financial statements and notes comply with Australian Accounting Standard AASB 134 'Interim Financial Reporting', and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial period ended on that date; and
- 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

1 March 2023
Melbourne

Australia Pacific Airports Corporation Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2022

	Note	31 December 2022 \$'000	31 December 2021 Restated \$'000
Revenue			
Aeronautical		209,038	42,656
Security	5	35,704	20,745
Retail		57,781	6,031
Ground Transport		113,407	24,738
Property		60,232	59,343
Outgoings/ recharges		22,169	16,169
Interest		2,498	5
Other income		3,131	1,374
Profit on sale of fixed assets		23	39
Total revenue		<u>503,983</u>	<u>171,100</u>
Expenses			
Staff costs		(37,565)	(29,441)
Security	5	(34,754)	(19,083)
Service and utilities		(52,996)	(38,037)
Maintenance costs		(13,891)	(8,281)
Administration and marketing costs		(8,772)	(3,376)
Other costs		(14,236)	(4,258)
Software as a Service expense	2	(11,294)	(9,178)
Allowances for expected credit losses reversal/ (expense)		667	(29)
Total expenses		<u>(172,841)</u>	<u>(111,683)</u>
Operating profit		331,142	59,417
Depreciation, amortisation and impairment	4	(119,423)	(134,527)
Finance costs	4	<u>(122,437)</u>	<u>(82,489)</u>
Profit/(loss) before income tax (expense)/ benefit		89,282	(157,599)
Income tax (expense)/ benefit	6	<u>(27,419)</u>	<u>47,973</u>
Profit/(loss) after income tax (expense)/ benefit for the period		61,863	(109,626)
Other Comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax	16	<u>(10,027)</u>	<u>28,886</u>
Other Comprehensive income/(loss) for the period, net of tax		<u>(10,027)</u>	<u>28,886</u>
Total Comprehensive income/(loss) for the period		<u>51,836</u>	<u>(80,740)</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 31 December 2022

		31 December 2022	30 June 2022
	Note	\$'000	Restated \$'000
Assets			
Current assets			
Cash and cash equivalents		165,121	53,445
Trade and other receivables	7	64,192	80,085
Derivative financial instruments	15	169,781	-
Accrued revenue	8	71,156	25,790
Other assets	9	9,459	13,309
Total current assets		<u>479,709</u>	<u>172,629</u>
Non-current assets			
Property, plant and equipment	10	3,494,349	3,444,310
Investment properties	11	2,226,270	2,199,574
Intangible assets	12	673,847	677,001
Derivative financial instruments	15	158,606	307,208
Accrued revenue	8	164,968	169,141
Other assets	9	1,756	2,057
Total non-current assets		<u>6,719,796</u>	<u>6,799,291</u>
Total assets		<u>7,199,505</u>	<u>6,971,920</u>
Liabilities			
Current liabilities			
Payables	13	123,624	81,995
Borrowings	14	1,185,814	374,873
Income tax payable		106	-
Employee benefit provisions		19,759	22,633
Derivative financial instruments	15	2,092	-
Lease liabilities		1,287	1,287
Unearned income		9,196	19,809
Total current liabilities		<u>1,341,878</u>	<u>500,597</u>
Non-current liabilities			
Payables	13	3,702	3,702
Borrowings	14	3,992,751	4,684,575
Deferred tax liability	6	632,402	609,280
Employee benefit provisions		1,827	1,811
Derivative financial instruments	15	44,231	40,359
Lease liabilities		2,787	3,127
Unearned income		4,778	5,156
Total non-current liabilities		<u>4,682,478</u>	<u>5,348,010</u>
Total liabilities		<u>6,024,356</u>	<u>5,848,607</u>
Net assets		<u>1,175,149</u>	<u>1,123,313</u>
Equity			
Issued capital		118,100	118,100
Hedging reserves	16	(45,798)	(35,771)
Retained profits		1,102,847	1,040,984
Total equity		<u>1,175,149</u>	<u>1,123,313</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 period ended 31 December 2022

	Issued capital \$'000	Hedging Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	118,100	(139,795)	1,039,614	1,017,919
Adjustment for correction of error (Note 3)	-	-	21,541	21,541
Balance as at 1 July 2021 - restated	118,100	(139,795)	1,061,155	1,039,460
Loss after income tax benefit for the period	-	-	(109,626)	(109,626)
Other Comprehensive income for the period, net of tax	-	28,886	-	28,886
Total Comprehensive income/(loss) for the period	-	28,886	(109,626)	(80,740)
Balance at 31 December 2021	118,100	(110,909)	951,529	958,720
	Issued capital \$'000	Hedging Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2022	118,100	(35,771)	1,040,984	1,123,313
Profit after income tax expense for the period	-	-	61,863	61,863
Other Comprehensive loss for the period, net of tax	-	(10,027)	-	(10,027)
Total Comprehensive income/(loss) for the period	-	(10,027)	61,863	51,836
Balance at 31 December 2022	118,100	(45,798)	1,102,847	1,175,149

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 period ended 31 December 2022

	Note	31 December 2022 \$'000	31 December 2021 \$'000
Cash flows from operating activities			
Receipts from customers		515,121	191,428
Payments to suppliers and employees		(193,805)	(128,982)
Payments for software as a service		(12,507)	(9,872)
Interest received		2,498	5
Interest paid		(86,426)	(58,360)
Income tax received		106	-
Net cash from/(used in) operating activities	19	224,987	(5,781)
Cash flows from investing activities			
Payments for investment properties	11	(26,696)	(11,005)
Payments for property, plant and equipment		(150,291)	(69,537)
Payments for intangible assets		-	(26)
Proceeds from sale of property, plant and equipment		26	-
Proceeds from disposal of property, plant and equipment		-	39
Net cash used in investing activities		(176,961)	(80,529)
Cash flows from financing activities			
Proceeds from borrowings		690,000	1,111,000
Repayment of borrowings		(616,000)	(983,877)
Cash outlay for hedging restructure		-	(26,139)
Repayment of lease liabilities		(340)	(271)
Payment for debt issue costs		(10,010)	(2,420)
Net cash from financing activities		63,650	98,293
Net increase in cash and cash equivalents		111,676	11,983
Cash and cash equivalents at the beginning of the financial period		53,445	32,186
Cash and cash equivalents at the end of the financial period		165,121	44,169

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

1. Significant accounting policies

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

The half year financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report of Australia Pacific Airports Corporation Limited for the year ended 30 June 2022.

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2022 annual financial report for the financial year ended 30 June 2022.

Prior period restatement

Included in Note 3 of the financial report are details of a prior period error associated with straight line accounting for certain long term ground lease contracts, which has been corrected retrospectively via a prior period restatement. The prior period error was identified on transition to a system-based lease accounting platform as part of the Group's finance transformation project (Project Catalyst), resulting in:

- a \$21.5m increase in opening retained earnings as at 1 July 2021;
- a \$0.01m reduction in net loss for the period ended 31 December 2021; and
- a \$31.1m increase in accrued revenue and \$9.4m increase in deferred tax liabilities as at 30 June 2022.

Rounding

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

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 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.

The Group was in a net current liability position of \$862.2 million at 31 December 2022 (30 June 2022: net current liabilities \$327.9 million), however this deficit was comfortably covered by available liquidity as at 31 December 2022 in the form of cash and cash equivalent of \$165.1 million and undrawn bank facilities of \$1,740.2 million (30 June 2022: \$1,778 million).

During the period the Group executed \$800 million in term loans with existing and new term loan investors (\$292 million at 5-years tenor, \$508 million at 7-year tenor), \$665 million drawn during the period with a further \$135 million drawn down in January 2023.

The funds were used to settle facilities maturing in the period with the remainder to commence pre-funding of \$976 million of bonds maturing in September 2023.

The Group achieved compliance with its financial covenants in respect of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for the 31 December 2022 testing period. Strong passenger performance, together with the impact of interest minimisation, assisted the Group in achieving a CCR ratio of 3.27 times for the 6-month period ended 31 December 2022, exceeding the 1.2 times requirement.

Detailed cash flow projections have been prepared by management covering a period of 12 months from the date of approval for these financial statements, this considers forecast revenue, operating cash flows including operating and capital expenditure, interest minimisation program and the Group's liquidity position.

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 30 June 2023 and 31 December 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 retain its investment grade credit rating.

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 prepared on a going concern basis.

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. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group are:

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments. Effective date: 1 January 2022. The changes in the standard had no impact on the financials report of the Group for the reporting period.

2. Significant income and expense items

Included in the financial statements is a significant expense item that qualify for adjustment as part of the Group's reporting on covenant compliance to its lenders.

	31 December 2022 \$'000	31 December 2021 \$'000
Expenses		
Software as a Service expense (i)	9,790	8,750

(i) Software as a Service (SaaS)

The Group revised its accounting policy in relation to SaaS arrangements in line with IFRIC guidance in 2021. All expenditure in both the financial periods in relation to SaaS arrangements has been assessed under the new guidance and expensed or capitalised as appropriate. \$11.3m million (31 December 2021: \$9.2 million) of SaaS related costs have been recognised as an expense for the current period, of which the \$9.8 million above is a subset (31 December 2021: \$8.8 million) of SaaS primarily related to the Catalyst project.

3. Prior period restatement

The Group identified a prior period error associated with straight line accounting for certain long term ground lease contracts, which has been corrected retrospectively via a prior period restatement. The prior period error was identified on transition to a system-based lease accounting platform as part of the Group's finance transformation project (Project Catalyst), resulting in:

- a \$21.5m increase in opening retained earnings as at 1 July 2021;
- a \$0.01m reduction net loss for the period ended 31 December 2021; and
- a \$31.1m increase in accrued revenue and \$9.4m increase in deferred tax liabilities as at 30 June 2022

The comparative information in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position has been restated to retrospectively account for the impact of the prior period error as summarised below. There is no cash impact arising from the prior period error.

	31 December 2021 Reported \$'000	Adjustment \$'000	31 December 2021 Restated \$'000
<i>Extract of key line items affected by the prior period restatement:</i>			
Statement of profit or loss and other comprehensive income			
Property revenue	59,326	17	59,343
Profit/ (loss) before income tax	(157,616)	17	(157,599)
Income tax benefit	47,978	(5)	47,973
Net impact on profit for the period	(109,638)	12	(109,626)
	30 June 2022 Reported \$'000	Adjustment \$'000	30 June 2022 Restated \$'000
<i>Extract of key line items affected by the prior period restatement:</i>			
Statement of financial position			
Current assets			
Accrued revenue	24,852	938	25,790
Non-current assets			
Accrued revenue	138,902	30,239	169,141
Non-current liabilities			
Deferred tax liability	(599,927)	(9,353)	(609,280)
Net assets	1,101,490	21,823	1,123,313
Retained profits	1,019,161	21,823	1,040,984
Total equity	1,101,490	21,823	1,123,313

4. Profit for the period

	31 December 2022 \$'000	31 December 2021 \$'000
Profit for the period includes the following specific items		
Depreciation of property, plant and equipment	116,270	128,633
Amortisation of intangible assets	3,148	4,645
Impairment of assets under construction	5	1,249
Total Depreciation, amortisation and impairment	119,423	134,527
Interest:		
- Secured debt	102,351	56,388
- Interest capitalised during the period	(5,928)	(2,055)
- Amortisation of deferred borrowing costs	4,233	3,705
Hedge reserve unwind	21,355	23,438
Interest - lease liabilities	304	269
Other finance costs	122	744
Total finance costs	122,437	82,489

5. Security

	31 December 2022 \$'000	31 December 2021 \$'000
Security revenue	35,704	20,745
Security cost	(34,754)	(19,083)
Security depreciation and other costs	(950)	(1,662)
	-	-

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.

6. Income tax

(a) Income tax recognised in profit

	31 December 2022 \$'000	31 December 2021 Restated \$'000
<i>Income tax expense comprises of:</i>		
Deferred tax	27,419	(47,210)
Current tax in respect of prior years	-	326
Deferred tax in respect of prior years	-	(1,089)
Aggregate income tax expense/ (benefit)	<u>27,419</u>	<u>(47,973)</u>
<i>The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:</i>		
Profit/(loss) before income tax (expense)/ benefit	<u>89,282</u>	<u>(157,599)</u>
Tax at the statutory tax rate of 30%	26,785	(47,280)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	-	(4)
Non-deductible expenses	634	80
Deferred tax expense in respect of prior years	-	(1,095)
Current tax in respect of prior years	<u>-</u>	<u>326</u>
Income tax expense/ (benefit)	<u>27,419</u>	<u>(47,973)</u>

(b) Deferred tax balances

	Opening balance 1 July 2022 Restated \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance 31 Dec 2022 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment incl software	(169,674)	7,459	-	(162,215)
Investment property	(521,520)	(12)	-	(521,533)
Accrued revenue	(47,265)	800	-	(46,465)
Other assets	(1,520)	1,112	-	(408)
	<u>(739,979)</u>	<u>9,359</u>	<u>-</u>	<u>(730,621)</u>
Gross deferred tax assets:				
Provisions & accruals	9,365	(2,260)	-	7,105
Unearned income	(5)	5	-	-
Hedge reserve	15,352	(98)	4,297	19,551
Other	36	-	-	36
Tax losses	105,951	(34,424)	-	71,527
	<u>130,699</u>	<u>(36,777)</u>	<u>4,297</u>	<u>98,219</u>
Net deferred tax liability	<u>(609,280)</u>	<u>(27,418)</u>	<u>4,297</u>	<u>(632,402)</u>

7. Trade and other receivables

	31 December 2022 \$'000	30 June 2022 \$'000
<i>Current assets</i>		
Trade and other receivables	64,841	82,293
Less: Allowance for expected credit losses	(1,535)	(2,208)
Net trade and other receivables	63,306	80,085
Other receivables	886	-
	<u>64,192</u>	<u>80,085</u>

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

Included in the Group's trade receivable balance are debtors with a carrying amount of \$5,304,976 (30 June 2022: \$3,232,000), which were overdue (90 days +) as at the reporting date.

8. Accrued revenue

	31 December 2022 \$'000	30 June 2022 Restated \$'000
<i>Current assets</i>		
Straight line leases	9,907	9,417
Other accrued revenue	59,249	14,373
Accrued rebates	2,000	2,000
Total current	<u>71,156</u>	<u>25,790</u>
<i>Non-current assets</i>		
Straight line leases	161,245	164,418
Accrued rebates	3,723	4,723
Total non-current	<u>164,968</u>	<u>169,141</u>
Total accrued revenue	<u>236,124</u>	<u>194,931</u>

Accrued revenue represents amounts the Group is entitled to receive but has not invoiced at the reporting date. When the customer is invoiced, the amount is reclassified to trade receivables.

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 affects 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.

Please refer to Note 3 for details relating to the prior period restatement of straight-line lease balances.

9. Other assets

	31 December 2022 \$'000	30 June 2022 \$'000
<i>Current assets</i>		
Prepayments	8,897	12,753
Bond	466	460
Other current assets	96	96
Total current	<u>9,459</u>	<u>13,309</u>
<i>Non-current assets</i>		
Other non-current asset	<u>1,756</u>	<u>2,057</u>
Total other assets	<u>11,215</u>	<u>15,366</u>

10. 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
Gross carrying amount						
Balance at 1 July 2022	244,800	2,501,893	1,544,188	915,444	438,491	5,644,816
Additions	-	-	-	-	166,337	166,337
Disposal	-	-	-	(23)	-	(23)
Impairment	-	-	-	-	(5)	(5)
Transfers to/(from) asset categories (i)	(5,963)	(242,817)	(160,782)	409,562	-	-
Transfers to/(from) assets under construction	6	47,157	44,981	31,157	(123,301)	-
Balance at 31 December 2022	238,843	2,306,233	1,428,387	1,356,140	481,522	5,811,125
Accumulated depreciation						
Balance at 1 July 2022	(24,891)	(976,607)	(521,427)	(677,581)	-	(2,200,506)
Depreciation expense	(1,159)	(50,647)	(22,030)	(42,434)	-	(116,270)
Transfers to/(from) asset categories (i)	1,551	171,952	52,641	(226,144)	-	-
Balance at 31 December 2022	(24,499)	(855,302)	(490,816)	(946,159)	-	(2,316,776)
Net book value at 31 December 2022	214,344	1,450,931	937,571	409,981	481,522	3,494,349

(i) Transfer within PPE categories at 1 July 2022 occurring on data migration under Project Catalyst, no impact on the overall PPE balance as at 31 December 2022.

	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & infrastructure \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
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	219,909	1,525,286	1,022,761	237,863	438,491	3,444,310

11. Investment properties

	31 December 2022 \$'000	30 June 2022 \$'000
Balance at beginning of the period	2,199,574	2,060,686
Additions for the period	26,696	19,612
Net gain from fair value adjustments for the year	-	119,276
Balance at end of the period	2,226,270	2,199,574

11. Investment properties (continued)

Management engaged Jones Lang LaSalle to complete an interim valuation of the Group's investment properties as at 31 December 2022 in response to the significant increase in cash rates since 30 June 2022. Market capitalisation rates have softened offset by an increase in market yields and fixed escalations. Overall, the valuation at 31 December 2022 remains consistent with 30 June 2022 at \$2.2bn excluding capital WIP.

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.

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 4.25% to 6.00% (FY22: 4.23% to 7.04%)
- Discount rates ranging from 6.25% to 7% (FY22: 6% to 8%);
- A terminal yields ranging from 3.60% to 5.62% (FY22: 4.48% to 7.29%); and
- Market rental growth rates ranging from 1% to 3.50% (FY22: 2.49% to 3.25%).

12. Intangible assets

	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Net book value				
Balance at 1 July 2022	671,866	1,539	3,596	677,001
Disposals	-	-	(5)	(5)
Amortisation charge	-	(1,068)	(2,081)	(3,149)
Net book value at 31 December 2022	<u>671,866</u>	<u>471</u>	<u>1,510</u>	<u>673,847</u>
Cost	671,866	4,144	32,801	708,811
Accumulated amortisation and impairment	-	(3,673)	(31,291)	(34,964)
Net book value at 31 December 2022	<u>671,866</u>	<u>471</u>	<u>1,510</u>	<u>673,847</u>
	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Net book value				
Balance at 1 July 2021	671,866	2,394	10,615	684,875
Additions	-	-	450	450
Disposals	-	(46)	-	(46)
Amortisation charge	-	(809)	(7,469)	(8,278)
Net book value at 30 June 2022	<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>

13. Payables

	31 December 2022 \$'000	30 June 2022 \$'000
Current		
Trade and other payables (i)	64,170	40,771
Accrual for assets under construction	25,447	17,774
GST payable	1,345	1,211
	<u>90,962</u>	<u>59,756</u>
Interest payable to:		
- Secured debt - bank (ii)	<u>32,662</u>	<u>22,239</u>
Total	<u><u>123,624</u></u>	<u><u>81,995</u></u>
Non-current		
Undistributed capital note liability (iii)	1,202	1,202
Other non-current liabilities	<u>2,500</u>	<u>2,500</u>
Total	<u><u>3,702</u></u>	<u><u>3,702</u></u>

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

(ii) Secured by a fixed and floating charge over the 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.

14. Borrowings

At the reporting date the Group's debt comprises: Bank facilities (Syndicated and bilateral); term bank debt; capital markets debt including 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.

	Drawn Dec 22 (\$'000)	Undrawn Dec 22 (\$'000)	Drawn Jun 22 (\$'000)	Undrawn Jun 22 (\$'000)
Drawn and undrawn				
Unsecured bank overdraft	-	21,808	-	21,627
Term bank debt	1,165,000	-	500,000	-
Bank facilities	<u>64,800</u>	<u>1,740,200</u>	<u>280,800</u>	<u>1,724,200</u>
Total bank debt	<u>1,229,800</u>	<u>1,762,008</u>	<u>780,800</u>	<u>1,745,827</u>
Capital markets debt	<u>3,688,807</u>	-	<u>4,063,815</u>	-
Total borrowings (face value)	<u><u>4,918,607</u></u>	<u><u>1,762,008</u></u>	<u><u>4,844,615</u></u>	<u><u>1,745,827</u></u>

14. Borrowings (continued)

	Maturity	Currency	Principal Drawn		Carrying Amount (ii)	
			Original Currency \$'000	Face Value (AUD) (i) \$'000	Dec 22 \$'000	Jun 22 \$'000
Capital Markets Debt						
AMTN	15-Sep-22	AUD	-	-	-	250,000
USPP (\$A)	15-Nov-22	AUD	-	-	-	125,000
USPP	15-Sep-23	USD	200,000	191,077	295,203	290,681
EMTN (iii)	26-Sep-23	EUR	550,000	784,920	864,916	834,658
EMTN	15-Oct-24	EUR	350,000	505,051	550,401	531,146
AMTN (iii)	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	295,203	290,681
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	223,630	219,540
AMTN	25-Nov-31	AUD	700,000	700,000	700,000	700,000
USPP (iii)	4-Dec-31	USD	105,000	151,844	154,982	152,607
USPP	4-Dec-34	USD	105,000	151,844	154,982	152,607
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 markets			<u>4,480,000</u>	<u>3,688,807</u>	<u>4,009,317</u>	<u>4,316,920</u>
Cash Advance Facility (iv)	30-Jul-23		-	39,800	39,800	39,800
Bilateral Facility	15-Jan-24		-	-	-	100,000
Syndicated Facility (vi)	30-Sep-24		-	25,000	25,000	140,000
Bilateral Facility (v)	8-Apr-26		-	-	-	1,000
Term Bank Debt	16-Jun-26		-	200,000	200,000	200,000
Term Bank Debt (vii)	19-Aug-27		-	247,000	247,000	-
Term Bank Debt	16-Jun-29		-	300,000	300,000	300,000
Term Bank Debt (vii)	19-Aug-29		-	418,000	418,000	-
Total Bank debt			<u>-</u>	<u>1,229,800</u>	<u>1,229,800</u>	<u>780,800</u>
Fair value adjustments			-	-	(34,276)	(14,927)
Deferred upfront borrowing costs			-	-	(26,276)	(23,345)
Total net borrowings (viii)			<u>4,480,000</u>	<u>4,918,607</u>	<u>5,178,565</u>	<u>5,059,448</u>

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

(ii) Carrying amounts of foreign debt reflect revalued debt in AUD at spot rates as at 31 December 2022.

(iii) Excludes fair value adjustments.

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

(v) Bilateral facilities are held with six banks and have a total limit of \$800m with maturity dates ranging from 15 January 2024 to 8 April 2026. Two facilities with a total limit of \$200m were cancelled in October 2022.

(vi) The Syndicated Facility has a total facility limit of \$940m, comprising two tranches with individual limits of \$540m (maturing 31 March 2024) and \$400m (maturing 30 September 2024).

(vii) A new \$800m term debt facility was executed on 19 August 2022. The total amount drawn at 31 December 2022 was \$665m. An additional amount of \$135m was drawn under the facility on 16 January 2023.

(viii) The balance of \$5,178,565 is split between current borrowings of \$1,185,814 and non-current borrowings of \$3,992,751.

15. Derivative financial instruments

The Company undertook four restructures of its derivative portfolio between December 2020 and February 2022, aimed at reducing payments in the short term, by resetting out of the money fixed rate cross currency and interest rate swaps to current market interest rates.

The reduction in interest costs for the first three restructures ended in FY22. The reduction in interest cost related to the fourth restructure ended in October 2022 and provided \$15m of cash interest savings in the current period. The restructures triggered a discontinuation of existing hedge relationships resulting in hedge accounting impacts to profit and loss which are reflected in the breakdown of interest detailed in Note 4 and the hedge reserve movement schedule detailed in Note 16.

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

	Current Dec 2022 \$'000	Non-current Dec 2022 \$'000	Total Dec 2022 \$'000	Current June 2022 \$'000	Non-Current June 2022 \$'000	Total June 2022 \$'000
Assets						
Cross currency swaps	165,302	118,524	283,826	-	274,164	274,164
Interest rate swaps	4,479	40,082	44,561	-	33,044	33,044
	<u>169,781</u>	<u>158,606</u>	<u>328,387</u>	<u>-</u>	<u>307,208</u>	<u>307,208</u>
Liabilities						
Cross currency swaps	-	(40,226)	(40,226)	-	(38,459)	(38,459)
Interest rate swaps	(2,092)	(4,005)	(6,097)	-	(1,900)	(1,900)
	<u>(2,092)</u>	<u>(44,231)</u>	<u>(46,323)</u>	<u>-</u>	<u>(40,359)</u>	<u>(40,359)</u>
Net derivative position assets/(liabilities)	<u>167,689</u>	<u>114,375</u>	<u>282,064</u>	<u>-</u>	<u>266,849</u>	<u>266,849</u>

16. Hedging reserves

	31 December 2022 \$'000	30 June 2022 \$'000
Opening balance	35,771	139,795
(Gain) / loss recognised on derivative financial instruments (unrealised)	(27,953)	(177,493)
(Gain) / loss recognised on derivative financial instruments (realised)	(30,570)	28,155
(Gain) / loss on foreign exchange remeasurement transferred to profit and loss	67,395	72,546
(Gain) / loss on hedge ineffectiveness transferred to profit and loss	(1,687)	(6,910)
(Gain) / loss on unwind of discontinued hedge relationships transferred to profit and loss	(23,431)	(43,056)
(Gain) / loss on restructure impacts transferred to profit and loss	-	6,307
(Gain) / loss on cash flow hedges transferred to profit and loss	30,570	(28,155)
Income tax related to amounts above	(4,297)	44,582
Closing balance	<u>45,798</u>	<u>35,771</u>

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

17. Capital expenditure commitments

	31 December 2022 \$'000	30 June 2022 \$'000
Capital expenditure commitments		
Not longer than 1 year	396,647	182,278
Longer than 1 year but not longer than 5 years	<u>163,489</u>	<u>140,477</u>
Total capital expenditure commitments	<u>560,136</u>	<u>322,755</u>

18. Events after the reporting period

No matter or circumstance has arisen since 31 December 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.

19. Notes to the Statement of Cash Flows

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

	31 December 2022 \$'000	31 December 2021 Restated \$'000
Profit/(loss) after income tax (expense)/ benefit for the period	61,863	(109,626)
Adjustments for:		
Net gain on disposal of non-current assets	(23)	(39)
Amortisation of deferred borrowing costs	4,233	3,705
Hedge reserve unwind	21,355	11,058
Depreciation and amortisation of non-current assets	119,418	133,278
Impairment of assets under construction	5	1,249
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	16,028	12,817
(Increase)/decrease in other current assets	(1,540)	(1,869)
(Increase)/decrease in other non-current assets	1,301	738
Increase/(decrease) in trade payables	20,439	(6,252)
Increase/(decrease) in interest payables	10,423	(3,014)
Increase/(decrease) in deferred tax liabilities	27,419	(28,040)
Increase/(decrease) in tax payable	106	(7,570)
Increase/(decrease) in employee provisions	(2,858)	264
Increase/(decrease) in unearned revenue	(10,991)	2,104
Increase/(decrease) in accrued revenue	(42,191)	(14,584)
Net cash from/(used in) operating activities	<u>224,987</u>	<u>(5,781)</u>