

Australia Pacific Airports Corporation Limited

ACN 069 775 266

Half Year Report - 31 December 2021

Australia Pacific Airports Corporation Limited
Contents
31 December 2021

Directors' report	2
Independent auditor's review report to the members of Australia Pacific Airports Corporation Limited	6
Directors' declaration	8
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

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

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 23 February 2022.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2021

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 2021.

Directors

Name	Position	Period of directorship
Peter Hay	Chairman	Appointed 1 June 2019
Lyell Strambi	Managing Director	Appointed 9 November 2015
Lianne Buck	Director	Appointed 14 October 2016 (Resigned 1 January 2022)
Michael Cummings	Director	Appointed 19 March 2015
Danny Elia	Director	Appointed 6 October 2015
David Kenny	Director	Appointed 7 December 2015
James Fraser-Smith	Director	Appointed 15 September 2016
Raphael Arndt	Director	Appointed 29 August 2019
Debbie Goodin	Director	Appointed 1 March 2020
Talieh Williams	Director	Appointed 1 January 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 2021. No dividend was declared in respect of the year end 30 June 2021.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2021

Review of operations

The evolving COVID-19 pandemic over the six months to December 2021 saw Australia emerge as one of the most vaccinated countries in the world, with over 90 per cent of the population double vaccinated. High vaccination rates facilitated a change in approach in managing the spread of COVID-19 in Australia, from severe restrictions and lockdowns, which characterised the six months to December 2021, to targeted restrictions with consistent border policy.

The staged reopening of domestic borders to all states, except for Western Australia, from November 2021 saw passengers return quickly and airlines responded by adding capacity and launching new services. The strength in passenger return was demonstrated with total passengers for the month of December 2021 of 1.1 million, an increase of 46% on December 2020, representing 35% of pre COVID levels (2019).

The Group welcomed the constrained return of international travel from November 2021, with Australians once again connected globally and enabling the arrival of skilled workers and international students, both of which are critical to the reopening of Victoria and Australia. The Group acknowledges the on-going challenges with international travel, given the current requirement for pre-departure testing and changing border policies.

Uncertainty remains, with the emergence of the Omicron Variant, however high vaccination rates together with the booster program and the progressive removal of pre-departure testing for domestic travel provides higher confidence that domestic borders will remain open and support demand for international and domestic travel going forward.

Despite the remaining uncertainty, the Group is well positioned to manage both financially and operationally, and prepared for the return of demand for international and domestic travel.

Key actions undertaken by the Group during half year ended 31 December 2021 in support of this included:

- In November 2021, A\$700 million was raised through the issue of a 10-year domestic bond, with proceeds used to repay drawn bank facilities. This funding was undertaken to early refinance near term maturities.
- As at 31 December 2021, the Group had \$1,825 million of available liquidity in the form of unused revolving bank debt, working capital facilities and cash at bank, which is sufficient to cover the Group's funding needs for at least the next 12 months.
- The Group continued to implement strategies targeted at minimising interest payments in the short term. This delivered a total reduction in interest payments of approximately \$51 million in the six months to 31 December 2021.
- The Directors secured a financial covenant waiver in respect of the Cash Cover Ratio ("CCR") for bank and USPP borrowings for the 31 December 2021 testing period. The strong passenger performance in December assisted achieving 1.18 times compared to the 1.2 times requirement.
- The Group continued to progress critical capital projects, with investment focussed on aviation infrastructure and to enhance traveller experience.
- Key projects completed in the half year, included amenity development across terminals, Taxiway pavement work and the practical completion of the Reece property development.
- The redevelopment of Terminal 3 also commenced to elevate the traveller experience for Terminal 3 guests and to provide greater connectivity with Terminal 4 and improved amenity and retail experience.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2021

Financial results:

Group revenue was \$171.1 million for the period, \$47.4 million above HY21 and operating profit was \$59.4 million, representing a 10% increase on HY21.

Passenger levels increased to 2.3 million passengers for HY22 compared to 1.2 million in HY21. The higher passenger levels and ongoing strength in freight revenue contributed to improved aeronautical revenue with an overall increase of \$14.7 million to \$42.7m in HY22.

Property continued to underpin the airport's business during HY22, delivering \$59.3 million in revenue, an increase of 14% on HY21, supported by lower levels of tenant rent relief and the addition of new developments. Property accounted for 35% of total revenues, making it APAC's leading source of revenue for HY22.

Ground Transport revenue experienced the most significant improvement with a 115% increase in revenues to \$24.7m in HY22 with the recommencement of parking charges and increased passenger numbers.

Retail revenue decreased 11% to \$6.0 million in HY22. Excluding the negotiated rent relief clawback with Dufry of \$5.3 million in HY21, retail revenue increased by \$4.5 aligned to passenger recovery, reopening of stores and associated retail spend.

Underlying costs excluding security passthrough, the restated expenses of previously capitalised software costs (SaaS) and the impact of prior period Job Keeper and reduction in credit loss provision (Virgin) was \$83.3 million, 19% higher than FY21, driven by increases in maintenance required to return critical assets from hibernation and increased cleaning supporting higher passenger levels.

Depreciation remained relatively consistent to HY21 whilst overall finance costs decreased by \$21.6 million for HY22 mainly as a result of the staged execution of the interest minimisation program.

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 2021	31 December 2020
	\$'000	\$'000
Operating profit	59,400	53,887
Software as a Service expense (Note 2)	8,750	6,212
Write back of allowance for expected credit losses	-	(8,052)
Underlying operating profit for the period (unaudited)	<u>68,150</u>	<u>52,047</u>

The JobKeeper assistance (refer to note 2) received in HY21 is not considered an exceptional item and does not qualify for adjustment as part of the Group's reporting on covenant compliance to its lenders.

Significant changes in the state of affairs

The significant impact of COVID-19 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.

Australia Pacific Airports Corporation Limited
Directors' report
31 December 2021

Events occurring after balance sheet date

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

On 23 February 2022, the Board approved a further restructure of the Group's hedge portfolio. This continues the Group's strategy to minimise cash interest paid. The restructure is expected to deliver a further \$39 million reduction in future interest payments until 31 December 2022.

Other than the above, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the 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 (2018) 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 exhibition of APAM's preliminary 2022 Master Plan and preliminary draft Major Development Plan will run 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 metre runway will run parallel to the existing North-South runway and will increase the airport's capacity allowing for simultaneous arrivals and departures.

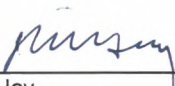
The impact of COVID-19 on the Group's future plans was considered and disclosed in the Group's financial report at 30 June 2021, with further consideration discussed above in the review of operations.

Rounding

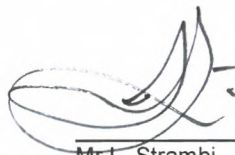
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission (ASIC), relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or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



Mr L. Strambi
Managing Director

23 February 2022
Melbourne

Independent Auditor's Review Report to the members 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 2021, 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.

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 Australian Accounting Standards 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 Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standards. As the auditor of Australia Pacific Airports Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting items, 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the half-year financial report of Australia Pacific Airports Corporation Limited does not present fairly, in all material respects, the Group's financial position as at 31 December 2021 and its financial performance for the half-year ended on that date in accordance with Australian Accounting Standards.

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 to assist the Company to meet the financial reporting requirements of the directors 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Travis Simkin

Travis Simkin

Partner

Chartered Accountants

Melbourne, 23 February 2022

Australia Pacific Airports Corporation Limited
Directors' declaration
31 December 2021

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 2021 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

23 February 2022
Melbourne



Mr L. Strambi
Managing Director

Australia Pacific Airports Corporation Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2021

	Note	31 December 2021 \$'000	31 December 2020 \$'000
Revenue			
Aeronautical		42,656	27,803
Security	5	20,745	11,282
Retail		6,031	6,803
Landside Access		24,738	11,511
Property		59,326	51,911
Outgoings/ recharges		16,169	11,852
Interest		5	42
Other income		1,374	2,501
Profit on sale of fixed assets		39	-
Total revenue		<u>171,083</u>	<u>123,705</u>
Expenses			
Staff costs	2	(29,441)	(21,953)
Security	5	(19,083)	(9,124)
Service and utilities		(38,037)	(28,719)
Maintenance costs		(8,281)	(6,364)
Administration and marketing costs		(3,376)	(1,641)
Other costs		(4,258)	(4,137)
Software as a Service expense	2	(9,178)	(6,212)
Allowances for expected credit losses		(29)	8,332
Total expenses		<u>(111,683)</u>	<u>(69,818)</u>
Operating profit		59,400	53,887
Depreciation, amortisation and impairment	4	(134,527)	(134,983)
Finance costs	4	(82,489)	(104,057)
Loss before income tax benefit		(157,616)	(185,153)
Income tax benefit	6	47,978	53,972
Loss after income tax benefit for the period		(109,638)	(131,181)
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	28,886	(14,858)
Other Comprehensive income/(loss) for the period, net of tax		28,886	(14,858)
Total Comprehensive loss for the period		<u>(80,752)</u>	<u>(146,039)</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 2021

	Note	31 December 2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		44,169	32,186
Trade and other receivables	7	22,797	36,964
Derivative financial instruments	15	13,729	76,704
Income tax receivable		7,566	-
Accrued revenue	8	34,367	22,369
Other assets	9	6,387	4,515
Total current assets		<u>129,015</u>	<u>172,738</u>
Non-current assets			
Property, plant and equipment	10	3,449,120	3,507,868
Investment properties	11	2,071,691	2,060,686
Intangible assets	12	680,211	684,875
Derivative financial instruments	15	296,532	300,707
Accrued revenue	8	137,415	134,829
Other assets	9	8,252	8,990
Total non-current assets		<u>6,643,221</u>	<u>6,697,955</u>
Total assets		<u>6,772,236</u>	<u>6,870,693</u>
Liabilities			
Current liabilities			
Payables	13	105,292	114,357
Borrowings	14	474,244	266,610
Employee benefit provisions		15,278	15,279
Derivative financial instruments	15	-	6,948
Lease liabilities		1,287	1,287
Unearned income		5,924	4,925
Total current liabilities		<u>602,025</u>	<u>409,406</u>
Non-current liabilities			
Payables	13	4,952	4,952
Borrowings	14	4,576,293	4,728,078
Deferred tax liability	6	538,022	566,050
Employee benefit provisions		1,964	1,699
Derivative financial instruments	15	103,236	134,845
Lease liabilities		3,505	3,776
Unearned income		5,072	3,968
Total non-current liabilities		<u>5,233,044</u>	<u>5,443,368</u>
Total liabilities		<u>5,835,069</u>	<u>5,852,774</u>
Net assets		<u>937,167</u>	<u>1,017,919</u>
Equity			
Issued capital		118,100	118,100
Hedging reserves	16	(110,909)	(139,795)
Retained profits		929,976	1,039,614
Total equity		<u>937,167</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 period ended 31 December 2021

	Issued capital \$'000	Hedging 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)
Adjusted balance as at 1 July 2020	118,100	(157,677)	976,059	936,482
Loss after income tax benefit for the period	-	-	(131,181)	(131,181)
Other Comprehensive loss for the period, net of tax	-	(14,858)	-	(14,858)
Total Comprehensive loss for the period	-	(14,858)	(131,181)	(146,039)
Balance at 31 December 2020	118,100	(172,535)	844,878	790,443
	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
Loss after income tax benefit for the period	-	-	(109,638)	(109,638)
Other Comprehensive income for the period, net of tax	-	28,886	-	28,886
Total Comprehensive income/(loss) for the period	-	28,886	(109,638)	(80,752)
Balance at 31 December 2021	118,100	(110,909)	929,976	937,167

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 2021

		31 December	31 December
	Note	2021	2020
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		191,428	130,525
Payments to suppliers and employees		(128,982)	(75,470)
Payments for software as a service		(9,872)	(5,886)
Interest received		5	42
Interest paid		(58,360)	(92,860)
Income tax received/(paid)		-	40,554
Net cash used in operating activities	19	(5,781)	(3,095)
Cash flows from investing activities			
Payments for investment properties	11	(11,005)	(27,966)
Payments for property, plant and equipment		(69,537)	(215,466)
Payments for intangible assets	12	(26)	(4)
Proceeds from disposal of property, plant and equipment		39	-
Net cash used in investing activities		(80,529)	(243,436)
Cash flows from financing activities			
Proceeds from borrowings		1,111,000	380,000
Repayment of borrowings		(983,877)	(160,000)
Cash outlay for hedging restructure		(26,139)	(47,977)
Repayment of lease liabilities		(271)	(421)
Payment for debt issue costs		(2,420)	(298)
Net cash from financing activities		98,293	171,304
Net increase/(decrease) in cash and cash equivalents		11,983	(75,227)
Cash and cash equivalents at the beginning of the financial period		32,186	133,792
Cash and cash equivalents at the end of the financial period		44,169	58,565

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

1. Significant accounting policies

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

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

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 2021 annual financial report for the financial year ended 30 June 2021.

Comparative amounts

Software previously classified as part of Property, plant and equipment (Note 10) in the prior period has been reclassified to Intangible assets (Note 12) concurrent with the Group's change in accounting policy for Software as a Service (SaaS), in line with IFRIC guidance (refer to Note 3). An overview of the amounts reclassified is set out in Note 3.

Rounding

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

1. Significant accounting policies (continued)

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.

In November 2021, \$700 million was raised through the issue of a 10-year domestic bond, to early refinance upcoming maturities. The Group was in a net current liability position of \$473 million at 31 December 2021 (30 June 2021: net current liabilities \$237 million), however this deficit was comfortably covered by available liquidity as at 31 December 2021 in the form of cash and undrawn bank facilities of \$1,825 million (June 2021, \$1,431 million).

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

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

The Directors have reviewed detailed cash flow projections prepared by management covering a period of 12 months from the date of approval for these half year financial statements, factoring in the expected impact of the COVID-19 pandemic on the Group. This takes into account 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, facilitating domestic travel for fully vaccinated travellers. Based on these passenger forecasts the Group expects to achieve compliance with the CCR covenant for 30 June 2022 and 31 December 2022.

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.

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

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

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

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

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

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

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

AASB 2019-3 provides relief from certain hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the reforms. The 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 31 December 2021, 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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

1. Significant accounting policies (continued)

Hedging instruments that reference the 3-month US LIBOR:

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

For these hedge relationships, management has assessed that the overall economics of the hedging transactions will not be modified as part of the transition process as there is no direct exposure to LIBOR, however, should any benchmark rates change this will be effected in the underlying hedge relationships.

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

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

In the prior year the 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, by introducing a practical expedient to AASB 16.

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

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

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

2. Significant income and expense items

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

	31 December 2021 \$'000	31 December 2020 \$'000
Expenses		
Allowance for expected credit losses - (reversal)/expense (i)	-	(8,052)
Software as a Service expense (ii)	8,750	6,212
	<u>8,750</u>	<u>(1,840)</u>

(i) Expected credit loss provision release

The reversal of the allowance for expected credit losses of \$8.1 million relates to better than expected recovery in relation to outstanding amounts for Virgin Australia Holdings that had been provided for at 30 June 2020 and a reduction in overall outstanding balances that formed the basis of the allowance for expected credit losses at 31 December 2020.

(ii) Software as a Service (SaaS)

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

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

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

(iii) JobKeeper

Included in staff costs for the period ended 31 December 2020 is \$7.1m (December 2021: Nil) from the JobKeeper scheme implemented by the Australian Government. The JobKeeper scheme is not considered an exceptional item and does not qualify for adjustment as part of the Group's reporting on covenant compliance to its lenders.

3. Restatement of comparatives - Change in accounting policy

Change in accounting policy

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

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

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

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

	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of profit or loss and other comprehensive income			
Software as a Service expense	-	(6,212)	(6,212)
Depreciation and amortisation	(136,916)	1,933	(134,983)
Income tax benefit	52,672	1,300	53,972
Net impact on profit for the period	<u>(84,244)</u>	<u>(2,979)</u>	<u>(87,223)</u>
	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of cash flows			
Payments to suppliers and employees	-	(5,886)	(5,886)
Payments for property, plant and equipment	(221,352)	5,886	(215,466)
Impact on net cash flows for the period	<u>(221,352)</u>	<u>-</u>	<u>(221,352)</u>
	31 December 2020 Reported \$'000	Adjustment \$'000	31 December 2020 Restated \$'000
Statement of changes in equity			
Loss after income tax for the period	<u>(128,202)</u>	<u>(2,979)</u>	<u>(131,181)</u>

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

4. Profit for the period

	31 December 2021 \$'000	31 December 2020 \$'000
Profit for the period includes the following specific items		
Depreciation of property, plant and equipment	128,633	129,429
Amortisation of intangible assets	4,645	5,404
Impairment of assets under construction	1,249	150
	<u>134,527</u>	<u>134,983</u>
Total Depreciation, amortisation and impairment		
Interest:		
- Secured debt	56,388	104,108
- Interest capitalised during the period	(2,055)	(10,338)
- Amortisation of deferred borrowing costs	3,705	3,309
Hedge ineffectiveness and other hedge accounting impacts	23,438	6,416
Interest - lease liabilities	269	223
Other finance costs	744	339
	<u>82,489</u>	<u>104,057</u>
Total finance costs		
Employee benefits expense - superannuation contributions	2,462	2,526

5. Security

	31 December 2021 \$'000	31 December 2020 \$'000
Security revenue	20,745	11,282
Security cost	(19,083)	(9,124)
Security depreciation and other costs	(1,662)	(2,158)
	<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.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

6. Income tax

(a) Income tax recognised in profit

	31 December 2021 \$'000	31 December 2020 \$'000
<i>Income tax expense comprises of:</i>		
Deferred tax	(47,209)	(53,924)
Current tax in respect of prior years	326	(1,441)
Deferred tax in respect of prior years	(1,095)	1,393
Aggregate income tax benefit	<u>(47,978)</u>	<u>(53,972)</u>
<i>The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:</i>		
Loss before income tax benefit	(157,616)	(185,153)
Tax at the statutory tax rate of 30%	(47,285)	(55,546)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	(4)	1,638
Non-deductible expenses	80	-
Deferred tax expense in respect of prior years	(1,095)	1,377
	(48,304)	(52,531)
Current tax in respect of prior years	326	(1,441)
Income tax benefit	<u>(47,978)</u>	<u>(53,972)</u>

(b) Deferred tax balances

	Opening balance 1 July 2021 \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance 31 Dec 2021 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(185,005)	9,739	-	(175,266)
Investment property	(484,434)	-	-	(484,434)
Accrued revenue	(38,838)	320	-	(38,518)
Other Assets	(3,000)	300	-	(2,700)
Deferred borrowing costs	(1,174)	(192)	-	(1,365)
	<u>(712,451)</u>	<u>10,167</u>	<u>-</u>	<u>(702,283)</u>
Gross deferred tax assets:				
Provisions & accruals	6,440	(319)	-	6,121
Unearned income	1,125	590	-	1,715
Hedge reserve	59,913	-	12,380	47,533
Other	3	-	-	3
Tax losses	78,920	29,969	-	108,889
	<u>146,401</u>	<u>30,240</u>	<u>12,380</u>	<u>164,261</u>
Net deferred tax liability	<u>(566,050)</u>	<u>40,407</u>	<u>12,380</u>	<u>(538,022)</u>

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

7. Trade and other receivables

	31 December 2021 \$'000	30 June 2021 \$'000
Trade and other receivables	25,566	38,383
Less: Allowance for expected credit losses	(2,769)	(2,769)
Net trade and other receivables	<u>22,797</u>	<u>35,614</u>
 GST receivables	 -	 1,350
 Total trade and other receivables	 <u>22,797</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.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$1,222,125 (June 2021: \$3,397,742), which were overdue (90 days +) as at the reporting date.

8. Accrued revenue

	31 December 2021 \$'000	30 June 2021 \$'000
<i>Current assets</i>		
Straight line leases	7,656	10,348
Accrued revenue	26,711	12,021
 Total current	 <u>34,367</u>	 <u>22,369</u>
<i>Non-current assets</i>		
Straight line leases	137,415	134,829
 Total non-current	 <u>171,782</u>	 <u>157,198</u>

9. Other assets

	31 December 2021 \$'000	30 June 2021 \$'000
<i>Current assets</i>		
Prepayments	3,821	1,949
Accrued rebates	2,000	2,000
Bond	460	460
Other current assets	106	106
 Total current	 <u>6,387</u>	 <u>4,515</u>
<i>Non-current assets</i>		
Accrued rebates	5,723	6,723
Other non-current assets	2,529	2,267
 Total non-current	 <u>8,252</u>	 <u>8,990</u>
	<u>14,639</u>	<u>13,505</u>

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

10. Property, plant and equipment

	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & infra- structure \$'000	Plant and equipment restated \$'000	Assets under construction \$'000	Total \$'000
Gross carrying amount						
Balance at 1 July 2021 (i)	244,800	2,482,647	1,488,456	892,970	342,157	5,451,030
Additions	-	-	-	-	71,160	71,160
Disposal	-	-	-	(26)	-	(26)
Impairment	-	-	-	-	(1,249)	(1,249)
Transfers to/(from) assets under construction	-	18,905	11,880	4,659	(35,444)	-
Balance at 31 December 2021	244,800	2,501,552	1,500,336	897,603	376,624	5,520,915
Accumulated depreciation						
Balance at 1 July 2021	(22,302)	(836,212)	(463,347)	(621,301)	-	(1,943,162)
Depreciation expense	(1,298)	(70,314)	(28,360)	(28,661)	-	(128,633)
Balance at 31 December 2021	(23,600)	(906,526)	(491,707)	(649,962)	-	(2,071,795)
Net book value at 31 December 2021	221,200	1,595,026	1,008,629	247,641	376,624	3,449,120
	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & infra- structure \$'000	Plant and equipment restated \$'000	Assets under construction \$'000	Total \$'000
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
Restatement from change in accounting policies (i)	-	-	-	(32,356)	-	(32,356)
Transfers to/(from) assets under construction	(116)	158,633	212,200	7,018	(377,735)	-
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)
Restatement from change in accounting policy (i)	-	-	-	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	222,498	1,646,435	1,025,109	271,669	342,157	3,507,868

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

11. Investment properties

	31 December 2021 \$'000	30 June 2021 \$'000
Balance at beginning of the period	2,060,686	1,601,536
Additions for the period	11,005	71,173
Net gain from fair value adjustments for the year	-	387,977
Balance at end of the period	<u>2,071,691</u>	<u>2,060,686</u>

12. Intangible assets

	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Balance at 1 July 2021 (i)	671,866	2,394	10,615	684,875
Additions/(Disposals)	-	(45)	26	(19)
Amortisation charge	-	(406)	(4,239)	(4,645)
Net book value at 31 December 2021	<u>671,866</u>	<u>1,943</u>	<u>6,402</u>	<u>680,211</u>
Cost	671,866	4,228	32,382	708,476
Accumulated amortisation and impairment	-	(2,285)	(25,980)	(28,265)
Net book value at 31 December 2021	<u>671,866</u>	<u>1,943</u>	<u>6,402</u>	<u>680,211</u>
	Goodwill \$'000	Masterplan \$'000	Software \$'000	Total \$'000
Net book value				
Balance at 1 July 2020	671,866	3,182	-	675,048
Restatement from change in accounting policy (i)	-	-	19,272	19,272
Additions – internal development	-	25	701	726
Amortisation charge	-	(813)	(9,358)	(10,171)
Net book value at 30 June 2021	<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>

(i) Software previously classified as part of Property, plant and equipment (Note 10) in the prior period has been reclassified to Intangible assets (as above) concurrent with the Group's change in accounting policy for Software as a Service (SaaS), and in line with IFRIC guidance (refer to Note 3).

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

13. Payables

	31 December 2021 \$'000	30 June 2021 \$'000
Current liabilities		
Trade and other payables (i)	68,426	77,362
Accrual for assets under construction	16,677	15,461
GST payable	1,669	-
	<u>86,772</u>	<u>92,823</u>
Interest payable to:		
- Secured debt - bank (ii)	<u>18,520</u>	<u>21,534</u>
Total current	<u>105,292</u>	<u>114,357</u>
Non-current liabilities		
Undistributed capital note liability (iii)	1,202	1,202
Other non-current liabilities	<u>3,750</u>	<u>3,750</u>
	<u>4,952</u>	<u>4,952</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 (\$'000) Dec 21	Undrawn (\$'000) Dec 21	Drawn (\$'000) Jun 21	Undrawn (\$'000) Jun 21
Drawn and undrawn				
Unsecured bank overdraft	-	21,015	-	20,668
Term bank debt	500,000	-	500,000	-
Bank facilities	224,300	1,780,700	606,100	1,398,900
Total bank debt	<u>724,300</u>	<u>1,801,715</u>	<u>1,106,100</u>	<u>1,419,568</u>
Capital markets debt	<u>4,063,815</u>	<u>-</u>	<u>3,554,892</u>	<u>-</u>
Total borrowings (face value)	<u>4,788,115</u>	<u>1,801,715</u>	<u>4,660,992</u>	<u>1,419,568</u>

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

14. Borrowings (continued)

			Principal Original Currency \$'000	Drawn Face Value (AUD) (i) \$'000	Carrying Amount (ii)	
	Maturity	Currency			Dec 21 \$'000	Jun 21 \$'000
Capital Markets Debt						
USPP	15-Sep-21	USD	200,000	-	-	266,699
AMTN (iii)	15-Sep-22	AUD	250,000	250,000	250,000	250,000
USPP (\$A) (iii)	15-Nov-22	AUD	125,000	125,000	125,000	125,000
USPP	15-Sep-23	USD	200,000	191,077	275,353	266,699
EMTN (iii)	26-Sep-23	EUR	550,000	784,929	860,935	869,583
EMTN	15-Oct-24	EUR	350,000	505,050	547,868	553,371
AMTN (iii)	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	275,353	266,699
AMTN (iii)	4-Nov-26	AUD	200,000	200,000	200,000	200,000
USPP (\$A) (iii)	15 Jan-28	AUD	50,000	50,000	50,000	50,000
EMTN	27-Sep-30	NOK	1,500,000	242,994	234,189	232,459
AMTN	25-Nov-31	AUD	700,000	700,000	700,000	-
USPP (iii)	4-Dec-31	USD	105,000	151,844	144,560	140,017
USPP	4-Dec-34	USD	105,000	151,844	144,560	140,017
USPP (iii)	4-Dec-39	AUD	150,000	150,000	150,000	150,000
USPP (iii)	4-Dec-44	AUD	250,000	250,000	250,000	250,000
Total capital markets				<u>4,063,815</u>	<u>4,327,818</u>	<u>3,880,544</u>
Working Capital Facility	12-Apr-22		-	-	-	-
Bilateral Facility	15-Jul-22		-	100,000	100,000	100,000
Syndicated Facility	30-Sep-22		-	-	-	60,000
Cash Advance Facility (iv)	30-Jul-23		-	43,300	43,300	45,100
Syndicated Facility	30-Sep-24		-	80,000	80,000	400,000
Bilateral Facility (v)	30-Apr-25		-	-	-	-
Bilateral Facility	8-Apr-26		-	1,000	1,000	1,000
Term Bank Debt	16-Jun-26		-	200,000	200,000	200,000
Term Bank Debt	16-Jun-29		-	300,000	300,000	300,000
Total Bank debt			-	<u>724,300</u>	<u>724,300</u>	<u>1,106,100</u>
Fair value adjustments			-	-	24,358	34,896
Deferred upfront borrowing costs			-	-	(25,939)	(26,852)
Total net borrowings				<u>4,788,115</u>	<u>5,050,537</u>	<u>4,994,688</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 2021.

(iii) Excludes fair value adjustments.

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

(v) Bilateral facilities (A\$650m) are 5-year facilities with maturity dates ranging from 3 April 2021 to 30 April 2025.

(vi) The balance of \$5,050,537 is split between current borrowing \$474,244 and non-current borrowings \$4,576,293.

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

15. Derivative financial instruments

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

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

	Current Dec 2021 \$'000	Non-current Dec 2021 \$'000	Total Dec 2021 \$'000	Current June 2021 \$'000	Non-Current June 2021 \$'000	Total June 2021 \$'000
Assets						
Cross currency swaps	-	296,532	296,532	76,588	300,707	377,295
Interest rate swaps	13,729	-	13,729	116	-	116
	<u>13,729</u>	<u>296,532</u>	<u>310,261</u>	<u>76,704</u>	<u>300,707</u>	<u>377,411</u>
Liabilities						
Cross currency swaps	-	(31,338)	(31,338)	-	(46,361)	(46,361)
Interest rate swaps	-	(71,898)	(71,898)	(6,948)	(88,484)	(95,432)
	<u>-</u>	<u>(103,236)</u>	<u>(103,236)</u>	<u>(6,948)</u>	<u>(134,845)</u>	<u>(141,793)</u>
Net derivative position assets/ (liabilities)	<u>13,729</u>	<u>193,296</u>	<u>207,025</u>	<u>69,756</u>	<u>165,862</u>	<u>235,618</u>

16. Hedging reserves

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

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

17. Capital expenditure commitments

	31 December 2021 \$'000	30 June 2021 \$'000
Capital expenditure commitments		
Not longer than 1 year	210,998	145,829
Longer than 1 year but not longer than 5 years	<u>45,025</u>	<u>140,887</u>
Total capital expenditure commitments	<u>256,023</u>	<u>286,716</u>

18. Events after the reporting period

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

On 23 February 2022, the Board approved a further restructure of the Group's hedge portfolio. This continues the Group's strategy to minimise cash interest paid. The restructure is expected to deliver a further \$39 million reduction in future interest payments until 31 December 2022.

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
31 December 2021

19. Notes to the Statement of Cash Flows

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

	31 December 2021 \$'000	31 December 2020 \$'000
Loss after income tax benefit for the period	(109,638)	(131,181)
Adjustments for:		
Net gain on disposal of non-current assets	(39)	-
Amortisation of deferred borrowing costs	3,705	3,309
Hedge reserve unwind	11,058	6,416
Depreciation and amortisation of non-current assets	133,278	134,983
Impairment of assets under construction	1,249	150
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	12,817	9,662
(Increase)/decrease in other current assets	(1,869)	(1,036)
(Increase)/decrease in other non-current assets	738	-
Increase/(decrease) in trade payables	(6,252)	2,775
Increase/(decrease) in interest payables	(3,014)	1,471
Decrease in deferred tax liabilities	(28,028)	(52,171)
Increase/(decrease) in tax payable	(7,570)	38,930
Increase/(decrease) in employee provisions	264	1,570
Increase/(decrease) in unearned revenue	2,104	9
Increase/(decrease) in Accrued revenue	(14,584)	(17,982)
Net cash used in operating activities	<u>(5,781)</u>	<u>(3,095)</u>