

Australia Pacific Airports Corporation Limited

ACN 069 775 266

Consolidated Financial Statements - 30 June 2020

Australia Pacific Airports Corporation Limited

Directors' report

30 June 2020

The Directors of Australia Pacific Airports Corporation Limited (the Company) and its controlled entities (the Group or APAC) present their report for the financial year ended 30 June 2020.

Principal activities

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

Review of operations

The effects of COVID-19 continue to be unprecedented on the Group. In March 2020, the Government closed international borders to non-residents and non-citizens with subsequent restrictions imposed on non-essential domestic travel.

The impact of COVID-19 has seen FY20 passenger numbers fall to the same levels as they were 10 years ago, with 28.3 million people flying over the last financial year. Overall traveller volumes were down by 27% driven by travel restrictions imposed to limit the spread of the virus and the destruction of demand. Since restriction were implemented in March 2020, the Group has seen a 95% decrease in passengers against the same period in FY19.

The Board and Management have responded to the impact of the crisis with a range of measures, including:

The Board approved a \$115.5 million assistance package for Airlines, Retailers, Landside Access and Property tenants affected by the reduction in aviation activity.

Parking was provided free of charge to guests, Airport partners and Melbourne Airport staff from March 2020, to support essential travel and social distancing measures by limiting the level of bussing required.

The Board resolved that the Dividend declared on 24 February 2020 be cancelled preserving cash of \$104.2m.

Management commenced rightsizing activities with suppliers to actively manage costs and renegotiate service agreements to reflect the new levels of operations. All discretionary operating spend was placed on hold.

In line with the forecast decrease in passenger numbers expected to continue into future years, the forward capital program was reviewed, with opportunities taken to defer, abandon or reduce the costs of capital projects.

In April 2020, the Group secured \$650 million of new bilateral bank facilities. The maturity for this revolving bank debt is 5 years. These facilities remain undrawn as at 30 June 2020. At 30 June 2020, the Group had a cash balance of \$134 million and undrawn facilities of \$1,599 million comprising of \$200 million term bank debt and \$1,389 million of unused revolving bank debt which includes the aforementioned \$650 million of new bilateral facilities. A waiver on covenants relating to the Cashflow Cover Ratio ("CCR") in respect of the existing bank and USPP facilities was also secured to 30 June 2021.

The Group accessed the Federal Governments' JobKeeper scheme, representing \$3.5 million of wage assistance in FY20.

The Board approved further rent relief packages for tenants in line with the requirements of National Cabinet Mandatory Code of Conduct – Commercial Leasing Principles During COVID-19.

The Board and Management continue to work closely and monitor the evolving situation whilst also ensuring, health and safety and strategic focus on recovery and future revenue growth.

Financial results:

Revenue reduced by 22% to \$816.8 million in the financial year ending June 2020 compared to the previous year, generating operating profit of \$536.8 million and a profit after tax for the year of \$105.3 million.

Aeronautical revenue saw the largest impact with an overall reduction of \$76.7 million from \$427.8 million in 2019 to \$351.1 million driven by the reduced passenger volumes (\$120.2 million) offset in part by uplift in Aeronautical Services Agreement and Terminal Facility Agreement pricing (\$19.4 million), T1 Terminal operating lease revenues (\$14.6 million) and additional charges for freight services and aircraft parking (\$8.3 million).

Retail revenue decreased by \$71.2m to \$114.0m. Rent relief has been in place for all Retail customers since March 2020 and retail revenue has been further impacted by an impairment of accrued retail revenue of \$26.3 million (refer to note 4 of the financial statements for further details).

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Landside Access revenue has decreased to \$162.0 million from \$214.1 million, as lower passenger numbers resulted in a significant reduction in car parking and transport activity in the last quarter and rent relief support was provided to car rental operators.

Security revenues have decreased in line with the drop in passenger volumes, as they are based on per passenger charges. The decrease in passenger numbers was offset by Government support for domestic security cost recovery in response to COVID-19.

From 1 July 2019, Terminal 1 operations transitioned from Qantas to Melbourne Airport. Revenue for Terminal 1 was \$30.6 million, an increase of \$5.4 million on last year. Revenue from Terminal 1 increased in all areas against last year with the exception of Property, which saw a decrease of \$17.4 million due to the reclassification of revenue for the Terminal Operating License from Property revenue in 2019 to Aeronautical revenue in 2020.

In our Property business, excluding Terminal 1, the underlying business grew due to the completion of new developments in our business park. The growth was partially offset by the impact of rent relief for property tenants

Operating costs increased to \$280.0 million from \$276.2 million, a year on year an increase of 1.4%. Operating costs include \$33.3m for the expected credit loss provision. Refer to note 4 of the financial statements for further details.

Excluding this provision operating costs year on year decreased from \$276.2 million to \$246.7 million. This was due to reduction in staff costs of \$10.9 million mainly attributable to the suspension of short-term incentives for FY20, reduction in administration and marketing cost of \$4.9 million from suspended activity during the COVID 19 affected period, reduced travel and recruitment costs. Maintenance has seen a reduction of \$2.2 million from COVID-19 related rightsizing activities and other costs a reduction of \$1.6m.

COVID-19 impact on Operating Profit

The below sets out the impact on profit of the COVID-19 related exceptional items and reconciles the underlying Operating Profit (which is a non IFRS measure) to the statutory IFRS Operating Profit disclosed in the Statement of Profit or Loss and Other Comprehensive Income.

Reconciliation of Operating Profit:

	Note	\$'000
Operating Profit (statutory)		<u>536,824</u>
Impairment of accrued retail revenue	4	26,332
Expected credit loss provision	4	<u>34,094</u>
Underlying Operating Profit for the period (unaudited)		<u><u>597,250</u></u>

Impact on Profit before tax

Impairment of assets under construction	4	<u>40,816</u>
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The profit before tax has reduced from \$557.4 million to \$147.6 million. This is a direct result of the impacts on operating profit of COVID-19 and a \$40.8 million impairment of assets-under-construction as a result of COVID-19.

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Other highlights:

On 2 September 2019, Melbourne Airport broke ground on a new 464 room hotel to support growing traveller numbers and address constraints in the supply of hotel accommodation on Airport. The hotel, created to serve Melbourne's burgeoning conference and tourism markets, will be conveniently located steps from Terminal 4 within a brand-new precinct known as 'The Hive'.

On 27 October 2019, Melbourne Airport received approval from the Federal Government for the T4 Express Link Major Development Plan (MDP). The Express link will provide a direct link from the Tullamarine Freeway into the multimodal transport hub and carpark opposite Terminal 4.

On 14 November 2019, Melbourne Airport announced the selection of a North South orientation for a third runway. Melbourne Airport is preparing a Preliminary MDP for consultation, ahead of the submission of a draft MDP for consideration by Federal Government.

On 20 January 2020, Melbourne Airport announced the appointment of Shane O'Hare as Chief of Aviation. Mr O'Hare brought more than 40 years' experience working in the global aviation industry across airlines, private aviation, alliances, charter and tourism. He is responsible for leading the airport's extensive 24/7 aviation operation, including the recovery post COVID-19.

On 21 January 2020, the Group responded to the Victorian Bushfire Appeal with an initial cash donation of \$500,000 and committed to match any contributions raised through other initiatives.

On 16 April 2020, Melbourne Airport launched the second round of its Community Grants program, which will provide \$100,000 to local Neighbourhood Houses.

On 12 May 2020, Melbourne Airport was named Best Airport in Australia/Pacific for 2020 by Skytrax, recognising the airport's efforts to improve customer service and facilities.

On 1 July 2020, Melbourne Airport celebrated 50 years of connecting Melbourne to the world, since the airport's official opening on 1 July 1970.

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 other significant changes in the state of affairs of the Group during the financial year.

Dividends

The Directors declared a final dividend for the year ended 30 June 2019 of \$277.49 million (\$2.35 per share) which was paid on 26 September 2019.

On 24 February 2020, the Directors declared an interim dividend of \$104.2 million (\$0.88 per share). On 26 March 2020, the Board resolved that the Dividend declared on 24 February 2020 be cancelled.

No dividend has been declared for the year end 30 June 2020.

Events occurring after balance sheet date

Since the balance sheet date the State Government has imposed a reversion to stage 4 Stay at Home restrictions in response to an increase in COVID-19 cases. While this will have impact on passenger numbers and related revenue in Melbourne Airport, and to a lesser extent Launceston Airport, the expected impacts of the additional restrictions are within the scenarios modelled by the Group which informed the Group's key estimates and judgements. As such, the additional restrictions are not considered to be an adjusting event that may significantly impact the operations of the Consolidated Entity. The situation has continued to develop post year end, management are monitoring and responding on an ongoing basis, but the exact impact on financial position and performance in the future as a result of the ongoing developments cannot be predicted.

Other than above, there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in future financial periods.

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Directors

Name	Position	Period of directorship
Peter Hay	Chair	Appointed 1 June 2019
Lyell Strambi	Managing Director	Appointed 9 November 2015
John Harvey	Director	Resigned 1 March 2020
Lianne Buck	Director	Appointed 14 October 2016
Michael Cummings	Director	Appointed 19 March 2015
Barry Brakey	Director	Resigned 29 August 2019
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

Peter Hay
Chair

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

Michael Cummings
Director and Chair of Remuneration Committee

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

Danny Elia
Director

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

Lyell Strambi
Managing Director and Chief Executive Officer

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

Lianne Buck
Director

Ms Buck is a highly experienced leader, combining current board and governance experience with a successful career as a senior investment professional. Ms Buck has extensive experience in investment management, strategy, corporate finance, business transformation and government and stakeholder management. In addition to APAC, Ms Buck currently serves on the boards of ISPT Pty Limited and Utilities of Australia and is a Specialist Advisor to NSW Treasury Corporation's ('TCorp') Management Investment Committee. Ms Buck was previously the Head of Direct Investments and Infrastructure for TCorp.

David Kenny
Director

Mr Kenny is a Principal, Infrastructure at AMP Capital Investors. Previously Mr Kenny worked for Ontario Teachers' Pension Plan Board (OTPP), where he was General Manager, Business Development. He also served as General Manager, Corporate Finance at Downer Infrastructure in Sydney, and worked in both Sydney and London for Macquarie Airports, where he held senior roles including that of Chief Investment Officer.

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James Fraser-Smith
Director

Mr Fraser-Smith is the Head of Unlisted Infrastructure and Timberland division at the Future Fund. In this role, he is responsible for strategy, investment and asset management across a global portfolio of infrastructure assets worth approximately \$10 billion. Prior to joining the Future Fund, Mr Fraser-Smith spent over 10 years at Hastings Funds Management, a specialist infrastructure manager. He holds Engineering and Commerce degrees from the University of Melbourne and a Masters in Applied Finance. He is also a Graduate Member of the Australian Institute of Company Directors.

Raphael Arndt
Director

Dr Arndt was appointed as the Chief Executive Officer of the Future Fund on 1 July 2020 and served as the Chief Investment Officer from 2014 to 2020. Dr Arndt was previously the Fund's Head of Infrastructure and Timberland establishing both the Timberland and Infrastructure investment programs. Dr Arndt is also Chairman of the Investment Committee and a Board Member of the Melbourne Lord Mayor's Charitable Foundation. Dr Arndt holds Engineering and Commerce degrees and a PhD from the University of Melbourne which focused on risk allocation in Public Private Partnerships.

Debbie Goodin
Director and Chair of Audit, Risk & Finance Committee

Ms Goodin has diverse executive experience in operations, finance, mergers and acquisitions and corporate services, and has worked globally, and in both the public and private sectors. In addition to APAC, Ms Goodin is on the boards of Senex Energy Limited, Atlas Arteria Roads Limited and APA Group. Ms Goodin has a Bachelor of Economics degree, is a Chartered Accountant, has formally qualified as an Insolvency Practitioner and is a Fellow of the Williamson Community Leadership Program.

Meetings of Directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Remuneration Committee		Audit, Risk and Finance Committee	
	Held	Attended	Held	Attended	Held	Attended
Peter Hay	12	12	5	5	5	4
Lyell Strambi	12	11	5	5	5	5
John Harvey	4	4	-	-	4	4
Lianne Buck	12	12	5	5	4	4
Michael Cummings	12	11	5	5	-	-
Barry Brakey	-	-	-	-	1	1
Danny Elia	12	12	5	4	-	-
David Kenny	12	12	-	-	4	4
James Fraser-Smith	12	12	4	4	-	-
Raphael Arndt	12	9	-	-	1	1
Debbie Goodin	8	8	-	-	1	1

Those attended by the Company Secretary were:

	Held	Attended	Held	Attended	Held	Attended
Grant Devonport	1	1	1	1	1	1
Aaron Gant	11	11	4	4	4	4

Regular board updates have been held with management since March 2020 in response to COVID-19. These updates are not considered formal board meetings.

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Future developments

The Group's future developments and operations are included within the Master Plans of Melbourne Airport (2018) and Launceston Airport (2015). 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.

The 2020 Launceston Airport Master Plan was submitted to the Federal Government and was approved by the Deputy Prime Minister on 22 July 2020.

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

Environmental regulation

In relation to environmental matters, the Company is subject to the Airports Act 1996 ("the Act") and the Airports (Environment Protection) Regulations 1997 ("the Regulations"). The Board is satisfied that the results of environmental monitoring conducted by internal and external specialists during the year ended 30 June 2020 demonstrate compliance with the Act and the Regulations.

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

Indemnity and insurance of officers and auditors

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

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

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

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

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

Auditor's independence

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

Rounding off of amounts

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

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

On behalf of the Directors



Mr P. Hay
Chairman



Mr L. Strambi
Managing Director

26 August 2020
Melbourne

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

26 August 2020

Dear Board Members,

Auditors Independence Declaration - Australia Pacific Airports Corporation Limited

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

As lead audit partner for the audit of the financial statements of Australia Pacific Airports Corporation Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Chartered Accountants

Australia Pacific Airports Corporation Limited

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General information

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

Australia Pacific Airports Corporation Limited ACN 068 775 266 is an unlisted public company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 26 August 2020.

Australia Pacific Airports Corporation Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Revenue			
Aeronautical		351,126	427,787
Security	6	53,066	59,520
Retail		113,981	185,211
Landside Access		162,040	214,055
Property		101,026	116,843
Outgoings/recharges		31,895	39,386
Interest		277	337
Other income		3,348	3,855
Profit on sale of fixed assets		60	114
Total revenue		<u>816,819</u>	<u>1,047,108</u>
Expenses			
Staff costs		(45,028)	(55,954)
Security	6	(50,446)	(58,308)
Service and utilities		(99,432)	(101,338)
Maintenance costs		(30,063)	(32,234)
Administration and marketing costs		(11,668)	(16,549)
Other costs		(10,034)	(11,590)
Expected credit loss expense		(33,324)	(201)
Total expenses		<u>(279,995)</u>	<u>(276,174)</u>
Operating Profit		536,824	770,934
Change in fair value of investment property		96,685	143,837
Depreciation and amortisation	5	(255,974)	(182,708)
Impairment of assets under construction	4	(40,816)	(419)
Borrowing costs	5	<u>(189,088)</u>	<u>(174,235)</u>
Profit before income tax expense		147,631	557,409
Income tax expense	7	<u>(42,308)</u>	<u>(166,967)</u>
Profit after income tax expense for the year	22	105,323	390,442
Other Comprehensive 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	21	<u>(438)</u>	<u>(56,494)</u>
Other Comprehensive loss for the year, net of tax		<u>(438)</u>	<u>(56,494)</u>
Total Comprehensive income for the year		<u><u>104,885</u></u>	<u><u>333,948</u></u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of financial position
As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		133,793	26,038
Trade and other receivables	8	37,849	135,107
Income tax receivable		40,912	-
Accrued revenue	9	11,105	22,233
Other assets	10	3,799	4,106
Total current assets		<u>227,458</u>	<u>187,484</u>
Non-current assets			
Property, plant and equipment	11	3,607,101	3,460,493
Investment properties	12	1,601,536	1,416,336
Intangible assets	13	675,048	675,429
Derivative financial instruments	16	515,870	446,112
Accrued revenue	9	105,713	117,446
Other assets	10	9,603	12,095
Total non-current assets		<u>6,514,871</u>	<u>6,127,911</u>
Total assets		<u>6,742,329</u>	<u>6,315,395</u>
Liabilities			
Current liabilities			
Payables	14	190,146	149,122
Borrowings	15	-	270,980
Income tax payable		-	23,174
Employee benefit provisions		12,639	20,517
Derivative financial instruments	16	22,796	26,552
Finance lease liabilities	18	1,287	1,287
Unearned income		5,983	6,687
Total current liabilities		<u>232,851</u>	<u>498,319</u>
Non-current liabilities			
Payables	14	1,202	1,202
Borrowings	15	4,818,527	4,034,082
Deferred tax liability	7	531,535	512,520
Employee benefit provisions		1,558	1,563
Derivative financial instruments	16	198,197	131,681
Finance lease liabilities	18	4,725	5,661
Unearned income		5,270	9,299
Total non-current liabilities		<u>5,561,014</u>	<u>4,696,008</u>
Total liabilities		<u>5,793,865</u>	<u>5,194,327</u>
Net assets		<u>948,464</u>	<u>1,121,068</u>
Equity			
Issued capital	20	118,100	118,100
Hedging reserves	21	(157,677)	(157,239)
Retained profits	22	988,041	1,160,207
Total equity		<u>948,464</u>	<u>1,121,068</u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

	Issued capital \$'000	Hedging reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2018	118,100	(100,745)	1,054,613	1,071,968
Profit after income tax expense for the year	-	-	390,442	390,442
Change in the fair value of cash flow hedges	-	(56,494)	-	(56,494)
Total Comprehensive profit/(loss) for the year	-	(56,494)	390,442	333,948
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 28)	-	-	(284,848)	(284,848)
Balance at 30 June 2019	<u>118,100</u>	<u>(157,239)</u>	<u>1,160,207</u>	<u>1,121,068</u>
	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	118,100	(157,239)	1,160,207	1,121,068
Profit after income tax expense for the year	-	-	105,323	105,323
Change in the fair value of cash flow hedges	-	(438)	-	(438)
Total Comprehensive profit/(loss) for the year	-	(438)	105,323	104,885
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 28)	-	-	(277,489)	(277,489)
Balance at 30 June 2020	<u>118,100</u>	<u>(157,677)</u>	<u>988,041</u>	<u>948,464</u>

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

Australia Pacific Airports Corporation Limited
Consolidated statement of cash flows
For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers		977,309	1,120,599
Payments to suppliers and employees		(361,815)	(364,243)
Interest received		277	337
Interest paid		(179,116)	(169,398)
Income tax paid		(87,190)	(124,713)
Net cash from operating activities	26	<u>349,465</u>	<u>462,582</u>
Cash flows from investing activities			
Payments for investment property	12	(99,030)	(18,637)
Payments for property, plant and equipment		(365,501)	(634,319)
Payments for intangibles	13	(553)	(794)
Proceeds from disposal of property, plant and equipment		60	114
Government grants received for purchase of PPE		2,883	-
Net cash used in investing activities		<u>(462,141)</u>	<u>(653,636)</u>
Cash flows from financing activities			
Proceeds from borrowings		1,974,088	1,026,301
Repayment of borrowings		(1,465,600)	(534,500)
Dividends paid	28	(277,489)	(284,847)
Repayment of lease liabilities		(936)	(1,287)
Payment for debt issue costs		(9,632)	(7,864)
Net cash from financing activities		<u>220,431</u>	<u>197,803</u>
Net increase in cash and cash equivalents		107,755	6,749
Cash and cash equivalents at the beginning of the financial year		<u>26,038</u>	<u>19,289</u>
Cash and cash equivalents at the end of the financial year		<u><u>133,793</u></u>	<u><u>26,038</u></u>

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
30 June 2020

1. Basis of preparation

Statement of compliance

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

The financial statements were authorised for issue by the Directors on 26 August 2020.

Basis of preparation

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

Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation resulting from the change of mapping of the general ledger accounts.

Rounding of amounts

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

Going concern

In assessing the overall position of the 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 for the 12-month period following 26 August 2020 and remain confident in the viability of the long-term plan of the Group.

As at 30 June 2020, the Group has a net current asset deficiency of \$5.4 million (30 June 2019: net current liabilities \$310.8 million), driven by the timing of payables for operating costs and capital.

In April 2020, the Group secured \$650 million of new bilateral bank facilities. The maturity for this revolving bank debt is 5 years. All of these facilities remain undrawn as at 30 June 2020. The Cash Advance facility of \$65 million for Australia Pacific Airports (Launceston) was extended in March 2020 for 3 years to July 2023.

At 30 June 2020, the Group had undrawn facilities of \$1,599 million comprising of \$200 million term bank debt and \$1,389 million of unused revolving bank debt which includes the aforementioned \$650 million of new bilateral facilities. During the financial year, on 4 December 2020, the Group received proceeds of A\$554 million from the settlement of new USPP notes due December 2031, 2034 and 2044. Final settlement of the A\$150 million USPP notes due 4 December 2039 occurred on 26 March 2020. \$225 million of Domestic bonds was repaid on 4 June 2020 with a drawdown from the Syndicated facility. Scheduled drawdowns of \$200 million on the Asian term bank debt facility took place in December 2019 and June 2020. A remaining \$200 million scheduled drawdown will take place in December 2020 and June 2021 respectively in equal amounts. The Group has no debt maturities until September 2021.

Relating to the existing bank and USPP facilities, The Directors have secured a waiver on covenants relating to the Cashflow Cover Ratio ("CCR") for the six-month periods ending 30 June 2020 (bank facilities only), 31 December 2020 and 30 June 2021, with the first required complying certificate to be for the period ending December 2021. The letter of consent ensures that the Group is not in breach of its CCR covenant obligations should the minimum requirement not be met during this period.

On the basis of the above, the financial statements have been approved by the Directors' on a going concern basis.

2. Significant accounting policies

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

Adoption of New and Revised Accounting Policies

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

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

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Group derives revenue from leases held with tenants which are subject to AASB 16 Leases. The Group does not hold significant operating leases as a lessee that would be impacted by the changes in the standard. The Group has assessed that there is no material impact on the result of the Group on adoption of the standard given the standard does not substantially change how a lessor accounts for leases.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 Uncertainty over Income Tax Treatments from 1 July 2019. IFRIC 23 was developed as an interpretation of AASB 112 and so it relates only to income taxes within the scope of that standard. The Interpretation applies when there is uncertainty over income tax treatments that may affect both current and deferred taxes.

Under the requirements of the interpretation, the Group has assessed its tax positions and has not identified any material impact on the results of the Group as a result of the adoption of IFRIC 23.

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

On 14 October 2019, the Australia Accounting Standards Board released the Accounting Standard AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform. This Standard amends AASB 7 Financial Instruments: Disclosures, AASB 9 Financial Instruments and AASB 139 Financial Instruments: Recognition and Measurement. This represents phase one of responding to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary exceptions to enable hedge accounting to continue during the period of uncertainty relating to the replacement of an applicable existing interest rate benchmark with an alternative benchmark rate.

The effective date of the amendments is for annual periods beginning on or after 1 January 2020. The Group has early adopted the amendments in its financial statements for the year ended 30 June 2020 retrospectively. As at 30 June 2020, the Group's hedge relationships have not been directly impacted by applicable benchmark interest rates that are being reformed.

Other than the above, no Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

The following significant accounting policies have been adopted in the preparation of the financial report:

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (listed in Note 24) as at 30 June 2020 and the results of all subsidiaries for the year then ended. The accounting policies of the subsidiaries are consistent with the Group's accounting policies.

Subsidiaries are all entities over which the Company has power over an investee, exposure, or rights, to variables returns from its involvement with the investee, and has the ability to use its power to affect the amount of the investee's returns.

2. Significant accounting policies (continued)

Consolidation of a subsidiary begins from the date on which the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Profit or loss and comprehensive income are attributable to the owners of the Company as there are no non-controlling interests in the Group.

In preparing the consolidated financial statements, all inter-company balances and transactions and unrealised profits arising within the Group are eliminated in full.

Cash

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

Revenue from contracts with customers

Aeronautical revenue

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

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

Aeronautical revenues are billed on a monthly basis.

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

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

Security recovery revenues

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

Security recovery revenues are billed on a monthly basis.

Parking and Ground Access

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

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

Retail revenues

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

Property and car rental revenues

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

Financial instruments

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

2. Significant accounting policies (continued)

Impairment of assets

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

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

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

Capitalised borrowings costs

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

Investments

Investments in controlled entities are recorded at cost.

Provisions

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

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

Superannuation

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

Employee benefits

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

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

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

Income tax

Income tax

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

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

2. Significant accounting policies (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

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

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

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

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

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

2. Significant accounting policies (continued)

Fair value

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

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

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

3. Critical accounting judgements, estimates and assumptions

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

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

At 30 June 2020 the Group has made significant judgements and estimates impacting the financial position in particular in relation to the fair value of investment properties (note 12) and impairment of goodwill (note 13). The Group has also considered the impact of COVID-19 on significant judgements and estimates including the impairment of accrued retail revenue, the expected credit loss provision and the impairment of assets under construction, refer to Note 4: Exceptional Items - COVID-19.

4. Exceptional items - COVID-19

Included in the financial statements are a number of items reflecting the impact of COVID-19 on the Group.

	2020 \$'000
Revenue	
Impairment of accrued retail revenue (i)	(26,332)
Expenses	
Expected credit loss provision (ii)	(34,094)
Depreciation, amortisation and impairment	
Impairment of assets under construction (iii)	(40,816)

(i) Impairment of accrued retail revenue

Accrued revenue is recognised in relation to retail leases on a straight-line basis in accordance with AASB 16 leases.

Retail revenue has been significantly impacted by COVID-19 due to restrictions on travel and government-imposed restriction on retail, specifically food, beverage and duty free. As a result, the majority of retail stores remain closed from March 2020.

Rent relief is in place for all retailers commencing March 2020 and continuing into FY 2021. To the extent that accrued revenue had been recognised in respect of retail leases which is no longer expected to be recovered, an impairment has been recognised.

(ii) Expected credit loss provision

The expected credit loss includes \$27.3 million in relation to trade and other receivables and \$6.8 million in relation to accrued revenue relating to revenue from Airlines.

COVID 19 has had an impact on the credit risk of Airport Customers. The Group's Airport partners have been severely impacted by the restriction on travel and corresponding downturn in passenger numbers. Specifically, Virgin Australia Holdings was placed into Administration on 21 April 2020. Further increases in credit risk has occurred across our other Airline, Retail and Property and Landside Access customers.

A review of the expected credit loss risk in light of the impact of COVID-19 was undertaken on the trade and other receivables balances. Expected credit loss has been estimated for segmented groups of customers or individual customers by considering the aging of receivable amounts, an assessment of the individual customers positions, their financial standing and the wider macroeconomic environment and the impact of COVID-19 and any other factors that are indicative of the risk of default. Factors assessed include publicly available information as well as applying experienced credit judgement.

(iii) Impairment of assets under construction

Given the expected decrease in passenger numbers, driven by COVID-19, is expected to continue into future years, the forward capital program was reviewed and reduced to meet the Group's operational requirements.

As a result, the carrying value of projects included in assets under construction have been assessed for impairment. The assessment included consideration of the current status of the project, nature of the capital project and the likelihood of the capital project being required given the expected prolonged impact of COVID-19 on passenger numbers. These projects assessed as impaired primarily related to those in the development stage, dependant on passenger growth and considered no longer viable. As a result, an impairment of assets under construction of \$40.8 million has been recognised.

5. Profit for the year

	2020 \$'000	2019 \$'000
Profit for the period has been derived after charging the following specific expenses:		
Employee benefits expense - superannuation contributions	5,345	4,992
Impairment of assets under construction	40,816	419
Expected credit loss expense	33,324	201
Depreciation of property, plant and equipment	255,040	182,357
Amortisation of masterplan	934	351
Total Depreciation and amortisation	<u>255,974</u>	<u>182,708</u>
Borrowing costs:		
Interest:		
- Secured debt	197,001	175,893
- Interest capitalised during the period	(16,618)	(7,928)
- Unsecured debt	371	742
- Amortisation of deferred borrowing costs	6,315	4,807
Hedge reserve unwind	669	(414)
Unwind of discount on finance lease liability	352	247
Other costs	998	888
Total borrowing costs	<u>189,088</u>	<u>174,235</u>

6. Security

	2020 \$'000	2019 \$'000
Security revenue	53,066	59,520
Security cost	(50,446)	(58,308)
Security depreciation and other costs	(2,620)	(1,212)
	<u>-</u>	<u>-</u>

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

7. Income tax

(a) Income tax recognised in profit

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

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7. Income tax (continued)

	2020	2019
	\$'000	\$'000
<i>Income tax expense comprises of:</i>		
Current tax expense	23,740	122,284
Deferred tax expense	20,888	45,124
Current tax expense in respect of prior years	(636)	1,714
Deferred tax in respect of prior years	(1,684)	(2,155)
	<u>42,308</u>	<u>166,967</u>
Aggregate income tax expense	<u>42,308</u>	<u>166,967</u>
<i>The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:</i>		
Profit before income tax expense	147,631	557,409
Tax at the statutory tax rate of 30%	44,289	167,223
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	500	444
Non-assessable income	(161)	(259)
Deferred tax in respect of prior years	(1,684)	(2,155)
	<u>42,944</u>	<u>165,253</u>
Current tax expense in respect of prior years	(636)	1,714
Income tax expense	<u>42,308</u>	<u>166,967</u>

(b) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

2020

	Opening balance 1 July 2019 \$'000	Consolidated Charged to income \$'000	Charged to equity \$'000	Closing balance 30 June 2020 \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(149,177)	13,197	-	(135,980)
Accrued revenue	(35,392)	4,398	-	(30,994)
Investment property	(400,544)	(33,236)	-	(433,780)
Other assets	(3,814)	600	-	(3,214)
Deferred borrowing costs	(1,817)	-	-	(1,817)
	<u>(590,744)</u>	<u>(15,041)</u>	<u>-</u>	<u>(605,785)</u>
Gross deferred tax assets:				
Provisions & accruals	8,090	(1,878)	-	6,212
Unearned income	2,104	(2,284)	-	(180)
Hedge reserve	67,388	-	188	67,576
Other	642	-	-	642
	<u>78,224</u>	<u>(4,162)</u>	<u>188</u>	<u>74,250</u>
Net deferred tax liability	<u>(512,520)</u>	<u>(19,203)</u>	<u>188</u>	<u>(531,535)</u>

7. Income tax (continued)

2019

	Opening Balance 1 July 2018 \$'000	Consolidated		Closing balance 30 June 2019 \$'000
		Charged to income \$'000	Charged to equity \$'000	
Gross deferred tax liabilities:				
Property, plant & equipment	(155,971)	6,794	-	(149,177)
Accrued revenue	(31,507)	(3,885)	-	(35,392)
Investment property	(353,467)	(47,077)	-	(400,544)
Other assets	(4,414)	600	-	(3,814)
Deferred borrowing costs	(1,814)	(3)	-	(1,817)
	<u>(547,173)</u>	<u>(43,571)</u>	<u>-</u>	<u>(590,744)</u>
Gross deferred tax assets:				
Provisions & accruals	7,325	765	-	8,090
Unearned income	2,157	(53)	-	2,104
Hedge reserve	43,176	-	24,212	67,388
Other	752	(110)	-	642
	<u>53,410</u>	<u>602</u>	<u>24,212</u>	<u>78,224</u>
Net deferred tax liability	<u>(493,763)</u>	<u>(42,969)</u>	<u>24,212</u>	<u>(512,520)</u>

8. Trade and other receivables

	2020 \$'000	2019 \$'000
Trade and other receivables	58,144	107,493
Less: expected credit loss provision (i)	<u>(27,327)</u>	<u>(676)</u>
Net trade and other receivables	<u>30,817</u>	<u>106,817</u>
GST receivables	<u>7,032</u>	<u>28,290</u>
Total trade and other receivables	<u>37,849</u>	<u>135,107</u>

Included in the Company's trade receivables balance are debtors with a carrying amount of \$26,778,976 (2019: \$3,907,407), which were overdue (90 days +) as at the reporting date.

Impact of COVID-19

(i) Expected credit loss provision

The expected credit loss provision has been impacted by COVID-19, refer to Note 4 for further details.

Accounting policy for trade and other receivables

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

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

Revenue is invoiced on 30-day terms, with the exception of property and rental revenue which is invoiced in advance. Most agreements allow for interest to be charged on overdue balances between 1.0% and 2.0% above base rates.

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9. Accrued revenue

	2020 \$'000	2019 \$'000
Current:		
Straight line leases	6,002	8,930
Accrued revenue	5,103	13,303
Total current accrued revenue	<u>11,105</u>	<u>22,233</u>
Non-current:		
Straight line leases	<u>105,713</u>	<u>117,446</u>

COVID-19 impact

The Group has \$116.8 million of accrued revenue at 30 June 2020. A significant portion of this accrued revenue relates to Property leases for which revenue is recognised on a straight-line basis in accordance with AASB 16 leases. The balance has been assessed for impairment at 30 June 2020. The Directors have considered the significant economic downturn in Australia and globally as a result of COVID 19. Based on current information on the credit risk of customers, no impairment of accrued revenue relating to straight line property leases was required. Refer to note 4 for further details on the impairment of accrued retail revenue.

Refer to Note 4 for details of the impact of COVID-19 on straight line leases and accrued revenue.

10. Other assets

	2020 \$'000	2019 \$'000
<i>Current assets</i>		
Prepayments	1,219	1,546
Airline rebates	2,000	2,000
Term deposits	460	460
Other current assets	120	100
Total current	<u>3,799</u>	<u>4,106</u>
<i>Non-current assets</i>		
Airline rebates	8,723	10,724
Other non-current assets	880	1,371
Total non-current	<u>9,603</u>	<u>12,095</u>
	<u>13,402</u>	<u>16,201</u>

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11. Property, plant and equipment

	Leasehold land \$000	Buildings and services \$000	Roads, runway & other infrastructure \$000	Plant and equipment \$000	Assets under construction \$000	Total \$000
Gross carrying amount						
Balance at 1 July 2019	241,642	2,227,775	1,236,844	851,290	343,781	4,901,332
Additions	-	-	-	-	431,951	431,951
Disposals	-	-	-	(135)	-	(135)
Impairment	-	-	(282)	-	(40,534)	(40,816)
Transfers from investment property	3,200	1,720	-	-	5,595	10,515
Transfers to/(from) assets under construction	74	94,519	39,694	83,843	(218,130)	-
Balance at 30 June 2020	244,916	2,324,014	1,276,256	934,998	522,663	5,302,847
Accumulated depreciation						
Balance at 1 July 2019	(17,126)	(558,925)	(369,721)	(495,067)	-	(1,440,839)
Depreciation expense	(2,587)	(130,292)	(44,683)	(77,480)	-	(255,042)
Disposals	-	-	-	135	-	135
Balance at 30 June 2020	(19,713)	(689,217)	(414,404)	(572,412)	-	(1,695,746)
Net book value at 30 June 2020	225,203	1,634,797	861,852	362,586	522,663	3,607,101

	Leasehold land \$'000	Buildings and services \$'000	Roads, runways & other infrastructure \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Gross carrying amount						
Balance at 1 July 2018	166,770	1,703,788	1,154,117	774,032	201,736	4,000,443
Additions	-	252,558	-	23,442	386,133	662,133
Disposals	-	-	-	(825)	-	(825)
Impairment	-	-	-	-	(419)	(419)
Transfers from investment property	59,500	167,024	-	13,476	-	240,000
Transfers to/(from) assets under construction	15,372	104,405	82,727	41,165	(243,669)	-
Balance at 30 June 2019	241,642	2,227,775	1,236,844	851,290	343,781	4,901,332
Accumulated depreciation						
Balance at 1 July 2018	(14,828)	(479,284)	(330,431)	(434,764)	-	(1,259,307)
Depreciation expense	(2,298)	(79,641)	(39,290)	(61,128)	-	(182,357)
Disposals	-	-	-	825	-	825
Balance at 30 June 2019	(17,126)	(558,925)	(369,721)	(495,067)	-	(1,440,839)
Net book value at 30 June 2019	224,516	1,668,850	867,123	356,223	343,781	3,460,493

Impairment assessment

Refer to Note 4 for further details on impairment of assets under construction due to COVID-19.

Accounting policy for property, plant and equipment

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

11. Property, plant and equipment (continued)

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

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

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

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

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

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

12. Investment properties

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

	2020 \$'000	2019 \$'000
Balance at beginning of the period	1,416,336	1,493,862
Additions for the period	99,030	18,637
Transfer (to)/from property, plant and equipment	(10,515)	(240,000)
Net gain from fair value adjustments for the year	96,685	143,837
Balance at end of the period	<u>1,601,536</u>	<u>1,416,336</u>

Accounting policy for investment properties

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

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

Critical accounting estimates and judgements - investments properties

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

Valuation of investment properties

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

12. Investment properties (continued)

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

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

Key inputs and sensitivities

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

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

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

- A capitalisation rate ranging from 5.25% to 8.0%;
- A discount rate ranging from 6.75% to 8.25%;
- A terminal yield ranging from 5.75% to 8.50%
- Market rental growth ranging from 2.31% to 2.91%

The higher the capitalisation rate, discount rate and terminal yield, the lower the fair value. The higher the rental growth, the higher the fair value. All of the above assumptions have been taken from the latest external valuation report. The Group provided investment property (along with land and buildings in Note 11) as security for loans as disclosed in Note 15.

12. Investment properties (continued)

Impact of COVID-19

The impact of COVID-19 on the valuation has not been significant given investment property rentals are not directly related to passenger numbers. The cash flows and assumptions used were adjusted to reflect expected rent market relief to tenants and the expected impact of economic downturn.

The Group recognised net gain from fair value adjustments for the year of \$96.9 million. The increase in value was primarily driven by the completion of five developments in the Melbourne Airport Business Park. An increase in vacant land values and capitalisation rate compression also contributed to the increase in value.

13. Intangible assets

	2020 \$'000	2019 \$'000
Goodwill (i)	671,866	671,866
Masterplan (ii)	3,182	3,563
	<u>675,048</u>	<u>675,429</u>
 (i) <i>Goodwill</i>		
Melbourne Airport	667,700	667,700
Launceston Airport	4,166	4,166
	<u>671,866</u>	<u>671,866</u>

Critical accounting estimates and judgements - impairment of goodwill

Determining whether goodwill is impaired requires an annual estimation of the value in use (or fair value less costs to dispose) of the cash generating units to which goodwill has been allocated. Fair value less cost to sell calculation is used by the Company and requires the Directors to estimate the future cash flows expected to arise from the cash generating unit and application of a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating units, in order to calculate present value. These calculations require the use of assumptions and the application of sensitivity analysis where appropriate (as noted above). The company consider Melbourne and Launceston Airports to be separate cash generating units.

Accounting policy for goodwill

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

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

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

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

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13. Intangible assets (continued)

Terminal value was calculated for the period beyond the 20-year forecast based on a sustainable level of forecast distributions and a capitalisation amount based on a constant terminal growth rate of 3%.

Post-tax cash flows are discounted to their present value using a post-tax discount rate of 9.7%. The discount rate used reflects current market assessment of the time value of money and the risks specific to the CGU.

The goodwill balance arises as a result of the acquisition of Melbourne and Launceston Airports. Goodwill has and continues to be assessed for impairment on an annual basis in line with the valuation method documented above and has significant headroom between the valuation and the carrying value of goodwill. In the current year the valuation has seen a reduction in this headroom, however, this amount is still significantly in excess of the carrying value.

Impact of COVID-19

The impairment assessment of goodwill in the Group at 30 June 2020 has included the updated current and forecasted trading conditions brought on by the COVID-19 pandemic. The assessment concluded that goodwill has not been impaired, and that there are no reasonably possible changes in assumptions that would result in impairment.

(ii) *Master Plan*

	2020 \$'000	2019 \$'000
Balance at beginning of the period	3,563	3,119
Additions	553	794
Amortisation	(934)	(350)
Balance at end of the period	<u>3,182</u>	<u>3,563</u>

Accounting policy for Master Plan intangible asset

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

14. Payables

	2020 \$'000	2019 \$'000
Current liabilities		
Trade and other payables (i)	97,885	79,259
Accrual for assets under construction	53,721	33,956
	<u>151,606</u>	<u>113,215</u>
Interest payable to:		
- Secured debt - bank (ii)	38,234	35,552
- Launceston City Council	306	355
	<u>38,540</u>	<u>35,907</u>
	<u>190,146</u>	<u>149,122</u>
	2020 \$'000	2019 \$'000
Non-current liabilities		
Undistributed capital note liability (iii)	<u>1,202</u>	<u>1,202</u>

14. Payables (continued)

(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.

Accounting policy for trade and other payables

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

15. Borrowings

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

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

	Face value			
	Drawn (\$'000) 2020	Undrawn (\$'000) 2020	Drawn (\$'000) 2019	Undrawn (\$'000) 2019
Drawn and undrawn				
Unsecured bank overdraft	-	10,087	-	21,395
Term bank debt	300,000	200,000	100,000	400,000
Bank facilities	476,100	1,388,900	646,300	418,700
	<u>776,100</u>	<u>1,598,987</u>	<u>746,300</u>	<u>840,095</u>
Capital markets debt	<u>3,554,892</u>	-	<u>3,076,211</u>	-
Total Borrowings	<u><u>4,330,992</u></u>	<u><u>1,598,987</u></u>	<u><u>3,822,511</u></u>	<u><u>840,095</u></u>

Accounting policy for borrowings

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

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

Foreign currency borrowings are reported at spot exchange rates with movement in the spot rate reflected in the profit or loss statement to the extent the borrowings are unhedged and in the hedge reserve if the borrowings are effectively hedged.

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15. Borrowings (continued)

	Maturity	Currency	Principal Original Currency \$'000	Drawn Face Value (AUD) (i) \$'000	Carrying Amount (ii)	
Type					2020 \$'000	2019 \$'000
Capital Markets Debt						
AMTN	4-Jun-20	AUD	-	-	-	225,000
USPP	15-Sep-21	USD	200,000	191,077	289,729	284,880
AMTN	15-Sep-22	AUD	250,000	250,000	250,000	250,000
USPP (\$A)	15-Nov-22	AUD	125,000	125,000	125,000	125,000
USPP	15-Sep-23	USD	200,000	191,077	289,729	284,880
EMTN (iii)	26-Sep-23	EUR	550,000	784,929	895,037	890,760
EMTN	15-Oct-24	EUR	350,000	505,050	569,569	566,848
AMTN	11-Nov-25	AUD	120,000	120,000	120,000	120,000
USPP	15-Sep-26	USD	200,000	191,077	289,729	284,880
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	225,786	250,398
USPP	4-Dec-31	USD	105,000	151,844	174,102	-
USPP	4-Dec-34	USD	105,000	151,844	152,108	-
USPP	4-Dec-39	AUD	150,000	150,000	128,006	-
USPP	4-Dec-44	AUD	250,000	250,000	250,000	-
Total Capital Market Debt				3,554,892	4,008,795	3,532,646
Bank Debt						
Syndicated Facility	30-Sep-21	AUD		330,000	330,000	400,000
Working Capital Facility	12-Apr-22	AUD		-	-	20,000
Bilateral Facility	15-Jul-22	AUD		100,000	100,000	-
Syndicated Facility	30-Sep-22	AUD		-	-	180,000
Cash Advance Facility (iv)	30-Jul-23	AUD		46,100	46,100	46,300
Bilateral Facilities (v)	30-Apr-25	AUD		-	-	-
Term Bank Debt	16-Jun-26	AUD		120,000	120,000	40,000
Term Bank Debt	16-Jun-29	AUD		180,000	180,000	60,000
Total Bank Debt				776,100	776,100	746,300
Total Borrowings				4,330,992	4,784,895	4,278,946
Financial Liabilities valued at Fair Value through Profit and Loss					64,451	53,023
Deferred borrowing costs					(30,819)	(26,907)
Total Net Borrowings					4,818,527	4,305,062

Notes:

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

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

(ii) Carrying amounts of foreign debt reflect revalued debt in AUD at spot rates as at 30 June 2020.

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

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

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

15. Borrowings (continued)

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

	Long term borrowings (i) 2020 \$'000	Short-term borrowings (i) 2020 \$'000	Assets held to hedge long-term borrowings 2020 \$'000	Long term borrowings 2019 \$'000	Short-term borrowings 2019 \$'000	Assets held to hedge long-term borrowings 2019 \$'000
Balance at 1 July	4,007,646	271,300	(287,880)	3,703,780	-	(279,415)
Cash movements	733,688	(225,200)	-	491,800	-	-
Non-cash movements						
Acquisition/ refinance/ reclassification	46,100	(46,100)	-	(271,300)	271,300	-
FX movement	(2,539)	-	-	83,366	-	-
Fair value changes	-	-	(6,997)	-	-	(8,465)
	43,561	(46,100)	(6,997)	(187,934)	271,300	(8,465)
	<u>4,784,895</u>	<u>-</u>	<u>(294,877)</u>	<u>4,007,646</u>	<u>271,300</u>	<u>(287,880)</u>

Note:

(i) Total borrowings balance (long-term and short-term) as at 30 June 2020 is \$4,784,895,000 before adjustments for financial liabilities valued at fair value through profit and loss, and deferred borrowing costs.

16. Derivative financial instruments

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

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

	Current 2020 \$'000	Non-current 2020 \$'000	Total 2020 \$'000	Current 2019 \$'000	Non-current 2019 \$'000	Total 2019 \$'000
Assets						
Cross currency swaps	-	515,870	515,870	-	446,112	446,112
Liabilities						
Cross currency swaps	-	(42,238)	(42,238)	-	(23,013)	(23,013)
Interest rate swaps	-	(72,495)	(72,495)	-	(68,845)	(68,845)
Forward interest rate hedge instruments	(22,796)	(83,464)	(106,260)	(26,552)	(39,823)	(66,375)
	<u>(22,796)</u>	<u>(198,197)</u>	<u>(220,993)</u>	<u>(26,552)</u>	<u>(131,681)</u>	<u>(158,233)</u>
Net derivative position assets/(liabilities)	<u>(22,796)</u>	<u>317,673</u>	<u>294,877</u>	<u>(26,552)</u>	<u>314,431</u>	<u>287,879</u>

16. Derivative financial instruments (continued)

Accounting policy for derivative financial instruments

The Group enters into interest rate swaps, swaptions and cross currency interest rate swaps. The swaps have been allocated against the underlying or forecast cross currency and interest rate exposure and to this extent modify the cross currency and interest rate risk of the underlying and forecast debt. These instruments are initially recognised at fair value on the date a contract is entered into, and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss, unless the derivative is designated and effective as a hedging instrument, in which event, the timing of recognition in profit or loss depends on the nature of the hedge relationship. Further details of derivative financial instruments are disclosed in Note 17 to the financial statements

17. Financial risk management

(a) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 15, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings as disclosed in Notes 20, 21 and 22 respectively. In addition, the Group has implemented risk management strategies to mitigate against adverse increases to interest rates on future borrowings.

Due to the COVID-19 impact, Australia Pacific Airports (Melbourne) Pty. Limited's key financial covenant Cashflow Coverage ratio (CFCR) is forecast to be breached for the December 2020 and June 2021 testing period.

CFCR compliance waivers were obtained in respect of the Common Terms Deed (\$A2.3 billion for periods 30 June 2020, 31 December 2020 & 30 June 2021) (Note 15: Syndicated Facility, Working Capital Facility, Bilateral Facility, Cash Advance Facility and Term Bank Debt) executed 28th May 2020. Waivers for outstanding USPP notes (\$A1.45 billion equivalent for periods 31 December 2020 & 30 June 2021) (Note 15: USPP), noting execution date of 23rd July 2020.

Australia Pacific Airports (Melbourne) Pty. Limited is obligated to provide a complying compliance certificate for the period ending 31 December 2021.

17. Financial risk management (continued)

(b) Categories of financial instruments

	At amortised cost \$'000	Derivatives designated: as fair value hedge \$'000	as cash flow hedge \$'000	2020 Total \$'000	2019 Total \$'000
Financial Assets					
Cash and cash equivalents	133,793	-	-	133,793	26,038
Trade and other receivables	37,849	-	-	37,849	135,107
Income tax receivable	40,912	-	-	40,912	-
Non-current cross currency interest rate swaps	-	63,250	452,620	515,870	446,112
	<u>212,554</u>	<u>63,250</u>	<u>452,620</u>	<u>728,424</u>	<u>607,257</u>
Financial liabilities					
Trade and other payables	151,606	-	-	151,606	113,215
Income tax payable	-	-	-	-	23,174
Interest payable	38,540	-	-	38,540	35,907
Non-current payables	1,202	-	-	1,202	1,202
Finance lease liabilities	6,012	-	-	6,012	6,948
Non-current borrowings	4,754,076	64,451	-	4,818,527	4,305,061
Non-current interest rate swaps	-	-	72,495	72,495	68,845
Non-current cross currency interest rate swaps	-	-	42,238	42,238	23,013
Current forward interest rate hedge instruments	-	-	22,796	22,796	26,552
Non-current forward interest rate hedge instruments	-	-	83,464	83,464	39,823
	<u>4,951,436</u>	<u>64,451</u>	<u>220,993</u>	<u>5,236,880</u>	<u>4,643,740</u>

(c) Financial risk management objectives

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

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

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

(d) Interest rate risk management

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

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

17. Financial risk management (continued)

(e) Interest rate sensitivity

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

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

- Net profit would increase/ decrease by \$3,321,000 (2019: increase/ decrease \$1,591,000). This is due to interest rates on its variable borrowings.
- Other equity reserves would increase/ decrease by \$100,280,000 (2019: increase/ decrease \$98,154,000) mainly as a result of the changes in fair value through OCI for fixed rate instruments.

The Group has no material interest revenue.

(f) Cross currency sensitivity

Cross currency exposures for the Group are predominantly arising from foreign denominated interest-bearing liabilities. The Group's policy is to hedge 100% of cross currency risk for both capital and interest for the life of the exposure. As at 30 June 2020 and 2019, these cross-currency exposures were 100% hedged through cross currency swaps until maturity resulting in no other material cross currency risk exposure.

(g) Interest rate derivative contracts

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

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

	Average contracted fixed interest rate		Notional principal amount		Fair value of interest rate derivatives	
	2020 %	2019 %	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	4.2%	4.2%	729,000	729,000	(72,495)	(68,845)
5 years +	3.2%	3.5%	659,000	659,000	(106,261)	(66,374)
			<u>1,388,000</u>	<u>1,388,000</u>	<u>(178,756)</u>	<u>(135,219)</u>

The fair value of these contracts as at 30 June 2020 is disclosed in Note 16.

(h) Foreign currency risk management

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

(i) Foreign currency exchange contracts

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

17. Financial risk management (continued)

	Average Exchange Rate	Notional Principal Amount		Fair Value of Cross Currency Interest Rate	
		1 to 5 years \$'000	> 5 years \$'000	1 to 5 years \$'000	> 5 years \$'000
Consolidated 2020					
USD (810m)	0.6903	382,153	494,764	190,198	125,650
EUR (900m)	0.6145	1,289,974	-	200,023	-
NOK (1,500m)	6.6434	-	242,994	-	(42,238)
		1,672,127	737,758	390,221	83,412
	Average Exchange Rate	Notional Principal Amount		Fair Value of Cross Currency Interest Rate	
		1 to 5 years \$'000	> 5 years \$'000	1 to 5 years \$'000	> 5 years \$'000
Consolidated 2019					
USD (600m)	0.7021	382,153	191,077	157,785	66,955
EUR (900m)	0.6175	1,289,974	-	221,372	-
NOK (1,500m)	5.9905	-	242,994	-	(23,013)
		1,672,127	434,071	379,157	43,942

(j) Liquidity risk

The following table details the Group's exposure to liquidity risk as at 30 June 2020. All domestic bonds, US private placements and European bonds listed are fixed rate notes unless otherwise stated.

2020	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash and cash equivalents		133,793	-	-	-	133,793
Trade and other receivables		37,849	-	-	-	37,849
Income tax receivable		40,912	-	-	-	40,912
Cross currency interest rate swaps	(ii)	-	-	390,220	125,650	515,870
		<u>212,554</u>	<u>-</u>	<u>390,220</u>	<u>125,650</u>	<u>728,424</u>

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17. Financial risk management (continued)

	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Trade and other payables		151,606	-	-	-	151,606
Interest payable		38,540	-	-	-	38,540
Finance lease liability		210	631	2,598	2,573	6,012
Non-current payables		-	-	1,202	-	1,202
		<u>190,356</u>	<u>631</u>	<u>3,800</u>	<u>2,573</u>	<u>197,360</u>
Borrowings: (iii)						
Term bank debt	2.10%	1,700	5,165	43,877	331,651	382,393
Bank facilities	1.48%	5,632	17,875	559,395	29,471	612,373
AMTN	4.01%	5,041	17,919	316,917	334,033	673,910
USPP	4.37%	22,917	54,491	924,716	1,415,842	2,417,966
EMTN	4.87%	15,104	60,138	1,683,750	281,752	2,040,744
		<u>50,394</u>	<u>155,588</u>	<u>3,528,655</u>	<u>2,392,749</u>	<u>6,127,386</u>
Cross currency interest rate swaps						
Interest rate swaps	(ii)	-	-	-	42,238	42,238
Interest rate swaps	(ii)	-	-	72,495	-	72,495
Forward interest rate hedge instruments	2.61%	22,796	-	8,955	74,509	106,260
		<u>22,796</u>	<u>-</u>	<u>81,450</u>	<u>116,747</u>	<u>220,993</u>
		<u>263,546</u>	<u>156,219</u>	<u>3,613,905</u>	<u>2,512,069</u>	<u>6,545,739</u>

Notes:

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

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

(iii) Borrowings include interest and principal debt obligations, which also include interest cash flows from derivative assets and liabilities.

As at 30 June 2020, the Group has undrawn facilities of \$1,598,987 million, which provides sufficient liquidity to cover all financial liabilities due within 1 year in the above table.

2019	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(i)	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash and cash equivalents		26,038	-	-	-	26,038
Current receivables		131,200	3,907	-	-	135,107
Cross currency interest rate swaps	(ii)	-	-	345,917	100,195	446,112
		<u>157,238</u>	<u>3,907</u>	<u>345,917</u>	<u>100,195</u>	<u>607,257</u>

17. Financial risk management (continued)

	Weighted average effective interest rate	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
(i)		\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Trade payables		113,215	-	-	-	113,215
Income tax payable		23,174	-	-	-	23,174
Interest payable		35,907	-	-	-	35,907
Finance lease liability		234	702	2,890	3,122	6,948
Non-current payables		1,202	-	-	-	1,202
		<u>173,732</u>	<u>702</u>	<u>2,890</u>	<u>3,122</u>	<u>180,446</u>
Borrowings: (iii)						
Term bank debt	2.75%	1,028	4,246	39,298	143,095	187,667
Bank facilities	2.66%	3,435	58,213	690,256	46,017	797,921
AMTN	4.08%	5,041	254,263	326,917	346,993	933,214
USPP	7.36%	22,260	42,517	950,948	743,405	1,759,130
EMTN	4.82%	15,104	60,344	1,162,209	896,150	2,133,807
		<u>46,868</u>	<u>419,583</u>	<u>3,169,628</u>	<u>2,175,660</u>	<u>5,811,739</u>
Cross currency						
interest rate swaps	(ii)	-	-	-	23,013	23,013
Interest rate swaps	(ii)	-	-	68,845	-	68,845
Forward interest rate	1.7%					
hedge instruments		10,423	-	3,987	51,964	66,374
		<u>10,423</u>	<u>-</u>	<u>72,832</u>	<u>74,977</u>	<u>158,232</u>
		<u>231,023</u>	<u>420,285</u>	<u>3,245,350</u>	<u>2,253,759</u>	<u>6,150,417</u>

Notes:

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

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

(iii) Borrowings include interest and principal debt obligations, which also include interest cash flows from derivative assets and liabilities.

(k) Credit risk management

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

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

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

For trade receivables, the Group adopts a policy of dealing with customers with appropriate credit quality and obtaining collateral support where appropriate for risk mitigation. With ongoing COVID-19 impacts, the Group continues to monitor its trade receivables aging and engages in follow up activity, which may include enforcement where receivables are overdue. A write off is recognized when there is no reasonable expectation of recovery. Further clarification of the impact of COVID-19 on the assessment of credit risk in respect of customers in FY20 are addressed in Note 4.

17. Financial risk management (continued)

(l) Fair value

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

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

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

(m) Liquidity risk management

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

(n) Hedge accounting

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

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

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

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

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

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

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

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

17. Financial risk management (continued)

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

(p) Fair value hedges

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

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

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

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

	2020 \$'000	2019 \$'000
Fixed rate instruments		
Face value	936,767	784,929
FX adjustments	110,635	105,831
Cumulative fair value hedge adjustments	<u>64,451</u>	<u>53,023</u>
Carrying amount	<u><u>1,111,853</u></u>	<u><u>943,783</u></u>

(q) Cash flow hedges

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

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2020

17. Financial risk management (continued)

Balance Sheet	Notional Amount	Carrying Amount	
	\$'000	Assets (i)	Liabilities (ii)
2020		\$'000	\$'000
Cross-currency swaps:			
Fair value hedge	612,767	63,250	-
Cash flow hedge	2,106,204	452,620	42,238
	<u>2,718,971</u>	<u>515,870</u>	<u>42,238</u>
Interest rate swaps	729,000	-	72,495
Forward interest rate hedge	659,000	-	106,260
	<u>4,106,971</u>	<u>515,870</u>	<u>220,993</u>
	Notional amount	Carrying amount	
	\$'000	Assets (i)	Liabilities (ii)
2019		\$'000	\$'000
Cross-currency swaps:			
Fair value hedge	460,929	52,491	-
Cash flow hedge	2,106,204	393,621	23,013
	<u>2,567,133</u>	<u>446,112</u>	<u>23,013</u>
Interest rate swaps	729,000	-	68,845
Forward interest rate hedge	659,000	-	66,374
	<u>3,955,133</u>	<u>446,112</u>	<u>158,232</u>

Notes:

(i) hedging instruments located in Financial Assets in the Statement of Financial Position

(ii) hedging instruments located in Financial Liabilities in the Statement of Financial Position

Cumulative changes in value used for calculating hedge ineffectiveness:

	Hedging instrument	Hedging item	Cash flow hedge reserve
	asset/(liability)	asset/(liability)	post tax at:
2020	\$'000	\$'000	30 June 2020
			\$'000
Cash flow hedges:			
Interest rate and foreign exchange rate risk on cross currency swaps	410,382	(411,853)	(30,465)
Interest rate risk on floating rate borrowings	(178,755)	181,942	(127,212)
	<u>231,627</u>	<u>(229,911)</u>	<u>(157,677)</u>

17. Financial risk management (continued)

	Hedging instrument asset/(liability) \$'000	Hedging item asset/(liability) \$'000	Cash flow hedge reserve post tax at: 30 June 2019 \$'000
2019			
Cash flow hedges:			
Interest rate and foreign exchange rate risk on cross currency swaps	370,608	(377,636)	(60,088)
Interest rate risk on floating rate borrowings	(135,219)	136,676	(97,151)
	<u>235,389</u>	<u>(240,960)</u>	<u>(157,239)</u>
		Gain/(loss) 2020 \$'000	Gain/(loss) 2019 \$'000
Cumulative ineffectiveness recognised:			
Fair value hedges (i)			
Interest rate risk		<u>1,201</u>	<u>531</u>

Note:

(i) ineffectiveness of fair value hedges recognised in Borrowing Costs

18. Finance lease liabilities

	2020 \$'000	2019 \$'000
Finance lease liabilities		
Current	1,287	1,287
Non-current	<u>4,725</u>	<u>5,661</u>
	<u>6,012</u>	<u>6,948</u>
	2020 \$'000	2019 \$'000
Commitments for finance leases		
Lease commitments		
Within one year	1,287	1,287
Later than one year but not later than five years	5,150	5,150
More than five years	<u>9,012</u>	<u>10,300</u>
	<u>15,449</u>	<u>16,737</u>
Lease commitments present value		
Within one year	841	936
Later than one year but not later than five years	2,598	2,890
More than five years	<u>2,573</u>	<u>3,122</u>
	<u>6,012</u>	<u>6,948</u>

The above table relates to expenditure commitments under finance leases.

18. Finance lease liabilities (continued)

Accounting policy for finance lease liabilities

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

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

19. Lease arrangements

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

	2020 \$'000	2019 \$'000
Within one year	86,324	247,169
Later than one year but not later than 5 years	422,228	768,746
Later than 5 years	868,948	925,594
	<u>1,377,500</u>	<u>1,941,509</u>

Minimum lease payments have reduced year on year as a result of the impact of COVID-19 with lease payments impacted by rent relief and uncertainty around minimum guarantees for retail tenants.

20. Issued capital

	2020 \$'000	2019 \$'000
118,100,000 Ordinary Shares - fully paid (30 June 2019: 118,100,000)	<u>118,100</u>	<u>118,100</u>

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

Accounting policy for issued capital

Ordinary shares are classified as equity.

21. Hedging reserves

	2020 \$'000	2019 \$'000
Balance at beginning of financial period	<u>(157,239)</u>	<u>(100,745)</u>
FX remeasurement transferred to profit and loss	2,539	(83,366)
Fair value movement of derivatives	(3,761)	2,342
Unwind of premiums paid	596	318
Deferred tax arising from movements	188	24,212
Net movement	<u>(438)</u>	<u>(56,494)</u>
Balance at end of the year	<u>(157,677)</u>	<u>(157,239)</u>

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2020

21. Hedging reserves (continued)

Accounting policy for hedging reserve

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

22. Retained profits

	2020 \$'000	2019 \$'000
Retained profits at the beginning of the financial year	1,160,207	1,054,613
Profit after income tax expense for the year	105,323	390,442
Dividends paid (note 28)	(277,489)	(284,848)
Retained profits at the end of the financial year	<u>988,041</u>	<u>1,160,207</u>

23. Capital expenditure commitments

	2020 \$'000	2019 \$'000
Capital expenditure commitments		
Not longer than 1 year	251,091	203,513
Longer than 1 year but not longer than 5 years	111,926	115,015
Total Property, plant and equipment commitments	<u>363,017</u>	<u>318,528</u>

24. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2020 %	2019 %
Parent entity			
Australia Pacific Airports Corporation Limited	Australia	-	-
Subsidiaries			
APAC (Holdings No.2) Pty. Limited	Australia	100%	100%
Australia Pacific Airports (Melbourne) Pty. Limited	Australia	100%	100%
Australia Pacific Airports (Property) Pty. Limited (i) (ii)	Australia	100%	100%
APAC (Holdings) Pty. Limited (i)	Australia	100%	100%
Australia Pacific Airports (Launceston) Pty. Limited	Australia	100%	100%

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

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

25. Related party transactions

(a) Equity interests in related parties

25. Related party transactions (continued)

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 24 to the financial statements.

(b) Key management personnel compensation

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

The key management personnel during the year were: L. Strambi, G. Devonport, S. Gandy, L. Argus, A. Gardiner, S. O'Hare and L. Horton.

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	5,697,112	5,379,419
Long-term incentives	886,871	1,627,620
Resignations	307,683	-
	<u>6,891,666</u>	<u>7,007,039</u>

(c) Transactions within the wholly-owned group

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

In accordance with tax sharing arrangements (refer to Note 7) tax payments have been received or accrued to reflect the wholly owned Controlled Entity's share of the tax expense of the tax consolidated group.

(d) Transactions with Shareholders

During FY19, AMP Capital Investors Ltd were engaged to provide debt advisory services to APAM. At 30 June 2019 \$500,000 was incurred and included as payable. The remaining services were provided in FY20 for a total value of \$1,116,463. The amount was paid in full during the FY20.

During FY20 AMP Capital Investors Ltd were engaged to provide further debt advisory services to APAM. As at 30 June 2020 \$50,000 was accrued.

AMP Capital Investors Ltd, being a shareholder, are considered to be a related party.

26. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	133,793	26,038

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

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

26. Notes to the Statement of Cash Flows (continued)

	2020 \$'000	2019 \$'000
Profit after income tax expense for the year	105,323	390,442
Adjustments for:		
Net profit on sale of non-current assets	(60)	(114)
Amortisation of deferred borrowing costs	6,315	4,807
Hedge reserve unwind	669	(414)
Depreciation and amortisation of non-current assets	255,974	182,708
Deferred tax liabilities	19,204	42,845
Gain on investment property	(96,685)	(143,837)
Impairment of assets under construction	40,816	419
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	97,258	(3,785)
(Increase)/decrease in other current assets	307	64
(Increase)/decrease in other non-current assets	2,492	1,765
(Increase)/decrease in accrued revenue	22,861	(35,166)
Increase/(decrease) in trade payables	(28,412)	12,294
Increase/(decrease) in interest payables	2,988	444
Increase/(decrease) in tax payable	(64,086)	(715)
Increase/(decrease) in employee provisions	(7,883)	2,599
Increase/(decrease) in unearned revenue	(7,616)	8,226
Net cash from operating activities	<u>349,465</u>	<u>462,582</u>

27. Remuneration of auditors

	2020 \$	2019 \$
Audit or review of financial reports:		
- Group	378,050	320,400
Statutory assurance services required by legislation to be provided by the auditor	30,000	29,500
Other assurance services and agreed-upon procedures under other legislation or contractual arrangements	52,700	51,900
	<u>460,750</u>	<u>401,800</u>

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

28. Dividends

	2020 \$'000	2019 \$'000
Dividends paid (2020: \$2.35 per share, 2019: \$2.41 per share)	277,489	284,847
Franking account	50,050	40,598

Australia Pacific Airports Corporation Limited
Notes to the consolidated financial statements
30 June 2020

29. Company disclosures

The below relate to APAC as a standalone entity:

	2020 \$'000	2019 \$'000
(a) Financial position:		
Assets:		
Current assets	19,289	19,955
Non-current assets	128,032	128,032
Total assets	<u>147,321</u>	<u>147,987</u>
Liabilities:		
Current liabilities	(14)	(7)
Non-current liabilities	-	-
Total liabilities	<u>(14)</u>	<u>(7)</u>
Net assets	<u>147,307</u>	<u>147,980</u>
Equity:		
Issued capital	118,100	118,100
Retained earnings	<u>29,207</u>	<u>29,880</u>
	<u>147,307</u>	<u>147,980</u>
(b) Financial performance		
Profit for the year	276,880	285,328
Other comprehensive income	-	-
Total other comprehensive income	<u>276,880</u>	<u>285,328</u>
(c) Non-balance sheet commitments	2020 \$'000	2019 \$'000
Guarantees of debt	-	-
Contingent liabilities	-	-
Commitments for the acquisition of property, plant and equipment by the parent company	<u>-</u>	<u>-</u>

30. Contingent liabilities

Legal Claims

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

31. Events after the reporting period

Since the balance sheet date the State Government has imposed a reversion to stage 4 Stay at Home restrictions in response to an increase in COVID-19 cases. While this will have impact on passenger numbers and related revenue in Melbourne Airport, and to a lesser extent Launceston Airport, the expected impacts of the additional restrictions are within the scenarios modelled by the Group which informed the Group's key estimates and judgements. As such, the additional restrictions are not considered to be an adjusting event that may significantly impact the operations of the Consolidated Entity. The situation has continued to develop post year end, management are monitoring and responding on an ongoing basis, but the exact impact on financial position and performance in the future as a result of the ongoing developments cannot be predicted.

Other than above, there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in future financial periods.

Australia Pacific Airports Corporation Limited
Directors' declaration
30 June 2020

The Directors declare that:

- (a) The attached financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 30 June 2020 and of its performance of the Group for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001;
- (b) The financial statements and notes also comply with Australian Financial Reporting Standards as disclosed in Note 1;
- (c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors

On behalf of the Directors



Mr P. Hay
Chairman

26 August 2020
Melbourne



Mr L. Strambi
Managing Director

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australia Pacific Airports Corporation Limited (the "Company") and its subsidiaries (the "Group"), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

DELOITTE TOUCHE TOHMATSU

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A handwritten signature in black ink, appearing to read 'SV', is written over the printed name 'Samuel Vorwerg'.

Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 26 August 2020