Adelaide Airport Limited

ABN 78 075 176 653

Annual Report

for the year ended 30 June 2020

2020

GROW | DELIVER | SHAPE | NURTURE

Contents

Adelaide Airport Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business:

Adelaide Airport Limited
1 James Schofield Drive
Adelaide Airport SA 5950

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 1.

The financial statements were authorised for issue by the Directors on 29 September 2020. The Directors have the power to amend and reissue the financial statements.

Further information regarding the entity's operations is included in the annual report.

Directors' report

Your Directors present their report on the consolidated entity consisting of Adelaide Airport Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020 (referred to hereafter as the Group or Adelaide Airport Limited or 'AAL').

Directors

The following persons were Directors of Adelaide Airport Limited during the whole of the financial year and up to the date of this report:

Alan James Mulgrew
Christopher John McArthur
James (Jay) Brendan Hogan
Jane Elizabeth Yuile
John Frederick Ward
Mark Dennis Young
Michael Bryan Gorman
Robert Ian Chapman
Alan Shang Ta Wu (Alternate for Christopher McArthur)
Kent Ian Robbins (Alternate for John Ward, Jane Yuile and Michael Gorman)

Principal activities

The Group acts principally within the airport industry in Australia by virtue of holding the leasehold interests in Adelaide and Parafield airports.

Dividends

Dividends on Redeemable Preference Shares, which are classified as finance costs, amounting to $21.744 million were paid or provided for during the year (30 June 2019: $21.685 million).

Dividends paid to or provided for members during the financial year were as follows:

	30 June 2020 $'000	30 June 2019 $'000
Interim ordinary dividend of $10.50 (2019: $10.50) per fully paid share paid on 31 December 2019	**20,000**	20,000
Final ordinary dividend of nil (2019: $13.13) per fully paid share	**-**	25,000
Redeemable Preference Share dividend (in quarterly instalments)	**21,744**	21,685
	41,744	66,685

Due to the impact of COVID-19 pandemic on the financial performance and near-term outlook, no final dividend was declared. In addition, the payment of Redeemable Preference Shares was deferred until 2022. Following the payment of an interim dividend on 31 December 2019, there are currently no imputation credits to pay franked distributions.

Significant changes in the state of affairs

The global spread of COVID-19 and the subsequent imposition of travel restrictions have dramatically impacted the aviation industry. During March 2020, the World Health Organization declared a global pandemic in relation to COVID-19. Since this time, passenger traffic through Adelaide Airport has been materially impacted, resulting in international and domestic passenger traffic declining by 55.4% and 55.5% respectively in the second half of the financial year when compared to the prior comparative period. The recovery profile of domestic and international air travel will depend upon when border controls, mandatory quarantine periods and easing of travel restrictions occur.

Adelaide Airport decisively responded to the disruption from ongoing travel restrictions through:

Financial Response:

- Implementing a significant reduction in operating expenditure, including the suspension of discretionary expenditure, reducing the remuneration of board members, executives and the majority of employees by 20%, and other cost reduction actions across all the controllable areas of the business;
- Suspension of Shareholder distributions from 31 December 2019;
- A suspension of non-critical capital expenditure whilst continuing on critical projects including Terminal Expansion and construction of Mitsubishi Motors Australia Limited building;
- Reinforcing strong liquidity position through securing $200 million (including $50 million executed in July 2020) of new 3-year facilities from its existing bank group, providing further liquidity in addition to cash balances of $145 million at 30 June 2020.
- Executing a restructure of the Group's interest rate and cross currency swaps to reduce interest payments over the next 4 years to further support debt covenants. The restructure is expected to reduce cash interest payments by approximately $21.0 million in the 12 months ending 30 June 2022 and a further $49.4 million through to 30 June 2024. This reduction will occur through terminating out of the money interest rate swaps with an average fixed rate of 3.6% and entering into new swaps with a fixed rate of 0.22% through to June 2022, 0.35% through to July 2024 and 0.58% from June 2022 to June 2027.

Operational Response:

- Activated Adelaide Airport pandemic plan from 22 January 2020;
- Focussed on health management through increased cleaning and social distancing measures;
- Increased focus on freight to maintain the supply chain and supported carriers to repatriate Australian citizens and permanent residents;
- Relocated aircraft operations to one end of the terminal, effectively shutting down more than half of the terminal and saving significantly on maintenance, cleaning and utilities cost;
- Focussed on Corporate relationships including airlines, tenants and third-party suppliers.

The impact of COVID-19 extends beyond aeronautical activities into the retail, property and car parking revenue streams. COVID-19 has impacted the financial report in various ways:

- Rental abatements and deferrals were provided to impacted retailers and tenants to support them through the significant disruption caused by COVID-19;
- Expected credit losses were provided for aeronautical, retail and commercial customers as at 30 June 2020;
- The Group enrolled in the JobKeeper government assistance program for 196 eligible employees. Over the three months April 2020 to June 2020, the Group recognised $1.95 million in government assistance for employees. This has been recognised as an offset to Employee benefits expense in the Consolidated statement of profit or loss and comprehensive income for the year ended 30 June 2020;
- Disclosures relating to the impact of COVID-19 on the macro-economic environment and the flow-on impact on forward-looking assumptions used in management's estimates and judgements have been included.

Given the rapidly evolving situation, it is not possible to predict the extent of the financial impact, which is and continues to be material. Forward-looking information (referred to in the Financial Statements as Critical Accounting Estimates and Judgements) is based on a variety of assumptions and subject to risks and uncertainties. There is a risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, may not match the actual outcome. To capture the increased risk and uncertainty, probability-weighted scenarios have been used. The scenarios consider a range of possible outcomes including slower recovery, in both trajectory and depth to passengers and flight activity. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, based on the scenarios modelled, the Group believes that the pandemic will not have a material impact on the long-term financial sustainability of the Group. The strong market position and diversification of the business has assisted with forming this conclusion. Specifically, the robustness of the investment property portfolio have provided a stable commercial property valuation and cash-flows with industrial properties supported by high quality tenants with long leases, including government agencies and essential services.

A measure of the Group's ability to service its indebtedness is its ability to comply with certain covenant requirements. Continued border closures will impact on the Group's recovery and ability to maintain above the default covenant thresholds. Current forecasts indicates sufficient capacity to avoid this. A strong relationship with investors is being maintained and if passenger volumes and associated revenues are sufficiently lower than anticipated or modelled in scenarios, the process of seeking covenant waivers would be commenced.

Review of operations

The profit from ordinary activities before income tax amounted to $30.535 million (2019: $62.890 million). From July to December 2019, the Group was tracking at increased passenger numbers of 4.4%, led by further record growth of 12.7% in international traffic. During the COVID-19 pandemic, passenger numbers fell by 96%, with effectively zero international traffic in April and May. Our biggest carrier, Qantas, did not fly domestically to Adelaide for two months. The strong Fly-in Fly-out market on the back of a resilient mining industry maintained 30% of Regional passengers. The net result was a 24.1% per cent fall in passenger numbers compared to 2019.

The reduced activity had a material negative impact on the Group's business and results of operations, including aeronautical and commercial revenue. Total revenue dropped 66.5% in the last quarter of 2020, as compared to the same period of 2019.

Revenue losses were partially mitigated by cost saving initiatives which reduced operating expenses by 54.9% (excluding provision for Virgin Group debt) in the last quarter of 2020, as compared to the same period of 2019.

Matters subsequent to the end of the financial year

(a) Further Government Actions in response to COVID-19 pandemic:

Various Australian State Governments have reimposed restrictions on interstate travel or imposed expanded localised lockdowns. South Australian borders reopened with Northern Territory and Queensland in July 2020 and ACT and NSW in September 2020.

The Australian Federal Government legislated the extension of JobKeeper payment support for an additional six months covering October 2020 to March 2021.

(b) Company Structure:

A restructure of the Group was announced in August 2020, which specifies the number of jobs impacted and the redundancy compensation package offered by the Group. The change in the Group's organisational structure was reviewed to right-size the business, with a number of redundancies unfortunately being confirmed as a result. The resizing of the organisational structure is expected to reduce labour costs by 20%. No redundancy costs were incurred or provided for in the 30 June 2020 financial statements.

(c) Liquidity

The Group executed a new $50 million bank debt facility with ICBC in July as part of the final tranche of COVID-19 capital management.

(d) Virgin Group Administration Update

On 4 September 2020 creditors of Virgin Australia Group voted to accept the sale of Virgin Australia Group to BC Hart Aggregator, LP (Bain Capital). The completion of the sale will occur once the deeds of company arrangement are signed and formal transfer of shares in Virgin Australia Holdings to Bain Capital. This is expected to be completed by 31 October. On 3 September 2020 the Group executed a letter of intent with Bain Capital outlining the terms and conditions of existing arrangements and settlement for release of security interest and liens. Payment under this agreement is expected to occur closer to the sale completion. As the letter of intent with Bain Capital was not finalised at balance date, any expected settlement has not been reflected in the 30 June 2020 Financial Statements.

Likely developments and expected results of operations

The Group will continue to pursue its long-term objectives consistent with the Adelaide and Parafield Airport Masterplan.

Environmental regulation

All compliance obligations, including those set under the *Airports Act 1996* and *Airports (Environment Protection) Regulations 1997*, are rigorously pursued and monitored through our Environment Management System, and we continue to meet and, where possible, exceed relevant compliance standards.

Information on directors

Alan Mulgrew, **B.A., GRAICD, JP** *Director*	
Experience and expertise	Alan was appointed on 6 September 2006 as a non-executive director. Alan has had over thirty years' experience as a senior aviation executive both within Australia and overseas, including responsibility for Perth and Sydney Airports. Since leaving Sydney Airport in 1997 Alan has provided strategic advice to numerous major institutions and served as a non-executive board member on a number of high profile boards spanning Aviation, Energy, Construction, Infrastructure, and Tourism.
Other directorships and positions	Alan is currently a non-executive director of Queensland Airports Limited, Interflour Group and Cooperative Bulk Handling Group and is an advisory panel member for First Sentier Investors (formerly Colonial First State Global Asset Management) and infrastructure advisor for Perron Investments. He was formerly the Chair of Tourism Western Australia, Western Power and Western Carbon Pty Ltd. Alan has also served as Chair and member of various Audit, Risk Management, Governance and Remuneration Committees.
Special responsibilities	Chair of the Aeronautical & Related Infrastructure Committee Member of the Property Development Committee Member of the Remuneration Committee

Christopher John McArthur, **B.Eng., MBA, FAICD** *Director*	
Experience and expertise	Chris was appointed on 30 March 2011 as a non-executive director nominated by First Sentier Investors (formerly Colonial First State Global Asset Management) as trustee of the Global Diversified Infrastructure Fund. Chris is the Head of Asset Management, Australia and Partner, Infrastructure Investments, with First Sentier Investors. He is responsible for the origination, execution and asset management of unlisted infrastructure investments globally, with a focus on transportation. In prior roles, Chris was Head of the Commercial Division of Pacific National, the former Toll/Patrick rail joint venture and Australia's largest private rail group. He held various senior management positions with Qantas in Sydney and London, including as Head of the QantasLink regional airline group. Chris has a Bachelor of Engineering from the University of Melbourne where he also holds an MBA from the Melbourne Business School. He is a Fellow of the Australian Institute of Company Directors.
Other directorships and positions	Chris is a current Director of Brisbane Airport and US-based Patriot Rail & Ports, a former Director of Perth Airport, UK-based utility Inexus Group, and former Chair of Airports Coordination Australia Ltd.
Special responsibilities	Acting Chair of the Audit & Compliance Committee until 24 September 2019 Member of the Audit and Compliance Committee Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee

Information on directors (continued)

James (Jay) Brendan Hogan, **MBA, AFAMI, JP** *Director*	
Experience and expertise	Jay was appointed on 29 July 2009 as a non-executive director nominated by Statewide Super. He has over 40 years' experience in the property development and construction industry around Australia and overseas, across a broad range of property asset classes. He has occupied Chief Operating Officer roles with high profile national ASX listed companies including Jennings Group and Stockland.
Other directorships and positions	Jay is currently Chair of Mercure Kangaroo Island Lodge, Bremerton Vintners and Sevenhill Wines and is the former Chair of the Urban Construct Development Group. Jay has been a member of numerous boards, joint ventures and Government Advisory Committees including the Natural Resource Council of Australia and Chair of the Urban and Regional Development Advisory Committee to Government. He was previously Chair of the Land Management Corporation, Chair of the South Australian Housing Trust, Chair of the Torrens Catchment Water Board, Deputy Chair of Homestart Finance and a Past President of the Urban Development Institute of Australia. In 1998 Jay was awarded Life Member of the Urban Development Institute of Australia in recognition of his contribution and services to the development industry and leadership in Urban Sustainability.
Special responsibilities	Chair of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee Member of the Remuneration Committee

Jane Yuile, **B.Sc., MBA, FCA, FAICD** *Director*	
Experience and expertise	Jane was appointed on 1 June 2016 as a non-executive director nominated by UniSuper Limited. Jane has almost 40 years experience as a finance executive. For the last 20 years she has been a non-executive director on numerous boards in a variety of industries, and a consultant in governance, business strategy and risk. Prior to that she was the finance director of a listed technology solutions company and worked for one of the major Chartered Accounting firms in San Francisco, London and Melbourne. Jane has a Masters of Business Administration and Bachelor of Science, and is a Fellow of the Institute of Chartered Accountants and Australian Institute of Company Directors.
Other directorships and positions	Jane is currently State Chair South Australia ANZ and is a Director of the Art Gallery of South Australia and Central Adelaide Local Health Network.
Special responsibilities	Chair of the Audit & Compliance Committee from 24 September 2019 Member of the Audit & Compliance Committee Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee

Information on directors (continued)

John Frederick Ward, B.Sc., FAICD, FCILT, FRAeS *Director*	
Experience and expertise	John joined the Board on 28 August 2002 as a non-executive director nominated by UniSuper Limited. He is a professional company director and corporate advisor. He retired as the General Manager Commercial of News Limited in 2001. Prior to joining News Corporation in 1994 he was Managing Director and Chief Executive of Qantas Airways Limited culminating a 25 year career with the airline in a variety of corporate and line management roles covering Australia, Asia, Europe and North America.
Other directorships and positions	John is an Honorary Life Governor of the Research Foundation of Information Technology and Director of Brisbane Airport Corporation. John is the immediate past Chairman of Wolseley Private Equity.
Special responsibilities	Chair of the Remuneration Committee Member of the Audit & Compliance Committee Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee

Mark Dennis Young, B.Ec., CA, FCPA, FAICD, FCIS *Managing Director*	
Experience and expertise	Mark was appointed as Managing Director of Adelaide Airport Limited on 1 November 2011. Prior to joining Adelaide Airport, in July 2001, Mark was Finance Director for Macmahon Holdings Limited enjoying a 20 year career that included experience in all aspects of that contract mining, civil engineering and building construction group. Mark has played a key role in Adelaide Airport's expansion and passenger growth over the past decade initially as Chief Financial Officer and subsequently as Managing Director. Mark holds a Bachelor of Economics (Accounting) at the University of Adelaide and is a Fellow of the Australian Society of Certified Practicing Accountants, a member of the Chartered Accountants ANZ and a Fellow of the Australian Institute of Company Directors. Mark has completed an Advanced Management Program at the Harvard Business School in the US.
Other directorships and positions	Mark was a non-executive director of the South Australian Tourism Commission until 24 June 2020.
Special responsibilities	Managing Director Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee

Information on directors (continued)

Michael Bryan Gorman, B.Sc. (Arch), B.Arch., MBA, AMP *Director*	
Experience and expertise	Michael was appointed on 5 December 2017 as a non-executive director nominated by UniSuper Ltd. Michael has experience in both real estate and public equity and debt markets. He has held roles as Chief Investment Officer and Deputy Chief Executive Officer of a significant Australian Real Estate Investment Trust. Michael's experience extends beyond the investment in real estate to the master planning, management and development of large public property assets, including shopping complexes, as well as monitoring the ongoing management of retail environments to optimise the customer experience. Michael holds a Bachelor of Science (Architecture) from the University of New South Wales, a Bachelor of Architecture awarded with First Class Honours and University Medal from the University of New South Wales, a Masters of Business Administration from the Australian Graduate School of Management and completed the Advanced Management Programme at INSEAD.
Other directorships and positions	Michael is a non-executive director of both Charter Hall Retail Management Limited and GPT Funds Management Limited. He is also a Fellow of the Australian Property Institute and the Royal Society of Arts.
Special responsibilities	Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee

Robert (Rob) Ian Chapman, AssocDipBus, FAICD, FFSIA *Chair*	
Experience and expertise	Rob was appointed to the Board as Chair on 25 February 2014. Rob has enjoyed an extensive executive career within the financial services industry, having acted as both the Chief Executive Officer of St George Banking Group (2010 to 2012) and the Managing Director of BankSA (2002 to 2010). Prior to these roles Rob worked in Prudential Corporation, Colonial State Bank and the Commonwealth Bank across a variety of positions. Rob is a Fellow of the Australian Institute of Company Directors and Senior Fellow of the Financial Services Institute of Australasia and holds an Associate Diploma in Business from the South Australian Institute of Technology.
Other directorships and positions	Rob currently serves as a Director on a number of prominent South Australian Boards including: Adelaide Football Club (Chair), Barossa Infrastructure Ltd (Chair), T-Ports (Chair), Chapman Capital Partners (Chair), Coopers Brewery Limited (Director), EFIC (Director), ICAM Funds (Director), AFL Max (Director) and is the former Chair of BankSA.
Special responsibilities	Chair of the Board Member of the Property Development Committee Member of the Aeronautical & Related Infrastructure Committee Member of the Audit & Compliance Committee Member of the Remuneration Committee

Information on directors (continued)

Alan Shang Ta Wu, **M.Com., CFA, GAICD** *Alternate Director*	
Experience and expertise	Alan was appointed as an alternate director by Christopher McArthur on 30 March 2011. Alan is a Director, Infrastructure Investments, at First Sentier Investors (formerly Colonial First State Global Asset Management). Alan is responsible for the management of transport and utilities infrastructure assets and evaluation of new investment opportunities within the Infrastructure Investments team. Alan has been involved in the investment, management and divestment of infrastructure assets, as well as portfolio management since 2000. Alan was also actively involved in the establishment and growth of First Sentier Investors flagship infrastructure funds in Australia.
Other directorships and positions	Alan is a director of Water Utilities Australia and International Parking Group. Alan is also an alternate director for Brisbane Airport and First Gas. He has previously served as a director of Bankstown and Camden Airports.

Kent Ian Robbins, **B.Bus (Property), AAPI, GAICD Alternate** *Director*	
Experience and expertise	Kent was appointed as an alternate director to John Ward in March 2011, Jane Yuile in August 2016 and Michael Gorman in February 2018. Kent is the Head of Property and Infrastructure for UniSuper which is Australia's only industry super fund dedicated to the higher education and research professionals. UniSuper has over 450,000 members and has over $80B in funds under management. Kent has nearly 30 years' experience in the finance industry, predominantly in superannuation funds management. Kent joined UniSuper in November 2009, and is responsible for the Fund's Property, infrastructure and Private Equity portfolios. Kent is an Associate of the Australian Property Institute and Member of the Australian Institute of Company Directors.
Other directorships and positions	Kent is a current director of AquaSure (Victoria's Desalination Plant) and Plenary Health (Victorian Comprehensive Cancer Centre).

Information on company secretaries

Brenton Cox, **LLM (Cantab), LLB (Hons), GDLP, B.Com. (Acc), B.Fin.** *Company Secretary*	
Experience and expertise	Brenton joined Adelaide Airport in 2013 and is currently responsible for the Chief Financial Officer, Corporate Affairs, General Counsel and Company Secretary, Aviation Business Development, Environment, Sustainability, Community, Risk and Work Health & Safety functions. Brenton has airport Board experience as a non-executive director of Sydney Airport and Hobart Airport and executive experience with Sydney Airport, Macquarie Airports in Sydney and Macquarie Capital in London where he had a particular focus on European Airports. Brenton's early career was as a commercial lawyer for Fisher Jeffries (now Dentons). He has a Masters of Law from Cambridge University in the UK, a First Class Honours Degree in Law from Adelaide University as well as a Bachelor of Commerce (Accounting and Corporate Finance) and Bachelor of Finance from Adelaide University. Brenton is admitted to practise as a solicitor and barrister of the Supreme Court of South Australia and the High Court of Australia.
Other directorships and positions	Brenton is a Director of Seymour College (Chair of the Audit and Risk Committee) and a Councillor of the Property Council of South Australia and Freight Council of South Australia.

Information on company secretaries (continued)

Alicia Bickmore, **LLB (Hons), GDLP, B.BehavSc. (Psych), LLM (Applied Law), GAICD** *Company Secretary*	
Experience and expertise	Alicia is Adelaide Airport's Legal and Corporate Affairs Manager and was appointed Company Secretary in February 2017 after joining Adelaide Airport in July 2015. Alicia was previously Legal Counsel for Viterra & Glencore Grain and a solicitor at Thomson Geer Lawyers. Alicia has a Bachelor of Laws and Legal Practice Honours and a Bachelor of Behavioural Science (Psychology) from Flinders University. Alicia has completed a Masters of Law (In House Practice) at the College of Law and is a graduate and member of the Australian Institute of Company Directors. Alicia is admitted to practise as a solicitor and barrister of the Supreme Court of South Australia and the High Court of Australia. Alicia was listed as a leading Australian In-House Property and Real Estate lawyer in the Doyle's Guide 2019.
Other directorships and positions	Alicia is a current committee member of the Adelaide Football Club Professional Standards and Integrity Committee and a past president and current committee member of the Association of Corporate Counsel Australia (SA Division).

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2020, and the numbers of meetings attended by each Director were:

		Meetings of committees			
	Full meetings of directors	Audit and Compliance Committee	Remuneration Committee	Property Development Committee	Aeronautical & Related Infrastructure Development Committee
	Attended/Held	Attended/Held	Attended/Held	Attended/Held	Attended/Held
Alan James Mulgrew	21 of 22	5 of 6	1 of 1	9 of 10	9 of 10
Christopher John McArthur	22 of 22	6 of 6	n/a	10 of 10	10 of 10
James Brendan Hogan	22 of 22	5 of 6	1 of 1	9 of 10	9 of 10
Jane Yuile	22 of 22	6 of 6	n/a	8 of 10	10 of 10
John Frederick Ward	22 of 22	6 of 6	1 of 1	9 of 10	9 of 10
Mark Dennis Young *	22 of 22	6 of 6	1 of 1	10 of 10	10 of 10
Michael Bryan Gorman	22 of 22	6 of 6	n/a	9 of 10	9 of 10
Robert Ian Chapman	22 of 22	6 of 6	1 of 1	10 of 10	10 of 10
Alan Shang Ta Wu **	n/a	n/a	n/a	n/a	n/a
Kent Ian Robbins **	n/a	n/a	n/a	n/a	n/a

* = Not a non-executive Director
** = Alternate Director

Insurance of officers

During the financial year, Adelaide Airport Limited paid a premium to insure the directors and officers of the company and its controlled entities. The terms of the policy prohibit disclosure of the premiums paid.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 54.

Rounding of amounts

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

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

Jane Elizabeth Yuile
Director

MMYoung

Mark Dennis Young
Director

Adelaide
29 September 2020

Adelaide Airport Limited
Consolidated statement of profit or loss and comprehensive income
For the year ended 30 June 2020

	Notes	Consolidated 30 June 2020 $'000	30 June 2019 $'000
Revenue from continuing operations	5	**196,355**	225,464
Changes in fair value of investment properties	9	**7,514**	13,920
Other income		**621**	581
Employee benefits expense		**(13,890)**	(18,031)
Services & utilities		**(45,875)**	(50,059)
Consultants & advisors		**(3,240)**	(3,900)
General administration		**(6,897)**	(8,770)
Expected credit loss expense		**(11,769)**	(1)
Leasing & maintenance		**(4,373)**	(5,986)
Gain/(Loss) on disposal of property, plant & equipment		**14**	(5)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**118,460**	153,213
Interest income	16	**834**	1,262
Finance costs	16	**(62,702)**	(61,255)
Depreciation & amortisation	8, 10, 11	**(24,662)**	(28,031)
Impairment of property, plant & equipment	8	**69**	(409)
Changes in fair value of financial instruments		**(1,464)**	(1,890)
Profit before income tax		**30,535**	62,890
Income tax expense	6	**(9,179)**	(19,144)
Profit for the year		**21,356**	43,746
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax	18	**(13,687)**	(16,945)
Changes in the fair value of foreign currency basis spread reserve, net of tax	18	**1,419**	(17,414)
Items that will not be reclassified to profit or loss			
Gain on revaluation of land and buildings, net of tax	18	**(286)**	1,363
Other comprehensive income for the year, net of tax		**(12,554)**	(32,996)
Total comprehensive income for the year		**8,802**	10,750

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

Adelaide Airport Limited
Consolidated balance sheet
As at 30 June 2020

		Consolidated	
	Notes	**30 June 2020 $'000**	30 June 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12	**145,514**	61,378
Trade and other receivables	13	**20,031**	38,122
Derivative financial instruments	17	**5,129**	1,093
Total current assets		**170,674**	100,593
Non-current assets			
Receivables		**-**	409
Derivative financial instruments	17	**117,940**	67,219
Property, plant and equipment	8	**512,950**	428,793
Investment properties	9	**448,663**	435,684
Intangible assets	10	**184,945**	182,984
Prepaid operating lease	11	**115,424**	117,431
Total non-current assets		**1,379,922**	1,232,520
Total assets		**1,550,596**	1,333,113
LIABILITIES			
Current liabilities			
Trade and other payables	14	**37,257**	26,477
Derivative financial instruments	17	**700**	15,809
Current tax liabilities		**-**	3,397
Franking deficit tax liabilities		**6,385**	-
Provisions	24	**3,457**	4,183
Deferred revenue		**1,023**	1,511
Total current liabilities		**48,822**	51,377
Non-current liabilities			
Borrowings	15	**1,337,328**	1,070,121
Deferred tax liabilities	7	**106,700**	108,723
Provisions	24	**1,792**	1,817
Derivative financial instruments	17	**40,323**	74,059
Deferred income		**942**	1,129
Total non-current liabilities		**1,487,085**	1,255,849
Total liabilities		**1,535,907**	1,307,226
Net assets		**14,689**	25,887
EQUITY			
Contributed equity		**1,905**	1,905
Other reserves	18	**(64,911)**	(52,357)
Retained earnings		**77,695**	76,339
Total equity		**14,689**	25,887

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Adelaide Airport Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

		Attributable to owners of Adelaide Airport Limited			
		Share capital	**Other reserves**	**Retained earnings**	**Total equity**
Consolidated	Notes	**$'000[1]**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2018		1,905	(19,361)	77,593	60,137
Profit for the year		-	-	43,746	43,746
Other comprehensive income	18	-	(32,996)	-	(32,996)
Total comprehensive income for the year		**-**	**(32,996)**	**43,746**	**10,750**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	19	-	-	(45,000)	(45,000)
Balance at 30 June 2019		**1,905**	**(52,357)**	**76,339**	**25,887**
Balance at 1 July 2019		1,905	(52,357)	76,339	25,887
Profit for the year		-	-	21,356	21,356
Other comprehensive income	18	-	(12,554)	-	(12,554)
Total comprehensive income for the year		**-**	**(12,554)**	**21,356**	**8,802**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	19	-	-	(20,000)	(20,000)
Balance at 30 June 2020		**1,905**	**(64,911)**	**77,695**	**14,689**

[1] Share capital comprises 1,904,676 fully paid ordinary shares.

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

Adelaide Airport Limited
Consolidated statement of cash flows
For the year ended 30 June 2020

	Notes	Consolidated 30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**223,276**	244,870
Payments to suppliers and employees (inclusive of GST)		**(93,623)**	(106,148)
		129,653	138,722
Interest paid		**(44,753)**	(40,169)
Income taxes (paid)		**(2,835)**	(17,083)
RPS dividend		**(10,872)**	(21,685)
Interest received		**886**	1,236
Net cash inflow from operating activities	12	**72,079**	61,021
Cash flows from investing activities			
Payments for property, plant and equipment and investment properties		**(109,354)**	(75,346)
Proceeds from sale of property, plant and equipment		**22**	-
Payments for other non-current assets		**(623)**	(2,024)
Net cash (outflow) from investing activities		**(109,955)**	(77,370)
Cash flows from financing activities			
Early termination of swaps		**(68,648)**	-
Cross currency swaps overlay		**55,660**	-
Proceeds from borrowings		**155,000**	277,627
Repayment of borrowings		**-**	(205,000)
Dividends paid to company's shareholders	19	**(20,000)**	(45,000)
Net cash inflow from financing activities		**122,012**	27,627
Net increase in cash and cash equivalents		**84,136**	11,278
Cash and cash equivalents at the beginning of the financial year		**61,378**	50,100
Cash and cash equivalents at end of year	12	**145,514**	61,378

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

BASIS OF PREPARATION

This section provides information about the basis of preparation of the financial statements, and certain accounting policies that are not disclosed elsewhere in the financial statements. Accounting policies specific to individual elements of the financial statements are located within the relevant section of the report.

1. 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 and the *Corporations Act 2001*. Adelaide Airport Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with AASB

The consolidated financial statements of the Adelaide Airport Limited Group comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial liabilities (including derivative instruments and US dollar debt hedged by cross-currency interest rate swaps and investment property at fair value).

(iii) Going concern

The consolidated financial statements have been prepared on a going concern basis that requires directors to have reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

At 30 June 2020, the Group was in a net asset position of $14.689 million (2019: $25.887 million).

COVID-19 Considerations

Management has reviewed the cash flow projections factoring in the impact of the COVID-19 pandemic on the Group covering a period of at least 12 months after reporting date. This takes into account forecast revenue, operating cash flows, forecast capital expenditure and the Group's liquidity position.

The Group decisively responded to the disruption from ongoing travel restrictions through:

- Implementing a significant reduction in operating expenditure, including the suspension of discretionary expenditure, reducing the remuneration of board members, executives and the majority of employees by 20%, and other cost reduction actions across all the controllable areas of the business;
- Suspension of Shareholder distributions from 31 December 2019;
- A suspension of non-critical capital expenditure whilst continuing on critical projects including Terminal Expansion and construction of Mitsubishi Motors Australia Limited building;
- Reinforcing strong liquidity position through securing $200 million (including $50 million executed in July 2020) of new 3-year facilities from its existing bank group, providing further liquidity in addition to cash balances of $145 million at 30 June 2020. The Group also completed a restructure of its interest rate and cross currency swaps to reduce interest costs over the next 4 years to further support debt covenants.

At the present time, management continues to consider that the COVID-19 pandemic will not impact the Group's ability to remain solvent or to continue to operate as a going concern and the Group expects to remain compliant with covenant requirements. The going concern assessment has been undertaken using a number of scenarios, ranging from a Board approved planning case to further pessimistic outlooks. The assessment particularly focuses on liquidity and financial covenant restrictions. The Group does not expect to default on financial covenants within 12 months after reporting date. The below factors have assisted the Group in forming this conclusion:

- Scenario modelling - a range of sensitivities and scenarios were modelled to assess the impact on financial covenants. The most pessimistic scenario assumes no further border openings and August passenger numbers (relative to FY19) were to continue for FY21. Even under this scenario, the Group does not forecast a breach of financial covenants.

- Alignment of cost base to reduced business activity - a strong focus on operating expense reduction has been embedded across the business. An even greater focus on the rigorous cost control and organisational restructure has occurred subsequent to 30 June 2020.
- The robustness of the investment property portfolio has and will continue to provide a stable revenue stream, particularly with industrial properties supported by high quality tenants with long leases.

However, with relative uncertainty about the future economic outlook, market condition and recovery profile, there are a range of additional counter measures which could be taken to ensure the Group's ability to act as a Going Concern continues, which include:

- Cost optimisation review to further reduce operating cost base and embed already implemented sustainable operating cost reductions;
- Deferral and cancellation of capital expenditure;
- Obtain financial covenant waivers from financiers. Granting of waivers from the business' banking group and USPP noteholders for potential covenant breaches has been a response within the industry. The Group assessed the requirement to obtain financial covenant waivers and concluded at the time to hold off obtaining any waivers. The Group will continue to monitor the debt covenants and engage with lenders on current performance. The Group would seek to obtain financial covenant waivers and engage with lenders if and when required.

2. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adelaide Airport Limited ('Company' or 'Parent Entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Adelaide Airport Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

3. Rounding of amounts

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

4. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed in the following notes:

- Estimated impairment of goodwill (note 10)
- Fair value measurement of investment properties (note 9)
- Fair value measurement of financial instruments (note 17)
- Recognition of deferred tax asset for carried forward tax losses (note 7)

Fair value measurement hierarchy

In fair value measurement, the Group use the following fair value measurements hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities;
- Level 2: valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: valuation techniques using inputs that are not based on observable market data (unobservable inputs).

COVID-19 Considerations

The COVID-19 pandemic has increased the estimation uncertainty in the preparation of the financial report. The Group has considered the impact on the COVID-19 pandemic on key estimates and judgements used in these financial statements, including:

- Recognition of retail and commercial abatements (note 5)
- Impairment of property, plant and equipment (note 8)
- Provision for expected credit losses (note 13)

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION

This section focuses on the operating results and financial performance of the Group. It includes disclosures of revenue and the relevant accounting policy.

5. Revenue

	30 June 2020 $'000	30 June 2019 $'000
From continuing operations		
Sales revenue		
Aeronautical revenue	**93,349**	113,546
Commercial trading revenue	**25,080**	27,766
Property revenue	**53,043**	52,440
Car parking revenue	**22,190**	28,486
Other revenue	**2,693**	3,226
	196,355	225,464

(a) Revenue recognition

AASB 16 Leases replaces AASB 117 Leases and related interpretations and is applicable for the first time for entities with an annual reporting period beginning on or after 1 January 2019. When applying the new standard, the Group reviewed leases where the Group is the lessor and has concluded that these will remain as operating leases. Application of this standard by the Group has not materially affected any of the amounts recognised in these financial statements. However, the impact of COVID-19 has resulted in the Group providing rent abatements to tenants which have been considered below.

COVID-19 Considerations

A range of rental concessions were provided across both the commercial trading and property portfolios for the year ended 30 June 2020.

The Group has applied specific guidance released by Australian Securities & Investments Commission on accounting for rent concessions by lessors in response to COVID-19. Under this guidance:

- Rent abatements for future revenue is recognised on a straight-line basis over the remaining lease term;
- Rent abatements for past occupancy is expensed immediately;
- Where an agreement is not in place at balance sheet date, a provision for expected credit losses should be recognised against the receivable for unpaid rent for past occupancy;
- Any remaining lease receivable or deferred rent offered to tenants is assessed for recoverability.

Rent abatements of $5.9 million were recorded in the financial statements. Of this:

- $1.6 million of rental abatements negotiated for future occupancy to be recognised as a reduction in revenue over the lease term. During the year $0.4 million was recorded as a reduction to revenue. The corresponding amount of $1.2 million is recorded in Other receivables to be recognised over the remaining life of the lease;
- $1.6 million of rental abatements negotiated relating to past occupancy recognised immediately in expense;
- $2.7 million was expensed through expected credit loss provision, representing the difference between contractual cash flows that are due and cash flows expected to be received or the amount expected or likely to be waived in the future.

(a) Revenue recognition (continued)

Revenue Stream	Nature	Recognition and AASB 15 Impact
Aeronautical revenue	Aeronautical revenue is comprised of landing fees based on the Maximum Take Off Weight (MTOW) of aircraft or passenger numbers (as elected by airline customers); Passenger Facilitation Charges (PFC) based on passenger numbers and a recovery of Government mandated security charges on a per passenger basis.	Revenue is recognised on an accruals basis in the period when the services are provided, net of rebates. Rebates are provided in line with terms of contracts with airlines and are generally based on Maximum Take Off Weight (MTOW) of aircraft or passenger numbers. 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.
Commercial trading revenue	Commercial trading revenue is comprised of rental income from car rental and retail tenants, whose sale activities include duty free, food and beverage, banking and currency and advertising services.	Revenue is recognised on an accruals basis when the service is provided. Contingent revenue is recognised when the contingent event occurs. These contracts contain lease components and are recorded in line with AASB 16.
Property revenue	Property revenue is comprised of rental and outgoings from airport terminals, buildings and other leased areas.	Revenue is accounted for on a straight line basis over the lease term. These contracts contain lease components and are recorded in line with AASB 16.
Car parking	Car parking revenue is generated from passengers and staff for the provision of car parking.	Revenue is recognised over the period of time the car parking service is provided. There is no change to timing of revenue recognition arising from AASB 15.

TAXATION

6. Income tax expense

	30 June 2020 $'000	30 June 2019 $'000
Current tax on profit/(loss) for the year	**(5,954)**	15,184
Adjustments for current tax of prior periods	**(1,268)**	(484)
	(7,222)	14,700
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets	**(21,675)**	(7,062)
Increase in deferred tax liabilities	**38,076**	11,506
	16,401	4,444
Income tax expense	**9,179**	19,144

Income tax expense is calculated at the applicable corporate tax rate of 30%, which was the tax rate enacted at reporting date. Income tax expense comprises both current and deferred tax expense:

- Current tax expense represents the expense relating to the expected current year taxable income.
- Deferred tax expense represents the expense relating to the future tax consequences of all transactions undertaken in the current year, regardless of when their tax impact may occur.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Tax consolidation

Adelaide Airport Limited is head of the tax consolidated group, formed as of 1 July 2003, which includes its wholly owned Australian entities. As a consequence, all members of the tax consolidated group are taxed as a single entity.

Members of the tax consolidated group have also entered into tax sharing and tax funding agreements.

Under the tax funding agreement Adelaide Airport Limited is compensated by members for any of their current tax payables assumed. Equally, members are compensated by Adelaide Airport Limited for any current tax receivables and deferred tax assets arising from unused tax losses transferred to Adelaide Airport Limited. The funding amounts received or paid are determined based on the amounts recognised in member entities' financial statements and settled via intercompany receivables or payables.

In the event of default by Adelaide Airport Limited on its tax obligations, the tax liabilities of members of the tax consolidated group will be governed by the tax sharing agreement.

(a) Numerical reconciliation of income tax expense to prima facie tax payable

	30 June 2020 $'000	30 June 2019 $'000
Profit from continuing operations before income tax expense	**30,535**	62,890
Tax at the Australian tax rate of 30.0% (2019: 30.0%)	**9,161**	18,867
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expense	**18**	26
Under/(over provided) in prior years balance	**-**	251
Income tax expense	**9,179**	19,144

Amounts recognised directly in equity

	30 June 2020 $'000	30 June 2019 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Hedges and interest bearing liabilities	**(5,257)**	(14,724)
Deferred tax: Revaluation gain on transfer to investment properties	**(123)**	585
	(5,380)	(14,139)

7. Deferred tax balances

The carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes are not always the same. These differences result in temporary tax differences which usually reverse over time. The amount of these temporary differences is based upon the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Until these differences reverse a deferred tax asset or liability must be recognised on the balance sheet using the applicable tax rates enacted or substantially enacted at reporting date. This is referred to as the balance sheet liability method.

Deferred tax is not recognised for the following temporary differences:

i. initial recognition of goodwill;
ii. the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (other than in a business combination); and
iii. differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future.

A deferred tax asset is also only recognised to the extent it is probable that future taxable amounts will be available against which those temporary differences can be utilised. The Group's planning case informed the judgement around the recognition and recoverability of a net deferred tax asset relating to income tax losses. The Group expects to be able to recover these losses against taxable income over the following three to four years.

Deferred tax assets and liabilities are offset by the Group as:

- it has a legally enforceable right to offset current tax assets and liabilities, and
- deferred tax balances relate to the same taxation authority.

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax assets		Deferred tax liabilities	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
As at 30 June				
Investment property revaluations*	**-**	-	**(100,259)**	(97,385)
Prepaid operating leases	**-**	-	**(34,627)**	(35,229)
Property, plant and equipment	**-**	-	**(8,021)**	(5,725)
Intangible assets	**-**	-	**(1,660)**	(1,072)
Accrued revenue and expenses	**250**	-	**-**	(378)
Cash flow hedges	**33,757**	28,500	**-**	-
Fair value hedges	**-**	-	**(27,351)**	(9,954)
Hedges	**-**	-	**(15,901)**	-
Borrowings	**28,201**	10,364	**-**	-
Provisions	**5,586**	1,817	**-**	-
Other	**281**	339	**-**	-
Franking deficit tax	**6,385**	-	**-**	-
Tax value of recognised tax losses	**6,659**	-	**-**	-
Recognised deferred tax assets/liabilities	**81,119**	41,020	**(187,819)**	(149,743)
Set-off of deferred tax assets	**(81,119)**	(41,020)	**81,119**	41,020
Net deferred tax liabilities	**-**	-	**(106,700)**	(108,723)

* Deferred tax in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Movement in temporary differences during the financial year

	Deferred tax assets		Deferred tax liabilities	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Opening balance at 1 July	**41,020**	19,234	**(149,743)**	(137,652)
Recognised in profit & loss	**21,675**	7,062	**(38,076)**	(11,506)
Recognised in equity	**5,380**	14,724	**-**	(585)
Franking deficit tax	**6,385**	-	**-**	-
Tax value of recognised tax losses	**6,659**	-	**-**	-
Closing balance at 30 June	**81,119**	41,020	**(187,819)**	(149,743)

CAPITAL EXPENDITURE AND INVESTMENT PROPERTIES

This section includes information about the assets used by the Group to generate profits and revenue, specifically information relating to property, plant and equipment, investment properties, intangible assets and prepaid operating leases.

8. Property, plant and equipment

	Construction in progress $'000	Leasehold buildings and improvements $'000	Plant and equipment $'000	Total $'000
Useful life (years)		8 yrs - balance of lease term	3 -25	
Year ended 30 June 2019				
Opening net book amount	34,416	304,364	45,820	384,600
Additions	40,567	16,835	12,830	70,232
Disposals	-	(5)	(3)	(8)
Depreciation charge	-	(16,213)	(9,409)	(25,622)
Impairment loss (b)	-	(101)	(308)	(409)
Closing net book amount	74,983	304,880	48,930	428,793
At 30 June 2019				
Cost or fair value	74,983	454,152	144,909	674,044
Accumulated depreciation	-	(149,272)	(95,979)	(245,251)
Net book amount	74,983	304,880	48,930	428,793
Year ended 30 June 2020				
Opening net book amount	74,983	304,880	48,930	428,793
Additions	8,111	96,499	1,944	106,554
Disposals	-	-	(8)	(8)
Depreciation charge	-	(14,078)	(8,380)	(22,458)
Impairment loss (b)	-	-	69	69
Closing net book amount	83,094	387,301	42,555	512,950
At 30 June 2020				
Cost or fair value	83,094	548,069	146,145	777,308
Accumulated depreciation	-	(160,768)	(103,590)	(264,358)
Net book amount	83,094	387,301	42,555	512,950

(a) Recognition and measurement

The Group recognises items of property, plant and equipment at cost less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and associated oncosts, capitalised borrowing costs and any other costs directly attributable to bringing the asset to a working condition for their intended use.

Except for the low value asset pool, depreciation of property, plant and equipment is on a straight-line basis in profit or loss over the estimated useful lives of each component from the date that they are installed and are ready to use, or in respect of internally constructed assets that are completed and ready to use.

Subsequent expenditure is capitalised only when it is probable that future economic benefit will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(b) Impairment of property, plant and equipment

The carrying amount of the Group's property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. For the purposes of impairment testing, assets are grouped at the lowest level for which there are separately identifiable cash flows - cash generating units (CGU). Parafield Airport is assessed as a separate CGU and an impairment loss in relation to operational assets is recognised in the profit or loss.

COVID-19 Considerations

COVID-19 has caused a significant decline in passenger volumes, temporary closure of retailers and the uncertain global economic activity was considered a triggering event. Based on this further impairment testing to assess recoverability of non-financial assets was required. The Group assessed the recoverable amount for Adelaide Airport, which comprises of all assets within the CGU, excluding investment property assets.

Assumption/Judgement	How it was determined
Determination of CGU	CGUs are the lowest identifiable group of assets that generates largely independent cash inflows and are determined based on how performance is monitored. The Group continues to assess Parafield Airport and Adelaide Airport as separate CGUs.
Valuation Methodology	Given the high degree of uncertainty, the Group adopted an expected cash flow model which probability weights cash flow projections rather than adjusting the discount rate.
Calculation of Recoverable amount	The value in use is based on forecasted cash flow detailed further below.
Discount Rate	The assessed cash flows are discounted to present value at a pre-tax discount rate of 10.9%.
Period of cash flows forecast	The value in use calculation uses cash flow forecast for 10 years based on a detailed bottom-up financial model. Cash flows to determine a terminal value were extrapolated using a constant growth rate of 4.0% per annum.
Cash Flows	Cash flows were projected based on a Board-approved Planning case and updated for revised passenger forecasts. The major inputs and assumptions that required judgement included forecasts of the recovery of domestic and international air travel and expected passenger flows. The passenger forecast is based on information provided by external specialist. The forecast is based on capacity assessments in financial year 2021. Beyond financial year 2021, the forecast considers the shape of the recovery together with macro-economic conditions. As the impact of COVID-19 continues to evolve, it is extremely challenging to predict the full extent and duration of the impact on the Group's operations. The impairment model's most likely scenario assumes domestic traffic will recover to the pre COVID-19 levels by financial year 2024. International traffic is

	anticipated to be slower with only approximately 80% of pre COVID-19 passenger levels expected in financial year 2023.
Sensitivity	The probability-weighted cash flow projections consider possible changes that would reduce the recoverable amount. The scenarios considered include: • Latest forecast based on most recent passenger forecast from an independent specialist; • Slower recovery period for both International and Domestic passengers; • Permanent impact to long-term passengers to below pre COVID-19 passenger numbers. Reasonable possible changes in passenger forecast do not reduce the estimated recoverable amount below the remaining carrying value of the CGU. Even in the downside scenario, which assumed a 20% reduction in passenger numbers from the latest forecast, the estimated recoverable amount exceeds the carrying value.

The Group also considered its enterprise market valuation and the long-term nature of its assets and concluded that there is no impairment at the Adelaide Airport cash-generating unit level.

Following management's review of the capital expenditure and the re-prioritisation exercise to ensure the Group was well positioned to continue delivering critical projects, an assessment of the recoverable value of the capital works in progress was made. During the year ended 30 June 2020, the Group recognised an impairment of $0.4 million in respect of certain capital works in progress (2019: $0.9 million).

(c) Capital expenditure commitments

At reporting date, the Group has capital expenditure commitments of $46.116 million (2019: $108.102 million). The capital expenditure commitments include contractual amounts relating to the Terminal expansion and Mitsubishi construction expected to be incurred over 2020-2021.

9. Investment properties

	30 June 2020 $'000	30 June 2019 $'000
Investment properties movements		
At fair value		
Opening balance 1 July	**435,684**	410,300
Capitalised subsequent expenditure	**5,369**	9,637
Net gain from fair value adjustments	**7,514**	13,920
Reclassification from investment to operating use	**(389)**	(127)
Reclassification from operating to investment	**485**	1,954
	448,663	435,684

(a) Nature

Investment property is comprised of land, buildings and fixed plant and equipment intended to be leased to third parties and are not occupied by the Group.

Contractual obligations to purchase, construct or develop investment property are included in note 8(c).

Land or property reclassified from investment property to operating land is described in note 11(c).

(b) Recognition and measurement

Investment properties are initially recognised at cost and are subsequently measured at fair value with any changes therein recognised in profit or loss.

At each balance date, the Directors update their assessment of the fair value, taking into account external independent valuation conducted by Knight Frank Pty Ltd ('Knight Frank'). Knight Frank undertake a full scope valuation of investment properties once every three years and adopt a 'desktop' review method in years 2 and 3. Financial year 2020 represents the second year of the cycle.

'Desktop' valuation processes adjust and flex full valuations with reference to building price indices, inflation, interest rates and other factors which may impact market values. 'Full scope' valuation processes incorporate all of the above plus site inspections.

In undertaking the valuation Knight Frank use a variety of valuation methods:

Valuation Approach	Description
Capitalisation	A valuation method that determines fair value by capitalising actual or imputed net rental income at an appropriate yield. The capitalisation rate adopted is derived from drawing comparisons with similar investment sales that have transacted in the market place with subsequent capital adjustments to reflect the specific characteristics of the property. Such adjustments include rental shortfalls/profit rent being received (as compared with the market rents adopted in the valuation calculations), leasing fees, loss of rental during the potential let-up period and incentives to reflect the value of the tenancies with vacant possession and any imminent lease expiries, as opposed to existing long term leases.
Discounted Cash Flow (DCF)	A valuation method carried out over an investment horizon of ten years. The discounted cash flow approach assesses the overall cost consequences of an investment, considering the amount and timing of inflows and outflows and the targeted rate of return over the notional holding period of ten years, and allows for a terminal value. The value derived by the DCF approach is assessed by discounting the net cash flow over the investment horizon to a present value at a rate reflecting the desired return, or overall yield, commensurate with the quality of the property and the stature of the lease covenants.
Direct Comparison	A valuation method used for valuing freehold land and involves comparing sales of similar properties in the same or similar areas.

The fair value measurement hierarchy used in calculating fair value has been classified as level 3 on the basis that there are significant inputs that are not based on observable market data. Unobservable inputs include:

Inputs	Impact of increase in input
Capitalisation rate	Decrease fair value
Discount rate	Decrease fair value
Annual net property income per square metre	Increase fair value

COVID-19 Considerations

The Group's overall investment property portfolio value has remained stable despite COVID-19. The investment properties exclude owner-occupied or operational purposes. Therefore, the terminal retail properties which have been the most affected because of the dramatic fall-off in foot traffic, tenant closure and rent abatement packages have not been included in the valuation. Rather the valuation includes industrial and commercial properties which are supported by high quality tenants with long leases, including government agencies and essential services.

The external valuer has carried out the valuations by applying assumptions regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Where there has been an impact on tenants through their links to aviation or through Government enforced restrictions, the valuation includes COVID-19 rent relief adjustments described in Note 5 (a).

(c) Leasing arrangements

The investment properties are leased to tenants under long term operating leases with rental payments monthly.

	30 June 2020 $'000	30 June 2019 $'000
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**32,863**	29,739
Later than one year but not later than 5 years	**135,800**	136,084
Later than five years	**189,513**	190,197
	358,176	356,020

10. Intangible assets

	Goodwill $'000	Master plan costs $'000	Property leases $'000	Total $'000
Useful life (years)	Indefinite	8	Balance of lease term	
Year ended 30 June 2019				
Opening net book amount	179,410	1,486	3,003	183,899
Amortisation charge	-	(745)	(170)	(915)
Closing net book amount	179,410	741	2,833	182,984
At 30 June 2019				
Cost	179,410	3,524	20,853	203,787
Accumulated amortisation and impairment	-	(2,783)	(18,020)	(20,803)
Net book amount	179,410	741	2,833	182,984
Year ended 30 June 2020				
Opening net book amount	179,410	741	2,833	182,984
Additions	-	2,663	-	2,663
Amortisation charge	-	(532)	(170)	(702)
Closing net book amount	179,410	2,872	2,663	184,945
At 30 June 2020				
Cost	179,410	6,187	20,853	206,450
Accumulated amortisation and impairment	-	(3,315)	(18,190)	(21,505)
Net book amount	179,410	2,872	2,663	184,945

(a) Nature

Intangible asset	Nature
Goodwill	Goodwill on acquisition of the operating leases predominantly for Adelaide Airport.
Revenue leases	Excess value of certain revenue generating operating leases acquitted with the operating leases for Adelaide and Parafield airports over the fair value of those leases.
Master plan costs	Under the Airports Act 1996 Adelaide and Parafield Airports are required to prepare a Master Plan every 8 years. All fees and costs incurred in the development of Adelaide and Parafield Airport master plan are included as an intangible asset.

(b) Recognition and measurement

Goodwill arises on acquisition of a business. It is subsequently measured at cost less accumulated impairment losses and tested for impairment annually.

Except for goodwill, the Group recognises intangible assets at cost directly attributable to the acquisition of the asset. The subsequent measurement of intangible assets is at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is accounted for on a straight-line basis in profit or loss over the assets' estimated useful lives from the date they are available for use.

(c) Impairment of intangible assets

The carrying amounts of the Group's intangible assets other than deferred tax assets are reviewed at each reporting date to determine any indication of impairment. Assets with finite lives are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have an indefinite useful life (including goodwill) are not subject to amortisation and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired.

An impairment loss is recognised in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and value in use. As described in note 8(b), for the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is never reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. For year ended 30 June 2020 no intangible assets were impaired (30 June 2019: nil).

(d) Critical estimates and assumptions - impairment test for goodwill

Assessing value in use requires directors to make significant estimates and assumptions. A discounted cash flow methodology has been adopted to value the Group's investment. Under this methodology, estimated cash flows are discounted to their present value using a discount rate which reflects the risks pertaining to the Group's operations.

As described in note 8(b), value in use calculations are based on a long term financial model using forward estimates of cash flows arising from the Group's operations and economic assumptions. Projected revenue growth is primarily driven by the passenger traffic forecast. Growth in passenger numbers over the forecast period is based on information provided by an independent specialist.

With regard to the assessment of value in use, the Group believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill to materially exceed its recoverable amount.

COVID-19 Considerations

As described in Going Concern (note 1(iii)), the Group undertook a Corporate valuation at 30 June 2020 updated for COVID-19 impacts to the business. The valuation updates included assumptions regarding passenger numbers, revenue, operating expenses, capital expenditure and interest rates. There were no changes to the valuation methodology. The result of the updated valuation indicated that significant headroom remains and hence no impairment was required. An independent valuation of the Group's equity value at 30 June 2020 supports the net asset position, including the carrying value of goodwill.

11. Prepaid operating lease

	30 June 2020 $'000	30 June 2019 $'000
Prepaid operating lease movements		
Opening balance 1 July	**117,431**	118,802
Revaluation gain on transfer to investment properties	**(409)**	1,950
Reclassification from operating to investment	**(485)**	(1,954)
Reclassification from investment to operating	**389**	127
Amortisation	**(1,502)**	(1,494)
	115,424	117,431

(a) Nature

AAL operates Adelaide Airport under a lease granted by the Commonwealth Government for an initial period of 50 years commencing 29 May 1998 with a free option exercisable at AAL's discretion, to extend for a further 49 years.

(b) Recognition and measurement

The Prepaid Operating lease is recognised at the original (May 1998) valuation of the land that still remains operational. The prepaid operating lease amount is amortised on a straight-line basis over the term of the lease.

(c) Transfer to/from investment property

When the use of land or property changes from operational land to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in the asset revaluation reserve.

When the use of investment property changes to owner-occupied or operational purposes, the property is measured at fair value as per directors' valuation and reclassified as prepaid operating lease.

WORKING CAPITAL MANAGEMENT

This section provides information about the Group's working capital balances and management, including cash flow information. Cash flow management is a significant consideration in running our business in an efficient and resourceful manner.

12. Cash and cash equivalents

	30 June 2020 $'000	30 June 2019 $'000
Cash at bank and in hand	**143,424**	59,301
Distribution account	**2,090**	2,077
	145,514	61,378

Cash and cash equivalents includes cash on hand and short-term deposits held with major Australian financial institutions.

Deposits classified as cash equivalents are considered to be readily convertible to known amounts of cash and subject to an insignificant risk of change in value and at balance date have a remaining term to maturity of 3 months or less.

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

	30 June 2020 $'000	30 June 2019 $'000
Profit for the year	**21,356**	43,746
Depreciation of property plant and equipment	**22,458**	25,622
Amortisation of intangible assets	**702**	915
Amortisation of borrowing costs	**3,756**	2,529
Amortisation of prepaid operating lease	**1,502**	1,494
RPS redemption premium	**191**	190
Loss on fair value hedges	**1,464**	1,890
Net (gain)/loss on sale of assets	**(14)**	5
Fair value adjustment to investment property	**(7,514)**	(13,920)
Impairment of assets	**(69)**	409
Borrowing costs paid	**(1,339)**	(3,303)
Capitalisation of borrowing costs	**(5,191)**	(1,846)
Movements in current and deferred tax assets and liabilities	**965**	(12,080)
Deferred tax movements recognised in equity	**5,380**	14,139
Decrease/(Increase) in trade debtors and accrued income	**18,235**	(2,614)
Decrease in prepayments	**265**	54
Increase in trade creditors	**9,932**	3,791
Net cash inflow from operating activities	**72,079**	61,021

13. Trade and other receivables

	30 June 2020 $'000	30 June 2019 $'000
Current receivables		
Net trade receivables		
Trade debtors	**24,926**	29,223
Allowance for expected credit loss	**(14,371)**	(1,058)
	10,555	28,165
Other receivables		
Accrued revenue	**8,172**	8,388
Prepayments	**1,304**	1,569
	9,476	9,957
Total current receivables	**20,031**	38,122

(a) Recognition and measurement

Trade receivables are recognised initially at fair value which approximates their carrying value. Subsequent measurement is recorded at amortised cost, less provision for impairment raised for doubtful debts based on an ongoing review of all outstanding amounts. Trade receivables are due for settlement no later than 30 days from the date of recognition.

COVID-19 Considerations

The Group recognised an allowance for expected credit losses against its aeronautical and commercial customers as at 30 June 2020. The provision is made up of:

- A specific provision based on an individual assessment where there were indication that the debt may not be recovered. This is based on information available at the time on the impact of COVID-19 on the recoverability of its aeronautical and commercial debtors. This provision of $14.4 million includes 100% of Virgin Group pre-administration debt and abatements provided to retail and property tenants.
- A simplified impairment provision as permitted by AASB 9. This requires that expected lifetime losses be recognised from initial recognition of all financial assets. The Group assessed expected credit losses based on customer groupings (such as aeronautical, property or retail) using a provision matrix with reference to past default experience and interactions since the emergence of COVID-19. The assessment adopted a higher risk to customers in voluntary administration and retail and airline customers who are most affected by border closures (specifically provided for above). A lower risk is attached to stable property tenants such as Government agencies and essential services. It has been determined that the impact of this assessment does not have a material effect on the financial report.

Included in Other receivables at 30 June 2020 is $1.2 million that relates to abatements to be amortised as a reduction to revenue over the remaining lease term of the retail and property leases.

14. Trade and other payables

	30 June 2020 $'000	30 June 2019 $'000
Current liabilities		
Trade payables	**4,575**	3,384
Interest payables	**20,097**	10,432
Other payables	**12,456**	12,420
Retentions and deposits	**129**	241
	37,257	26,477

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are held at amortised cost.

FUNDING AND RISK MANAGEMENT

Our business has exposure to capital, credit, liquidity and market risks. This section provides information relating to our management of, as well as, our policies for measuring and managing these risks.

15. Borrowings

	30 June 2020 $'000	30 June 2019 $'000
Non-current liabilities		
Secured		
Medium Term Notes	**199,029**	198,340
Bilateral banking facility	**103,647**	(522)
US Bonds	**795,336**	683,252
ESG Loan	**49,689**	(368)
Total secured non-current borrowings	**1,147,701**	880,702
Redeemable preference shares	**189,627**	189,419
Total non-current borrowings	**1,337,328**	1,070,121

(a) Recognition and measurement

With the exception of US Bonds, borrowings are recognised initially at fair value less attributable transaction costs and are subsequently stated at amortised cost. Any difference between cost and redemption value (i.e. transaction costs) is recognised in profit or loss over the period of the borrowings on an effective interest basis.

Where the Group applies fair value hedges to borrowings, the carrying value of the borrowings are adjusted for fair value changes. US dollar debt is hedged by cross-currency interest rate swaps and is recognised at fair value.

Establishment costs incurred in connection with the arrangement of borrowings are capitalised and recognised on an effective interest basis over the anticipated term of the applicable borrowings.

(b) Secured liabilities and assets pledged as security

The balances and other details related to the Group's borrowings as at 30 June 2020 are presented in the following table:

Adelaide Airport Limited
Notes to the financial statements (continued)
30 June 2020

	Financial Year of Maturity	2020 Drawn Amount $'000	2020 Carrying Amount $'000	2020 Limit $'000	2019 Drawn Amount $'000	2019 Carrying Amount $'000	2019 Limit $'000
Medium Term Notes							
BBSW + margin	2025	200,000	199,029	200,000	200,000	198,340	200,000
Bilateral Banking Facility							
BBSY + margin	2024	105,000	104,247	105,000		(522)	105,000
BBSY + margin	2023		(600)	150,000	-	-	-
ESG Loan							
BBSW + margin based on AAL's ESG rating	2026	50,000	49,689	50,000	-	(368)	50,000
US Bonds- AUD							
Fixed at 5.39%	2026	25,000	24,831	25,000	25,000	24,798	25,000
BBSW + Margin	2031	25,000	24,831	25,000	25,000	24,798	25,000
Fixed at 5.043%	2044	140,000	138,963	140,000	140,000	138,984	140,000
US Bonds- USD							
Fixed at 3.73%	2026	90,101	124,778	90,101	90,101	103,857	90,101
Fixed at 3.83%	2028	110,406	163,748	110,406	110,406	128,693	110,406
Fixed at 3.98%	2031	85,025	126,938	85,025	85,025	100,289	85,025
Fixed at 4.39%	2034	137,627	191,247	137,627	137,627	161,833	137,627
Redeemable Preference Shares*							
Fixed 11.5%	2024	188,563	189,627	188,563	188,563	189,419	188,563
Total		**1,156,722**	**1,337,328**	**1,306,722**	**1,001,722**	**1,070,121**	**1,156,722**

* RPS shareholder entitlement: The holder of a RPS is entitled to a non-cumulative interest payment. Interest is accrued quarterly subject to availability of distributable cash calculated in accordance with the terms of a Loan Note Deed Poll. RPS holders are subordinated to the senior creditors. Since the shares are mandatorily redeemable, they are recognised as liabilities.

16. Net finance costs

	30 June 2020 $'000	30 June 2019 $'000
Finance income		
Bank interest	**834**	1,262
Total finance income	**834**	1,262
Finance costs		
Interest paid or payable	**(42,202)**	(38,697)
Dividends on RPS paid and/or provided	**(21,744)**	(21,685)
Amortisation of borrowing costs	**(3,756)**	(2,529)
Redemption Premium Expense	**(191)**	(190)
Borrowing costs capitalised	**5,191**	1,846
Total finance costs	**(62,702)**	(61,255)
Net finance costs	**(61,868)**	(59,993)

(a) Recognition and measurement

Finance income relates to the interest income on cash and term deposits receivable which are brought to account using the effective interest rate method.

Finance costs are recognised as expenses when incurred using the effective interest rate method, except where they relate to qualifying assets.

(b) Capitalisation of borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

17. Derivative financial instruments

The Group holds interest rate swaps and cross currency swaps as derivative instruments. Derivatives financial instruments are recognised initially at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The gain or loss on remeasurement to fair value is recognised in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged, refer below section (a). Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

The following table shows the fair value of financial instruments analysed by type of instrument:

	30 June 2020 $'000	30 June 2019 $'000
Current assets		
Cross currency swaps	**5,129**	1,093
Total current derivative financial instrument assets	**5,129**	1,093
Non-current assets		
Cross currency swaps	**117,940**	67,219
Total non-current derivative financial instrument assets	**117,940**	67,219
Current liabilities		
Interest rate swaps	**700**	15,809
Total current derivative financial instrument liabilities	**700**	15,809
Non-current liabilities		
Interest rate swaps	**40,323**	74,059
Total non-current derivative financial instrument liabilities	**40,323**	74,059
Total net derivative financial instrument assets/(liabilities)	**82,046**	(21,556)

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The fair value of interest rate swaps and cross currency swaps are calculated by discounting the expected future cash flows using assumptions supported by observable market rates (e.g. interest rates and exchange rates) adjusted for specific features of the instruments and debit or credit value adjustments based on the Group's or the derivative counterparties' credit risk.

(a) Derivatives and hedging activities

The Group uses its derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. At the inception of the hedging transaction, the Group designates and documents the economic relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The accounting for the subsequent changes in fair value of derivative instruments used for hedging activities depends on the nature of the item being hedged and the type of hedging relationships designated. The Group designates certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges); or
- hedges of a particular risk associated with the cash flows of recognised liabilities (cash flow hedges).

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within changes in fair value of financial instruments, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss also within changes in fair value of financial instruments.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve, limited to the lower of change in hedging instrument or cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are recorded in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing. During the year, the Group assessed the cash flow hedges to be highly effective and therefore continue to qualify for hedge accounting.

Foreign currency basis spread reserve

The foreign currency basis spread reserve represents the fair value movement of the currency basis spread component of the Group's cross currency interest rate swaps which has been excluded from the hedging relationship. The currency basis spread component of the swaps is deferred in equity as a cost of hedging and released to the income statement over the life of the instruments.

Interest rate and cross currency swap resets

The Group executed an interest rate swap restructure to realign its swap portfolio rates with the current low interest rate environment during the year.

Interest rate swap termination payments of $68.6 million were funded through:
- $13.0 million of existing cash balances.
- $55.6 million of upfront funding realised after resetting the final principal exchange rates on the Group's in the money cross currency swaps to current market rates, increasing the amount repayable at maturity by $66.5 million. These resets have been achieved under two different structures:

1. $13.6 million of the upfront funding ($15.5 million increase in amount payable at maturity) was achieved through amending the existing cross currency swap contract. Under this structure the amendment is reflected within the fair value of derivatives on the balance sheet.
2. $42.0 million of the upfront funding ($51.0 million increase in amount payable at maturity) was achieved through overlaying new contracts to firstly reverse the existing position before executing a new trade at current market rates while leaving the original cross currency swap in place. These overlay structures have been recorded in borrowings with the difference between the upfront funding received and additional principal repayable at maturity being amortised to interest expense over the life of the swaps. Borrowings at 30 June 2020 increased by $42.1 million as a result of these contracts, being a $51.0 million increase in the amounts repayable at maturity less unamortised borrowing costs of $8.9 million. Borrowing costs of $0.1 million relating to these overlay contracts were amortised through interest expense. There is no change to the hedge accounting for the existing cross currency swaps and hedge accounting does not apply to the overlay contracts.

New interest rate swaps were executed to replace those being unwound and adjust the overall hedge profile to meet the target hedge ratios under the Group's Hedging Policy.

Hedge accounting is discontinued on the terminated swaps. As the underlying hedged debt is still in place, the amount deferred in cash flow hedge reserve on discontinuation will be amortised to profit or loss as part of financing cost over the remaining life of the terminated interest rate swaps.

(b) Risk management strategies

The Group's activities expose it to foreign currency risk and interest rate risk (market related risks). In order to minimise any adverse effects on the financial performance of the Group cross currency swaps and interest rate swaps are used to hedge these risk exposures. These swap contracts have the effect of:

- Cross currency swaps: Converting USD fixed interest rate borrowings into AUD floating rate borrowings, securing a fixed AUD/USD exchange rate.
- Interest rate swaps: Converting floating interest rate borrowings to fixed interest rate borrowings, locking in a fixed interest rate.

Financial risk management is controlled under policies approved by the Board of Directors.

(i) Foreign currency risk

The Group is exposed to foreign currency risk on its USD denominated US Bonds. The Group's Risk Management Policy is to fully hedge the foreign currency risk on these US Bonds (that is, fluctuations in the AUD-USD exchange rate) from the initial issuance date through to maturity. The Group does not have any material ongoing exposure to foreign currency risks on revenue, operating expenses and capital expenditure and will consider hedging requirements for ad hoc foreign currency transactions on a materiality basis as they arise. The Group has entered into cross currency swaps to hedge this foreign currency risk exposure.

For the purpose of hedge accounting these cross currency swap instruments are split into four components:

- A USD interest rate swap where the Group receives a USD fixed rate and pays floating USD LIBOR (fair value hedge). This component of the swap manages the Group's exposure to changes in fair value of the fixed rate USD debt arising from fluctuations in the USD LIBOR.

- A cross currency basis swap the Group receives floating USD LIBOR and pays floating AUD BBSW (cash flow hedge). This component of the swap hedges the Group's variability in cash flows relating to the principal and interest components of the USD debt due to movements in exchange rates, and converts the Group's exposure to USD LIBOR to an AUD BBSW exposure, which is subsequently mitigated through the Group's AUD floating to fixed interest rate swaps.

- A swap where the Group receives fixed USD margin and pays a fixed AUD margin (cash flow hedge). This component of the swap hedges the foreign currency exposure on the USD margin component of the USD interest payments to achieve a fixed AUD/USD exchange rate, fully mitigating foreign exchange risk.

- Currency basis spread which represents the liquidity charge for exchanging different currencies (deferred in equity as a cost of hedging).

At 30 June 2020 100% (30 June 2019: 100%) of the Group's USD denominated US Bonds were hedged in respect of foreign currency risk. As at the end of the reporting period, the Group had the following amount of US Bonds (USD denominated) and notional principal amount of cross currency swap contracts outstanding:

	30 June 2020 $'000	30 June 2019 $'000
Outstanding derivative contracts		
US Bonds	423,159	423,159
Cross currency swaps (notional amount)	(423,159)	(423,159)
	-	-

The currency basis spread incorporated within the margin on the cross currency swaps has been excluded from the hedging relationship and deferred in the foreign currency basis spread reserve. Refer to note 18 for movements in the foreign currency spread reserve.

(ii) Interest rate risk

The Group is exposed to two forms of interest rate risk:

- Cash flow interest rate risk (exposure to variable interest rates); and
- Fair value interest rate risk (exposure to fair value movements on fixed rate debt)

Cash flow interest rate risk:

The Group is exposed to variability in cash flows as a result of changes in interest rates on its floating rate bonds, bank debt facilities and on the AUD floating interest rate exposure created from the USD fixed to AUD floating interest rate swap component of its cross currency swaps.

The Group's interest rate risk management policy is to fix interest rates across the total debt portfolio through the issuance of either fixed rate debt or execution of derivatives in line with the hedging bands set out below:

Interest Rate Hedging Policy Bands										
Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Upper Band	100%	95%	90%	85%	80%	75%	70%	65%	60%	55%
Lower Band	80%	75%	70%	65%	60%	55%	50%	45%	40%	35%

The Group has entered into interest rate swaps which are designated in cash flow hedge relationships. Under these swaps the Group agrees, at specified intervals, to receive interest at variable rates and pay interest at fixed rates, effectively fixing the Group's interest rate.

Fixed rate loans and derivatives currently in place cover 90% (2019: 95%) of the loan principal outstanding. The average fixed interest rate is 4.10% (2019: 5.13%) and the variable rates are based on the 90 day BBSY (bid) bank bill rate or 90 day BBSW bank bill rate.

Fair value interest rate risk:

The Group is also exposed to fair value interest rate risk on its fixed interest rate US Bonds. Fluctuations in interest rate impact the fair value of the Group's US Bonds, with increases in the benchmark interest rate decreasing the fair value of the Bonds, and decreases in the interest rate having the opposite effect.

The Group uses the USD fixed-to-floating interest rate swap on the benchmark interest component of the cross currency swaps to manage this fair value interest rate risk exposure. This component of the cross currency swaps is designated in a fair value hedge relationship. This results in fair value changes in this component offsetting fair value adjustments recognised on the Group's US Bonds, which are recognised at fair value on the balance sheet until hedge accounting is discontinued.

Hedge Ineffectiveness: The terms of the Group's cross currency swaps and interest rate swaps (hedging instruments) have been specifically structured to match the underlying terms of its borrowing exposures (hedged items), such that the hedge ratio is 1:1 for all hedge relationships. As the terms of the hedging instruments exactly mirror the terms of the hedged items the cash flow and fair value hedges are expected to be highly effective both at designation and at all future measurement dates.

Ineffectiveness may however arise from time to time as a result of differences between the credit risk inherent within the hedged items and the hedging instruments.

(c) Effects of applying hedge accounting

As at 30 June 2019	Carrying amount of Hedging Instrument		Carrying amount of the Hedged Item		Change in value of the Hedging Instrument since inception	Change in value of the Hedged Item since inception	Recognised in Profit or Loss	Total Hedge Reserves
$'000	Asset	Liability	Asset	Liability	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)
Cash flow hedges								
Interest Rate Swaps	-	(89,868)	-	(497,971)	(89,868)	92,343	-	(89,868)
Cross Currency Swaps	35,309	-	-	-	41,885	(41,926)	(314)	(5,133)
Fair value hedges								
Cross Currency Swaps	33,004	-	-	-	33,004	(34,546)	(1,577)	-

As at 30 June 2020	Carrying amount of Hedging Instrument		Carrying amount of the Hedged Item		Change in value of the Hedging Instrument since inception	Change in value of the Hedged Item since inception	Recognised in Profit or Loss	Total Hedge Reserves
$'000	Asset	Liability	Asset	Liability	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)
Cash flow hedges								
Interest Rate Swaps	-	(41,023)	-	-	(41,024)	44,241	-	(107,583)
Cross Currency Swaps	31,912	-	-	-	52,042	(53,710)	(161)	(4,943)
Fair value hedges								
Cross Currency Swaps	91,157	-	-	(567,556)	91,157	(94,002)	(1,302)	-

18. Reserves

	Asset revaluation reserve $'000	Hedging reserve - cash flow hedges $'000	Foreign currency basis spread reserve $'000	Total $'000
Year ended 30 June 2019				
Balance 1 July	12,781	(38,015)	5,873	(19,361)
Revaluation (net of tax)	1,363	(16,945)	(17,414)	(32,996)
Total	**14,144**	**(54,960)**	**(11,541)**	**(52,357)**
Year ended 30 June 2020				
Balance 1 July	14,144	(54,960)	(11,541)	(52,357)
Revaluation (net of tax)	(286)	(13,687)	1,419	(12,554)
Total	**13,858**	**(68,647)**	**(10,122)**	**(64,911)**

(a) Asset revaluation reserve

The asset revaluation reserve records gains or losses recognised upon transfer of properties from operating to investment assets.

(b) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(c) Foreign currency basis spread reserve

The foreign currency basis spread reserve represents the fair value movement of the currency basis spread component of the Group’s cross currency interest rate swaps which has been excluded from the hedging relationship. The currency basis spread component of the swaps is deferred in equity as a cost of hedging and released to the income statement over the life of the instruments.

19. Dividends

	Consolidated and Parent Entity	
	30 June 2020 $'000	30 June 2019 $'000
Dividends for the year ended 30 June 2020 of $10.50 (2019: $23.63) per fully paid share in one instalment on 31 December 2019		
Interim ordinary dividend	**20,000**	20,000
Final ordinary dividend	**-**	25,000
	20,000	45,000

(a) Ordinary shareholders' entitlement

Shareholders of each fully paid ordinary share have the right to receive dividends as declared and in the event of winding up the companies, the proceeds from the sale of surplus assets in proportion to the number of and amounts paid on shares held. Ordinary dividends are paid only after the payment of interest on RPS. Refer to note 15 for RPS shareholder entitlements.

(b) Dividend franking account

	Consolidated and Parent Entity	
	30 June 2020 $'000	30 June 2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2019: 30%)	**-**	(499)

A franking deficit tax of $6.385 million is payable due to the income tax instalments made during the year were significantly less than forecasted. The Group paid a fully franked dividend at 31 December 2019 based on franking credits available at the time and estimated future instalments for the second half of the year. In April, it was apparent that the impact of COVID-19 pandemic would be significant and the Group received a refund of the previously paid instalments, reflecting the now forecasted tax loss position.

A current tax payable of this amount has been recorded on the balance sheet. The tax expense and deferred tax position has been calculated based on the ATO issued relief to not reduce the available offset where a franking account deficit was due to the unexpected downturn in the business directly relating to COVID-19.

GROUP STRUCTURE

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. Specifically, it contains information about the Parent Entity, related party transactions, as well as parties to the Deed of Cross Guarantee under which each company guarantees the debts of others.

20. Parent entity financial information

The parent entity within the Group is Adelaide Airport Ltd which is also the ultimate parent entity and ultimate controlling party.

Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	30 June 2020 $'000	30 June 2019 $'000
Balance sheet		
Current assets	**158,729**	92,756
Non-current assets	**1,192,960**	1,099,003
Total assets	**1,351,689**	1,191,759
Current liabilities	**40,679**	26,150
Non-current liabilities	**1,291,575**	1,142,840
Total liabilities	**1,332,254**	1,168,990
Net assets	**19,435**	22,769
Shareholders' equity		
Ordinary shares	**1,905**	1,905
Reserves	**13,858**	14,144
Retained earnings	**3,672**	6,720
	19,435	22,769
Profit or loss for the year	**16,952**	41,761
Total comprehensive income	**16,952**	41,761

(a) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2020, the Parent Entity had contractual commitments for the acquisition of property, plant and equipment totalling $46.116 million (2019: $106.738 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

(b) Guarantees entered into by the parent entity

Each of the Adelaide Airport Group Companies (the Security Providers) has executed a deed of cross guarantee and indemnity dated 8 December 2000 in favour of a Security Trustee on behalf of all Financiers (the “AAL Group Guarantee”). Pursuant to the AAL Group Guarantee, each Security Provider (as Guarantor) guarantees to each Financier:

(i) the payment of all money which the Security Providers at any time are actually or contingently liable to pay to or for the account of a Financier under its Financing Documents (the “Guaranteed Money”); and
(ii) the performance by each Security Provider of its obligation to pay the Guaranteed Money to the Financiers and other non-monetary obligations to the Financiers under the Financing Documents.

No amendments will be made to the AAL Group Guarantee.

No liability was recognised by the parent entity in relation to these two guarantees, as the fair value of both guarantees is considered immaterial.

21. Subsidiaries and transactions with non-controlling interests

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in this financial statements.

Name of entity	Country of incorporation	Equity holding	
		2020	2019
		%	%
Adelaide Airport Management Limited*	Australia	**100**	100
Parafield Airport Limited*	Australia	**100**	100
New Terminal Financing Company Pty Ltd	Australia	**100**	100
New Terminal Construction Company Pty Ltd*	Australia	**100**	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 23.

Adelaide Airport Limited is the main operating entity and holds the lease rights to manage and operate Adelaide Airport. The lease and management rights form Adelaide Airport Limited’s main asset and consist of a 99-year lease (50 + 49 option) acquired in 1998 from the Federal Government. Adelaide Airport Management Limited is responsible for the employment of staff at the Group. Parafield Airport Limited holds the lease rights to operate Parafield Airport, South Australia’s premier general aviation airport. New Terminal Financing Company Pty Ltd is the financing vehicle for the Group, whilst New Terminal Construction Company Pty Ltd was the company responsible for the construction of Terminal 1.

The class of shares issued are ordinary shares for all entities and carrying values remain unchanged subsequent to issue.

22. Related party transactions

(a) Key management personnel compensation

	30 June 2020 $	30 June 2019 $
Employee benefits	**2,889,562**	4,602,586
Superannuation	**237,306**	239,785
	3,126,868	4,842,371

Key management personnel compensation excludes insurance premiums paid by the Parent Entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the Directors' report. The terms of the insurance policy prohibit disclosure of the premiums paid.

(b) Superannuation contributions

	Consolidated	
	30 June 2020 $	30 June 2019 $
Contributions to superannuation funds on behalf of employees	**1,853,181**	1,687,694

23. Deed of cross guarantee

Adelaide Airport Limited, Adelaide Airport Management Limited, Parafield Airport Limited and New Terminal Construction Company Proprietary Limited are parties to a deed of cross guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Adelaide Airport Limited, they also represent the 'extended closed Group'.

Set out below is a consolidated statement of profit or loss and comprehensive income, a consolidated balance sheet and a summary of movements in consolidated retained earnings for the year ended 30 June 2020 of the closed group consisting of Adelaide Airport Limited, Parafield Airport Limited, Adelaide Airport Management Limited and New Terminal Construction Company Pty Ltd.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings (continued)

	30 June 2020 $'000	30 June 2019 $'000
Consolidated statement of profit or loss and comprehensive income		
Revenue from continuing operations	**196,355**	225,464
Other income	**621**	1,729
Increments in the fair value of investment properties	**7,514**	13,920
Employee benefits expense	**(13,890)**	(18,031)
Depreciation & amortisation expense	**(24,662)**	(28,031)
Services & utilities	**(45,875)**	(50,059)
Consultants & advisors	**(3,240)**	(3,900)
General administration	**(6,897)**	(8,770)
Expected credit loss expense	**(11,769)**	(1)
Leasing & maintenance	**(4,373)**	(5,986)
Borrowing costs expense	**(61,981)**	(60,798)
Impairment of property, plant and equipment	**69**	(409)
Gain/(Loss) on disposal of property, plant and equipment	**14**	(5)
Profit before income tax	**31,886**	65,123
Income tax expense	**(9,585)**	(19,814)
Profit for the year	**22,301**	45,309

	30 June 2020 $'000	30 June 2019 $'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**55,387**	55,078
Profit for the year	**22,301**	45,309
Dividends provided for or paid	**(20,000)**	(45,000)
Retained earnings at the end of the financial year	**57,688**	55,387

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2020 of the closed group.

	30 June 2020 $'000	30 June 2019 $'000
Current assets		
Cash and cash equivalents	**138,821**	54,727
Trade and other receivables	**20,031**	38,116
Total current assets	**158,852**	92,843
Non-current assets		
Receivables	**-**	409
Property, plant and equipment	**512,950**	428,793
Investment properties	**448,663**	435,684
Intangible assets	**184,945**	182,984
Prepaid operating lease	**115,424**	117,431
Total-non-current assets	**1,261,982**	1,165,301
Total assets	**1,420,834**	1,258,144
Current liabilities		
Trade and other payables	**33,437**	21,445
Current tax liabilities	**-**	3,397
Franking deficit tax liabilities	**6,385**	-
Provisions	**3,457**	4,183
Deferred revenue	**1,023**	1,511
Total current liabilities	**44,302**	30,536
Non-current liabilities		
Borrowings	**1,174,941**	1,015,593
Deferred tax liabilities	**125,406**	137,633
Provisions	**1,792**	1,817
Deferred revenue	**942**	1,129
Total non-current liabilities	**1,303,081**	1,156,172
Total liabilities	**1,347,383**	1,186,708
Net assets	**73,451**	71,436
Equity		
Contributed equity	**1,905**	1,905
Reserves	**13,858**	14,144
Retained earnings	**57,688**	55,387
Total equity	**73,451**	71,436

OTHER INFORMATION

This section provides information that is not directly related to the specific line items in the financial statements, including employee entitlements, remuneration of auditors and contingent liabilities.

24. Provisions

	30 June 2020 $'000	30 June 2019 $'000
Current liabilities		
Annual leave	**1,252**	1,348
Long service leave	**2,205**	1,863
EIP provision and short-term incentives	**-**	972
	3,457	4,183
Non-current liabilities		
Long service leave	**588**	613
EIP provision	**1,204**	1,204
	1,792	1,817

(a) Wages and salaries, short-term incentives, annual leave and sick leave

Liabilities for wages and salaries, including short-term incentives and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid.

(b) Long service leave

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(c) Executive Incentive Plan (EIP)

The Group recognises a liability and an expense for bonuses based on a formula that takes into account the appreciation in shareholder wealth arising from each year of the Group's operations which are payable after a period of four year's accumulation subject to certain conditions contained in a formal agreement.

25. Remuneration of auditors

The auditor of the Group is PricewaterhouseCoopers Australia.

	30 June 2020 $	30 June 2019 $
Audit and other assurance services		
Audit and review of financial statements	**139,733**	148,418
Other assurance services	**37,170**	56,165
Taxation services	**55,007**	68,503
Total remuneration of PricewaterhouseCoopers Australia	**231,910**	273,086

26. Contingent liabilities

As required by the Group's agreement with the Commonwealth of Australia, certain property developments on the airport site may be undertaken at some future date requiring tenants to relocate from existing properties.

In the event that these relocations are required, certain reimbursements may be claimed by the tenants from the consolidated entity for improvements made by the tenants to existing properties.

At this stage, the consolidated entity has no obligations to make any such reimbursements to tenants and no provision has been recorded in the financial statements to reflect these contingent obligations.

27. Events subsequent to balance date

(a) Further Government Actions in response to COVID-19 pandemic:

Various Australian State Governments have reimposed restrictions on interstate travel or imposed expanded localised lockdowns. South Australian borders reopened with Northern Territory and Queensland in July 2020 and ACT and NSW in September 2020.

The Australian Federal Government legislated the extension of JobKeeper payment support for an additional six months covering October 2020 to March 2021.

(b) Company Structure:

A restructure of the Group was announced in August 2020, which specifies the number of jobs impacted and the redundancy compensation package offered by the Group. The change in the Group's organisational structure was reviewed to right-size the business, with a number of redundancies unfortunately being confirmed as a result. The resizing of the organisational structure is expected to reduce labour costs by 20%. No redundancy costs were incurred or provided for in the 30 June 2020 financial statements.

(c) Liquidity

The Group executed a new $50 million bank debt facility with ICBC in July as part of the final tranche of COVID-19 capital management.

(d) Virgin Group Administration Update

On 4 September 2020 creditors of Virgin Australia Group voted to accept the sale of Virgin Australia Group to BC Hart Aggregator, LP (Bain Capital). The completion of the sale will occur once the deeds of company arrangement are signed and formal transfer of shares in Virgin Australia Holdings to Bain Capital. This is expected to be completed by 31 October. On 3 September 2020 the Group executed a letter of intent with Bain Capital outlining the terms and conditions of existing arrangements and settlement for release of security interest and liens. Payment under this agreement is expected to occur prior to the sale completion. As the letter of intent with Bain Capital was not finalised at balance date, any expected settlement has not been reflected in the 30 June 2020 Financial Statements.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 11 to 52 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards - Reduced Disclosure Requirements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become liable, by virtue of the deed of cross guarantee described in note 23.

This declaration is made in accordance with a resolution of Directors.

Jane Elizabeth Yuile
Director

Mark Dennis Young
Director

Adelaide
29 September 2020

Auditor's Independence Declaration

As lead auditor for the audit of Adelaide Airport Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adelaide Airport Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
29 September 2020

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Independent auditor's report

To the members of Adelaide Airport Limited

Our opinion

In our opinion:

The accompanying financial report of Adelaide Airport Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) 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

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

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.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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 accordingly 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
29 September 2020