

# Management Information Report for period ended 31 December 2011



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## **Disclaimer**

ASX-listed Sydney Airport comprises Sydney Airport Trust 1 (ARSN 099 597 921) and Sydney Airport Trust 2 (ARSN 099 597 896). The responsible entity of Sydney Airport Trust 1 and Sydney Airport Trust 2 is Sydney Airport Holdings Limited (ABN 85 075 295 760) (AFSL 236875).

This report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in ASX-listed Sydney Airport, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

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## Report Summary

The purpose of the Management Information Report (the Report) is to provide information supplementary to the Financial Report of ASX-listed Sydney Airport (ASX-listed Sydney Airport comprises Sydney Airport Trust 1 and Sydney Airport Trust 2). This Report has been prepared on a different basis to the ASX-listed Sydney Airport Financial Report. The information contained within this Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and the cash flows of ASX-listed Sydney Airport as disclosed in the Financial Report. This Report should be read in conjunction with the ASX-listed Sydney Airport Financial Report.

This Report comprises the following sections:

- **Overview sections** covering ASX-listed Sydney Airport's IFRS Financial Report disclosures and summary performance for the 12 months ended 31 December 2011.
- **Section 1 Financial performance** presents ASX-listed Sydney Airport's Proportionate Earnings, Aggregated Cash Flow Statement and other measures for the 12 months ended 31 December 2011. It has been prepared using policies adopted by the directors of Sydney Airport Holdings Limited (SAHL) and, unless stated otherwise, these policies have been consistently applied to all periods presented in this Report.
- **Section 2 Airport performance** contains a more detailed analysis of the performance of Sydney Airport.
- **Section 3 Valuations and Asset Backing per Security Attributable to Investments** presents an analysis of ASX-listed Sydney Airport's airport valuations, including details of the key impacts during the period.

KPMG has been engaged to perform certain procedures for the directors of SAHL in relation to this Report. The areas covered by KPMG's procedures included the following information in sections 1, 2 and 3: Proportionate Earnings (tables 2, 3 and 20), Reconciliations to Statutory Financial Report (tables 4 and 7), Airport Net Debt (table 6), Enterprise Value (table 8), Fair Value of ASX-listed Sydney Airport's Airports and ABSI Summary (table 9), Aggregated Cash Flow Statement (table 10), Portfolio Valuation (table 17), and ABSI (table 19).

KPMG conducted its engagement in accordance with Australian Auditing Standards applicable to agreed upon procedures engagements. The procedures do not constitute either an audit or review in accordance with Australian Auditing Standards and accordingly KPMG expresses no assurance over the accuracy of the above information or any other aspect of the Report.

## Extract from Statutory Financial Report

A summary of statutory financial performance is provided below.

**Table 1 – Extract of Statutory Financial Report**

	<i>Listed Entity 12 months to 31 Dec 2011 AUD'm</i>	<i>Listed Entity 12 months to 31 Dec 2010 AUD'm</i>	<i>SAT2 12 months to 31 Dec 2011 AUD'm</i>	<i>SAT2 12 months to 31 Dec 2010 AUD'm</i>
Revenue	<b>1,042.0</b>	1,006.3	<b>337.7</b>	71.3
Revaluation gains / (losses) from investments	<b>0.2</b>	(19.7)	<b>314.3</b>	1,370.9
Other income	<b>(16.3)</b>	16.6	<b>2.6</b>	0.4
Total revenue from continuing operations	<b>1,025.9</b>	1,003.2	<b>654.6</b>	1,442.5
Profit from continuing operations after income tax (expense) / benefit	<b>82.1</b>	58.5	<b>110.5</b>	804.7
Loss from discontinued operations net of income tax	<b>(361.6)</b>	(6.6)	-	-
Profit / (loss) for the year after income tax (expense) / benefit	<b>(279.4)</b>	51.8	<b>110.5</b>	804.7
Profit / (loss) attributable to security holders	<b>(239.9)</b>	100.8	<b>(19.0)</b>	404.8
<b>Earnings per stapled security from continuing operations attributable to security holders</b>				
Basic earnings per stapled security / unit	<b>6.54c</b>	0.58c	<b>0.01c</b>	21.75c
Diluted earnings per stapled security / unit	<b>6.54c</b>	0.58c	<b>0.01c</b>	21.75c
<b>Earnings per stapled security from discontinuing operations attributable to security holders</b>				
Basic earnings per stapled security / unit	<b>(19.43)c</b>	(0.03)c	<b>0.00c</b>	0.00c
Diluted earnings per stapled security / unit	<b>(19.43)c</b>	(0.03)c	<b>0.00c</b>	0.00c

This Report has been prepared on a different basis to the ASX-listed Sydney Airport Financial Report. The information contained within this Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and the cash flows of ASX-listed Sydney Airport as disclosed in the Financial Report. This Report should be read in conjunction with the ASX-listed Sydney Airport Financial Report.

A reconciliation of statutory results to Proportionate Earnings is provided in section 1 at table 4.

## Significant Transactions

### Sale of interests in Brussels Airport and Copenhagen Airports, and acquisition of additional interest in Sydney Airport

On 19 July 2011 ASX-listed Sydney Airport advised that it had entered into a binding agreement or Asset Swap Proposal (ASP) with Ontario Teachers' Pension Plan Board (OTPP). The ASP involved the sale of ASX-listed Sydney Airport's non-controlling interests in Brussels Airport and Copenhagen Airports in exchange for OTPP's 11.02% interest in Sydney Airport and a net cash payment of approximately \$850.0 million.

On 28 September 2011 all conditions precedent for the Asset Swap Proposal were satisfied.

The asset swap was affected as follows:

- On 7 October 2011 MAIL's investments in Brussels Airport and Copenhagen Airports were transferred to OTPP and OTPP transferred its direct 4.96% investment in Sydney Airport to SAT2 subsidiaries.
- On 18 November 2011 subsidiaries of MAIL completed the acquisition of a further investment of 6.06% in Sydney Airport through the purchase of OTPP's 9.72% investment in Southern Cross Australian Airports Trust (SCAAT).

As a result, ASX-listed Sydney Airport increased its interest in Sydney Airport to 84.82% (from 73.96%), disposed of its entire non-controlling interests in Brussels Airport and Copenhagen Airports and received a final net cash payment of \$801.3 million in accordance with contractual arrangements and adjusted for foreign exchange movements and completion adjustments.

### Simplification and Scheme

On 28 September 2011 ASX-listed Sydney Airport announced that as a result of its strategy having changed to focus solely on its ownership and operation of Sydney Airport, it would seek investor approval to restructure and simplify (the Simplification) the group by removing MAIL from the stapled security structure by way of a scheme of arrangement (the Scheme).

Details of the Simplification and Scheme were included in an Explanatory Memorandum and Independent Expert's Report announced to investors on 24 October 2011. Investors were asked to vote on the following resolutions at the Simplification Meetings (Scheme Meeting, Special General meeting of MAIL and the General Meetings of SAT1 and SAT2) held on 24 November 2011:

#### MAIL

- Scheme Resolution - approve the Scheme to implement the Simplification
- Resolution 1 – approve the unstapling of MAIL shares from SAT1 units and SAT2 units
- Resolution 2 – approve amendments to the MAIL by-laws

#### SAT1

- Resolution 1 – approve that SAT1 units cease to be stapled to MAIL shares, and that the stapling of SAT1 and SAT2 units be temporarily suspended

#### SAT2

- Resolution 1 – approve that SAT2 units cease to be stapled to MAIL shares, and that the stapling of SAT1 and SAT2 units be temporarily suspended
- Resolution 2 – approve amendments to the SAT2 constitution

All the resolutions above were passed at the Simplification Meetings and the Supreme Court of Bermuda approved the Scheme. As a result of the Scheme, investors sold their shares in MAIL to SAT2 for market value consideration in the form of a cash component of 80.0 cents per MAIL share and an issue of SAT2 units (together the Scheme Consideration) on 19 December 2011.

As a result of the unstapling resolutions, MAIL ceased to form part of the ASX-listed Sydney Airport stapled security. Investors continue to hold the same overall number of stapled securities before the Simplification, but each stapled security now comprises one unit in SAT1 and one unit in SAT2 only.

## Events Occurring After Balance Sheet Date

A final distribution of 10.0 cents (2010: 10.0 cents) per stapled security was paid on 16 February 2012.

Since 31 December 2011, the directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in the Report that has significantly affected or may significantly affect the operation of ASX-listed Sydney Airport, the results of those operations or the state of affairs subsequent to the period ended 31 December 2011.

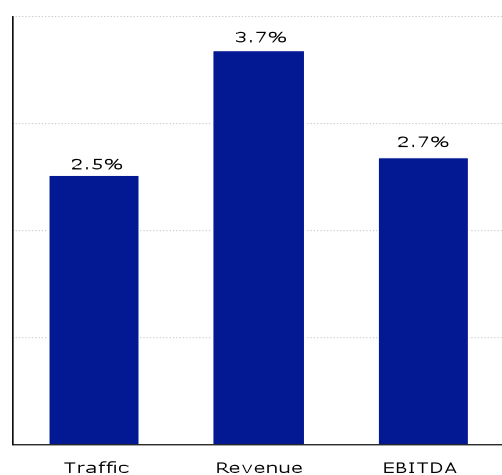


## Portfolio Performance Summary

Table 2 – Portfolio Performance Summary

	12 months to 31 Dec 11	12 months to 31 Dec 10	Change %	
<b>Pro forma Proportionate Results<sup>1</sup></b>				
Traffic Growth on prior corresponding period (pcp) (%)	<b>+2.5%</b>	+6.9%	n/a	
Proportionate Revenue (AUDm)	<b>1,042.8</b>	1,005.8	+3.7%	
Proportionate EBITDA <sup>2</sup> from airports (AUDm)	<b>773.6</b>	750.6	+3.1%	
Total EBITDA <sup>2</sup> (AUDm)	<b>753.6</b>	733.9	+2.7%	
EBITDA Margin (%)	<b>72.3%</b>	70.4%	n/a	
<b>Actual Results<sup>3</sup></b>				
Proportionate Earnings (AUDm)	<b>405.5</b>	445.4	-9.0%	
Proportionate Earnings per Security (cents)	<b>21.8</b>	23.9	-9.0%	
<b>Cash Payments</b>				
Ordinary Distributions per Security (cents)	<b>21.0</b>	21.0		
Special Distributions per Security (cents)	<b>-</b>	12.5		
Cash component of Simplification consideration per MAIL share (cents)	<b>80.0</b>	-		
	<i>As at 31 Dec 11</i>	<i>As at 31 Dec 10</i>	<i>Change %</i>	<i>As at 30 Jun 11</i>
<b>Valuations</b>				
Airport valuation (AUDm)	<b>6,619.3</b>	7,344.1	-9.9%	7,217.9
ABSI (AUD)	<b>3.55</b>	4.35	-18.4%	4.27
Proportionate Net Debt less Corporate net debt/(cash) (AUDm)	<b>5,000.1</b>	4,609.5	+8.5%	4,748.2
Enterprise Value (AUDm)	<b>11,599.2</b>	12,709.5	-8.7%	12,692.6
Net Debt to Enterprise Value (%)	<b>43.1%</b>	36.3%	n/a	37.4%

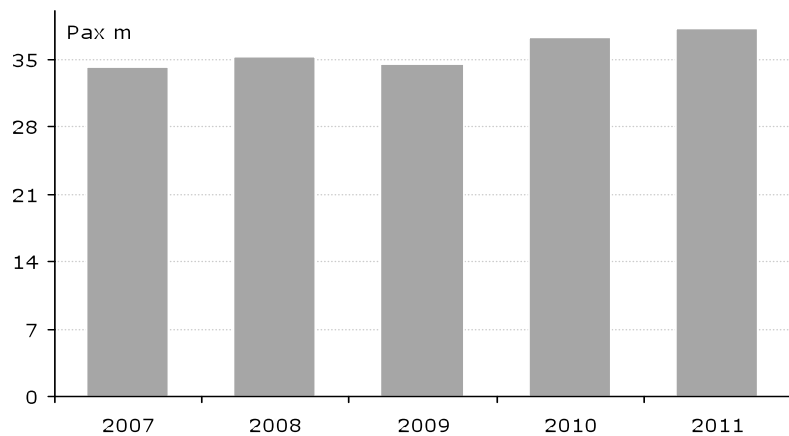
Figure 1 – Summary pro forma<sup>1</sup> portfolio performance vs pcp



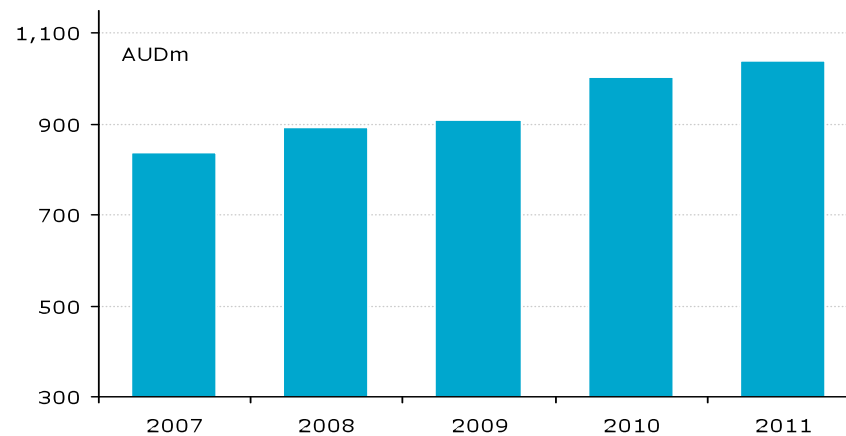
1. Data for 31 December 2010 is stated on a "pro forma" basis. Pro forma is derived by restating the prior period results with the airport ownership percentages and foreign currency exchange rates from the current period.
2. Excluding airport specific gains/(losses).
3. Excludes net debt amortisation.

**Figure 2 – ASX-listed Sydney Airport 5 Year Performance Summary for 12 months ending 31 December**

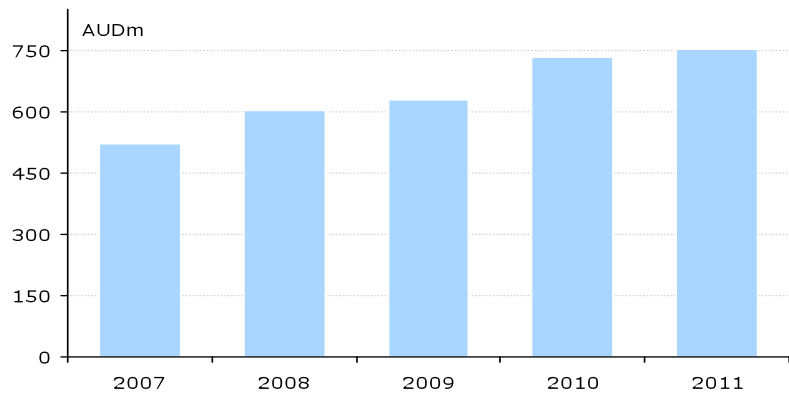
Traffic<sup>1</sup>



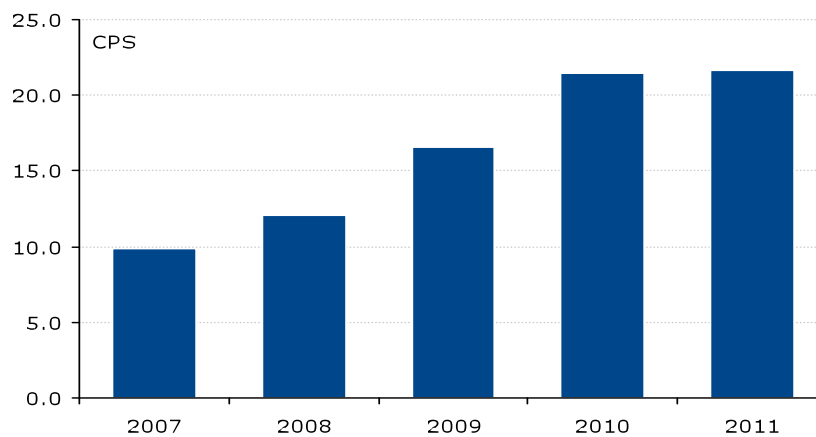
Revenue<sup>1</sup>



EBITDA<sup>1</sup>



Proportionate EPS



1. Pro forma results are derived by restating prior period results with current ownership interests and foreign exchange rates. Excludes ASUR.

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# Financial Performance

# 1



# 1 Financial Performance

## 1.1 Proportionate Earnings

**Table 3 – Proportionate Earnings for 12 months ended 31 December 2011**

	<i>Actual results 12 months to 31 Dec 11 AUD '000</i>	<i>Pro forma results 12 months to 31 Dec 10 AUD '000</i>	<i>Change vs pro forma pcp %</i>	<i>Actual results 12 months to 31 Dec 10 AUD '000</i>
<b>Passenger traffic ('000)</b>	<b>38,255</b>	37,317	+2.5%	41,360
Airport revenue	<b>1,042,817</b>	1,005,763	+3.7%	1,129,020
Airport operating expenses	<b>(269,264)</b>	(255,115)	+5.5%	(317,158)
<b>Total airport EBITDA (pre specific gains / (losses))</b>	<b>773,553</b>	750,648	+3.1%	811,862
Corporate net expenses	<b>(19,942)</b>	(16,740)	+19.1%	(16,740)
<b>Total EBITDA (pre specific gains / (losses))</b>	<b>753,611</b>	733,908	+2.7%	795,122
Airports specific gains / (losses)	<b>(250)</b>	(2,641)	-90.5%	10,257
<b>Total EBITDA</b>	<b>753,361</b>	731,267	+3.0%	805,379
Airport economic depreciation	<b>(22,969)</b>			(28,557)
Airport net interest expense	<b>(344,985)</b>			(334,734)
Airport net tax expense	<b>(30,924)</b>			(35,638)
Corporate net interest income	<b>52,538</b>			45,707
Corporate net tax expense	<b>(1,555)</b>			(6,717)
<b>Proportionate Earnings</b>	<b>405,466</b>			445,440
Concession airport net debt amortisation <sup>1</sup>	<b>(1,497)</b>			(1,278)
<b>Proportionate Earnings less allowance for net debt amortisation</b>	<b>403,969</b>			444,162

1. Relates to Sydney Airport only.

**Table 4 – Reconciliation of Proportionate Earnings to statutory accounts**

	<i>12 months to 31 Dec 11 AUDm</i>	<i>12 months to 31 Dec 10 AUDm</i>
Profit / (loss) from continuing operations before income tax <sup>1</sup>	(14.6)	(2.1)
Finance, amortisation and depreciations costs	795.7	791.1
<b>EBITDA – ASX-listed Sydney Airport Financial Report</b>	<b>781.1</b>	789.0
Revaluation expenses/(income) from non-consolidated assets	(0.2)	26.3
EBITDA from non-consolidated assets	173.1	239.9
Transaction costs	31.0	13.0
Other items <sup>2</sup>	(41.2)	(61.5)
<b>EBITDA from airports net of corporate level income and expenses</b>	<b>943.8</b>	1,006.7
Minority interest share of airport EBITDA	(190.3)	(201.4)
<b>Total EBITDA (as defined in this Report)</b>	<b>753.5</b>	805.3
Airport economic depreciation	(23.0)	(28.6)
Airport net interest expense	(345.0)	(334.8)
Airport net tax expense	(30.9)	(35.5)
Corporate net interest income	52.5	45.7
Corporate net tax expense	(1.6)	(6.7)
<b>ASX-listed Sydney Airport Proportionate Earnings per Management Information Report (MIR)</b>	<b>405.5</b>	445.4

1. Sourced from Sydney Airport Holdings Limited consolidated statutory financial report. Refer also to Table 1.

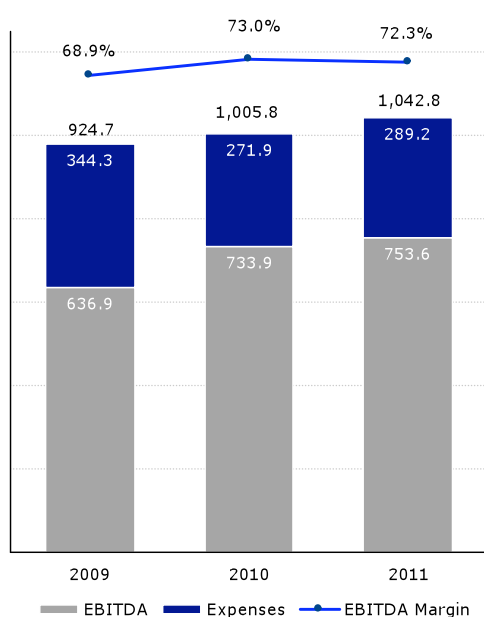
2. Includes foreign exchange gain/losses and interest income earned at Sydney Airport.

### 1.1.1 Summary

On a pro forma basis, Total airports EBITDA (pre specific gains / (losses)) increased 3.1% for the year. Actual airports EBITDA (pre specific gains / (losses)) declined 4.7% for the year as a result of the sale of ASX-listed Sydney Airport's interest in ASUR (in 2010) and Brussels Airport and Copenhagen Airports in October 2011 (2011 Divestments) combined with the significant impact of the stronger Australian dollar on the translation of earnings from ASX-listed Sydney Airport's European airports prior to sale. The Australian dollar appreciated more than 8% against both the Euro and Danish Kroner between the first 9 months of 2010 and the first 9 months of 2011.

On a pro forma pcp basis, traffic increased 2.5% for the year. The result was achieved despite the impact of natural disasters in the Asia-Pacific and political unrest in the Middle East and North Africa, offset by the non-recurrence of the 2010 ash cloud event in Europe.

**Figure 3 – Pro forma Proportionate revenue, expenses and EBITDA (AUDm), 12 months ended 31 December**



1. The figure above the bar graph represents revenue.
2. Excludes specific gains / (losses).

### 1.1.2 Revenue

Airport revenue increased 3.7% for the year compared to pro forma pcp despite the absence of the SAS Cargo Rent Termination Revenue, reflecting increased passenger traffic and revenue initiatives. Actual airport revenue decreased 7.6% for the year reflecting the changed composition of the portfolio through the divestment of ASUR and the 2011 Divestments, and the adverse impact of foreign exchange movements.

### 1.1.3 Operating expenses

Airport operating expenses increased 5.0% for the year compared to pro forma pcp, reflecting higher staff and utility expenses at Copenhagen Airports and non-recurring staff expenses at Sydney Airport. Corporate Expenses increased 19.1% for the year compared to pro forma pcp primarily due to the loss of offsetting fee income as a result of the 2011 Divestments. Actual operating expenses decreased 13.4% for the year on pcp reflecting the divestment of ASUR, the 2011 Divestments, and the impact of foreign exchange movements on the translation of European costs offset by increased Corporate Expenses. Operating costs continue to be tightly controlled.

#### **1.1.4 Total EBITDA (pre specific gains / (losses))**

Total EBITDA (pre specific gains / (losses)) of AUD753.6m for the year compared to pro forma pcp performance of AUD733.9m, an increase of 2.7%.

Total EBITDA (pre specific gains / (losses)) decreased 5.2% for the year compared to the actual pcp actual of AUD795.1m, principally reflecting the changed composition of the portfolio through the divestment of ASUR, the 2011 Divestments combined with the adverse impact of foreign exchange movements.

#### **1.1.5 Airport economic depreciation, net interest and tax expense**

Total airport economic depreciation has decreased from AUD28.6m in the pcp to AU23.0 (down 19.6% on pcp) reflecting the divestment of ASUR, the 2011 Divestments and the appreciation of the Australian dollar.

Airport net interest expense has increased to AUD345.0m for the year from AUD334.7m (up 3.1% on pcp) reflecting the full impact of refinancing of senior debt at Sydney Airport and Copenhagen Airports that occurred in 2010, partially offset by foreign exchange movements. The ratio of total EBITDA to total net interest expense decreased from 2.8 times in the pcp to 2.6 times (calculated as Total EBITDA (pre specific gains / (losses)) divided by the net sum of airport net interest expense and corporate net interest income).

#### **1.1.6 Corporate net interest income and net tax**

Corporate net interest income increased to AUD52.5m for the year from AUD45.7m (14.9% increase on pcp) principally as a result of higher average corporate cash balances stemming from the 2011 Divestments, and marginally higher average yields on cash deposits in 2011 compared to 2010.



## 1.2 Proportionate Earnings per Security

**Table 5 – Proportionate Earnings per Security**

	<i>Actual results 12 months to 31 Dec 11</i>	<i>Actual results 12 months to 31 Dec 10</i>
Weighted average securities on issue (#'m)	<b>1,861</b>	1,861
<b>Proportionate EPS<sup>1</sup> (cents)</b>	<b>21.8</b>	23.9

1. Excludes concession net debt amortisation.

ASX-listed Sydney Airport's weighted average number of stapled securities of 1,861m did not change for the 12 months to 31 December 2011.

Proportionate EPS decreased by 9.0% on pcp to 21.8 cents as a result of the sale of ASUR and subsequent distribution of the sale proceeds to securityholders, the 2011 Divestments, the Simplification cash payment, and the adverse impact of foreign currency movements on the translation of European airport earnings.

### 1.3 Airport Net Debt

The net debt of the airports is calculated by the aggregation of the face value of:

- ASX-listed Sydney Airport's proportionate share of the net debt at each of ASX-listed Sydney Airport's airports; and
- ASX-listed Sydney Airport's proportionate share of the net debt held by entities interposed between any of the ASX-listed Sydney Airport stapled entities and the airports that is non-recourse to ASX-listed Sydney Airport.

Net debt is calculated at each of the relevant airports by subtracting total cash on hand from total debt at the end of the period. The following table outlines ASX-listed Sydney Airport's aggregate proportionate share of airport net debt:

**Table 6 – Airport net debt**

	<i>As at 31 Dec 11 AUDm</i>	<i>As at 30 Jun 11 AUDm</i>	<i>As at 31 Dec 10 AUDm</i>	<i>As at 30 Jun 10 AUDm</i>
Airport net debt	<b>4,979.9</b>	5,474.7	5,365.4	5,483.4

Airport net debt decreased by AUD385.5m (down 7.2%) from 31 December 2010 to AUD4,979.9m as at 31 December 2011 and reflects:

- AUD614.9m increase as a result of an increased ownership of Sydney Airport;
- AUD178.2m increase as a result of a marginal increase in net debt at Sydney Airport; and
- AUD1,178.6m decrease as a result of the 2011 Divestments.

**Table 7 – Reconciliation of proportionate net debt to statutory account debt position**

	<i>As at 31 Dec 11 AUDm</i>	<i>As at 31 Dec 10 AUDm</i>
Corporate debt	-	-
Statutory cash	(1,124.3)	(1,256.5)
Sydney Airport cash included in Statutory cash	953.5	314.2
<b>Adjusted net debt/(cash)</b>	<b>(170.8)</b>	(942.3)
Sydney Airport net debt	5,871.2	5,011.1
Distribution payable	186.1	186.1
Working capital adjustments	4.9	0.3
<b>Net debt – Statutory Accounts</b>	<b>5,891.4</b>	4,255.2
Sydney Airport net debt minority interest	(891.3)	(824.3)
Non consolidated airport net debt <sup>1</sup>	-	1,178.6
<b>Proportionate Net Debt less Corporate net debt/(cash)<sup>2</sup></b>	<b>5,000.1</b>	4,609.5

1. Sydney Airport is the only airport investment which is consolidated.

2. Calculated as the sum of Airport net debt and Corporate net debt/(cash).

## 1.4 Enterprise Value

**Table 8 – Enterprise Value**

	<i>Actual as at 31 Dec 11 AUDm</i>	<i>Actual as at 30 Jun 11 AUDm</i>	<i>Actual as at 31 Dec 10 AUDm</i>
Airport net debt	<b>4,979.9</b>	5,474.7	5,365.4
Corporate net debt/(cash)	<b>20.2</b>	(726.5)	(755.9)
Equity value attributable to security holders	<b>6,599.1</b>	7,944.4	8,100.0
Enterprise Value	<b>11,599.2</b>	12,692.6	12,709.5
Total gearing of Enterprise Value (%)	<b>43.1%</b>	37.4%	36.3%

ASX-listed Sydney Airport's total gearing as a percentage of Enterprise Value has increased from 36.3% as at 31 December 2010 to 43.1% as at 31 December 2011. This reflects a modest increase in net debt at Sydney Airport combined with significantly reduced cash reserves at the corporate level. Total gearing is calculated by dividing the sum of Airport net debt and Corporate net debt/(cash) by Enterprise Value.

### 1.4.1 Airport equity value and asset backing per security attributable to investments (ABSI)

The following table outlines the fair values of each of ASX-listed Sydney Airport's airports and the ABSI basis as at 31 December 2011, 30 June 2011 and 31 December 2010. The fair values have been determined in accordance with a valuation framework adopted by the directors.

**Table 9 – Fair value of ASX-listed Sydney Airport's airports and ABSI summary**

	<i>Sydney Airport</i>	<i>Copenhagen Airports<sup>1&amp;2</sup></i>	<i>Brussels Airport<sup>2</sup></i>	<i>Corporate net (debt)/cash</i>	<i>Equity attributable to security holders<sup>3</sup></i>
<b>As at 31 December 2011</b>					
Valuation (AUDm)	<b>6,619.3</b>	-	-	<b>(20.2)</b>	<b>6,599.1</b>
ABSI <sup>4</sup> (AUD)	<b>3.56</b>	-	-	<b>(0.1)</b>	<b>3.55</b>
Interest (%)	<b>84.8%</b>	-	-		
<b>As at 30 June 2011</b>					
Valuation (AUDm)	5,640.7	752.2	825.0	726.5	7,944.4
ABSI (AUD)	3.03	0.40	0.45	0.39	4.27
Interest (%)	74.0%	30.8%	39.0%		
<b>As at 31 December 2010</b>					
Valuation (AUDm)	5,405.6	924.5	1,014.0	755.9	8,100.0
ABSI (AUD)	2.90	0.50	0.54	0.41	4.35
Interest (%)	74.0%	30.8%	39.0%		

1. ASX-listed Sydney Airport's beneficial interest in Copenhagen Airports of 30.8% as at 30 June 2011 and 31 December 2010 comprised a 3.9% direct interest and a 26.9% indirect interest.

2. 30 June 2011 valuation is based on the agreed Australian dollar sale price.

3. The number of ASX-listed Sydney Airport stapled securities on issue at 31 December 2011: 1,861,210,782 (31 December 2010 & 30 June 2011: 1,861,210,782).

4. ABSI has decreased 18.4% from AUD4.35 as at 31 December 2010 to AUD3.55 as at 31 December 2011 principally as a result of the 80 cent cash payment to securityholders as part of the Simplification.

## 1.5 Liquidity and Cash Credit Risk

ASX-listed Sydney Airport's cash balances totalled AUD163.2m as at 31 December 2011. This balance was held in current account balances and short term money market instruments with a range of maturities up to 150 days. These deposits were held 99% in AUD.

ASX-listed Sydney Airport continuously reviews the credit quality of issuers and observes counterparty exposure limit thresholds based on external ratings indications to ensure that cash is deposited across a range of highly rated institutions. Limits are based on short term credit ratings and ASX-listed Sydney Airport's policy is that all cash is held with counterparties with a short term rating of A-1 or higher (with the exception of Australian licensed banks which may be rated A-2). ASX-listed Sydney Airport maintains a maximum exposure to any one counterparty of AUD100m for A-2, AUD150m for A-1 and AUD200m for A-1+. In addition the exposure to A-2 is limited at any one time to one third of ASX-listed Sydney Airport's aggregate cash on hand.

## 1.6 Cash Flow and Cash Position

**Table 10 – Aggregated Cash Flow Statement**

	<i>12 months to 31 Dec 11 AUD '000</i>	<i>12 months to 31 Dec 10 AUD '000</i>
Cash flow received from airports		
Sydney Airport	<b>289,570</b>	296,477
Copenhagen Airports	<b>8,932</b>	5,124
Brussels Airport	<b>9,995</b>	17,625
ASUR	-	10,610
<b>Total cash flow received from airports</b>	<b>308,497</b>	329,836
Other operating cash flows		
Fee and Other income received	<b>3,685</b>	3,563
Interest received on surplus cash	<b>51,980</b>	44,382
Operating expenses paid (inclusive of goods and services tax)	<b>(44,096)</b>	(21,495)
Taxes (net) (paid) / received	<b>(9,781)</b>	12,098
<b>Total operating cash flows</b>	<b>310,285</b>	368,384
Investing and financing cash flows		
Payments for purchase of investments	<b>(2,493)</b>	(75,764)
Payments for purchase of fixed assets	<b>(62)</b>	(1,557)
Proceeds from sale of investments (including subsidiaries)	<b>800,009</b>	224,717
Ordinary distributions paid to security holders	<b>(390,854)</b>	(353,635)
Special distribution paid to security holders	-	(232,651)
Scheme consideration	<b>(1,488,969)</b>	
<b>Total investing and financing cash flows</b>	<b>(1,082,369)</b>	(438,890)
<b>Net decrease in cash assets</b>	<b>(772,083)</b>	(70,506)
Cash assets at beginning of period <sup>1 &amp; 2</sup>	<b>933,358</b>	1,003,235
Exchange rate movements	<b>1,898</b>	8,130
<b>Cash assets at the end of the period</b>	<b>163,172</b>	940,859

1. 1 January 2011 opening cash balance restated to exclude interest accrued but not received as at that date.

2. 1 January 2010 cash balance excludes the underlying collateral cash which formed part of ASX-listed Sydney Airport's investment in ASUR under a total return swap

Cash on hand has decreased by AUD770.2m from the beginning of the year to AUD163.2m. ASX-listed Sydney Airport received cash flows from airports of AUD308.5m and after other income, interest received, net taxes received and operating expenses, net cash flows from airports and operations totalled AUD310.3m.

Investing and financing activities net cash outflows of AUD1,082.4m included:

- distributions paid to ASX-listed Sydney Airport security holders of AUD390.9m;
- proceeds received from the asset swap transaction of AUD800.0; and
- the cash consideration paid to security holders as part of the simplification of AUD1,489.0.

### 1.6.1 Pro forma cash position

**Table 11 – ASX-listed Sydney Airport pro forma cash position**

	<i>AUDm</i>
<b>Cash balance as at 31 December 2011</b>	<b>163.2</b>
Add: Sydney Airport distribution - received 27 January 2012	72.1
Less: December 2011 distribution – paid 16 February 2012	(186.2)
<b>Pro forma cash at 16 February 2012</b>	<b>49.1</b>

Since 31 December 2011, ASX-listed Sydney Airport's pro forma cash position has decreased 69.9% to AUD49.1m as a result of the final distribution paid on 16 February 2012 offset partially by the Sydney Airport distribution received in January 2012.

### 1.6.2 Operating cash generated per security

**Table 12 – Operating cash generated per security**

<i>Asset</i>	<i>12 months to 31 Dec 11 AUDm</i>	<i>12 months to 31 Dec 10 AUDm</i>
Sydney Airport <sup>1</sup>	<b>289.6</b>	296.5
Copenhagen Airports	<b>8.9</b>	5.1
Brussels Airport	<b>10.0</b>	17.6
ASUR	-	10.6
<b>Operating cash generated from airports</b>	<b>308.5</b>	329.8
Corporate expenses	<b>(19.9)</b>	(16.8)
Interest on cash balances	<b>52.5</b>	44.4
<b>Operating cash generated</b>	<b>341.1</b>	357.4
<b>Operating cash generated per security (cents)</b>	<b>18.3</b>	19.2
Weighted average securities on issue (#'m)	<b>1,861</b>	1,861

1. From 2012 operating cash generated per security will be covered by distributions from Sydney Airport on a declared basis. Previously distributions were covered on a cash received basis.

Operating cash generated per security has decreased from 19.2 cents per security to 18.3 cents per security (decrease of 4.7%) for the year ended 31 December 2011.

## 1.7 Summary of Significant Policies

### 1.7.1 Summary of significant policies

The significant policies which have been adopted by the board of SAHL, and used in the preparation of section 1 of this Report, are stated to assist in a general understanding of this Report. Unless stated otherwise, these policies have been consistently applied to all periods presented in this Report.

KPMG has been engaged to perform certain procedures for the directors of SAHL in relation to their preparation of this Report, including: Proportionate Earnings (tables 2, 3 and 20), Reconciliations to Statutory Financial Report (tables 4 and 7), Airport Net Debt (table 6), Enterprise Value (table 8), Fair Value of ASX-listed Sydney Airport's Airports and ABSI Summary (table 9), Aggregated Cash Flow Statement (table 10), Portfolio Valuation (table 17), and ABSI (table 19) on the basis set out below. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by KPMG is that of the directors, and these procedures were performed solely to assist the directors of SAHL in evaluating the accuracy of the disclosures.

KPMG conducted its engagement in accordance with Australian Auditing Standards applicable to agreed upon procedures engagements. The procedures do not constitute either an audit or review in accordance with Australian Auditing Standards and accordingly KPMG expresses no assurance over the accuracy of the Proportionate Earnings, Enterprise Value, Aggregated Cash Flow Statement, or on any other aspect of the Report.

All information contained in this Report is disclosed in Australian dollars unless stated otherwise.

### 1.7.2 Proportionate Earnings

Current and prior period proportionate earnings information contained in this Report involves the aggregation of the financial results of ASX-listed Sydney Airport's relevant airports in the relevant proportions that ASX-listed Sydney Airport holds interests. It is calculated as airport revenues less airport operating expenses, corporate expenses, airport economic depreciation, airport net interest expense, corporate net interest (expense)/income and corporate net tax expense ("Proportionate Earnings").

Proportionate Earnings are disclosed for the period and the prior corresponding period ("Actual Results") and separated into Quarter and Year-to-date formats.

Proportionate Earnings information is also disclosed down to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") under a pro forma approach. The Pro forma EBITDA is derived by restating the prior period results with the airport ownership percentages and foreign currency exchange rates from the current period ("Pro forma Results") and is also separated into Quarter and Year-to-date formats. Pro forma Results are produced to allow comparisons of the operational performance of airports between periods, as they eliminate the impact of changes in ownership interests and foreign currencies.

The principal policies adopted in the preparation of Proportionate Earnings contained in this Report include:

#### Relevant airports

The fair value of the airports is determined in accordance with the valuation framework adopted by the directors of SAHL, except where otherwise stated. Under the current framework, airports are valued every six months in June and December (each a "Valuation Period"). Generally for an airport to qualify as a relevant airport for inclusion in Proportionate Earnings, the fair value of ASX-listed Sydney Airport's interest (beneficial or economic or a combination as the case may be) must exceed AUD200m as at the end of the most recent Valuation Period. Airports that are divested between a Valuation Period whereby the fair value of ASX-listed Sydney Airport's interest drops below AUD200m as at reporting date will no longer qualify as relevant airports from the date of divestment. Conversely airports that are acquired between a Valuation Period whereby the fair value of ASX-listed Sydney Airport's interest exceeds AUD200m as at reporting date will qualify as relevant airports from date of investment.



Based on the above qualification criteria, this Report includes Proportionate Earnings for the following airports:

- Sydney Airport
- Copenhagen Airports; and
- Brussels Airport.

Proportionate Earnings for Copenhagen Airports and Brussels Airport are included in this Report up to the date of divestments on 6 October 2011. In the prior period this Report includes Proportionate Earnings for Grupo Aeroportuario del Sureste S.A.B. de C.V. ("ASUR") up to the date of divestment on 17 August 2010.

As ASUR is listed on the Bolsa Mexicana de Valores and New York Stock Exchange, ASX-listed Sydney Airport did not have access to information other than that which was made publicly available. Accordingly, and in contrast to its other airports (where Proportionate Earnings and Airport net debt are derived from a combination of statutory financial reports and management accounts), the Proportionate Earnings contribution and Airport net debt amounts of ASUR were derived from public information, including published financial results. Furthermore ASUR disclosures differ in format from that of ASX-listed Sydney Airport's other airports and consequently the amounts included in Proportionate Earnings have been allocated between line items in accordance with ASX-listed Sydney Airport management's best estimates.

Newcastle International Airport (UK) does not qualify as a relevant airport and therefore neither period includes results from this airport.

#### **Foreign exchange rates**

All Proportionate Earnings information contained in this Report is disclosed in Australian dollars ("AUD") unless stated otherwise. Foreign currency exchange rates are calculated on an average basis according to the number of days in the reporting period (a "Period"). Where assets have been sold during a Period, the foreign currency exchange rates particular to that asset are calculated on an average basis from the beginning of that Period up to the date of sale. Similarly where assets have been acquired during a Period the foreign currency exchange rates particular to that asset are calculated on an average basis from the date of initial acquisition up to the end of the Period.

The foreign currency exchange rates including those pertaining to the pcp are presented in the appendix 2 of this report.

#### **ASX-listed Sydney Airport's interest in airports**

The interest (beneficial or economic or a combination as the case may be) of ASX-listed Sydney Airport for each of the relevant airports is calculated according to the number of days in the reporting period (a "Period") during which ASX-listed Sydney Airport held an interest ("Interest"). Where airports have been sold during a Period the Interest is calculated according to the number of days from the beginning of the Period up to the date of sale. Where airports have been acquired during a Period the Interest is calculated according to the number of days from date of initial acquisition to the end of the Period.

The Interest of ASX-listed Sydney Airport in the relevant airports used in the calculation of Proportionate Earnings for the period and prior corresponding periods is set out below:

**Table 13 – ASX-listed Sydney Airport’s interest in airports (for the purposes of inclusion in proportionate earnings)**

	Sydney Airport %	Copenhagen Airports %	Brussels Airport %
31 December 2010	74.0	30.8	39.0
Movement	–	–	–
31 March 2011	74.0	30.8	39.0
Movement	–	–	–
30 June 2011	74.0	30.8	39.0
Movement	–	–	–
30 September 2011	74.0	30.8	39.0
Movement	7.5	(28.8)	(36.5)
<b>31 December 2011</b>	<b>81.5</b>	<b>2.0</b>	<b>2.5</b>

*Note: calculated according to the number of days in the reporting period.*

### Passenger traffic

ASX-listed Sydney Airport passenger traffic is calculated by the aggregation of the product of the Interest for the relevant period and the total number of passengers handled by each of the relevant airports.

### Airport revenue

Airport revenue is calculated by the aggregation of the product of the Interest and the total revenue of each of the relevant airports. Revenue is recognised under the GAAP applicable to each relevant airport.

### Airport operating expenses

Airport operating expenses are calculated by the aggregation of the product of the Interest and the total operating expenses incurred by each of the relevant airports. Operating expenses are recognised under the GAAP applicable to each relevant airport.

### Corporate expenses

Corporate expenses reflect the aggregation of:

- all expenses paid by ASX-listed Sydney Airport (excluding divestment and acquisition costs);
- ASX-listed Sydney Airport’s share of expenses from entities interposed between any of the ASX-listed Sydney Airport stapled entities and the airport operator companies not otherwise included in airport operating expenses;
- net of any fee income received.

### Airport economic depreciation

With the exception of Sydney Airport, airport economic depreciation is calculated with reference to an estimate of the long-term maintenance capital expenditure at each of the relevant airports, calculated on a per passenger basis. The economic depreciation with the exception of Sydney Airport is assessed at the beginning of ASX-listed Sydney Airport’s financial year and reviewed quarterly to ensure appropriateness of the calculation.

The economic depreciation charges that have been calculated for the period and the prior corresponding period are set out below:

**Table 14 – ASX-listed Sydney Airport economic depreciation charges**

*ASX-listed Sydney Airport's economic depreciation charges per passenger for:*

<i>Airport</i>	<i>31 Dec 11 QTR</i>	<i>31 Dec 10 QTR</i>	<i>31 Dec 11 YTD</i>	<i>31 Dec 10 YTD</i>
Copenhagen Airports (DKK)	6.54	6.40	6.54	6.40
Brussels Airport (EUR)	0.87	0.85	0.87	0.85

Sydney Airport's economic depreciation is sourced directly from unaudited management accounts and amounted to AUD12.6m for the 12 month period to 31 December 2011 (AUD13.2m for the 12 month period to 31 December 2010). Sydney Airport economic depreciation is quoted gross (that is, not taking into account ASX-listed Sydney Airport's interest).

#### **Airport net interest**

Airport net interest is the aggregation of net interest expense incurred by:

- the airport operator company of the relevant airport; and
- entities interposed between any of the ASX-listed Sydney Airport stapled entities and the airport operator companies, which have debt that is non-recourse to ASX-listed Sydney Airport.

The definition of net interest expense includes all contractual interest expenses, borrowing expenses and interest revenues payable to or payable by, third parties. Interest and borrowing expenses, or interest revenues, in respect of shareholder loans or similar agreements are excluded from the definition of net interest expense. Interest and borrowing costs that are capitalised and/or amortised are also excluded from the definition of net interest expense.

#### **Airport net tax expense**

Airport net tax expense is made up of the aggregation of the following components:

- the product of the Interest and the current net tax expense of each of the relevant airports, where the airport operating company does not, in conjunction with any entities that are majority owned by one or a combination of the ASX-listed Sydney Airport stapled entities, form part of a consolidated group for tax purposes ("Tax Consolidated Group"); and
- for Copenhagen Airports, owing to its status as part of a Tax Consolidated Group, the addition, for each company in the Tax Consolidated Group, of the product of ASX-listed Sydney Airport's Interest for that company, and its net tax expense.

#### **Corporate net tax expense**

Corporate net tax expense is made up of the net tax expense of any of the ASX-listed Sydney Airport stapled entities and subsidiaries thereof that do not form part of another Tax Consolidated Group for taxation purposes or included in the aggregation of airports net tax expense.

#### **Corporate net interest**

Corporate net interest expense is the aggregation of net interest income incurred/received by:

- any of the ASX-listed Sydney Airport stapled entities; and
- entities interposed between any of the ASX-listed Sydney Airport stapled entities and the airport operator companies which have debt that is recourse to ASX-listed Sydney Airport, if any.

The definition of net interest expense includes all contractual interest expenses, borrowing expenses and interest revenues payable to or payable by, third parties. Interest and borrowing costs that are capitalised and/or amortised are excluded from the definition of net interest expense.

### Concession airport net debt amortisation

Reflecting the fact that net debt at airports which are held under finite concessions must be repaid prior to concession end, a charge is made to amortise the net debt over the concession life. Currently this applies only to Sydney Airport as it is the only ASX-listed Sydney Airport investment held under a finite concession. Net debt amortisation as shown does not reflect actual cash debt repayments for the period, rather, it represents a provision for amounts that will be payable at a later date, prior to concession end. The amortisation charge for the period is determined on a pro-rata basis, with forecast EBITDA as the allocation driver. The net debt amortisation is reviewed semi-annually to ensure appropriateness of the calculation.

### Proportionate Earnings per Security

The number of issued stapled securities for the purpose of calculating Proportionate Earnings per Security ("Proportionate EPS") is calculated by the aggregation of each issue of ASX-listed Sydney Airport stapled securities weighted by the number of days each security was on issue during the period.

#### 1.7.3 Aggregated Cash Flow Statement

The Aggregated Cash Flow Statement represents the aggregation of the cash flows attributable to ASX-listed Sydney Airport security holders. This includes the cash flows of each of the ASX-listed Sydney Airport stapled entities and their wholly owned subsidiaries, excluding entities that form part of the airport operator company groups. The Aggregated Cash Flow Statement shows all cash received by ASX-listed Sydney Airport from its airport portfolio as well as ASX-listed Sydney Airport level corporate cash flows. All information in this Report relating to the Aggregated Cash Flow Statement is disclosed in Australian dollars using foreign currency exchange rates applicable to the relevant transactions included in Aggregated Cash Flow Statement.

#### 1.7.4 Proportionate Net Debt

##### Airport net debt

The net debt of airports is calculated by the aggregation of:

- ASX-listed Sydney Airport's proportionate share of the net debt at each of ASX-listed Sydney Airport's airports; and
- ASX-listed Sydney Airport's proportionate share of the net debt held by entities interposed between any of ASX-listed Sydney Airport's stapled entities and its airports that is non-recourse to ASX-listed Sydney Airport.

Net debt is calculated at each of the relevant airports by subtracting total cash on hand from total debt at the end of the period.

##### Corporate net debt/(cash)

Net debt at the corporate level is calculated by the aggregation of:

- all net debt held by ASX-listed Sydney Airport stapled entities; and
- all net debt held by entities interposed between any of the ASX-listed Sydney Airport stapled entities and the airports, excluding debt that is non-recourse to ASX-listed Sydney Airport.

Available cash ("Available Cash") is calculated by aggregating other liquid financial instruments with total cash on hand and subtracting all distributions declared by the ASX-listed Sydney Airport stapled entities but not paid at the end of the relevant period.

Corporate net debt is calculated by subtracting Available Cash from debt at the corporate level at the end of the year.

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# Sydney Airport

# 2

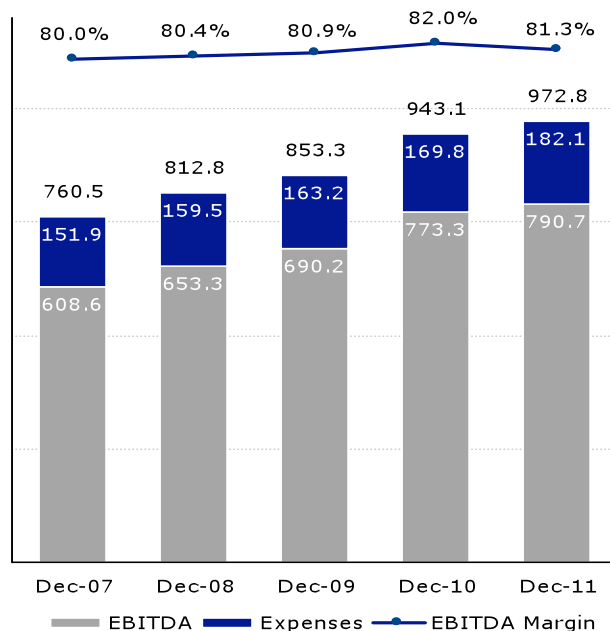


## 2 Sydney Airport

This section is reported on a 100% basis.

### 2.1 Financial Performance

**Figure 4 – Sydney Airport revenue, expenses and EBITDA (AUDm), 12 months ended 31 December**



Note: the figure above the bar graph represents revenue.

Revenue for Sydney Airport increased 3.2% from AUD943.0m for the 12 months to 31 December 2010 to AUD972.8m for the 12 months to 31 December 2011. The major factors influencing revenue included:

- aeronautical revenue growth (excluding security recovery) of 2.0% on the pcp reflecting the completion of significant capital projects coupled with passenger growth;
- retail revenue growth of 4.9% on the pcp reflecting new retail and duty free offerings in the upgraded International Terminal; and
- property and car rental revenue growth of 4.0% on the pcp reflecting the low level of vacancies and expansion of net lettable areas.

Operating expenses (excluding recoverable security expenses and specific items) increased 5.2% on the pcp largely due to higher utility expenses. Operating expenses remain tightly controlled. On a per passenger basis, operating expenses (excluding recoverable security expenses and specific items) increased by 5.0% on the pcp to AUD3.23 per passenger.

EBITDA (excluding specific items) of AUD790.7m increased by 2.2% compared to the pcp as a result of continued passenger growth and commercial expansion.

## 2.2 Operational initiatives

The upgrade of the airport's retail offer in the International Terminal is now completed. The new focus is a refresh of the retail offer in the T2 Domestic Terminal, with work completed on an upgrade of the News & Gifts offer and the commencement of work on increased and superior speciality retail. This is highlighted with the opening of the first domestic Victoria's Secret store in Australia in December 2011 with further exciting developments to follow during the course of 2012.

During 2011 investments were made to improve ground transport and automated facilities. A new eTag system was introduced for limousine and bus drivers, along with improved facilities and increased the capacity for the pick-up area at the International Terminal from 36 to 62 vehicle spaces. The AUD1.1m upgrade to the Domestic free pick-up zone was completed with an all weather walkway and increased parking capacity.

The introduction of online specials for car parking which provide substantial savings over the drive-up rates has been well received and utilised by customers. The success of these offers will feed into the development of more parking products in 2012. Construction of the AUD47m new car park at the International Terminal remains on schedule for completion in the middle of 2012. The project will increase the international precincts parking capacity and make available to customers more competitive parking products.

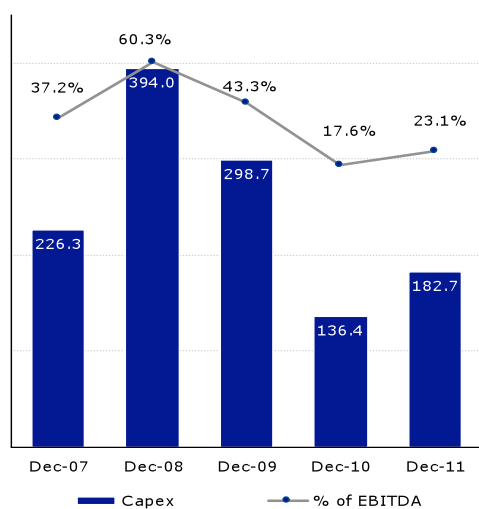
Sydney Airport's new nine-level, 9000<sup>m</sup><sup>2</sup> commercial office building was completed in June 2011. Sydney Airport staff consolidated from a number of locations around the airport into a substantially reduced and open plan space in the new building, along with a Commonwealth Government agency which has leased three levels.

Sydney Airport announced a new vision in December: the development of two airport precincts co-locating international, domestic and regional services under one roof by 2019. Passengers will benefit from faster connection times across international, domestic and regional services and the airport and airlines will gain from increased efficiency of operations and faster aircraft turnaround times.

Other commercial initiatives underway include:

- passengers will soon benefit from greater choice and greater convenience with a new AUD68m, four-star hotel to be built at the airport's revamped International Terminal by the Denwol Group and operated by Rydges Hotels. The construction is expected to be substantially complete by late 2012 will to enhance the airport as Australia's international gateway as well as improve overall passenger experience and facilities.

**Figure 5 – Sydney Airport capex and EBITDA (AUDm), 12 months ended 31 December**





## 2.3 Traffic

**Table 15 – Sydney Airport traffic performance**

Category	Quarter to date			Year to date			
	Pax ('000's)	31 Dec 11	31 Dec 10	Change vs. pcp	31 Dec 11	31 Dec 10	Change vs. pcp
Domestic		<b>6,129</b>	6,410	-4.4%	<b>23,931</b>	24,171	-1.0%
International <sup>1</sup>		<b>3,081</b>	3,015	+2.2%	<b>11,633</b>	11,290	+3.0%
Domestic-On-Carriage (DOC)		<b>21</b>	20	+5.0%	<b>66</b>	101	-34.7%
<b>Total</b>		<b>9,231</b>	9,445	-2.3%	<b>35,630</b>	35,562	+0.2%

1. International excludes Domestic-On-Carriage.

Sydney Airport traffic increased 0.2% for the 12 months to 31 December 2011 compared to the pcp. International passenger growth of 3.0% was consistent with the last five year growth rate at Sydney Airport and was largely driven by Australian outbound and Asian inbound travel. Domestic passenger traffic declined by 1.0% due to major disruptions to the aviation, travel and tourism sectors caused by the natural disasters, the grounding of Tiger Airways and various industrial actions.

A number of new international services commenced during 2011, including:

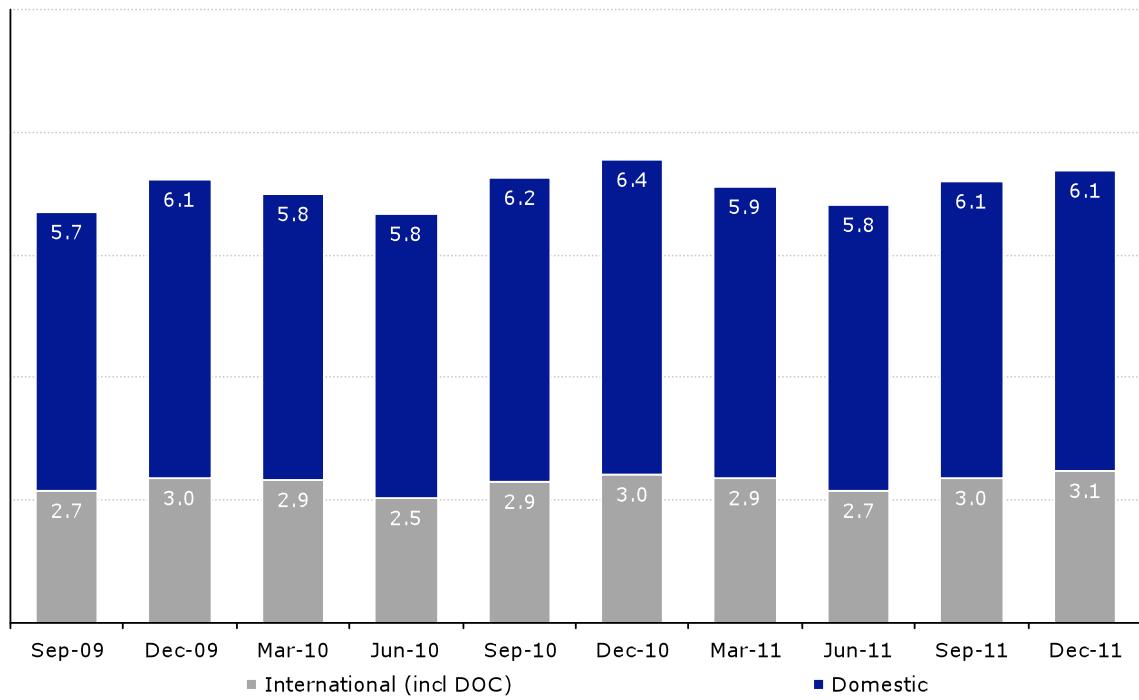
- V Australia commencing three weekly B777 services to Abu Dhabi in February 2011;
- Qantas starting the first non-stop service to Dallas Fort Worth, meaning Sydney now serves five direct North American destinations;
- Jetstar launching a new service to Queenstown and Air New Zealand to Rarotonga;
- Emirates reintroducing its third daily service to Dubai;
- Hawaiian Airlines commencing a daily service to Honolulu in December 2011, by adding two weekly B767-300ER services; and
- Korean Air upgauging its daily service to Seoul Incheon from a B777-200ER to a B747-400 between July and October 2011, adding approximately 25,338 seats to the route over the period.

In addition, China Eastern Airlines, Garuda Indonesia, Vietnam Airlines, Air China and China Airlines added frequencies.

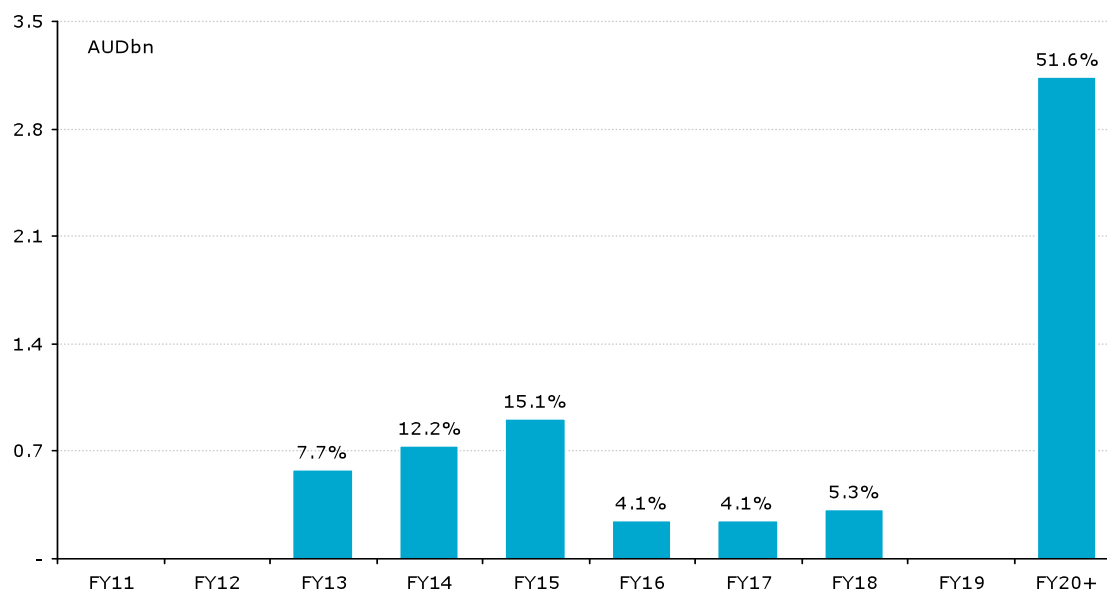
Recent international capacity announcements include:

- AirAsia X will commence a daily A330-300 service to Kuala Lumpur in April 2012;
- Qantas commenced A380 service to Hong Kong in January 2012, upgauging from four weekly flights from B747-400 aircraft;
- Scoot Airlines will commence a daily service to Singapore in July 2012; and
- Air Vanuatu will commence daily service to Port Vila starting in May 12.

Domestic traffic is expected to continue to benefit from capacity growth by Jetstar.

**Figure 6 – Sydney Airport quarterly traffic performance (Pax m)**

## 2.4 Financing and debt

**Figure 7 – Sydney Airport debt maturity profile**

Note: AUD278m of undrawn debt raised as part of the 2010 refinancing is reserved to refinance MTNs maturing in 4Q12, and AUD650m of undrawn debt raised as part of the 2011 refinancing is reserved to redeem SKIES.

**Debt maturities**

Sydney Airport successfully completed a bank and bond financing of AUD1,069m in July 2011. The commitments provided Sydney Airport with the ability to redeem Sydney Kingsford Smith Interest Earning Securities (SKIES) (redeemed on 3 January 2012) and fund capital expenditure through to 2014. The financing included a debut CAD225m bond issue, further diversifying Sydney Airport's sources of funding. Sydney Airport has no debt maturities until the final quarter of 2013.

## 2.5 Debt Metrics

**Table 16.1 – Debt service coverage ratios and covenants**

<i>Airport</i>	<i>DSCR as at 31 Dec 11</i>	<i>DSCR as at 31 Dec 10</i>	<i>Default Covenant</i>
Sydney Airport	<b>2.8x</b>	2.4x	1.1x
ASX-listed Sydney Airport proportionately consolidated <sup>1</sup>	<b>2.6x</b>	<b>2.8x</b>	<b>n/a</b>

1. ASX-listed Sydney Airport Portfolio DSCR calculated as (Total EBITDA less corporate expenses) / (net interest expense minus corporate net interest). At the portfolio level the DSCR as at 31 December 2010 benefited from ASX-listed Sydney Airport's significant cash reserves (AUD940.9m at 31 December 2010).

The methodology for calculation of the Debt Service Coverage ratios is set out in Appendix 4.

**Table 16.2 – Sydney Airport interest cover**

	<i>Net Debt</i>		<i>Net Interest</i>		<i>Effective Rate %</i>	
	<i>Dec 11</i>	<i>Dec 10</i>	<i>12 months to Dec 11</i>	<i>12 months to Dec 10</i>	<i>Dec 11</i>	<i>Dec 10</i>
Sydney Airport (AUDm) (excl. SKIES)	<b>5,221.2</b>	5,011.1	<b>340.4</b>	313.1	<b>6.5</b>	6.3

Valuation and ABSI

3



## 3 Valuations and ABSI

### 3.1 Airport Valuation

The valuations of ASX-listed Sydney Airport's airports are in accordance with ASX-listed Sydney Airport's valuation policies. ASX-listed Sydney Airport's airports are valued at fair value. The fair values of the airports are calculated using a discounted cash flow (DCF) methodology.

The table below sets out ASX-listed Sydney Airport's individual airport valuations at 31 December 2011 compared with valuations as at 31 December 2010.

**Table 17 – Portfolio valuation**

Airport	Discount Rate (%)		Valuation			Ownership (%)		
	As at 31 Dec 11	As at 31 Dec 10	31 Dec 11 AUDm	31 Dec 10 AUDm	Change vs pcp (%)	% of portfolio 31 Dec 11	As at 31 Dec 11	As at 31 Dec 10
Sydney Airport	13.7	14.3	6,619.3	5,405.6	+22.5%	100.0	84.8	74.0
Copenhagen Airports <sup>1</sup> & <sup>2</sup>	n/a	13.2	-	924.5	n/a	-	-	30.8
Brussels Airport <sup>2</sup>	n/a	11.8	-	1,014.0	n/a	-	-	39.0
<b>Portfolio valuation</b>			<b>6,619.3</b>	7,344.1	-9.9%	100.0		
Working capital			165.9	942.0	-82.4%			
Distribution			(186.1)	(186.1)	-			
<b>Equity value attributable to ASX-listed Sydney Airport securityholders</b>			<b>6,599.1</b>	8,100.0	-18.5%			

1. ASX-listed Sydney Airport's beneficial interest in Copenhagen Airports of 30.8% as at 31 December 2010 comprised a 3.9% direct interest and a 26.9% indirect interest.

2. Copenhagen and Brussels airports were sold on 7 October 2011.

The values of ASX-listed Sydney Airport's airports are determined by the valuation framework adopted by the directors of SAHL. Discounted cash flow analysis is the methodology applied in the valuation framework for Sydney Airport and, historically, Copenhagen Airports and Brussels Airport. In the absence of a transaction, discounted cash flow analysis is the generally accepted methodology for valuing airports and the basis upon which market participants have derived valuations for specific airport transactions.

Discounted cash flow is the process of estimating future cash flows that are expected to be generated by an asset and discounting these cash flows to their present value, by applying an appropriate discount rate. The discount rate applied to the cash flows of a particular asset, comprises the risk free interest rate appropriate to the country in which the asset is located and a risk premium, reflecting the uncertainty associated with the cash flows.

The valuation derived from the discounted cash flow analysis is periodically benchmarked to other sources, such as independent valuations and recent market transactions, to ensure that the discounted cash flow valuation is providing a reliable measure. The directors have adopted a policy of commissioning independent valuations of each of the assets on a periodic basis that is no longer than three years.

Sydney Airport's last independent valuation was as at 31 December 2011.

### 3.2 Movement Since Previous Valuation

**Table 18 – Key impacts on valuations**

	AUDm	AUDm
<b>Portfolio Valuation as at 31 December 2010<sup>1</sup></b>		<b>5,405.6</b>
<b>Investments</b>		<b>793.8</b>
<b>Airport Specific Factors</b>		<b>(216.0)</b>
Roll Forward	796.7	
Other Airport Specific Factors	(1,012.7)	
<b>Macroeconomic Factors</b>		<b>235.7</b>
Inflation	(4.9)	
Interest Rates	240.6	
<b>Change in Discount Rates</b>		<b>400.2</b>
<b>Portfolio Valuation as at 31 December 2011</b>		<b>6,619.3</b>

1. Pro forma valuation as at 31 December 2010 (excludes Brussels Airport and Copenhagen Airports).

Since 31 December 2010 the pro forma portfolio valuation has increased AUD1,213.7m (up 22.5%) from AUD5,405.6m to AUD6,619.3m as at 31 December 2011. The most significant factors contributing to movements in the pro forma valuation since 31 December 2010 are:

#### Investments

- AUD793.8m is a result of the acquisition of a further 11% interest in Sydney Airport in October and November 2012.

#### Airport specific factors

- AUD796.7m is a result of rolling forward the valuation to the current valuation date of 31 December 2011; and
- (AUD1,012.7m) is a result of the incorporation of updated operating and financing assumptions.

#### Macroeconomic factors

- AUD235.7m is a result of updated inflation and interest rate assumptions.

Refer to Appendix 2 for the exchange rates at 31 December 2011 and 31 December 2010.

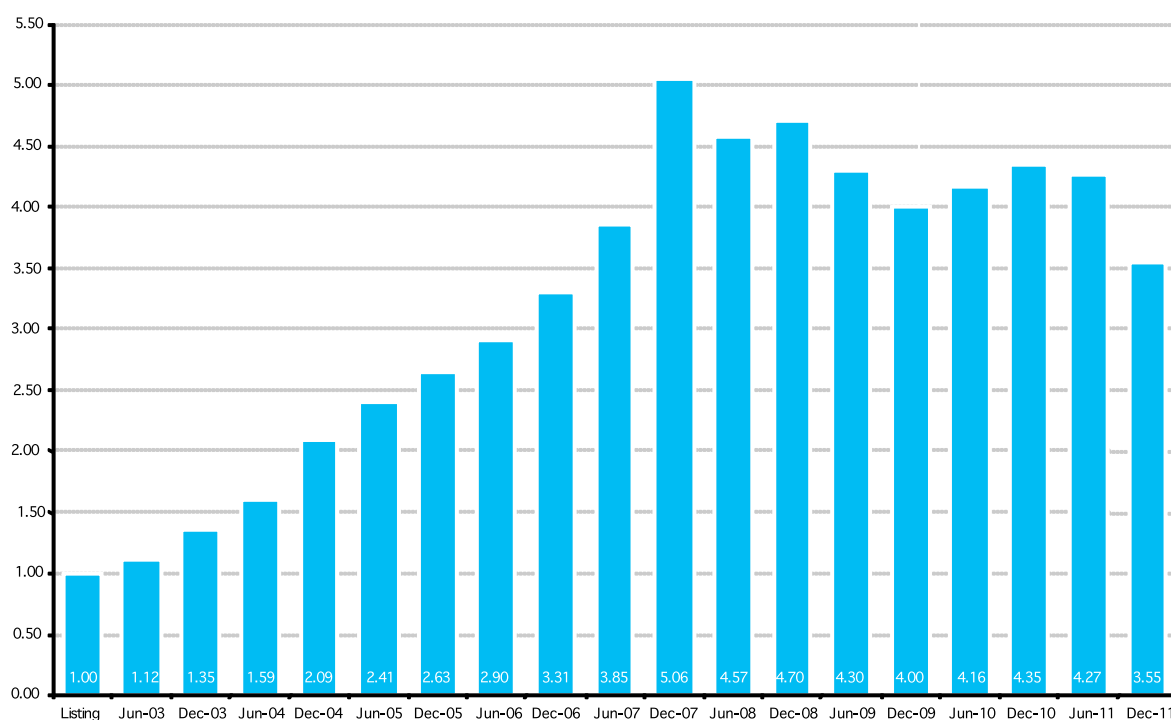
### 3.3 Asset Backing per Security Attributable to Investments (ABSI)

**Table 19 – ABSI**

	<i>As at 31 Dec 11</i>	<i>As at 31 Dec 10</i>	<i>Change %</i>	<i>As at 30 Jun 11</i>
ABSI (AUD)	<b>3.55</b>	4.35	-18.4%	4.27
Number of stapled securities on issue (# '000)	<b>1,861,211</b>	1,861,211	–	1,861,211

ASX-listed Sydney Airport's ABSI has decreased 18.4% from AUD4.35 as at 31 December 2010 to AUD3.55 as at 31 December 2011 principally as a result of the 80 cent cash payment to securityholders as part of the Simplification.

**Figure 8 – ASX-listed Sydney Airport ABSI**



ABSI has been calculated using the equity value attributable to ASX-listed Sydney Airport securityholders as outlined in table 18 divided by the number of securities on issue.

# Appendices 4





## Appendix 1 – Proportionate Earnings for the Quarter

**Table 20 – Proportionate Earnings for 3 months ended 31 December 2011**

	<i>Actual results 3 months to 31 Dec 11 AUD '000</i>	<i>Pro forma results 3 months to 31 Dec 10 AUD '000</i>	<i>Change vs pro forma pcp %</i>	<i>Actual results 3 months to 31 Dec 10 AUD '000</i>
<b>Passenger traffic ('000)</b>	<b>7,749</b>	7,906	-2.0%	10,210
Airport revenue	<b>212,963</b>	209,873	+1.5%	277,982
Airport operating expenses	<b>(40,411)</b>	(38,966)	+3.7%	(78,145)
<b>Total airport EBITDA (pre specific gains / (losses))</b>	<b>172,552</b>	170,908	+1.0%	199,837
Corporate net expenses	<b>(6,631)</b>	(2,245)	+195.3%	(2,245)
<b>Total EBITDA (pre specific gains / (losses))</b>	<b>165,921</b>	168,663	-1.6%	197,592
Airports specific gains / (losses)	<b>(97)</b>	820	-118.8%	13,950
<b>Total EBITDA</b>	<b>165,824</b>	169,483	-2.2%	211,542
Airport economic depreciation	<b>(4,944)</b>			(8,142)
Airport net interest expense	<b>(82,167)</b>			(88,690)
Airport net tax expense	<b>(239)</b>			(2,611)
Corporate net interest income	<b>17,200</b>			12,599
Corporate net tax expense	<b>1,875</b>			(2,701)
<b>Proportionate Earnings</b>	<b>97,549</b>			121,997
Concession airport net debt amortisation <sup>1</sup>	<b>(490)</b>			(339)
<b>Proportionate Earnings less allowance for net debt amortisation</b>	<b>97,059</b>			121,658

1. Relates to Sydney Airport only.

## Appendix 2 – Macroeconomic Indicators

**Table 21 – Spot foreign exchange rates vs AUD**

	31 Dec 11	31 Dec 10	Change (%)
Danish Kroner	<b>5.8548</b>	5.6978	+2.8%
Euro	<b>0.7878</b>	0.7643	+3.1%

The spot exchange rates in this table are the exchange rates that have been applied to the translation of all balance sheet items, including valuations, on 31 December 2010. The spot exchange rates for 31 December 2011 are disclosed for information purposes only.

**Table 22 – Average foreign exchange rates (per quarter)**

	31 Dec 11	30 Sep 11	30 Jun 11	31 Mar 11	31 Dec 10	30 Sep 10	30 Jun 10	31 Mar 10
Danish Kroner	<b>5.4361<sup>1</sup></b>	5.5298	5.5037	5.4745	5.4320	5.2182	5.1645	4.8644
Euro	<b>0.7301<sup>1</sup></b>	0.7422	0.7380	0.7343	0.7287	0.7005	0.6940	0.6536
Mexican Peso	<b>n/a</b>	n/a	n/a	n/a	n/a	11.3287 <sup>2</sup>	11.0874	11.5426

1. Average foreign exchange rate calculated from 1 October to financial completion of sale of Copenhagen and Brussels airports on 7 October 2011.

2. Average foreign exchange rate calculated from 1 July to financial completion of sale of ASUR which was reached on 17 August 2010.

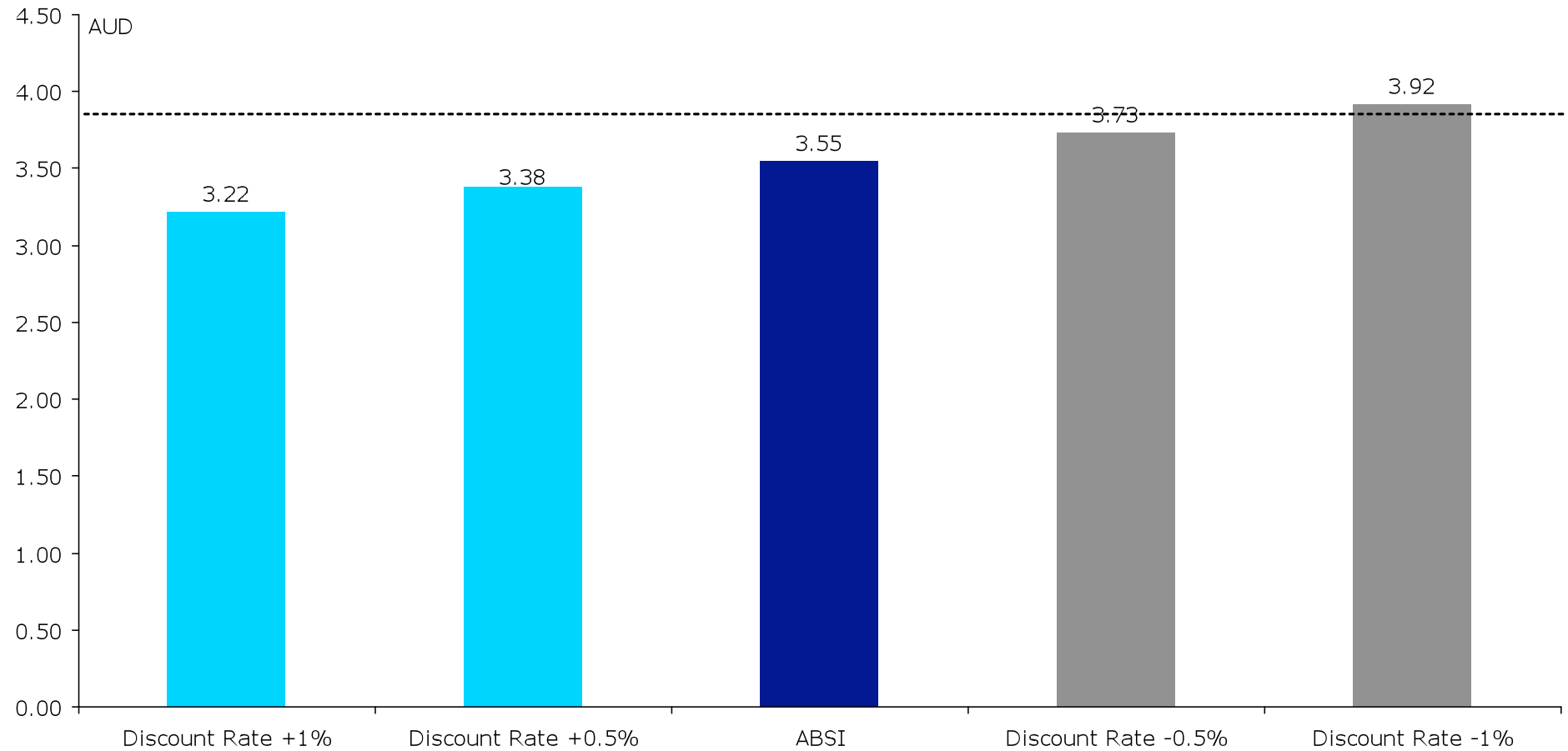
In deriving Australian dollar income for the purpose of the income statement, ASX-listed Sydney Airport applies quarterly average exchange rates to all foreign income and expenses in the relevant quarter. The above table highlights the average exchange rates applied by ASX-listed Sydney Airport in the relevant quarter.

**Table 23 – Australian 10 year bond rate**

Country	31 Dec 11 (%)	31 Dec 10 (%)
Australia	<b>4.09</b>	5.38

## Appendix 3 – ABSI Sensitivities

Figure 9 – Sensitivity of ABSI to further changes in the discount rate



## Appendix 4 – DSCR Calculation Methodology

### Sydney Airport

The DSCR is calculated as Net Revenues/Annual Debt Service.

- **Net revenues** = EBITDA in accordance with GAAP, plus interest income on cash reserves, minus income tax and capital tax, plus or (minus) swap or hedge gains (losses).
- **Debt Service** = Interest and principal payment from the company's general fund, excluding payments from pre funded interest reserve and interest expense on indebtedness and implied debt amortization.

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# Glossary



## Glossary

2011 Divestments	Disposal of ASX-listed Sydney Airport's entire interest in Brussels Airport and Copenhagen Airports
ABSI	Asset backing per security attributable to investments
ASUR	Grupo Aeroportuario del Sureste S.A.B. de C.V.
ASX	Australian Securities Exchange
ATRS	Air Transport Research Society
AUD	Australian Dollar
CAD	Copenhagen Airports Denmark APS
CADH	Copenhagen Airports Denmark Holdings APS
DCF	Discounted cash flow
DKK	Danish kroner
DSCR	Debt Service Coverage ratio
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per Security
EUR	Euro
GAAP	Generally Accepted Accounting Principles
GBP	British pound
MAIL	MAP Airports International Limited (ARBN 099 813 180)
Listed Entity	SAT1 and SAT2 collectively
SAHL	Sydney Airport Holdings Limited (ACN 075 295 760)
SAT1	Sydney Airport Trust 1 (ARSN 099 813 180)
SAT2	Sydney Airport Trust 2 (ARSN 099 597 869)
MXN	Mexican peso
O&D	Origin and destination
Pax	Passenger
PBT	Profit before tax
PCP or pcp	Prior corresponding period
Pro forma	Prior period restated at current period foreign exchange (where applicable) and current period average ownership
QTR or Qtr	Quarter
SKIES	Sydney Kingsford Smith Interest Earning Securities
Stapled entities	SAT1 and SAT2
YTD	Year to date

# Corporate Directory

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10 Arrivals Court

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