Sydney Airport

Appendix 4E
ASX Listing Rule 4.3A

Preliminary Financial Report
31 December 2012

Sydney Airport
The right future
Starting now.

Results for Announcement to the Market

	31 Dec 2012 $m	31 Dec 2011 $m	Movement $m	Movement %
Revenue	**1,055.3**	1,042.0	**13.3**	1.3%
Revaluation losses from investments	**-**	0.2	**(0.2)**	N/A
Other income	**(6.8)**	(16.3)	**9.5**	58.3%
Total revenue from continuing operations	**1,048.5**	1,025.9	**22.6**	2.2%
Profit from continuing operations after income tax benefit	**158.1**	82.1	**76.0**	92.6%
Loss from discontinued operations net of income tax	**-**	(361.5)	**361.5**	N/A
Profit / (loss) after income tax benefit attributable to security holders	**179.2**	(239.9)	**419.1**	N/A

Distributions

	31 Dec 2012 $m	31 Dec 2011 $m	31 Dec 2012 Cents per security	31 Dec 2011 Cents per security
Final distribution proposed and subsequently paid for year ended 31 December	**186.1**	186.1	**10.0**	10.0
Interim distribution paid for period ended 30 June	**204.7**	204.7	**11.0**	11.0
Total	**390.8**	390.8	**21.0**	21.0

Additional Appendix 4E disclosures can be found in the Notes to the Audited Financial Statements for Year Ended 31 December 2012 lodged on the ASX with this document and the Results for the Full Year Ended 31 December 2012 ASX release, also lodged with the ASX on 27 February 2013.

ASX-Listed Sydney Airport (the Group) comprises Sydney Airport Trust 1 (ARSN 099 597 921) (SAT1) and Sydney Airport Trust 2 (ARSN 099 597 896) (SAT2). Sydney Airport Holdings Limited (ACN 078 295 760) (AFSL 236 875) is the Responsible Entity of SAT1 and SAT2.

SYDNEY AIRPORT

FINANCIAL REPORT FOR YEAR ENDED 31 DECEMBER 2012

ASX-listed Sydney Airport comprises Sydney Airport Trust 1 and Sydney Airport Trust 2

Financial Report
for year ended 31 December 2012

Contents

Introduction to the Financial Report
for year ended 31 December 2012

Overview of ASX-Listed Sydney Airport

ASX-listed Sydney Airport (the Group) holds an 84.8% economic interest in Sydney Airport at 31 December 2012 (2011: 84.8%). Units in the Group are stapled, quoted and traded on the Australian Securities Exchange as if they were a single security. They consist of one unit in Sydney Airport Trust 1 (SAT1) and one unit in Sydney Airport Trust 2 (SAT2).

Directors' Report

For year ended 31 December 2012, the directors of Sydney Airport Holdings Limited (SAHL or the Responsible Entity) submit the following report on the consolidated financial report of ASX-listed Sydney Airport. SAT1 has been identified as the parent of the consolidated group comprising SAT1 and its controlled entities and SAT2 and its controlled entities, together acting as Sydney Airport (or the Group).

For year ended 31 December 2012, the directors of the Responsible Entity also submit the following report on the consolidated financial report of SAT2 being SAT2 and its controlled entities (the SAT2 Group).

Principal Activities

The principal activity of the Group and the SAT2 Group (together, the Groups) is the ownership of Sydney Airport. The Groups' investment policy is to invest funds in accordance with the provisions of the governing documents of the individual entities within the Groups.

There were no significant changes in the nature of the Groups' activities during the period.

Directors

The following persons were directors of the Responsible Entity from the period noted and up to the date of this report:

Name	Role	Period of directorship
Max Moore-Wilton	Chairman, Non-Executive Director	Since April 2006
Trevor Gerber	Non-Executive Director	Since April 2002
Michael Lee	Non-Executive Director	Since June 2003
Robert Morris	Non-Executive Director	Since September 2002
John Roberts	Non-Executive Director	Since October 2009
Stephen Ward	Non-Executive Director	Since February 2011
Kerrie Mather	Executive Director	Since July 2010

Distributions

The total distribution by the Group for year ended 31 December 2012 was 21.0 cents per stapled security (2011: 21.0 cents). An interim distribution of 11.0 cents per stapled security (2011: 11.0 cents) was paid by SAT1 on 16 August 2012. A final distribution of 10.0 cents per stapled security (2011: 10.0 cents) was announced on 6 December 2012 and paid by SAT1 on 14 February 2013. No distributions were announced or paid by SAT2 for year ended 31 December 2012 (2011: Nil).

Directors' Report

for year ended 31 December 2012

Review and Results of Operations

The performance of the Groups for the year, as represented by the combined result of their operations, was:

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Revenue	1,055.3	1,042.0	1,183.4	337.7
Revaluation gains from investments	-	0.2	-	314.3
Other income	(6.8)	(16.3)	(6.8)	2.6
Revenue from continuing operations	1,048.5	1,025.9	1,176.6	654.6
Profit / (loss) from continuing operations after income tax benefit	158.1	82.1	(217.1)	110.5
Loss from discontinued operations net of income tax	-	(361.5)	-	-
Profit / (loss) after income tax benefit	158.1	(279.4)	(217.1)	110.5
Total comprehensive income	115.2	(390.7)	(260.0)	94.3
Profit / (loss) after income tax benefit attributable to security holders	179.2	(239.9)	(189.1)	(19.1)
Earnings per stapled security / unit from continuing operations attributable to security holders				
Basic and diluted earnings per stapled security / unit	9.63c	6.53c	(10.16c)	(1.03c)
Earnings per stapled security / unit from discontinued operations attributable to security holders				
Basic and diluted earnings per stapled security / unit	-	(19.42c)	-	-
Earnings per stapled security / unit from profit / (loss) after income tax benefit attributable to security holders				
Basic and diluted earnings per stapled security / unit	9.63c	(12.89c)	(10.16c)	(1.03c)

Directors' Report

for year ended 31 December 2012

Financial Performance and Position

Net Operating Receipts provides a proxy for cash flow available to pay ASX-listed Sydney Airport distributions. The first table reconciles the Southern Cross Airports Holdings Limited (SCACH) (a subsidiary of SAT1 and SAT2) statutory result to its distributions declared. The second table incorporates ASX-listed Sydney Airport cash flows to determine total cash available to investors. Non-IFRS financial information below has not been audited by the external auditor, but has been sourced from the financial reports.

	SCACH [1] 31 Dec 2012 $m [2]	SCACH [1] 31 Dec 2011 $m [2]	ASX-listed Sydney Airport interest (84.8%) 31 Dec 2012 $m [2]	ASX-listed Sydney Airport interest (79.4%) [3] 31 Dec 2011 $m [2]
Loss before income tax benefit [4]	(98)	(152)	(83)	(121)
Add back: interest on redeemable preference shares (RPS) held by ordinary shareholders [4]	284	282	241	224
Add back: depreciation and amortisation [4]	228	231	193	183
Profit before tax, shareholder interest, depreciation and amortisation	414	361	351	286
Add back non-cash financial expenses				
- Fair value adjustment to interest swaps not qualifying as hedges [5]	5	(4)	4	(3)
- Amortisation of debt establishment costs [5]	21	9	18	7
- Capital Indexed Bonds capitalised less interest expense [5]	27	25	23	20
- Borrowing costs capitalised [5]	(8)	(6)	(7)	(5)
- SKIES amortisation of establishment costs [5]	-	2	-	2
- SKIES write off of unamortised establishment costs [5]	-	11	-	9
Total non-cash financial expenses	45	37	38	30
Add / (subtract) other cash movements				
Movement in cash reserved for specific purposes [6]	28	(26)	24	(21)
Other	(13)	(6)	(11)	(5)
Total other cash movements	15	(32)	13	(26)
Cash flow available to SCACH equity holders	474	366	402	290

	Note	Corporate 31 Dec 12 $m	Corporate 31 Dec 11 $m
ASX-listed Sydney Airport share of SCACH cash flow		402	290
Corporate receipts [7]		7	80
Corporate costs [7]		(9)	(25)
Corporate transaction costs [7]		(8)	(30)
Net Operating Receipts		392	315
Stapled securities on issue ('m)	16	1,861	1,861
Cash flow per stapled security		$0.21	$0.17
Distibutions declared per stapled security	5	$0.21	$0.21

1 Southern Cross Airports Corporation Holdings Limited.
2 Disclosure rounded to the nearest million and may not exactly match disclosure elsewhere in the Consolidated Financial Statements which are rounded to the nearest hundred thousand.
3 Ownership percentage reflects SAHL's weighted average entitlement to distributions declared by SCACH in 2011. SAHL increased its ownership in SCACH from 74.0% to 84.8% during the second half of 2011.
4 These numbers are taken from the Consolidated Income Statements in the SCACH Audited General Purpose Financial Report for year ended 31 December 2012.
5 These numbers are taken from Note 2(f) in the SCACH Audited General Purpose Financial Report for year ended 31 December 2012.
6 These numbers are taken from Note 25 in the SCACH Audited General Purpose Financial Report for year ended 31 December 2012.
7 These numbers are calculated from Corporate items shown separately in the Consolidated Statements of Cash Flows for year ended 31 December 2012.

Directors' Report
for year ended 31 December 2012

Significant Changes in State of Affairs

Sydney Airport Finance Company Pty Limited, a wholly owned subsidiary of SCACH, issued US$600.0 million on 16 October 2012 and US$225.0 million on 25 October 2012 in Guaranteed Senior Secured Notes each maturing in 2023 at a fixed interest rate of 3.9% per annum (payable semi-annually) into the US 144A/Reg S bond market. The total US dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the Notes.

SAT1 entered into a 24 month $165.0 million term facility with Commonwealth Bank of Australia (CBA) and Westpac Banking Corporation (WBC) on 6 December 2012. Interest is charged at Bank Bill Swap Bid Rate (BBSY) plus a predetermined margin. SAT1 had an undrawn balance on this facility of $165.0 million at 31 December 2012.

SAT1 entered into a 12 month $150.0 million working capital facility with CBA, WBC and Royal Bank of Scotland (Australia Branch) (RBS) on 23 December 2011. Interest is charged at BBSYplus a predetermined margin. SAT1 reduced the working capital facility to $100.0 million and RBS ceased to be a working capital lender on 6 December 2012. SAT1 had an undrawn balance on this facility of $100.0 million at 31 December 2012 (2011: $150.0 million).

SCACH redeemed $650.0 million Sydney Kingsford Smith Interest Earning Securities (SKIES) on 3 January 2012.

SCACH repaid $278.0 million Medium Term Notes (MTN) on 11 October 2012.

Events Occurring after Balance Sheet Date

The final distribution for ASX-listed Sydney Airport for year ended 31 December 2012 was 10.0 cents per stapled security (2011: 10.0 cents). This distribution was paid by SAT1 on 14 February 2013. No distribution was paid by SAT2 for year ended 31 December 2012 (2011: Nil).

Since the end of the year, the directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the operations of the Groups, the results of those operations or the state of affairs of the Groups in the period subsequent to year ended 31 December 2012.

Likely Developments and Expected Results of Operations

Further information on likely developments relating to the operations of the Groups in future periods and the expected results of those operations has not been included in this financial report because the directors of the Responsible Entity believe it would be likely to result in unreasonable prejudice to the Groups.

Interests in the Groups Issued During the Financial Year

The movement in securities on issue in the Groups during the year is set out below:

Group	2012 'm	2011 'm
On issue at beginning of the year	1,861.2	1,861.2
Issued pursuant to the Scheme (refer Note 16)	-	-
On issue at end of year	1,861.2	1,861.2

SAT2 Group	2012 'm	2011 'm
On issue at beginning of the year	1,861.2	1,861.2
Issued pursuant to the Scheme (refer Note 16)	-	-
On issue at end of year	1,861.2	1,861.2

Value of Assets

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Book value of assets	10,971.8	12,134.5	13,399.1	14,322.9

The book value of the Groups' assets represents their carrying amounts as determined using Australian Accounting Standards as described in Note 1 to the financial report.

Directors' Report
for year ended 31 December 2012

Audited Remuneration Report

Contents

1. Introduction

The directors present the Remuneration Report for Sydney Airport Holdings Limited (SAHL).

SAHL is not required to prepare a remuneration report that complies with the *Corporations Act 2001* (the Act). However, in the interests of maintaining the high standards of corporate governance to which the directors of SAHL have committed, the following remuneration report has been prepared voluntarily, in accordance with the requirements of the Act and its regulations. The information in this report has been audited in accordance with Section 308(3C) of the Act.

This report details remuneration arrangements for key management personnel (KMP) who are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of SAHL, directly or indirectly. They include the Non-Executive Directors (NEDs) of SAHL, the Chief Executive Officer (CEO) and other Key Executives who are employed by Sydney Airport Corporation Limited (SACL).

Non-Executive Directors

Non-Executive Director	Title	2012	2011
Max Moore-Wilton	Chairman	✓	✓
Trevor Gerber	Director	✓	✓
Michael Lee	Director	✓	✓
Robert Morris	Director	✓	✓
John Roberts	Director	✓	✓
Stephen Ward	Director	✓	✓
Sharon Beesley[1]	Former Director	×	✓
Jeffrey Conyers[1]	Former Director	×	✓
John Mullen	Former Director	×	✓

1 Ms Beesley and Mr Conyers were directors of MAp Airports International Limited from 1 January 2011 to 24 November 2011.

During the year there were no changes to NEDs.

Key Executives

Key Executive	Title	2012	2011
Kerrie Mather	Chief Executive Officer and Executive Director	✓	✓
Stephen Mentzines	Chief Financial Officer	✓	×
Shelley Roberts	Executive Director Aviation Services	✓	✓
Andrew Gardiner	General Manager Retail	×	✓
Craig Norton	General Manager Parking and Ground Transport	×	✓
Peter Wych	General Manager Development and Construction	×	✓
Tim Finlayson	Former Executive - Chief Financial Officer	×	✓
Keith Irving	Former Executive - Chief Financial Officer	×	✓
Sally Webb	Former Executive - Company Secretary	×	✓

Shown in the table above are the individuals determined to be KMP by the directors for years ended 31 December 2011 and 31 December 2012.

Directors' Report
for year ended 31 December 2012

Audited Remuneration Report (continued)

During the year the following executive changes occurred:

- Ms Sally Webb resigned effective 31 March 2012. Ms Webb also acted as General Counsel of SAHL but the disclosures in this report are made solely due to her position as Company Secretary.
- Mr Tim Finlayson resigned 27 June 2012, giving six months notice as required by his contract. Mr Finlayson ceased employment on 10 October 2012 and was paid out the remainder of his contractual notice period.
- Mr Stephen Mentzines was appointed Chief Financial Officer effective 2 October 2012.
- It was determined that Messrs. Gardiner, Norton and Wych were not KMP for 2012.

2. Nomination and Remuneration Committee

The Nomination & Remuneration Committee (NRC) of SAHL is responsible for making recommendations to the board on director and executive remuneration policy and structure.

In 2012 the NRC comprised of three NEDs, two of whom were independent:

- Stephen Ward (Chair – independent)
- Max Moore-Wilton
- Michael Lee (independent)

SACL has a separate Human Resources Committee that is responsible for making remuneration recommendations regarding policy and structure for the SACL executives to the SACL board. In the interest of aligning remuneration policies and practices going forward, Stephen Ward has been appointed Chair of the Human Resources Committee for SACL.

In July 2012 the NRC appointed Egan Associates as its independent Remuneration Consultant. During 2012 Egan Associates provided the NRC with market data and advice in relation to NED fees, executive remuneration and executive incentive structure. Such services were provided to the NRC free from any undue influence by management. The fees paid to Egan Associates for remuneration advisory services were $71,190 (excluding GST).

3. Remuneration Principles, Policy and Structure

Sydney Airport has adopted a remuneration strategy that aims to attract, retain and motivate high performing individuals and align the interests of executives and security holders, tailored to the unique characteristics of the organisation.

3.1. Background

ASX-listed Sydney Airport is an ASX50 entity with an enterprise value of approximately $12.7 billion. KMP have oversight and accountability for the smooth operation and security of its facilities, supporting a diverse range of aeronautical, retail, car parking and property businesses.

Across the airport, some 800 companies employ 28,000 full time employees onsite who service its 36.9 million passengers a year and enable the import and export of a wide variety of goods from perishable foodstuffs to high value manufactured items. A further 256,000 jobs are generated or facilitated by the airport to meet its needs, expanding its impact to an estimated 6.0% of the New South Wales economy.

Management have oversight of significant ongoing capital expenditure and the development of a forward looking strategic plan, incorporating runway upgrades, taxiway upgrades, apron development, car park development, electrical upgrades and other significant initiatives. Since privatisation in 2002, Sydney Airport has invested more than $2.2 billion in capital works. Management is also accountable for facilitation of government relationships and ensuring compliance with Commonwealth and State Government regulatory requirements.

When setting Executive remuneration the board takes into consideration the complexity of the business, the responsibility of each Executive, along with other factors, including the Executive's experience, tenure and performance against key objectives. Additionally, Executives' salaries are benchmarked against comparable market participants based on advice from remuneration consultants.

Directors' Report
for year ended 31 December 2012

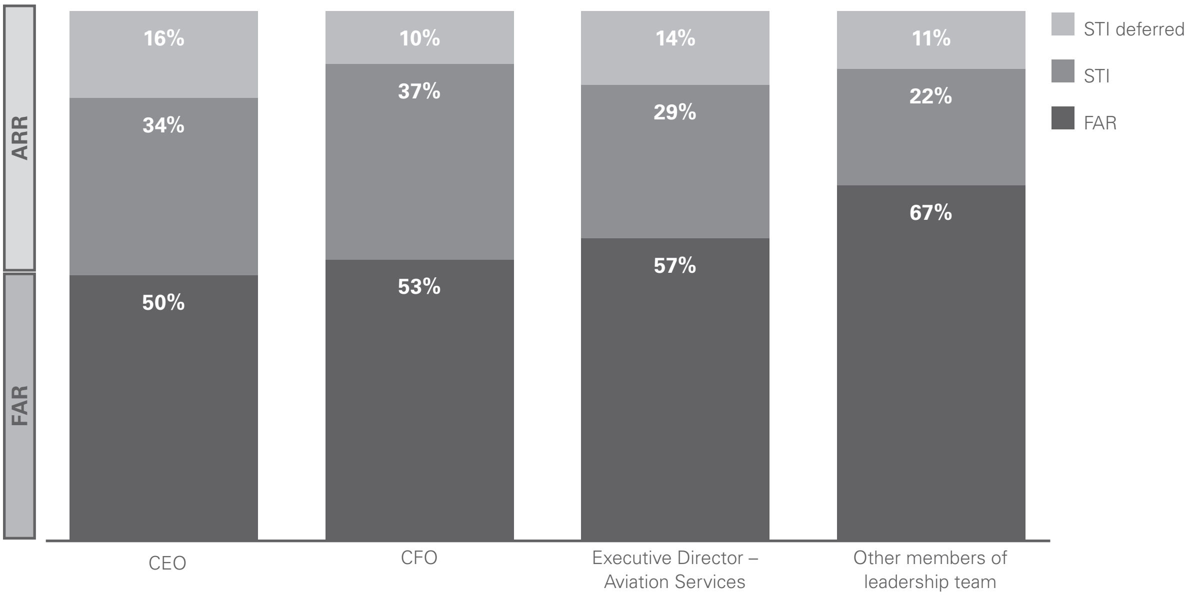
Audited Remuneration Report (continued)

3.2. Remuneration structure for Key Executives as at 31 December 2012

The remuneration structure of Key Executives comprises of:

- Fixed annual remuneration (FAR), consisting of base salary and benefits inclusive of the minimum regulatory superannuation contribution; and
- At risk remuneration (ARR), being the components which are variable and directly linked to the delivery of individual key performance targets and Sydney Airport's key financial and business objectives.

The remuneration mix for the CEO, other Key Executives' and members of the leadership team are (with ARR shown at maximum) expressed as a percentage of total remuneration, shown in the graph below:



3.3. At risk remuneration

The board is focused on maximising security holder value by linking business performance with Key Executive remuneration outcomes. A significant element of a Key Executive's maximum potential remuneration is at risk and linked to corporate performance.

ARR is currently provided to executives through a Short Term Incentive Plan (STI), including a deferral element.

There are two categories of STI performance measures used for Key Executives, Group performance targets (refer to Section 3.4.) which makes up 50–60% of an executive's STI outcome and individual key performance targets which makes up 40-50% of an executive's STI outcome.

Performance setting

Individual key performance targets for executives are developed by the CEO and put forward to the NRC for approval at the commencement of each performance year.

Key performance targets are selected for their relevance to the short and long-term objectives of the business.

The STI award is determined after the preparation of the annual financial statements and the completion of the performance review process. The STI award is generally granted to executives in March, with the cash award paid immediately. Maximum potential STI awards for year ended 31 December 2012 range from 37.5% to 100.0% of FAR.

CEO STI deferral

To promote CEO retention, one third of any STI award in excess of $50,000 is deferred in cash for three years from the date of the award. The deferred cash amount earns market rate interest over the three year period and is payable to the CEO upon vesting, subject to continuous service throughout the period.

Directors' Report
for year ended 31 December 2012

Audited Remuneration Report (continued)

Other executives STI deferral

An Executive's performance outcome is used as the basis to determine their STI deferral. To promote Executive retention, Executives have a predetermined element of their ARR delivered in the form of a deferred cash award. Any cash award made under this plan is subject to a two year deferral from the date of the award. The deferred cash amount earns market rate interest over the two year deferral and is payable upon vesting, subject to continuous service throughout the period.

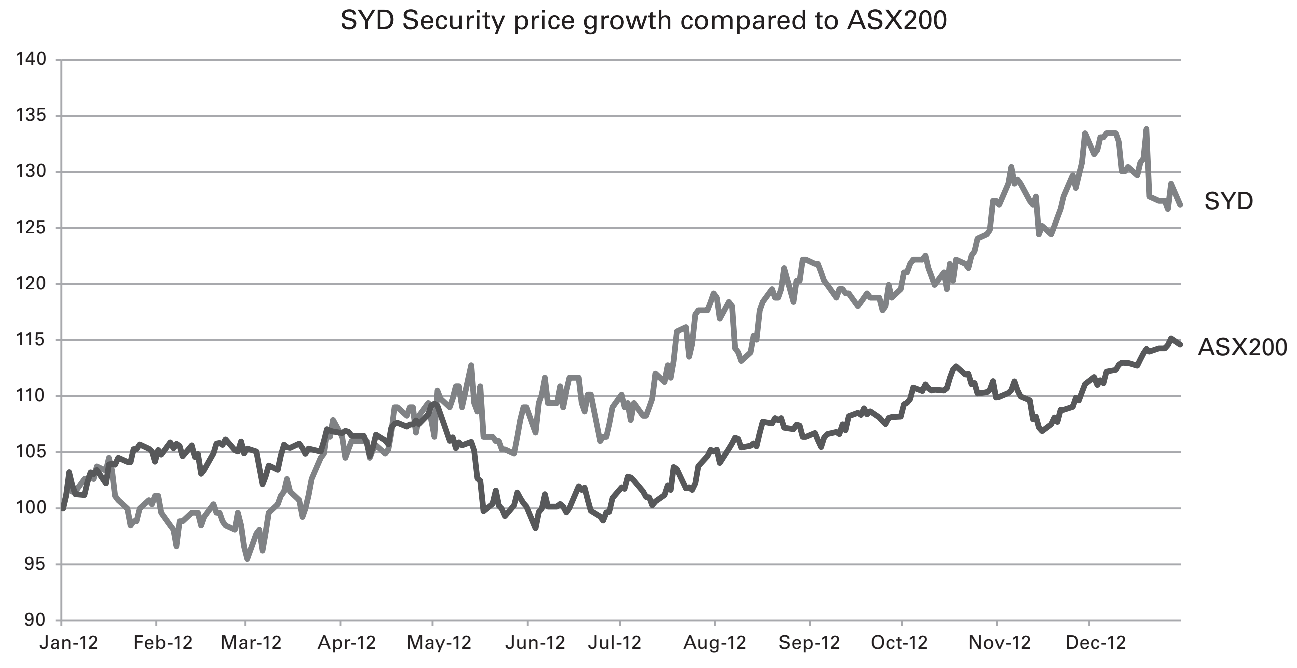
3.4. Link between remuneration and performance

History of corporate performance

Measure	2012	2011	2010	2009	2008
Security price at year end	$3.38	$2.66	$2.99	$3.03	$2.40
Ordinary distribution paid per security	$0.21	$0.21	$0.21	$0.21	$0.27
Other cash payments to security holders	-	$0.80	$0.125	-	-
Sydney Airport earning before interest, tax, depreciation and amortisation (EBITDA) (100%) - $m	$848.0	$789.8	$773.0	$689.3	$649.4

Corporate performance 2012

ASX-listed Sydney Airport's security price performed strongly in 2012, with a total shareholder return of 35.7%. This compares to the ASX 200 Accumulation Index return of 20.3% and the All Ords Accumulation Index return of 18.8%.



Source: Iress

Drivers of the strong performance were:

- Record passenger numbers, serving a total of 36.9 million passengers. 5.3% growth on the prior comparative period for international passengers and 2.7% for domestic passengers, driving strong EBITDA growth of 7.4%;
- 21 cents per security annual dividend, 100% covered by Net Operating Receipts. This represents a 7.0% cash yield to investors (based on average security price), in a low interest rate environment;
- Prudent capital management with oversubscribed senior debt issuances of $1.1 billion, used to refinance 2012 maturities more than 12 months in advance and provide an additional $300.0 million of undrawn capex financing. The issuances lengthened average debt maturities beyond 2020 and lowered average overall borrowing costs;
- Delivered two new low cost carriers driving significant growth in the inbound and outbound leisure markets;
- Successful integration of the former MAp Airports and Sydney Airport teams, with significant overall cost savings;

Directors' Report

for year ended 31 December 2012

Audited Remuneration Report (continued)

- Implemented new products and offers and technologies across the car parking and retail businesses aimed at improving customer value and increasing market penetration;
- Maintained a disciplined approach to capital investment focused on meeting our airline and customer needs and earning appropriate financial returns; and
- Development of the New Vision from a concept to detailed plan involving extensive stakeholder consultation and testing by third parties to ensure the new development concept will deliver the capacity, efficiency, productivity and passenger experience benefits initially envisaged. This included work on preparation of what will become the 2013 master plan.

Group performance

The following table sets out the Group performance objectives used in determining an Executive's STI outcome in 2012.

Objective	Weighting	Performance measure	Performance
Financial	CEO 55% Other KMP 30%	EBITDA	• Growth in EBITDA • Improved shareholder value
		Distribution paid	• Shareholder distribution growth
		Capital expenditure	• Capital investment managed to maximise shareholder return
Stakeholder engagement	CEO 20% Other KMP 20%	Stakeholder engagement	• Improved customer satisfaction • Improved stakeholder engagement
People	CEO 15% Other KMP 10%	Employee engagement, talent, development and diversity	• Improved employee engagement • Relevant diversity measures
Individual	CEO 10% Other KMP 40%	Specific measures tailored to each area of responsibility including operational performance, cost containment, risk management, strategy development and implementation and project management	• Assessed on an individual basis

Individual performance

Individual objectives and targets are unique to the Executive's area of accountability and expertise and are used to determine up to 40.0% of an Executive's STI outcome for 2012. The objectives are both qualitative and quantitative in nature and measurement. They have been assessed as being central to business performance, efficiency and sustainability. In 2012 these objectives included operational performance, cost containment, risk management, strategy development and implementation, project management, leadership and people, customer and stakeholder engagement.

Performance pay outcomes for 2012

The NRC reviews the overall performance outcome for an individual based on the agreed performance objectives but retains overriding discretion when determining the value of any STI award to an Executive.

Key Executive	STI outcome % of maximum	Actual STI awarded Cash award $	STI deferred $	STI forfeited %
Kerrie Mather	100%	1,150,000	550,000	-%
Stephen Mentzines	95%	130,820	Nil	5%
Shelley Roberts	100%	227,500	68,250	-%
Tim Finlayson	-%	Nil	Nil	100%
Sally Webb	100%	21,250	Nil	-%

The cash STI payment made to Ms Webb was on a pro-rated basis until her date of resignation.

Directors' Report

for year ended 31 December 2012

Audited Remuneration Report (continued)

Key Executives	Award date	Deferred $	Vesting date
Kerrie Mather	15 Mar 2012	550,000	15 Mar 2015
	15 Mar 2011	550,000	15 Mar 2014
Stephen Mentzines	15 Mar 2012	Nil	N/A
	15 Mar 2011	Nil	N/A
Shelley Roberts	15 Mar 2012	6,059	15 Mar 2014
	15 Mar 2011	Nil	N/A

Key Executives Remuneration Arrangements for Year Ended 31 December 2012

4.1. Service agreements

	CEO	Other KMP
Employing entity	SAHL	SACL
Length of contract	Permanent	Permanent
Notice period	6 months	6 months
Maximum STI opportunity	100%	75-90%
Termination period	12 months	6 months
Termination payment	Based on termination period	Based on termination period

In the event of termination with cause there is no termination payment payable to the Executive except for their statutory entitlements.

CEO

The CEO receives fixed remuneration of $1,700,000 per annum.

In the event that the CEO was to be terminated without cause, Ms Mathers contract allows for the payment of the discretionary bonus for the whole of the current year.

Treatment of STI deferral with termination without cause results in outstanding deferral elements being payable. Resignation or termination with cause results in this element being forfeited. The board has the overriding discretion in relation to treatment upon termination.

Other Executives

Treatment of STI deferral with resignation or termination with cause prior to the payment of any deferred element of STI results in this element being forfeited.

Mr Mentzines was not eligible to participate in 20% of his contracted ARR opportunity for 2012.

Directors' Report
for year ended 31 December 2012

Audited Remuneration Report (continued)

4.2. Total Remuneration and Benefits for Year Ended 31 December 2012

Actual remuneration received 2012

The following table sets out actual remuneration received by Executives during 2012. The figures in this table are different to those shown in the statutory remuneration table which includes the total value of STI cash and STI deferral awarded in relation to year ended 2012.

The STI cash amount disclosed in the below table relates to the 2011 award paid in March 2012. The STI deferral amount relates to awards from prior years payable in 2012.

				Earned in prior financial years		
Key Executive	**Cash salary $**	**Superannuation $**	**Term benefits $**	**STI cash $**	**STI deferral $**	**Total $**
Kerrie Mather						
2012	1,683,877	16,123	-	1,150,000	-	**2,850,000**
Stephen Mentzines						
2012	186,903	10,199	-	-	-	**197,102**
Shelley Roberts						
2012	426,728	38,161	-	35,340	-	**500,229**
Former Executives						
Tim Finlayson						
2012	296,586	46,301	80,736	217,875	-	**641,498**
Sally Webb						
2012	51,153	1,972	117,062	74,375	19,722	**264,284**

Directors' Report

for year ended 31 December 2012

Audited Remuneration Report (continued)

Statutory Remuneration Table

The following table discloses Executives' total remuneration in accordance with the Act and Australian Accounting Standards:

	Short-term benefits		STI	Post employment benefits	Termination benefits	Long-term benefits		% at Risk
Name	Salary $	STI $	Retained $	Superannuation $	$	Long service leave $	Total $	
Executive								
Kerrie Mather								
2012	1,683,877	1,150,000	550,000	16,123	-	117,357	3,517,357	50%
2011	1,684,513	1,150,000	550,000	15,487	-	89,286	3,489,286	50%
Stephen Mentzines								
2012	186,903	130,820	-	10,199	-	-	327,922	40%
2011	-	-	-	-	-	-	-	N/A
Shelley Roberts								
2012	426,728	227,500	68,250	38,161	-	-	760,639	39%
2011	75,917	8,230	1,411	6,833	-	-	92,391	10%
Peter Wych								
2011	67,985	36,854	5,528	6,119	-	26,651	143,137	36%
Craig Norton								
2011	60,143	21,579	3,730	6,942	-	-	92,394	27%
Andrew Gardiner								
2011	53,062	-	-	4,776	-	-	57,838	-%
Total - Executives								
2012	2,297,508	1,508,320	618,250	64,483	-	117,357	4,605,918	
2011	1,941,620	1,216,663	560,669	40,157	-	115,937	3,875,046	
Former Executives								
Tim Finlayson								
2012	296,586	-	-	46,301	80,736	-	423,623	-%
2011	89,140	50,738	11,597	8,023	-	-	159,498	39%
Keith Irving								
2012	-	-	-	-	-	-	-	N/A
2011	407,846	321,526	-	15,487	242,207	-	987,066	33%
Sally Webb								
2012	51,153	170,253	-	1,972	117,062	-	340,440	50%
2011	199,548	64,445	19,722	7,743	-	48,911	340,369	29%
Total - Former Exectives								
2012	347,739	170,253	-	48,273	197,798	-	764,063	
2011	696,534	436,709	31,319	31,253	242,207	48,911	1,486,933	
Grand Total								
2012	2,645,247	1,678,573	618,250	112,756	197,798	117,357	5,369,981	
2011	2,638,154	1,653,372	591,988	71,410	242,207	164,848	5,361,979	

Directors' Report
for year ended 31 December 2012

Audited Remuneration Report (continued)

5. Non-Executive Directors' Remuneration

5.1. Non-executive Directors' remuneration policy

The board sets NEDs' fees. Directors' remuneration is set with reference to external benchmarking undertaken by consultants engaged by the board. NEDs do not participate nor receive ARR in line with ASX Corporate Governance principles. At the Annual General Meeting (AGM) in May 2010 security holders approved the maximum directors' fee pool for SAHL of $1,500,000. Current fee arrangements are detailed below and are inclusive of required superannuation contributions.

The Chair of SAHL only receives chair fees and is not entitled to receive any additional committee fees.

Role	Annual fee $
SAHL Board	
Chair	320,000
NED	150,000
SAHL Audit & Risk Committee	
Chair	25,000
Member	12,500
SAHL Nomination & Remuneration Committee	
Chair	20,000
Member	10,000

Directors' Report

for year ended 31 December 2012

Audited Remuneration Report (continued)

5.2. Non-Executive Directors' Remuneration for the Year

Fees and other benefits provided to the NEDs during the current and prior years are set out in the table below. Any contributions to personal superannuation or pension funds on behalf of NEDs are deducted from their overall fee entitlements.

Ms Kerrie Mather, CEO, is an executive director and receives no additional remuneration in her role as a director over and above her executive remuneration detailed in Section 4.

	Short term employee benefits		Post employment benefits	
Name	**Directors' fees $**	**Other $**	**Superannuation $**	**Total $**
Max Moore-Wilton (Chairman SAHL)				
2012	303,877	150,000[2]	16,123	470,000
2011	352,287[1]	150,000[2]	15,487	517,774
Trevor Gerber[3]				
2012	110,045	75,000[2]	14,955	200,000
2011	164,043	-	14,450	178,493
Michael Lee				
2012	107,700	75,000[2]	14,800	197,500
2011	158,257	-	14,243	172,500
Robert Morris				
2012	99,965	75,000[2]	12,535	187,500
2011	152,375	-	10,125	162,500
John Roberts[3,5]				
2012	86,594	75,000[2]	13,406	175,000
2011	141,107	-	12,385	153,492
Stephen Ward[6]				
2012	111,129	75,000[2]	15,080	201,209
2011	190,300	-	11,320	201,620
John Mullen[4]				
2011	19,706	-	1,774	21,480
Jeffrey Conyers[7]				
2011	63,240	-	-	63,240
Sharon Beesley[7]				
2011	54,205	-	-	54,205

1 Includes US$50,000 for acting as director of MAIL in 2011.

2 Includes additional reimbursement in respect of the directors' appointment to the board of SCACH.

3 Mr Gerber and Mr Roberts were appointed as MAIL directors on 24 November 2011. Accordingly 2011 fees include A$3,493 for the period 24 November 2011 to 19 December 2011.

4 Mr Mullen resigned as director of SAHL on 21 February 2011.

5 Mr Roberts earned A$75,000 in 2011 as a director of SCACH, however it was paid directly to ASX-listed Sydney Airport and is not included in the above table because he held that office as a nominee.

6 Mr Ward was appointed to the SAHL board on 21 February 2011. His 2012 fees included A$6,209 relating to his appointment to the SAHL NRC during 2011. His 2011 fees included A$137,096 as a director of SAHL and US$58,315 as a director of MAIL.

7 Mr Conyers and Ms Beesley resigned as directors of MAIL on 24 November 2011. The amounts disclosed are in US$.

Directors' Report
for year ended 31 December 2012

Security Holdings in ASX-Listed Sydney Airport

The table below details ASX-listed Sydney Airport securities in which NEDs held relevant interests.

Name	Balance at 1 Jan 12	Changes during the year	Balance at 31 Dec 12	Value at 31 Dec 12 $
Max Moore-Wilton	650,000	-	650,000	2,197,000
Trevor Gerber	225,000	-	225,000	760,500
Michael Lee	7,060	-	7,060	23,863
Robert Morris	40,908	-	40,908	138,269
John Roberts	67,507	-	67,507	228,174
Stephen Ward	21,818	-	21,818	73,745

Indemnification and Insurance of Officers and Auditors

All directors have executed a deed of access, insurance and indemnity under which SAHL indemnifies them against any liability incurred by them, including all legal costs in defending any proceeding (whether criminal, civil, administrative or judicial) or appearing before any court, tribunal, authority or other body because of their respective capacities. The indemnity does not apply to the extent:

- of any restriction imposed by law or the SAHL constitution;
- payment is made by SAHL as trustee of SAT1, SAT2 or Southern Cross Australian Airports Trust (SCAAT), (each a relevant trust) subject to any restriction imposed by law or the constitution of the relevant trust.

Additionally during the period, a directors' and officers' insurance policy applied to the directors and secretaries of SAHL.

The auditors of the Groups are in no way indemnified out of the assets of the Groups.

Environmental Regulation

The operations of the underlying airport assets in which the Groups invested during the year were subject to environmental regulations particular to the countries in which they are located.

Sydney Airport

- The primary piece of environmental legislation applicable to Sydney Airport is the Airports Act 1996 (the Airports Act) and regulations made under it, including the Airports (Environment Protection) Regulations 1997. The main environmental requirements of the Airports Act and the Regulations include: the development and implementation of an environment strategy;
- the monitoring of air, soil, water and noise pollution from ground-based sources (except noise from aircraft in-flight, landing, taking off and taxiing and pollution from aircraft, which are excluded by the Airports Act and Regulations);
- the enforcement of the provisions of the Airports Act and associated regulations, by statutory office holders of the Commonwealth Department of Transport and Regional Services. These office holders are known as Airport Environment Officers (AEOs).

Sydney Airport's Environment Strategy 2010 – 2015 (the Strategy) was approved by the Australian Government on 24 May 2010. The Strategy was developed following an extensive community and stakeholder consultation process and outlines the plans and actions of Sydney Airport to measure, monitor, enhance and report on environmental performance over the five year period from 2010 to 2015. Sydney Airport's aims, reflected in the Strategy, are to continually improve environmental performance and minimise the impact of Sydney Airport's operations on the environment. The strategy supports initiatives in environmental management beyond regulatory requirements. The strategy is available for download from Sydney Airport's website (www.sydneyairport.com.au).

There have been no breaches by Sydney Airport in relation to the above regulations.

Directors' Report

for year ended 31 December 2012

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the financial statements.

The directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 4 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Groups, acting as advocate for the Groups or jointly sharing economic risks and rewards.

Lead Auditor's Independence Declaration

A copy of the lead auditor's independence declaration, as required under Section 307C of the *Corporations Act 2001* is set out on page 18 and forms part of the Directors' Report for year ended 31 December 2012.

Rounding of amounts in the Directors' Report and the Consolidated Financial Statements

The Groups are of a kind referred to in Australian Securities & Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars unless otherwise stated.

Application of Class Order

The financial reports for the Group and the SAT2 Group are jointly presented in one report as permitted by ASIC Class Order 06/441.

This report is made in accordance with a resolution of the directors of Sydney Airport Holdings Limited.

Max Moore-Wilton

Sydney

26 February 2013

Trevor Gerber

Sydney

26 February 2013

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Sydney Airport Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Sydney Airport and Sydney Airport Trust 2 for the financial year ended 31 December 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

This declaration is in respect of Sydney Airport, which comprises Sydney Airport Trust 1 and the entities it controlled during the year, which are deemed to include Sydney Airport Trust 2 and the entities it controlled during the year. Sydney Airport Trust 2 comprises Sydney Airport Trust 2 and the entities it controlled during the year.

KPMG

KPMG

Andrew Yates
Partner

Sydney

26 February 2013

Financial Report

for year ended 31 December 2012

Consolidated Statements of Comprehensive Income

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Continuing operations					
Revenue	2	1,055.3	1,042.0	1,183.4	337.7
Revaluation gains from investments	2	-	0.2	-	314.3
Other income	2	(6.8)	(16.3)	(6.8)	2.6
Revenue from continuing operations		1,048.5	1,025.9	1,176.6	654.6
Finance costs	2	459.6	490.0	964.0	434.0
Other expenses	2	498.0	550.5	496.9	158.2
Operating expenses from continuing operations		957.6	1,040.5	1,460.9	592.2
Profit / (loss) from continuing operations before income tax benefit		90.9	(14.6)	(284.3)	62.4
Income tax benefit	3	67.2	96.7	67.2	48.1
Profit / (loss) from continuing operations after income tax benefit		158.1	82.1	(217.1)	110.5
Loss from discontinued operations net of income tax		-	(361.5)	-	-
Profit / (loss) after income tax benefit		158.1	(279.4)	(217.1)	110.5
Other comprehensive income					
Cash flow hedges		(64.1)	(158.9)	(64.1)	(23.0)
Cash flow hedges – deferred tax		19.3	47.6	19.3	6.8
Actuarial gain on defined benefit plans		2.8	-	2.8	-
Actuarial gain on defined benefit plans – deferred tax		(0.9)	-	(0.9)	-
Other comprehensive income for year, net of tax		(42.9)	(111.3)	(42.9)	(16.2)
Total comprehensive income		115.2	(390.7)	(260.0)	94.3
Profit / (loss) from continuing operations after income tax benefit attributable to:					
Security holders		179.2	121.6	(189.1)	(19.1)
Non-controlling interest		(21.1)	(39.5)	(28.0)	129.6
		158.1	82.1	(217.1)	110.5
Loss from discontinued operations net of income tax attributable to:					
Security holders		-	(361.5)	-	-
		-	(361.5)	-	-
Profit / (loss) after income tax benefit attributable to:					
Security holders		179.2	(239.9)	(189.1)	(19.1)
Non-controlling interest		(21.1)	(39.5)	(28.0)	129.6
		158.1	(279.4)	(217.1)	110.5
Total comprehensive income attributable to:					
Security holders		121.7	(351.2)	(250.6)	(31.7)
Non-controlling interest		(6.5)	(39.5)	(9.4)	126.0
		115.2	(390.7)	(260.0)	94.3
Earnings per stapled security / unit from continuing operations attributable to security holders					
Basic and diluted earnings per stapled security / unit [1]	20	9.63c	6.53c	(10.16c)	(1.03c)
Earnings per stapled security / unit from discontinued operations attributable to security holders					
Basic and diluted earnings per stapled security / unit [1]	20	-	(19.42c)	-	-
Earnings per stapled security / unit from profit / (loss) after income tax benefit attributable to security holders					
Basic and diluted earnings per stapled security / unit [1]	20	9.63c	(12.89c)	(10.16c)	(1.03c)

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

[1] Earnings used in the calculation of earnings per stapled security includes revaluation gains / (losses) from airport investments, as well as income and expenses from revaluation of other financial instruments. Consequently earnings per stapled security reflect the impact of unrealised revaluation increments and decrements.

Financial Report

for year ended 31 December 2012

Consolidated Balance Sheets

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current assets					
Cash and cash equivalents	6	433.7	1,124.3	421.8	1,002.3
Receivables	7	103.7	506.6	303.2	577.6
Other financial assets	6,8	20.4	-	20.4	-
Other assets		8.1	6.1	8.1	5.9
Total current assets		565.9	1,637.0	753.5	1,585.8
Non-current assets					
Receivables	7	39.3	41.2	2,278.8	2,280.8
Investments in financial assets	8	-	5.1	-	5.1
Property, plant and equipment	9	2,509.5	2,488.5	2,509.5	2,488.5
Intangible assets	10	7,850.8	7,953.7	7,850.8	7,953.7
Other assets		6.3	9.0	6.5	9.0
Total non-current assets		10,405.9	10,497.5	12,645.6	12,737.1
Total assets		10,971.8	12,134.5	13,399.1	14,322.9
Current liabilities					
Distribution payable		186.1	186.1	-	-
Payables	12	180.8	577.6	574.6	842.8
Interest bearing liabilities	13	216.5	947.1	216.5	947.1
Deferred income		25.3	24.4	25.3	24.4
Derivative financial instruments	14	146.9	91.9	146.9	91.9
Provisions		8.3	7.7	8.3	7.7
Current tax liabilities	15	-	0.1	-	0.1
Total current liabilities		763.9	1,834.9	971.6	1,914.0
Non-current liabilities					
Payables	12	0.4	2.6	0.4	2.6
Interest bearing liabilities	13	6,222.2	5,963.9	9,884.2	9,519.5
Derivative financial instruments	14	204.3	158.7	204.3	158.7
Provisions		1.2	1.3	1.1	1.3
Deferred tax liabilities	15	1,655.0	1,740.4	1,655.0	1,740.4
Total non-current liabilities		8,083.1	7,866.9	11,745.0	11,422.5
Total liabilities		8,847.0	9,701.8	12,716.6	13,336.5
Net assets		2,124.8	2,432.7	682.5	986.4
Equity					
Security holders' interests					
Contributed equity	16	3,948.5	3,948.5	1,949.2	1,949.2
Retained earnings	17	501.0	710.7	3,096.6	3,283.8
Reserves	18	(2,400.8)	(2,365.3)	(4,446.6)	(4,414.2)
Total security holders' interests		2,048.7	2,293.9	599.2	818.8
Non-controlling interest in controlled entities	19	76.1	138.8	83.3	167.6
Total equity		2,124.8	2,432.7	682.5	986.4

The above Consolidated Balance Sheets should be read in conjunction with the accompanying notes.

Financial Report
for year ended 31 December 2012

Consolidated Statements of Changes in Equity

Group	Note	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interest $m	Total equity $m
		Attributable to Group's Security Holders					
Total equity at 1 January 2012		3,948.5	(2,365.3)	710.7	2,293.9	138.8	2,432.7
Profit / (loss) attributable to security holders		-	-	179.2	179.2	(21.1)	158.1
Cash flow hedges, net of tax		-	(38.0)	-	(38.0)	(6.8)	(44.8)
Reclassification of FCTR to net profit on wind up of subsidiaries		-	2.5	-	2.5	-	2.5
Actuarial gains, net of tax		-	-	1.9	1.9	0.3	2.2
Distributions provided for or paid	5	-	-	(390.8)	(390.8)	(35.1)	(425.9)
Total equity at 31 December 2012		3,948.5	(2,400.8)	501.0	2,048.7	76.1	2,124.8
Total equity at 1 January 2011		3,948.5	(355.7)	1,341.4	4,934.2	459.2	5,393.4
Loss attributable to security holders		-	-	(239.9)	(239.9)	(39.5)	(279.4)
Cash flow hedges, net of tax		-	(84.1)	-	(84.1)	(27.2)	(111.3)
Exchange differences on translation of foreign operations		-	4.2	-	4.2	-	4.2
Reclassification of FCTR to net profit on wind up of subsidiaries		-	16.0	-	16.0	-	16.0
Adjustment due to acquisition of additional interest in subsidiary		-	(1,945.7)	-	(1,945.7)	(202.1)	(2,147.8)
Distributions provided for or paid	5	-	-	(390.8)	(390.8)	(51.6)	(442.4)
Total equity at 31 December 2011		3,948.5	(2,365.3)	710.7	2,293.9	138.8	2,432.7

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Report

for year ended 31 December 2012

Consolidated Statements of Changes in Equity (continued)

SAT2 Group	Note	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interest $m	Total equity $m
		Attributable to SAT2 Group's Security Holders					
Total equity at 1 January 2012		1,949.2	(4,414.2)	3,283.8	818.8	167.6	986.4
Loss attributable to security holders		-	-	(189.1)	(189.1)	(28.0)	(217.1)
Cash flow hedges, net of tax		-	(34.9)	-	(34.9)	(9.9)	(44.8)
Recycle of FCTR to the Statement of Comprehensive Income on wind up of subsidiaries		-	2.5	-	2.5	-	2.5
Actuarial gains, net of tax		-	-	1.9	1.9	0.3	2.2
Distributions provided for or paid	5	-	-	-	-	(46.7)	(46.7)
Total equity at 31 December 2012		1,949.2	(4,446.6)	3,096.6	599.2	83.3	682.5
Total equity at 1 January 2011		291.4	(99.8)	1,847.6	2,039.2	1,785.0	3,824.2
(Loss) / profit attributable to security holders		-	-	(19.1)	(19.1)	129.6	110.5
Scrip consideration as part of Scheme consideration		1,657.8	-	-	1,657.8	-	1,657.8
Cash flow hedge acquired on acquisition of subsidiaries		-	(141.7)	-	(141.7)	-	(141.7)
Cash flow hedges, net of tax		-	(12.7)		(12.7)	(3.5)	(16.2)
Adjustment due to acquisitions of subsidiaries under common control		-	(4,160.0)	1,455.3	(2,704.7)	(1,607.6)	(4,312.3)
Distributions provided for or paid	5	-	-	-	-	(135.9)	(135.9)
Total equity at 31 December 2011		1,949.2	(4,414.2)	3,283.8	818.8	167.6	986.4

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Report

for year ended 31 December 2012

Consolidated Statements of Cash Flows

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Cash flows from operating activities					
Dividend received on SCACH ordinary shares		-	-	-	157.6
Dividend received on SCACH redeemable preference shares		-	-	-	60.5
Investment income received on convertible loans – Brussels Airport		-	10.0	-	-
Distribution and dividend income received – Copenhagen Airports		-	8.9	-	-
Airport interest received		11.7	16.0	11.7	6.7
Corporate interest received		6.4	59.6	3.4	5.0
Interest paid on intercompany loans		-	-	(10.5)	-
Airport revenue received (inclusive of goods and services tax)		1,164.6	1,074.5	1,164.6	267.3
Airport operating expenses paid (inclusive of goods and services tax)		(305.9)	(288.1)	(305.9)	(68.6)
Corporate operating expenses paid (inclusive of goods and services tax)		(9.6)	(12.8)	(8.3)	(10.7)
Corporate income taxes paid		(0.1)	(0.2)	(0.1)	-
Corporate indirect taxes received / (paid)		2.5	(12.2)	1.9	(2.9)
Corporate other income received		0.2	1.7	2.9	3.3
Net cash flows from operating activities	21	869.8	857.4	859.7	418.2
Cash flows from investing activities					
Corporate transaction costs paid		(8.4)	(30.4)	(7.8)	(7.5)
Payments for purchase of short term financial assets		(15.4)	-	(15.4)	-
Payments for purchase of subsidiaries		-	(0.1)	-	-
Cash acquired on acquisition of subsidiaries		-	-	-	339.5
Proceeds from sale of subsidiaries, net of cash disposed		-	(0.7)	-	-
Proceeds from sale of investments		-	800.7	-	-
Payments for purchase of fixed assets		(210.6)	(171.7)	(210.6)	(58.5)
Proceeds from disposal of fixed assets		0.3	-	0.3	-
Net cash flows from investing activities		(234.1)	597.8	(233.5)	273.5
Cash flows from financing activities					
Airport borrowing costs paid		(324.2)	(344.3)	(324.2)	(68.1)
Corporate borrowing costs paid		(2.2)	-	(186.9)	(188.1)
Repayment of borrowings		(1,725.6)	(298.0)	(1,782.0)	-
Proceeds received from borrowings		1,287.4	1,112.4	1,287.4	698.9
Net payments for settlement of derivatives		(102.5)	(74.1)	(102.5)	(28.4)
Distributions paid to SYD security holders		(390.8)	(390.8)	-	-
Distributions and dividends paid to non-controlling interest		(68.4)	(95.3)	(98.5)	(135.8)
Scheme consideration paid		-	(1,489.0)	-	-
Net cash flows from financing activities		(1,326.3)	(1,579.1)	(1,206.7)	278.5
Net decrease in cash and cash equivalents held		(690.6)	(123.9)	(580.5)	970.2
Cash and cash equivalents at beginning of the year		1,124.3	1,248.4	1,002.3	32.1
Exchange rate movements on cash denominated in foreign currency		-	(0.2)	-	-
Cash and cash equivalents at end of the year	6	433.7	1,124.3	421.8	1,002.3

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

Financial Report
for year ended 31 December 2012

Summary of Significant Accounting Policies

1. Reporting entity

The units of Sydney Airport Trust 1 (SAT1) and Sydney Airport Trust 2 (SAT2) are combined, issued and traded as stapled securities in ASX-listed Sydney Airport. The units of SAT1 and SAT2 cannot be traded separately.

As permitted by Australian Securities & Investments Commission (ASIC) Class order 06/441, this financial report consists of the consolidated financial statements of SAT1 and its controlled entities (collectively referred to as the Group), and the consolidated financial statements of SAT2 and its controlled entities (collectively referred to as the SAT2 Group).

SAT1 Group and SAT2 Group are for-profit entities for the purposes of preparing the financial statements.

1.1. Basis of preparation

1.1.1. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors of Sydney Airport Holdings Limited (the Responsible Entity) on 26 February 2013. The Responsible Entity has the power to amend and reissue the financial report.

1.1.2. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

1.1.3. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of SAT1 and SAT2.

The Groups are of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars unless otherwise stated.

1.1.4 Group net current liability position

The Group is in a net current liability position of $198.0 million at 31 December 2012. This is due to $216.5 million of MTNs classified as a current interest bearing liability (previously non-current interest bearing liability), which is fully covered by undrawn committed bank debt facilities.

1.1.5. SAT2 Group net current liability position

The SAT2 Group is in a net current liability position of $218.1 million at 31 December 2012. This is due to the recognition of interest payable on Redeemable Preference Shares (RPS) issued to SAT1, the deemed parent entity for accounting purposes. Under the terms of the RPS, SAT1 may defer payment of interest on the RPS at no cost to it other than that interest will accrue at a contractual rate of 15.0% or 11.0% per annum on the unpaid amount.

1.1.6 Net tangible asset backing per security

Net tangible assets (NTA) exclude non-controlling interests and are solely attributable to security holders. The NTA backing per security was -$2.40 at 31 December 2012 (2011: -$2.28). This represents a decrease of $0.12 or 5.2%.

1.2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements of the Groups, and have been applied consistently by Group entities.

Certain comparative amounts in the Consolidated Statements of Comprehensive Income and associated notes have been reclassified to conform to the current year's presentation. Since the amounts are reclassifications within revenue from continuing operations and other expenses in operating expenses from continuing operations, the reclassifications did not have any effect on the Consolidated Statements of Comprehensive Income.

1.3. Principles of consolidation

1.3.1. Business combinations

AASB 3: *Business Combinations* requires one of the stapled structures to be identified as the acquirer and therefore the parent entity, for the purpose of consolidated financial reports. In accordance with this requirement SAT1 has been identified as the parent of the consolidated group comprising SAT1 and its controlled entities and SAT2 and its controlled entities.

The consolidated financial statements of the Group should be read in conjunction with the separate consolidated financial statements of the SAT2 Group, presented in this report, for year ended 31 December 2012.

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for year ended 31 December 2012

Summary of Significant Accounting Policies (continued)

1.3.2. Controlled entities

The consolidated financial statements of the Group incorporate the assets and liabilities of the entities controlled by SAT1 at 31 December 2012 and during the year, including those deemed to be controlled by SAT1 by identifying it as the parent of the Group, and the results of those controlled entities for the year then ended.

The consolidated financial statements of the SAT2 Group incorporate the assets and liabilities of the entities controlled by SAT2 at 31 December 2012 and during the year then ended.

Profit or loss and other comprehensive income components are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Non-controlling interests are those interests in partly owned subsidiaries which are not held directly or indirectly by SAT1 or SAT2.

Where control of an entity is obtained during a financial period, its results are included in the Consolidated Statements of Comprehensive Income from the date on which control commences. Where control of an entity ceases during a financial period, its results are included for that part of the period during which control existed.

1.3.3. Acquisition of business combinations

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Business combinations that arise in accordance with AASB 3: *Business Combinations* require that cost be measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Where listed equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange.

Transaction costs that the Groups incur in connection with business combinations are expensed as incurred except for transaction costs arising on the issue of equity instruments which are recognised directly in equity.

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the entity's share of the identifiable net assets acquired is recorded as goodwill (refer Note 10). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Statements of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired. Any subsequent changes in beneficial interest in subsidiaries are accounted for using the economic entity approach.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1.3.4. Acquisitions of entities under common control

Business combinations arising from transfers of interest in entities that are under the control of the unitholders that control the Group are deemed to be common control transactions and are not subject to AASB 3: *Business Combinations*. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling unitholder's consolidated financial statements. Any difference between the carrying value of assets and liabilities acquired and consideration paid for those assets and liabilities on the date of transfer is held in a common control reserve.

1.3.5. Loss of control

Upon the loss of control, the Groups derecognise the assets and liabilities of the subsidiary, any non-controlling interests and any other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date control was lost.

1.3.6. Transactions eliminated on consolidation

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

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Summary of Significant Accounting Policies (continued)

1.4. Foreign currency

1.4.1. Functional and presentation currency

Items included in the financial reports of each of the Groups' entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of SAT1 and SAT2.

1.4.2. Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

1.4.3. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to presentation currency at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

Upon disposal / wind up of a foreign operation, foreign currency translation reserve is recycled to net profit in the Consolidated Statements of Comprehensive Income.

1.5. Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions, held for the purpose of meeting short term cash commitments. These are considered to be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and have a remaining term to maturity of three months or less at balance date.

Deposits held at call with a remaining term to maturity of greater than three months at balance date are classified separately as other financial assets.

1.6. Loans and receivables

Loans are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, loans are measured at amortised cost using the effective interest method, less any impairment losses.

Receivables are non derivative financial assets initially recorded at their net fair values and are generally received within 30 days of becoming due and receivable. A provision is raised for any doubtful debts based on an ongoing review of all outstanding amounts. Bad debts are written off in the period in which they are identified.

1.7. Investment in financial assets

1.7.1. Investment in airport assets

The Group has designated its non-controlled investments in airport assets as financial assets at fair value through profit or loss, determined in accordance with a valuation framework adopted by the directors of the Responsible Entity. Investments in financial assets are revalued at each reporting date, or when there is a change in the nature of the investment to their fair values in accordance with AASB 139: *Financial Instruments: Recognition and Measurement*. Changes in the fair values of investments in financial assets have been recognised in the Consolidated Statements of Comprehensive Income for the year.

Discounted cash flow analysis is the methodology applied in the valuation framework as it is the generally accepted methodology for valuing airports and the basis upon which market participants have derived valuations for 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 airport comprises the risk free interest rate appropriate to the country in which the airport is located and a risk premium, reflecting the uncertainty associated with the cash flows. The risk premium represents a critical accounting estimate, refer to Note 10.1.

The valuation derived from the discounted cash flow analysis is benchmarked to other sources such as recent market transactions to ensure that the discounted cash flow valuation is providing a reliable measure. The directors have adopted a policy of commissioning an annual independent valuation for Sydney Airport.

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for year ended 31 December 2012

Summary of Significant Accounting Policies (continued)

Interest, dividends and other distributions received from investments brought to account at fair value are credited against the investments when received.

1.8. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use and;
- capitalised borrowing costs.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Groups. Ongoing repairs and maintenance is expensed as incurred.

1.8.1. Depreciation

Items of property, plant and equipment are depreciated on a straight line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Groups will obtain ownership by the end of the lease term.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

Asset category	Useful lives
Freehold land	99 years
Buildings	5-60 years
Runways, taxis and aprons	6-99 years
Other infrastructure	9-40 years
Operational plant and equipment	14-20 years
Other plant and equipment	3-60 years

1.9. Intangible assets

1.9.1. Goodwill

Goodwill that arises upon acquisition of a business combination is included in intangible assets. For the measurement of goodwill at initial recognition, refer Note 1.3.3.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units represents the Groups' investment in the airport to which the goodwill relates.

1.9.2. Concession and customer contracts

Concession and customer contracts have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

1.9.3. Airport operator licence

The airport operator licence at Sydney Airport represents the right to use and operate Sydney Airport. It has a finite useful life and is measured at cost less accumulated amortisation and accumulated impairment losses.

1.9.4. Leasehold land

Leasehold land at Sydney Airport represents the right to use the land at Sydney Airport. It has a finite useful life and is measured at cost less accumulated amortisation and accumulated impairment losses.

1.9.5. Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date they are available for use.

The inception date and estimated useful lives are as follows:

Asset category	Inception date	Useful lives
Concession and customer contracts	2007	7-16 years
Airport operator licence	2002	99 years
Leasehold land	2002	99 years

1.10. Impairment of assets

1.10.1. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that could be estimated reliably.

The Groups considers evidence of impairment for financial assets measured at amortised cost (such as loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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Summary of Significant Accounting Policies (continued)

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.10.2. Non-financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment (refer to Note 10.1). An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. 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 in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not 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.

1.11. Distributions and dividends

Provision is made for the amount of any distribution payable by the Groups on or before financial year end but not distributed at balance date.

1.12. Payables

Payables are non derivative financial liabilities recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

1.13. Interest bearing liabilities

The Groups initially recognise interest bearing liabilities on the date that they become a party to the contractual provisions of the instrument. The Group derecognises an interest bearing liability when its contractual obligations are discharged, cancelled or expired.

Interest bearing liabilities are non derivative financial liabilities recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Any difference between proceeds (net of transaction costs) and redemption amount is recognised in finance costs in the Consolidated Statements of Comprehensive Income over the borrowing period using the effective interest method.

1.14. Deferred income

Deferred income recognised under liabilities comprises payments received relating to goods and services to be provided in subsequent financial years.

1.15. Derivative financial instruments

The Groups hold derivative financial instruments to hedge interest rate and foreign currency risk exposures.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and this combined instrument is not measured at fair value through profit or loss.

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Summary of Significant Accounting Policies (continued)

On the initial designation of the derivative as the hedging instrument, the Groups formally document the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedged risk, together with the methods used to assess the effectiveness of the hedging relationship. The Groups make an assessment at inception of the hedge relationship and on an ongoing basis, whether the hedging instrument is expected to be highly effective in offsetting changes in fair value or cash flows of the hedged items attributable to hedged risk, and whether the actual results of each hedge are in a range of 80 to 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

1.15.1. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity. Any ineffective portion of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

1.15.2. Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

1.16. Employee provisions

1.16.1. Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonuses if the Groups have a present legal or constructive obligation to pay this amount as a result of past service by the employee, and the obligation can be estimated reliably.

Long-term employee benefit obligations which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Groups in respect of services provided by employees up to reporting date.

1.16.2. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

1.16.3. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense or income on the net defined benefit liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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Summary of Significant Accounting Policies (continued)

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payment made directly by the Group in connection with the settlement.

1.17. Revenue and other income recognition

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Groups. Revenue in the course of ordinary activities is measured at the fair value of the consideration received or receivable.

1.17.1. Aeronautical revenue

Aeronautical revenue comprises passenger, take-off, parking charges and exclusive first right use of gates. Revenue is recognised when the related services are provided.

1.17.2. Aeronautical security recovery

Aeronautical security recovery comprises passenger and checked bag screening, counter terrorist first response and other additional security measures. Revenue is recognised when the related services are provided.

1.17.3. Retail revenue

Retail revenue comprises rental from tenants whose sale activities include duty free, food and beverage, financial and advertising services. Revenue is recognised on a straight-line basis over the lease term. Contingent revenue is recognised in the period in which it is earned.

1.17.4. Property and car rental revenue

Property revenue comprises rental for airport property including terminals, buildings and other leased areas. Revenue is recognised on a straight-line basis over the lease term. Contingent revenue is recognised in the period in which it is earned.

Car rental revenue comprises concession charges from car rental companies. Revenue is recognised in the period in which it is earned.

1.17.5. Car parking and ground transport revenue

Car parking and ground transport revenue comprises time-based charges from the operation of car parking services. Revenue is recognised in the period in which it is earned.

1.17.6. Interest income

Interest income on cash and loan balances are brought to account on an accruals basis.

1.17.7. Revaluation income

Investment income from investments recognised at fair value through profit or loss constitutes changes in the fair value of investments in unlisted securities. Income relating to these investments is brought to account as described in Note 1.7.1.

1.18. Lease costs

1.18.1. Finance leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

1.18.2. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1.19. Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

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Summary of Significant Accounting Policies (continued)

Finance costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

1.20. Income tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the year, using tax rates enacted or substantively enacted based on the national income tax rate for each applicable jurisdiction at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intended to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.20.1. SAT1 and Southern Cross Australian Airports Trust (SCAAT)

Income tax has not been brought to account in respect of SAT1 and SCAAT (subsidiary of SAT1 and SAT2 Groups), as pursuant to Australian income tax law, the Trusts are not liable for income tax provided that its taxable income (including any assessable realised capital gains) is fully distributed to unitholders each relevant tax year.

1.20.2. SAT2

SAT2 and its wholly owned Australian entities have formed a tax-consolidated group (SAT2 TCG) under Australian income tax law. The head entity, SAT2, and entities in the SAT2 TCG continue to account for their own current and deferred tax accounts. Tax expense and deferred tax assets and liabilities arising from temporary differences of members of the SAT2 TCG are recognised in their separate financial statements using the 'standalone tax payer' approach.

Under the tax sharing agreement (SAT2 TSA) between SAT2 TCG entities, members receive no compensation for tax benefits or deferred tax assets, and when members are in a tax liability position they account for SAT2's assumption of this liability by way of issuing ordinary equity to SAT2 (via interposed entities where applicable).

1.20.3. Southern Cross Airports Corporation Holdings (SCACH)

SCACH (subsidiary of SAT1 and SAT2 Groups), and its wholly owned Australian entities have formed a tax-consolidated group (SCACH TCG) under Australian income tax law. The head entity, SCACH, and entities in the SCACH TCG continue to account for their own current and deferred tax accounts. Tax expense, deferred tax assets and liabilities arising from temporary differences of members of the SCACH TCG are recognised in their separate financial statements using the 'standalone tax payer' approach.

Under the tax sharing agreement (SCACH TSA) between SCACH TCG entities, amounts are recognised as payable to or receivable by each member of the SCACH TCG in relation to the tax contribution amounts paid or payable between SCACH and members of the SCACH TCG

1.21. Goods and Services Tax

Revenues, expenses and assets are recognised net of Goods and Services Tax (GST), unless the GST incurred is not recoverable from the relevant taxation authority. In this case it is recognised as part of the expense or cost of acquisition of the asset.

Receivables and payables are stated inclusive of the applicable amount of GST. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included with other receivables or payables in the Consolidated Balance Sheets.

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

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Summary of Significant Accounting Policies (continued)

1.22. Segment reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker of both SAT1 (representing the Group) and SAT2 for accounting purposes has been identified as the Chief Executive Officer (CEO) of Sydney Airport Holdings Limited.

Operating segment revenues and expenses from external customers that are reported to the CEO include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis.

1.23. Critical accounting estimates and judgments

The preparation of the financial report in accordance with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires the directors to exercise judgment in the process of applying the accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including reasonable expectations of future events. The directors believe the estimates used in preparation of the financial report are reasonable. Actual results in the future may differ from those reported.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in Note 1.24.

1.24. Investments in financial assets at fair value through profit or loss

Interests in Airport investments are brought to account at fair value determined in accordance with the discounted cash flow analysis methodology adopted by the directors. 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 key assumptions used in calculating the fair value are therefore the future cash flows that are expected to be generated by an asset, the future financing costs of the asset and the appropriate discount rate.

Further information on the valuation of investments in financial assets can be found in Note 1.7, and information on the sensitivity of the valuations to the key assumptions is included in Note 26.8.

1.25. Change in accounting policy

The Group early adopted AASB 119: *Employee Benefits* (2011) with a date of initial application of 1 January 2012 and changed its basis for determining the income or expense related to defined benefit plans.

As a result of the change, the Group now determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period. It takes into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. The net interest on the net defined benefit liability comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.

1.26. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing the financial reports. None of these are expected to have a significant effect on the financial reports of the Groups, except for IFRS 9: *Financial Instruments*, which becomes mandatory for the Groups 2015 financial reports and could change the classification and measurement of financial assets. The Groups do not plan to adopt this standard early and the extent of the impact has not been determined.

1.27. Group formation

SAT1 and SAT2 were established in Australia on 13 July 2001 and 13 February 2002 respectively. The Responsible Entity of each of the Trusts entered into the Stapling Deed on 27 February 2002.

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2. Profit or Loss for the Year

The profit / (loss) from continuing operations before income tax includes the following specific items of revenue, other income and expense:

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Revenue from continuing operations				
Revenue				
Aeronautical revenue	433.2	402.5	433.2	105.2
Aeronautical security recovery	77.4	76.2	77.4	19.4
Retail revenue	235.1	223.3	235.1	58.2
Property and car rental revenue	169.0	156.0	169.0	55.4
Car parking and ground transport revenue	119.3	109.5	119.3	22.1
Interest income from other corporations	17.4	68.7	15.6	11.3
Interest income from related parties	-	-	127.2	70.9
Other income	3.9	5.8	6.6	(4.8)
Total revenue	1,055.3	1,042.0	1,183.4	337.7
Revaluation gains from investments				
Revaluation of Sydney Airport	-	-	-	314.3
Revaluation of other investments	-	0.2	-	-
Total revaluation gains from investments	-	0.2	-	314.3
Other income				
Foreign exchange gains / (losses)	0.9	2.4	0.9	(0.1)
Foreign exchange losses on recycling of foreign currency translation reserve	(2.5)	(16.0)	(2.5)	-
Fair value (losses) / gains on derivative contracts	(5.2)	(2.7)	(5.2)	2.7
Total other income	(6.8)	(16.3)	(6.8)	2.6
Total revenue from continuing operations	1,048.5	1,025.9	1,176.6	654.6
Operating expenses from continuing operations				
Finance costs				
Interest expense – Sydney Airport	456.9	490.0	476.0	134.7
Interest expense – RPS	-	-	470.9	293.6
Interest expense – other	-	-	17.1	5.7
Loan facility fees – SAT1	2.7	-	-	-
Total finance costs	459.6	490.0	964.0	434.0
Other expenses				
Amortisation and depreciation	300.1	305.8	300.1	77.6
Channel related initiatives	3.7	4.3	3.7	0.3
Employee benefits expense	42.4	61.5	42.4	25.5
Services and utilities	46.6	45.2	46.6	7.4
Property and maintenance	18.1	17.7	18.1	4.5
Recoverable aeronautical security expenses	66.2	62.7	66.2	16.0
Compliance and listing fees	1.4	1.5	0.9	0.6
Investment transaction expenses	2.2	31.0	1.8	11.8
Legal, audit and professional fees	2.3	2.6	2.2	0.9
Other operational costs	15.0	18.2	14.9	13.6
Total other expenses	498.0	550.5	496.9	158.2
Total operating expenses from continuing operations	957.6	1,040.5	1,460.9	592.2

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3. Income Tax Expense

Income tax benefit / (expense) differs from the amount calculated on profit / (loss) from continuing operations. The differences are reconciled as follows:

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
(a) Profit / (loss) from continuing operations before income tax benefit		90.9	(14.6)	(284.3)	62.4
Income tax expense / (benefit) calculated @ 30%		27.3	(4.4)	(85.3)	18.7
Tax effect of permanent differences:					
— Non-deductible expenditure		10.9	2.5	10.9	2.3
— Non-assessable income		(0.2)	(3.7)	(0.2)	(3.7)
— Assessable income		0.3	1.9	0.3	-
— Over provision in previous year		-	(0.1)	-	-
— Controlled foreign company attributable income		-	5.9	-	5.9
— Deferred expenses		(9.3)	-	(9.3)	-
Prior year tax losses recouped during the year		(16.6)	(12.9)	(16.6)	(12.9)
Tax effect of operating results of Australian trusts		(79.4)	(84.4)	33.2	(58.4)
Tax effect of operating results of foreign operations		(0.2)	(1.5)	(0.2)	-
Income tax benefit		(67.2)	(96.7)	(67.2)	(48.1)
(b) Income tax benefit					
Income tax benefit comprises:					
— Over provision in previous year		-	(0.1)	-	-
— Current taxation provision		-	(1.6)	-	(1.7)
— Deferred income tax benefit		(67.2)	(95.0)	(67.2)	(46.4)
		(67.2)	(96.7)	(67.2)	(48.1)
Income tax benefit is attributable to:					
— Profit from continuing operations		(67.2)	(96.7)	(67.2)	(48.1)
Deferred income tax benefit included in income tax expense comprises:					
— (Decrease) / increase in deferred tax liabilities	15	(67.2)	(95.1)	(67.2)	1,040.4
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but debited directly to equity:					
— Net deferred tax debited directly to equity	15	(18.2)	(49.3)	(18.2)	(8.5)
(d) Tax losses					
Unused tax losses for which no deferred tax asset has been recognised		11.9	65.6	11.9	65.6
Potential tax benefit @ 30%		3.6	19.7	3.6	19.7

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4. Remuneration of Auditors

	Group 31 Dec 2012 $	Group 31 Dec 2011 $	SAT2 31 Dec 2012 $	SAT2 31 Dec 2011 $
Amounts paid or payable to auditors (KPMG) for:				
Audit and review of financial statements	553,900	568,500	498,159	313,000
Other services				
— Trust compliance services	9,300	16,500	9,300	11,000
— Other assurance services	480,578	119,717	479,478	115,098
Total amounts paid or payable to auditors	1,043,778	704,717	986,937	439,098

Other assurance services includes amounts paid to KPMG for work relating to the refinancing of Sydney Airport senior debt and the provision of accounting assistance.

5. Distributions and Scheme Consideration Paid and Proposed

5.1. Distributions paid and proposed

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Distributions were paid / payable as follows:				
Final distribution proposed and subsequently paid for year ended 31 December (100% unfranked)	186.1	186.1	-	-
Interim distribution paid for period ended 30 June (100% unfranked)	204.7	204.7	-	-
	390.8	390.8	-	-

	Cents per stapled security	Cents per stapled security	Cents per unit	Cents per unit
Distributions were paid / payable as follows:				
Final distribution proposed and subsequently paid for year ended 31 December (100% unfranked)	10.0	10.0	-	-
Interim distribution paid for period ended 30 June (100% unfranked)	11.0	11.0	-	-
	21.0	21.0	-	-

There are $Nil imputation credits (2011: $Nil) available to pay franked distributions.

5.2. Scheme consideration paid

On 28 September 2011 the Group announced that as a result of its strategy having changed to focus solely on its ownership of Sydney Airport, it would seek investor approval to restructure and simplify (the Simplification) the Group by removing MAp Airports International Limited (MAIL) from the stapled security structure by way of a scheme of arrangement (the Scheme). As a result of the successful Scheme implementation, 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 ($1,489.0 million consideration paid to investors) plus issuance of SAT2 units.

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6. Cash and Cash Equivalents

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Cash at bank	110.5	803.8	107.5	774.2
Deposits	323.2	320.5	314.3	228.1
	433.7	1,124.3	421.8	1,002.3

The maturity profile of cash and cash equivalents is as follows:

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Deposits original term to maturity				
Less than three months	270.3	105.4	270.3	105.4
Three to six months	48.0	215.1	39.1	122.7
Greater than six months	4.9	-	4.9	-
	323.2	320.5	314.3	228.1
Cash on hand	110.5	803.8	107.5	774.2
Total cash and cash equivalents	433.7	1,124.3	421.8	1,002.3

6.1. Deposits

Outstanding negotiable certificates of deposit, commercial paper and term deposits held by Group at year end received interest at an average rate of 4.40% (2011: 5.58%) per annum.

Outstanding negotiable certificates of deposit, commercial paper and term deposits held by SAT2 Group at year end received interest at an average rate of 4.41% (2011: 5.64%) per annum.

$15.3 million of outstanding term deposits with a remaining term to maturity of over three months at year end were transferred to other financial assets at 31 December 2012 (2011: $Nil).

6.2. Cash not available for use

Included in the Group's consolidated cash balance is $106.5 million (2011: $102.5 million) held by Southern Cross Airports Corporation Pty Limited (SCAC) in a separate bank account which is reserved for debt servicing and can only be used for the repayment of debt. An additional $8.3 million is held as a maintenance reserve by SCAC (2011: $Nil).

Included in the Group's consolidated cash balance at 31 December 2011 was $26.8 million held by SCACH as a reserve account.

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7. Receivables

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current					
Interest receivable		1.0	1.4	0.9	0.2
GST receivable		0.4	1.5	0.3	1.2
Withholding tax receivable		2.8	2.8	2.8	2.8
Receivables from related parties	22	-	-	199.7	72.5
Accrued revenue		41.8	41.4	41.8	41.4
Land rich stamp duty receivable [1]		-	401.5	-	401.5
Other receivables		3.6	2.8	3.6	2.8
		49.6	451.4	249.1	522.4
Trade receivables		54.1	55.4	54.1	55.4
Provision for doubtful receivables		-	(0.2)	-	(0.2)
Total current receivables		103.7	506.6	303.2	577.6
Non-current					
Lease receivable		25.9	28.2	25.9	28.2
Accrued revenue		13.4	13.0	13.4	13.0
Receivables from related parties	22	-	-	2,239.5	2,239.5
Other		-	-	-	0.1
Total non-current receivalbes		39.3	41.2	2,278.8	2,280.8

The fair values of receivables approximate their carrying values. The Groups' maximum credit exposure for receivables is the carrying value.

Trade receivables are non-interest bearing and are generally on thirty day terms.

Discussion of the Groups' policies concerning the management of credit risk can found in Note 26.5.

1 At 31 December 2011, the receivable from the Federal Government and corresponding payable to the NSW Office of State Revenue (OSR) related to an indemnity on stamp duty in relation to the privatisation of Sydney Airport assessed against Southern Cross Airports Corporation Pty Limited (SCAC). The Federal Government brought proceedings in the NSW Supreme Court in SCAC's name challenging the validity of the assessment. The Group has been advised that the proceedings were settled between the Federal Government and the OSR in June 2012. Neither SCAC nor any of its related bodies corporate contributed to the settlement payment.

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8. Investments in Financial Assets

The table below summarises the movement in the Groups' airport investments during year ended 31 December 2012:

Group & SAT2 Group 2012	Bristol Airport (8.1) $m	Total $m
Balance at 1 January 2012	5.1	5.1
Transfer to other financial assets	(5.1)	(5.1)
Balance at 31 December 2012	-	-

Group 2011	Bristol Airport (8.1) $m	Brussels Airport (8.2) $m	Copenhagen Airports (8.3) $m	Total $m
Balance at 1 January 2011	5.3	1,014.0	924.6	1,943.9
Acquisitions	-	-	0.4	0.4
Income received from investments	-	(10.0)	(8.9)	(18.9)
Revaluation decrement prior to disposal	-	(214.6)	(196.2)	(410.8)
Revaluation (decrements) / increments attributable to foreign exchange movements to disposal	(0.2)	35.6	28.3	63.7
Disposals	-	(825.0)	(752.2)	(1,577.2)
Revaluation increments attributable to foreign exchange movements recognised directly in equity to 31 December 2011	-	-	4.0	4.0
Balance at 31 December 2011	5.1	-	-	5.1

SAT2 Group 2011	Bristol Airport (8.1) $m	Sydney Airport (8.4) $m	MAp Airports (Europe) Limited (8.5) $m	Total $m
Balance at 1 January 2011	-	5,571.0	0.4	5,571.4
Acquisitions through business combinations	5.1	1,954.0	-	1,959.1
Income received from investments	-	(218.0)	-	(218.0)
Revaluation increment to disposals through business combinations	-	532.3	-	532.3
Disposals through business combinations	-	(7,839.3)	(0.4)	(7,839.7)
Balance at 31 December 2011	5.1	-	-	5.1

Discussion on the Groups' fair value estimation methodologies are discussed in Note 1.7.1.

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8. Investments in Financial Assets (continued)

8.1. Bristol Airport

The Groups' investment in Bristol Airport is held by MAp Airports International Pty Limited (MAIL) (subsidiary of SAT1 Group and SAT2 Group) through its investment in Bristol Airport (Bermuda) Limited (BABL) which owns 50.0% of Bristol Airport. MAILs 1.0% (2011: 1.0%) interest in BABL is subject to a put and a call option at an exercise price of GBP 3.6 million. The put option is exercisable by MAIL at any time on or before 19 April 2013. The call option is exercisable by Ontario Teachers' Pension Plan Board (OTPP) at any time during the six months commencing from 19 April 2013 if MAILs put option is not exercised.

The Groups' investment in Bristol Airport of $5.1 million (2011: $5.1 million) was transferred to other financial assets at 31 December 2012.

8.2. Brussels Airport

During year ended 31 December 2011, SAT1 Group sold its entire interest in Brussels Airport through the Asset Swap Proposal (ASP) with OTPP announced on 19 July 2011, in exchange for OTPP's 9.72% investment in SCAAT and $405.6 million cash consideration.

8.3. Copenhagen Airports

During year ended 31 December 2011, SAT1 Group sold its entire interest in Copenhagen Airports through the ASP with OTPP announced on 19 July 2011 in exchange for OTPP's direct 4.95% investment in Sydney Airport and $395.0 million cash consideration.

8.4. Sydney Airport

Following the ASP on 7 October 2011, OTPP sold its direct 4.96% interest in Sydney Airport (through SCACH) to SAT2 subsidiaries. From this date, SAT2 was deemed to control and therefore consolidated SCACH.

8.5. MAp Airports (Europe) Limited (MAEL)

Following the implementation of the Scheme on 19 December 2011, SAT2 was deemed to control and therefore consolidated the MAIL Group, including its MAEL subsidiary.

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9. Property, Plant and Equipment

Group	Balance 1 Jan 2012 $m	Additions $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Cost							
Freehold land	11.4	-	-	-	-	-	11.4
Buildings	1,505.6	-	67.5	-	-	-	1,573.1
Runways, taxis and aprons	740.4	-	48.8	-	-	-	789.2
Other infrastructure	710.8	-	63.6	-	-	-	774.4
Operational plant and equipment	336.4	-	9.3	-	-	-	345.7
Other plant and equipment	170.6	0.2	22.2	(0.4)	-	-	192.6
Capital works in progress	86.5	219.4	(211.4)	-	(1.0)	-	93.5
Total cost	3,561.7	219.6	-	(0.4)	(1.0)	-	3,779.9

	Balance 1 Jan 2012 $m	Depreciation $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Accumulated depreciation							
Freehold land	(0.6)	(0.1)	-	-	-	-	(0.7)
Buildings	(421.1)	(89.3)	-	-	-	-	(510.4)
Runways, taxis and aprons	(157.0)	(24.8)	-	-	-	-	(181.8)
Other infrastructure	(178.9)	(30.1)	-	-	-	-	(209.0)
Operational plant and equipment	(187.1)	(26.1)	-	-	-	-	(213.2)
Other plant and equipment	(128.5)	(26.8)	-	-	-	-	(155.3)
Total accumulated depreciation	(1,073.2)	(197.2)	-	-	-	-	(1,270.4)
Total carrying amount	2,488.5						2,509.5

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9. Property, Plant and Equipment (continued)

Group	Balance 1 Jan 2011 $m	Additions $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m
Cost							
Freehold land	11.4	-	-	-	-	-	11.4
Buildings	1,437.0	-	68.6	-	-	-	1,505.6
Runways, taxis and aprons	712.5	-	27.9	-	-	-	740.4
Other infrastructure	675.7	-	35.1	-	-	-	710.8
Operational plant and equipment	331.5	-	4.9	-	-	-	336.4
Other plant and equipment	148.1	-	22.6	(0.1)	-	-	170.6
Capital works in progress	63.0	182.6	(159.0)	-	(0.1)	-	86.5
Total cost	3,379.2	182.6	0.1	(0.1)	(0.1)	-	3,561.7

	Balance 1 Jan 2011 $m	Depreciation $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m
Accumulated depreciation							
Freehold land	(0.5)	(0.1)	-	-	-	-	(0.6)
Buildings	(331.9)	(89.2)	-	-	-	-	(421.1)
Runways, taxis and aprons	(130.8)	(26.2)	-	-	-	-	(157.0)
Other infrastructure	(148.9)	(30.0)	-	-	-	-	(178.9)
Operational plant and equipment	(158.7)	(28.4)	-	-	-	-	(187.1)
Other plant and equipment	(100.0)	(28.5)	-	-	-	-	(128.5)
Total accumulated depreciation	(870.8)	(202.4)	-	-	-	-	(1,073.2)
Total carrying amount	2,508.4						2,488.5

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9. Property, Plant and Equipment (continued)

SAT2 Group	Balance 1 Jan 2012 $m	Additions $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Cost							
Freehold land	11.4	-	-	-	-	-	11.4
Buildings	1,505.6	-	67.5	-	-	-	1,573.1
Runways, taxis and aprons	740.4	-	48.8	-	-	-	789.2
Other infrastructure	710.8	-	63.6	-	-	-	774.4
Operational plant and equipment	336.4	-	9.3	-	-	-	345.7
Other plant and equipment	170.6	0.2	22.2	(0.4)	-	-	192.6
Capital works in progress	86.5	219.4	(211.4)	-	(1.0)	-	93.5
Total cost	3,561.7	219.6	-	(0.4)	(1.0)	-	3,779.9

	Balance 1 Jan 2012 $m	Depreciation $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Accumulated depreciation							
Freehold land	(0.6)	(0.1)	-	-	-	-	(0.7)
Buildings	(421.1)	(89.3)	-	-	-	-	(510.4)
Runways, taxis and aprons	(157.0)	(24.8)	-	-	-	-	(181.8)
Other infrastructure	(178.9)	(30.1)	-	-	-	-	(209.0)
Operational plant and equipment	(187.1)	(26.1)	-	-	-	-	(213.2)
Other plant and equipment	(128.5)	(26.8)	-	-	-	-	(155.3)
Total accumulated depreciation	(1,073.2)	(197.2)	-	-	-	-	(1,270.4)
Total carrying amount	2,488.5						2,509.5

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9. Property, Plant and Equipment (continued)

SAT2 Group	Balance 1 Jan 2011 $m	Additions $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m
Cost							
Freehold land	-	-	-	-	-	11.4	11.4
Buildings	-	-	-	22.6	-	1,483.0	1,505.6
Runways, taxis and aprons	-	-	-	0.6	-	739.8	740.4
Other infrastructure	-	-	-	16.5	-	694.3	710.8
Operational plant and equipment	-	-	-	2.5	-	333.9	336.4
Other plant and equipment	0.8	0.1	-	13.7	-	156.0	170.6
Capital works in progress	-	73.1	-	(55.9)	-	69.3	86.5
Total cost	0.8	73.2	-	-	-	3,487.7	3,561.7

	Balance 1 Jan 2011 $m	Depreciation $m	Transfers $m	Disposals $m	Adjustments $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m
Accumulated depreciation							
Freehold land	-	-	-	-	-	(0.6)	(0.6)
Buildings	-	(22.6)	-	-	-	(398.5)	(421.1)
Runways, taxis and aprons	-	(7.0)	-	-	-	(150.0)	(157.0)
Other infrastructure	-	(7.3)	-	-	-	(171.6)	(178.9)
Operational plant and equipment	-	(6.5)	-	-	-	(180.6)	(187.1)
Other plant and equipment	(0.1)	(8.3)	-	-	-	(120.1)	(128.5)
Total accumulated depreciation	(0.1)	(51.7)	-	-	-	(1,021.4)	(1,073.2)
Total carrying amount	0.7						2,488.5

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10. Intangible Assets

Group	Balance 1 Jan 2011 $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Cost					
Goodwill	669.7	-	669.7	-	669.7
Consession and customer contracts	169.8	-	169.8	-	169.8
Airport operator licence	5,607.8	-	5,607.8	-	5,607.8
Leasehold land	2,038.1	-	2,038.1	-	2,038.1
Total cost	8,485.4	-	8,485.4	-	8,485.4

	Balance 1 Jan 2011 $m	Amortisation $m	Balance 31 Dec 2011 $m	Amortisation $m	Balance 31 Dec 2012 $m
Accumulated amortisation					
Consession and customer contracts	(90.4)	(18.9)	(109.3)	(18.4)	(127.7)
Airport operator licence	(247.8)	(62.0)	(309.8)	(62.0)	(371.8)
Leasehold land	(90.1)	(22.5)	(112.6)	(22.5)	(135.1)
Total accumulated amortisation	(428.3)	(103.4)	(531.7)	(102.9)	(634.6)
Total carrying amount	8,057.1		7,953.7		7,850.8

SAT2 Group	Balance 1 Jan 2011 $m	Acquisitions through business combinations $m	Balance 31 Dec 2011 $m	Acquisitions through business combinations $m	Balance 31 Dec 2012 $m
Cost					
Goodwill	-	669.7	669.7	-	669.7
Consession and customer contracts	-	65.2	65.2	-	65.2
Airport operator licence	-	5,313.5	5,313.5	-	5,313.5
Leasehold land	-	1,931.2	1,931.2	-	1,931.2
Total cost	-	7,979.6	7,979.6	-	7,979.6

	Balance 1 Jan 2011 $m	Amortisation $m	Balance 31 Dec 2011 $m	Amortisation $m	Balance 31 Dec 2012 $m
Accumulated amortisation					
Consession and customer contracts	-	(4.8)	(4.8)	(18.4)	(23.2)
Airport operator licence	-	(15.5)	(15.5)	(62.0)	(77.5)
Leasehold land	-	(5.6)	(5.6)	(22.5)	(28.1)
Total accumulated amortisation	-	(25.9)	(25.9)	(102.9)	(128.8)
Total carrying amount	-	7,953.7	7,953.7	(102.9)	7,850.8

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10. Intangible Assets (continued)

10.1. Impairment test for goodwill

	31 Dec 2012 $m	31 Dec 2011 $m
Sydney Airport	669.7	669.7
Total goodwill	669.7	669.7

Goodwill is allocated to the Groups' cash-generating unit (CGU) identified as being Sydney Airport. The recoverable amount of the CGU is determined by a "fair value less cost to sell" calculation using a discounted cash flow analysis.

Discounted cash flow analysis is the methodology adopted to value the Group's investment in Sydney Airport. The valuation derived from this discounted cash flow analysis has been benchmarked to other sources such as recent market transactions to ensure the valuation is providing a reliable measure.

The cash flows used in the discounted cash flow analysis were projected based on a Financial Model covering a twenty-year period. Cash flows for the first five years of this twenty year period were based on a detailed business planning process referencing historical performance and the Group's views on key drivers. Long term cash flows to equity after year five were extrapolated consistent with an average growth rate that is ahead of forecast Australian Gross Domestic Product (GDP). Terminal value was calculated as a multiple of earnings before interest, taxation, depreciation and amortisation in the twentieth year. Cash flows were discounted using a post-tax discount rate calculated based on the Capital Asset Pricing Model (CAPM). In estimating individual components of the CAPM; the Group has taken into account historical and related market data. An increase of approximately twenty percentage points in the risk premium (a component of the discount rate) would not result in an impairment of goodwill.

Other key assumptions used in the fair value less costs to sell calculation includes international and domestic passenger numbers and inflation. Total passenger numbers were 36.9 million for year ended 31 December 2012 (2011: 35.6 million) and experienced growth of 3.6% during 2012 (2011: 0.2%). Average long term inflation rates were assumed to be towards the mid point of the Reserve Bank of Australia (RBA) target range.

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11. Subsidiaries

11.1. The Group's significant subsidiaries

Name of entity	Note	Country of incorporation / establishment	Beneficial ownership interest 31 Dec 2012	Beneficial ownership interest 31 Dec 2011
MAp Airports (Sydney Holdings) Pty Limited (MASH)		Australia	100.0%	100.0%
MAp Airports (Sydney Holdings) Two Pty Limited (MASHT)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 1 Pty Limited (MASKS1)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 2 Pty Limited (MASKS2)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 3 Pty Limited (MASKS3)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 4 Pty Limited (MASKS4)		Australia	100.0%	100.0%
Southern Cross Australian Airports Trust (SCAAT)		Australia	95.1%	95.1%
Southern Cross Airports Corporation Holdings Limited (SCACH)		Australia	84.8%	84.8%
Sydney Airport Corporation Limited (SACL)		Australia	84.8%	84.8%
Southern Cross Airports Corporation Pty Limited (SCAC)		Australia	84.8%	84.8%
MAp Airports International Limited (MAIL)		Australia [1]	100.0%	100.0%
NA International S.à.r.l (NAISA)	11.3	Luxembourg	-%	100.0%

11.2. SAT2 Group significant subsidiaries

Name of entity	Note	Country of incorporation / establishment	Beneficial ownership interest 31 Dec 2012	Beneficial ownership interest 31 Dec 2011
MAp Airports (Sydney Holdings) Pty Limited (MASH)		Australia	100.0%	100.0%
MAp Airports (Sydney Holdings) Two Pty Limited (MASHT)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No.1 Pty Limited (MASKS1)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 2 Pty Limited (MASKS2)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 3 Pty Limited (MASKS3)		Australia	100.0%	100.0%
MAp Airports Sydney Kingsford Smith No. 4 Pty Limited (MASKS4)		Australia	100.0%	100.0%
Southern Cross Australian Airports Trust (SCAAT)		Australia	95.1%	95.1%
Southern Cross Airports Corporation Holdings Limited (SCACH)		Australia	77.2%	77.2%
Sydney Airport Corporation Limited (SACL)		Australia	77.2%	77.2%
Southern Cross Airports Corporation Pty Limited (SCAC)		Australia	77.2%	77.2%
MAp Airports International Limited (MAIL)		Australia [1]	100.0%	100.0%
NA International S.à.r.l (NAISA)	11.3	Luxembourg	-%	100.0%

11.3. Investment in NA International S.à.r.l (NAISA)

NAISA, a company incorporated under Luxembourg law and its wholly owned subsidiary JMEX B.V. (JMEX), a company incorporated under Dutch law were liquidated on 28 December 2012 and 4 October 2012 respectively. As a result of these liquidations, an expense of $0.4 million and $2.5 million of foreign currency translation reserve was recognised in the Group and SAT2 Group Consolidated Statements of Comprehensive Income for year ended 31 December 2012.

[1] MAIL was originally incorporated in Bermuda. MAIL changed its registration to Australia on 18 July 2012

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12. Payables

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current				
Interest payable on external debt	64.9	76.5	68.3	79.8
Interest payable on MASH redeemable preference shares (RPS)	-	-	33.5	48.1
Interest payable on MASKS1 RPS	-	-	37.4	28.3
Interest payable on MASKS2 RPS	-	-	201.7	101.0
Interest payable on MASKS3 RPS	-	-	20.6	13.6
Interest payable on MASKS4 RPS	-	-	55.5	38.5
Interest payable on MASHT RPS	-	-	24.3	21.9
Interest payable to SAT1	-	-	17.4	10.9
Trade payables	4.3	9.1	4.3	8.8
Expense accruals	66.5	58.6	66.5	58.6
Employee entitlements	11.6	11.6	11.6	11.6
Land rich stamp duty liability [1]	-	401.5	-	401.5
Amounts payable under finance lease agreement	2.2	2.0	2.2	2.0
GST payable	7.3	6.8	7.3	6.8
Sundry creditors	24.0	11.5	24.0	11.4
Total current payables	180.8	577.6	574.6	842.8
Non-current				
Lease payable	0.4	2.6	0.4	2.6
Total non-current payables	0.4	2.6	0.4	2.6

The fair values of payables approximate their carrying values.

Trade payables are non-interest bearing and are generally on thirty day terms.

1 At 31 December 2011, the receivable from the Federal Government and corresponding payable to the NSW Office of State Revenue (OSR) related to an indemnity on stamp duty in relation to the privatisation of Sydney Airport assessed against Southern Cross Airports Corporation Pty Limited (SCAC). The Federal Government brought proceedings in the NSW Supreme Court in SCAC's name challenging the validity of the assessment. The Group has been advised that the proceedings were settled between the Federal Government and the OSR in June 2012. Neither SCAC nor any of its related bodies corporate contributed to the settlement payment.

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13. Interest Bearing Liabilities

	Note	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current					
SCACH					
— Medium Term Notes	13.1.3	216.5	276.4	216.5	276.4
— SKIES	13.1.5	-	670.7	-	670.7
Total current interest bearing liabilites		216.5	947.1	216.5	947.1
Non-current					
SCACH					
— Bank facilities	13.1.2	716.0	1,026.2	716.0	1,026.2
— Medium Term Notes	13.1.3	4,294.1	3,756.0	4,294.1	3,756.0
— Capital Index Bonds	13.1.4	967.8	938.2	967.8	938.2
— SCACH Redeemable Preference Shares	13.1.6	244.3	243.5	379.5	378.2
MASH Redeemable Preference Shares	13.2.1	-	-	871.9	871.9
MASKS1 Redeemable Preference Shares	13.2.2	-	-	249.2	249.2
MASKS2 Redeemable Preference Shares	13.2.3	-	-	1,165.8	1,165.8
MASKS3 Redeemable Preference Shares	13.2.4	-	-	88.4	88.4
MASKS4 Redeemable Preference Shares	13.2.5	-	-	496.2	496.2
MASHT Redeemable Preference Shares	15.2.6	-	-	241.5	241.5
Loans from SAT1	15.2.7	-	-	458.6	328.5
		6,222.2	5,963.9	9,929.0	9,540.1
Reclassification to interest payable		-	-	(44.8)	(20.6)
Total non-current interest bearing liabilities		6,222.2	5,963.9	9,884.2	9,519.5
Total interest bearing liabilities		6,438.7	6,911.0	10,100.7	10,466.6

13.1. SCACH interest bearing liabilities

13.1.1. Assets pledged as security

SCACH has pledged all of its assets (excluding deferred tax and goodwill) as security for its interest bearing liabilities.

13.1.2. SCACH bank facilities

SCACH has entered into a series of bank facilities secured by fixed and floating charges over the assets of the SCACH and its subsidiaries (SCACH Group) and a mortgage over the Airport lease. Interest is charged at Bank Bill Swap Bid Rate (BBSY) plus a predetermined margin. At 31 December 2012, SCACH has an undrawn balance on these facilities of $1,104.5 million (2011: $1,044.4 million).

13.1.3. Medium Term Notes

SCACH has issued a mixture of fixed and floating interest rate Medium Term Notes (MTNs). The MTNs are secured by fixed and floating charges over assets of SCACH Group and a mortgage over the Airport lease. Financial guarantee in respect of the notes are provided by MBIA Insurance Corporation, Ambac Assurance Corporation and Assured Guaranty Municipal Corp. SCACH repaid $278.0 million of MTNs on 11 October 2012.

13.1.4. Capital Index Bonds

SCACH has issued two tranches of Capital Index Bonds (CIBs). The bond principal for both tranches increases through to maturity by the Consumer Price Index (CPI). Both tranches of CIBs pay a fixed interest rate that is calculated on the increasing bond principal. The CIBs are secured by fixed and floating charges over assets of SCACH Group and a mortgage over the Airport lease. Financial guarantees in respect of the bonds are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.

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13. Interest Bearing Liabilities (continued)

13.1.5. SKIES

On 3 January 2012 SCACH redeemed 6.5 million Sydney Kingsford Smith Interest Earning Securities (SKIES) ($670.0 million) from a $1,069.0 million senior debt raising in 2011. SKIES were a subordinated, unsecured note listed on the Australian Securities Exchange (ASX). SKIES had a 10 year maturity from issue and paid quarterly interest at pre-determined margin over Bank Bill Swap Rate (BBSW).

13.1.6. RPS issued by SCACH

SCACH has on issue 13,648,394 Redeemable Preference Shares (RPS) (2011: 13,648,394 RPS), with each SCACH RPS stapled to one SCACH ordinary share. The RPS carry an entitlement to a fixed cumulative dividend of 13.5% per annum, payable quarterly. The RPS are redeemable at a premium of $50 per RPS on 28 June 2032.

At 31 December 2012 the Group holds 11,995,115 SCACH RPS (2011: 11,995,115 RPS) and the SAT2 Group holds 11,080,365 SCACH RPS (2011: 11,080,365 RPS) which are eliminated respectively on consolidation.

13.2. SAT2 Group interest bearing liabilities

13.2.1. RPS issued by MASH

Redeemable preference shares (RPS) issued by MASH includes $871.9 million in RPS (2011: $871.9 million) held by SAT1. MASH RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

871.9 million MASH RPS (2011: 871.9 million RPS) are redeemable at $1 per RPS on the date 30 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. Dividends are payable quarterly in arrears. On distribution of capital on a winding up of MASH, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASH. The effective interest rate on the MASH RPS is 15.2% per annum (2011: 15.2% per annum).

13.2.2. RPS issued by MASKS1

RPS issued by MASKS1 includes $249.2 million in RPS (2011: $249.2 million) held by SAT1. The MASKS1 RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

173.0 million MASKS1 RPS (2011: 173.0 million RPS) are redeemable at $1 per RPS on the date 40 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS1, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS1. The effective interest rate on the RPS is 14.9% per annum (2011: 14.9% per annum).

76,214 MASKS1 RPS (2011: 76,214 RPS) are redeemable at $1,000 per RPS on the date 10 days prior to 10 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 11.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS1, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS1. The effective interest rate on the RPS is 11.0% per annum (2011: 11.0% per annum).

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13. Interest Bearing Liabilities (continued)

13.2.3. RPS issued by MASKS2

RPS issued by MASKS2 includes $1,165.8 million in RPS (2011: $1,165.8 million) held by SAT1. MASKS2 RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

846.4 million MASKS2 RPS (2011: 846.4 million RPS) are redeemable at $1 per RPS on the date 40 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. Dividends are payable quarterly in arrears. On distribution of capital on a winding up of MASKS2, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS2. The effective interest rate on the MASKS2 RPS is 15.0% per annum (2011: 15.0% per annum).

319,392 MASKS2 RPS (2011: 319,392 RPS) are redeemable at $1,000 per RPS on the date 10 days prior to 10 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 11.0% per annum on the capital paid up and any unpaid dividends per RPS. Dividends are payable quarterly in arrears. On distribution of capital on a winding up of MASKS2, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS2. The effective interest rate on the MASKS2 RPS is 10.9% per annum (2011: 10.9% per annum).

13.2.4. RPS issued by MASKS3

RPS issued by MASKS3 includes $88.4 million in RPS (2011: $88.4 million) held by SAT1. The MASKS3 RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

59.3 million MASKS3 RPS (2011: 59.3 million RPS) are redeemable at $1 per RPS on the date 40 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS3, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS3. The effective interest rate on the MASKS3 RPS is 14.9% per annum (2011: 14.9% per annum).

29,086 MASKS3 RPS (2011: 29,086 RPS) are redeemable at $1,000 per RPS on the date 10 days prior to 10 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 11.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS3, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS3. The effective interest rate on the RPS is 11.1% per annum (2011: 11.1% per annum).

13.2.5. RPS issued by MASKS4

RPS issued by MASKS4 includes $496.2 million in RPS (2011: $496.2 million) held by SAT1. The MASKS4 RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

350.0 million MASKS4 RPS (2011: 350.0 million RPS) are redeemable at $1 per RPS on the date 40 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS4, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS4. The effective interest rate on the RPS is 14.9% per annum (2011: 14.9% per annum).

146,239 MASKS4 RPS (2011: 146,239 RPS) are redeemable at $1,000 per RPS on the date 10 days prior to 10 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 11.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASKS4, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASKS4. The effective interest rate on the RPS is 11.0% per annum (2011: 11.0% per annum).

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13. Interest Bearing Liabilities (continued)

13.2.6. RPS issued by MASHT

RPS issued by MASHT includes $241.5 million in RPS (2011: $241.5 million) held by SAT1. The MASHT RPS are measured at amortised cost and interest expense is recognised under the effective interest method.

156.5 million MASHT RPS (2011: 156.5 million RPS) are redeemable at $1 per RPS on the date 40 years after the issue date of the RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 15.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASHT, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASHT. The effective interest rate on the RPS is 14.9% per annum (2011: 14.9% per annum).

84,958 MASHT RPS (2011: 84,958 RPS) are redeemable at $1,000 per RPS on the date 10 days prior to 10 years after the issue date of the MASHT RPS, provided any redemption is effected in accordance with the *Corporations Act 2001*. Holders of the RPS have the right to receive a fixed cumulative dividend at a contractual rate of 11.0% per annum on the capital paid up and any unpaid dividends per RPS. The dividend is payable quarterly in arrears. On distribution of capital on a winding up of MASHT, holders of the RPS shall be entitled to the repayment of capital paid up on the RPS, in priority to any repayment to the ordinary shareholders of MASHT. The effective interest rate on the RPS is 11.0% per annum (2011: 11.0% per annum).

13.2.7. Loans from SAT1

At 31 December 2012 SAT2 has total borrowings of $458.6 million (2011: $328.5 million) on commercial terms from SAT1. Interest is charged quarterly at BBSW plus a pre-determined margin for each loan under similar terms.

SAT2 borrowed $187.0 million on 28 June 2012 and $186.4 million on 28 Dec 2012 from SAT1. SAT2 made repayments of $56.4 million on 8 February 2012 and $187.0 million on 27 July 2012 to SAT1.

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14. Derivative Financial Instruments

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current				
Interest rate swaps	113.7	71.2	113.7	71.2
Cross currency swaps	33.2	20.7	33.2	20.7
Total current	146.9	91.9	146.9	91.9
Non-current				
Interest rate swaps	201.6	161.8	201.6	161.8
Cross currency swaps	2.7	(3.1)	2.7	(3.1)
Total non-current	204.3	158.7	204.3	158.7

14.1. Instruments used by the Groups

At 31 December 2012, the Groups are party to derivative financial instruments entered into in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 26).

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15. Tax Assets and Tax Liabilities

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Current liabilities				
Provision for income tax	-	0.1	-	0.1
Non-current liabilities				
Deferred tax liabilities	1,655.0	1,740.4	1,655.0	1,740.4
The balance of deferred tax liabilities comprises temporary differences attributable to:				
Amounts recognised in the Consolidated Statements of Comprehensive Income				
— Property, plant and equipment	272.2	283.9	272.2	283.9
— Intangibles	2,074.0	2,104.9	2,074.0	2,104.9
— Interest bearing liabilities	(7.6)	(13.3)	(7.6)	(13.3)
— Finance cost payable	(45.1)	(12.0)	(45.1)	(12.0)
— Deferred income	0.4	0.1	0.4	0.1
— Deferred costs	11.2	(17.7)	11.2	(17.7)
— Accrued revenue and prepayments	11.6	12.5	11.6	12.5
— TOFA assets	(9.4)	(14.1)	(9.4)	(14.1)
— Other financial assets	(0.4)	(0.4)	(0.4)	(0.4)
— Other payables	(9.5)	(8.6)	(9.5)	(8.6)
— Cash flow hedges	(19.6)	(7.6)	(19.6)	(7.6)
— Defined benefits plan	0.7	-	0.7	-
— Tax losses	(536.4)	(518.4)	(536.4)	(518.4)
	1,742.1	1,809.3	1,742.1	1,809.3
Amounts recognised directly in equity				
— Cash flow hedges	(86.9)	(67.6)	(86.9)	(67.6)
— Establishment costs	(0.2)	(1.3)	(0.2)	(1.3)
	(87.1)	(68.9)	(87.1)	(68.9)
Net deferred tax liabilities	1,655.0	1,740.4	1,655.0	1,740.4
Movements in deferred tax liabilities:				
Opening balance at 1 January	1,740.4	1,884.8	1,740.4	708.9
Debited / (credited) to the Consolidated Statements of Comprehensive Income				
— Property, plant and equipment	(11.7)	(3.1)	(11.7)	(3.9)
— Intangibles	(30.9)	(31.0)	(30.9)	(12.2)
— Interest bearing liabilities	5.7	(0.6)	5.7	(2.4)
— Finance cost payable	(33.1)	(6.4)	(33.1)	2.2
— Deferred income	0.3	0.9	0.3	0.1
— Deferred costs	28.9	8.9	28.9	8.8
— Accrued revenue and prepayments	(0.9)	14.1	(0.9)	14.3
— TOFA assets	4.7	(14.1)	4.7	(14.1)
— Other financial assets	-	(0.4)	-	-
— Other payables	(0.9)	(0.7)	(0.9)	(1.6)
— Cash flow hedges	(12.0)	(2.2)	(12.0)	(7.4)
— Defined benefits plan	0.7	-	0.7	-
— Tax losses	(18.0)	(60.5)	(18.0)	(30.2)
— Deferred tax liabilities on acquisition of subsidiaries	-	-	-	1,835.3
— Deferred tax balance derecognised on acquisition of subsidiaries	-	-	-	(748.9)
	(67.2)	(95.1)	(67.2)	1,040.0
Debited to equity	(18.2)	(49.3)	(18.2)	(8.5)
Closing balance at 31 December	1,655.0	1,740.4	1,655.0	1,740.4

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16. Contributed Equity

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Opening balance at 1 January	3,948.5	3,948.5	1,949.2	291.4
Scheme Scrip Consideration [1]	-	-	-	1,657.8
Closing balance at 31 December	3,948.5	3,948.5	1,949.2	1,949.2

	Group 31 Dec 2012 Stapled securities 'm	Group 31 Dec 2011 Stapled securities 'm	SAT2 31 Dec 2012 Units 'm	SAT2 31 Dec 2011 Units 'm
On issue at beginning of year	1,861.2	1,861.2	1,861.2	1,861.2
Issued pursuant to the Scheme [1]	-	-	-	-
On issue at end of year	1,861.2	1,861.2	1,861.2	1,861.2

16.1. Ordinary units in SAT1 and SAT2

Each fully paid stapled security confers the right to vote at meetings of security holders, subject to any voting restrictions imposed on a security holder under the *Corporations Act 2001*, Australian Securities Exchange Listing Rules and the foreign ownership provisions in the Group's constitutions. On a show of hands, every security holder present in person or by proxy has one vote. On a poll, every security holder who is present in person or by proxy has one vote for each dollar of the value of the total interests they have in SAT1 and SAT2.

Unless the Responsible Entity determines otherwise, a security on issue in SAT1 at the end of an income period entitles its holder to a pro-rata proportion of the net income of SAT1 in respect of that income period. While SAT2 is taxed as a company, it need not distribute all of its taxable income to security holders.

The Responsible Entity determines the net income of the Trusts as at the end of each income period. The entitlement to income of each fully paid stapled security will be distributed to the investor within two months of the last day of the income period. Upon the winding up of a Trust, the Responsible Entity is required to realise the assets of the Trust and after meeting liabilities of the Trust, to distribute the net proceeds to the security holders pro-rata according to the number of securities held on the date upon which the Trust commenced to be wound up.

17. Retained Profits

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Opening balance at 1 January	710.7	1,341.4	3,283.8	1,847.6
Profit / (loss) attributable to Group's security holders	179.2	(239.9)	(189.1)	(19.1)
Actuarial gain on defined benefit plans	2.8	-	2.8	-
Actuarial gain on defined benefit plans - deferred tax	(0.9)	-	(0.9)	-
Pre-acquisition retained earnings on acquisition of subsidiaries	-	-	-	1,455.3
Distributions provided for or paid	(390.8)	(390.8)	-	-
Closing balance at 31 December	501.0	710.7	3,096.6	3,283.8

1 A scheme was undertaken on 19 December 2011 such that MAIL shares were unstapled from SAT1 and SAT2 units. Following this, SAT1 and SAT2 units were temporarily suspended. SAT2 acquired all the MAIL shares and in part consideration issued scrip to MAIL shareholders that increased SAT2 share capital by $1,657.8 million ($0.8907 per MAIL share) with the balance of the consideration consisting of a single cash payment. To retain the SAT1 and SAT2 stapling ratio of 1:1 the SAT2 units were first split and issued to MAIL shareholders. Following this the units were reconsolidated with SAT1 units resulting in no change in the number of securities held by security holders.

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18. Reserves

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Balance of reserves				
Capital reserve	(713.2)	(713.2)	-	-
Cash flow hedge reserve	(171.9)	(133.9)	(158.3)	(123.4)
Foreign currency reserve (FCTR)	-	(2.5)	-	(2.5)
Common control reserve	-	-	(4,188.5)	(4,188.5)
Other reserve	(1,515.7)	(1,515.7)	(99.8)	(99.8)
	(2,400.8)	(2,365.3)	(4,446.6)	(4,414.2)
Movements of reserves				
Capital reserves				
Opening balance at 1 January	(713.2)	(713.2)	-	-
Closing balance at 31 December	(713.2)	(713.2)	-	-
Cash flow hedge reserve				
Opening balance at 1 January	(133.9)	(31.6)	(123.4)	-
Reserve acquired on acquisition of subsidiaries	-	-	-	(141.7)
Adjustment due to acquisition of additional interest in subsidiary	-	(18.2)	-	-
Transfer to common control reserve	-	-	-	31.0
Revaluation – gross	(54.3)	(120.0)	(49.9)	(18.0)
Revaluation – tax effect	16.3	35.9	15.0	5.3
Closing balance at 31 December	(171.9)	(133.9)	(158.3)	(123.4)
Foreign currency translation reserve				
Opening balance at 1 January	(2.5)	(22.7)	(2.5)	-
Reserve acquired on acquisition of subsidiaries	-	-	-	(2.5)
Exchange differences arising on translation of foreign controlled entities	-	4.2	-	-
Recycle of FCTR to the Consolidated Statements of Comprehensive Income on wind up of subsidiaries	2.5	16.0	2.5	-
Closing balance at 31 December	-	(2.5)	-	(2.5)
Common control reserve				
Opening balance at 1 January	-	-	(4,188.5)	-
Adjustment due to acquisition of SCACH	-	-	-	(2,224.0)
Adjustment due to acquisition of MAIL	-		-	(1,964.5)
Closing balance at 31 December	-	-	(4,188.5)	(4,188.5)
Other reserve				
Opening balance at 1 January	(1,515.7)	411.8	(99.8)	(99.8)
Adjustment due to acquisition of additional interest in subsidiary	-	(1,927.5)	-	-
Closing balance at 31 December	(1,515.7)	(1,515.7)	(99.8)	(99.8)

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18. Reserves (continued)

18.1. Nature and purpose of reserves

18.2. Capital reserve

The capital reserve represents the amounts transferred to retained profits to facilitate distributions from the Trusts in accordance with the Trust Constitutions in previous years.

18.3. Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in Note 1.15.1. The gain or loss relating to an ineffective portion of a hedge is recognised in the Consolidated Statements of Comprehensive Income.

18.4. Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1.4.3. Due to the windup of NA International S.a.r.l. and JMEX B.V. during the financial year, $2.5 million of foreign currency translation reserve has been expensed in the Groups' Consolidated Statements of Comprehensive Income as described in Note 11.3.

18.5. Common control reserve

The common control reserve represents the difference between the fair value of the consideration paid and the existing carrying value of assets and liabilities arising from transfers of interest in entities that are under the control of the unitholders that control the Group that are not subject to AASB3: *Business Combinations* as described in Note 1.3.4.

18.6. Other reserve

The other reserve represents transactions between equity holders and other reserves on business combination.

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for year ended 31 December 2012

19. Non-Controlling Interest in Controlled Entities

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Interest in:				
Contributed equity	306.5	306.5	394.6	394.6
Reserves	184.0	190.8	265.5	275.3
Retained profits	(414.4)	(358.5)	(576.8)	(502.3)
	76.1	138.8	83.3	167.6

19.1. The Group's non-controlling interest in controlled entities

As the Group holds a controlling interest in SCACH and SCAAT (refer Note 11), it must consolidate 100.0% of the assets, liabilities and results of these entities into its consolidated financial report for year ended 31 December 2012 (2011: 100.0%) and recognise a non-controlling interest (NCI).

19.2. The Group's non-controlling interest in SCACH

At 31 December 2012, the Group holds a direct interest in SCACH of 84.8% (2011: 84.8%). Accordingly 15.2% of contributed equity, reserves and net result after tax of SCACH are attributed to NCI in the Group's consolidated financial report.

19.3. The Group's non-controlling interest in SCAAT

At 31 December 2012, the Group holds a direct interest in SCAAT of 95.1% (2011: 95.1%). Accordingly 4.9% of contributed equity, reserves and net result after tax of SCAAT are attributed to NCI in the Group's consolidated financial report.

19.4. SAT2 Group's non-controlling interest in controlled entities

As the SAT2 Group holds a controlling interest in SCACH and SCAAT (refer Note 11), it must consolidate 100.0% of the assets, liabilities and results of these entities into its consolidated financial report for year ended 31 December 2012 (2011: 100.0%) and recognise a non-controlling interest (NCI).

19.5. SAT2 Group's non-controlling interest in SCACH

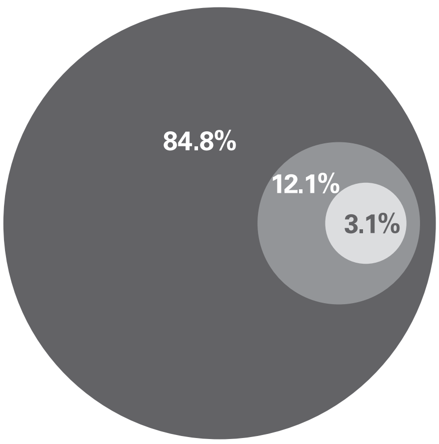
At 31 December 2012, the SAT2 Group holds a direct interest in SCACH of 78.1% (2011: 78.1%). Accordingly 21.9% of contributed equity, reserves and net result after tax of SCACH are attributed to NCI in the SAT2 Group's consolidated financial report.

19.6. SAT2 Group's non-controlling interest in SCAAT

At 31 December 2012, the SAT2 Group holds a direct interest in SCAAT of 95.1% (2011: 95.1%). Accordingly 4.9% of contributed equity, reserves and net result after tax of SCAAT are attributed to NCI in the SAT2 Group's consolidated financial report.

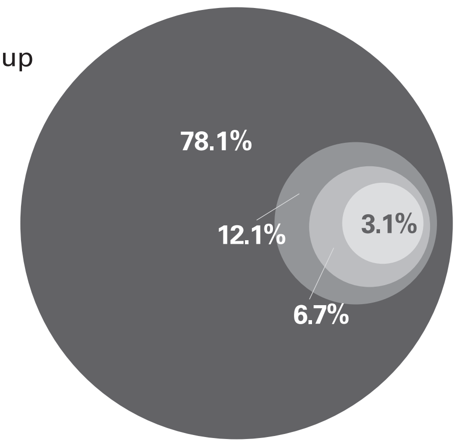
Non-controlling interests in Group and SAT2 Group at 31 December 2012 are shown below:

Group



- ASX-listed Sydney Airport – **84.8%**
- HOCHTIEF AirPort GmbH – **12.1%**
- Other Australian super funds – **3.1%**

SAT2 Group



- ASX-listed Sydney Airport – **78.1%**
- HOCHTIEF AirPort GmbH – **12.1%**
- Sydney Airport Trust 1 – **6.7%**
- Other Australian super funds – **3.1%**

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20. Earnings per Stapled Security

Group	31 Dec 2012 Continuing operations $m	31 Dec 2012 Discontinued operations $m	31 Dec 2012 Total $m	31 Dec 2011 Continuing operations $m	31 Dec 2011 Discontinued operations $m	31 Dec 2011 Total $m
Profit / (loss) after income tax benefit for the year attributable to:						
Security holders	179.2	-	179.2	121.6	(361.5)	(239.9)
	179.2	-	179.2	121.6	(361.5)	(239.9)

SAT2 Group	31 Dec 2012 Continuing operations $m	31 Dec 2012 Discontinued operations $m	31 Dec 2012 Total $m	31 Dec 2011 Continuing operations $m	31 Dec 2011 Discontinued operations $m	31 Dec 2011 Total $m
Loss after income tax benefit for the year attributable to:						
Security holders	(189.1)	-	(189.1)	(19.1)	-	(19.1)
	(189.1)	-	(189.1)	(19.1)	-	(19.1)

Weighted average number of stapled securities / units	Note	Group 31 Dec 2012 Stapled securities 'm	Group 31 Dec 2011 Stapled securities 'm	SAT2 31 Dec 2012 Units 'm	SAT2 31 Dec 2011 Units 'm
Issued ordinary stapled securities / units	16	1,861.2	1,861.2	1,861.2	1,861.2
Weighted average number of stapled securities / units		1,861.2	1,861.2	1,861.2	1,861.2

21. Cash Flow Information

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Reconciliation of cash flows from operating activities				
Profit / (loss) for year	158.1	82.1	(217.1)	110.5
Revaluation loss from investments	-	-	-	(314.3)
Revaluation of investments following receipt of cash	-	18.9	-	218.0
Expenses relating to investing activities	2.2	30.4	1.8	7.5
Expenses relating to financing activities	477.4	489.9	846.6	434.0
Loss / (gain) on derivative contracts	4.5	2.7	4.5	(2.8)
Net foreign exchange differences	2.3	13.6	2.3	0.1
Depreciation and amortisation	300.1	305.8	300.1	77.6
Doubtful debts	(0.1)	0.1	(0.1)	-
Net gain on sale of non-current assets	(0.1)	-	(0.1)	-
Changes in operating assets and liabilities net of effects of deconsolidation / acquisition of controlled entities:				
Decrease / (increase) in receivables and other assets	1.4	(8.7)	(2.3)	(190.3)
(Increase) / decrease in payables	(8.8)	19.3	(8.8)	126.0
Decrease in tax liabilities	(67.2)	(96.7)	(67.2)	(48.1)
Net cash inflow from operating activities	869.8	857.4	859.7	418.2

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for year ended 31 December 2012

21. Cash Flow Information (continued)

21.1. Undrawn balance on loan facilities

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
SCACH undrawn balance on bank facilities				
Bank facilities	1,018.5	847.0	1,018.5	847.4
Working capital facility	86.0	86.0	86.0	86.0
Liquidity facility	-	111.0	-	111.0
	1,104.5	1,044.0	1,104.5	1.044.4
SAT1 undrawn balance on bank facilities				
Working capital facility	100.0	150.0	-	-
Term facility	165.0	-	-	-
	265.0	150.0	-	-
Total undrawn balance on bank facilities	1,369.5	1,194.0	1,104.5	1,044.4

21.1.1. SCACH undrawn bank facilities

SCACH has entered into a series of bank, working capital and liquidity facilities secured by fixed and floating charges over the assets of the SCACH group and a mortgage over the Airport lease. At 31 December 2012, SCACH has an undrawn balance on these facilities of $1,104.5 million (2011: $1,044.4 million).

21.1.2. SAT1 undrawn bank facilities

SAT1 entered into a 24 month $165.0 million term facility with Commonwealth Bank of Australia (CBA) and Westpac Banking Corporation (WBC) on 6 December 2012. Interest is charged at Bank Bill Swap Bid Rate (BBSY) plus a predetermined margin. SAT1 had an undrawn balance on this facility of $165.0 million at 31 December 2012.

SAT1 entered into a 12 month $150.0 million working capital facility with CBA, WBC and Royal Bank of Scotland (Australia Branch) (RBS) on 23 December 2011. Interest is charged at BBSY plus a predetermined margin. SAT1 reduced the working capital facility to $100.0 million and RBS ceased to be a working capital lender on 6 December 2012. SAT1 had an undrawn balance on this facility of $100.0 million at 31 December 2012 (2011: $150.0 million).

SAT2 is guarantor for SAT1 regarding the term and working capital facilities described above and SAT1 can on-lend the facilities to SAT2.

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for year ended 31 December 2012

22. Related Party Disclosures

22.1. Responsible Entity

The Responsible Entity of SAT1 and SAT2 is Sydney Airport Holdings Limited (SAHL). SAHL is a wholly owned subsidiary of SAT2. The registered office of the Responsible Entity is 10 Arrivals Court, Sydney International Airport, New South Wales 2020.

22.2. Directors

The following persons were directors of the Responsible Entity from the period noted and up to the date of this report (unless otherwise noted):

Name	Role	Period of directorship
Max Moore-Wilton	Chairman, Non-Executive Director	Since April 2006
Trevor Gerber	Non-Executive Director	Since April 2002
Michael Lee	Non-Executive Director	Since June 2003
Robert Morris	Non-Executive Director	Since September 2002
John Roberts	Non-Executive Director	Since October 2009
Stephen Ward	Non-Executive Director	Since February 2011
Kerrie Mather	Executive Director	Since 1 July 2010

The number of stapled securities in ASX-listed Sydney Airport and units in SAT2 held directly and indirectly by the directors of the Responsible Entity are listed below:

Name	Balance at 1 Jan 2011	Changes during the year	Balance at 31 Dec 2011	Changes during the year	Balance at 31 Dec 2012
Max Moore-Wilton	650,000	-	650,000	-	650,000
Trevor Gerber	185,454	39,546	225,000	-	225,000
Michael Lee	7,060	-	7,060	-	7,060
Robert Morris	40,908	-	40,908	-	40,908
John Roberts	67,507	-	67,507	-	67,507
Stephen Ward	21,818	-	21,818	-	21,818
Kerrie Mather	3,555,021	-	3,555,021	-	3,555,021

22.3. Key Management Personnel

Key Executive	Title	2012	2011
Kerrie Mather	Chief Executive Officer and Executive Director	✓	✓
Stephen Mentzines	Chief Financial Officer	✓	×
Shelley Roberts	Executive Director Aviation Services	✓	✓
Andrew Gardiner	General Manager Retail	×	✓
Craig Norton	General Manager Parking and Ground Transport	×	✓
Peter Wych	General Manager Development and Construction	×	✓
Tim Finlayson	Former Executive - Chief Financial Officer	×	✓
Keith Irving	Former Executive - Chief Financial Officer	×	✓
Sally Webb	Former Executive - Company Secretary	×	✓

Shown in the table above are the individuals determined to be KMP by the Directors for year ended 31 December 2012. During the year the following executive changes occurred:

- Ms Sally Webb resigned effective 31 March 2012. Ms Webb also acted as General Counsel of SAHL but the disclosures in this report are made solely due to her position as Company Secretary.
- Mr Tim Finlayson resigned 27 June 2012, giving six months notice as required by his contract. Mr Finlayson ceased employment on 10 October 2012 and was paid out the remainder of his contractual notice period.
- Mr Stephen Mentzines was appointed Chief Financial Officer effective 2 October 2012.
- It was determined that Messrs.Gardiner, Norton and Wych were not KMP for 2012

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for year ended 31 December 2012

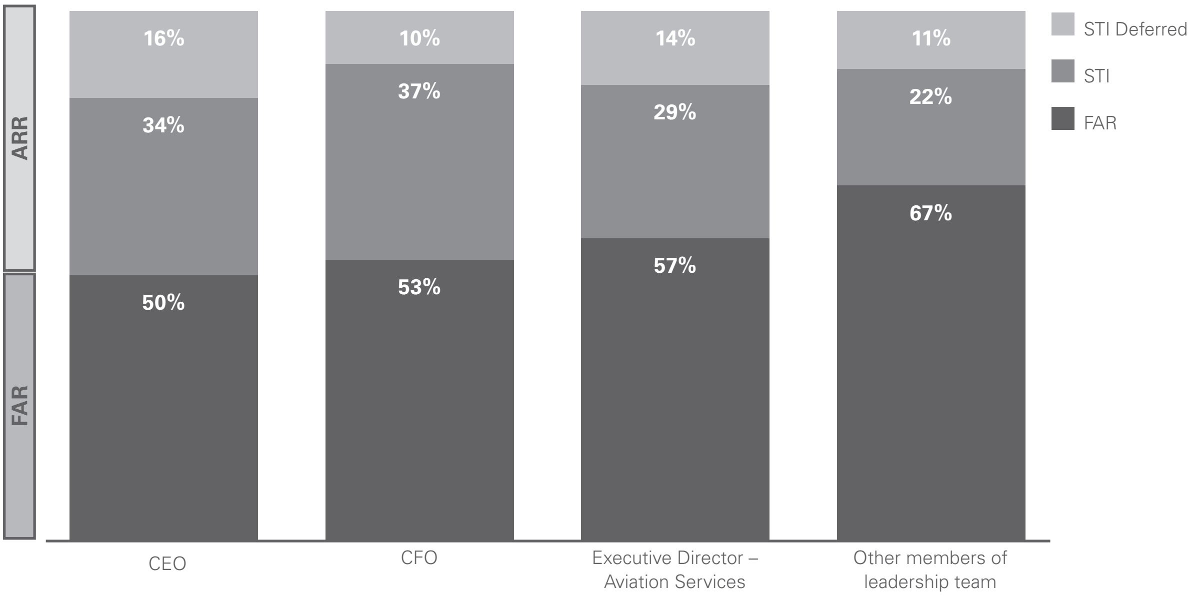
22. Related Party Disclosures (continued)

22.4. Remuneration and policy structure

22.4.1. Remuneration structure for Key Executives as at 31 December 2012

The remuneration structure of Key Executives comprises of:

- Fixed annual remuneration (FAR), consisting of base salary and benefits inclusive of the minimum regulatory superannuation contribution; and
- At risk remuneration (ARR), being the components which are variable and directly linked to the delivery of individual key performance targets and Sydney Airport's key financial and business objectives.
- The remuneration mix for the CEO, other Key Executives' and members of the leadership team are (with ARR shown at maximum) expressed as a percentage of total remuneration, shown in the graph below:



22.4.2. At risk remuneration

The board is focused on maximising security holder value by linking business performance with Key Executive remuneration outcomes. A significant element of a Key Executive's maximum potential remuneration is at risk and linked to corporate performance.

ARR is currently provided to executives through a Short Term Incentive Plan (STI), including a deferral element.

There are two categories of STI performance measures used for Key Executives, Group performance targets (refer to Section 3.4.) which makes up 50–60% of an executive's STI outcome and individual key performance targets which makes up 40-50% of an executive's STI outcome.

Performance Setting

Individual key performance targets for executives are developed by the CEO and put forward to the NRC for approval at the commencement of each performance year.

Key performance targets are selected for their relevance to the short and long term objectives of the business.

The STI award is determined after the preparation of the annual financial statements and the completion of the performance review process. The STI award is generally granted to executives in March, with the cash award paid immediately. Maximum potential STI awards for year ended 31 December 2012, range from 37.5% up to 100.0% of FAR.

CEO STI Deferral

To promote CEO retention, one third of any STI award in excess of $50,000 is deferred in cash for three years from the date of the award. The deferred cash amount earns interest over the three-year period and is payable to the CEO upon vesting, subject to continuous service throughout the period.

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for year ended 31 December 2012

22. Related Party Disclosures (continued)

Other Executives STI Deferral

An Executive's performance outcome is used as the basis to determine their STI deferral. To promote Executive retention, Executives have a predetermined element of their ARR delivered in the form of a deferred cash award. Any cash award made under this plan is subject to a two year deferral from the date of the award. The deferred cash amount earns market rate interest over the two year deferral and is payable upon vesting, subject to continuous service throughout the period.

22.7. KMP Remuneration Arrangements for Year Ended 31 December 2012

22.7.1 Service Agreements

	CEO	Other KMP
Employing entity	SAHL	SACL
Length of contract	Permanent	Permanent
Notice period	6 months	6 months
Maximum STI opportunity	100%	75-90%
Termination period	12 months	6 months
Termination payment	Based on termination period	Based on termination period

In the event of termination with cause there is no termination payment payable to the Executive except for their statutory entitlements.

CEO

The CEO receives fixed remuneration of $1,700,000 per annum.

In the event that the CEO was to be terminated without cause, Ms Mathers contract allows for the payment of the discretionary bonus for the whole of the current year.

Treatment of STI Deferral: Termination without cause results in outstanding deferral elements being payable. Resignation or termination with cause results in this element being forfeited. The board has the overriding discretion in relation to treatment upon termination.

Other Executives

Treatment of STI deferral with resignation or termination with cause prior to the payment of any deferred element of STI results in this element being forfeited.

Mr Mentzines was not eligible to participate in 20% of his contracted ARR opportunity for 2012.

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22. Related Party Disclosures (continued)

22.7.2. Total remuneration and benefits for the year

The following table discloses Executives' total remuneration in accordance with the Act and Australian Accounting Standards:

	Short-term benefits		STI	Post employment benefits	Termination benefits	Long-term benefits		% at Risk
Name	Salary $	STI $	Retained $	Superannuation $	$	Long service leave $	Total $	
Executive								
Kerrie Mather								
2012	1,683,877	1,150,000	550,000	16,123	-	117,357	3,517,357	50%
2011	1,684,513	1,150,000	550,000	15,487	-	89,286	3,489,286	50%
Stephen Mentzines								
2012	186,903	130,820	-	10,199	-	-	327,922	40%
2011	-	-	-	-	-	-	-	N/A
Shelley Roberts								
2012	426,728	227,500	68,250	38,161	-	-	760,639	39%
2011	75,917	8,230	1,411	6,833	-	-	92,391	10%
Peter Wych								
2011	67,985	36,854	5,528	6,119	-	26,651	143,137	36%
Craig Norton								
2011	60,143	21,579	3,730	6,942	-	-	92,394	27%
Andrew Gardiner								
2011	53,062	-	-	4,776	-	-	57,838	-%
Total - Executives								
2012	2,297,508	1,508,320	618,250	64,483	-	117,357	4,605,918	
2011	1,941,620	1,216,663	560,669	40,157	-	115,937	3,875,046	
Former Executives								
Tim Finlayson								
2012	296,586	-	-	46,301	80,736	-	423,623	-%
2011	89,140	50,738	11,597	8,023	-	-	159,498	39%
Keith Irving								
2012	-	-	-	-	-	-	-	N/A
2011	407,846	321,526	-	15,487	242,207	-	987,066	33%
Sally Webb								
2012	51,153	170,253	-	1,972	117,062	-	340,440	50%
2011	199,548	64,445	19,722	7,743	-	48,911	340,369	29%
Total - Former Exectives								
2012	347,739	170,253	-	48,273	197,798	-	764,063	
2011	696,534	436,709	31,319	31,253	242,207	48,911	1,486,933	
Grand Total								
2012	2,645,247	1,678,573	618,250	112,756	197,798	117,357	5,369,981	
2011	2,638,154	1,653,372	591,988	71,410	242,207	164,848	5,361,979	

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for year ended 31 December 2012

22. Related Party Disclosures (continued)

22.8. Responsible Entity fees

Operational expenses incurred by Group entities are invoiced by the Responsible Entity to SAT1 and SAT2 quarterly, based on each entity's share of net assets on a cost plus 15% basis.

	Group 31 Dec 2012 $	Group 31 Dec 2011 $	SAT2 31 Dec 2012 $	SAT2 31 Dec 2011 $
Responsible Entity's and Adviser's fees – Group Entities	253,000	257,906	160,707	4,044,000

22.9. SAT2 Group related party disclosures

22.10. SAT1 investment in SAT2 Group subsidiaries

During year ended 31 December 2012, SAT1's investments in SAT2 subsidiaries:

- MASH Redeemable Preference Shares (RPS) $871,900,000 (2011: $871,900,000) paid interest of $159,820,000 (2011: $130,375,000).
- MASHT RPS $241,494,265 (2011: $241,494,265) paid interest of $34,150,000 (2011: $Nil).
- MASKS1 RPS $249,185,858 (2011: $249,185,858) paid interest of $30,640,000 (2011: $Nil).
- MASKS2 RPS $1,165,772,833 (2011: $1,165,772,833) paid interest of $82,530,000 (2011: $52,950,000).
- MASKS3 RPS $88,394,579 (2011: $88,394,579) paid interest of $7,535,000 (2011: $4,810,000).
- MASKS4 RPS $496,239,000 (2011: $496,239,000) paid interest of $58,770,000 (2011: $Nil).

22.11. SAT2 related party transactions

- SAT1 has loaned monies to SAT2 under interest bearing facilities. Under the terms of the facilities, interest is calculated at floating market rates and is payable quarterly in arrears. Interest which is not paid may be capitalised. The balance outstanding at 31 December 2012 was $458,631,995 (2011: $328,545,842). During year ended 31 December 2012 $373,445,000 was drawn down by SAT2, $243,358,848 was repaid, and interest of $27,736,916 (2011: $5,726,888) was paid or accrued on these facilities.

22.12. MAIL Group related party transactions

MAIL Group was consolidated into SAT2 Group on 19 December 2011.

- MAIL has loaned monies to SAT1 under interest bearing facilities. Under the terms of the facilities, interest is calculated at floating market rates and is payable quarterly in arrears. Interest which is not paid may be capitalised. The balance outstanding at 31 December 2012 is $1,407,218,316 (2011: $1,407,218,316). During year ended 31 December 2012, interest of $82,476,617 (20 December 2011 – 31 December 2011: $2,824,798) was paid or accrued on these facilities.
- During the period 1 January to 19 December 2011 SAHL charged management fees to MAIL of $9,135,361. The balance outstanding at 19 December 2011 was $Nil.
- During the period 1 January to 7 October 2011 MAp Airports (UK) Limited, a subsidiary of MAIL charged management fees to SAHL of $3,993,684. The balance outstanding at 7 October 2011 was $Nil.

22.13. Other SAT2 subsidiaries related party transactions

- Companies within the SAT2 Group have loaned monies to SAT1 under interest bearing facilities set up in 2008. Under the terms of the facilities, interest is calculated at floating market rates and is payable quarterly in arrears. Interest which is not paid may be capitalised. The balance outstanding at 31 December 2012 is $832,300,422 (2011: $832,300,422). During year ended 31 December 2012, interest of $44,703,310 (2011: $52,048,840) was accrued on this facility.
- During year ended 31 December 2012 SAHL charged management fees to SAT1 of $2,377,058 (2011:$5,200,095). The balance outstanding at 31 December 2012 was $659,287 (2011: $Nil).
- During year ended 31 December 2012 MAT2 Holdings Pty Limited, a subidiary of SAT2 advanced $6,863 to and was repaid $6,863 from MAp Airports Holdings Limited, a subsidiary of SAT1. The balance outstanding at 31 December 2012 was $Nil (2011: $Nil).

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for year ended 31 December 2012

22. Related Party Disclosures (continued)

22.14. SCACH related party transactions

SCACH was consolidated into SAT2 Group on 7 October 2011.

- SAT2 charged SCACH $1,234,963 from 1 January to 7 October 2011 for a range of advisory services rendered at arm's length commercial terms.
- On 7 October 2011 MASKS2, a subsidiary of SAT2 acquired 620,713 stapled securities in SCACH for a total of $319,392,000.
- On 7 October 2011 MASKS3, a subsidiary of SAT2 acquired 56,527 stapled securities in SCACH for a total of $29,086,000.

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23. Defined Benefit Plan

All employees are entitled to varying levels of benefits on retirement, disability or death. The Sydney Airport Superannuation Plan (the Plan) consists of a defined benefit plan which is fully funded and provides benefits based on years of service and final average salary and a defined contribution plan. The Plan also provides accumulation style benefits for the Superannuation Guarantee Charge and Members Contributions. Employees contribute to the Plan at various percentages of their remuneration. Contributions by the Groups' of up to 9.0% of employees' remuneration are legally enforceable in Australia.

The following table discloses components of net benefit recognised in the Consolidated Statements of Comprehensive Income and the funded status and amounts recognised in the Consolidated Balance Sheets for the Plan:

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Amounts recognised in income in respect of defined benefit plans:				
Current service costs	1.8	-	1.8	-
Interest cost	(0.1)	-	(0.1)	-
Total included in employee benefit expense	1.7	-	1.7	-
Net actuarial gains recognised in the Consoldiated Statements of Comprehensive Income	1.9	-	1.9	-
The amounts included in the Consolidated Balance Sheets arising from the Groups' obligations in respect of its defined benefit plans were:				
Present value of funded defined benefit obligations	(22.4)	(23.6)	(22.4)	(23.6)
Fair value of Plan assets	23.7	22.4	23.7	22.4
Net asset / (liability) arising from defined benefit obligations	1.3	(1.2)	1.3	(1.2)

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Included in the Consolidated Balance Sheets:				
Non-current assets				
Superannuation plan asset	1.3	-	1.3	-
Superannuation plan liability	-	(1.2)	-	(1.2)
Net asset / (liability) arising from defined benefit obligations	1.3	(1.2)	1.3	(1.2)

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23. Defined Benefit Plan (continued)

	Group 31 Dec 2012 $m	Group 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Movements in the present value of defined benefit obligations:				
Opening balance at 1 January	23.6	18.7	23.6	18.7
Current service cost	1.8	1.5	1.8	1.5
Interest cost	0.7	1.0	0.7	1.0
Actuarial (gains) / losses	(1.5)	4.9	(1.5)	4.9
Benefits paid	(1.9)	(2.0)	(1.9)	(2.0)
Taxes, premiums and expenses paid	(0.3)	(0.5)	(0.3)	(0.5)
Closing balance at 31 December	22.4	23.6	22.4	23.6
Movements in the present value of plan assets:				
Opening balance at 1 January	22.4	21.0	22.4	21.0
Interest income	0.7	1.2	0.7	1.2
Return on plan assets, excluding interest income	1.5	(0.6)	1.5	(0.6)
Employer contributions	1.3	3.4	1.3	3.4
Benefits paid	(1.9)	(2.0)	(1.9)	(2.0)
Taxes, premiums and expenses paid	(0.3)	(0.6)	(0.3)	(0.6)
Closing balance at 31 December	23.7	22.4	23.7	22.4

The actual return on plan assets was an increase of $2.2 million (2011: increase of $0.5 million), with all participants being active plan participants. The weighted average duration of the defined benefit obligation is 8.4 years (2011: 8.7 years).

The Groups'expect to contribute at the current recommended rate of 14.1% (including 3.0% productivity contributions of salaries of defined benefit members and 9.0% of salaries of defined contribution members).

The principal actuarial assumptions used in determining the Plan liability and sensitivities were:

	Group 31 Dec 2012	Group 31 Dec 2011
Discount rate	3.3%	3.20%
Future salary increases	3.5%	3.50%

	0.5% increase	0.5% decrease
Discount rate	(1.2)	1.2
Future salary increases	1.1	(1.0)

Plan assets comprise investments in unquoted securities $23.7 million (2011: $22.4 million)

The percentage invested in each asset class at reporting date were:

	31 Dec 2012	31 Dec 2011
Australian equity instruments	18.0%	19.0%
International equity instruments	20.0%	20.0%
Fixed income	27.0%	22.0%
Property	12.0%	13.0%
Alternatives / other	4.0%	4.0%
Cash	19.0%	22.0%

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24. Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker of both SAT1 (representing the Group) and SAT2 for accounting purposes has been identified as the Chief Executive Officer (CEO) of Sydney Airport Holdings Limited.

For years ended 31 December 2012 and 31 December 2011 the CEO considered the business from the aspect of each of the core portfolio airports and identified three operating segments for which it received regular reports. The segments are the investment in Sydney Airport and foreign investments in Brussels Airport and Copenhagen Airports.

Brussels Airport and Copenhagen Airports were disposed of on 7 October 2011, as part of the Asset Swap Proposal (ASP) with Ontario Teachers' Pension Plan. The ASP became binding on 19 July 2011 and these investments ceased to meet the definition of operating segments under AASB 8: *Operating Segments* from that date. At 31 December 2011, Brussels Airport and Copenhagen Airports represented discontinued operations and appropriate disclosures have been made at Note 25.

The investment in Sydney Airport continues to meet the definition of an operating segment under AASB 8: *Operating Segments*.

The operating segments note discloses airport performance by individual core portfolio airport in their respective local currencies. Information is presented at 100.0% of the earnings before interest, tax, depreciation and amortisation (EBITDA). This is consistent with the manner in which information is presented to the CEO to monitor the portfolio asset values. The segments also represent the Groups' geographical segments, determined by the country in which they operate.

Sydney Airport is the only controlled asset where revenues and expenses are consolidated in the Consolidated Statements of Comprehensive Income. All other airport investments were deemed non-controlled investments and were carried at fair value with changes recognised through profit and loss.

Group	Sydney Airport $m	Copenhagen Airports DKKm	Brussels Airport EURm
Year ended 31 December 2012			
Total segment revenue from external customers	1,039.7	-	-
Total segment expenses from external customers	(191.7)	-	-
EBITDA	848.0	-	-
Year ended 31 December 2011			
Total segment revenue from external customers	972.8	1,586.9	188.4
Total segment expenses from external customers	(183.0)	(782.5)	(79.9)
EBITDA	789.8	804.4	108.5

A reconciliation of the segments' EBITDA to profit / (loss) from continuing operations before income tax benefit is shown below:

Group	Sydney Airport $m	Copenhagen Airports DKKm	Brussels Airport EURm	Total $m
Year ended 31 December 2012				
EBITDA	848.0	-	-	
EBITDA of investments carried at fair value	-	-	-	
AUD equivalent	848.0	-	-	848.0
Finance costs				(459.6)
Amortisation and depreciation				(300.1)
Other income and expenses				2.6
Profit from continuing operations before income tax benefit				90.9
Year ended 31 December 2011				
EBITDA	789.8	804.4	108.5	
Less: EBITDA of investments carried at fair value	-	(804.4)	(108.5)	
AUD equivalent	789.8	-	-	789.8
Finance costs				(490.0)
Amortisation and depreciation				(305.8)
Other income and expenses				(8.6)
Loss from continuing operations before income tax benefit				(14.6)

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24. Segment Reporting (continued)

Group	Sydney Airport $m	Other $m	Total $m
At 31 December 2012			
Non-current assets	10,405.7	0.2	10,405.9
Total assets	10,812.1	159.7	10,971.8
Total liabilities	(10,580.6)	1,733.6	(8,847.0)
At 31 December 2011			
Non-current assets	10,491.5	6.0	10,497.5
Total assets	11,951.2	183.3	12,134.5
Total liabilities	(11,398.0)	1,696.3	(9,701.8)

SAT2 Group	Sydney Airport $m
Year ended 31 December 2012	
Total segment revenue from external customers	1,039.7
Total segment expenses from external customers	(191.7)
EBITDA	848.0
Year ended 31 December 2011	
Total segment revenue from external customers	972.8
Total segment expenses from external customers	(183.0)
EBITDA	789.8

A reconciliation of segment EBITDA to profit / (loss) from continuing operations before income tax benefit is shown below:

SAT2 Group	Total $m
Year ended 31 December 2012	
Sydney Airport EBITDA	848.0
Interest income from related parties	127.2
Finance costs	(964.0)
Amortisation and depreciation	(300.1)
Other income and expenses	4.6
Loss from continuing operations before income tax benefit	(284.3)
Year ended 31 December 2011	
Sydney Airport EBITDA	789.8
Less: EBITDA of Sydney Airport carried at fair value	(789.8)
Revaluation gains from investments	314.3
Interest income from related parties	70.9
Finance costs	(434.0)
Amortisation and depreciation	(77.6)
Other income and expenses	188.8
Profit from continuing operations before income tax benefit	62.4

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24. Segment Reporting (continued)

SAT2 Group	Sydney Airport $m	Other $m	Total $m
At 31 December 2012			
Non-current assets	10,405.7	2,239.9	12,645.6
Total assets	10,812.1	2,587.0	13,399.1
Total liabilities	(10,580.6)	(2,136.0)	(12,716.6)
At 31 December 2011			
Non-current assets	10,491.5	2,245.6	12,737.1
Total assets	11,951.2	2,371.7	14,322.9
Total liabilities	(11,398.0)	(1,938.5)	(13,336.5)

25.Discontinued Operations

On 7 October 2011, the Group disposed of entire interest in Copenhagen Airports through the ASP with OTPP announced on 19 July 2011 in exchange for OTPP's direct 4.95% investment in Sydney Airport and $395.1 million net cash consideration.

On 7 October 2011, the Group disposed of its entire interest in Brussels Airport through the ASP with OTPP announced on 19 July 2011 in exchange for OTPP's indirect 9.72% investment in SCAAT and $405.6 million net cash consideration.

Each investment was recorded at fair value and represented a separate operating segment under AASB *8: Operating Segments*. Neither investment was classified as held for sale at 31 December 2011.

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26. Financial Risk Management

26.1. Overview

The Groups have exposure to the following risks arising from financial instruments:

- Market risk;
- Credit risk; and
- Liquidity risk.

This Note presents information about the Groups' exposure to each of the above risks, objectives, policies and processes for measuring and managing risk, and the Groups' management of capital.

26.2. Risk management framework

The Responsible Entity, under policies approved by the board of the Responsible Entity, has overall responsibility for the establishment and oversight of the Groups' risk management framework. The board of the Responsible Entity identifies, evaluates financial risks and provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating interest rate, credit and foreign exchange risks, use of derivative financial instruments and investing excess liquidity.

26.3. Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange will affect the Groups' income or the value of their holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising return.

Market risk exposures are measured using a sensitivity analysis. The Groups enter into interest rate and cross currency swap contracts to manage market risks. There has been no change during the period to the Groups' exposure to market risks or the manner in which it measures or manages market risk.

26.3.1. Interest rate risk

The Groups' interest rate risks arise from long term borrowings and cash and cash equivalents.

Borrowings issued at variable rates expose the Groups to cash flow interest rate risk. Borrowings issued at fixed rates expose the Groups to fair value interest rate risk. The Groups have long term borrowings issued at both fixed and floating interest rates. For floating rate exposures, the Groups partially hedge the exposure by entering into interest rate and cross currency swaps, whereby the Groups agree with their counterparties to exchange at specified intervals the difference between the fixed contract rates and floating rate amounts calculated by reference to the agreed notional principal amounts.

The Groups' policy is to ensure that in the medium term a minimum of 75.0% of its senior debt is either issued at a fixed rate or hedged through the use of interest rate swaps on a five year, look forward basis. At 31 December 2012, 95.9% (31 December 2011: 84.4%) of senior drawn borrowings were either fixed rate or hedged through interest rate swaps.

The Groups manage their cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Groups raise long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Groups borrowed at fixed rates directly. Under the interest rate swaps, the Groups agree with other parties to exchange at quarterly intervals the difference between fixed contract rates and floating interest rate amounts calculated by reference to the agreed notional principal amounts.

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26. Financial Risk Management (continued)

The table below details the notional principal amounts and remaining terms of floating for fixed interest rate swap contracts outstanding at 31 December 2012:

	Average contracted fixed interest rates		Notional principal amount		Fair value	
	31 Dec 2012 %	31 Dec 2011 %	31 Dec 2012 $m	31 Dec 2011 $m	31 Dec 2012 $m	31 Dec 2011 $m
1 year or less	-%	5.63%	-	2,936.0	-	(20.3)
1 to 2 years	4.53%	-%	391.0	-	(11.2)	-
2 to 5 years	5.86%	5.83%	3,282.3	3,673.3	(261.2)	(193.6)
5 years or more	4.17%	5.51%	1,044.1	259.3	(42.9)	(19.2)
			4,717.4	6,868.6	(315.3)	(233.1)

Interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is Australian BBSW or BBSY. The Groups settle the difference between the fixed and floating interest rate on settlement.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Groups' cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

At 31 December 2012, the table below reflects the weighted average interest rates of senior debt instruments and the carrying value of senior debt instruments (including the impact of cross currency swaps), and Sydney Kingsford Smith Interest Earning Securities (SKIES):

	Weighted average interest rate		Carrying value	
	31 Dec 2012 %	31 Dec 2011 %	31 Dec 2012 $m	31 Dec 2011 $m
Senior debt (including swaps)	6.22%	6.41%	6,222.2	6,020.4
SKIES	-%	6.72%	-	650.0
	6.22%	6.44%	6,222.2	6,670.4

26.3.1.1. Interest rate sensitivity

The following table summarises the impact of an increase / (decrease) of interest rates by 150 basis points (2011: 150 basis points) while all other variables were held constant. 150 basis points is used when reviewing interest rates internally by key finance management and represents their assessment of a possible change in interest rates over a 12 month period.

	Impact on profit after tax		Impact on equity net of tax	
	Group +/- $m	SAT2 +/- $m	Group +/- $m	SAT2 +/- $m
31 December 2012				
Interest rates - 150 basis point increase	10.9	40.5	166.3	166.3
Interest rates - 150 basis point decrease	(10.9)	(40.5)	(179.3)	(179.3)
	-	-	(13.0)	(13.0)
31 December 2011				
Interest rates - 150 basis point increase	(15.4)	12.9	148.3	148.3
Interest rates - 150 basis point decrease	15.4	(12.9)	(160.0)	(160.0)
	-	-	(11.7)	(11.7)

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26. Financial Risk Management (continued)

26.3.2. Foreign exchange risk

Foreign exchange risk arises when recognised assets and liabilities and future commercial transactions are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Groups are, from time to time, exposed to minor foreign exchange risk arising from currency exposures, primarily in respect to the US dollar, Canadian dollar and the Euro. To manage foreign exchange risk arising from future commercial transactions, entities in the Groups may use forward contracts, transacted by Group Treasury. The Groups' risk management policy as part of the Groups' risk management framework is to fully hedge foreign currency exposures related to borrowings and to hedge foreign currency exposures relating to revenue or operating expenditure and capital expenditure over certain thresholds.

26.3.3. Hedged foreign exchange risk

The table below outlines the Groups' exposure to foreign exchange risk that is hedged by forward contracts:

	31 Dec 2012 $USDm	31 Dec 2012 $CADm	31 Dec 2012 Total equivalent $AUDm	31 Dec 2011 $USDm	31 Dec 2011 $CADm	31 Dec 2011 Total equivalent $AUDm
Senior secured notes	(1,325.0)	(225.0)	(1,538.4)	(500.0)	(225.0)	(736.1)
Cross currency swaps	1,325.0	225.0	1,538.4	500.0	225.0	736.1
	-	-	-	-	-	-

At 31 December 2012 the Groups had no exposure to foreign exchange risk on the above secured senior notes (2011: $Nil).

Sydney Airport Finance Company Pty Limited, a subsidary of SCACH, has a total of US$1,325.0 million in guaranteed senior secured notes maturing in 2021 and 2023 into the US 144A/RegS bond markets. The total US dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

Sydney Airport Finance Company Pty Limited has issued CAD$225.0 million in guaranteed senior secured notes maturing in 2018 into the Canadian Maple bond markets. The total Canadian dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

As the foreign currency exposures are fully hedged, a strengthening or weakening of the Australian dollar will have no impact on profit or loss or equity.

26.3.4. Unhedged foreign exchange risk

In assessing unhedged foreign exchange risk, management has assumed the following movements against the Australian dollar:

	Movement against Australian dollar	
Currency pairing	**2012**	**2011**
Euro	11.10%	11.60%
Danish Krone	N/A	11.60%
Weighted average	11.10%	11.60%

The Groups hold an unhedged balance in cash and cash equivalents of EUR 43,468 (2011: EUR 86,913) at 31 December 2012. A +/- 11.10% movement in the Australian Dollar would not lead to a material effect in the Consolidated Statements of Comprehensive Income.

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26. Financial Risk Management (continued)

26.5. Credit risk

Credit risk is the risk of financial loss to the Groups if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Groups' receivables from customers and investment securities.

The Groups limit their exposure in relation to cash balances by only dealing with well established financial institutions of high quality credit standing. The Groups only accept independently rated parties with minimum ratings of A2. The board of the Responsible Entity occasionally sets exposure limits to financial institutions and these are monitored on an on-going basis. Sound credit risk management involves prudently managing the risk and reward relationship and controlling and minimising credit risks across a variety of dimensions such as quality, concentration, maturity and security.

The Groups have significant concentrations of credit risk in trade receivables, of which approximately 40% to 50% relate to the aeronautical industry. At 31 December 2012, less than 5.0% (2011: 5.0%) of trade receivables were overdue.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Groups' maximum exposure to credit risk without taking into account the value of any collateral obtained. The credit quality of all financial assets that are neither past due nor impaired is considered appropriate and is constantly monitored by management in order to identify any potential adverse changes in credit quality.

There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Group	Governments $m	Financial institutions $m	Corporates $m	Total $m
31 December 2012				
Cash and cash equivalents	-	433.7	-	433.7
Receivables	-	1.0	119.8	120.8
Other financial assets	-	15.3	-	15.3
	-	450.0	119.8	569.8
31 December 2011				
Cash and cash equivalents	-	1,124.3	-	1,124.3
Receivables	401.5	1.4	117.3	520.2
	401.5	1,125.7	117.3	1,644.5

SAT2 Group	Governments $m	Financial institutions $m	Corporates $m	Total $m
31 December 2012				
Cash and cash equivalents	-	421.8	-	421.8
Receivables	-	0.9	119.8	120.7
Other financial assets	-	15.3	-	15.3
	-	438.0	119.8	557.8
31 December 2011				
Cash and cash equivalents	-	1,002.3	-	1,002.3
Receivables	401.5	1.4	117.3	520.2
	401.5	1,003.7	117.3	1,522.5

Further SAT2 Group credit risk exposure relates to a $2,438.6 million (2011: $2,311.4 million) receivable, due from SAT1.

26.5.1. Governments

The credit risk to government relates to amounts that are receivable from the Australian government.

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26. Financial Risk Management (continued)

26.5.2. Financial institutions

The credit risk against financial institutions relates to cash held by, receivables due from and negotiable certificates of deposit, commercial paper and term deposits that have been purchased from Australian and other OECD banks. In line with the credit risk policies of the Groups these counterparties must meet a minimum credit rating of A2.

26.5.3. Corporates

The credit risk against corporates relates to aeronautical, retail and property trade receivables at the airport asset level. These counterparties have a range of credit ratings.

26.6. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Groups have a prudent liquidity management policy which manages liquidity risk by monitoring the stability of funding, surplus cash and near cash assets, anticipated cash in and outflows and exposure to connected parties.

26.6.1. Maturity of interest bearing liabilities

The tables below disclose the Groups' contractual maturity for their interest bearing liabilities. The tables disclose the undiscounted cash flows of financial liabilities based on the earliest date on which the Groups are required to repay. The interest column represents unamortised borrowing costs.

	Total contractual cashflows				
Group	**1 year or less $m**	**1 to 5 years $m**	**5 years or more $m**	**Interest $m**	**Carrying value $m**
31 December 2012					
Bank facilities	-	718.5	15.5	(18.0)	716.0
Medium Term Notes	217.0	1,175.0	3,179.7	(61.1)	4,510.6
Capital Index Bonds	-	-	1,009.7	(41.9)	967.8
SCACH Redeemable Preference Shares	-	-	248.0	(3.7)	244.3
	217.0	1,893.5	4,452.9	(124.7)	6,438.7
31 December 2011					
Bank facilities	-	801.6	245.0	(20.4)	1,026.2
Medium Term Notes	276.4	1,392.0	2,419.4	(55.4)	4,032.4
Capital Index Bonds	-	-	992.8	(54.6)	938.2
SCACH Redeemable Preference Shares	-	-	248.0	(4.5)	243.5
SKIES	670.7	-	-	-	670.7
	947.1	2,193.6	3,905.2	(134.9)	6,911.0

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26. Financial Risk Management (continued)

SAT2 Group	Total contractual cashflows 1 year or less $m	 1 to 5 years $m	 5 years or more $m	Interest $m	Carrying value $m
31 December 2012					
Bank facilities	-	718.5	15.5	(17.9)	716.1
Medium Term Notes	217.0	1,175.0	3,179.7	(61.1)	4,510.6
Capital Index Bonds	-	-	1,009.7	(41.9)	967.8
SCACH Redeemable Preference Shares	-	-	385.2	(5.8)	379.4
MASH Redeemable Preference Shares	-	-	871.9	-	871.9
MASKS1 Redeemable Preference Shares	-	-	249.2	-	249.2
MASKS2 Redeemable Preference Shares	-	-	1,165.8	-	1,165.8
MASKS3 Redeemable Preference Shares	-	-	88.4	-	88.4
MASKS4 Redeemable Preference Shares	-	-	496.2	-	496.2
MASHT Redeemable Preference Shares	-	-	241.5	-	241.5
Loans from SAT1	-	-	458.6	-	458.6
Reclassification of RPS interest payable	-	-	-	(44.8)	(44.8)
	217.0	1,893.5	8,161.7	(171.5)	10,100.7
31 December 2011					
Bank facilities	-	801.6	245.0	(20.4)	1,026.2
Medium Term Notes	276.4	1,392.0	2,419.4	(55.4)	4,032.4
Capital Index Bonds	-	-	992.8	(54.6)	938.2
SCACH Redeemable Preference Shares	-	-	385.2	(7.0)	378.2
SKIES	670.7	-	-	-	670.7
MASH Redeemable Preference Shares	-	-	871.9	-	871.9
MASKS1 Redeemable Preference Shares	-	-	249.2	-	249.2
MASKS2 Redeemable Preference Shares	-	-	1,165.8	-	1,165.8
MASKS3 Redeemable Preference Shares	-	-	88.4	-	88.4
MASKS4 Redeemable Preference Shares	-	-	496.2	-	496.2
MASHT Redeemable Preference Shares	-	-	241.5	-	241.5
Loans from SAT1	-	-	328.5	-	328.5
Reclassification of RPS interest payable	-	-	-	(20.6)	(20.6)
	947.1	2,193.6	7,483.9	(158.0)	10,466.6

26.7. Capital management

The Groups' capital management objectives are to:

- Ensure sufficient capital resources to support the Groups' business and operational requirements; and
- Safeguard the Groups' abilities to continue as going concerns.

Periodic reviews of the Groups' capital requirements are performed to ensure the Groups are meeting their objectives.

Capital is defined as contributed equity plus reserves. At 31 December 2012 the Groups' only externally imposed capital requirement arises as a consequence of SAHLs Australian Financial Services Licence (AFSL). Under the terms of its AFSL, SAHL is required to maintain a minimum of $5,000,000 of net tangible assets (NTA) and $50,000 surplus liquid funds (SLF) at all times. SAHLs NTA and SLF positions and compliance with the licence's capital requirements are managed on an ongoing basis with formal testing performed monthly.

During the current and prior periods, SAHL has continued to meet its capital requirements under the licence and no breaches have occurred.

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26. Financial Risk Management (continued)

26.8. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Groups is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Discounted cash flows are used to determine fair value for the remaining financial instruments (refer Notes 1.7.1 and 1.23). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. For all financial instruments except those noted below, the fair value approximates the carrying value.

	Carrying amount		Fair value	
Group	31 Dec 2012 $m	31 Dec 2011 $m	31 Dec 2012 $m	31 Dec 2011 $m
Financial liabilities				
Medium Term Notes	1,720.7	1,008.8	2,143.3	1,230.9
SCACH Redeemable Preference Shares	244.3	243.5	414.9	535.0
SKIES	-	670.7	-	679.7
	1,965.0	1,923.0	2,558.2	2,445.6

The Groups have adopted AASB 7: *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Groups' assets and liabilities measured and recognised at fair value at 31 December 2012:

Group	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 December 2012				
Assets				
Other financial assets	-	-	5.1	5.1
	-	-	5.1	5.1
Liabilities				
Derivatives used for hedging	-	351.2	-	351.2
	-	351.2	-	351.2

Group	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 December 2011				
Assets				
Investment in financial assets	-	-	5.1	5.1
	-	-	5.1	5.1
Liabilities				
Derivatives used for hedging	-	250.6	-	250.6
	-	250.6	-	250.6

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27. Commitments

27.1. The Groups

SCACH has commitments of $31.2 million (2011: $66.1million) in relation to capital expenditure.

SCACH has entered into operating leases for the storage and shipment of containers. The lease period expires in 2031. Below are details of the minimum lease payments in relation to the operating lease payments:

	Consolidated 2012 $m	Consolidated 2011 $m
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	0.1	0.1
Later than one year but not later than five years	0.5	0.5
Later than five years	1.7	1.8
	2.3	2.4

SCACH leases common user terminal equipment with a carrying value of $6.0 million expiring in February 2014. Under the terms of the lease, Sydney Airport has the option to acquire the leased assets for $1 at date of expiry. Below are details of the minimum lease payments in relation to the finance lease payments:

	Consolidated 2012 $m	Consolidated 2011 $m
Commitments for minimum lease payments in relation to finance leases:		
Within one year	2.3	2.4
Later than one year but not later than five years	0.4	2.7
Less: future finance charges	(0.1)	(0.5)
Recognised as a liability	2.6	4.6

28. Parent Entity Disclosures

As at, and throughout year ended 31 December 2012 SAT1 was deemed to be the parent entity of the Group (refer Note 1.2).

As at, and throughout year ended 31 December 2012 SAT2 was deemed to be the parent entity of the SAT2 Group.

	SAT1 31 Dec 2012 $m	SAT1 31 Dec 2011 $m	SAT2 31 Dec 2012 $m	SAT2 31 Dec 2011 $m
Result of the parent entity				
Profit / (loss) after income tax (expense) / benefit	390.8	386.1	(58.8)	(4.0)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	390.8	386.1	(58.8)	(4.0)
Financial position of parent entity at year end				
Current assets	356.4	364.0	119.7	0.3
Total assets	4,456.1	4,329.3	5,774.3	5,647.6
Current liabilities	385.3	258.4	92.8	17.7
Total liabilities	2,624.8	2,497.9	2,218.4	2,038.8
Total equity of the parent entity comprising of:				
Contributed equity	2,315.1	2,315.1	1,949.2	1,949.2
Retained profits	229.4	229.4	1,606.7	1,659.6
Reserves	(713.2)	(713.2)	-	-
Total equity	1,831.3	1,831.3	3,555.9	3,608.8

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for year ended 31 December 2012

28. Parent Entity Disclosures (continued)

28.1. Parent entity contingencies

At 31 December 2012 the Parent Entities have no contingent assets or liabilities which are material either individually or as a class (2011: $Nil).

SAT2 is the parent entity of the SAT2 Tax Consolidated Group (SAT2 TCG). At 31 December 2012 no tax liabilities exist within the SAT2 TCG (2011: $Nil).

28.2. Parent entity capital commitments for acquisition of property, plant and equipment

At 31 December 2012 the Parent Entities have not made any capital commitments for acquisition of property, plant and equipment (2011: $Nil).

28.3. Parent entity guarantees in respect of the debts of its subsidiaries

At 31 December 2012 the Parent Entities have not made any guarantees in respect of the debts of their subsidiaries (2011: $Nil).

29. Contingent Assets and Liabilities

On 20 December 2012, the Australian Tax Office (ATO) delivered to the Sydney Airport Trust 2 (SAT2) Tax Consolidated Group (the TCG) a position paper related to the tax years ended 31 December 2010 and 31 December 2011. The position paper forms part of a continuing specific issue tax audit by the ATO on the tax deductibility of distributions on certain redeemable preference shares (RPS) issued by members of the TCG to Sydney Airport Trust 1 (SAT1).

The quantum of RPS principal in question in the position paper is $872.0 million, or 28% of the total RPS currently issued by members of the TCG to SAT1.

At the date of the financial report, the ATO has not quantified a tax payable amount in the position paper nor issued an amended notice of assessment. Currently there is no present obligation that would require a provision in the financial report. However, if the conclusions of the position paper carry forward to an adverse determination by the ATO, and that determination is ultimately sustained, the Group estimates that it would result in additional primary tax payable by the TCG for the two years to 31 December 2011 of up to $79.0 million plus any interest and penalties.

The Group has debt facilities in place which are available to be utilised to fund the amount which is anticipated could be immediately payable if any potential tax liabilities were to arise.

SAHL provided a comprehensive set of representations and warranties in respect of the sale of Cophenhagen Airports and Brussels Airport on 7 October 2011, which were more commensurate with those normally provided by an owner / operator than a minority investor. OTPP was indemnified for OTPP's share of the challenged withholding tax liabilities, should they ever materialise, arising from the Danish Tax Office's current assessments to Copenhagen Airports Denmark Holdings. There are also indemnities for litigation at Brussels Airport and other contingent liabilities.

At 31 December 2012 the Groups have no other contingent assets or liabilities which are material either individually or as a class (2011: $Nil).

30. Events Occurring after Balance Sheet Date

A final distribution of 10.0 cents (2011: 10.0 cents) per stapled security was paid by SAT1 on 14 February 2013.

Since the end of the year, the directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the operations of the Groups, the results of those operations or the state of affairs of the Groups in the period subsequent to year ended 31 December 2012.

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Statement by the Directors of the Responsible Entity of Sydney Airport Trust 1

In the opinion of the directors of Sydney Airport Holdings Limited, the Responsible Entity of SAT1:

a. the consolidated financial statements and notes for SAT1 set out on pages 19 to 79 and the Remuneration report in the Directors' report (set out on pages 2 to 17), are in accordance with the *Corporations Act 2001*, including:
   i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory reporting requirements;
   ii. giving a true and fair view of the Group's financial position at 31 December 2012 and of its performance for the financial year ended on that date; and

b. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for year ended 31 December 2012.

The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the directors.

Max Moore-Wilton

Sydney

26 February 2013

Trevor Gerber

Sydney

26 February 2013

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Statement by the Directors of the Responsible Entity of Sydney Airport Trust 2

In the opinion of the directors of Sydney Airport Holdings Limited, the Responsible Entity of SAT2:

a. the consolidated financial statements and notes for SAT2 set out on pages 19 to 79 and the Remuneration report in the Directors' report (set out on pages 2 to 17), are in accordance with the *Corporations Act 2001*, including:
    i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements;
    ii. giving a true and fair view of the SAT2 Group's financial position at 31 December 2012 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the SAT2 Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for year ended 31 December 2012.

The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the directors.

Max Moore-Wilton

Sydney

26 February 2013

Trevor Gerber

Sydney

26 February 2013

Independent auditor's report to the members of Sydney Airport Trust 1 and Sydney Airport Trust 2

Report on the financial reports

We have audited the accompanying financial reports of Sydney Airport and Sydney Airport Trust 2, which comprise the consolidated balance sheets as at 31 December 2012, and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory information and the directors' declaration for Sydney Airport and Sydney Airport Trust 2 (the 'Groups'). Sydney Airport comprises Sydney Airport Trust 1 and the entities it controlled during the year, which are deemed to include Sydney Airport Trust 2 and the entities it controlled during the year. Sydney Airport Trust 2 comprises Sydney Airport Trust 2 and the entities it controlled during the year.

Directors' responsibility for the financial reports

The directors of the Sydney Airport Holdings Limited (the Responsible Entity) are responsible for the preparation of the financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that are free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Groups comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial reports based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reports. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial reports that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial reports.

We performed the procedures to assess whether in all material respects the financial reports present fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Groups' financial position and of their performance.

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

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial reports of the Groups are is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Groups' financial position as at 31 December 2012 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial reports also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in of the directors' report for the year ended 31 December 2012. The directors of the Responsible Entity are responsible for the preparation and presentation of the remuneration reports in accordance with the basis of preparation of the Remuneration Reports as described within the Remuneration Reports. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Reports of Sydney Airport and Sydney Airport Trust 2 for the year ended 31 December 2012, complies with the basis preparation of the Remuneration Reports as described within the Remuneration Reports.

KPMG

KPMG

Andrew Yates
Partner

Sydney

26 February 2013