

SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED



**Sydney
Airport**

The right future.
Starting now.

INTERIM FINANCIAL REPORT FOR HALF YEAR ENDED
30 JUNE 2013

Index

Directors' Report	2
Lead Auditor's Independence Declaration to Directors	8
Auditor's Review Report to Members	9
Directors' Declaration	11
Consolidated Income Statement	12
Consolidated Statement of Comprehensive Income	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Cash Flow	15
Consolidated Statement of Changes in Equity	16
Notes to the Financial Report	17

Directors' Report

for half year ended 30 June 2013

This interim financial report for the half year ended 30 June 2013 covers the consolidated entity ("the Group") comprising Southern Cross Airports Corporation Holdings Limited ("SCACH") (ACN 098 082 029) and its controlled entities. The Group's functional and presentation currency is Australian dollars ("\$"), rounded to the nearest hundred thousand.

Directors

The names and particulars of the directors of SCACH during the period and until the date of this report were as follows:

Names	Appointment Date	Resignation Date
Max Moore-Wilton, Chairman	22 January 2003	-
Kerrie Mather, Chief Executive Officer	27 June 2002	-
Patrick Gourley	10 September 2002	-
Holger Linkweiler	17 October 2005	21 August 2013
John Roberts	15 February 2006	-
Don Huse	15 December 2008	31 January 2013
Trevor Gerber	4 January 2012	-
Bob Morris	4 January 2012	-
Michael Lee	4 January 2012	-
Stephen Ward	4 January 2012	-

The names of the alternate directors of SCACH during the period and until the date of this report were as follows:

Alternate Directors	Appointment Date	Resignation Date
Graham Matthews (for P Gourley)	28 October 2011	-
Kerrie Mather (for J Roberts)	15 February 2006	-
Kerrie Mather (for M Moore-Wilton)	25 June 2008	-
John Roberts (for K Mather)	15 February 2006	-
John Roberts (for M Moore-Wilton)	25 June 2008	-
Gerhard Schroeder (for H Linkweiler)	1 October 2011	21 August 2013
Max Moore-Wilton (for J Roberts)	25 June 2008	-
Max Moore-Wilton (for K Mather)	25 June 2008	-

Directors were in office for this entire period unless otherwise stated.

Company secretary

Mr Jamie Motum BEc, LLB is General Counsel and Company Secretary. Mr Motum was appointed Company Secretary on 23 February 2010. He was previously a partner of DLA Phillips Fox.

Directors' Report

for half year ended 30 June 2013

Corporate structure

SCACH is a company limited by shares that is incorporated and domiciled in Australia. The SCACH consolidated financial report incorporates the following wholly-owned subsidiaries controlled by it during the half year:

- Southern Cross Airports Corporation Pty Limited ("SCAC")
- Sydney Airport Corporation Limited ("SACL")
- Sydney Airport Finance Company Pty Limited ("FinCo")
- Sydney Airport RPS Company Pty Limited ("RPSCo")

All companies in the SCACH Group (as listed above) have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Class Order 98 /1418.

Registered office

SCACH's registered office is 10 Arrivals Court, Sydney International Airport, Mascot, NSW, Australia 2020.

Principal activities

The principal activities of the Group are the provision and management of airport facilities at Sydney (Kingsford Smith) Airport. These airport facilities include commercial operations and property management. The nature of the consolidated entity's business has not changed during the reporting period.

Review of operations and results

The consolidated entity earned a profit before depreciation and amortisation, net borrowing costs and income tax (EBITDA) of \$436.9 million for the half year ended 30 June 2013 (30 June 2012: \$411.1 million). EBITDA excluding specific expenses (predominantly restructuring and redundancy costs) was \$436.9 million (30 June 2012: \$412.1 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was \$31.8 million (30 June 2012: \$48.0 million). This net loss is after deducting redeemable preference share distributions to shareholders totalling \$140.7 million (30 June 2012: \$141.0 million) which are held by the ordinary shareholders in their same proportions.

Total expenses excluding specific expenses was \$101.1 million (30 June 2012: \$91.6 million). Total expenses including specific expenses were \$101.1 million (30 June 2012: \$92.6 million). Depreciation and amortisation costs were \$114.2 million (30 June 2012: \$112.0 million).

Net finance costs were \$359.8 million (30 June 2012: \$360.1 million) and includes interest expense payable to third parties totalling \$222.4 million (30 June 2012: \$221.5 million), and redeemable preference share distributions to shareholders totalling \$140.7 million (30 June 2012: \$141.0 million).

Management uses the above measures in comparing the Group's historical performance and believes that they provide meaningful and comparable information to users to assist in their analysis of performance relative to prior periods. EBITDA is the key component in calculating SCACH's interest coverage ratios and its distributions to shareholders, the key performance measures for debt and equity providers respectively.

Non-IFRS financial information in this directors' report has not been audited or reviewed by the external auditors, but has been sourced from the financial report.

Directors' Report

for half year ended 30 June 2013

Financial performance and position

The table below shows an approximation of the SCACH Distribution calculation for the six months to 30 June 2013 (the calculation is conducted quarterly on a rolling annual basis). The final result aligns with distributions declared by SCACH to its investors during the period. In addition, the table shows the reconciliation between the SCACH statutory result and distributions.

	30 June 2013 \$m ¹	30 June 2012 \$m ¹
Loss before income tax expense ²	(37)	(61)
Add back: interest on redeemable preference shares ("RPS") held by ordinary shareholders ²	141	141
Add back: depreciation and amortisation ²	114	112
Profit before tax, shareholder interest, depreciation and amortisation	218	192
Add back non-cash financial expenses		
- Fair value adjustment to interest swaps not qualifying as hedges ³	1	4
- Amortisation of deferred debt establishment costs and other borrowing costs ³	5	10
- Capital indexed bonds ("CIB's") capitalised ³	15	13
- Borrowing costs capitalised ³	(4)	(4)
Non-cash financial expenses	17	23
Add / subtract other cash movements		
Movement in cash balances reserved for specific purposes ⁴	(1)	34
Other	1	(6)
Other cash movements	-	28
Cash flow available to shareholders	235	243

¹ Numbers are rounded to the nearest million and may not exactly match the financial report which are rounded to the nearest hundred thousand.

² These numbers are taken from the Consolidated Income Statement of SCACH Interim Financial Report to 30 June 2013.

³ Refer to Note 2(a) in the Notes to the Financial Report.

⁴ Refer to Note 9 in the Notes to the Financial Report.

Directors' Report

for half year ended 30 June 2013

The following table shows the net senior debt and selected ratios as at 30 June 2013.

	30 June 2013 \$m ¹	31 December 2012 \$m ¹	30 June 2012 \$m ¹
Gross total debt ²	6,500	6,402	6,259
Less: total cash ³	(264)	(298)	(241)
Net senior debt	6,236	6,104	6,018
EBITDA (12 months historical)	874 ⁴	848	819
Net senior debt / EBITDA	7.1x	7.2x	7.3x
Cashflow cover ratio⁵	2.2	2.2	2.1

¹ Numbers are rounded to the nearest million and may not exactly match the financial report which are rounded to the nearest hundred thousand.

² Gross total debt refers to principal amount drawn, (refer to Note 6) and excludes shareholder related borrowing (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds.

³ Refer to Note 9.

⁴ Calculated as 12 months to December 2012 \$848 million (extracted from the audited SCACH Financial Report for the year ended 31 December 2012) add 6 months to June 2013 \$437 million less 6 months to June 2012 \$411 million.

⁵ Cashflow cover ratio is calculated using defined terms in the Group's debt documents, summarised as cashflow divided by senior debt interest expense for a rolling 12 month period.

As at 30 June 2013, there is \$217.0 million of debt due to mature in November 2013 which is covered by undrawn committed bank debt facilities. There is no further debt due to mature until November 2014. The Group had \$1,022.0 million (30 June 2012: \$967.0 million) in committed undrawn facilities available.

As part of the ongoing financing arrangements, the Group has received an unconditional guarantee from the parent and other members of the SCACH Group under the Security Trust Deed. Under the Security Trust Deed, each guarantor unconditionally and irrevocably guarantees the due and punctual payment of external borrowings.

Sydney Airport Finance Company Pty Limited's senior secured debt credit ratings assigned by Standard & Poor's, Moody's and Fitch remain at BBB, Baa2 and BBB respectively.

The consolidated entity has an established corporate treasury function responsible for managing the consolidated entity's finance facilities, cash balances and interest rate risks. The corporate treasury function operates within policies set by the Board which are consistent with the consolidated entity's various debt agreements.

Independent valuation

As at 30 June 2013, the Group has net liabilities of \$1,719.6 million (31 December 2012: \$1,600.3 million). An independent valuation by Deloitte as at 31 December 2012 supported an Equity Value that, if applied in the financial report of the Group as at 30 June 2013, would have more than absorbed the consolidated deficiency position at 30 June 2013.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2012. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

A new valuation will be carried out for each financial year end or as otherwise required.

Directors' Report

for half year ended 30 June 2013

Dividends and distributions

In 2002, and subsequently, the economic equity for the SCACH Group was contributed in the form of ordinary shares issued, each stapled 1:1 to a redeemable preference shares ("RPS"). The right to receive payments on the RPS held by the ordinary shareholders is subordinated to senior debt and ordinary creditors of the Group. Despite this subordination, and the fact that the RPS are stapled to the ordinary shares, under current accounting standards:

- the \$2,020.3 million carrying value of the RPS at 30 June 2013 is classified as borrowings rather than equity; and
- the \$137.8 million RPS interest paid to shareholders during the period is included as interest expense rather than as a distribution of profits.

The Consolidated Income Statement and Consolidated Statement of Cash Flow identify the portion of net finance costs that relate to external financing activities and shareholder related financing activities. Interest on RPS is only paid to shareholders after all other financial obligations of the Group have been met. Shareholders have no acceleration rights if interest is not paid.

	Half year ended 30 June 2013 \$m	Half year ended 30 June 2012 \$m
- On ordinary shares ⁽ⁱ⁾	93.6	83.9
- On redeemable preference shares ("RPS") ⁽ⁱ⁾	137.8	138.6
	231.4	222.5

⁽ⁱ⁾ Represents cash paid as per the Consolidated Statement of Cash Flow

Post balance date, the ASX-listed Sydney Airport entered into agreements to acquire the remaining 15.2% non-controlling interests in SCACH to move to 100% ownership. No dividends and distributions were approved in respect of the quarter ended 30 June 2013. In respect of the quarter ended 30 June 2012, the directors approved a final ordinary dividend of \$36.4 million and an RPS distribution of \$68.9 million.

Significant changes in the state of affairs

There were no significant changes in the state of the affairs of the Group during the reporting period, aside from changes in borrowings, as a result of normal financing activities.

Significant events after the balance date

Post balance date, the ASX-listed Sydney Airport entered into agreements to acquire the remaining 15.2% non-controlling interests in SCACH to move to 100% ownership. A loan of \$112.3 million was made to Sydney Airport Trust 2, a related party. The loan was entered into on 14 August 2013, with interest on the loan being charged at 4.0% p.a.

Other than the matter referred to above, and those referred to elsewhere in the financial report, there has not been any matter or circumstance that has arisen since the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future reporting periods.

Auditor's independence declaration

The auditor's independence declaration required under section 307C of the Corporations Act 2001 is included on page 8 of the financial report.

Directors' Report

for half year ended 30 June 2013

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise indicated under the option available to SCACH under ASIC Class Order 98/0100, dated 10 July 1998. SCACH is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the Directors



Max Moore-Wilton

Sydney

21 August 2013



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

To: the directors of Southern Cross Airports Corporation Holding Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Eileen Hoggett, written in black ink.

Eileen Hoggett
Partner

Sydney

21 August 2013



Independent auditor's review report to the members of Southern Cross Airports Corporation Holdings Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Southern Cross Airports Corporation Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2013, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Southern Cross Airports Corporation Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG



Eileen Hoggett
Partner

Sydney

21 August 2013

Directors' Declaration

for half year ended June 2013

In the opinion of the directors of Southern Cross Airports Corporation Holdings Limited ("the Company"):

1. The financial statements and notes set out on pages 12 to 26 are in accordance with the Corporations Act 2001 including:
 - a. Giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the six month period ended on that date; and
 - b. Complying with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.



Max Moore-Wilton

Sydney

21 August 2013

Financial Report

for half year ended 30 June 2013

Consolidated Income Statement

	Note	30 June 2013 \$m	30 June 2012 \$m
Revenue			
Aeronautical revenue		223.6	209.2
Aeronautical security recovery	3	42.0	38.2
Retail revenue		116.4	115.4
Property and car rental revenue		90.3	81.7
Car parking and ground transport revenue		62.9	56.4
Other		2.7	2.7
Total revenue		537.9	503.6
Other income			
Profit on disposal of non-current assets		0.1	0.1
Expenses			
Channel related initiatives		(1.8)	(2.2)
Employee benefits expense		(20.4)	(18.7)
Services and utilities		(25.0)	(21.8)
Other operational costs		(8.2)	(7.5)
Property and maintenance		(9.0)	(8.7)
Recoverable aeronautical security expenses	3	(36.7)	(32.7)
Specific expenses:			
Restructuring and redundancy	2(b)	-	(1.0)
Total expenses before depreciation, amortisation and finance costs		(101.1)	(92.6)
Earnings before depreciation and amortisation, finance costs and income tax (EBITDA)			
Depreciation and amortisation		(114.2)	(112.0)
Earnings before finance costs and income tax (EBIT)		322.7	299.1
<i>External finance (costs) / income:</i>			
Interest income	2(a)	4.7	6.3
Change in fair value of interest rate swaps not qualifying as hedges	2(a)	(1.3)	(3.6)
Borrowing costs – SKIES	2(a)	-	(0.4)
Borrowing costs – senior debt	2(a)	(222.4)	(221.1)
Interest on finance leases	2(a)	(0.1)	(0.3)
Total external finance costs ⁽ⁱ⁾	2(a)	(219.1)	(219.1)
<i>Shareholder related finance costs:</i>			
Interest on redeemable preference shares held by ordinary shareholders ⁽ⁱⁱ⁾	2(a)	(140.7)	(141.0)
Total finance costs	2(a)	(359.8)	(360.1)
Loss before income tax expense ⁽ⁱⁱⁱ⁾		(37.1)	(61.0)
Income tax benefit		5.3	13.0
Net loss for the period attributable to owners of the company		(31.8)	(48.0)

Notes to the financial statements are included on pages 17 to 26.

⁽ⁱ⁾ Borrowing costs include interest expense, amortisation of debt establishment costs and swap interest.

⁽ⁱⁱ⁾ Redeemable preference shares ("RPS") are stapled to ordinary shares. Interest on RPS is only paid to shareholders after all other financial obligations of the Group have been met. Shareholders have no acceleration rights if interest is not paid.

⁽ⁱⁱⁱ⁾ This figure includes \$140.7 million (30 June 2012: \$141.0 million) of interest expense on RPS to ordinary shareholders, which is only paid after all other financial obligations to the Group have been met.

Financial Report

for half year ended 30 June 2013

Consolidated Statement of Comprehensive Income

	30 June 2013 \$m	30 June 2012 \$m
Net loss for the period	(31.8)	(48.0)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in fair value of cash flow hedges	8.7	(77.7)
Tax on items that may be reclassified subsequently to profit or loss	(2.6)	23.3
Total items that may be reclassified subsequently to profit or loss	6.1	(54.4)
Other comprehensive income/(loss) for the period, net of tax	6.1	(54.4)
Total comprehensive loss for the period	(25.7)	(102.4)
Attributable to:		
Owners of the company	(25.7)	(102.4)

Notes to the financial statements are included on pages 17 to 26.

Financial Report

as at 30 June 2013

Consolidated Statement of Financial Position

	Note	30 June 2013 \$m	31 December 2012 \$m
Current assets			
Cash and cash equivalents	9	263.6	298.6
Trade and other receivables		107.8	106.9
Other assets		4.9	2.5
Total current assets		376.3	408.0
Non-current assets			
Property, plant and equipment		2,461.3	2,457.1
Intangibles	5	3,299.4	3,319.0
Goodwill		688.3	688.3
Trade and other receivables		40.2	43.5
Other assets		10.3	11.8
Deferred tax assets		319.5	316.8
Total non-current assets		6,819.0	6,836.5
Total assets		7,195.3	7,244.5
Current liabilities			
Trade and other payables		216.3	242.2
Provisions		9.5	9.0
Borrowings - external	6	216.8	216.5
Derivative financial instruments	8	137.8	146.9
Finance lease liabilities		1.5	2.2
Total current liabilities		581.9	616.8
Non-current liabilities			
Borrowings – external	6	6,282.5	6,005.7
Borrowings – shareholder related	7	2,020.3	2,016.6
Provisions		1.3	1.0
Derivative financial instruments	8	28.9	204.3
Finance lease liabilities		-	0.4
Total non-current liabilities		8,333.0	8,228.0
Total liabilities		8,914.9	8,844.8
Net liabilities		(1,719.6)	(1,600.3)
Equity			
Issued capital		1,314.0	1,314.0
Cash flow hedge reserve		(196.6)	(202.7)
Accumulated losses		(2,837.0)	(2,711.6)
Total equity		(1,719.6)	(1,600.3)

Notes to the financial statements are included on pages 17 to 26.

Financial Report

for half year ended 30 June 2013

Consolidated Statement of Cash Flow

	Note	30 June 2013 \$m	30 June 2012 \$m
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		592.4	569.8
Interest received		4.7	6.6
Cash was applied to:			
Payments to suppliers and employees		(171.8)	(158.2)
Interest paid - senior debt		(124.4)	(154.2)
Interest rate swaps payments		(70.7)	(48.6)
Interest paid – SKIES		-	(11.4)
Net cash flows provided by operating activities		230.2	204.0
Cash flows from investing activities			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		0.1	0.1
Cash was applied to:			
Acquisition of property, plant and equipment		(100.0)	(107.5)
Capitalised borrowing costs		(4.1)	(4.1)
Net cash flows used in investing activities		(104.0)	(111.5)
Cash flows from financing activities			
<i>External financing activities:</i>			
Cash was provided from:			
Proceeds from borrowings – MTN's and bank loans		83.0	77.0
Cash was applied to:			
Repayment of borrowings – MTN's and bank loans		-	(650.0)
Debt establishment and recurring finance costs		(11.6)	(8.4)
Finance lease payments		(1.2)	(1.2)
Net cash flows provided by / (used in) external financing activities		70.2	(582.6)
<i>Shareholder related financing activities:</i>			
Dividends paid – ordinary shares		(93.6)	(83.9)
Interest paid – redeemable preference shares		(137.8)	(138.6)
Net cash flows used in shareholder related financing activities		(231.4)	(222.5)
Net cash flows used in financing activities		(161.2)	(805.1)
Net decrease in cash and cash equivalents		(35.0)	(712.6)
Cash and cash equivalents at beginning of the financial period		298.6	953.5
Cash and cash equivalents at end of the financial period	9	263.6	240.9

Notes to the financial statements are included on pages 17 to 26.

Financial Report

for half year ended 30 June 2013

Consolidated Statement of Changes in Equity

	Issued capital \$m	Cash flow hedge reserve \$m	Accumulated losses \$m	Total \$m
At 1 January 2012	1,314.0	(157.9)	(2,460.3)	(1,304.2)
Total comprehensive loss for the period	-	(54.4)	(48.0)	(102.4)
Dividends	-	-	(83.9)	(83.9)
At 30 June 2012	1,314.0	(212.3)	(2,592.2)	(1,490.5)
At 1 January 2013	1,314.0	(202.7)	(2,711.6)	(1,600.3)
Total comprehensive income/(loss) for the period	-	6.1	(31.8)	(25.7)
Dividends	-	-	(93.6)	(93.6)
At 30 June 2013	1,314.0	(196.6)	(2,837.0)	(1,719.6)

Notes to the financial statements are included on pages 17 to 26.

Notes to the Financial Report

for half year ended 30 June 2013

1. Summary of Accounting Policies

Basis of preparation

Statement of compliance

The interim financial report has been prepared in accordance with the Corporations Act 2001 and AASB 134: *Interim Financial Reporting*. The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 31 December 2012.

Basis of measurement

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the company's 31 December 2012 annual financial report for the financial year ended 31 December 2012.

The interim financial report has been prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value.

All amounts are presented in Australian dollars, unless otherwise noted.

Adoption of new and revised accounting standards

New standards and interpretations not yet adopted

The following standard has been identified which may impact the entity in the period of initial application. It was available for early adoption at 31 December 2012, but has not been applied in this interim financial report.

AASB 9: *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the project to replace AASB 139: *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for periods beginning on or after 1 January 2015 with early adoption permitted. The Group has not yet determined the potential effect of the standard. This standard will first apply in the financial reports of the Group that relates to the annual reporting period beginning after the effective date of the pronouncement.

From 1 January 2013 the Group has applied amendments to AASB 13: *Fair Value Measurement*. The change in accounting policy only relates to disclosures and has no impact on consolidated earnings per share or net income.

Notes to the Financial Report

for half year ended 30 June 2013

2. Revenue and Expenses

(a) Finance (costs) / income

Group	Half year ended 30 June 2013 \$m	Half year ended 30 June 2012 \$m
External finance (costs) / income		
<i>Interest income</i>		
Bank interest	4.7	6.3
<i>Other finance expenses</i>		
Fair value adjustment to interest rate swaps not qualifying as hedges	(1.3)	(3.6)
<i>Interest expense</i>		
SKIES interest paid or accrued	-	(0.4)
Borrowing costs – SKIES	-	(0.4)
Senior debt interest paid or accrued	(130.7)	(153.1)
Capital indexed bonds (“CIB’s”) capitalised	(15.0)	(13.2)
Net swap interest expense	(68.8)	(42.8)
Amortisation of deferred debt establishment costs and other borrowings costs	(5.3)	(10.1)
Recurring borrowing costs paid	(6.7)	(6.0)
Borrowing costs capitalised	4.1	4.1
Borrowing costs – senior debt	(222.4)	(221.1)
<i>Interest on finance leases</i>	(0.1)	(0.3)
Total external finance costs	(219.1)	(219.1)
Shareholder related finance costs		
Redeemable preference shares held by ordinary shareholders distributions paid or accrued	(137.1)	(137.8)
Amortisation of deferred debt establishment costs	(3.6)	(3.2)
Redeemable preference shares interest expense	(140.7)	(141.0)
Total finance costs	(359.8)	(360.1)

(b) Specific non-recurring expenses

Group	Half year ended 30 June 2013 \$m	Half year ended 30 June 2012 \$m
Restructuring and redundancy costs (i)	-	1.0

(i) Costs relate to redundancies paid during the period.

Notes to the Financial Report

for half year ended 30 June 2013

3. Aeronautical Security Recovery

The Consolidated Income Statement includes both revenues and costs relating to aeronautical security recovery. Security recovery charges are set at appropriate levels to ensure cost recovery only, in accordance with Australian Competition and Consumer Commission ("ACCC") guidelines for pass-through of Government mandated security costs.

Aeronautical security recoveries include charges in relation to services provided on both international and domestic sectors. Security charges are not levied on regional passenger services (other than in relation to Terminal 2 checked bag screening and passenger screening services). Aeronautical security recoveries are for the following services, all of which are mandated government requirements:

- a. International services include checked baggage screening, passenger screening and additional security measures. All charges are levied on a per passenger basis.
- b. Domestic services include additional security measures, Terminal 2 checked bag screening and Terminal 2 passenger screening. All charges are levied on a per passenger basis.

Security recoveries include any direct operating expenses incurred together with recovery of depreciation expense and the recovery of the borrowing costs associated with the assets employed in providing the services required.

The following is a summary of all revenues and expenses associated with security recovery:

Group	Half year ended 30 June 2013 \$m	Half year ended 30 June 2012 \$m
<i>Revenue</i>		
Security recovery	42.0	38.2
<i>Expenses</i>		
Employee benefits expense	(1.7)	(1.5)
Services and utilities	(33.7)	(29.8)
Other operational costs	(0.4)	(0.3)
Property and maintenance	(0.9)	(1.1)
Total direct costs	(36.7)	(32.7)
Depreciation	(3.2)	(3.1)
Borrowing costs	(2.1)	(2.4)
Surplus / (deficit)	-	-

Notes to the Financial Report

for half year ended 30 June 2013

4. Dividends and Distributions Paid and Proposed

The economic equity for the SCACH Group is in the form of ordinary shares stapled 1:1 to a redeemable preference share ("RPS"). Payments on the RPS are subordinated to senior debt and ordinary creditors of the Group. Interest payments in respect of RPS are included as borrowing costs in the Consolidated Income Statement consistent with the classification in the Consolidated Statement of Financial Position of the related instrument. Ordinary dividends are only paid on shares if there is cash available after payment of RPS interest.

Group	Half year ended 30 June 2013 \$m	Half year ended 30 June 2012 \$m
Redeemable preference shares ("RPS")		
Accrued interest at the beginning of the period	(50.0)	(50.0)
Interest paid	137.8	138.6
Accrued interest at the end of the period	49.3	49.2
Redeemable preference shares interest expense	137.1	137.8

	30 June 2013		30 June 2012	
	\$ per share	Total \$m	\$ per share	Total \$m
Ordinary shares				
<i>Amounts paid in period</i>				
Paid January in relation to previous quarter	2.87	39.2	1.12	15.3
Paid April in relation to previous quarter	3.99	54.4	5.02	68.6
		93.6		83.9
<i>Amounts paid after period end</i>				
Paid July in relation to previous quarter	-	-	2.66	36.4

Post balance date, the ASX-listed Sydney Airport entered into agreements to acquire the remaining 15.2% non-controlling interests in SCACH to move to 100% ownership. Total dividends attributable to half year ending 30 June 2013 were \$54.4 million (30 June 2012: \$105.0 million). In respect of the half year ended 30 June 2012, the directors approved an interim dividend of \$36.4 million which was paid on 27 July 2012.

Notes to the Financial Report

for half year ended 30 June 2013

5. Intangible Assets

Group	Leasehold land \$m	Airport operator licence \$m	Total \$m
Gross carrying costs			
At 30 June 2013	1,672.0	2,058.0	3,730.0
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2013	(183.6)	(227.4)	(411.0)
Amortisation	(8.8)	(10.8)	(19.6)
At 30 June 2013	(192.4)	(238.2)	(430.6)
At 30 June 2013			
Cost (gross carrying amount)	1,672.0	2,058.0	3,730.0
Accumulated amortisation	(192.4)	(238.2)	(430.6)
Net carrying amount	1,479.6	1,819.8	3,299.4
Gross carrying costs			
At 31 December 2012	1,672.0	2,058.0	3,730.0
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2012	(166.0)	(205.8)	(371.8)
Amortisation	(17.6)	(21.6)	(39.2)
At 31 December 2012	(183.6)	(227.4)	(411.0)
At 31 December 2012			
Cost (gross carrying amount)	1,672.0	2,058.0	3,730.0
Accumulated amortisation	(183.6)	(227.4)	(411.0)
Net carrying amount	1,488.4	1,830.6	3,319.0

Significant intangible assets

The consolidated entity holds the right to operate the leasehold land as an airport. As at 30 June 1998, the Commonwealth of Australia granted Sydney Airport Corporation Limited, a wholly-owned subsidiary, a 50 plus 49 year lease of land. At the same time, an airport operator licence was granted, which is subject to meeting certain requirements set by governing bodies in Australia on an annual basis.

The carrying amounts and remaining useful lives of the intangibles are:

	Leasehold land		Airport operator licence	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
Carrying amount (\$m)	1,479.6	1,488.4	1,819.8	1,830.6
Remaining useful life	84 years	84.5 years	84 years	84.5 years

Leasehold land and the airport operator licence have been recognised at their respective cost of acquisition by reference to the purchase consideration and independent professional valuation advice. Both intangibles have been assessed as having a finite life and are amortised using the straight line method over a period of 95 years from 28 June 2002, being the date of acquisition of Sydney Airport Corporation Limited ("SACL") by Southern Cross Airports Corporation Pty Limited ("SCAC"). Both assets are tested for impairment where an indicator of impairment arises.

Leasehold land and the airport operator licence have been tested for impairment based on single cash generating unit approach. All income streams are inextricably linked to one single cash generating unit and individual cash flows cannot be separated from airport operations.

Notes to the Financial Report

for half year ended 30 June 2013

6. Borrowings - External

Group	Note	Principal amount drawn		Carrying amount	
		30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
At amortised cost:					
Current					
Medium term notes	(ii)	217.0	217.0	216.8	216.5
Non-current					
Bank loans	(i)	817.0	734.0	808.1	725.3
Medium term notes	(ii)	2,884.0	2,884.0	2,848.5	2,845.9
Medium term notes – foreign currency	(iii)	1,538.4	1,538.4	1,516.9	1,516.0
Capital indexed bonds	(iv)	1,043.2	1,028.2	999.8	986.2
		6,282.6	6,184.6	6,173.3	6,073.4
Fair value hedge adjustments		109.2	(67.7)	109.2	(67.7)
		6,391.8	6,116.9	6,282.5	6,005.7

Carrying amounts reflect financial liabilities measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

(i) Bank loans

Senior bank debt facilities as at 30 June 2013 comprised of four drawn tranches (31 December 2012: four tranches) with the following maturities:

Syndicated debt	Maturity date	Principal amount drawn		Carrying amount	
		30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
Non-current					
Tranche M	31 October 2014	35.5	35.5	35.3	35.2
Tranche N	31 October 2015	438.0	438.0	433.3	434.1
Tranche O	31 October 2017	98.5	15.5	96.5	13.3
Tranche P	30 June 2016	245.0	245.0	243.0	242.7
		817.0	734.0	808.1	725.3

Interest is charged at Bank Bill Swap Bid Rate ("BBSY") plus a pre-determined margin.

Bank loans are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. Senior bank debt ranks pari passu with the medium term notes and capital indexed bonds.

The Group had \$1,022.0 million (30 June 2012: \$967.0 million) in committed undrawn facilities available.

Notes to the Financial Report

for half year ended 30 June 2013

6. Borrowings - External (continued)

(ii) Medium term notes ("MTNs") - Domestic

MTNs as at 30 June 2013 comprised of eight issues (31 December 2012: eight issues) with the following maturities:

	Maturity date	Principal amount drawn		Carrying amount	
		30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
Current					
Wrapped¹					
Issue 8	20 November 2013	217.0	217.0	216.8	216.5
Non-current					
Wrapped¹					
Issue 4	20 November 2014	700.0	700.0	697.3	696.3
Issue 5	20 November 2015	300.0	300.0	298.2	297.8
Issue 9	20 November 2021	200.0	200.0	197.9	197.8
Issue 10	11 October 2022	750.0	750.0	736.8	736.2
Issue 11	11 October 2027	659.0	659.0	645.6	645.3
		2,609.0	2,609.0	2,575.8	2,573.4
Unwrapped					
Issue 12	6 July 2015	175.0	175.0	173.8	173.7
Issue 13	6 July 2018	100.0	100.0	98.9	98.8
		2,884.0	2,884.0	2,848.5	2,845.9

¹ Wrapped refers to credit wrapped bonds

Fixed interest is charged on the following MTNs at the following rates:

\$175m (Issue 12) 8.00%

\$100m (Issue 13) 7.75%

The remaining floating rate notes at the Bank Bill Swap Rate ("BBSW") plus a pre-determined margin.

All MTNs are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. Financial guarantees in respect of the wrapped notes are provided by MBIA Insurance Corporation, Ambac Assurance Corporation and Assured Guaranty Municipal Corp. All medium term notes rank pari passu with the senior bank debt and capital indexed bonds.

Notes to the Financial Report

for half year ended 30 June 2013

6. Borrowings - External (continued)

(iii) Medium term notes ("MTNs") – Foreign Currency

MTNs as at 30 June 2013 comprised of three issues (31 December 2012: three) with the following maturities:

Maturity date	Principal amount drawn		Carrying amount	
	30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
Non-current				
CAD MTN ¹	217.4	217.4	215.5	215.4
USD MTN ²	518.7	518.7	510.8	510.5
USD MTN ³	802.3	802.3	790.6	790.1
Fair value hedge adjustments	109.2	(67.7)	109.2	(67.7)
	1,647.6	1,470.7	1,626.1	1,448.3

¹ On 21 June 2011, Sydney Airport Finance Company Pty Ltd issued C\$225 million in guaranteed senior secured notes maturing in 2018 at a fixed interest rate of 4.602% per annum (payable semi-annually) into the Canadian Maple bond markets. The total CAD dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

² On 30 September 2010, Sydney Airport Finance Company Pty Ltd issued US\$500 million in guaranteed senior secured notes maturing in 2021 at a fixed interest rate of 5.125% per annum (payable semi-annually) 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.

³ On 16 and 25 October 2012, Sydney Airport Finance Company Pty Ltd issued US\$600 million and US\$225 million respectively, in guaranteed senior secured notes maturing in 2023 at a fixed interest rate of 3.900% per annum (payable semi-annually) 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.

All MTNs are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. All medium term notes rank pari passu with the senior bank debt and capital indexed bonds.

(iv) Capital indexed bonds ("CIBs")

Maturity date	Principal amount drawn		Carrying amount	
	30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
Issue 1	683.6	673.8	658.9	649.7
Issue 2	359.6	354.4	340.9	336.5
	1,043.2	1,028.2	999.8	986.2

Interest is charged at a fixed rate of 3.76% p.a. on Issue 1 and 3.12% p.a. on Issue 2. Additionally, the principal repayable for both issues is increased through to maturity linked to the rate of inflation ("CPI"). The fixed interest charged is calculated on the increasing liability.

CIBs are secured by fixed and floating charges over the assets and undertakings of the Group (except as otherwise excluded) and a mortgage over the Airport lease. Financial guarantees in respect of the notes are provided by MBIA Insurance Corporation and Ambac Assurance Corporation. CIBs rank pari passu with the senior bank debt and medium term notes.

Notes to the Financial Report

for half year ended 30 June 2013

7. Borrowings – Shareholder Related

Redeemable preference shares (“RPS”)

Group	Maturity date	Principal amount drawn		Carrying amount	
		30 June 2013 \$m	31 December 2012 \$m	30 June 2013 \$m	31 December 2012 \$m
	28 June 2032	2,047.3	2,047.3	2,020.3	2,016.6

Each RPS is stapled to one ordinary share of SCACH at a nominal value of \$150 each. RPS are redeemable at a premium of \$50 per RPS on 28 June 2032.

The shares carry an entitlement to a fixed cumulative interest at a rate of 13.5% p.a.. Interest is payable quarterly, subject to availability of cash within the Group and distributable profits within SCACH. RPS shareholders have no acceleration rights if interest is not paid. Failure to pay RPS interest will trigger restrictions on payment of ordinary share dividends.

Carrying amounts reflect RPS measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the RPS.

8. Derivative Financial Instruments

Group	30 June 2013 \$m	31 December 2012 \$m
At fair value:		
Current		
Interest rate swaps	104.7	113.7
Cross currency swaps	33.1	33.2
	137.8	146.9
Non-current		
Interest rate swaps	145.6	201.6
Cross currency swaps	(116.7)	2.7
	28.9	204.3

Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 January 2009, the entity has adopted the amendment to 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 Group’s assets and liabilities measured and recognised at fair value at 30 June 2013.

Group – as at 30 June 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Liabilities				
Derivatives used for hedging	-	166.7	-	166.7

Notes to the Financial Report

for half year ended 30 June 2013

9. Notes to the Statement of Cash Flow

Group	30 June 2013 \$m	31 December 2012 \$m
Reconciliation of cash and cash equivalents		
Cash at bank and in hand – available for general use (i)	148.2	183.8
Cash and short term deposits – reserved for specific purposes (ii)	115.4	114.8
	263.6	298.6

⁽ⁱ⁾ Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

⁽ⁱⁱ⁾ Short term deposits are generally made for a period of three months and earn interest at the respective short term deposit rates. The deposits are certain cash reserve accounts which are reserved for specific purposes in accordance with the terms of the current senior debt agreements.

10. Events After The Balance Sheet Date

Post balance date, the ASX-listed Sydney Airport entered into agreements to acquire the remaining 15.2% non-controlling interests in SCACH to move to 100% ownership. A loan of \$112.3 million was made to Sydney Airport Trust 2, a related party. The loan was entered into on 14 August 2013, with interest on the loan being charged at 4.0% p.a.

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

11. Contingent Assets and Liabilities

In accordance with the provisions of the Australian Accounting Standard AASB 137: *Provisions, Contingent Liabilities and Contingent Assets*, there are no material unrecorded liabilities at 30 June 2013 nor are there any claims against the Group that, in the expectation of the directors, will give rise to a material loss in the future.