SYDNEY AIRPORT

APPENDIX 4E

ASX Listing Rule 4.3A

Preliminary Financial Report for Year Ended 31 December 2018

Results for Announcement to the Market

	SAL Group 31 Dec 2018 $m	SAL Group 31 Dec 2017 $m	Movement $m	Movement %
Revenue	1,584.7	1,483.3	101.4	6.8%
Other income	0.2	0.1	0.1	100%
Total revenue	1,584.9	1,483.4	101.5	6.8%
Profit after income tax expense	371.0	348.6	22.4	6.4%
Profit after income tax expense attributable to security holders	372.5	349.8	22.7	6.5%

	SAT1 Group 31 Dec 2018 $m	SAT1 Group 31 Dec 2017 $m	Movement $m	Movement %
Revenue	-	-	-	n/a
Other income	-	-	-	n/a
Total revenue	-	-	-	n/a
Profit after income tax expense	231.8	242.8	(11.0)	(4.5%)
Profit after income tax expense attributable to security holders	231.8	242.8	(11.0)	(4.5%)

Distributions

Distributions	SAL Group 31 Dec 2018 $m	SAT1 Group 31 Dec 2018 $m	SAL Group 31 Dec 2017 $m	SAT1 Group 31 Dec 2017 $m
Final distribution (100% unfranked)	428.5	117.3	405.2	122.7
Interim distribution (100% unfranked)	416.8	114.9	371.3	120.4

Distributions	SAL Group 31 Dec 2018 cents per stapled security	SAT1 Group 31 Dec 2018 cents per stapled security	SAL Group 31 Dec 2017 cents per stapled security	SAT1 Group 31 Dec 2017 cents per stapled security
Final distribution (100% unfranked)	19.00	5.20	18.00	5.45
Interim distribution (100% unfranked)	18.50	5.10	16.50	5.35

The total distributions by ASX-listed Sydney Airport for the year ended 31 December 2018 were $845.3 million or 37.5 cents per stapled security (2017: $776.5 million or 34.5 cents).

The interim distribution with record date of 30 June 2018 of $416.8 million or 18.5 cents per stapled security (2017: $371.3 million or 16.5 cents) was paid on 14 August 2018 by:

- SAL $301.9 million or 13.40 cents (2017: $250.9 million or 11.15 cents); and
- SAT1 $114.9 million or 5.10 cents (2017: $120.4 million or 5.35 cents).

The final distribution with record date of 31 December 2018, of $428.5 million or 19.0 cents per stapled security (2017: $405.2 million or 18.0 cents) was paid on 14 February 2019 by:

- SAL $311.2 million or 13.80 cents (2017: $282.5 million or 12.55 cents); and
- SAT1 $117.3 million or 5.20 cents (2017: $122.7 million or 5.45 cents).

There are $nil imputation credits (2017: $nil) available to pay franked distributions.

Distribution Reinvestment Plan (DRP)

The DRP operated in respect of the 30 June 2018 interim distribution. 2.0 million stapled securities were issued to DRP participants at $7.15 per stapled security on 14 August 2018.

In respect of the 31 December 2018 final distribution, 1.9 million stapled securities were issued to DRP participants at $6.60 per stapled security on 14 February 2019.

Additional Appendix 4E disclosures can be found in the Notes to the Sydney Airport Financial Report for Year Ended 31 December 2018 and Results for Year Ended 31 December 2018 lodged with the ASX on 21 February 2019.

ASX-listed Sydney Airport (the Group) is comprised of Sydney Airport Limited (ABN 18 165 056 360) (SAL) and Sydney Airport Trust 1 (ARSN 099 597 921) (SAT1). The Trust Company (Sydney Airport) Limited (ABN 83 115 967 087) (AFSL 301162) (TTCSAL) is the responsible entity of SAT1.

Annual Report | 2018



SYD AIRPORT

100 YEARS



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This is an interactive PDF designed to make it easy to navigate. The best way to view this report is with Adobe Acrobat Reader. Click on the links on the contents page or use the home button in the footer to navigate the report, and use the underlined text links throughout the report to view related content online.

From the first hello,
to the last goodbye,
we connect the world
with that **SYD**ney feeling

100 years of aviation at Sydney Airport

1919

The first commercial passenger flight, piloted by Nigel Love.

1920

Mascot Aerodrome officially opens.

Commonwealth Government acquires the aerodrome.

Ross and Keith Smith arrive at Mascot after becoming the first pilots to fly from London to Australia, having earlier landed in Darwin.

First Sydney-Melbourne passenger flight, piloted by Nigel Love.

1928

The world's first trans-pacific flight from Oakland to Brisbane, piloted by Charles Kingsford Smith and Charles Ulm, arrives at Mascot to a welcoming crowd of 200,000.

Kingsford Smith opens his flight school at Mascot.

1930

Nancy-Bird Walton trains at Mascot and qualifies as British Commonwealth's youngest female pilot, aged 19.

1940

First control tower and new passenger terminal open.

WWII operations include building combat aircraft, training and enhanced military and civilian facilities.

1945

13,000+ Australian prisoners of war repatriated, many via Sydney Airport.

Cooks River diverted – two new runways built.

2 million+ migrants arrive between 1945–1965, many via Sydney Airport.

1947

Qantas' 'Kangaroo Route' from Sydney to London commences.

1957

Ansett and ANA merge to operate flights between state capitals and regional areas.

1959

The Jet Age arrives with the first B707 from London and other jet and turbo-prop aircraft.

1963

Airport expansion includes new control towers, land reclamation to extend main runways for long-haul international jets.

Front cover and historical timeline images courtesy of John Love, A.Kemp/Fairfax (ref: FXT188517), Peter Morris/Fairfax (ref: FXJ319137), Mitchell Library, State Library of New South Wales (ref: 630881, 4903 and PXE 787) and the National Archives of Australia (ref: NAA: A1200, L36334).

1970

First stage of international terminal opens on current site.

The first jumbo jet arrives at Sydney Airport (Pan Am).

1972

The first Concorde arrives at Sydney Airport (Air France).

1980

Federal Government commences aviation industry reform, ultimately leading to privatisation of airports and deregulation to allow for consolidated airline operations.

1992

Expansion of the international terminal, with the development of Pier C and associated gates.

1994

Third runway opens.

2000

International and Domestic terminals upgraded and expanded for 2000 Olympics.

2007

World's first A380 commercial flight lands at Sydney Airport (Singapore Airlines).

2008

Sydney Airport becomes one of the world's busiest A380 airports.

2013

Over $2 billion of investments and initiatives since 2002 increases service levels, safety and security, delivers environmental improvements and increases capacity to meet demand.

2016

Commemorative Nigel Love Bridge officially dedicated.

First electric bus in operation.

2018

Opening of the T1 International terminal bifurcation/ marketplace late 2017/ early 2018.

44.4 million passengers.

Biometrics/ facial recognition trial commences in partnership with Qantas.

2018 Highlights

Financial highlights

Total distribution

37.5¢

8.7% from 2017

Capex investment

Investment since 2002

$4.7b

in capacity, services and facilities

Cash flow cover ratio[1]

3.2x

0.2x from 2017

1 Growth calculated excluding WSA project costs expensed and business acquisition costs in 2017.

Sustainability leadership

Community investment

$5.7m

from **$4.9m** in 2017

Overall female representation

38.8%

from **37.9%** in 2017

Carbon emission per passenger reduction

30.9%

from 2010 levels

Safety training

2,762

hours
(new metric in 2018)

PPA contracts up to

75%

of load from
renewable energy

Received the

Gold Recognition

by the Airports Council International Asia-Pacific for our PPA

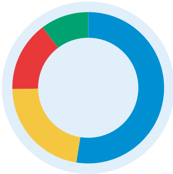
Total revenue

$1,584.7m

↑ **6.8%** from 2017

Revenue contribution by business unit

Aeronautical Services[2]	**52%**
Retail	**23%**
Property and Car Rental	**15%**
Parking and Ground Transport	**10%**



Earnings before interest, tax, depreciation and amortisation (EBITDA)

$1,282.6m

↑ **7.2%** from 2017

Net operating receipts

$860.9m

↑ **9.4%** from 2017

2 Includes security recovery.

We are in our fourth year of reporting on our sustainability initiatives and we are committed to ensuring sustainability is fully embedded within our business strategy.

Customer satisfaction scores

International

4.13/5

↑ from **4.01/5** in 2017

Domestic

4.14/5

↑ from **3.95/5** in 2017

Waste recycling rate

42.9%

↑ from **42.4%** in 2017

Waste to landfill

2,733t

↓ from **2,851t** in 2017

Our network

Passenger movements

Total passengers

44.4m

2.5% from 2017

International

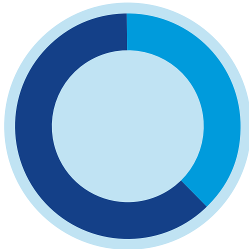
4.7% from 2017

38% of total passengers

Domestic and regional

1.2% from 2017

62% of total passengers



Aircraft movements

Total aircraft movements

344,149

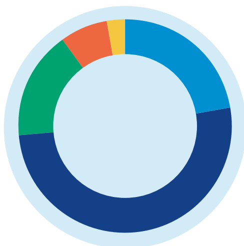
2018	344,149
2017	345,104[1]
2016	346,437
2015	335,001
2014	327,190

0.3% from 2017[1]

International airlines	Domestic & regional airlines	Freight airlines
43	7	11

Aircraft movements

International	76,896
Domestic	177,104
Regional	57,023
General aviation	24,502
Freight	8,624



1 Total aircraft movements have been restated from 348,522 published in the 2017 Annual Report to correct a reconciliation discrepancy.

Passengers by geography [2]

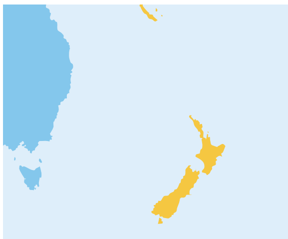
Asia (Excluding greater China)

5.2m passengers

↑ **0.7%** from 2017

New Zealand, Pacific and other

3.5m passengers



↑ **3.2%** from 2017

Greater China

3.2m passengers

↑ **9.8%** from 2017

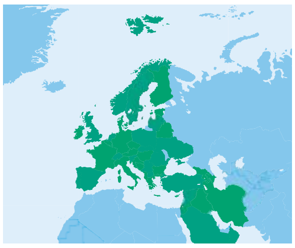
The Americas

2.5m passengers

↑ **1.9%** from 2017

Europe and Middle East

2.3m passengers

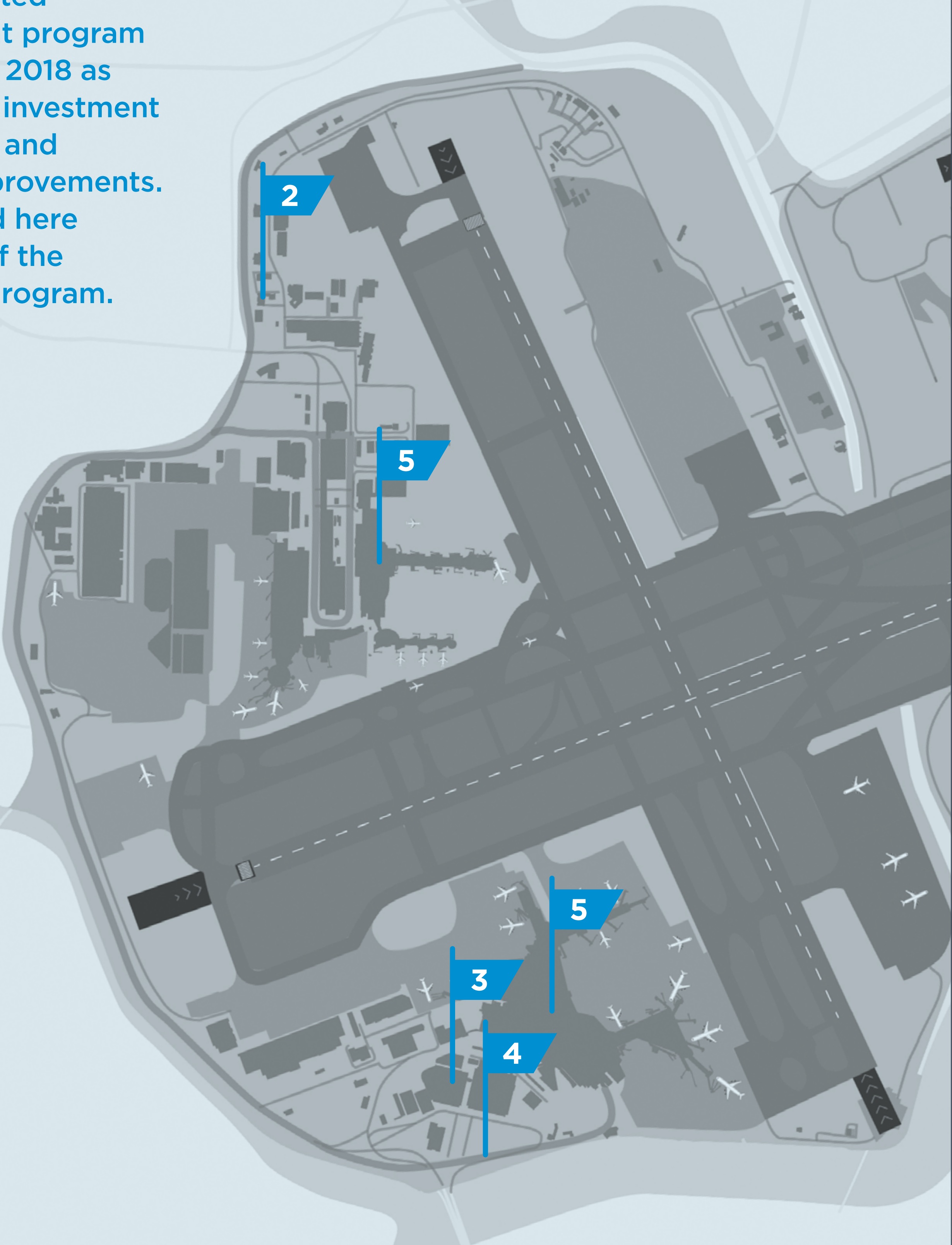


↑ **14.8%** from 2017

2 Excludes Domestic-On-Carriage.

2018 Investment program highlights

We completed a significant program of works in 2018 as part of our investment in capacity and service improvements. Highlighted here are some of the delivered program.



1
Airfield resurface

Resurfacing of the parallel runway and associated taxiways

2
Hotels

Expansion of the Ibis Budget hotel on Ross Smith Avenue

3
Solar panels

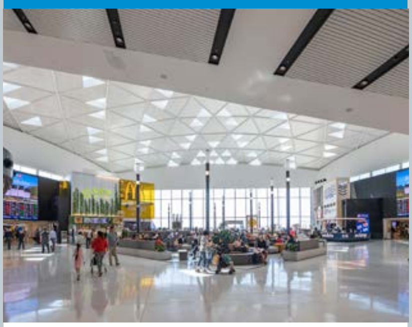
Solar panels installed on the P6 northern multi-storey car park at the International precinct, providing low cost clean energy

4
T1 International Ground Transport

Completion of new roads at the International precinct separating traffic from Departures Road and recirculating traffic directly on to Centre Road. New exit from the car park under the Giovanni Brunetti Bridge and improvements to the Marsh Street exit, reducing congestion.

New digital wayfinding gantries to improve traffic flow around the precinct.

5
International and Domestic Terminal Works



Check-in – Redevelopment and streamlining of check-in counter C, reducing queues through technology and further automating the check-in process

Bathrooms – Bathroom upgrades at T1 International and Domestic terminals

Ambience – Improved sightlines, signs and wayfinding

1 Performance highlights
2 Operating and financial review
3 Sustainability summary
4 Directors' report
5 Financial report
6 Other information

Chairman and CEO message

Sydney Airport has been a part of the fabric of NSW and a key driver of tourism, jobs and economic growth in this State for the past 100 years. We've come a long way since aviation pioneer Nigel Love took off from what was then a dusty bullock paddock in 1919 and recorded our first commercial flight.

Revenue growth

6.8%

from 2017

Passenger growth

2.5%

from 2017

Total distribution

37.5¢

for 2018

From that solitary flight carrying a single passenger, we've grown to accommodate a record 44.4 million passengers in 2018. Since 1919, the Sydney Airport story has consistently been one of growth. In 2018, we welcomed an additional 1.1 million passengers, who enjoyed a better airport experience thanks to our ongoing investment in technology, facilities and infrastructure. That's also great news for Sydney and NSW. From the moment these passengers step off the plane, they're making a big difference to businesses and household budgets across this state.

Our focus on driving this growth has also enabled our Board to this year distribute 37.5 cents per stapled security – an increase of 8.7% that's fully covered by Net Operating Receipts. Supported by macro-economic conditions in the tourism sector, we kept our focus in terms of driving a solid performance across both our aeronautical and non-aeronautical businesses. Innovation and prudent management were consistently front-of-mind, allowing the team to both embrace fresh opportunities for growth and find new ways to operate more efficiently.

As a result, 2018 was characterised by growth, achievement and a number of exciting developments. It's been a busy year here at Sydney Airport and we'd like to take you through some of the highlights.

To begin, we invested $378.5 million in passenger and airline infrastructure to continue to accommodate growth and drive efficiencies for our 44 million passengers who moved through our terminals.

We also commenced an enormously ambitious biometrics trial with launch partner Qantas. This is a genuine game-changer, with the trial to inform a global rollout of this exciting technology, driving a more seamless and convenient passenger experience.

Our preliminary draft 20 year Master Plan 2039 was publicly released in August, with the consultation period concluding in November. It outlines our plans to accommodate the forecast 51% increase in passengers over this period, as we, deliver enhanced capacity, efficiency and continually improve outcomes for all our passengers, the community and the environment.

The Sydney Gateway road project announcement was a big win for the travelling public that will free up local roads for local communities, making journeys to and from the airport faster and safer.

Another highlight is the signing of our first Corporate Power Purchase Agreement, that will see 75% of our electricity come through renewable energy sources.

Finally, to ensure our business is resilient, adaptable and ready to overcome challenges and seize opportunities, we simplified the business structure into two – aeronautical and non-aeronautical.

In our hundredth year, the Sydney Airport story will continue to be one of innovation and growth, underpinned by a strong focus on our customers and a diligent, high performing team.

Financial and operational snapshot

Revenue grew 6.8% in 2018 compared to the previous year, generating EBITDA of $1,282.6 million and Net Operating Receipts of $860.9 million, up 7.2% and 9.4% respectively.

It was an excellent year for the airport in which we welcomed a record 44.4 million passengers – an increase of 1.1 million from 2017. This increase of 2.5% was driven primarily by strong international passenger growth resulting from increases in airline capacity and stable load factors. We welcomed new routes from China and the US, in addition to significant additional capacity across Asia and the Middle East. In 2018, we invested nearly $380 million in capital works and will invest more than $1 billion over the next three years in capacity and infrastructure to ensure that each journey is as seamless and enjoyable as possible.

Our non-aeronautical businesses continue to deliver strong results, particularly retail and property. This reflects strong duty free, luxury and specialty store performance, new leasing deals and a full trading year from our new Mantra and Ibis Budget hotels.

Safety – our priority

Safety remains our top priority. The Board and management are strongly committed to proactive and uncompromising safety leadership across our entire operation. We have built a strong safety culture that underpins all aviation and non-aviation activities. Our most recent sustainability report details a number of the safety initiatives launched during this period and we encourage you to read it.

Our customer

We are committed to finding ways to improve the experience for all our passengers. We continue to listen to our customers and what's important to them. In 2018, following customer feedback, we introduced a number of improvements which are outlined in the customer section of this report.

Our customer satisfaction is up 5 percentage points across our International terminal and 6 percentage points across our Domestic terminals from 2017.

While these ratings indicate we're heading in the right direction, there is more work to be done and we'll continue to listen to our customers and to collaborate with all our stakeholders to keep finding ways to improve.

Sustainability

Our Sustainability Strategy forms an integral part of our broader business strategy, ensuring Sydney Airport is adaptable and we're well positioned to overcome emerging challenges and grasp opportunities. The implementation of this strategy will deliver long-term value for our customers, the surrounding community, our people and investors.

Community

We are committed to strengthening our positive links with the community, not just in the vicinity of the airport, but across Sydney, NSW and Australia. We actively engage with local communities and organisations about airport operations, proposed development and future planning.

We are committed to making a genuine contribution to the communities in which we live and work and helping them to thrive and prosper. In 2018, we contributed $5.7 million to these communities.

It's important to all of us that we're an airport of which all of Sydney and NSW can be proud and one that celebrates our wonderful part of the world.

Corporate governance

Sydney Airport is committed to promoting a culture that is fair, ethical, transparent and collaborative. We work diligently to ensure we're continuing to strengthen our corporate governance.

We are confident in our corporate governance framework as well as our strong risk management procedures.

Board and management changes

In 2018, Abi Cleland and David Gonski, AC, were appointed to the Sydney Airport Limited Board. Both appointees are highly respected within the Australian business community and bring with them extensive experience that will enable a strong contribution to Sydney Airport.

We also introduced two new roles to the management team – Chief Commercial Officer and General Manager Strategy and Growth.

Outlook

Sydney Airport is well positioned to maximise opportunities and growth. We remain focused on investing in capacity and committed to ensuring the customer is at the heart of everything we do. We will continue to deliver on the core business while being flexible and adaptable to changing market conditions.

Finally, on behalf of the Board and senior management we would like to thank our staff for their efforts during the year and our shareholders for their continued support. We look forward to continuing to deliver positive results.

Trevor Gerber
Chairman

Geoff Culbert
Chief Executive Officer

Our leadership team

Geoff Culbert
Chief Executive Officer

Geoff was appointed CEO in January 2018. He brings extensive commercial and operational experience from across the Asia Pacific as well as Australia. He is passionate about growing both the tourism and aviation industries in NSW and Australia and collaborates effectively with business and industry to deliver strong results. He also has a strong commitment to contributing to the social and economic development of Sydney.

Jamie Motum
General Counsel and Company Secretary

Jamie was appointed Sydney Airport's General Counsel and Company Secretary in 2010. He was previously a partner in the Corporate Group of DLA Phillips Fox, where he began his legal career in 1996.

Sally Fielke
General Manager Corporate Affairs

Sally joined Sydney Airport in 2012 and is responsible for Corporate Affairs including communications, stakeholder engagement, media and issues management, brand, government relations, and the customer experience. Sally's key focus is driving Sydney Airport's leadership role in tourism including working with stakeholders and industry.

Our leadership team is focused on strengthening our customers' experience, leading a high-performance, collaborative culture and delivering a strong financial results.

Hugh Wehby
Chief Operating Officer

Hugh was appointed Chief Operating Officer in 2017 having previously served as Chief Financial Officer from 2014. Hugh has spent 14 years working for Sydney Airport and its predecessor companies in various roles covering strategy, projects, investor relations, asset management and corporate finance. As COO, he is responsible for Sydney Airport's aviation business, operations, safety, sustainability and environment.

Vanessa Orth
Chief Commercial Officer

Vanessa joined Sydney Airport at the end of 2018 and is responsible for the non-aero commercial business including retail, property and landside operations. Vanessa has substantial commercial, strategic and asset management experience. She was previously Head of Retail for the General Property Trust (GPT) Group, and held a number of leadership roles with GPT since 2007.

Greg Botham
Chief Financial Officer

Greg joined Sydney Airport in 2017 and is responsible for treasury, investor relations, strategic projects and investment, procurement, financial performance and control. A Chartered Accountant, Greg spent five years as Chief Financial Officer with ASX-listed Spark Infrastructure. Prior to this, Greg had worked in senior finance and planning roles at Sydney Airport.

Dhruv Gupta
General Manager
Strategy and Growth

Dhruv joined Sydney Airport in January 2019 and is responsible for pursuing strategic initiatives to drive growth. He was previously Group Director, Strategy and Corporate Development for Fairfax Media. Dhruv has also worked in investment banking with Macquarie Group, strategy with Publishing and Broadcasting Limited and with Boston Consulting Group.

Chris Evans
General Manager
Construction and Facilities

Chris joined Sydney Airport in 2017 and is responsible for its extensive construction program, with more than 200 projects underway across the airport precinct, as well as facilities management of the airport's built assets. In this role, he is also leading key capital works projects to enhance the customer experience and support the airport's long-term growth.

Gayle Philpotts
General Manager
People and Performance

Gayle joined Sydney Airport in 2015 and is responsible for organisational development, change management, employee engagement, performance management, talent management and succession planning, diversity and employee relations. Gayle is focused on developing and embedding a high performance, collaborative culture across Sydney Airport.

Our strategy

Sydney Airport plays an integral role in the economic, productivity and tourism growth for Sydney, regional NSW and more broadly across Australia.

We will continue to partner collaboratively with government, business, industry and our communities to deliver responsible growth for all our stakeholders, balanced by our commitment to protect and enhance our environment and enrich the lives of those in and around our airport communities.

Deliver on the core

- Delivering responsible and sustainable growth and cost discipline
- Continued focus on attracting passengers and services to Sydney, including working with the Commonwealth Government to increase air rights to priority markets
- Optimise utilisation of airport infrastructure and develop new capacity
- Further strengthen airline and airport partner engagement and collaboration
- Continuously improve the customer journey from home to the runway

Expand the core

- Explore practical business opportunities across our business portfolio including aeronautical and non-aeronautical activities
- Expand the range of products and services available to improve the airport experience for customers
- Utilise technology and data to ensure we are driving customer-led initiatives
- Deliver new market opportunities for Sydney and NSW

Build the culture

- Drive excellence in safety, sustainability and security across the whole airport community
- Continue to embed a customer-focused culture in everything we do
- Invest in our people and strengthen our approach to service excellence
- Continue to build a robust compliance culture and framework
- Deliver for our stakeholders and local community by advocating for local intiatives and partnering with the local community

Financial performance

Passengers	EBITDA	Net operating receipts	Debt service coverage	Investor returns
44.4m	$1,282.6m	$860.9m	3.2x	37.5¢
			cash flow cover ratio[1]	per stapled security
↑ 2.5% from 2017	↑ 7.2% from 2017	↑ 9.4% from 2017	↑ +0.2x from 2017	↑ 8.7% from 2017

Key performance measures

Key measures of Sydney Airport's 2018 financial performance are shown in the table below.

		Growth from 2017
Passengers	44.4 million	2.5% ↑
Revenue	$1,584.7 million	6.8% ↑
Operating expenditure	$302.3 million	6.3% ↑
EBITDA	$1,282.6 million	7.2% ↑
Net operating receipts (NOR)	$860.9 million	9.4% ↑
Distributions per security to investors	37.5 cents	8.7% ↑

Revenue streams

	Revenue $m	Revenue contribution	Revenue growth
Aeronautical Services (excl. security recovery)	721.7	46%	7.6%
Retail	357.0	23%	7.2%
Property and Car Rental	238.1	15%	7.5%
Parking and Ground Transport	162.1	10%	1.7%

Distributions and Net Operating Receipts (NOR)

NOR provide a proxy for cash flows available to pay ASX-listed Sydney Airport distributions. As a result, it is a key measure of ASX-listed Sydney Airport's financial performance. NOR is a non-IFRS measure of cash flow that ASX-listed Sydney Airport can sustainably return to investors while investing in the infrastructure. NOR is derived from both income statement performance and the cash position of SAL and SAT1.

A reconciliation of statutory profit to NOR is shown on the following page.

Reconciliation of NOR

The following table reconciles the statutory result of ASX-listed Sydney Airport for the year ended 31 December 2018 to its NOR. Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial reports.

1 Cash flow cover ratio (CFCR) is calculated using defined terms in the finance documents, summarised by cash flow divided by senior debt interest expense for a rolling 12 month period.

	2018 $m	2017 $m
Profit before income tax expense[1]	433.5	389.1
Add back: depreciation and amortisation[1]	415.6	385.7
Profit before tax, depreciation and amortisation	849.1	774.8
Add/(subtract) non-cash expenses		
– Capital indexed bonds capitalised[2]	22.6	24.0
– Amortisation of debt establishment costs[2]	13.4	16.0
– Business acquisition costs[1,5]	-	1.9
– Western Sydney Airport project costs expensed (WSA)[1]	-	0.6
– Borrowing costs capitalised[2]	(10.6)	(9.3)
– Change in fair value of swaps[2]	5.0	0.2
Total non-cash expenses	30.4	33.4
Add/(subtract) other cash movements		
Movement in cash balances with restricted use[3]	(0.6)	13.6
Other	(18.0)	(32.0)
Total other cash movements	(18.6)	(18.4)
Net operating receipts	860.9	787.3
Average stapled securities on issue (m)[4]	2,253.8	2,250.5
Net operating receipts per stapled security	38.2c	35.0
Distributions declared per stapled security	37.5c	34.5
Ratio of net operating receipts to distributions	102%	101%

1 Taken from the Consolidated Statements of Comprehensive Income in the Sydney Airport Financial Report for the Year Ended 31 December 2018.
2 Taken from Note 6 in the Sydney Airport Financial Report for Year Ended 31 December 2018.
3 Taken from Note 3 in the Sydney Airport Financial Report for Year Ended 31 December 2018.
4 Taken from Note 8 in the Sydney Airport Financial Report for Year Ended 31 December 2018.
5 Included in the calculation as non-operating expense.

Revenue growth at Sydney Airport

Sydney Airport revenue growth is driven by these key inputs:

Passenger growth: Passengers travelling through the airport are the major consumers of the services provided by Sydney Airport. A large majority of aeronautical revenues are directly linked to passenger numbers. Charges are generally levied per passenger to the airlines for use of the terminal and airfield infrastructure, providing a direct linkage to revenue growth. Where charges are levied on maximum take-off weight they provide linkage as larger or more aircraft are required to transport more passengers. The commercial revenues (including Retail, Property and Car Rental, Parking and Ground Transport) are directly and indirectly linked to passenger volumes.

Capital investment: Sydney Airport takes a disciplined approach to investment. It earns a return on aeronautical and commercial infrastructure capital investments. Investment is made to accommodate more passengers at the airport, improve the efficiency of the airport and improve the experience of airport customers.

Management initiatives: Management continually review the airport's assets, contracts and operations for opportunities to better utilise assets, increase the value of available space, reduce costs and improve efficiency. These initiatives contribute significantly to increasing real revenues and earnings per passenger.

A more detailed analysis of specific growth drivers is provided in the following revenue streams and operating expense sections.

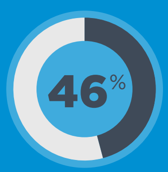
Aeronautical Services

Aeronautical Services is responsible for all aspects of the business associated with aviation operations, activity and revenue, security, safety, sustainability and environment.

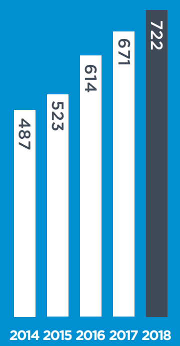
2018 Revenue

$721.7m[1]

7.6% from 2017



of Group revenue



1 Excludes aeronautical security recovery.

Strong passenger and revenue growth

In 2018, our passenger numbers continued to grow strongly. Frequency increases from incumbent airlines drove above average international capacity growth, particularly from the Middle East and Asian markets.

Sydney Airport facilitated a record 44.4 million passengers through our terminals, an increase of 2.5% compared to 2017.

As a result of this significant passenger growth, revenue increased by 7.6% to $721.7 million, excluding security recovery, compared to 2017.

Mature markets driving international growth

We welcomed new services from China and USA whilst our existing airlines added large seat volumes on routes from the Middle East, New Zealand and Japan. Significant passenger increases from these major markets demonstrate the shift towards supporting and maximising growth from existing airlines, while at the same time focusing on securing new routes linking Sydney and the world.

Sydney's emerging India and Vietnam travel markets continued to grow at double digit pace with increased seat supply in 2018 along with frequency increases to the Pacific Islands.

Investment program catering to demand

Our investment program has continued with the delivery of several key projects supporting capacity and resilience in T1 International as well as continuous improvement of the passenger experience. To support growth in the terminal, the footprint of the departure gate lounges has been increased through infill expansions providing increased seating and dwell zones. Solid walls have also been replaced with windows, improving the terminal ambience.

The departure gate lounges have also been reconfigured, providing improved and consistent boarding operational zones, reducing passenger queuing across concourses. Dual aerobridge capability has been expanded, enabling opportunities for faster boarding and airline product differentiation.

The resilience program has also continued with the completion of a program of works to replace or upgrade end of life baggage reclaim carousels improving resilience and efficiency of bag delivery.

Collaborating with our airline partners

We continue to work closely with our airline partners to ensure our investment program meets their needs and those of our shared customers, the passengers. Industry consultation forums enable information sharing, opportunities to review KPIs, guide investment decisions and develop operational improvement initiatives.

We have also focused on growing strategic partnerships with our major international, domestic and regional airlines. Executive committees have been established to address current concerns as well as understand our customers' individual needs with a view to ensuring future developments proactively identify product enhancement opportunities.

Sydney Airport is actively partnering with Airservices Australia, airlines and several other major airports to implement Airport Collaborative Decision Making (ACDM) across Australia to significantly enhance flight scheduling and reduce delays. We continued to implement the first stage of ACDM, with collection of Target Off Block Times (TOBT) from airlines. This information allows improved gate planning and in future, will be shared in the fully integrated ACDM system hosted by Airservices.

These efforts are being complemented by other initiatives at the airport including the development of a new Airside Operators Licence (AOL) that will deliver improved efficiency and safety in operational areas. IATA, which represents major airlines internationally, has been engaged to support the AOL implementation as they possess considerable expertise drawn from their work in Europe and the UK. These initiatives will further enhance Sydney Airport's operations locally and as part of the broader Australian aviation network.

Safety, Sustainability & Environment

Delivering the highest level of safety and environmental performance and management and embedding sustainability into every aspect of our business and decision making, remain key priorities for Sydney Airport and are fundamental to our long-term growth and success.

To reflect our continuous drive for improvement there was an organisational restructure in August 2018 bringing together the Safety, Sustainability and Environment teams (SSE) under a newly-appointed General Manager. The new structure has been championed by our CEO and is driving a high level of engagement and activity across the business.

The SSE team works to ensure that Sydney Airport is focused on continual improvement, meets or exceeds legislative and regulatory requirements and engages collaboratively with all on-airport business partners. Working together with internal and external stakeholders is fundamental to satisfying community,

Total passengers

44.4m

2.5% from 2017

International passengers

16.7m

4.7% from 2017

Domestic and regional passengers

27.7m

1.2% from 2017

investor and government expectations. Details on Sydney Airport's Sustainability approach and framework are included in the Sustainability Summary in this document.

Emergency preparedness

Sydney Airport is committed to excellence in emergency preparedness, planning and response. On 23 August, Sydney Airport conducted the biennial full field emergency exercise (SYDEX18) in conjunction with NSW Police, the largest emergency exercise to be held on airport.

The exercise scenario simulated an aircraft crash on airport and tested the activation, notification and emergency services response to this type of emergency. Ten onsite emergency facilities were set up during the response including our Emergency Operations Centre and Crisis Management Team. Over 20 government and non-government agencies, including 500 agency personnel, supporters and volunteers participated in the exercise.

This was an invaluable opportunity to practise our response procedures in-field and build Sydney Airport's emergency management capability. The day was extremely successful and an outstanding display of stakeholder and community engagement, coordination, planning and logistics.

Security measures

We continued to work with the Aviation and Maritime Security Division of the Department of Home Affairs (formerly the Office of Transport Security) to respond to emerging risks in the security environment. As a result, new restrictions on the carriage of inorganic powders in aircraft cabins for outbound international flights were implemented in June 2018.

2019 Outlook

Sydney Airport's short-term outlook remains subject to macro-economic conditions, airline pricing and fleet changes. Sydney Airport is a resilient asset with a proven history of performance and growth across all economic cycles. We remain well positioned to deliver performance over the cycle.

We continue to seek growth opportunities in 2019. Our strategy will attract new routes and additional services across a diverse range of emerging markets while also increasing frequency and gauge on existing services. Sydney's diversified market mix and broader approach to convert new opportunities will continue to strengthen our position in 2019 and beyond.

Our significant investment program will also continue. Automation of the check-in process will increase capacity, streamline throughput and reduce queuing, improving the passenger experience and supporting on-time flight departures. We will also invest in T1 gate lounge upgrades to deliver new finishes and fittings, improved boarding arrangements and additional gate lounge space. We also plan to commence the redevelopment of check-in and security at T2 Domestic.

Automation will continue to be a key focus as we begin the first phase of our biometrics rollout. This exciting project will ultimately allow passengers to navigate through airport processes using facial recognition, without the need to present their passport at each processing point. This has the potential to change the way people travel, and concurrently deliver significantly improved customer and security outcomes.

Automating the passenger journey

Technology plays a vital role in enhancing the customer experience to make travel more comfortable and convenient and managing growth within existing infrastructure. Sydney Airport delivered the first phase of new automated check-in zones at T1 International to further reduce processing times for passengers.

Working with our launch partner, Qantas, the first of these zones allows passengers to check themselves in using kiosks and bag drops – just like the experience at Sydney Airport's domestic terminals.

Sydney Airport also introduced a landmark facial recognition technology trial that will deliver demonstrable benefits in terms of efficiency and safety to both the travelling public and the broader aviation industry.

The biometrics facial recognition process will allow passengers to complete most stages of their airport journey using just their face as their passport and boarding pass, resulting in a more convenient, efficient and seamless experience. This in turn will further improve overall operational efficiency.

The expected improvements to check-in and boarding processes will substantially benefit both passengers and airlines.

The customer-facing phase of the trial has primarily focused on Qantas passengers travelling on select international flights, who have been participating on a voluntary basis.

It tests four key steps in the passenger journey including automated check-in, bag drop, lounge access and boarding.

Importantly, Sydney Airport has worked closely with its delivery partners to ensure the trial adheres to the strictest privacy standards and complies with all relevant legislation.

Once concluded, the Sydney Airport trial – which is being keenly observed by the aviation industry in Australia and abroad – is likely to play a significant role in the rollout of biometrics technology both domestically and internationally.

The trial is also an example of how Sydney Airport works closely with its airline partners – in this case our launch partner Qantas – to deliver improved outcomes for travellers.

Master Plan 2039

Master Plan 2039 sets out the strategic direction for the development of Sydney Airport over the next 20 years. It is designed to accommodate the forecast 51 per cent increase in passenger numbers to 65.6 million over the planning period.

International passengers, who contribute the most to the NSW and Australian economies, will be the main driver of growth and, by 2039, the mix of international and domestic passengers is expected to be 48 percent and 52 percent respectively.

Additionally, Master Plan 2039 embeds our approach to sustainability into the planning and design for future Sydney Airport expansion. We achieved a 4-Star Green Star Communities rating from the Green Building Council of Australia for this master plan.

Fundamentally, our development plans will maintain our sharp focus on safety and security, enhance the capacity and efficiency of the airport, and deliver continually improving passenger, community and environmental outcomes. The plans are flexible and adaptable and will be developed in collaboration with our airline partners and in consultation with the community in which we operate. It is vital that in the evolving world of aviation and technology we are able to respond quickly to economic or aviation industry change.

Master Plan 2039 includes details of our proposed improvements to the airfield, aviation facilities, terminals and infrastructure. It also covers commercial opportunities in the landside and airside areas of the airport that complement aviation operations and enhance facilities and services to passengers, airport partners and other airport users.

It also contains a Five-Year Ground Transport Plan and 20-Year Ground Transport Strategy to improve road network performance in and around Sydney Airport. The ground transport solutions have been designed recognising changes to traffic volumes and patterns resulting from the opening of WestConnex and Sydney Gateway.

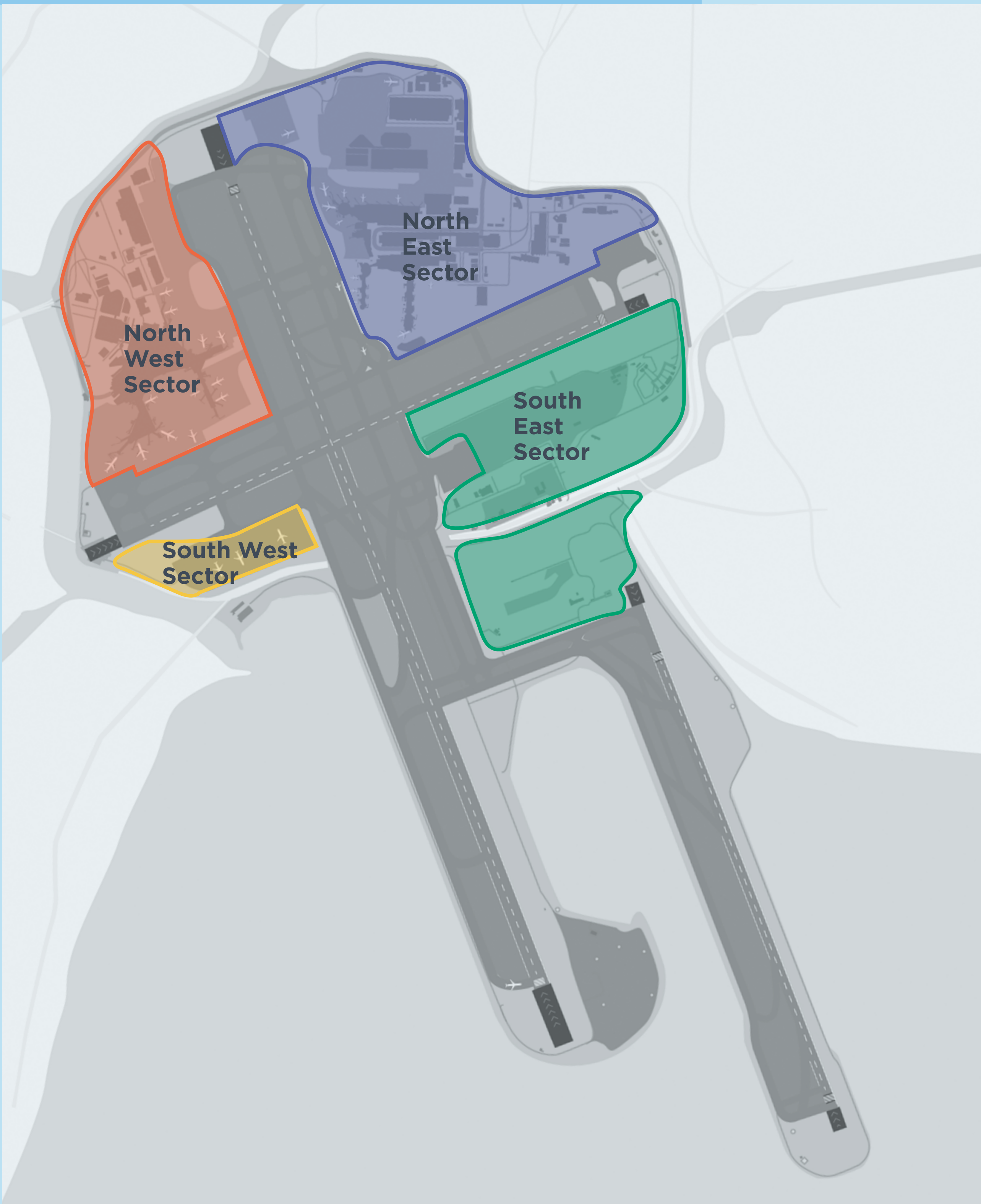
Sydney Airport is conscious of the impact major airports have on the environment and our local community. We are committed to reducing the carbon footprint of the airport, ensuring it is resilient to climate change, conserving significant items of natural, indigenous or heritage value and protecting environmentally significant areas. Details of what we are intending to achieve are contained in our separate Environment Strategy 2019–2024 which is an addendum to Master Plan 2039.

Master Plan 2039 was on public exhibition between 27 August and 20 November 2018, including static and pop-up community displays, a dedicated website and briefings for government, industry, airlines and the community.

The Master Plan 2039 will be updated to reflect those submissions where appropriate and submitted to the Minister for Infrastructure, Transport and Regional Development in February 2019 for approval.

1 Performance highlights
2 Operating and financial review
3 Sustainability summary
4 Directors' report
5 Financial report
6 Other information

Airport Development Plan 2039



North West Sector

T1 International Operations Precinct

- New terminal infrastructure
- Apron and stand infrastructure
- Ground transport and utilities improvements
- Expansion of JUHI facility

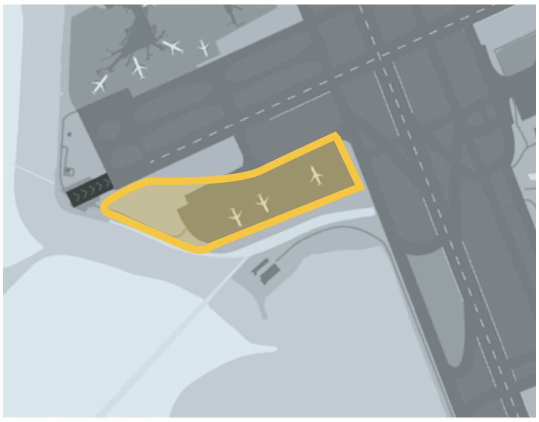
North East Sector

T2/T3 Integrated Operations Precinct

- New terminal infrastructure
- Apron and stand infrastructure
- Ground transport and utilities improvements
- Relocation of aircraft maintenance facilities

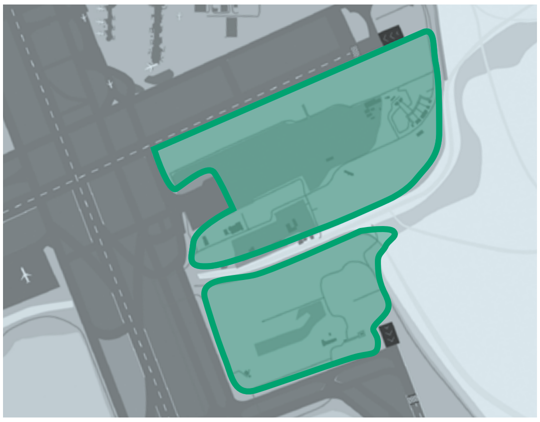
South West Sector

- Satellite pier development
- Apron and stand infrastructure
- Airside terminal and satellite pier connections



South East Sector

- Apron and stand infrastructure
- Satellite pier development
- Airside terminal and satellite pier connections
- General aviation facilities relocation
- Aircraft maintenance facilities



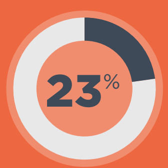
Retail

The Retail business is responsible for the retail, food and dining portfolio across Sydney Airport, including leasing, marketing, brand space and advertising.

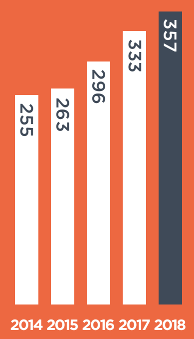
2018 Revenue

$357.0m

7.2% from 2017



of Group revenue



Strong retail performance

Our Retail business delivered a solid performance in 2018, with revenue growth of 7.2% from 2017 to $357.0 million. This reflected elevated new deals and percentage rent from existing tenants as well as speciality leases.

This shift in the retail product mix firmly positions Sydney Airport as a key global retail destination. As a result, international brands continue to seek a position at Australia's gateway, with Sydney Airport viewed as a key component of their overall global positioning.

A tailored approach to food and fashion

The T1 International luxury fashion precinct continued to perform strongly, with the introduction of first to Australian airport brand Bvlgari evolving the luxury offering to drive greater value for customers.

Our duty-free partner Heinemann Tax & Duty Free continued to deliver a strong, contemporary offering across its core products of liquor, cosmetics, skin care and fragrance and they continue to redefine their offer to meet the needs of the customers.

In 2018, we launched a Maison Christian Dior and Giorgio Armani Red Box boutique at the T1 International terminal. Exclusive to Sydney Airport in Australia, the collections feature bespoke products housed within limited-time pop-ups, creating a unique value proposition for international travellers.

We also continued to strengthen our food offering across the airport by focusing on contemporary offerings that gain mass media awareness, with Kitchen by Mike at Sydney Airport announced as "Casual Dining Restaurant of the Year" at the globally-recognised FAB (Food and Beverage) Awards.

We extended our relationship with renowned Australian chef, Mike McEnearney, by unveiling Kitchen by Mike Express at the

T1 landside casual dining precinct. Modelled on his popular eatery in the airside precinct, the new venture offers a speedy spin on his unique approach to seasonal eating. The new offer delivers greater value for departing passengers, family and friends, and the 31,000 staff who work at the Sydney Airport precinct.

We also delivered a new holistic health concept with Top Juice in T1 Arrivals showcasing a contemporary evolution of their brand, designed specifically for Sydney Airport. Its key location will provide passengers with an easy opportunity to reboot upon touching down.

Evolving our digital marketing and communications

While our retail mix continues to broaden, our proactive marketing and media relations strategy has evolved to drive strong pre-engagement ith travellers. We've remained focused on encouraging customers to arrive early at the airport to enjoy our offering, providing tax-free savings that are 'worth arriving early for'.

In 2018, we undertook a strategic media partnership with Vogue Australia and Gourmet Traveller to drive mass awareness of our fashion and food portfolio, hosting a high-fashion photo shoot on the runway. Bespoke booklets were embedded within key editions of both publications showcasing the depth and breadth of our offer and cementing Sydney Airport's authority as a key shopping destination.

We also began working with a range of highly-influential travellers to further drive reach and engagement around what's worth arriving early for at Sydney Airport, shaping positive sentiment with over 1.4 million engagements.

Advertising

In 2018, we successfully negotiated our advertising contract with APN on significantly better term, with the new contract taking effect 1 January 2019 and incorporating T3 Domestic terminal from 1 July 2019. This delivers the second largest retail contract on airport and one of the largest out-of-home advertising contracts in Australia.

In October 2018, JCDecaux, the global leader in airport advertising acquired APN. This provides Sydney Airport with strong opportunities to tap into an international market and alternative advertising opportunities to deliver meaningful brand experiences for passengers in 2019 and beyond.

T2 and T3 Domestic transformation

Following the successful casual dining precinct transformation, we have continued with the redevelopment of T2 with the first phase roll-out of the brands delivered as part of the Pier B project. They include Fat Yak, Stateside Sports, Three Chocolatiers, Relay, Merchant, CarryOn, JB Hi-Fi, Bonds, LEGO and Oakley.

Retail offerings at 31 December 2018

260 stores

T1

133 stores

Retail area
21,694m^2

T2

76 stores

Retail area
6,146m^2

T3

51 stores

Retail area
4,618m^2

Average dwell time[1]

133mins
International

1 Based on ACI's Airport Service Quality Survey across the year.

The refreshed mix of contemporary brands will create a "shopping streetscape" experience for customers to enjoy, delivering key gifting options pre-flight.

In 2018, we also welcomed Beer DeLuxe as our signature gourmet bar at T2 as we continue to enhance the domestic traveller's experience. The new bar concept provides a relaxing destination for passengers and visitors to enjoy a range of refreshing beverages.

We continued to enhance the offering at T3 Domestic terminal as part of the wider improvements program at Sydney Airport, delivering new brands such as MJ Bale.

The expiry of the majority of T3 leases on 30 June 2019 provides us with an opportunity to reposition the product offering.

Driving innovation

Our commitment to innovation extends beyond our retail offering, with sustainability initiatives explored throughout 2018 that seek to reduce our environmental impact and costs. These include trialling coffee cup recycling stations, the eradication of plastic straws and single-use plastic bags and recycling of organic waste.

2019 Outlook

In 2019, we will continue to transform our retail and dining offering to cater for our diverse passenger mix with an emphasis on the T2 and T3 Domestic terminals.

We will roll out the second stage of the T2 development, while implementing a new leasing strategy for Pier A to enhance the offer, delivering a consistent look and feel for the terminal and greater opportunities to shop before boarding.

While we've already begun evolving the offer at T3, we'll deliver on our repositioning strategy to enhance the retail offering in 2019. Our new advertising contract, with a 'whole of airport' approach, will provide strong opportunities for growth from 1 July 2019.


LEGO
STAR WARS

Property, Car Rental & Hotels

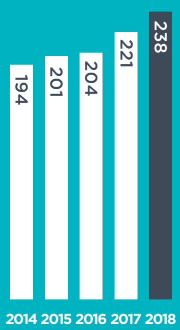
The Property business is responsible for the development, leasing and day-to-day management of Sydney Airport commercial assets located within terminals, the airfield, landside areas and hotels.

2018 Revenue

$238.1m

7.5% from 2017

of Group revenue



In 2018, Property and Car Rental performance was solid with revenues of $238.1 million, 7.5% higher than 2017.

The property business continues to perform well. This is largely a result of the new revenue stream from our two hotels, Ibis Budget and Mantra, where trading continues to be strong.

We are in the process of adding another 70 rooms to the Ibis Budget hotel and have also tendered out the construction and management of a 430 room hotel in the Domestic precinct.

We continue to look at how we can broaden the property portfolio. In August, we executed the lease for a new lounge with Plaza Premium which is scheduled to open towards the end of 2019.

We have a number of initiatives in train, with strong interest in relaxation pods and lounge offerings. We are now well progressed in the concept design for introduction of these in the international terminal, as part of an enhanced arrivals experience. We are also progressing a number of new commercial leasing opportunities across the portfolio.

Hotel performance and growth strategy

Sydney Airport hotels continue to deliver strong investment yields and robust commercial returns as more passengers seek the convenience of accommodation within the Airport precinct before or after their flights.

The Mantra and Ibis Budget hotels together offer 336 rooms to business and leisure travellers. Both hotels are an easy walk to the Domestic terminals and improved wayfinding to the terminals has made it easier for passengers to make the short walk from the hotels to Domestic check-in.

Given passenger volume is the main driver of hotel room demand, with passenger growth forecast to continue, our hotel business is well positioned to capitalise on this.

In addition, the proposed hotel development for a 430-room dual-branded hotel at T2/T3 has been presented to the market under an industry-wide Request for Proposal (RFP). This hotel will be constructed behind the Mercedes dealership and positioned for both the affordable and luxury market segments.

This hotel has the potential to feature world-class amenities including a rooftop bar, executive lounge and conference facilities. It is also envisaged to become a highly recognisable and prominent 'place-marker' for the Airport Domestic precinct, targeting opening in early 2021.

Airline lounges

2018 was a growth year for lounges at Sydney Airport. A new lease was negotiated for a Plaza Premium Lounge and the Etihad Lounge transitioned to No1 Lounges 'The House' which serves Etihad and Virgin Australia customers.

In 2019 we are focused on increasing the lounge offering at Sydney Airport and are in discussions with a number of lounge operators to increase available space for passengers.

An expression of interest has been called for an Arrivals Lounge and resting/relaxing pod product, which has attracted strong interest both domestically and globally. These new amenities would add to an improved customer journey experience for passengers using Sydney Airport and its services.

Car rental

In 2018, car rental revenue increased by 2% from 2017.

A number of car rental operators introduced new product offerings in 2018 to differentiate and further enhance the customer experience. Three car rental booths were constructed or refurbished in the T2/T3 Domestic car park by Thrifty and Avis/Budget to implement state-of-the-art facilities which will enhance the customer experience and reduce service times.

Freight, catering and aviation support

We continue to focus on opportunities provided through the consolidation within the freight, catering and aviation support facilities at the airport. This includes the optimisation of available space for these types of facilities.

In 2019 we propose to construct new facilities and lease areas to support the increasing demand for freight, catering and aviation support facilities.

2019 Outlook

We see opportunities across the whole Property portfolio.

We continue to be in a position of strong growth with first access to attractive on-airport hotel sites and locations. In addition, increasing passenger numbers will continue to drive demand for supplementary services such as car rental and airport lounges. This will help drive an on-airport experience suitable for our diverse customer base.

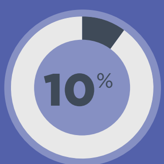
Landside Operations and Transport

Landside Operations and Transport is responsible for all of Sydney Airport's landside ground transport operations including car parking and commercial transport operators including buses, taxis, hire cars and rideshare.

2018 Revenue

$162.1m

1.7% from 2017



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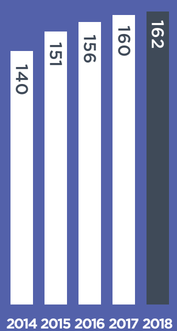


A landmark year of improvement and innovation

In 2018 Landside Operations and Transport delivered revenues of $162.1 million, an increase of 1.7% compared with 2017.

The focus of the Airport's Landside Operations and Transport business is to improve access to and around our terminal precincts to make it easier to travel to, from or past Sydney Airport by car, taxi, public transport or ridesharing. This is underpinned by our parking products, offering a range of options for those parking at Sydney Airport.

Our 2018 focus has been on delivering a much-improved experience for customers travelling to and from Sydney Airport. In a landmark achievement, we completed our five-year program of road upgrades six months ahead of schedule while continuing to deliver a wide range of transport options for passengers.

Major road improvements – a better travel experience for our customers

A major 2018 milestone was the opening of a new flyover and entry lanes to T1 International terminal six months ahead of schedule, marking the completion of our five-year transformational program.

Advanced signage technology – an Australian airport first

Following the successful installation of new overhead LED signage gantries at the entry to the Domestic precinct in 2017, in 2018 we installed four new overhead gantries at the International precinct, featuring advanced technology that instantly updates information for motorists.

A wide range of car parking choices

In 2018 our online pre-booked parking system continued to prove highly popular with customers for its convenience and cost savings. The wide range of products we offer suits all budgets for business and leisure travellers, and offers customers savings against drive-up rates should they choose to book their parking online.

As part of our commitment to always seeking ways of enhancing the customer parking experience, in 2018 we upgraded our online parking booking platform to make it easier to book online.

We regularly communicate with our online parking customers, offering special deals that provide an even bigger discount to our ordinary online rates.

In 2018 we opened a Priority Pick-up zone at T1 International – following the introduction of Priority Pick-up in 2016 at T2/T3 Domestic – a dedicated area for visitors using ridesharing services, pre-booked taxis, as well as the general public.

We are always reviewing our parking facilities and products to identify opportunities for improving the parking experience for our customers. In 2019 we will introduce a number of initiatives to further contribute to making parking at the airport an attractive option for travellers and meeters/farewellers.

Five-year ground transport improvements program – key highlights:

T1 International

- Expansion of entry and exit roads and creation of new Centre Road to significantly improve traffic flow and capacity
- New dedicated Express and Priority Pick-up zones; free parking for meeters and dwellers and new drop-off zones for buses
- Installation of state-of-the-art navigational signage
- Creation of safer and more convenient T1 access for cyclists and pedestrians

T2/T3 Domestic

- Reconfigured and enhanced road network within T2/T3 Domestic precinct
- More 'green light' time at key intersections
- Widening of Qantas Drive to ease traffic 'pressure points'
- Opening of Express and Priority Pick-up zones
- Expansion/improvements for taxi holding area to ease vehicle congestion
- Improved vehicle flow at T1 International Departures during peak morning periods with an Overflow Drop-off zone. We will continue to work closely with the NSW Government to deliver roadworks due for completion in 2019

Transport investment

Investment in road improvements in 2018

$22.4m

Number of car parking bays

18,772

2018 Capital investment in car parking facilities

$12.7m

2019 Outlook

In 2019 we will continue to improve and innovate our car parking products and facilities, including upgrading our valet parking and Blu Emu car park facilities. We are planning enhancements to our online parking booking system to provide customers with an enriched reservation experience that will be easier to use and will offer a wider range of product options.

The planned introduction of licence plate recognition technology throughout the airport in 2019 will enable 'contactless' entry and exit to and from all of our car parks, thereby making parking at the airport easier and more convenient.

2019 plans for the Customer Service Centre include technology upgrades to enable further workflow and resource efficiencies, prioritisation and personalisation of customer journeys based on historical caller behaviour, customer value ratings and other available customer experience data.

Landside Operations Centre – delivering state-of-the-art traffic management

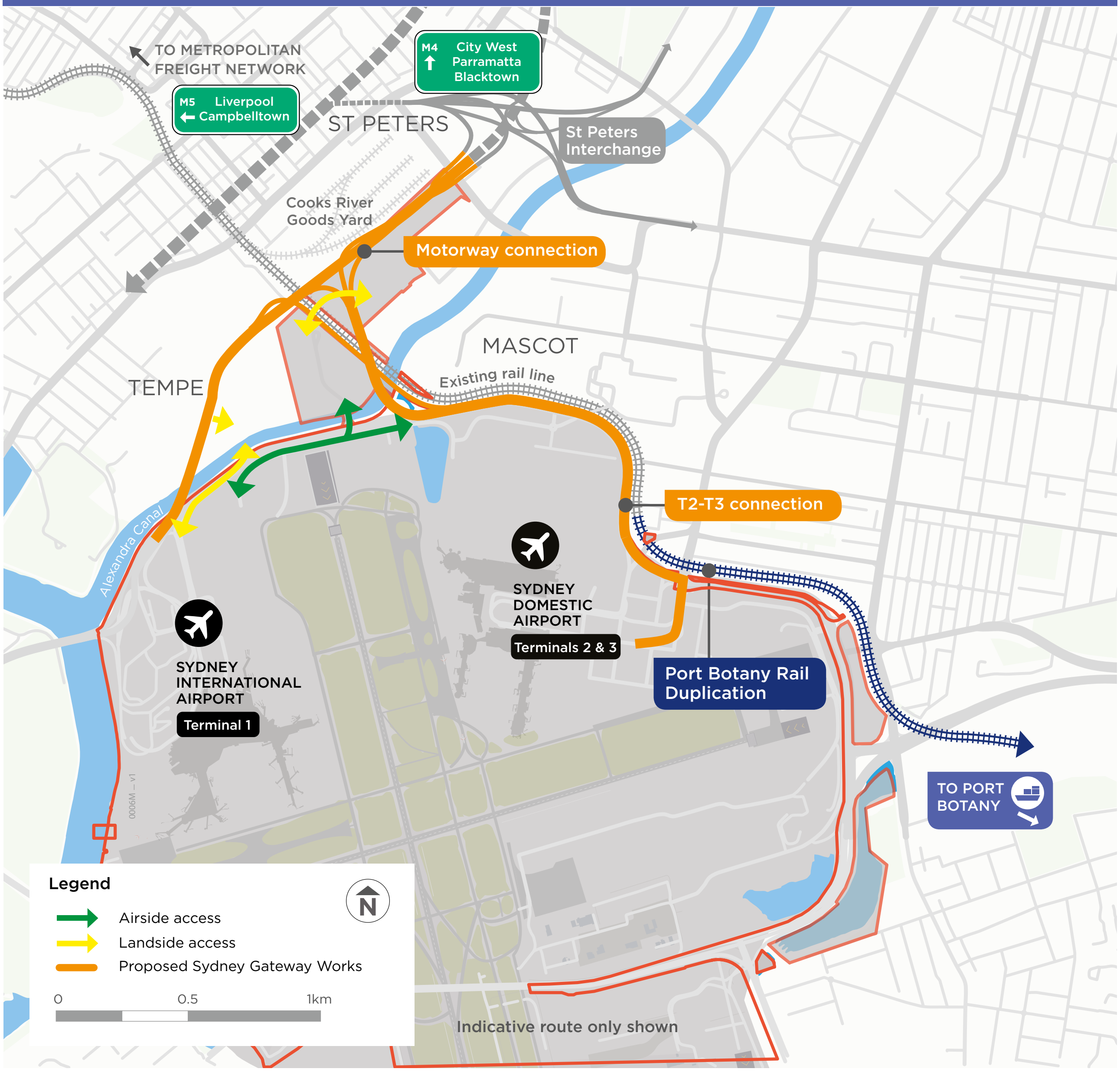
There are 3.2 million vehicle movements in a typical month.

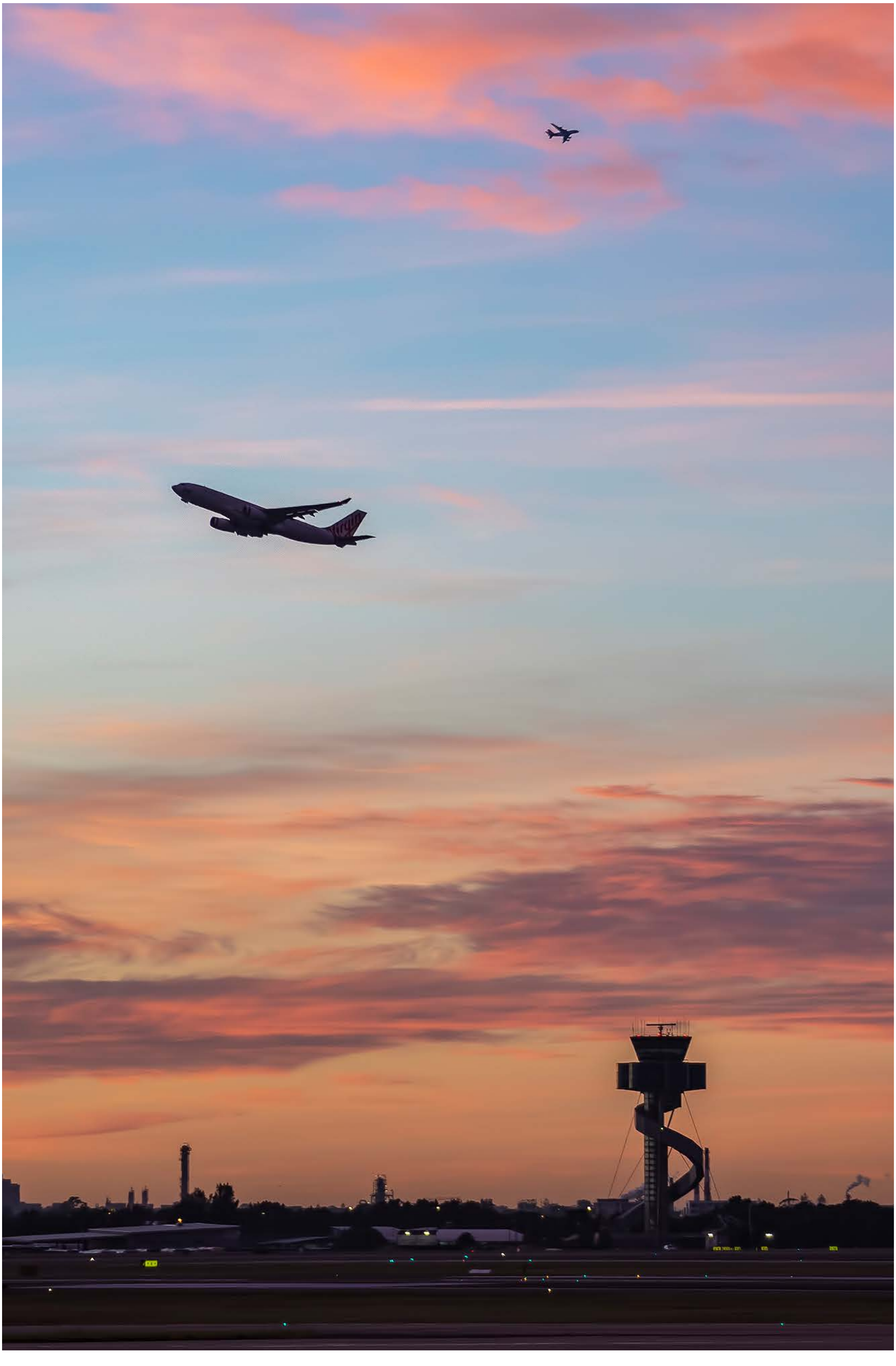
The Landside Operations Centre (LOC) is a state-of-the-art traffic management facility with resources and capabilities boosted and enhanced significantly in the past five years to address strong passenger growth and growing traffic volumes.

In 2018 the LOC's infrastructure has grown from one CCTV camera in 2012 to 15 CCTV monitors and dedicated desks for Roads and Maritime Services, the NSW Transport Management Centre and the NSW Police.

Green light for Sydney Gateway

- In September 2018, the NSW Government and Sydney Airport reached an agreement on Sydney Gateway, an initiative to improve road and rail access to Sydney Airport and the Port Botany area for passengers and the 31,000 people that work at the airport
- This is a significant road that will contribute to easing congestion in and around the airport precinct
- Completion of the Gateway project provides easier access from Sydney's western suburbs to Sydney Airport, enabling a 'traffic light free' flow from Paramatta to the airport
- The NSW Government and Sydney Airport will collaborate over the next three years to develop further ground transport projects to deliver improved capacity and access and will further explore opportunities to invest the compensation it will receive back into other transport solutions for the airport including metro, rail and bus services.





Our risks

Sydney Airport is exposed to a range of commercial, operational, regulatory and financial risks associated with operating Australia's busiest airport. The strategies developed by the Board and management to address these risks are outlined on page 14.

Commercial

- The business operations and revenues are dependent on the number of passengers that use Sydney Airport, particularly international passengers, which may decline or experience growth constraints due to factors beyond the airport's control, including global economic conditions, fuel prices and international government relations
- The airport faces competition for new business from other airports and may face increased competition with the Commonwealth Government's development of Western Sydney Airport (due to be operational in 2026), or expansion of other modes of transport in the Sydney region
- The business depends on Sydney Airport's ability to maintain the aerodrome certificate and lease over the Sydney Airport site

Operational

- The operation of Sydney Airport depends upon the performance of a variety of third parties that we have a limited ability to influence
- Airport operations could be materially adversely affected by climate change, cyber-attacks, terrorist attacks and the threat of war
- Airport operations are dependent on the full functionality of our terminal, airfield, road and technology infrastructure
- Sydney Airport faces risks and liabilities associated with aircraft accidents

Regulatory

- We operate in a regulated environment across many aspects of our business. The way we operate the business may change if there is regulatory change
- The financial performance of the business may be adversely affected by regulatory change or if there are adverse changes in airport operating restrictions
- The business depends on Sydney Airport's ability to maintain the aerodrome certificate and lease of the Sydney Airport site

Financial

- Sydney Airport has net debt of $8.4 billion and there is a requirement to refinance portions of this debt each year
- Airline customers and airport partners may experience adverse financial and operating conditions, which could have a materially adverse impact on revenues and costs

Operating expenses

During 2018, we continued to look for more cost-effective ways to deliver better services in all areas to our customers.

The year saw targeted investment in certain areas of customer experience, technology and capability as well as a strong focus on cost effectiveness and efficiency across all areas of work and service delivery. This led to operating costs increasing by only 3.1% year on year (excluding security recoverable expenses and hotels),

Category	2018 $m	2017 $m	Change
Employee benefits expense	64.6	57.5	12.3%
Services and utilities expense	83.7	84.2	-0.6%
Property and maintenance expense	29.8	31.4	-5.0%
Security recoverable expense	91.5	83.6	9.5%
Other operational costs	32.7	27.8	17.6%
Total operating expenses	302.3	284.5	6.3%
Excluding:			
Security recoverable expense	*91.5*	*83.6*	
Hotel expenses[1]	*8.4*	*4.5*	
Total operating expenses excluding security recoverable and Hotel expenses	*202.4*	*196.4*	*3.1%*

1 Hotel expenses are categorised in Services and utilities, Property and maintenance and Other expense. 2017's Hotel expense of $4.5 million are expenses from commencement of the hotels from July 2017.

Employee benefits expense

During the year, investment in our people continued to deliver increased capacity and capability across our operations, with a continuing focus on delivering an improved passenger experience. Employee benefits expense increased by $7.1 million or 12.3%. This included costs of approximately $2.5 million in respect of organisational restructures that will drive efficiencies and enhanced focus into 2019 and beyond.

Services and utilities expense

In 2018, service and utilities expenses included the first full year cost of operation of Sydney Airport's two hotels in the domestic precinct – Mantra and Ibis Budget hotel, leading to higher costs year on year. This category also includes electricity, water and gas used by the airport as well as baggage operations, cleaning, car park and kerbside management, and bussing related costs.
In addition to increased hotel costs, the 2018 year saw additional costs relating to apron bussing and increased free T-bus frequencies. A focus on cost control saw savings realised through a range of initiatives in car parking, and electricity savings through lower usage and renegotiated price benefits.

Property and maintenance expense

The property and maintenance expense category covers the cost of maintaining airfield and airport infrastructure, contracted through major service contracts. Tight cost control and prudent savings delivered through smarter maintenance processes and reinvestment in newer equipment saw a 5.0% decrease in this category.

Security recoverable expenses

These expenses relate to the cost of providing government mandated security measures, such as passenger and baggage screening. We recover these costs from airlines through per passenger charges at no margin. Security recoverable costs increased 9.5% year on year largely due to certain additional government mandated enhanced security measures introduced late 2017.

Other operational costs

Other operational costs include various corporate items. 2018 saw further investment in technology systems supporting customer experience and cyber resilience amongst other ongoing initiatives. It also included costs incurred in respect of preparations for the Productivity Commission review.

2019 Outlook

In 2019 we are continuing to work hard to ensure operating costs are tightly managed across the entire business. We look forward to lower cost greener energy with up to 75% of energy from renewable sources through realisation of benefits from the Power Purchase Agreement negotiated in 2018, together with savings from energy usage and network costs. We are expecting the move to full operational control of the T3 Terminal from July 2019 to bring additional revenues as well as certain additional costs. The Ibis Budget hotel expansion will bring additional customers and cost as well as revenue. 2019 will also see continued prudent increases in technology investment supporting enhanced customer experience, network resilience and cyber risk management amongst other initiatives.

Cash flow

Category	ASX-listed Sydney Airport 31 December 2018 $m	ASX-listed Sydney Airport 31 December 2017 $m
Net cash flows from operating activities	1,232.5	1,183.2
Net cash flows used in investing activities	(402.4)	(541.1)
Net cash flows used in financing activities	(837.2)	(624.5)
Net movements in cash and cash equivalents held	**(7.1)**	**17.6**

Net cash inflows from operating activities increased during the year due mainly to increased airport revenues received offset by airport operating expenses paid.

Net cash flows used in investing activities in 2018 reflected the Group's ongoing capital investments. 2017 included the payment of $34.5 million for the business acquisition of the Ibis Budget hotel and the indemnity payment of $119.8 million by the SAT1 Group. The indemnity payment is described in Note 9 to the Accounts.

Net cash flows used in financing activities in 2018 reflect distributions paid to security holders, additional drawn debt to fund growth capital expenditure, repayment of bank debt and borrowing costs paid.

Distributions were paid to ASX-listed Sydney Airport security holders during the year amounting to $822.0 million, fully covered by NOR. This is reflected in the Consolidated Statements of Cash Flows in the Sydney Airport Financial Report for the Year Ended 31 December 2018.

Capital expenditure

Investment in capacity and services improvements in 2018	$378.5 million

Major projects completed during the year are described below:

CATEGORY	PROJECT DESCRIPTION	BENEFITS	COMPLETED
AIRFIELD	Airfield lighting	• Upgraded high intensity aircraft lighting on the parallel runway improving safety standard and allowing operation in low visibility conditions	March 2018
	Airfield resurfacing	• Extensive resurfacing of the airfield, including the parallel runway and associated taxiways and the northern section of the main runway	June 2018
TERMINAL WORKS	Check-in	• Redevelopment of check-in counter C to streamline throughput and reduce queuing by increasing the use of technology and further automating check-in	March 2018
	Terminals	• Improvement to interior finishes, wayfinding and advertising signage at T1 International Arrivals Concourse to improve the passenger experience	December 2018
		• Redevelopment and refurbishment of the T1 International Arrivals Hall improving ambience and the passenger experience	December 2018
LANDSIDE OPERATIONS AND TRANSPORT	T1 International and T2/T3 Domestic ground access road works	• New roads at the International precinct, separating traffic from Departures Road and recirculating traffic directly on to Centre Road. New exit from the car park under the Giovanni Brunetti Bridge and improvements to the Marsh Street exit have both seen reduced congestion and improvement in traffic flow	June 2018
		• Nine new digital wayfinding gantries to improve traffic flow around the precinct	October 2018
PROPERTY	New Solar Panels	• Solar panels on top of the expanded P6 northern multi-storey car park at the International precinct, providing low cost, clean energy	March 2018

Major projects that are in progress are described below:

CATEGORY	PROJECT DESCRIPTION	BENEFITS	EXPECTED COMPLETION
AIRFIELD	**Airfield resurface**	• Resurfacing and strengthening of the central and southern sections of the main runway and associated taxiways	Ongoing through 2019
TERMINAL WORKS	**Terminals**	• Additional and upgraded gate lounge seating spaces in Terminal 1, including improved sightlines, wayfinding, and improved facilities	February 2019
		• Redevelopment and refurbishment of the Terminal 1 International Arrivals Hall improving ambience and the passenger experience	March 2019
		• Fast passenger processing trial at T1 International Terminal with passenger facial recognition for automated check-in, bag drop, lounge access and boarding	March 2019
		• Redevelopment of the T1 International Departures entry point, increasing capacity by providing two entry points into the emigration and security area	August 2019
		• Staged expansion of speciality retail at T2 Domestic Pier B over two phases. Phase 1 base build works on Southern Retail and Mezzanine. Phase 2 on the Northern Retail and Rotunda section	Phase 1 to complete in March 2019. Phase 2 staged through to 2020
	Bathrooms	• New bathrooms at T1 International at Gate 54, Meeting Point, Ramp Level, and rolling upgrades in T1 and T2, improving the customer experience	Ongoing through 2019 and 2020
	Baggage	• A new baggage room at T1 International improving system resilience and capacity, and providing redundancy capability	Staged through to 2021
LANDSIDE OPERATIONS AND TRANSPORT	**T1 International and T2/T3 Domestic ground access road works**	• An integrated traffic management system designed to minimise congestion and reduce journey times through proactive management of available assets	2020
PROPERTY	**Hotel expansion**	• Expansion of the Ibis Budget hotel at Sydney Airport's T2/T3 Domestic precinct on Ross Smith Avenue	May 2019
TECHNOLOGY	**Resilience**	• Campus-wide upgrades to enhance the resilience and capability of the airport's key operational systems	Staged through to 2020
	Cyber security	• Implementation of the first phase of a Cyber Defence Program Security Control Centre to reduce the risk of data and information security threats	April 2019

Capital management and distribution

Sydney Airport maintains a strong focus on prudent capital management by proactively diversifying the debt portfolio and addressing the refinancing of debt well in advance of its maturity. This further strengthens the capital structure and creates a strong platform for future issuance.

2018 refinance summary

Sydney Airport successfully issued a EUR500 million (A$796 million) 10-year Euro bond in April 2018 and a AUD400 million (A$335 million plus USD45 million) equivalent multi-tranche US private placement bond (USPP) over 15, 20, 25 and 30-year tenors in October 2018. Proceeds of the USPP bond received by 7 February 2019 were used to repay drawn bank debt, unlocking additional liquidity to cover debt maturities and fund planned ongoing investment.

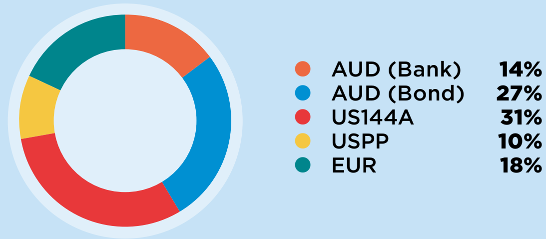
Outcomes of this refinancing were:

- Competitive pricing locked-in to 30-years, with four month free delayed settlement on the USPP bond
- Strong liquidity position enhanced, with over $1.0 billion in undrawn bank debt facilities
- Debt maturity profile extended, with a frontier of debt maturities spanning 2034 to 2049
- Average debt maturity extended 12 months to early-2025
- Debt maturity profile smoothed, with less than 15% of debt maturing in any one year
- Funding sources diversified, with the second issuance into both Euro and USPP bond markets
- Currency exposure 100% hedged, with 84% of USPP bond raised directly in Australian dollars

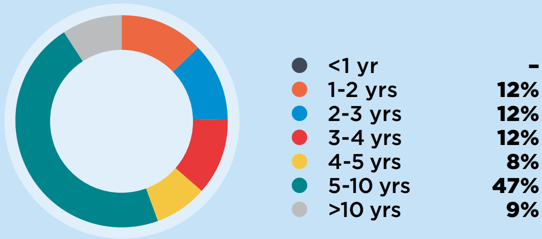
Category [1]	31 December 2018	31 December 2017
Net debt	$ 8.4 billion	$ 8.0 billion
Cash flow cover ratio	3.2x	3.0x [2]
Net debt/EBITDA	6.6x	6.7x [2]
Average maturity	Early-2025	Early-2024
Credit rating (S&P/Moody's)	BBB+/Baa1 [3,4]	BBB/Baa1

1 Metrics and ratios are calculated on a 12-month rolling basis using defined terms in the finance documents.
2 Excludes EBITDA in relation to the Ibis Budget Hotel for the September 2017 quarter given transitional treatment as an Excluded Subsidiary under finance documents.
3 S&P credit rating upgraded on 27 March 2018 from BBB to BBB+ (stable outlook).
4 Moody's credit rating upgraded on 31 January 2018 from Baa2 to Baa1 (stable outlook).

FUNDING PORTFOLIO BY CATEGORY



DEBT MATURITY ON DRAWN AND UNDRAWN DEBT



Distributions

Total distributions paid or payable by ASX-listed Sydney Airport are shown below. There are $nil imputation credits (2017: $nil) available to pay franked distributions.

	SAL Group		SAT1 Group	
	2018	**2017**	**2018**	**2017**
Distributions were paid/ payable as follows:				
$m				
Final distribution[1]	428.5	405.2	117.3	122.7
Interim distribution[2]	416.8	371.3	114.9	120.4
	845.3	776.5	232.2	243.1
Cents per stapled security				
Final distribution	19.00	18.00	5.20	5.45
Interim distribution	18.50	16.50	5.10	5.35
	37.50	34.50	10.30	10.80

1 Paid on 14 February 2019 (2017: 14 February 2018).
2 Paid on 14 August 2018 (2017: 14 August 2017).

Distribution reinvestment plan (DRP)

The DRP operated in respect of the 30 June 2018 interim distribution and 31 December 2018 final distribution.

In respect of the 30 June 2018 distribution, 2.0 million stapled securities were issued to DRP participants at $7.15 per stapled security in August 2018.

In respect of the final distribution for the year ended 31 December 2018, 1.9 million stapled securities were issued to DRP participants at $6.60 per stapled security in February 2019.

Forward looking statements

The Operating and Financial Review contains forward looking statements, including statements of current intention, opinion and expectation regarding the Group's present and future operations, possible future events and future financial prospects. While these statements reflect expectations at the date of this review, they are, by their nature, not certain and are susceptible to change. The SAL Group makes no representation, assurance or guarantee as to the accuracy of or likelihood of fulfilling any such forward looking statements (whether express or implied), and except as required by applicable law or the Australian Securities Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.

Our customer focus

We continued to strengthen our focus on our customers – from the 44.4 million passengers passing through our terminals to our airport community, on-airport employees and community partners, as well as our stakeholders in government, business and industry.

Queue time

99% of passengers **<10minutes** in security

Satisfaction score

82% were satisfied with their airport experience

eDirectory searches

4,613,255 assisting passengers to locate airport facilities and services

Building a culture of understanding our customers underpins the many initiatives and changes around the airport that will improve their experience.

Listening to our customers and delivering a positive, easy and seamless experience will continue to form the basis of our customer strategy.

Easy and seamless

Our customers provide us regular feedback including the most important aspect of their airport experience – that it's easy and seamless.

Biometrics technology

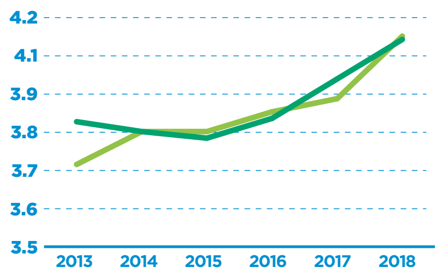
In 2018, we began a trial using biometrics technology and facial recognition processing to increase the efficiency, convenience and security of passenger processing.

Digital maps

Terminal maps are now available across a range of digital channels to help customers find their way easily around the airport. Maps are available on:

- Google Maps – Street view imagery
- Apple Maps
- Baidu – China's most common mapping tool
- Skyteam App

Passenger overall satisfaction



International 4.13/5

Domestic 4.14/5

Source: Monthly customer satisfaction surveys.

Queue measurement

We can now accurately measure queue and processing times for T1 international departures and arrivals for both security and passport processing along with customer taxis queue wait times. This assists customers to manage their own journey.

e-directories

Last year we added Hindi and Arabic to total nine languages available at our eDirectories.

Service excellence

Customers are at the heart of what we do and we recognise the importance of great service on the overall airport experience.

Customer service excellence training

In 2018 we introduced a customer service excellence training program to around 90% of our workforce, aimed at enhancing a consistent and positive service experience, further develop core communication skills and a common Service Qualities language.

Real-time feedback

The “Happy or Not” feedback devices offer real-time feedback for our customers, providing opportunities to improve the customer experience and building on what continues to be successful.

Working as an airport community

Our airport community is important to us. We work collaboratively with our stakeholders to deliver improvements to the airport experience.

Quiet terminal

Responding to feedback from both passengers and staff requesting a more relaxing environment, we worked with our airline partners to deliver a quiet terminal at the T1 international terminal. With limited flight related announcements, up-to-date flight information continues to be delivered via Flight Information Display Screens and multilingual e-directories, information desks and our digital and social platforms.

Complimentary T-Bus

We removed the fare for the T-Bus, offering a complimentary shuttle service between T1 International and T2/T3 Domestic terminals.

InfoSYD portal

Sydney Airport has developed a secure portal that provides operational and compliance information and functionality to the 31 000 on-airport community. The site went live in May 2018 and has around 2000 people currently registered.

Accessibility and inclusion

As part of our commitment to improving accessibility across the airport, we have delivered and participated in projects to further enhance the airport experience.

Innovative bathrooms

New bathrooms were completed at T1 Arrivals. The facility includes Changing Places-accredited full-size change tables and hoists to assist people with profound disabilities, as well as animal assistance facilities for their companions.

A new parent room received Australian Breastfeeding Association Accreditation 5-star rating (an Australian Airport first)

Disability access plan

We continue to update information to communicate and improve airport accessibilty as well as undertaking remediation works such as hearing loops, public stairs, lifts, wayfinding and seating.

Awards

BEST AIRPORT IN THE AUSTRALIA/PACIFIC REGION
SKYTRAX WORLD AIRPORT AWARDS

2018 AIRPORT OF THE YEAR (CAPITAL CITY)
AUSTRALIAN AIRPORTS ASSOCIATION (AAA)

2018 AIRPORT INNOVATION AND EXCELLENCE (TECHNOLOGY)
AUSTRALIAN AIRPORTS ASSOCIATION (AAA)

RESTAURANT OF THE YEAR (CASUAL DINING), KITCHEN BY MIKE
THE MOODIE DAVITT REPORT FOOD AND BEVERAGE AWARDS

Delivery of service excellence training

In 2018 we introduced a standardised customer service excellence training program to:

- improve the current level of customer service
- ensure consistency across the organisation
- outline a common service ‘language’

We delivered 30 training sessions to around 90% of our workforce, aimed at enhancing a consistent and positive service experience, further develop core communication skills and a common Service Qualities language.

Sustainability – Our Approach

We're committed to responsible growth that delivers positive outcomes and long-term value for our customers, the surrounding community, our people and our investors

Our approach

Sustainability is integral to our business strategy and response to the emerging challenges and opportunities shaping our business, whether driven by technology, community needs, market conditions or regulatory changes. We strive to:

- Operate ethically and transparently, and maintain an environmentally responsible and sustainably developed airport
- Build relationships, support community resilience and champion a diverse and inclusive workplace
- Collaborate with our customers, the airport community and other stakeholders to deliver better outcomes and efficiencies

In 2018, we once again reviewed our sustainability goals for all of Sydney Airport's operations in line with our current knowledge and understanding around sustainability issues and initiatives. We introduced our 2019–2021 sustainability strategy with a series of commitments and flagship initiatives in the areas of climate resilience, electrification and airspace and airfield efficiency.

Contributing to the United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) seek to address the most significant challenges our world is facing today. Sydney Airport uses these goals to inform how we address these challenges, and how we can make a positive impact. We've identified 11 of the 17 goals which we've meaningfully supported in 2018.

SUSTAINABLE DEVELOPMENT GOALS

We also revised our Sustainability Governance Framework to guide our sustainability journey this year. Further details about this framework are set out in our 2018 Sustainability Report, available on our website.

Focusing on the issues that matter

Strategic pillars	Material issues
Responsible business Being ethically responsible and transparent in how we do business	Safety, security, health and wellbeing, operational efficiency and continuous improvement, business continuity and resilience, fair and ethical operations, climate change, cyber security, human rights, diversity and inclusion, employee attraction and retention, sustainable procurement
Planning for the future Delivering operational excellence through innovative, technology-based solutions and supporting customers' needs now and into the future	Access to and from the airport, customer experience, capacity
Supporting our community Working with our communities to protect the environment and create shared value	Aircraft noise, community investment and engagement, environmental management

Responsible business

Safety in Numbers

Lost time Injuries [1]

10.0

6.0 [2] in 2017

Lost time injury frequency rate [3] **(employees)**

9.6

6.0 [2] in 2017

Safety training hours

2,762

We strive to be ethical, responsible and transparent in how we do business.

Safety and wellbeing of all airport users

We are committed to ensuring the highest levels of safety across our operations. It is integral to all aviation and non-aviation activities.

Our safety objectives are to:

- Comply with both workplace and civil aviation safety legislation and standards
- Strive for an accident-free workplace and apply best practice principles
- Involve Sydney Airport employees and other stakeholders in the decision-making process through effective consultation
- Ensure that all Sydney Airport managers and team leaders take responsibility for all aspects of safety as an integral part of their role.

2018 saw an increase in lost time injuries on the prior period. Our safety reporting process involves investigation into the cause and nature of incidents. We identified that the incremental number of injuries in 2018 pertained to low-risk, high-frequency events, such as slips, trips and falls by office staff and a charity event cycling incident. Average time lost on these specific injuries was 1.33 days.

Our Safety Steering Committee endorsed executive and people leader safety KPIs to drive safety culture and best practice throughout our organisation. The KPIs are focused on lead indicators of completed safety walks and a lag indicator of outcomes of class 1 injuries (i.e. fatality, total permanent disability and permanent partial disability), and are linked to performance evaluation.

To further address our risk profile and simplify safety systems, we are establishing safety standards for critical risk activities on the airport. The standards will have application to any employees, engaged service providers or contractors and stakeholders working on airport infrastructure. The program of work will continue throughout 2019.

1 An Time Injuries (LTI) is a work-related injury or illness that results in at least one full day or shift being lost after the day on which the injury or illness occurred, incurred by employees, internal consultants and contractors.

2 We have restated 2017 figure due to an LTI reported in March 2018 for an incident dated December 2017. We have restated employee LTIFR accordingly.

3 LTIs per one million hours worked.

Female employees

38.8%

Female managers

35.4%

Gender pay equity ratio

93.4

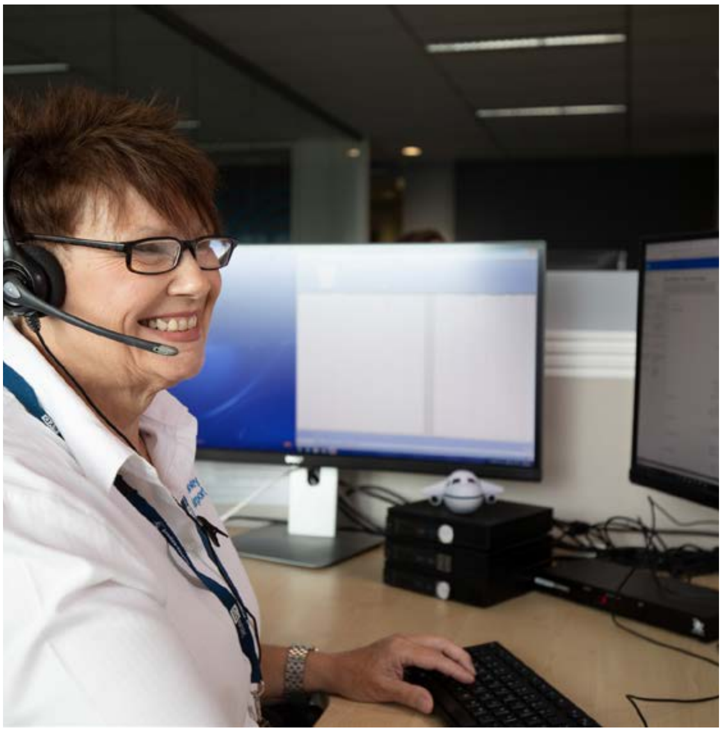
Continuing to support a diverse and inclusive workplace

We are committed to achieving a 10% uplift in female representation in management and overall on 2018 performance, supporting a diverse and inclusive workforce.

This is showcased by the strong representation of women across our business, both in corporate and operational roles. This year we appointed several women to senior positions including Chief Commercial Officer, General Manager Safety, Sustainability and Environment, Head of Delivery, Strategy and Support, Head of Media and Communications and Delivery PMO Manager.

The number of female employees across our business increased to 38.8% in 2018. This continues our trend, with female representation rising by almost twenty per cent over the past five years.

We believe we can and should play a strong role to advance human rights and improve outcomes for Aboriginal and Torres Strait Islander people. Our inaugural 'Innovate' Reconciliation Action Plan demonstrates our commitment to showcase and support communities, generate respect and understanding, and build meaningful relationships.



487	14.1hrs	48%
total employee headcount	training per employee	opportunities filled internally

Looking after and developing our people

Our people are key to our ongoing success and we're committed to building a culture that drives high performance, invests in building capability and recognises and celebrates achievements, driving employee engagement and career development.

The airport provides employment for approximately 31,000 people across 800 businesses, of which we directly employed 487 as at the end of the period. We were proud to be recognised this year as a Finalist in the Employer of Choice category of the prestigious 2018 Australian HR Awards.

We acknowledge that workplace culture is critical to attracting, retaining and engaging the talented people we need. This year we launched our 'Culture Champions' forum, which was attended by representatives from all areas of our business. They identified key themes and initiatives that will build and enhance our culture and support team collaboration to deliver successful outcomes for our customers, investors and stakeholders.

To further enhance our commitment to building a culture of outstanding customer service, this year we established four Service Qualities – Caring, Helpful, Proactive and Approachable – which provide us with a framework and mindset to ensure we deliver consistent service. Around 90% of our workforce completed training on these new qualities this year.

Climate change resilience

We are committed to playing our part in the transition to a low carbon future, identifying and managing climate change risks and contributing to addressing climate change by restricting global temperature increases to less than 2°C as per the international agreement on climate change (The Paris Agreement). Our 2018 Sustainability Report, available on our website, outlines our approach to climate change resilience in detail, and in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

This year, we introduced two new climate change commitments: to be carbon neutral by 2050, in line with the Airport Councils International Airport Carbon Accreditation program; and to reduce carbon emissions per passenger by 50% by 2025 from 2010 baseline levels.

To achieve this, we are progressing with the following:

- Implementing a Corporate Power Purchase Agreement through which 75% of the contracted electricity load comes from wind energy
- Developing and implementing an Energy Savings and Carbon Reduction Plan
- Implementation of a Ground Power Improvement Program with airline businesses to increase the utilisation rate of Fixed Electrical Ground Power Units (FEGPU) and Preconditioned Air (PCA) to minimise Auxiliary Power Unit usage and fuel burn on the airfield. Including the provision of FEGPU and PCA at all gates and remote stands

Governance

Our Safety, Security and Sustainability Board sub-committee has full oversight into all environmental and sustainability matters, including climate change. Selected matters are also referred to the full Board for consideration and information. An internal management team has been identified including Legal, Finance, Risk, Environment, Planning and Design, Investor Relations and Sustainability to progress our desire to follow the TCFD recommendations over the next three years.

Risk management

Sydney Airport continually assesses climate risk to better understand the specific risks and includes all the risks and mitigation actions on our company wide risk register. These risks are assessed and factored into design planning and infrastructure design decisions.

We have identified foreseeable physical climate change risks, their likelihood, the business impact, the responsible management personnel and our mitigation strategy.

Sydney Airport has undertaken scenario analyses to assist in the identification of key risks and opportunities for the business. Initially we focused on two key climate scenarios, RCP 4.5 and RCP 8.5, and the associated physical risks with 2030 and 2090 timeframes for establishing near to mid-term and long-term risks in climate change. As we continue our TCFD journey, we will broaden our analyses and increase the scope to include transition risks.

We continued our five-year trend in reducing emissions intensity, which we measure in kg CO_2e per passenger. Since 2014, this has reduced from 3.20 kg CO_2e to 2.59 kg CO_2e in 2018.

Building operational resilience

As Sydney Airport is a critical piece of national infrastructure we need to ensure our facilities are resilient and can continue to operate under a range of different circumstances. In August, we conducted a full-scale emergency “test scenario” co-ordinated with more than 20 government organisations and agencies including NSW Police Force, Airservices Australia, the Australian Transport Safety Bureau, Fire & Rescue NSW, NSW Ambulance, the Australian Federal Police and the Australian Border Force.

With the security threat landscape evolving rapidly, we have continued to focus on managing current and emerging cyber risks. A refreshed Information and Cyber Security 2020 strategy has been at the centre of our cyber programs to drive security governance, improved maturity levels, and stronger user awareness via security culture campaigns. We work closely with the Australian government via the Joint Cyber Security Centre (JCSC) and are partnering with the Aviation Information Sharing and Analysis Centre (ISAC) on global aviation cyber security intelligence.

This year, as part of our maturity improvements, we partnered with a managed security service provider to enhance our cyber defence capabilities with a new 24x7 Cyber Security Operations Centre. We also participated in Australia’s first joint cyber risk workshop in collaboration with Qantas. This included security professionals at all major national ports, government and Qantas to assess the security landscape and interdependencies within the aviation sector.

Operating ethically and with integrity

% of third party spend screened against Supplier Code of Conduct

73%

As an ASX-listed company, we strive to be open and transparent in all our dealings with investors, the public and other stakeholders. As part of this commitment, we voluntarily adopted the Tax Transparency Code in 2016 and publicly release an annual Tax Governance Statement to provide a greater understanding of our tax structure and tax governance policy. The Statement for the period ended 31 December 2018 can be found on Sydney Airport's website.

As members of the United Nations Global Compact, we align our practices with the UN Guiding Principles on Business and Human Rights, which articulate the duty of corporations to assess and prevent potentially adverse impacts of business activity on human rights. In 2018, and as a response to developments in our regulatory and societal context, we increased our attention on modern slavery.

Our Supplier Code of Conduct sets out how we manage our relationships with suppliers and the minimum expectations we have set. In 2017, we re-assessed our Supplier Code of Conduct. On the back of our focus on modern slavery over the past year and throughout 2019, we will revise this Code of Conduct to ensure it remains relevant and aligned with our standards and policies. In 2018 we assessed 33 suppliers against the expectations in our Supplier Code of Conduct, accounting for approximately 73% of the airport's total third-party spend across both capital and operational expenditures. A number of minor non-conformances were identified and we have been working proactively with these suppliers to close these out.

We also joined the Business Council of Australia's Australian Supplier Payment Code. We have identified the small businesses that we engage and developed internal processes to ensure we comply with the Code, which requires payment for services provided by any small business within 30 days.

Full-scale emergency exercise simulating an aircraft crash.

Planning for the future

Delivering operational excellence through innovative, technology-based solutions and supporting customers' needs now and into the future

Increasing and supporting landside efficiency

Estimated increase in T1 road network capacity during busy morning period

25%

Sustainable development of the airport

PPA contracts up to

75%

of current load from renewable energy

Increasing and supporting landside efficiency

Planned changes to the road network outlined in the Master Plan 2033 Five-Year Ground Transport Plan have now been implemented. These road network enhancements focused on improving capacity and traffic flow at both the T1 and T2/T3 precincts, which increased road network capacity at T1 during the busy morning peak period by an estimated 25%.

Planning for the future means we must act now to accommodate Sydney Gateway, which will provide a new high capacity alternative road connection from WestConnex at St Peters Interchange to the T1 precinct and the T2/T3 precinct at Sydney Airport. The project is being delivered by Roads and Maritime Services on behalf of the NSW Government. Additionally, the Australian Rail Track Corporation is undertaking a project to duplicate a section of the rail line to Port Botany to get more freight onto trains and reduce the proportion of trucks on local roads around Sydney Airport.

As a part of the development of the draft Master Plan 2039 we worked collaboratively with the NSW Government to assess the transport access needs of the airport and the wider network around the airport including the Sydney Gateway project. This engagement means Sydney Gateway complements future upgrades taking place within and connecting to the T1 and T2/T3 precincts.

Sustainable development of the airport

Our commitment to sustainability was recognised this year with the award of a 4-star Green Star Communities Rating for our preliminary Draft Master Plan 2039, which embeds sustainability into the planning and design for future Sydney Airport expansion. We undertook extensive consultation on the draft Master Plan, going beyond statutory and regulatory requirements.

In December 2018, we signed a Power Purchase Agreement (PPA) with Grassroots Renewable Energy and Origin. This agreement contracts up to 75% of our current electricity load with Grassroots Renewable Energy, a partnership of Partners Group and CWP Renewables, with baseload firming provided by Origin Energy. This exciting agreement will provide meaningful cost reduction while supporting Sydney Airport's transition to renewable energy and our target of 50% reduction in carbon intensity by 2025.

For a number of years we have focused on the use of technology and performance data to drive continuous improvement in our Baggage Handling System. One of our key focus areas is reducing the number of bag jams which can cause delays. We have tuned our control systems to ensure bags stay adequately spaced, particularly where conveyors merge together. Mechanical changes have also been made to conveyors and chutes where it was found that the bags were jamming due to 'catch points'. This has resulted in a secondary benefit to handlers by reducing the need for manual intervention and consequently, the risk of manual handling injuries. We have also been improving reliability by upgrading the system with new motors that are 30% more energy efficient. Commencing in 2015, we have now completed around 65% of the motor replacement program.

Supporting our communities

$5.7m
invested in communities

We remain committed to our strategy of investing in projects and initiatives that meaningfully contribute to the communities in which we live and work, and helping them to thrive in tangible ways, underpinned by three pillars – Live Local, Leading and Learning and Sydney's Airport

Locally we support community organisations across the Bayside, Inner West, Sutherland Shire, City of Sydney and Randwick local government areas. We are committed to playing a role in keeping our local communities healthy and connected. This year we completed the three-year Kamay Botany Bay Regeneration Project with Conservation Volunteers Australia and increased our support for Surf Life Saving Sydney to include patrol lifesavers, alongside Nippers in training.

Building relationships and supporting community resilience

Live Local

We are committed to being a good neighbour and playing a role in keeping our local communities connected, healthy, vibrant and thriving.

Leading and Learning

We support initiatives that provide opportunities for our leaders of tomorrow. We support those to be the best in their field, with a particular focus on supporting minority groups and reducing inequalities in our community.

Sydney's Airport

We are working to strengthen relationships between the airport and our communities by supporting tourism-generating initiatives that benefit the city and local communities, and by developing a sense of place at Sydney Airport that reflects our city.

Maintaining an environmentally responsible airport

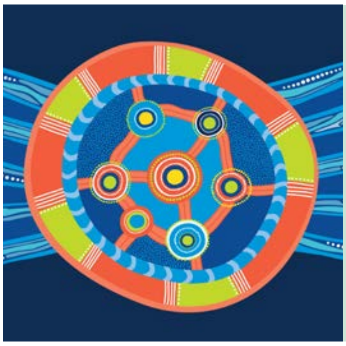
Our new draft five-year Airport Environment Strategy was submitted to the Federal Government for approval in February 2019. This strategy provides a framework and action plans for achieving environmental sustainability, responsible management and compliance.

For most of the world's major airports, aircraft noise is a long-standing issue. We acknowledge that aircraft noise disturbs local communities and are committed to working with government and our airline partners to manage and mitigate this impact, especially in those areas close to the airport and under flight paths. During 2018, 28% of all international passenger flights were on quieter, next-generation aircraft, up from 25% a year ago.

To support the launch of Master Plan 2039, we have established an aircraft noise portal, providing the community with access to aircraft operations into the future and resulting noise impacts.

During the year we have been working on a range of initiatives to reduce the amount of waste going to landfill, in particular from our retail operations. We worked with our retailers to introduce a ban on plastic straws and single-use plastic bags from February 2019 across the terminals. We continued to increase our waste recycling rates in 2018, and this year trialled an organic waste recycling program in our T1 International Terminal targeting a 20% reduction in waste to landfill.

Continuing our ongoing commitment to biodiversity, this year we were proud to announce a new major partnership with Bayside Council and Conservation Volunteers Australia to support conservation activities in the Rockdale Wetlands Biodiversity Corridor.



Support for local Aboriginal communities

This year we also invested more to support local Aboriginal communities and people, including a new partnership with local Aboriginal charity, First Hand Solutions, bringing their BLAK Markets to Sydney Airport. In developing Sydney Airport's inaugural Reconciliation Action Plan, this year we have engaged with local Aboriginal organisations and communities to develop our understanding of Australia's First Nations peoples and culture.

Volunteering for Invictus Games

We were very proud to support the arrival of competing teams of the Invictus Games 2018. The Games attracted more than 3,000 athletes, family and friends, media and officials from 18 nations. We worked very closely with games organisers, airport business partners including airlines and ground handlers, to ensure we prepared them for a smooth arrival and departure experience. Close to 60 of our people volunteered during arrivals and departures to support teams and escort them through the airport process, including facilitating a streamlined process for baggage and equipment to be transported directly to and from hotels.

Supporting art and culture

As Australia's largest gateway and main gateway into Sydney, a city of artists and cultures, we recognise our role in promoting Australian art. On 8 August 2018, International Day of the World's Indigenous Peoples, we unveiled 'United Neytions' – a major public art project in the T1 International departures area in a landmark partnership with the Museum of Contemporary Art. The event included a Welcome to Country by an Aboriginal elder from the La Perouse Aboriginal community and Metropolitan Aboriginal Land Council, alongside traditional entertainment and acknowledgements.

Image credit: Anna Kucera.

'Bid for Good' Lost Property Auction

In partnership with the Sydney Community Foundation, our 'Bid for Good' Lost Property Auction raised $170,000 through the sale of unclaimed items left in our terminals and the generosity of the airport community. Every effort is made to reunite passengers with their belongings, and where that cannot happen, they are put up for auction with proceeds going to charity. The money raised helps fund projects to support people in need in our local communities. The major $100,000 grant from the auction was received by Cana Communities, while an additional seven charities received a $10,000 grant each.

Cana Communities, a local organisation supporting those suffering from homelessness and drug addiction

The International Shift to support their social enterprise cafe 'Parliament on King' that provides secure employment, training and development to refugees and asylum seekers

Bayside Women's Shelter in Botany to purchase much needed items for their site supporting women escaping domestic violence and abuse

Project Futures to support 25 women recovering from sex trafficking experiences to secure their learner and driver licence

Dandelion Support Network Inc to fund purchase of prams, cots and other products needed for new families who cannot afford it

Harding Miller Education Foundation to fund scholarships for disadvantaged female students (Years 9-12) who show great ability and potential

Full Stop Foundation to support the training of eight counsellors in specialised trauma training

Gymea Community Aid and Information Service to support Planting Positive Seeds, an intergenerational gardening project to develop a sustainable community garden within the community precinct

Electrification of vehicle fleet

We have commenced the electrification of our bus fleet and are committed to having a 100% electric landside fleet by end 2021. We were Australia's first airport to use electric buses as part of our commitment to low emission ground transport technology. The fleet of electric buses will deliver carbon emission reductions of approximately 160 tonnes per year and improve local air quality through zero tailpipe emissions. The fleet will also lower external noise levels, reduce waste fluids to zero and decrease the amount of toxic material generated during servicing. In addition, Sydney Airport is seeking to facilitate and support an increase in Sydney Airport owned airside electric vehicle use to 50% by end 2021.

Corporate Power Purchase Agreement

The Power Purchase Agreement was signed between Sydney Airport, Grassroots Renewable Energy and Origin will be linked to Grassroots Renewable Energy's Crudine Ridge Wind Farm in Central West NSW near Mudgee. The wind farm commenced construction mid 2018 and is due for delivery late 2019. The farm will have 37 wind turbines and 135 megawatts capacity, capable of generating 400,000 megawatt hours annually, reducing Australia's CO2 emissions by around 360,000 tonnes every year, the equivalent of almost 80,000 fewer cars on the road.

The agreement will provide meaningful cost reduction in addition to fostering the growth of renewable energy in Australia.

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Directors' statement

Directors' report

for the year ended 31 December 2018

Overview of ASX-listed Sydney Airport

ASX-listed Sydney Airport (the Group) consists of Sydney Airport Limited (SAL) and Sydney Airport Trust 1 (SAT1). Shares and 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 share in SAL and one unit in SAT1. SAL holds a 100% economic interest in Sydney (Kingsford Smith) Airport at 31 December 2018 (2017: 100%).

For the year ended 31 December 2018, the directors of SAL submit their report on the consolidated financial report of ASX-listed Sydney Airport on pages 58 to 78. SAL has been identified as the parent of the consolidated group comprising SAL and its controlled entities and SAT1 and its controlled entities, together the Group.

For the year ended 31 December 2018, the directors of The Trust Company (Sydney Airport) Limited (TTCSAL or the Responsible Entity) also submit their report on the consolidated financial report of SAT1 comprising SAT1 and its controlled entities (the SAT1 Group) on pages 79 to 82.

Directors' Report for Sydney Airport Limited

Principal activities

The principal activity of the SAL Group is the ownership of Sydney Airport. The SAL Group's investment policy is to invest funds in accordance with the provisions of the governing documents of the individual entities within the SAL Group. There were no significant changes in the nature of the SAL Group's activities during the year.

Director profiles

Directors of SAL during the year and until the date of this report are as follows:

Trevor Gerber BAcc, CA Chairman (Non-executive)	Mr Gerber was appointed as a Sydney Airport director in May 2002, appointed director of SAL in October 2013 and appointed chairman on 14 May 2015. He is a member of the Audit and Risk Committee and Nomination and Remuneration Committee. He is an independent non-executive director of the following ASX-listed entities – Tassal Group Limited since April 2012, Vicinity Centres since April 2014 and CIMIC Group Limited since June 2014. He is a former director of Regis Healthcare Limited (October 2014 – November 2017). Mr Gerber has been a professional director since 2000. He previously worked for Westfield Holdings Limited for 14 years as Group Treasurer and subsequently as Director of Funds Management responsible for Westfield Trust and Westfield America Trust.
Hon. Michael Lee BSc, BE, FIE Aust (Non-executive)	Mr Lee was appointed as a Sydney Airport director in June 2003 and appointed director of SAL in October 2013. He is a member of the Audit and Risk Committee and Safety, Security and Sustainability Committee. He is the chairman of Communications Alliance, the peak communications industry body, (director of Communications Compliance Ltd), Chairman of Calvary Ministries and a director of Catholic Schools NSW Limited. He is a former director of DUET Group (August 2004 – May 2014), Superpartners, National Film and Sound Archive and former chair of the NSW TAFE Commission Board. Mr Lee served in the Australian Parliament for 17 years and held a number of senior positions in both government and opposition, including serving as Minister for Tourism, Communications and the Arts.

Directors' report

for the year ended 31 December 2018

John Roberts LLB (Non-executive)	Mr Roberts was appointed as a Sydney Airport director in October 2009 and appointed director of SAL in October 2013. He is chairman of the Audit and Risk Committee. He is the chair of Axicom and non-executive chairman of Macquarie Infrastructure and Real Assets (MIRA) and serves on a number of boards and investment committees within MIRA, a division that has around $100 billion of assets under management. He is a former director of DUET Group (May 2004 – June 2015) and Atlas Arteria Limited (previously known as Macquarie Atlas Roads Limited). Mr Roberts joined Macquarie Group in 1991 and previously held roles within Macquarie Group including Head of Europe, Joint Head of Macquarie Capital Advisers, Global Head of Macquarie Capital Funds (prior to it being renamed MIRA), chairman of NYSE-listed Macquarie Infrastructure Company and executive chairman of Macquarie Funds Group.
Stephen Ward LLB (Non-executive)	Mr Ward was appointed as a Sydney Airport director in February 2011 and appointed director of SAL in October 2013. He is the chairman of the Safety, Security and Sustainability Committee. Mr Ward is a non-executive director of several New Zealand companies including SecureFuture Wiri Limited and Central Emergency Communications Limited. He is a member of the National Provident Fund Trust Board and holds voluntary positions on the boards of Wellington Free Ambulance, including its Investment Management Committee, and the Life Flight Trust. Mr Ward is the independent chair of the Advisory Council for the Financial Dispute Resolution Service and a consultant to Simpson Grierson, one of New Zealand's largest law firms.
Ann Sherry AO BA, Grad Dip IR, FAICD, FIPAA, HonDLitt Macq (Non-executive)	Ms Sherry was appointed as a director of SAL in May 2014. She is chairman of the Nomination and Remuneration Committee and a member of the Safety, Security and Sustainability Committee. She is non-executive chairman of Carnival Australia, a division of Carnival Corporation PLC, the world's largest cruise ship operator. Ms Sherry has been a non executive director of ASX-listed National Australia Bank Limited since November 2017, director of Infrastructure Victoria, Rugby Australia, Cape York Partnerships, Museum of Contemporary Art and The Palladium Group and chair of UNICEF Australia. Ms Sherry was previously at Westpac for 12 years and was the chief executive officer of Bank of Melbourne and Westpac New Zealand and Pacific Banking.
Grant Fenn BEc, CA (Non-executive)	Mr Fenn was appointed as a director of SAL in October 2015. He is a member of the Nomination and Remuneration Committee and Safety, Security and Sustainability Committee. Mr Fenn has been the managing director and chief executive officer of ASX-listed Downer Group since July 2010. He has over 30 years' experience in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Executive Committee, chairman of Star Track Express and a director of Australian Air Express. He held a number of senior roles at Qantas including executive general manager of Strategy and Investments and executive general manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses.

Directors' report

for the year ended 31 December 2018

Director profiles (continued)

Abi Cleland **MBA, BCom, GAICD** (Non-executive)	Ms Cleland was appointed as a director of SAL in April 2018 and is a member of the Audit and Risk Committee. She is currently a non-executive director of Computershare Limited, Orora Limited, Swimming Australia, Coles Group Limited and chair of Planwise Australia. Ms Cleland has extensive global experience in strategy, M&A, digital and business growth. This has been gained from senior executive roles in the industrial, retail, agriculture and financial services sector.
David Gonski AC **BCom, LLB, FAICD (Life), FCPA** (Non-executive)	Mr Gonski was appointed as a director of SAL in October 2018. He is the Chairman of the Australia and New Zealand Banking Group Ltd, Chancellor of the University of New South Wales, President of the Art Gallery of NSW Trust, a member of the ASIC External Advisory Panel and the board of the Lowy Institute for International Policy. Mr Gonski was appointed a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2003.

Kerrie Mather retired as Managing Director and CEO on 15 January 2018.

Company secretary profile

Jamie Motum **BEc, LLB**	Mr Motum was appointed as company secretary of ASX-listed Sydney Airport in January 2012, and as company secretary of SAL from its incorporation on 30 July 2013. He is a qualified solicitor with over 20 years' experience. Prior to becoming general counsel and company secretary of Sydney Airport Corporation Limited in February 2010, Mr Motum was a partner in the Corporate Group of DLA Phillips Fox specialising in mergers and acquisitions and corporate advisory work where he began his legal career in 1996. Mr Motum was appointed as co-company secretary of TTCSAL on 23 October 2013.

Directors' report

for the year ended 31 December 2018

Board skills matrix

SAL's director selection and appointment practices ensure the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Sydney Airport.

Set out in the following table are the skills and experience of SAL's directors and requirements of the business:

Skills and Experience
Aviation and transport – Experience in aviation or transport with a large quality organisation. Aviation is our core business and an understanding of the complex network of stakeholders is of critical importance
Construction and engineering – Sydney Airport has a significant annual capex program involving construction and engineering to ensure that airfield, terminal and landside works are delivered efficiently and effectively to facilitate capacity growth and an improved passenger experience
Information Technology – IT strategies and innovations, network development, use and governance of critical information technology infrastructure is an essential part of day to day operations at the airport and enabling the delivery of a next generation experience. This is a core skill and experience within Management, and is supplemented with external experts when necessary
Legal – Legal expertise is essential in the day to day management of risk, insurance, work, health and safety (WHS) and legal procedures, in addition to our engagement with airport tenants, contractors, government and other stakeholders
Retail – Retail experience assists in evaluating progress of the implementation of our retail strategy, to deliver new and unique experiences that enhance the passenger journey. This includes proactively seeking compelling local and international brands that showcase exceptional product offerings unique to the airport, including airport and Australian firsts across food and fashion
Tourism development – A proactive relationship with state and federal tourism bodies, in addition to international tourism bodies and regional governments is central to Sydney Airport's growth and marketing strategies
Leadership – Driving direction, guidance, leading organisational change and strategic planning
Health and safety – Developing proactive strategies and policies to ensure the health, safety and security of airport users
Banking and finance – Detailed knowledge of financial and capital management strategies, treasury, accounting and reporting, corporate finance and internal controls, including assessing the quality of financial controls
Risk management – Assessing appropriateness of risk management frameworks, building and adapting organisational risk culture, proactive identification of risks, developing effective policy and procedures to manage risks
Governance and compliance – Providing direction on organisation-wide governance and compliance policies, systems and frameworks, training and education, and ensuring compliance
Government relations – Interacting with domestic and international, state and federal governments and regulators
Remuneration – Developing the framework, policies and practices to attract, retain and motivate directors and staff who will create value for security holders
Environment and Sustainability – Developing environment and sustainability strategies and initiatives
Emotional Intelligence – Highly developed communication and social skills

Directors' report

for the year ended 31 December 2018

Directors' meetings

The number of meetings of directors (including meetings of board committees) held (H) during the year ended 31 December 2018 and the number of meetings attended (A) by each director were as follows:

Directors		Trevor Gerber[3]	Michael Lee	John Roberts[4]	Stephen Ward[5]	Ann Sherry AO[6]	Grant Fenn	Abi Cleland[7]	David Gonski AC[8]
SAL Board	H[1]	8	8	8	8	8	8	7	2
	A[2]	8	8	7	8	8	8	7	2
Audit and Risk Committee	H[1]	4	4	4	–	–	–	3	–
	A[2]	4	4	4	–	–	–	3	–
Nomination and Remuneration Committee	H[1]	3	1	–	3	2	2	–	–
	A[2]	3	1	–	3	2	2	–	–
Safety, Security and Sustainability Committee	H[1]	–	4	–	3	4	3	–	–
	A[2]	–	4	–	3	4	3	–	–

1 Number of meetings to which director was invited to attend.
2 Actual attendance.
3 Chairman of the SAL Board.
4 Chairman of the Audit and Risk Committee.
5 Chairman of the Safety, Security and Sustainability Committee effective 1 June 2018.
6 Chairman of the Nomination and Remuneration Committee effective 1 June 2018.
7 Ms Cleland was appointed Director effective 5 April 2018.
8 Mr Gonski AC was appointed director effective 8 October 2018.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the SAL Group during the year ended 31 December 2018.

Operating and Financial Review

The Operating and Financial Review is included in the Annual Report on pages 14 to 43.

Directors' report

for the year ended 31 December 2018

Audited remuneration report

Overview

As advised in our 2017 Annual Report, our new CEO Geoff Culbert commenced on 15 January 2018, with outgoing CEO Kerrie Mather retiring from the business on 31 January 2018, allowing for a smooth and structured handover. While the retirement payments for Ms Mather were outlined in the 2017 Remuneration Report, because of her one month of service she appears as a former KMP in this Remuneration Report. Mr Culbert's full remuneration package was also outlined in the 2017 Remuneration Report, including the one-off cash and equity benefits which were provided in recognition of the incentives forgone from his previous employer.

Mr Culbert has successfully transitioned into the business, delivering strong results during 2018. He has also simplified the organisational structure, with the integration of our Non-Aeronautical revenue business into the one team, led by our new Chief Commercial Officer Vanessa Orth. Given the scope of Ms Orth's new role she is included in this Remuneration Report as a new KMP.

Our long-term incentive (LTI) plan had its first vesting in February 2018 (for the 2015-2017 series) and the actual awards are outlined in this report. A review of our short-term incentive (STI) and LTI plans was undertaken to ensure the tools remained motivating, aligned management outcomes with shareholder returns and acted as a retention for key talent. While changes or alternatives may be considered in the future, it was deemed prudent to retain our current STI and LTI for the year.

During the year we also saw the addition of two new Directors to our Board in Abi Cleland and David Gonski AC, both bringing skills and experience that complement our existing Board members and positioning Sydney Airport for sustainable, long term success. A review of committee Chairs was undertaken, with Ann Sherry AO becoming the new Nomination and Remuneration Committee Chair in June.

1 Introduction

The directors present the Remuneration Report for Sydney Airport Limited (SAL) for the period 1 January 2018 to 31 December 2018. 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 SAL, directly or indirectly. They include the non-executive directors (NEDs) of SAL, the chief executive officer (CEO) and other key executives who are employed by Sydney Airport Corporation Limited (SACL), a wholly owned subsidiary of SAL.

1.1 Directors

The following persons were directors of SAL (identified as the parent of ASX-listed Sydney Airport) for the period from 1 January 2018 to 31 December 2018 and up to the date of this report:

Name	Role	Period of directorship
Trevor Gerber	Chairman, Non-executive director	Appointed director 18 October 2013 Appointed chairman 14 May 2015
Michael Lee	Non-executive director	Appointed 18 October 2013
John Roberts	Non-executive director	Appointed 18 October 2013
Stephen Ward	Non-executive director	Appointed 18 October 2013
Ann Sherry AO	Non-executive director	Appointed 1 May 2014
Grant Fenn	Non-executive director	Appointed 1 October 2015
Abi Cleland	Non-executive director	Appointed 5 April 2018
David Gonski AC	Non-executive director	Appointed 8 October 2018
Former Director:		
Kerrie Mather	Managing director and CEO	Appointed 18 October 2013 Retired as Managing director and CEO on 15 January 2018

1.2 Key management personnel

The following individuals were determined to be KMP by the directors for the year ended 31 December 2018.

Key Executive	Title
Geoff Culbert	Chief Executive Officer (CEO)
Hugh Wehby	Chief Operating Officer (COO)
Vanessa Orth	Chief Commercial Officer – Non-Aero (CCO)
Greg Botham	Chief Financial Officer (CFO)

Changes to our KMP during 2018 included the commencement of Mr Culbert as CEO on 15 January 2018, the commencement of Ms Orth as CCO on 3 December 2018 and the retirement of Ms Mather on 31 January 2018.

1.2.1 CEO Transition Arrangements

As reported in 2017, in recognition of forgoing incentives from his former employment, Mr Culbert was given up to $1,065,000 in cash (with 50.0% payable in February 2018 and 50.0% payable in January 2019) and an equity award of $1,250,000 (with 50.0% payable December 2018 and 50.0% payable December 2019). These payments have been included in Table 4.2 (as applicable for the 2018 year).

Ms Mather remained in the business until 31 January 2018 to facilitate the CEO transition. She is reported as a former KMP for her one month of service for the year ended 31 December 2018.

2 Nomination and Remuneration Committee

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

In 2018 the Nomination and Remuneration Committee comprised of four NEDs:

- Ann Sherry AO (Chairman, effective 1 June 2018)
- Trevor Gerber
- Stephen Ward (Chairman, until 31 May 2018)
- Grant Fenn

2.1 Remuneration consultant

During 2018 no "remuneration recommendation" (as defined by Part 2D.8 of the Corporations Act) was made.

3 Remuneration principles, policy and structure

Sydney Airport aims to deliver superior, sustainable returns to its security holders. Sydney Airport's remuneration strategy is a key driver in achieving these objectives and in attracting, retaining and motivating high performing individuals. It aligns the interests of executives and security holders and is tailored to the unique characteristics of the business.

To ensure that Sydney Airport continues to deliver superior performance, our remuneration structure links the potential benefits for participants to the continued growth in Sydney Airport's sustained long term financial performance and security holder returns.

3.1 Background

Sydney Airport is an ASX25 entity with an enterprise value of approximately $24.0 billion at 31 December 2018. Sydney Airport is one of the most significant transport infrastructure assets in Australia. It is a highly complex asset and facilitates the movement of people and goods to allow the economy and transport network to function effectively.

The CEO and direct reports (Executives) have oversight and accountability for the development, operation and security of the airport facilities, supporting a diverse range of aeronautical, retail, property and car rental, parking and ground transport businesses. The Executives have oversight of significant ongoing capital expenditure and the development of a forward-looking strategic plan, incorporating airfield upgrades, apron development, terminal expansions, car park development, retail and commercial developments, and other significant initiatives. Since privatisation in 2002, Sydney Airport has invested nearly $4.7 billion in aeronautical capacity, operational efficiency and improving passenger facilities. Executives are also accountable for a wide range of stakeholder relationships including airlines, passengers, concessionaires, tenants, service providers, governments, regulatory bodies, the community and security holders.

Executives' remuneration and performance awards are determined by the Board and NRC. In determining awards, the Board and NRC take into consideration the:

- Complexity of the business;
- Responsibility of each Executive;
- Executive's experience and tenure; and
- Executive's performance against key objectives.

Additionally, Executives' salaries are benchmarked against comparable market participants based on data from remuneration consultants.

3.2 Remuneration structure for Executives (including KMP) at 31 December 2018

The remuneration structure of the Executives (including KMP) 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. There are three components to the at risk remuneration:
  i. Short term incentive – paid as cash;
  ii. Short term incentive – deferred cash payment (two years); and
  iii. Long term incentive – equity plan, with a three year performance period.

The first LTI plan introduced in 2015 for the CEO and other Executives and the performance period for the first series (2015-2017), vested on 21 February 2018. The subsequent LTI series 2016-2018, 2017-2019 and 2018-2020 will vest in February 2019, 2020 and 2021 respectively.

The LTI is designed to provide an incentive for participants to ensure that Sydney Airport continues its superior performance by linking potential benefits to the CEO and other Executives to the continued growth in Sydney Airport's sustained long term financial performance and security holder returns. Under the LTI plan the vesting rights are conditional on the achievement of performance conditions and the satisfaction of the other vesting requirements.

The performance conditions are:

- One third of the rights granted are based on a three year market comparative Total Shareholder Return (TSR) performance condition (TSR tranche). The Board chose this measure because it provides a comparison of Sydney Airport's performance against the S&P ASX 100 index. The hurdles ensure that the rights can only begin vesting if Sydney Airport outperforms at least half of the S&P ASX 100 index.
- One third of the rights are based on a cash flow per stapled security (CPS) performance condition (CPS Tranche). The Board chose this measure because of the importance of cash flow to our investors. Rights can begin vesting if Sydney Airport attains a compound annual CPS growth rate of equal to or greater than 8%.
- One third of the rights are assessed at the Board's discretion based on the long-term performance of the business and each participant's contribution to that long-term performance (Other tranche). Measures used to evaluate this tranche include outcomes and performance conditions specific to each individual, taking into account such elements as people and leadership, customer satisfaction and delivery of long-term financial outcomes.

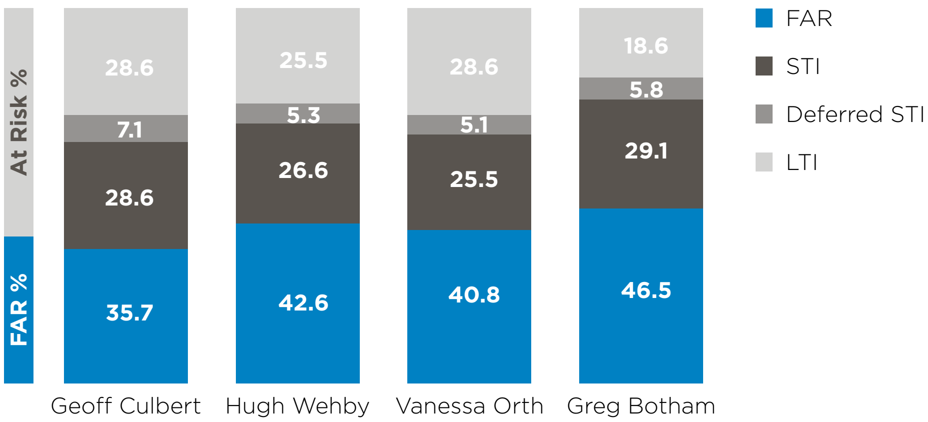
The measurements for the performance condition outcomes for the LTI are as follows:

- TSR is calculated by taking into account the change in an entity's security price over the relevant measurement period as well as the distributions received (and assumed to be reinvested back into the entity's securities) during that period. A minimum TSR ranking for Sydney Airport at the 50th percentile measured against the S&P ASX 100 index is required for any rights in the TSR tranche to vest. All of the TSR tranche will vest if Sydney Airport's TSR ranking is at or above the 75th percentile measured against the S&P ASX 100 index. Vesting will occur progressively on a pro-rata basis from 50% up to 100% of the TSR tranche for a TSR ranking for Sydney Airport between the 50th percentile and the 75th percentile.

- CPS is the cash flow per stapled security for a particular financial year, and is derived by dividing the Net Operating Receipts (as disclosed in the Directors' Report for Sydney Airport for the relevant financial year, and subject to adjustment by the Board for any extraordinary or non-recurring items) by the weighted average number of stapled securities on issue during the financial year. The CPS tranche will vest (wholly or in part) upon Sydney Airport attaining a compound annual CPS growth rate equal to or greater than 8% over the performance period. A compound annual CPS growth rate equal to or greater than 12% over the performance period will result in 100% of the rights in the CPS tranche vesting. Vesting will occur progressively on a pro-rata basis from 50% up to 100% of the CPS tranche for a compound annual CPS growth rate between 8% and 12% over the performance period.
- The Board will determine what proportion (if any) of the rights will vest in the Other Tranche, having regard to long-term individual and company performance, taking into account such elements as people and leadership, customer satisfaction and delivery of long-term financial outcomes. The discretionary component allows the board to exercise judgement where the quality of the results or the behaviours of the executive are not aligned with long-term security holder expectations.

Performance conditions are measured over a three year period. Performance rights do not have distribution entitlements during the vesting period. If a participant resigns, or has their employment terminated with cause, all their unvested rights will immediately lapse. If a participant's employment ends by reason of an uncontrollable event (as defined in the LTI plan) they are entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

The remuneration mix for the KMPs for 2018 is expressed as a percentage of total remuneration and set out in the table below:



Ms Orth's 2018 remuneration consisted only of fixed remuneration given her commencement on 3 December. Her full remuneration package, inclusive of STI, deferred STI and LTI, applied from 1 January 2019.

In 2018, Ms Mather was employed for the month of January under a consulting agreement. She was paid 100% FAR at her base rate of pay. An at-risk component was not considered appropriate.

3.2.1 At-Risk remuneration

The Board is focused on maximising sustained security holder value by linking business performance with Executives' remuneration outcomes. A significant element of their potential remuneration is at-risk and linked to corporate performance.

A number of performance measures are used in determining an Executive's STI. They are financial performance, business/operational performance, implementation of key strategic projects, customer and stakeholder engagement and leadership and culture.

3.2.2 Performance setting

Individual key performance targets are approved by the Board at the beginning of each performance year. Key performance targets are selected for their relevance to the short and long term objectives and priorities for the business. The targets set are deliberately of a stretching nature consistent with our high performance culture.

An Executive's performance outcome is used as the basis to determine their STI award. The STI award is determined after the preparation of the financial results each year and the completion of the annual performance review process. The STI award is generally granted to Executives in March, with the cash component paid at that time. KMP data on the specific STI potential maximum percentage of FAR and the actual awards is described at 3.4 and the full remuneration details are set out in 4.2.

1 Performance highlights
2 Operating and financial review
3 Sustainability summary
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3.2.3 CEO STI deferral

To promote CEO retention, 20.0% of any STI award up to 100.0% of FAR is deferred for two years from the date of the award. The deferred cash amount earns a market rate of interest over the two year period and is payable to the CEO upon vesting, subject to continuous service throughout the period.

3.2.4 Other KMP STI deferral

To promote retention, other KMP also have a component (16.67%) of their STI award delivered in the form of a deferred cash award. Any cash award subject to deferral made under this plan is subject to a two year deferral from the date of the award. The deferred cash amount earns a market rate of interest over the two-year period and is payable to the Executive upon vesting, subject to continuous service throughout the period.

3.3 Link between remuneration and performance

3.3.1 History of corporate performance

Measure	2018	2017	2016	2015	2014
Security price at year end	$6.73	$7.05	$5.99	$6.35	$4.71
Ordinary distribution paid per stapled security	$0.375	$0.345	$0.310	$0.255	$0.235
Earnings before interest, tax, depreciation and amortisation[1] (EBITDA) ($ million)	$1,282.6	$1,196.4	$1,085.7	$1,003.6	$948.3
Cash flow per stapled security (CPS) (cents)	38.2	35.0	30.2	26.0	23.7

1 2014, 2015, 2016, 2017 and 2018 are taken from the Consolidated Income Statements of Comprehensive Income in the Sydney Airport Financial Report for Year Ended 31 December 2014, 2015, 2016, 2017 and 2018.

3.3.2 2018 Security price performance

Sydney Airport's listed security price was impacted by broader macro-economic conditions in 2018. Total investor return over the year was 0.6% (assuming reinvested distributions), including a 37.5 cents per stapled security distribution. The distribution represented growth of 8.7% compared to the 2017 distribution.

Sydney Airport's five-year total security holder return of 17.7% p.a. (assuming reinvested distributions) which compares to the ASX100 accumulation index performance of 7.2% p.a. over the same period. That means if $10,000 was invested in Sydney Airport securities on 31 December 2013, the value of that investment including reinvested distributions would be approximately $22,600 at 31 December 2018. The equivalent investment in the ASX100 would be worth approximately $11,800.

Source: Bloomberg.

Drivers of the 2018 performance include:

- Record passenger numbers travelling through Sydney Airport driven by airline marketing and tourism partnerships: 44.4 million in 2018 up from 43.3 million in 2017 representing 2.5% total growth, 4.7% international growth and 1.2% domestic (including regional) growth;
- The Group's EBITDA growth of 7.2% to $1,282.6 million, driven by strong Aeronautical Services, Retail and Property revenue growth, management initiatives across the business and prudent operating expense control;
- Delivery of significant capacity expansions and passenger experience improvements through investing $378.5 million on facilities and infrastructure.

3.4 Performance of executives

There are two components used to determine an Executive's STI:

- Group objectives are used to determine 50.0%; and
- Individual targets that are unique to the Executive's area of accountability and expertise are used to determine the remaining 50.0%.

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 2018, these objectives included:

- Financial performance
- Business/operational performance
- Strategic projects
- Customer and stakeholder engagement
- People and culture

Directors' report

for the year ended 31 December 2018

3.4.1 2018 Group performance

The following table sets out the group performance factors used in determining the Executives' STI outcomes for 2018:

Objective	Performance outcome
Financial performance	• Revenue growth of 6.8% to $1,584.7 million • EBITDA growth of 7.2% to $1,282.6 million • NOR growth of 9.4% to $860.9 million and distributions of 37.5 cents per stapled security • Operating expenditure increased by 3.1% year on year, excluding security recoverable expenses and hotels • $796 million equivalent 10-year Euro and $400 million equivalent 15/20/25/30-year US private placement bond issuance optimises interest expense and improves risk profile. $3.3 billion of forward starting interest rate swaps minimising future NOR volatility
Business/operational performance	• Highest ever passenger numbers of 44.4 million. Traffic growth of 2.5% (4.7% international and 1.2% domestic) • For international – two new airlines, three new destinations and 1,286,513 new seats • Aeronautical revenue, including security recovery, growth of 7.7% • Retail revenue growth of 7.2% • Property and car rental revenue growth of 7.5% • Parking and ground transport revenue growth of 1.7%
Strategic projects	• Sydney Gateway transaction agreed between Sydney Airport and the NSW and Federal Governments, to provide motorway grade access to our domestic and international precincts and improve traffic flow • Established the innovative Power Purchase Agreement providing 75% of our current energy load from renewable wind generation and delivering cost savings • Sydney Airport has led the way globally by partnering with Qantas to trial a biometrics system (using your face as your passport) that delivers seamless passenger processing and will improve the future passenger experience • Full public consultation of our Master Plan, engaging with our stakeholders on our plans to 2039 and how we will accommodate the anticipated 51% growth in passengers • Expansion of the Ibis Budget Hotel • At T2/T3 Domestic precinct the widening of Qantas Drive, one-way flow around Robey and O'Riordan and increase to five inbound lanes was completed • Delivery of $378.5 million of investment focused on improving airport efficiency, expanding airfield and terminal facilities and enhancing the customer experience
Customer and stakeholder engagement	• Highest ever customer satisfaction scores (International – 4.13/5; Domestic – 4.14/5) • Highest ever sustainability ratings – DJSI World index – ranked 7th globally for the transport infrastructure sector, – MSCI AAA rating • In partnership with Bayside Council established the Community and Environmental Projects Reserve Fund, committing more than $11 million to deliver vital projects over the coming decade • As part of our Community Investment Strategy delivered a successful Christmas appeal raising over $300,000 for Cure Cancer Australia • Continued engagement with airport stakeholder groups to ensure high standards of service delivery • Following reassessment, we maintained our Airport Carbon L3 Accreditation • Recognised externally through the following awards: – AAA – Capital City Airport of the Year for the second consecutive year – Skytrax – Best Airport in Australia/Pacific Region – FinanceAsia – (Australia/NZ) Corporate Issuer of the Year and Best International Bond – KangaNews – Australasian-Origin Offshore Corporate Bond Deal of the Year and Australasian-Origin US Private Placement Deal of the Year

Objective	Performance outcome
People and culture	**Culture** • A cross-functional forum was established to drive cultural outcomes based on the feedback from our 2017 Engagement Survey • Conducted Service Excellence training with all our people. Also continued our leadership and management development modules, cascaded our 360-degree feedback tool and completed Certificate 3 and Certificate 4 programs Collectively over 6,400 hours of training undertaken. • Continued our efforts on improving diversity through the Diversity Working Group. During 2018 we focused on creating a culture of flexibility. Overall female employees increased for the fourth successive year from 37.9%, to 38.8%, female managers accounted for 35.4% of all managers and 45.5% of all new hires were female • Drafted our first Reconciliation Action Plan (RAP) for launch in 2019 and undertook two indigenous internships **Safety** • Continued focus on building a strong safety culture. Key initiatives delivered for the year: – Enhanced safety responsibilities for senior leader by introducing lead and lag safety indicators linked to remuneration from 2019 – Improvement in the management of FOD through statistical analysis, spatial mapping and introduction of a monthly report to airport stakeholders – Revised and implemented policies to manage risk associated with corporate vehicles, fatigue and landside traffic management – Upgraded induction programs through development of videos providing safety information with a particular focus on Retail workers – Increased offering of safety training programs with particular focus on leaders and operational teams, with 2,761 hours of training delivered – Launch of safety awareness campaign 'Safety starts with you' focusing on three key behaviours: Speak up on safety, keep it clean and hazard free and stop work if it is unsafe

3.4.2 Performance pay outcomes for 2018

The Board and NRC review the overall performance outcome for an individual based on the agreed performance objectives (as outlined in 3.4.1) but retain overriding discretion when determining the value of any STI award to a KMP. The following table shows the 2018 STI outcomes for KMP.

			Actual STI awarded		
KMP	Potential maximum of FAR	STI outcome % of maximum	Cash award $	STI deferred $	STI forfeited %
Geoff Culbert	100.0%	90.0%	1,080,000	270,000	10.0%
Hugh Wehby	75.0%	99.5%	529,257	105,877	0.5%
Vanessa Orth[1]	n/a	n/a	n/a	n/a	n/a
Greg Botham	75.0%	89.5%	335,612	67,138	10.5%

1 No STI was applicable for 2018 given Ms Orth's commencement date of 3 December 2018. Ms Orth's STI commences 1 January 2019.

3.4.3 STI deferrals from previous period

Key Executives	Award date	Deferred $	Vesting date
Geoff Culbert[1]	n/a	n/a	n/a
Hugh Wehby	15 Mar 2017	55,340	15 Mar 2019
	15 Mar 2018	76,609	15 Mar 2020
Vanessa Orth[2]	n/a	n/a	n/a
Greg Botham	15 Mar 2018	40,282	15 Mar 2020

1 As Mr Culbert commenced on 15 January 2018, he has no deferred STI from previous years.
2 As Ms Orth commenced on 3 December 2018, she has no deferred STI from previous years.

As approved by security holders at the 2017 AGM, Ms Mather's deferred STI components were paid on her retirement. These amounts were noted in the 2017 Remuneration report.

3.4.4 Details of LTI rights granted to KMP

Name	Series	Rights Granted	Grant date	Grant Valuation [1] $	Grant Value $
Current KMP					
Geoff Culbert	**2018 – 2020** [4]	**181,698**	**31 May 2018**		
	TSR tranche	60,566		2.82	170,796
	CPS tranche	60,566		6.16	373,087
	Other tranche	60,566		5.69	344,621
Hugh Wehby	**2016 – 2018** [2]	**25,255**	**31 May 2016**		
	TSR tranche	8,419		3.75	31,571
	CPS tranche	8,418		6.27	52,781
	Other tranche	8,418		6.54	55,054
	2017 – 2019 [3]	**42,590**	**31 May 2017**		
	TSR tranche	14,197		4.24	60,195
	CPS tranche	14,197		6.37	90,435
	Other tranche	14,196		5.76	81,769
	2018 – 2020 [4]	**77,322**	**31 May 2018**		
	TSR tranche	25,774		2.82	72,683
	CPS tranche	25,774		6.16	158,768
	Other tranche	25,774		5.69	146,654
Greg Botham	**2017 – 2019** [3]	**26,593**	**31 May 2017**		
	TSR tranche	8,865		4.24	37,588
	CPS tranche	8,864		6.37	56,464
	Other tranche	8,864		5.76	51,057
	2018 – 2020 [4]	**36,342**	**31 May 2018**		
	TSR tranche	12,114		2.82	34,161
	CPS tranche	12,114		6.16	74,622
	Other tranche	12,114		5.69	68,929
Former KMP:					
Kerrie Mather	**2016 – 2018** [2,5]	**166,816**	**31 May 2016**		
	TSR tranche	55,606		3.75	208,523
	CPS tranche	55,605		6.27	348,643
	Other tranche	55,605		6.54	363,657

1 The fair value of rights granted for each tranche is described below:
- TSR tranche was determined at grant date using the Monte Carlo model
- CPS tranche was determined at grant date using the binomial option pricing model
- Other tranche will be remeasured each year until vesting as the grant date for this tranche has not been reached. The conditions for this tranche vest at the Board's determination.

2 The LTI has a three year performance period. No rights will vest until 21 February 2019.
3 The LTI has a three year performance period. No rights will vest until February 2020.
4 The LTI has a three year performance period. No rights will vest until February 2021.
5 As reported in 2017, Ms Mather retained her unvested performance rights for the 2016-2018 LTI series.

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3.4.5 LTI vesting

Our LTI was introduced in 2015 and the first vesting of the LTI program occurred in February 2018. Details of the results achieved and the corresponding LTI outcomes for each of the three tranches are outlined in the table below.

Vesting condition	Percentage of Total Award	Outcome	% of Maximum Award
TSR	**33.33%**	**TSR 78.84%**	**98.2%**
<50th percentile – 0% awarded		73.1 percentile	
50th percentile – 50% awarded			
>75th percentile – 100% awarded			
(Pro rata awarded between 50th and 75th percentile)			
CPS	**33.33%**	**CAGR 13.3%**	**100.0%**
<8% CAGR – 0% awarded			
8% CAGR – 50% awarded			
12% CAGR – 100% awarded			
(Pro rata awarded between 8% and 12% CAGR)			
Other	**33.33%**		**75.0%**
Consideration of: – operational aspects – people and leadership – customer satisfaction – delivery of financial outcomes		The Board in their discretion made an assessment of the organisational performance, projects and outcomes delivered over the three years for all participants	
TOTAL	**100.0%**		**91.1%**

3.4.6 Details of LTI vested

The 2015 – 2017 LTI series vested on 21 February 2018.

Name	Series	Rights Granted	Rights Vested	Grant date	Grant Valuation[1] $	Grant Value $	Rights Vested[2] $
Current KMP:							
Hugh Wehby	**2015 – 2017**	**30,433**	**27,715**				**180,702**
	TSR tranche	10,145	9,963	9 Apr 2015	2.69	27,290	64,959
	CPS tranche	10,144	10,144	9 Apr 2015	4.60	46,662	66,139
	Other tranche	10,144	7,608	21 Feb 2018	6.52	66,139	49,604
Former KMP:							
Kerrie Mather[3]	**2015 – 2017**	**191,403**	**174,305**				**1,136,470**
	TSR tranche	63,801	62,653	9 Apr 2015	2.69	171,625	408,498
	CPS tranche	63,801	63,801	9 Apr 2015	4.60	293,485	415,983
	Other tranche	63,801	47,851	21 Feb 2018	6.52	415,983	311,989

1 The fair value of rights granted for each tranche is described below:
- TSR tranche was determined at grant date using the Monte Carlo model
- CPS tranche was determined at grant date using the binomial option pricing model
- Other tranche as measured based on the security price at 31 December 2017 less the final distribution for the period ending 31 December 2017 of 18.0 cents per stapled security. The conditions for this tranche vest at the Board's determination.

2 Valuation based on the security price at 21 February 2018 of $6.52.

3 As reported in 2017, Ms Mather retained her unvested performance rights for the 2015-2017 LTI series.

Mr Culbert, Ms Orth and Mr Botham were not employed at the time of granting the 2015 – 2017 LTI series.

4 KMP remuneration arrangements for year ended 31 December 2018

4.1 Service agreements

KMP	Length of contract	Notice period	Max STI opportunity (as a % of FAR)	Termination period	Termination payment
Geoff Culbert	Permanent	6 months	100.0%	6 months	6 months
Hugh Wehby	Permanent	6 months	75.0%	6 months	6 months
Vanessa Orth	Permanent	6 months	75.0%	6 months	6 months
Greg Botham	Permanent	6 months	75.0%	6 months	6 months

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

As Ms Mather was engaged for a defined one-month period for January 2018, she did not have a notice period.

CEO

Mr Culbert or Sydney Airport may terminate Mr Culbert's employment for any reason by giving six months' notice. In the event of any serious, wilful or persistent misconduct, Sydney Airport may immediately terminate Mr Culbert's employment. If Mr Culbert's employment is terminated as a consequence of an uncontrollable event (which includes death, permanent disability, retirement and termination without cause), any unvested STI or LTI award that has been awarded will remain on foot and vest in accordance with its terms, unless the Board exercises its discretion to determine the relevant award lapses on termination.

Treatment of STI Deferral: Resignation or termination for serious and wilful misconduct or persistent breach results in outstanding deferral elements being forfeited. Termination in all other circumstances results in outstanding deferral elements being payable, subject to the statutory requirements under the Corporations Act.

KMP

Treatment of STI Deferral: Termination without cause results in outstanding deferral elements being payable. Termination with cause results in this element being forfeited. In the case of resignation, the deferral elements are forfeited unless there is specific provision within the employment contract. The Board has the overriding discretion in relation to treatment upon termination.

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4.2 Statutory remuneration table

The following table discloses total remuneration of KMP in accordance with the Corporations Act and Australian Accounting Standards:

	Short-term benefits			STI	Post employ-ment benefits	Long term benefits			
Name	**Salary[1] $**	**STI $**	**Other $**	**STI Deferred $**	**Super-annuation $**	**Long service leave $**	**Share based payments (LTI)[2] $**	**Total $**	**At Risk %**
Current KMP									
Geoff Culbert[3]									
2018	**1,478,614**	**1,080,000**	**1,716,865[4]**	**270,000**	**19,564**	**35,568**	**191,856**	**4,792,467**	**32.2**
Hugh Wehby									
2018	**770,857**	**529,257**	**n/a**	**105,877**	**20,290**	**20,751**	**222,244**	**1,669,276**	**51.4**
2017	625,168	382,953	n/a	76,609	19,832	16,508	141,685	1,262,755	47.6
Vanessa Orth[5]									
2018	**72,293**	**n/a**	**262,500[6]**	**n/a**	**2,083**	**1,609**	**n/a**	**338,485**	**n/a**
Greg Botham									
2018	**569,383**	**335,612**	**n/a**	**67,138**	**25,000**	**14,367**	**90,981**	**1,102,481**	**44.8**
2017	383,333	201,362	n/a	40,282	16,667	9,649	31,820	683,113	40.0
Former KMP									
Kerrie Mather									
2018	**132,100**	**-**	**-**	**13,739**	**1,671**	**3,708**	**49,819**	**201,037**	**31.6**
2017	1,780,168	1,081,173	900,000[7]	-	19,832	81,652	955,720	4,818,545	42.3
Total KMP									
2018	**3,023,247**	**1,944,869**	**1,979,365**	**456,754**	**68,608**	**76,003**	**554,900**	**8,103,746**	
2017	2,788,669	1,665,488	900,000	116,891	56,331	107,809	1,129,225	6,764,413	

1 For 2018 the salary is actual salary paid and net annual leave accrual. For 2017 it was the actual salary paid.
2 This is expensed value of the 2015–2017, 2016–2018, 2017–2019 and 2018–2020 LTI series. Other than the 2015–2017 LTI series, no actual benefits have been received by the KMP for these LTI awards at reporting date. The LTI vesting will not occur until after the performance periods end and will be conditional upon achieving the required performance measures. Refer to 3.4.6 on the details of the 2015–2017 LTI series that vested on 21 February 2018.
3 Mr Culbert's remuneration reflects his commencement date of 15 January 2018.
4 This is the one-off cash and equity payments paid to Mr Culbert in 2018 plus the pro-rata of the one-off cash and equity payments due in 2019.
5 Ms Orth's remuneration reflects her commencement date of 3 December 2018.
6 This includes the one-off cash payment to Ms Orth paid in 2018 plus the pro-rata of the one-off payment due in 2019. These payments were in recognition of incentives foregone at her previous employer.
7 This is the payment-in-lieu of notice paid to Ms Mather on her termination.

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. An external benchmark of directors' fees was undertaken which indicated that the current fees are around the 25th percentile of a comparator group of 20 ASX listed companies. The directors decided not to adjust the fees at this stage but these will be kept under review.

NEDs do not participate in nor receive at risk remuneration in-line with ASX Corporate Governance principles. The maximum directors' fee pool for SAL is $2,500,000.

Role	Annual fee $
SAL Board	
Chair	481,250
Member	175,000
SAL Audit and Risk Committee	
Chair	40,000
Member	16,000
SAL Nomination and Remuneration Committee	
Chair	40,000
Member	16,000
SAL Safety, Security, and Sustainability Committee	
Chair	30,000
Member	16,000

5.2 Non-Executive Directors' remuneration for the year

Fees and other benefits provided to NEDs of SAL during the year and during the prior year are set out in the following tables. Any contributions to personal superannuation or pension funds on behalf of NEDs are deducted from their overall fee entitlements.

SAL	Short term employee benefits	Post employment benefits	
Name	**Directors' fees $**	**Superannuation $**	**Total $**
Trevor Gerber (Chairman)			
2018	460,960	20,290	481,250
2017	469,547	19,832	489,379
Michael Lee			
2018	199,210	20,290	219,500
2017	225,297	19,832	245,129
John Roberts			
2018	215,000	–	215,000
2017	223,129	–	223,129
Stephen Ward			
2018	198,210	20,290	218,500
2017	203,297	19,832	223,129
Ann Sherry AO			
2018	200,710	20,290	221,000
2017	195,297	19,832	215,129
Grant Fenn			
2018	176,864	16,802	193,666
2017	167,241	15,888	183,129
Abi Cleland[1]			
2018	126,611	12,028	138,639
David Gonski[2] AC			
2018	36,947	3,510	40,457
Total NEDs			
2018	1,614,512	113,500	1,728,012
2017	1,483,808	95,216	1,579,024

1 Ms Cleland was appointed on 5 April 2018.
2 Mr Gonski AC was appointed on 8 October 2018.

As a former KMP Ms Mather, was an executive director and received no additional remuneration in her role as a director over and above her executive remuneration detailed in Section 4.

Security Holdings in ASX-listed Sydney Airport

The table below details the relevant interests in ASX-listed Sydney Airport stapled securities by each director and KMP held at the date of this report.

Name	Balance at 1 Jan 2018	Movement	Balance at 31 Dec 2018	Changes prior to signing	Balance at signing date
Current directors and KMP					
Trevor Gerber	228,063	–	228,063	–	228,063
Michael Lee	8,808	466	9,274	267	9,541
John Roberts	172,825	–	172,825	–	172,825
Stephen Ward	21,818	30,000	51,818	–	51,818
Ann Sherry AO	22,000	–	22,000	–	22,000
Grant Fenn	–	–	–	–	–
Abi Cleland	n/a	15,000	15,000	–	15,000
David Gonski AC	n/a	100,000	100,000	–	100,000
Geoff Culbert [1]	n/a	89,304	89,304	–	89,304
Hugh Wehby	4,801	27,715	32,516	–	32,516
Vanessa Orth [2]	n/a	–	–	–	–
Greg Botham	10,000	4,000	14,000	403	14,403
Former KMP					
Kerrie Mather	3,800,508 [3]	n/a	n/a	n/a	n/a

1 Mr Culbert commenced as CEO on 15 January 2018.
2 Ms Orth commenced as CCO on 3 December 2018.
3 Ms Mather retired as Managing director and CEO on 15 January 2018. These were the security holdings at the date of her retirement.

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for the year ended 31 December 2018

Events occurring after balance sheet date

In October 2018, Sydney Airport issued an AUD400 million equivalent multi-tranche US private placement bond. The proceeds of this bond were received by 7 February 2019. For further information, refer to the Capital management and distribution section of the Operating and Financial Review.

The final distribution of $428.5 million or 19.0 cents per stapled security (2017: $405.2 million or 18.0 cents) was paid on 14 February 2019 by:

- SAL $311.2 million or 13.8 cents (2017: $282.5 million or 12.55 cents); and
- SAT1 $117.3 million or 5.2 cents (2017: $122.7 million or 5.45 cents).

A DRP operated in respect of the 31 December 2018 final distribution. To satisfy the DRP take up, 1.9 million stapled securities were issued to DRP participants at $6.60 per stapled security.

Since the end of the year, the directors of SAL are not aware of any other matter or circumstance not otherwise dealt with in the Directors' Report that has significantly affected or may significantly affect the operations of the SAL Group, the results of those operations or the state of affairs of the Group in the period subsequent to the year ended 31 December 2018.

Indemnification and insurance of officers and auditors

All directors have executed a deed of access, insurance and indemnity under which SAL 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 SAL constitution.

Additionally during the period, a directors' and officers' insurance policy applied to the directors and officers of SAL. SAL is contractually bound by arrangements with insurers to not disclose terms and limits, or premiums paid.

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

Environmental regulation and performance

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 Regulations). 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); and
- The enforcement of the provisions of the Airports Act and associated regulations is undertaken by statutory office holders of the Commonwealth Department of Infrastructure, Regional Development and Cities. These office holders are known as Airport Environment Officers (AEOs).

Sydney Airport's Environment Strategy 2013–2018 forms part of the Sydney Airport Master Plan and was approved by the Australian Government on 17 February 2014. A new draft Environment Strategy 2019–2024 was on public consultation during 2018. The draft was sent to the Federal Government in February 2019 for approval. If approved, it will replace the 2013–2018 strategy. The 2019–2024 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. Sydney Airport's aims, reflected in the 2019–2024 Strategy, are to continually improve environmental performance and minimise the impact of Sydney Airport's operations on the environment. The 2019–2024 Strategy supports initiatives in environmental management beyond regulatory requirements. The 2019–2024 Strategy is available for download from Sydney Airport's website www.sydneyairport.com.au.

Sydney Airport is not aware of any material breaches of the above regulations.

Sydney Airport provides an annual Environment Report to the Commonwealth Government outlining its performance in achieving the policies and targets of the strategy and compliance with the relevant environmental legislation.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in note 18 to the financial statements.

The directors of SAL 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 standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors of SAL are of the opinion that the services relevant to the respective groups as disclosed in note 18 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and 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 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 83 and forms part of the Directors' Report for the year ended 31 December 2018.

Rounding of amounts in the Directors' Report and the consolidated financial statements

The SAL Group is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information 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 SAL Group and SAT1 Group are jointly presented in one report as permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838.

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

Trevor Gerber
Sydney
20 February 2019

John Roberts
Sydney
20 February 2019

Directors' report

for the year ended 31 December 2018

Directors' Report for The Trust Company (Sydney Airport) Limited

For the year ended 31 December 2018, the directors of The Trust Company (Sydney Airport) Limited (TTCSAL or the Responsible Entity) submit the following report on the consolidated financial report of SAT1 comprising SAT1 and its controlled entities (the SAT1 Group).

Principal activities

The principal activity of the SAT1 Group is to hold financial loan assets. There were no significant changes in the nature of the SAT1 Group's activities during the year.

Director profiles

The directors during the year and until the date of this report are as follows:

Russell Balding AO Dip Tech (Com), BBus, FCPA, MAICD	Mr Balding was appointed as a TTCSAL director in October 2013. He has had a long and distinguished non-executive director and managerial career, having held numerous directorships and senior executive positions in a number of major organisations which have required extensive government, stakeholder, community and customer interaction. Mr Balding is currently Chairman of Racing NSW, Deputy Chairman of Destination NSW and Deputy Chairman of Racing Australia Limited. He was previously Chairman of Cabcharge Australia Pty Limited, Deputy Chairman of Racing NSW, a director of ComfortDelgro Cabcharge Pty Ltd and a director of CityFleet Networks Pty Ltd (UK). Mr Balding was formerly the chief executive officer of Southern Cross Airports Corporation Holdings Limited (SCACH) from 4 April 2006 to 30 June 2011 and the managing director of the Australian Broadcasting Corporation (ABC).
Patrick Gourley BEc (Hons), MEc	Mr Gourley was appointed as a TTCSAL director in October 2013. Previously, he was a director of SCACH from 10 September 2002 to 23 September 2013. Prior to that, he was a senior officer of the Australian Department of Industrial Relations from 1989 to 1992, a senior officer of the Department of Defence from 1992 to 2000 and a member of the Military Superannuation Board of Trustees from 1992 to 2000. Mr Gourley is a former director of the Great Energy Alliance Corporation and the Loy Yang Marketing Management Company.
Christopher Green BComm, LLB, MBA	Mr Green joined Perpetual (which acquired The Trust Company in 2013) from JP Morgan where he spent ten years with the Institutional Trust Services business, first in Europe covering the European, Middle East and African markets, then as a head of its Australian business. His career began as a solicitor for Corrs Chambers Westgarth. Mr Green is a member of the Australian Institute of Company Directors and he is currently completing a BA in Philosophy through the University of London. He was a TTCSAL director from March 2014 until April 2016 when he was appointed as an alternate director for Ms Larkins until her departure. Mr Green was appointed alternate director for Mrs Padman in October 2018.
Eleanor Padman BA (Hons) OXON, AGIA, ACIS	Mrs Padman was appointed director in October 2018. She is the Company Secretary of Perpetual Limited and head of Perpetual's Legal, Compliance and Company Secretariat teams. Mrs Padman was previously General Counsel and Company Secretary of Pinnacle Investment Management Limited and General Counsel and Head of Risk and Compliance at its predecessor, Wilson HTM Investment Group Limited. Mrs Padman is a lawyer with over 20 years' commercial experience gained in house and in private practice, both in the UK and Australia. Ms Padman has also served on a number of boards in public, private and not-for-profit arenas.

Gillian Larkins resigned as director of TTCSAL in October 2018.

Directors' report
for the year ended 31 December 2018

Company secretary profiles

Jamie Motum **BEc, LLB**	Mr Motum was appointed as company secretary of ASX-listed Sydney Airport in January 2012, and as company secretary of SAL from its incorporation on 30 July 2013. He is a qualified solicitor with over 20 years' experience. Prior to becoming general counsel and company secretary of Sydney Airport Corporation Limited in February 2010, Mr Motum was a partner in the Corporate Group of DLA Phillips Fox specialising in mergers and acquisitions and corporate advisory work where he began his legal career in 1996. Mr Motum was appointed as co-company secretary of TTCSAL on 23 October 2013.
Sylvie Dimarco **LLB, GIA (Cert),** **MAICD**	Ms Dimarco was appointed as co-company secretary of TTCSAL on 17 December 2015. She joined Perpetual in March 2014 and is the deputy company secretary. She is a qualified solicitor and has over 11 years' experience in company secretariat practice and administration.

Directors' meetings

TTCSAL board met four times in 2018. All four meetings were attended by all eligible Directors, as follows:

Board meetings	Eligible to attend	Attended
Gillian Larkins[1]	3	3
Russell Balding AO	4	4
Patrick Gourley	4	4
Eleanor Padman[2]	1	1

1 Ms Larkins resigned as director effective 12 October 2018.
2 Mrs Padman was appointed director effective 19 October 2018.

Security holdings in ASX-listed Sydney Airport

The TTCSAL directors do not hold any interest in ASX-listed Sydney Airport securities.

Review of operations

The SAT1 Group continues to hold a financial loan asset, with SAL as borrower. The loan is interest bearing, unsecured and subordinated. Further details including loan principal outstanding, amounts paid during the year and interest accrued are included in note 17.

There have been no changes in the state of affairs of the SAT1 Group.

Directors' report

for the year ended 31 December 2018

Distributions

Total distributions paid or payable by ASX-listed Sydney Airport are shown below. There are $nil imputation credits (2017: $nil) available to pay franked distributions.

	SAL Group		SAT1 Group	
	2018	**2017**	**2018**	**2017**
Distributions were paid/payable as follows:				
$m				
Final distribution[1]	428.5	405.2	117.3	122.7
Interim distribution[2]	416.8	371.3	114.9	120.4
	845.3	776.5	232.2	243.1
Cents per stapled security				
Final distribution	19.00	18.00	5.20	5.45
Interim distribution	18.50	16.50	5.10	5.35
	37.50	34.50	10.30	10.80

1 Paid on 14 February 2019 (2017: 14 February 2018).
2 Paid on 14 August 2018 (2017: 14 August 2017).

Events occurring after balance sheet date

The final distribution for the period ended 31 December 2018 of $428.5 million or 19.0 cents per stapled security (2017: $405.2 million or 18.0 cents) was paid on 14 February 2019 by:

- SAL $311.2 million or 13.8 cents (2017: $282.5 million or 12.55 cents); and
- SAT1 $117.3 million or 5.2 cents (2017: $122.7 million or 5.45 cents).

A DRP operated in respect of the 31 December 2018 final distribution. To satisfy the DRP take up, 1.9 million stapled securities were issued to DRP participants at $6.60 per stapled security.

Since the end of the year, the directors of TTCSAL are not aware of any other matter or circumstance not otherwise dealt with in the Directors' Report that has significantly affected or may significantly affect the operations of the SAT1 Group, the results of those operations or the state of affairs of the Group in the period subsequent to year ended 31 December 2018.

Indemnification and insurance of officers and auditors

All directors have executed a deed of access, insurance and indemnity under which TTCSAL 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 SAT1 constitution.

Additionally during the period, a directors' and officers' insurance policy applied to the directors and secretaries of TTCSAL. TTCSAL are contractually bound by arrangements with insurers to not disclose terms and limits, or premiums paid.

The auditors of the SAT1 Group are in no way indemnified out of the assets of the Group.

Non-audit services

There were no amounts paid or payable to the auditor for non-audit services provided during the year.

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 89 and forms part of the Directors' Report for year ended 31 December 2018.

Directors' report

for the year ended 31 December 2018

Rounding of amounts in the Directors' Report and the consolidated financial statements

The SAT1 Group is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest hundred thousand unless otherwise stated.

Application of class order

The financial reports for the SAT1 Group and the SAL Group are jointly presented in one report as permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838.

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

Patrick Gourley	**Eleanor Padman**
Sydney	Sydney
20 February 2019	20 February 2019

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

To the Directors of Sydney Airport Limited

KPMG

I declare that, to the best of my knowledge and belief, in relation to the audit of Sydney Airport Limited for the financial year ended 31 December 2018 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.

KPMG

KPMG

Nigel Virgo
Partner

Sydney
20 February 2019

Independent Auditor's Report

To the stapled security holders of Sydney Airport

Report on the audit of the Financial Report

Opinion

We have audited the *Financial Report* of Sydney Airport Limited (the Company) as deemed parent presenting the stapled security arrangement of *Sydney Airport* (the Stapled Group Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Stapled Group's* financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The *Financial Report* of the Stapled Group comprises:

- Consolidated statement of financial position as at 31 December 2018
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies

  (collectively referred to as Financial Statements)
- Directors' Declaration made by the Directors of Sydney Airport Limited.

Sydney Airport (the *Stapled Group*) consists of Sydney Airport Limited and the entities it controlled at the year-end or from time to time during the financial year, and Sydney Airport Trust 1 and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group and Sydney Airport Limited in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The *Key Audit Matters* we identified for the Stapled Group are:

- Revenue recognition and measurement
- Carrying value of intangible assets
- Hedging and valuation of derivatives.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the stapled security holders of Sydney Airport

KPMG

Report on the audit of the Financial Report

Revenue recognition and measurement (A$1,584.7m)

Refer to page 102 – AASB 15 Revenue from Contracts with Customers

The key audit matter	How the matter was addressed in our audit
Revenue recognition was identified as a key audit matter due to the complexity of numerous different underlying contracts which we considered in assessing when revenue was recognised. Varying recognition and measurement principles exist across all significant revenue streams. On 1 January 2018, AASB 15 *Revenue from Contracts with Customers* ('AASB 15') became effective. Assessing revenue recognition, measurement and disclosures due to the adoption of AASB 15 required significant audit effort across each revenue stream and contract type.	Our procedures included: • Evaluating processes and key controls regarding the Stapled Group's revenues. We tested controls for the authorisation of a sample of new or amended contracts, and checked the contract terms to the financial systems; • Applying data analytic techniques to each significant individual revenue stream, we compared revenue recognised against budget and prior year, and assessed the correlation to movements in passenger numbers (where relevant); • Requesting and obtaining confirmations from relevant airlines for a sample of passenger numbers; • Selecting a sample of contracts and tested the revenue recognised, with a focus on features with a potential to change under the new accounting standards, by comparing to relevant underlying contract terms, Stapled Group accounting policies and the criteria in accounting standards; • Checking a sample of the Stapled Group's rental income straight-lining calculations for accuracy and conformity with underlying contracts; • We assessed the relevant disclosures relating to the adoption of AASB 15 in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Independent Auditor's Report

To the stapled security holders of Sydney Airport

Report on the audit of the Financial Report

Carrying value of intangible assets (A$7315.7m)

Refer to Note 11 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Carrying value of intangible assets was identified as a key audit matter due to the significant level o judgment involved in forecasting and discounting future cash flows, particularly for the significant length of time relevant to an airport operation, which forms the basis for assessing intangible assets for impairment. In addition, judgment is involved in considering the appropriateness of the single cash generating unit (CGU) for impairment testing. Impairment testing is performed on a single CGU on the basis that the Stapled Group considers all income streams are intrinsically linked and cannot be separated from the airport operations. The impairment assessment of the Stapled Group's intangible assets is based on a discounted cash flow methodology, using a financial model covering a twenty year period. The model incorporates significant judgment in respect of future cash flows, discount rates, growth rates and the terminal value. The Stapled Group engages an external expert annually to perform a valuation of the airport, including intangibles. The forecast discounted cash flows performed by the Stapled Group form the basis of this valuation.	Our procedures included: • Understanding the Stapled Group's cash forecasting process by testing the key approvals for the internal reporting of forecast income streams and cash flows; • Assessing the historical accuracy of forecasts by comparing to actual results, to use in our evaluation of forecasts included in the discounted cash flow model; • Assessing the consistency of the future assumptions incorporated into the forecasts for alignment to the Sydney Airport Corporate Plan through inquiries with the Stapled Group and our industry knowledge; • Evaluating the Stapled Group's determination of a single CGU based on our understanding of the industry in which the Stapled Group operates, our knowledge of the business and the accounting standard requirements; • Involving our specialists we evaluated the externally prepared valuation. This included: – Assessing the reasonableness of the valuation approach and methodology against market and industry practices and accounting standards; – Comparing market related assumptions, in particular those relating to growth and discount rates, to external data such as industry wide expectations of passenger behaviour and the Inflation Target as published by the Reserve Bank of Australia; – Performing a sensitivity analysis on key assumptions, in particular the discount rate to assess the risk of bias or inconsistency in application; – Assessing the objectivity, scope, competence, experience and skills of the external expert; and – We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Independent Auditor's Report

To the stapled security holders of Sydney Airport

KPMG

Report on the audit of the Financial Report

Hedging and valuation of derivatives (net: A$518.9m)

Refer to Note 5 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The valuation of derivatives and associated hedge accounting was identified as a key audit matter due to the complexities arising from the application of multiple derivatives to hedge each underlying financial instrument. On 1 January 2018, AASB 9 *Financial Instruments* ('AASB 9') became effective. Assessing the impact of adopting AASB 9 required significant audit effort due to the complexity of applying hedge accounting under the new accounting standard. Our assessment is made more challenging given the high level of judgement involved in evaluating valuation assumptions and inputs such as yield curves and credit value adjustments. As such, senior audit team effort and specialist involvement was required.	Our procedures included: • Understanding the Stapled Group's processes and key controls for the approval of new derivative contracts; • Obtaining hedge documentation relating to new hedge relationships and assessing it against the conditions for measurement and reporting in the accounting standard requirements; • For a sample of derivatives and hedge relationships, we checked the inputs of each item to confirmations we requested and obtained from counterparties; • Involving our valuation specialists we performed an independent valuation of a sample of derivatives which we compared to the Stapled Group's valuation. To do this we obtained externally sourced market data such as Bloomberg for assumptions and inputs adopted in the valuation e.g. yield curves and credit value adjustments; • We assessed the additional disclosures relating to the adoption of AASB 9 in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Sydney Airport's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Sydney Airport Limited and the Directors of The Trust Company (Sydney Airport) Limited are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

To the stapled security holders of Sydney Airport

KPMG

Report on the audit of the Financial Report

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_ responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Sydney Airport Limited for the year ended 31 December 2018, complies with *Section 300A* of the *Corporations Act 2001.*

Directors' responsibilities

The Directors of Sydney Airport Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001.*

Our responsibilities

We have audited the Remuneration Report included on pages 63 to 76 the Directors' report for the year ended 31 December 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Nigel Virgo
Partner

Sydney
20 February 2019

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

To the Directors of The Trust Company (Sydney Airport) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Sydney Airport Trust 1 for the financial year ended 31 December 2018 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.

KPMG

Nigel Virgo
Partner

Sydney
20 February 2019

1 Performance highlights
2 Operating and financial review
3 Sustainability summary
4 Directors' report
5 Financial report
6 Other information

Independent Auditor's Report

To the unitholders of Sydney Airport Trust 1

Opinion

We have audited the ***Financial Statements*** and Directors' Declaration of Sydney Airport Trust 1 (the Trust ***Financial Report***).

In our opinion, the accompanying Trust Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Trust's*** financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** of the Trust comprises:

- Consolidated statement of financial position as at 31 December 2018
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies

  (collectively referred to as ***Financial Statements***)
- Directors' Declaration made by the Directors of The Trust Company (Sydney Airport) Limited (the Responsible Entity).

The Stapled Group consists of Sydney Airport Limited and the entities it controlled at the year-end or from time to time during the financial year and Sydney Airport Trust 1 and the entities it controlled at the year-end or from time to time during the financial year (the ***Trust***).

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Trust and the Responsible Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Sydney Airport's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Sydney Airport Limited and the Directors of The Trust Company (Sydney Airport) Limited are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Independent Auditor's Report

To the unitholders of Sydney Airport Trust 1

KPMG

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Trust's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors _responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Nigel Virgo
Partner

Sydney
20 February 2019

Consolidated statements of comprehensive income

for the year ended 31 December 2018

	Note	SAL Group 2018 $m	SAL Group 2017 $m	SAT1 Group 2018 $m	SAT1 Group 2017 $m
Revenue					
Aeronautical revenue		721.7	670.6	-	-
Aeronautical security recovery		98.7	91.3	-	-
Retail revenue		357.0	333.1	-	-
Property and car rental revenue		238.1	221.4	-	-
Parking and ground transport revenue		162.1	159.5	-	-
Other revenue		7.1	7.4	-	-
Total revenue		1,584.7	1,483.3	-	-
Other income					
Gain on disposal of non-current assets		0.2	0.1	-	-
Total revenue and other income		1,584.9	1,483.4	-	-
Operating expenses					
Employee benefits expense		(64.6)	(57.5)	-	-
Services and utilities expense		(83.7)	(84.2)	-	-
Property and maintenance expense		(29.8)	(31.4)	-	-
Security recoverable expense		(91.5)	(83.6)	-	-
Other operational costs		(32.7)	(27.8)	(1.9)	(1.9)
Total operating expenses		(302.3)	(284.5)	(1.9)	(1.9)
Other expenses					
Business acquisition costs		-	(1.9)	-	-
Western Sydney Airport project costs expensed		-	(0.6)	-	-
Total other expenses		-	(2.5)	-	-
Total expenses before depreciation, amortisation, net finance costs and income tax		(302.3)	(287.0)	(1.9)	(1.9)
Profit/(loss) before depreciation, amortisation, net finance costs and income tax (EBITDA)		1,282.6	1,196.4	(1.9)	(1.9)
Depreciation	10	(330.3)	(300.4)	-	-
Amortisation	11	(85.3)	(85.3)	-	-
Profit/(loss) before net finance costs and income tax (EBIT)		867.0	810.7	(1.9)	(1.9)
Finance income	6	9.3	8.1	233.7	244.7
Finance costs	6	(437.8)	(429.5)	-	-
Change in fair value of swaps	6	(5.0)	(0.2)	-	-
Net finance costs		(433.5)	(421.6)	233.7	244.7
Profit before income tax expense		433.5	389.1	231.8	242.8
Income tax expense	12	(62.5)	(40.5)	-	-
Profit after income tax expense		371.0	348.6	231.8	242.8
Profit after income tax expense attributable to:					
Security holders		372.5	349.8	231.8	242.8
Non-controlling interest		(1.5)	(1.2)	-	-
		371.0	348.6	231.8	242.8

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statements of comprehensive income

for the year ended 31 December 2018

	Note	SAL Group		SAT1 Group	
		2018 $m	2017 $m	2018 $m	2017 $m
Items that may subsequently be reclassified to profit or loss					
Changes in fair value of cash flow hedges		(164.7)	(55.4)	-	-
Changes in fair value of foreign currency basis spread		3.4	-	-	-
Tax on items that may be reclassified to profit or loss		48.4	16.7	-	-
Total items that may subsequently be reclassified to profit or loss		(112.9)	(38.7)	-	-
Items that will never be reclassified to profit or loss					
Remeasurement gain/(loss) on defined benefit plans		(0.1)	1.1	-	-
Tax on items that will never be reclassified to profit or loss		-	(0.3)	-	-
Total items that will never be reclassified to profit or loss		(0.1)	0.8	-	-
Other comprehensive income, net of tax		(113.0)	(37.9)	-	-
Total comprehensive income		258.0	310.7	231.8	242.8
Total comprehensive income attributable to:					
Security holders		259.5	311.9	231.8	242.8
Non-controlling interest		(1.5)	(1.2)	-	-
Total comprehensive income		258.0	310.7	231.8	242.8
Earnings per share/unit from profit after income tax	8	16.53c	15.54c	10.28c	10.79c

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statements of financial position

as at 31 December 2018

	Note	SAL Group 2018 $m	SAL Group 2017 $m	SAT1 Group 2018 $m	SAT1 Group 2017 $m
Current assets					
Cash and cash equivalents	3	476.3	483.4	5.8	9.3
Receivables	9	235.6	178.1	3.5	3.4
Refinancing proceeds receivable	2	398.9	-	-	-
Derivative financial instruments	5	0.2	9.6	-	-
Other assets		0.8	0.9	-	-
Total current assets		1,111.8	672.0	9.3	12.7
Non-current assets					
Receivables	9	194.6	197.5	1,915.6	1,915.6
Property, plant and equipment	10	3,570.1	3,511.7	-	-
Intangible assets	11	7,315.7	7,401.0	-	-
Derivative financial instruments	5	851.8	531.9	-	-
Other assets		10.2	9.0	-	-
Total non-current assets		11,942.4	11,651.1	1,915.6	1,915.6
Total assets		13,054.2	12,323.1	1,924.9	1,928.3
Current liabilities					
Distribution payable	1	428.5	405.2	117.3	122.7
Payables and deferred income		245.4	262.0	4.2	4.8
Interest bearing liabilities	2	-	329.5	-	-
Derivative financial instruments	5	108.7	102.4	-	-
Provisions for employee benefits		13.1	13.6	-	-
Total current liabilities		795.7	1,112.7	121.5	127.5
Non-current liabilities					
Interest bearing liabilities	2	10,151.8	8,566.6	-	-
Derivative financial instruments	5	224.4	213.4	-	-
Deferred tax liabilities	12	1,808.3	1,794.3	-	-
Provisions for employee benefits		2.1	2.2	-	-
Total non-current liabilities		12,186.6	10,576.5	-	-
Total liabilities		12,982.3	11,689.2	121.5	127.5
Net assets		71.9	633.9	1,803.4	1,800.8
Equity					
Security holders' interests					
Contributed equity	1	5,508.6	5,482.3	2,454.3	2,451.3
Retained earnings		(1,954.8)	(1,481.4)	403.8	404.2
Reserves		(3,473.5)	(3,360.1)	(1,054.7)	(1,054.7)
Total security holders' interests		80.3	640.8	1,803.4	1,800.8
Non-controlling interest in controlled entities		(8.4)	(6.9)	-	-
Total equity		71.9	633.9	1,803.4	1,800.8

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

Consolidated statements of changes in equity

for the year ended 31 December 2018

SAL Group	Note	Contributed equity $m	Retained earnings[1] $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Other reserve[2] $m	Total equity[1] $m
Total equity at 1 January 2018		5,482.3	(1,488.3)	(201.1)	-	(3,159.0)	633.9
Comprehensive income							
Profit after tax		-	371.0	-	-	-	371.0
Cash flow hedges, net of tax		-	-	(115.3)	-	-	(115.3)
Foreign currency basis spread, net of tax		-	-	-	2.4	-	2.4
Remeasurement gain, net of tax		-	(0.1)	-	-	-	(0.1)
Total comprehensive income		-	370.9	(115.3)	2.4	-	258.0
Transactions with owners of the company							
Issue of securities through distribution reinvestment plan		26.3	-	-	-	-	26.3
Distributions provided for or paid	1	-	(845.3)	-	-	-	(845.3)
Equity-settled shares		-	(0.5)	-	-	(0.5)	(1.0)
Total transactions with owners of the company		26.3	(845.8)	-	-	(0.5)	(820.0)
Total equity at 31 December 2018		5,508.6	(1,963.2)	(316.4)	2.4	(3,159.5)	71.9
Total equity at 1 January 2017		5,470.9	(1,061.2)	(162.4)	-	(3,160.5)	1,086.8
Comprehensive income							
Profit after tax		-	348.6	-	-	-	348.6
Cash flow hedges, net of tax		-	-	(38.7)	-	-	(38.7)
Remeasurement gain, net of tax		-	0.8	-	-	-	0.8
Total comprehensive income		-	349.4	(38.7)	-	-	310.7
Transactions with owners of the company							
Issue of securities through distribution reinvestment plan		11.4	-	-	-	-	11.4
Distributions provided for or paid	1	-	(776.5)	-	-	-	(776.5)
Equity-settled shares		-	-	-	-	1.5	1.5
Total transactions with owners of the company		11.4	(776.5)	-	-	1.5	(763.6)
Total equity at 31 December 2017		5,482.3	(1,488.3)	(201.1)	-	(3,159.0)	633.9

1 Retained earnings and total equity are presented after deducting non-controlling interest in controlled entities of $8.4 million (2017: $6.9 million). Refer note 16 to the financial statements for details.
2 The Other reserve represents transactions between equity holders and movements in other reserves resulting from historical business combinations.

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

Consolidated statements of changes in equity

for the year ended 31 December 2018

SAT1 Group	Note	Contributed equity $m	Retained earnings $m	Capital reserve[1] $m	Other reserve $m	Total equity $m
Total equity at 1 January 2018		2,451.3	404.2	(967.6)	(87.1)	1,800.8
Comprehensive income						
Profit after tax		-	231.8	-	-	231.8
Total comprehensive income		-	231.8	-	-	231.8
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		3.0	-	-	-	3.0
Distributions provided for or paid	1	-	(232.2)	-	-	(232.2)
Total transactions with owners of the company		3.0	(232.2)	-	-	(229.2)
Total equity at 31 December 2018		2,454.3	403.8	(967.6)	(87.1)	1,803.4
Total equity at 1 January 2017		2,449.7	404.5	(967.6)	(87.1)	1,799.5
Comprehensive income						
Profit after tax		-	242.8	-	-	242.8
Total comprehensive income		-	242.8	-	-	242.8
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		1.6	-	-	-	1.6
Distributions provided for or paid	1	-	(243.1)	-	-	(243.1)
Total transactions with owners of the company		1.6	(243.1)	-	-	(241.5)
Total equity at 31 December 2017		2,451.3	404.2	(967.6)	(87.1)	1,800.8

1 The Capital reserve represents amounts transferred from retained profits to facilitate distributions from SAT1 in accordance with the SAT1 constitution.

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

Consolidated statements of cash flows

for the year ended 31 December 2018

		SAL Group		SAT1 Group	
	Note	2018 $m	2017 $m	2018 $m	2017 $m
Cash flow from operating activities					
Interest received		8.7	7.6	0.2	0.6
Related party loan interest received	17	-	-	232.5	245.2
Receipts from customers		1,706.2	1,620.0	-	-
Payments to suppliers and employees		(482.4)	(444.4)	(1.6)	(1.9)
Net cash flow from operating activities	3	1,232.5	1,183.2	231.1	243.9
Cash flow from investing activities					
Proceeds from disposal of fixed assets		0.4	0.1	-	-
Acquisition of property, plant and equipment		(392.2)	(375.7)	-	-
Capitalised borrowing costs		(10.6)	(9.3)	-	-
Payment for acquisition of a business		-	(34.5)	-	-
Transaction costs related to business acquisition		-	(1.9)	-	-
Indemnity payment	9	-	(119.8)	-	(119.8)
Net cash flow used in investing activities		(402.4)	(541.1)	-	(119.8)
Cash flow from financing activities					
Airport borrowing costs paid		(308.9)	(300.1)	-	-
Corporate borrowings costs paid		(2.9)	(0.2)	-	-
Repayment of borrowings		(991.4)	(271.0)	-	-
Proceeds received from borrowings		1,355.1	759.0	-	90.0
Interest rate swap payments		(93.4)	(92.3)	-	-
Proceeds received from distribution reinvestment plan		26.3	11.4	3.0	1.6
Distributions paid to security holders		(822.0)	(731.3)	(237.6)	(243.0)
Net cash flow used in financing activities		(837.2)	(624.5)	(234.6)	(151.4)
Net increase/(decrease) in cash and cash equivalents		(7.1)	17.6	(3.5)	(27.3)
Cash and cash equivalents at beginning of the period		483.4	465.8	9.3	36.6
Cash and cash equivalents at the end of the period	3	476.3	483.4	5.8	9.3

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

Notes to the financial statements

for the year ended 31 December 2018

General

Basis of preparation and statement of compliance

This is the financial report for Sydney Airport Limited (SAL) and its controlled entities (collectively referred to as the SAL Group), and Sydney Airport Trust 1 (SAT1) and its controlled entities (collectively referred to as the SAT1 Group).

The SAL Group and SAT1 Group (together, the Groups) are for-profit entities for the purposes of preparing the consolidated financial statements. The Trust Company (Sydney Airport) Limited (TTCSAL) is the Responsible Entity of SAT1.

This financial report:

- Consists of the consolidated financial statements of the SAL Group and SAT1 Group, as permitted by Australian Securities & Investments Commission (ASIC) Corporations (Stapled Group Reports) Instrument 2015/838;
- Is a general purpose financial report;
- Is prepared in accordance with *Corporations Act 2001*, Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB);
- Is 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; and
- Is presented in Australian dollars, which is the functional currency of SAL and SAT1, with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.

The financial report was authorised for issue by the directors of SAL and TTCSAL on 20 February 2019. The directors of SAL and TTCSAL have the power to amend and reissue the financial report.

Net current liability position

The SAT1 Group's net current liability position of $112.2 million (2017: $114.8 million) at 31 December 2018 is attributable to distributions payable to SAT1 unitholders of $117.3 million (2017: $122.7 million), which were paid on 14 February 2019. Distribution payments, a key obligation of the SAT1 Group, are supported by the funding structure under which it receives interest on the cross staple loan from SAL. Due to timing, where the semi-annual distributions are declared before each balance date (and therefore a liability at each balance date) and the interest payments are received in advance after each balance date, the SAT1 Group is expected to be in a net current liability position at future balance dates.

The SAL Group is in a net current asset position of $316.1 million (2017: net current liability $440.7 million), as a result of the multi-tranche US private placement bond equivalent of AUD400 million, which was received by 7 February 2019.

Net tangible asset backing per security

The ASX-listed Sydney Airport's net tangible assets (NTA) exclude non-controlling interests and are solely attributable to security holders. The NTA backing per security was -$3.21 at 31 December 2018 (2017: -$3.01). This represents a decrease of $0.20 or 6.6% (2017: decrease of $0.17 or 5.9%).

Critical accounting estimates and judgements

In the process of applying the Groups' accounting policies, directors have made judgements, estimates and assumptions about future events. Critical estimates and assumptions were made in relation to:

- Impairment test of goodwill (refer note 11); and
- Fair value measurement of financial instruments (refer notes 2, 4 and 5).

Notes to the financial statements

for the year ended 31 December 2018

Significant accounting policies

This financial report contains all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide an understanding of the financial statements. Accounting policies that are specific to a note to the financial statements are described in the note to which they relate. Other accounting policies are set out below:

i) Principles of consolidation

For the purpose of this financial report:

- SAL has been identified as the parent of the consolidated group (defined as ASX-listed Sydney Airport) comprising the SAL Group and the SAT1 Group for the years ended 31 December 2018 and 31 December 2017; and
- SAT1 has been identified as the parent of the SAT1 Group for the years ended 31 December 2018 and 31 December 2017.

The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as their parent companies. In preparing the consolidated financial statements, all intercompany balances and transactions have been eliminated in full.

Controlled entities

The SAT1 Group's net result after tax for the years ended 31 December 2018 and 31 December 2017 and its contributed equity, reserves and retained earnings at 31 December 2018 and 31 December 2017 are attributed to non-controlling interests in the SAL Group consolidated financial report.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition related costs are expensed as incurred in profit or loss, except for costs arising on the issue of equity instruments which are recognised directly in equity.

Identifiable net assets acquired and contingent liabilities assumed in a business combination are measured at fair value at acquisition date, irrespective of the extent of any non-controlling interest. The excess of acquisition cost over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (refer to note 11).

Acquisition of entities under common control

Acquisition of interest in entities that are under the control of the Group's controlling security holders are deemed to be common control transactions. The net assets acquired are recognised at the carrying amounts recognised previously in the Group's controlling security holder's consolidated financial statements. Any difference between the carrying value of net assets acquired and related consideration is held in a common control reserve.

ii) Foreign currency transactions and balances

Foreign currency amounts are translated into the functional currencies of the Groups (Australian dollars) using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities measured in terms of historical cost	Date of transaction

Foreign exchange gains and losses on translation are recognised in the consolidated statements of comprehensive income.

iii) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined:

- In accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Using market prices for the fair value of derivative instruments. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used.

The directors consider the carrying amounts of financial assets and liabilities recorded in the financial statements approximate fair value, except for fixed interest rate bonds (refer to note 2).

Fair value measurements are determined as follows:

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

Changes in accounting standards

The Group adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. The impact of these standards are described below:

AASB 9 ***Financial Instruments***:

AASB 9 (2014) *Financial Instruments* (AASB 9) sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139). The Group has applied AASB 9 from 1 January 2018 on a retrospective basis except for hedging, which was applied prospectively and has not restated comparatives. There has been no impact at the date of transition. The impact of AASB 9 on the Group's accounting policies and results is described below.

i) Classification and measurement of financial instruments

Whilst no changes have been made to the classification and measurement of financial liabilities, AASB 9 removes the following classification of financial assets – held to maturity, loans and receivables and available for sale. AASB 9 requires financial assets, debt and equity investments to be classified between the following measurement categories – amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial asset and whether contractual cash flows are solely from payments of principal and interest ('SPPI').

The following table illustrates the measurement requirements of AASB 9 for debt instruments, applicable to SAL and SAT1:

	Initial recognition	Subsequent measurement
Amortised Cost	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at amortised cost using the effective interest rate method, and reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.
FVTPL	Measured at fair value. Any acquisition transaction costs are recognised in the profit or loss.	These assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Whilst there has been no measurement impact as a result of these changes to the Group's financial statements, changes in classification are shown below for the year ended 31 December 2018.

			SAL Group		SAT1 Group	
	Original classification	New classification	Original carrying amount $m	New carrying amount $m	Original carrrying amount $m	New carrying amount $m
Cash and cash equivalents	Loans and receivables	Amortised cost	476.3	476.3	5.8	5.8
Trade and other receivables	Loans and receivables	Amortised cost	430.2	430.2	3.5	3.5
Refinancing proceeds receivable	Loans and receivables	Amortised cost	398.9	398.9	n/a	n/a
Cross staple loan	Loans and receivables	Amortised cost	n/a	n/a	1,915.6	1,915.6
Cross currency swaps	Fair value – hedging instrument	Fair value – hedging instrument	852.0	852.0	n/a	n/a

ii) Impairment

AASB 9 replaces the incurred loss model of AASB 139 with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI. Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

The Groups assessed the ECL associated with trade receivables by applying the simplified impairment approach permitted by AASB 9. This requires expected lifetime losses to be recognised from initial recognition of all financial assets.

The result of the assessment is there is no impact of the new impairment model as required by AASB 9.

iii) Hedging

AASB 9 includes a new general hedge accounting model that better aligns hedge accounting with the SAL Group's risk management policies. The analysis of AASB 9 and the key changes impacting the SAL Group's hedging instruments are described below.

- The SAL Group is required to determine the effectiveness of hedges in accordance with its risk management policies on a prospective basis and is more qualitative in nature. The 80%–125% hedge effectiveness requirement of AASB 139 has been removed.

  Impact: No impact as the SAL Group uses the critical terms method.

- Credit, foreign currency basis spread and derivative transaction costs are considered a source of hedge ineffectiveness. Under AASB 9, foreign currency basis spread must be recognised as a component of equity. Whilst AASB 9 requires hedge accounting to be applied prospectively, accounting for foreign currency basis spreads may be applied retrospectively for those hedging relationships that existed at the beginning of the comparative period, or were designated thereafter.

  Impact: The SAL Group has elected to separate and exclude foreign currency basis spreads and defer this component to equity for hedge relationships in existence at 1 January 2018 (retrospectively) with no material impact on opening balances.

- Aggregate exposures now qualify as an eligible hedged item.

  Impact: This allows the SAL Group to designate interest rate swaps into hedge relationships without undergoing a de-designation of existing hedge relationships and improves hedge effectiveness.

AASB 15 *Revenue from Contracts with Customers*:

AASB 15 *Revenue from Contracts with Customers* (AASB 15) replaces AASB 118 *Revenue* (AASB 118) and related interpretations and applies to all revenues arising from contracts with customers, unless the contracts are within the scope of other standards such as AASB 117 *Leases*. The Standard outlines the application principles to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration it expects to be entitled to in exchange for fulfilling its performance obligations to the customer.

The Groups have formally applied AASB 15 from 1 January 2018. The new standard has been adopted using the cumulative effect method (without applying practical expedients) from 1 January 2018. Accordingly the information presented for 2017 has not been restated and continues to be reported in line with AASB 118. The Group has performed an analysis on the impact of this standard on the Groups' revenue streams and determined that this new standard does not have a material effect on the Groups' financial report. This analysis is summarised below:

Aeronautical revenues

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

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

Aeronautical revenues are billed and paid on a monthly basis.

Incentives or discounts are provided in line with terms of contracts with airlines and are generally based on passenger numbers, flight frequency and or new routes. Revenues from passenger charges are therefore variable consideration and estimated monthly. Variable revenue is only recognised when it is highly probable the revenues will not reverse. Discounts and incentives are paid annually based on contract commencement date and any unpaid amount is recognised as a payable.

There is no change to timing of revenue recognition arising from AASB 15.

Aeronautical security recovery revenues

Aeronautical security recovery revenue is primarily generated from contracts with airlines for the provision of government mandated security services. These include passenger and checked bag screening. Revenue is recognised as the service is provided based on passenger numbers and maximum take-off weight.

Aeronautical security recovery revenues are billed and paid on a monthly basis.

There is no change to timing of revenue recognition arising from AASB 15.

Parking and ground transport revenues

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

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

There is no change to timing of revenue recognition arising from AASB 15.

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6 Other information

AASB 15 does not apply to revenues other than from contracts from customers, and does not apply to the following revenue streams:

Retail revenues

This comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, financial and advertising services. These contracts contain lease components.

Property and car rental revenues

This comprises the lease of terminal space, buildings and other space on Sydney Airport. These contracts contain only lease components.

New standards and interpretations not yet adopted

The accounting standard that has not been early adopted for the year ended 31 December 2018 but will be applicable to the Groups in future reporting periods is detailed below.

Accounting Standard	Requirement	Impact on Financial Statements
AASB 16 *Leases*	AASB 16 provides a new model for accounting for leases. The standard becomes mandatory for the December 2019 financial year and will be applied prospectively.	No material impact expected.

Capital management

Overview

The Group manages and regularly reviews its capital structure to ensure it is able to finance the current and future business activities and continue as a going concern, while optimising the debt and equity balance and returns to security holders.

The capital structure of the Group consists of:

- debt;
- cash and cash equivalents;
- issued capital;
- reserves; and
- retained earnings.

During the year ended 31 December 2018, the Group's capital management strategy remained unchanged.

1 Distributions paid and proposed

Security holders' entitlements

SAL

Each ordinary share in SAL entitles its holder to distributions as may be determined by the SAL Directors from time to time. The distribution amount which the Directors determine as payable is divisible among holders so that the same sum is paid on each fully paid up share and (if relevant) a proportionate sum is paid on each partly paid up share.

SAT1

Each unit on issue in SAT1 entitles its holder to a distribution of a pro-rata proportion of the SAT1 net income as determined by the Responsible Entity in respect of that income period. The distribution will be distributed to the unitholder within two months of the last day of the income period.

The Groups' distributions are currently 100% unfranked and there are no available imputation credits. Distributions paid and proposed during the year are shown in the table below:

	SAL Group		SAT1 Group	
	2018	**2017**	**2018**	**2017**
Distributions were paid/payable as follows:				
$m				
Final distribution[1]	428.5	405.2	117.3	122.7
Interim distribution[2]	416.8	371.3	114.9	120.4
	845.3	776.5	232.2	243.1
Cents per stapled security				
Final distribution	19.00	18.00	5.20	5.45
Interim distribution	18.50	16.50	5.10	5.35
	37.50	34.50	10.30	10.80

1 Recognised as a payable at year end, paid on 14 February 2019 (2017: 14 February 2018).
2 Paid on 14 August 2018 (2017: 14 August 2017).

1 Distributions paid and proposed (continued)

Distribution reinvestment plan

The distribution reinvestment plan (DRP) provides stapled security holders with a method of automatically reinvesting all or part of their distributions in stapled securities.

The DRP operated in respect of the 30 June 2018 interim and 31 December 2018 final distributions.

In respect of the 30 June 2018 distribution, 2.0 million stapled securities were issued to DRP participants at $7.15 per stapled security in August 2018.

In respect of the final distribution for the year ended 31 December 2018, 1.9 million stapled securities were issued to DRP participants at $6.60 per stapled security in February 2019.

Contributed equity

The movements in the contributed equity balance and number of shares/units on issue are shown in the table below:

	SAL Group		SAT1 Group	
	2018	2017	2018	2017
$m				
Opening balance	5,482.3	5,470.9	2,451.3	2,449.7
Issued pursuant to the DRP	26.3	11.4	3.0	1.6
Closing balance	5,508.6	5,482.3	2,454.3	2,451.3
Shares/units on issue (m)				
Opening balance	2,251.5	2,249.9	2,251.5	2,249.9
Issued pursuant to the DRP	3.8	1.6	3.8	1.6
Closing balance	2,255.3	2,251.5	2,255.3	2,251.5

2 Interest bearing liabilities

The Group's debt comprises the following at reporting date:

- Bank facilities;
- Domestic bonds (including capital indexed bonds (CIB));
- US private placement bonds (USPP);
- US144A/RegS bonds; and
- Euro bonds.

The balances and other details related to the Group's interest bearing liabilities are presented in the table on the following page.

2 Interest bearing liabilities (continued)

Type	Maturity	Carrying amount 2018[7] $m	Carrying amount 2017[7] $m	Fair value 2018 $m	Fair value 2017 $m	Principal amount drawn In AUD 2018 $m	Principal amount drawn In AUD 2017 $m	Principal amount drawn In original currency 2018 $m	Principal amount drawn In original currency 2017 $m	Issue currency	Interest rate
Bilateral facility	February 2020	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	AUD	Floating[4]
Syndicated facility	April 2020	454.1	468.4	454.1	468.4	455.0	470.0	455.0	470.0	AUD	Floating[4]
Syndicated facility	April 2021	-	98.2	-	98.2	-	100.0	-	100.0	AUD	Floating[4]
Wrapped domestic bond[1]	November 2021	199.2	199.0	199.2	199.0	200.0	200.0	200.0	200.0	AUD	Floating[5]
Wrapped domestic bond[1]	October 2022	744.2	742.8	744.2	742.8	750.0	750.0	750.0	750.0	AUD	Floating[5]
Wrapped domestic bond[1]	October 2027	650.2	649.3	650.2	649.3	659.0	659.0	659.0	659.0	AUD	Floating[5]
Unwrapped domestic bond	July 2018	-	99.9	-	103.0	-	100.0	-	100.0	AUD	7.75%[6]
USPP bond	August 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[5]
USPP bond	November 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[5]
USPP bond	November 2028	179.0	178.9	204.7	235.9	180.0	180.0	180.0	180.0	AUD	6.04%[6]
USPP bond	November 2028	57.7	57.6	63.9	73.6	58.0	58.0	58.0	58.0	AUD	5.60%[6]
USPP bond	November 2029	135.3	135.2	151.4	176.1	136.0	136.0	136.0	136.0	AUD	5.70%[6]
USPP bond[2]	February 2034	67.3	-	62.1	-	-	-	-	-	USD	4.25%[6]
USPP bond[2]	February 2039	134.9	-	135.3	-	-	-	-	-	AUD	4.76%[6]
USPP bond[2]	February 2044	99.9	-	100.9	-	-	-	-	-	AUD	4.85%[6]
USPP bond[2]	February 2049	99.9	-	101.1	-	-	-	-	-	AUD	4.90%[6]
Canadian Maple bond	July 2018	-	229.6	-	233.4	-	217.4	-	225.0	CAD	4.60%[6]
Euro bond	April 2024	1,225.5	1,157.1	1,247.1	1,229.5	1,033.4	1,033.4	700.0	700.0	EUR	2.75%[6]
Euro bond	April 2028	824.7	-	822.0	-	796.1	-	500.0	-	EUR	1.75%[6]
US144A/RegS bond	February 2021	702.9	636.3	732.2	697.7	518.7	518.7	500.0	500.0	USD	5.13%[6]
US144A/RegS bond	March 2023	1,173.2	1,063.2	1,168.6	1,142.4	802.4	802.4	825.0	825.0	USD	3.90%[6]
US144A/RegS bond	April 2025	708.7	639.5	682.4	686.1	643.0	643.0	500.0	500.0	USD	3.38%[6]
US144A/RegS bond	April 2026	1,270.8	1,145.3	1,228.1	1,264.0	1,163.4	1,163.4	900.0	900.0	USD	3.63%[6]
CIB[3]	November 2020	758.9	741.4	764.9	743.6	757.0	742.2	757.0	742.2	AUD	3.76%[6]
CIB[3]	November 2030	388.6	377.6	371.2	338.1	398.1	390.3	398.1	390.3	AUD	3.12%[6]
Total external interest bearing liabilities		10,151.8	8,896.1	10,160.4	9,357.9	8,828.1	8,441.8	n/a	n/a		

1 Financial guarantees are provided by MBIA Insurance Corporation, and Assured Guaranty Municipal Corp.
2 USPP bond proceeds were received by 7 February 2019.
3 Financial guarantees are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.
4 Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
5 Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
6 Fixed interest rates reflective of coupons in respective currencies/markets.
7 Carrying amount exclusive of capitalised establishment costs.

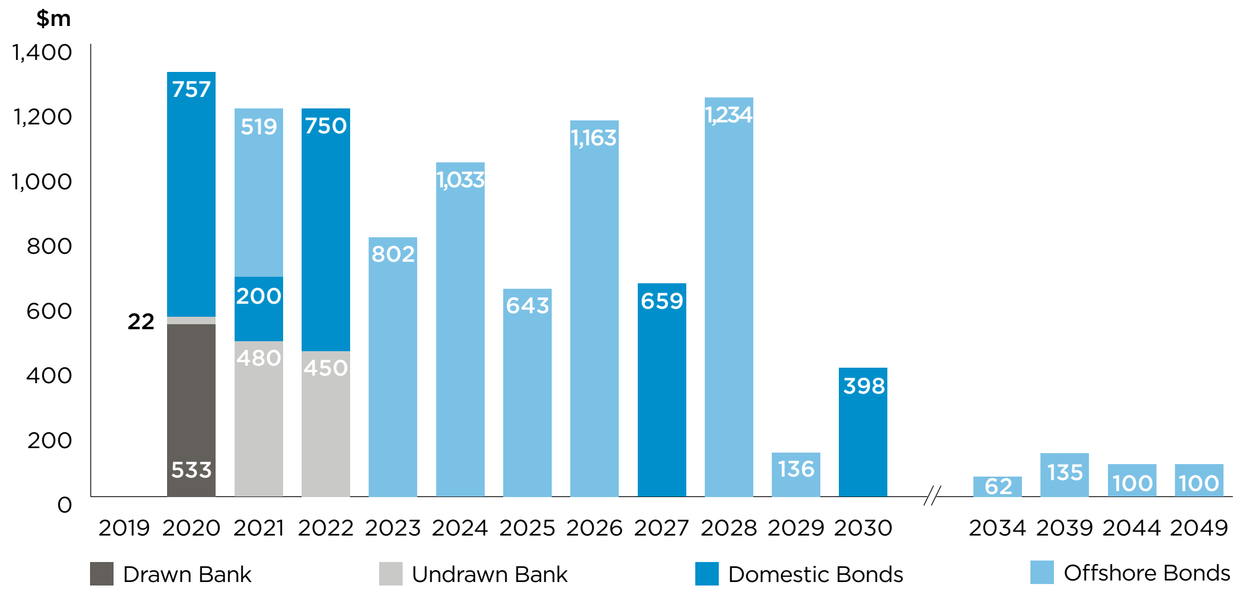
Notes to the financial statements

for the year ended 31 December 2018

2 Interest bearing liabilities (continued)

The maturity profile of interest bearing liabilities is presented in the chart below.

Drawn & Undrawn Debt December 2018



Assets pledged as security

All external interest bearing liabilities of SCACH, a wholly owned subsidiary, are of equal rank with respect to security. The security consists of fixed and floating charges over the assets of the SCACH Group (excluding deferred tax and goodwill) and a mortgage over the Airport lease.

Recognition and measurement

The Group recognises interest bearing liabilities on the date that they become a party to the contractual provisions of the instrument. These are initially recognised at fair value less any attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

At 31 December 2018 and 31 December 2017, the fair values of all fixed interest rate bonds were determined based on observable market inputs, categorised as Level 2. Listed bonds are valued at their traded price, and non-listed bonds valued using a Discounted Cash flow model, with available comparative market curves adopted as key inputs.

The Group derecognises an interest bearing liability when its contractual obligations are discharged, cancelled or expired.

CIBs explained

Capital indexed bonds are inflation linked bonds. The principal amount of the bond is indexed against the Consumer Price Index with the revised capital amount due for repayment at maturity.

Effective interest rate method explained

A method of calculating the amortised cost of a financial liability, allocating interest expense over the term of the loan. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

2 Interest bearing liabilities (continued)

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

	Loans and Borrowings $m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities $m
Balance at 1 January 2018	(8,896.1)	225.7
Changes from financing cashflows		
Interest swap payments	-	93.4
Proceeds received from borrowings	(1,355.1)	-
Repayments of borrowings	991.4	-
Total changes from financing cash flows	(363.7)	93.4
Liability related other changes		
The effects of changes in foreign currency rates	(445.6)	445.6
Changes in fair value	(15.2)	(245.8)
Add back of refinancing receivable	(398.9)	-
Other	(32.3)	-
Total liability related other changes	(892.0)	199.8
Balance at 31 December 2018	(10,151.8)	518.9

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3 Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits.

Deposits classified as cash equivalents are considered to be readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and have an initial term of less than three months. They are used for the purpose of meeting the short-term cash commitments of the Group.

	SAL Group		SAT1 Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Cash on hand	275.9	106.6	5.8	9.3
Deposits[1]	200.4	376.8	-	-
Total cash and cash equivalents	476.3	483.4	5.8	9.3
Cash flow information				
Reconciliation of profit after tax to net cash flows from operating activities				
Profit for year	371.0	348.6	231.8	242.8
Expenses relating to financing activities	437.8	429.5	-	-
Loss on derivative instruments	5.0	0.2	-	-
WSA project costs expensed	-	0.6	-	-
Business acquisition costs	-	1.9	-	-
Depreciation and amortisation	415.6	385.7	-	-
Gain from disposal of non-current assets	(0.2)	(0.1)	-	-
Increase in receivables and other assets	(55.7)	(32.7)	(0.1)	(0.2)
(Decrease)/increase in payables	(3.5)	9.0	(0.6)	1.3
Increase in tax liabilities	62.5	40.5	-	-
Net cash flow from operating activities	1,232.5	1,183.2	231.1	243.9

1 Included in the SAL Group's consolidated deposit balance is $10.4 million (2017: $9.8 million) held by SACL, which is restricted to fund capital expenditure.

Non-cash financing and investing activities

During the year ended 31 December 2018 and 31 December 2017, the Group's non-cash financing and investing activities relate to the issuance of securities under the DRP (for details refer note 1).

Recognition and measurement

Cash and cash equivalents are recognised in the Consolidated statements of financial position at the date when cash is received or contractual terms of deposit accepted. Their fair value is considered equal to the carrying value. Cash and cash equivalents in foreign currencies are translated to AUD at the reporting date and foreign exchange gains or losses resulting from translation are recognised in the statements of comprehensive income.

Treasury and financial risk management

Overview

The Group's treasury operations include financing and investment activities, cash management and financial risk management. The strategic focus is to provide support to the business by maintaining the Group's financial flexibility and a minimum credit rating of BBB/Baa2.

This section explains the Group's exposure to and management of various financial risks, and their potential effects on the Group's financial position and performance. It also details finance income and costs incurred during the year.

4 Financial risk management

Financial risk management framework

The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's Treasury, under policies approved by the SAL Board, manages the Group's exposures to market risk (including foreign currency risk, inflation risk and interest rate risk), credit risk and liquidity risk.

The Group's Treasury identifies, evaluates and hedges exposures to financial risks in close co-operation with the Group's operating units while investing excess liquidity. Speculative trading is specifically prohibited by SAL Board policy.

4.1 Foreign currency risk

Group policy

The Group's treasury policy is to hedge 100% of foreign currency exposures related to borrowings and to hedge foreign currency exposures relating to revenue, operating expenditure and capital expenditure over certain thresholds.

The Group is primarily exposed to foreign currency risk from interest bearing liabilities denominated in foreign currencies (USD and EUR). The Group had no exposure to CAD at 31 December 2018. At 31 December 2018 and 2017, the interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds. As a result, a strengthening or weakening of the AUD will have no impact on profit or loss or equity.

The Group's exposure to foreign currency risk, based on notional amounts were:

	2018			2017			
	EURm	USDm	Equivalent total AUDm	CADm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(1,200.0)	(2,770.0)	(5,019.5)	(225.0)	(700.0)	(2,725.0)	(4,378.3)
Cross currency swaps	1,200.0	2,770.0	5,019.5	225.0	700.0	2,725.0	4,378.3
Exposure	-	-	-	-	-	-	-

4 Financial risk management (continued)

Cross currency interest rate swaps	31 December 2018 Notional maturity profile EUR	USD
1 year or less (m)	-	-
1 to 2 years (m)	-	-
2 to 5 years (m)	-	1,325.0
5 years or more (m)	1,200.0	1,445.0
Average foreign exchange rate	0.66	0.87
Average interest rate	3M BBSW + 167bps	3M BBSW + 244bps

BBSW refers to the bank bill swap rate.

4.2 Interest rate risk

The Group's interest rate risk arises primarily from interest bearing liabilities with variable interest rates where interest rate movements can impact the Group's cash flow exposures.

Group policy

The Group uses interest rate swap (IRS) contracts to mitigate interest rate risk. The Group's policy is to maintain hedging arrangements in accordance with the annual bands below:

- Year 1–2 65%–95%
- Year 3–4 50%–80%
- Year 5–6 35%–65%
- Year 7–8 20%–50%
- Year 9–10 5%–35%

Interest rate swap (IRS) contracts

By entering into IRS contracts, the Group agrees to exchange the net difference between fixed and floating interest rate amounts (based on Australian BBSW) calculated by reference to agreed notional principal amounts. IRS settle on a quarterly basis.

All floating for fixed IRS are designated as cash flow hedges. The IRS and the interest payments on the related loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

The fair value of IRS contracts at reporting date are determined by discounting the related future cash flows using the cash and swap curves at reporting date and credit risk inherent in the contract. The table below details the notional principal amounts and remaining terms of floating for fixed IRS contracts outstanding at reporting date:

	Average contracted fixed interest rate[1]		Notional principal amount		Fair value	
	2018 %	2017 %	2018 $m	2017 $m	2018 $m	2017 $m
1 year or less	2.04%	4.65%	796.1	200.0	(0.6)	(0.9)
1 to 2 years	3.38%	-	1,239.1	-	(20.2)	-
2 to 5 years	3.20%	3.28%	3,071.1	3,207.8	(103.4)	(88.3)
5 years or more	3.10%	3.15%	5,340.4	3,896.7	(155.1)	(98.6)
	n/a	n/a	10,446.7	7,304.5	(279.3)	(187.8)

1 The average interest rate is based on the outstanding balance at reporting date.

4 Financial risk management (continued)

The weighted average cash interest rate of the Group's interest bearing liabilities was 4.8% for year ended 31 December 2018 (2017: 4.9%). SAT1 Group's interest bearing liabilities are at fixed interest rates.

At 31 December 2018, 94.0% (2017: 92.3%) of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through IRS.

Interest rate sensitivities

In reviewing interest rate sensitivities, a 150 basis point (bp) movement is used by management to assess possible changes in interest rates at reporting date.

SAL Group	2018 $m	2017 $m
Increase in interest rate +150bp		
Loss after tax	(4.8)	(6.0)
Equity	203.4	170.2
Decrease in interest rate -150bp		
Profit after tax	4.8	6.0
Equity	(221.9)	(187.0)

4.3 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Groups. The credit quality of financial assets are regularly monitored by management to identify any potential adverse changes.

Group policy

The Group's policy is that all financial institution derivative counterparties must have a minimum long-term rating of Standard & Poor's A- or Moody's A3 and deposit counterparties a minimum rating of A/A2 respectfully. The Group also has policies limiting the amount of credit exposure to any single financial institution by both volume and term.

Credit risks on receivables relate to aeronautical, retail and property trade receivables at the Airport asset level. These corporate counterparties have a range of credit ratings. At the date of signing the accounts, the overdue trade receivables balances were less than 5.0% (2017: less than 5.0%). Key aeronautical customers including the Qantas and Virgin Groups accounted for 40.0% to 50.0% of aeronautical revenue for the year ended 31 December 2018 (2017: 40.0% to 50.0%).

For the SAT1 Group, credit risk on receivables primarily relates to interest income receivable and an interest bearing loan to SAL, a related party (refer to note 17).

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

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.

4.4 Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meets its financial obligations when they fall due. The Group has built in appropriate liquidity management requirements as part of its financial risk management framework. Due to the capital intensive nature of the underlying business, the Group's Treasury works to achieve flexibility in funding by maintaining levels of undrawn committed bank facilities available for working capital and capital investment and maintaining a capital expenditure reserve.

The table below details the SAL Group's remaining undiscounted principal and interest cash flows and their contractual maturity based on the earliest date on which the Group is required to pay.

4 Financial risk management (continued)

	Carrying value $m	Contractual cash flows $m	1 year or less $m	1 to 5 years $m	5 years or more $m
2018					
Bank facilities	532.1	555.3	17.1	538.2	-
Domestic bonds	1,593.6	1,929.7	137.7	1,069.9	722.1
USPP bonds	972.8	1,984.7	54.4	221.1	1,709.2
Other foreign bonds	5,905.7	6,463.1	220.3	1,285.5	4,957.3
Capital indexed bonds	1,147.5	1,392.6	40.1	835.2	517.3
Derivatives	333.1	336.1	98.2	197.7	40.2
Distribution payable	428.5	428.5	428.5	-	-
Trade and other payables	199.7	199.7	199.7	-	-
	11,113.0	13,289.7	1,196.0	4,147.6	7,946.1
2017					
Bank facilities	644.6	695.0	19.1	675.9	-
Domestic bonds	1,691.0	1,931.5	136.4	1,072.0	723.1
USPP bonds	570.5	1,182.4	36.7	147.1	998.6
Other foreign bonds	4,871.0	5,788.8	413.8	1,218.3	4,156.7
Capital indexed bonds	1,119.0	1,398.5	39.5	847.9	511.1
Derivatives	315.8	466.0	98.6	273.9	93.5
Distribution payable	405.2	405.2	405.2	-	-
Trade and other payables	219.1	219.1	219.1	-	-
	9,836.2	12,086.5	1,368.4	4,235.1	6,483.0

5 Derivative financial instruments

The Group uses derivative financial instruments to mitigate its exposures to foreign currency and interest rate risks, as described in note 4. The net derivative position at reporting date is presented below:

	2018			2017		
$m	Cross currency swaps	Interest rate swaps	Total	Cross currency swaps	Interest rate swaps	Total
Current assets	0.2	-	0.2	9.6	-	9.6
Non-current assets	851.8	-	851.8	527.2	4.7	531.9
Current liabilities	(53.8)	(54.9)	(108.7)	(42.2)	(60.2)	(102.4)
Non-current liabilities	-	(224.4)	(224.4)	(81.1)	(132.3)	(213.4)
Net derivative position	798.2	(279.3)	518.9	413.5	(187.8)	225.7

Recognition and measurement

Hedge accounting

On initial designation of a derivative as a hedging instrument, the Group documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy for undertaking the hedge transaction.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss. When the Group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as either fair value or cash flow hedges.

The hedge ratio is one, due to the notional value of the hedged item being hedged equating to the notional value of the hedge instrument.

5 Derivative financial instruments (continued)

Cash flow hedges

The Group's interest rate swaps are accounted for as cash flow hedges. They are used to hedge exposure to variability in forecast cash flows where the transaction is committed or highly probable. Initial recognition of the derivative is at fair value with attributable transaction costs recognised in profit or loss as incurred. Subsequent to initial recognition, 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 under equity. Any ineffective portion of the derivative is recognised immediately in profit or loss. The amount accumulated in the cash flow hedge reserve is reclassified to profit or loss in the same period that the hedged cash flow affects profit or loss. If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and the balance in equity is reclassified to profit or loss when the forecast transactions are not expected to occur any more.

Fair value hedges

The Group's cross currency swaps are accounted for as fair value hedges. They are used to hedge the exposure to variability in the fair value of assets or liabilities that could affect profit or loss. Initial recognition of the derivative is at fair value of the hedging instrument and subsequent changes, being hedging gains or losses, are recognised in profit or loss. The carrying value of the hedged items are adjusted for the hedging gain or loss, with the adjustment being recognised in profit or loss. The cross currency swaps are considered to be highly effective hedges as they are matched against underlying foreign currency exposures. There is no significant cashflow hedge ineffectiveness in the current year or prior year.

If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and any adjustment between the carrying amount and the face value of a hedged item is amortised through profit or loss using the effective interest rate method.

Critical estimates and assumptions – fair value measurement of financial instruments

The fair value of financial instruments is estimated by management at each reporting date.

At 31 December 2018 and 31 December 2017, all derivative financial instruments were determined based on observable market inputs, categorised as Level 2, in accordance with AASB 9.

5 Derivative financial instruments (continued)

Hedge Accounting

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows. All amounts are presented in AUD, unless otherwise stated.

	Fair value hedges		Cash flow hedges			Total
At 31 December 2018[1]	EUR CCIRS $m	USD CCIRS $m	EUR CCIRS $m	USD CCIRS $m	AUD IRS $m	$m
Notional amount	EUR1,200.0	USD1,120.0	A$1,829.4	A$3,190.0	A$4,618.0	n/a
Carrying amount of the hedging instrument						
– Assets	*102.3*	*8.0*	*38.3*	*520.4*	*-*	*669.0*
– Liabilities	*-*	*(7.7)*	*(24.0)*	*(0.9)*	*(117.5)*	*(150.1)*
Total carrying amount of the hedging instrument	102.3	0.3	14.3	519.5	(117.5)	518.9
Change in the value of the hedging instrument	18.5	(6.6)	15.8	321.3	(46.2)	302.8
Change in the value of the hedged item	(21.7)[3]	4.6[3]	(28.1)	(482.5)	50.5	(477.2)
Change in value of the hedging instrument recognised in reserve	n/a	n/a	(62.5)	(56.2)	(46.0)	(164.7)
Amount charged to profit and loss on discontinued hedges	-	1.9	0.9	(1.5)	-	1.3
Hedge ineffectiveness recognised in profit and loss[2]	(3.0)	(2.0)	(1.2)	0.1	(0.2)	(6.3)
Amount reclassified from hedge reserve to profit or loss	n/a	n/a	78.8	378.3	-	457.1

1 Depending on the nature of the cross currency swap, a single cross currency swap may be broken down into fair value hedge and cash flow hedge. Hence the notional may be included in both fair value hedge and cash flow hedge columns.
2 Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument.
3 The cumulative life-to-date fair value adjustments on interest bearing liabilities resulted in an increase in carrying amount by $119.8m.

6 Net finance costs

		SAL Group		SAT1 Group	
	Note	2018 $m	2017 $m	2018 $m	2017 $m
Finance income					
Interest income from other corporations		9.3	8.1	0.1	0.5
Interest income from related parties	17	-	-	233.6	244.2
Total finance income		9.3	8.1	233.7	244.7
Finance costs					
Senior debt interest expense		(322.1)	(297.1)	-	-
Net swap interest expense		(84.4)	(95.0)	-	-
Capital indexed bonds capitalised		(22.6)	(24.0)	-	-
Amortisation of debt establishment costs		(13.4)	(16.0)	-	-
Recurring borrowing costs		(5.7)	(6.1)	-	-
Borrowing costs – corporate debt		(0.2)	(0.6)	-	-
Borrowing costs capitalised		10.6	9.3	-	-
Total finance costs		(437.8)	(429.5)	-	-
Change in fair value of swaps		(5.0)	(0.2)	-	-
Net finance costs		(433.5)	(421.6)	233.7	244.7

Recognition and measurement

Finance income relates to the interest income on cash and cash equivalents and loan receivable balances which are brought to account using the effective interest rate method.

Finance costs are recognised as expenses when incurred using the effective interest rate method, except where they are directly attributable to the acquisition, construction or production of qualifying assets.

Capitalisation of borrowing 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, are capitalised as part of the cost of those assets.

Notes to the financial statements

for the year ended 31 December 2018

Financial results and financial position

Overview

This section provides additional information about the individual line items in the financial statements that are considered relevant to the operations or financial position of the Groups.

7 Segment reporting

The CEO monitors and manages the SAL Group's core asset – the investment in Sydney Airport, and considers this to be the Group's single operating segment. The segment result for the year represents earnings before interest, tax, depreciation and amortisation (EBITDA).

The segment's revenues, expenses, assets and liabilities are as presented in the consolidated statement of comprehensive income and statement of financial position.

All revenue is generated from external customers within Australia.

Income from interest, dividends and other distributions received from investments are measured at the fair value of the consideration received or receivable and recognised in the consolidated statements of comprehensive income.

Sydney Airport's revenues, expenses, assets and liabilities are consolidated and accounted for in accordance with the Group's accounting policies. For the years ended 31 December 2018 and 31 December 2017 the segment result, assets and liabilities were equal to that of the SAL Group.

8 Earnings per share

The calculation of earnings per share is based on the profit after tax attributable to security holders and the weighted average number of shares/units on issue.

	SAL Group		SAT1 Group	
	2018	2017	2018	2017
Profit after tax attributable to security holders ($m)	372.5	349.8	231.8	242.8
Weighted average number of shares/units (m)	2,253.8	2,250.5	2,253.8	2,250.5
Earnings per share	16.53c	15.54c	10.28c	10.79c

9 Receivables

	Note	SAL Group 2018 $m	SAL Group 2017 $m	SAT1 Group 2018 $m	SAT1 Group 2017 $m
Current					
Trade receivables		138.9	95.3	-	-
Provision for doubtful debts		(0.1)	(0.1)	-	-
Total trade receivables		138.8	95.2	-	-
Contract balances		77.8	70.3	-	-
Other receivables		19.0	12.6	3.5	3.4
Total current receivables		235.6	178.1	3.5	3.4
Non-current					
Loans to related parties	17	-	-	1,796.5	1,796.5
Indemnity receivable		119.1	119.1	119.1	119.1
Contract balances		8.3	9.3	-	-
Other receivables		67.2	69.1	-	-
Total non-current receivables		194.6	197.5	1,915.6	1,915.6

Trade receivables are generally collected within 30 days of invoice date. Of the $138.9 million current trade receivables at 31 December 2018, $69.7 million relate to revenue earned from contracts with customers, as explained in Significant accounting policies. 'Contract balances' reflect Accrued revenue and the current portion is generally realised within 30 days.

Indemnity receivable

Map Airports International Pty Limited (MAIL), a subsidiary within the SAT1 Group provided a comprehensive set of representations and warranties in respect of its 2011 sale of stakes in both Copenhagen Airports and Brussels Airport to Ontario Teachers' Pension Plan Board (OTPP). In 2013, SAT1 replaced MAIL as the party liable for any breaches of representations and warranties.

In prior years, the Danish tax authority (SKAT) issued assessments to Copenhagen Airports Denmark Holdings (CADH) in respect of certain withholding tax amounts for the 2006–2011 years inclusive. The matter is currently being contested in the Danish High Court with resolution unlikely to be before 2021. OTPP is indemnified by SAT1 for its 52% share of any liabilities of CADH arising in respect of this matter.

In response to demands from SKAT in 2017, CADH paid all disputed tax and interest. OTPP then issued indemnity claims for the full amount of SAT1's share of the disputed tax liability totalling DKK566.0 million and for advisor fees of DKK2.6 million and EUR0.1 million. The indemnity claims were paid to OTPP.

SAT1 has been advised by CADH's Danish lawyers that:

- CADH's payment of the disputed liability will not have an impact on the likelihood of success in the litigation; and
- the amount paid to SKAT by CADH will be refunded with interest, in the event of a successful outcome to the litigation.

The amount paid under the indemnity is to be repaid to SAT1 by OTPP together with SAT1's share of the interest received from SKAT, in the event of a successful outcome of the litigation.

SAT1 remains confident of its position. However, there is inherent uncertainty as to the outcome of matters before the Danish High Court which has the potential to materially change management's current position.

The indemnity payment for disputed tax has been recognised by SAT1 as a non-current receivable of A$119.1 million. The receivable has not been hedged against future foreign currency fluctuations.

Recognition and measurement

The Group's trade and other receivables are initially recognised at fair value, which approximates their carrying value and includes transaction costs directly attributable to the acquisition of the asset. Subsequent measurement is recorded at amortised cost using the effective interest rate method, less any allowance for impairment raised for doubtful debts based on expected lifetime credit losses.

10 Property, plant and equipment

SAL Group ($m)	Freehold land	Buildings	Runways, taxiways and aprons	Other infra-structure	Operational plant and equipment	Other plant and equipment	Capital works in progress	Total
Useful life (years)	99	5-60	6-99	9-40	14-20	3-60		
2018								
Cost								
Opening balance	11.4	2,655.7	968.6	1,202.3	501.6	354.1	300.8	5,994.5
Additions[1]	-	-	-	-	-	-	388.7	388.7
Transfers	-	162.1	38.5	74.6	14.2	36.9	(326.3)	-
Disposals	-	(3.0)	-	-	(0.2)	(1.0)	-	(4.2)
Closing balance	11.4	2,814.8	1,007.1	1,276.9	515.6	390.0	363.2	6,379.0
Accumulated depreciation								
Opening balance	(1.3)	(1,098.6)	(342.3)	(449.0)	(319.1)	(272.5)	-	(2,482.8)
Depreciation	(0.1)	(166.0)	(38.1)	(66.4)	(22.9)	(36.8)	-	(330.3)
Disposals	-	3.0	-	-	0.2	1.0	-	4.2
Closing balance	(1.4)	(1,261.6)	(380.4)	(515.4)	(341.8)	(308.3)	-	(2,808.9)
Total carrying amount	10.0	1,553.2	626.7	761.5	173.8	81.7	363.2	3,570.1
2017								
Cost								
Opening balance	11.4	2,507.4	933.6	1,057.9	491.5	317.0	246.6	5,565.4
Additions[1,2,3]	-	25.0	-	0.8	-	0.7	403.9	430.4
Transfers	-	123.3	35.0	143.6	10.1	37.7	(349.7)	-
Disposals	-	-	-	-	-	(1.3)	-	(1.3)
Closing balance	11.4	2,655.7	968.6	1,202.3	501.6	354.1	300.8	5,994.5
Accumulated depreciation								
Opening balance	(1.2)	(949.7)	(305.7)	(386.6)	(297.8)	(242.7)	-	(2,183.7)
Depreciation	(0.1)	(148.9)	(36.6)	(62.4)	(21.3)	(31.1)	-	(300.4)
Disposals	-	-	-	-	-	1.3	-	1.3
Closing balance	(1.3)	(1,098.6)	(342.3)	(449.0)	(319.1)	(272.5)	-	(2,482.8)
Total carrying amount	10.1	1,557.1	626.3	753.3	182.5	81.6	300.8	3,511.7

1 Includes capitalised borrowing costs of $10.6 million (2017: $9.3 million).
2 The 2017 WSA costs of $0.6 million were expensed as incurred.
3 Additions of $26.5 million relate to the fair value of property, plant and equipment on acquisition of SAF1.

10 Property, plant and equipment (continued)

Capital expenditure commitments

At reporting date, the Group had capital expenditure commitments of $70.1 million (2017: $123.7 million).

Recognition and measurement

The Group recognises items of property, plant and equipment at cost which includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs and any other costs directly attributable to bringing the assets to a working condition for their intended use.

The subsequent measurement of items of property, plant and equipment is at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment is accounted for on a straight-line basis in profit or loss over the remaining useful lives of each component, from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the assets are completed and ready for use.

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

11 Intangible assets

SAL Group ($m)	Goodwill	Concession and customer contracts	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	7-16	95	95	
2018					
Cost					
Opening balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Additions	-	-	-	-	-
Closing balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Accumulated amortisation					
Opening balance	-	(160.0)	(681.7)	(247.6)	(1,089.3)
Amortisation	-	(0.8)	(62.0)	(22.5)	(85.3)
Closing balance	-	(160.8)	(743.7)	(270.1)	(1,174.6)
Total carrying amount	682.1	1.5	4,864.1	1,768.0	7,315.7
2017					
Cost					
Opening balance	669.7	162.3	5,607.8	2,038.1	8,477.9
Additions[1]	12.4	-	-	-	12.4
Closing balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Accumulated amortisation					
Opening balance	-	(159.2)	(619.7)	(225.1)	(1,004.0)
Amortisation	-	(0.8)	(62.0)	(22.5)	(85.3)
Closing balance	-	(160.0)	(681.7)	(247.6)	(1,089.3)
Total carrying amount	682.1	2.3	4,926.1	1,790.5	7,401.0

1 Additions to goodwill resulted from the SAF1 acquisition in 2017.

11 Intangible assets (continued)

Airport operator licence and Leasehold land explained

The Commonwealth of Australia granted Sydney Airport Corporation Limited, a wholly-owned subsidiary of SAL, a 50 plus 49 year lease of land and granted an airport operator licence.

An independent valuation was conducted in 2007 valuing the leasehold land and the intrinsic value of operating the land as an airport.

Recognition and measurement

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

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

Impairment of intangible assets

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

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

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

An impairment loss in respect of goodwill is never reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

For the year ended 31 December 2018 no intangible assets were impaired (2017: nil).

11 Intangible assets (continued)

Critical estimates and assumptions – impairment test for goodwill

Assessing value in use requires directors to make significant estimates and assumptions.

Goodwill has been allocated to the Group's CGU, identified as being the investment in Sydney Airport. Discounted cash flow methodology has been adopted to value the Group's investment. Under this methodology, estimated post-tax cash flows are discounted to their present value using a post-tax discount rate. The discount rate used reflects current market assessment of the time value of money and the risks specific to Sydney Airport as CGU.

The cash flows used are projected based on a Financial Model covering a twenty year period, as follows:

- Cash flows for the first five years are based on a detailed bottom-up business planning process referencing historical performance and the Group's views on key drivers such as passenger numbers;
- Long-term cash flows to equity after year five are extrapolated with an average growth rate that is consistent with the forecast Australian Gross Domestic Product; and
- Terminal value is calculated using the Gordon Growth Model.

Cash flows are discounted using a post-tax discount rate calculated based on the Capital Asset Pricing Model (CAPM). The Group takes into account historical and related market data in estimating individual components of the CAPM. An increase of approximately twenty percent in the market risk premium (a component of the discount rate) would not result in an impairment of goodwill.

Other key assumptions used in the value in use calculation include international and domestic passenger numbers and inflation. Total passenger numbers were 44.4 million for the year ended 31 December 2018 (2017: 43.3 million) and experienced growth of 2.5% during 2018 (2017: 3.6%). Average long-term inflation rates are assumed to be within the Reserve Bank of Australia (RBA) target range. A reasonably possible change in passenger numbers, inflation or discount rate, would not be expected to lead to an impairment of goodwill.

The valuation derived from this discounted cash flow methodology is benchmarked to other sources such as the ASX-listed Sydney Airport security price, analyst consensus and recent market transactions to ensure the valuation provides a reliable value in use measure.

12 Taxation

Income tax expense

Reconciliation of tax expense to prima facie tax payable:

	SAL Group		SAT1 Group	
	2018 $m	**2017 $m**	**2018 $m**	**2017 $m**
Profit before income tax	433.5	389.1	231.8	242.8
Income tax expense calculated at 30%	*(130.0)*	*(116.7)*	*(69.5)*	*(72.8)*
Expenses that are not deductible	-	(1.3)	-	-
Adjustments recognised in the current year that relate to the prior year	(1.4)	0.1	-	-
Utilisation of previously unrecognised deferred tax asset on capital tax losses	(0.6)	0.5	-	-
Tax effect of operating results of Australian trusts	69.5	76.9	69.5	72.8
Income tax expense	(62.5)	(40.5)	-	-

12 Taxation (continued)

Deferred taxes

The movements in deferred tax balances for the SAL Group are shown in the tables below:

SAL Group	Balance 1 January 2017 $m	Temporary movements recognised $m	Balance 31 December 2017 $m	Temporary movements recognised $m	Balance 31 December 2018 $m
Deferred tax assets/(liabilities):					
Property, plant and equipment	(224.1)	(2.8)	(226.9)	3.2	(223.7)
Intangibles	(1,962.1)	25.3	(1,936.8)	25.3	(1,911.5)
Interest bearing liabilities	(3.2)	0.5	(2.7)	0.6	(2.1)
Deferred debt establishment costs	(2.5)	1.2	(1.3)	1.3	-
Accrued revenue and prepayments	(17.7)	(4.5)	(22.2)	(1.4)	(23.6)
Defined benefits plan	(1.7)	0.1	(1.6)	0.1	(1.5)
Deferred income	0.1	-	0.1	-	0.1
Deferred costs	0.5	(0.4)	0.1	-	0.1
Other payables	15.6	0.2	15.8	0.1	15.9
Cash flow hedges[1]	57.7	14.8	72.5	51.3	123.8
Tax losses	371.5	(62.8)	308.7	(94.5)	214.2
Total	(1,765.9)	(28.4)	(1,794.3)	(14.0)	(1,808.3)

1 $48.4 million (2017: $16.7 million) was charged to equity.

The SAT1 Group has no deferred tax transactions or balances.

Recognition and measurement

Tax expense comprises of current and deferred tax expense recognised in the profit and loss except where related to items recognised directly in equity. Tax expense is measured at the tax rates that have been enacted or substantially enacted based on the national tax rate for each applicable jurisdiction at the reporting date.

Current tax is the expected tax payable or receivable on taxable income or loss for the year and any adjustment in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. These are offset if there is a legal enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

SAL and its wholly owned Australian subsidiaries are members of a tax-consolidated group (SAL TCG) under Australian income tax law, with SAL the head entity. The SAL TCG had estimated tax losses of $714.0 million at 31 December 2018 (2017: $1,029.1 million).

Each entity in the SAL TCG accounts for current and deferred tax with tax expense and deferred tax assets and liabilities arising from temporary differences recognised in their separate financial statements using the 'standalone tax payer' approach. Under the tax sharing agreement (SAL TSA) between SAL TCG entities, amounts are recognised as payable to or receivable by each member of the SAL TCG in relation to the tax contribution amounts paid or payable between SAL and members of the SAL TCG.

12 Taxation (continued)

Stapled Securities Listed on ASX

↓ ↓

Sydney Airport Limited (SAL) (Head entity of the SAL TCG)	**Sydney Airport Trust 1 (SAT1)**
• As a company, SAL's taxable income or loss is subject to the Australian company tax rate of 30%. • SAL will pay income tax once its tax losses are utilised.	• As a trust, SAT1 is not liable for income tax, provided its net income is fully distributed to unitholders each tax year. • Income of SAT1 is taxed in the hands of its unitholders through semi-annual distributions.

Sydney Airport's 2018 Tax Governance Statement is located on our website at www.sydneyairport.com.au/TaxGovernance2018.

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Employee benefits

Overview

The Group aims to attract, retain and motivate high performing individuals and has various compensation and reward programs in place for employees and management, which are detailed in this section.

13 Key management personnel

Key management personnel (KMP) compensation for the Groups for the year comprised the following:

	SAL Group		SAT1 Group	
	2018 $	2017 $	2018 $	2017 $
Short term employee benefits - salary and fees[1]	4,713,762	4,380,286	91,533	91,533
Short term employee benefits - bonus and other[2]	4,380,988	2,682,379	-	-
Post employment benefits - superannuation	182,108	151,547	8,696	8,696
Share based payments (LTI)	554,900	1,129,225	-	-
Total KMP compensation	9,831,758	8,343,437	100,229	100,229

1 KMP short term employee benefits for SAT1 comprises Directors' fees only.

2 Includes one-off cash and/or equity payments.

14 Long term incentive plan

Sydney Airport has put in place a Long Term Incentive Plan (LTIP) to provide an incentive for certain management personnel, linking their remuneration to Sydney Airport's long-term financial performance and security holder returns.

Under the LTIP, the Board has granted contractual rights (Rights) to certain management personnel to receive Sydney Airport stapled securities at a future date subject to the following performance conditions being satisfied:

- One third of the Rights granted are based on a market comparative Total Shareholder Return performance condition (TSR tranche);
- One third of the Rights granted are based on cash flow per stapled security performance conditions (CPS tranche); and
- One third of the Rights are assessed at the Board's discretion based on of the long-term performance of the business and each participants contribution to that long-term performance (Other tranche). Measures used to evaluate this tranche include outcomes and performance conditions specific to each individual, taking into account such elements as people and leadership, customer satisfaction and delivery of long-term financial outcomes.

Fair value calculations

Performance conditions are measured over a three year period. Rights do not have distribution entitlements during the vesting period. If a participant resigns, or has their employment terminated with cause, all their unvested rights will immediately lapse. If a participant's employment ends by reason of an uncontrollable event (as defined in the LTIP) they are entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

Any rights that vest are expected to be satisfied by way of the transfer of stapled securities purchased on-market.

Recognition and measurement

Equity-settled share-based transactions are measured at fair value at the date of grant. The cost of these transactions are recognised in the profit or loss and credited to equity over the vesting period. At each reporting date, the Group revises its estimates of the number of rights that are expected to vest for service and non-market performance conditions. The expense recognised each year takes into account the most recent estimate.

14 Long term incentive plan (continued)

The fair value of rights granted for each tranche is described below:

- The TSR tranche was determined at grant date using the Monte Carlo model;
- The CPS tranche was determined at grant date using the binomial option pricing model; and
- The Other tranche will be remeasured each year until vesting as the grant date for this tranche has not been reached. The Board will determine what proportion (if any) of the rights will vest, having regard to individual and company performance.

The Board granted the following rights in 2018:

LTI Series 2018 - 2020 Condition	Number of rights	Grant Value	Vesting date
TSR tranche	134,800	$2.82	February 2021
CPS tranche	134,800	$6.16	February 2021
Other tranche	134,800	$5.69	February 2021

The Board granted the following rights in 2017:

LTI Series 2017 - 2019 Condition	Number of rights	Grant Value	Vesting date
TSR tranche	54,941	$4,24	February 2020
CPS tranche	54,941	$6.37	February 2020
Other tranche	54,941	$5.76	February 2020

The Board granted the following rights in 2016:

LTI Series 2016 - 2018 Condition	Number of rights	Grant Value	Vesting date
TSR tranche	97,236	$3.75	February 2019
CPS tranche	97,236	$6.27	February 2019
Other tranche	97,236	$6.54	February 2019

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15 Superannuation plan

Sydney Airport employees are entitled to varying levels of benefits on retirement, disability or death through the Sydney Airport Superannuation Plan (the Plan). The Plan consists of a defined benefit plan, available only to existing members, which is fully funded and provides lump sum or pension benefits based on years of service and final average salary; and a defined contribution plan, available to all Sydney Airport employees. 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 SAL Group of 9.5% of employees' remuneration are legally enforceable in Australia and for the year ended 31 December 2018 amounted to $5.2 million (2017: $4.5 million).

The following table discloses details pertaining to the defined benefit plan:

	2018 $m	2017 $m
Amounts recognised in Consolidated statements of comprehensive income in respect of defined benefit plans:		
Current service costs	(1.5)	(1.5)
Interest income	0.2	0.2
Total included in employee benefit expense	(1.3)	(1.3)
Remeasurement (losses)/gains recognised in other comprehensive income	(0.1)	1.1
The amounts included in the Consolidated Statements of Financial Position arising from the Groups' obligations in respect of its defined benefit plans were:		
Present value of defined benefit obligations	(25.6)	(24.7)
Fair value plan assets[1]	32.2	31.5
Net asset arising from defined benefit obligations	6.6	6.8

1 Plan assets include investments in unquoted securities of $18.0 million (2017: $18.6 million).

Recognition and measurement

Defined contribution plan

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.

Defined benefit plan (DBP)

The net obligation in respect of DBP 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 SAL Group determines the net interest expense or income on the net defined benefit liability or asset for the year 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 corporate bonds that have maturity dates approximating the terms of the SAL 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 SAL 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 SAL Group. An economic benefit is available to the SAL Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

15 Superannuation plan (continued)

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

	SAL Group 2018	SAL Group 2017
Discount rate	3.7%	3.5%
Future salary increases	3.5%	3.5%
	0.5% increase	0.5% increase
Discount rate ($m)	(1.1)	1.1
Future salary increases ($m)	0.9	(0.9)

Remeasurements arising from DBP comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The SAL Group recognises them immediately in other comprehensive income and all other expenses related to DBP 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 SAL Group recognises gains and losses on the settlement of a DBP 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 SAL Group in connection with the settlement.

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Other disclosures

Overview

This section provides details on other required disclosures relating to the Group's compliance with accounting standards and other pronouncements.

16 Group structure and parent entity

SAL and SAT1

Sydney Airport (the Group) is a stapled vehicle comprised of SAL and SAT1, formed in Australia. A stapled security in the Group consists of one share in SAL and one unit in SAT1. They are quoted and traded on the ASX as if they were a single security.

SAL holds a 100% economic interest in Sydney (Kingsford Smith) Airport through its ownership of the Sydney Airport operating entities, including Sydney Airport Corporation Limited (SACL), the lessee and operator of Sydney (Kingsford Smith) Airport.

The Trust Company (Sydney Airport) Limited (TTCSAL) is the Responsible Entity of SAT1. SAT1 has ownership of various Australian and foreign non-operating entities.

Significant subsidiaries

The Group has 100% ownership interest in Southern Cross Airports Corporation Holdings Limited (SCACH) and SACL, both incorporated in Australia.

Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785 the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company (SCACH) and each of its subsidiaries enter into a deed of cross guarantee (the Deed). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

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

16 Group structure and parent entity (continued)

Non-controlling interest

SAL is identified as the parent of the consolidated group comprising SAL and its controlled entities and SAT1 and its controlled entities at 31 December 2018. SAL Group is deemed to control the SAT1 Group and therefore consolidates 100.0% of the assets, liabilities and results of the SAT1 Group into its consolidated financial report for the year ended 31 December 2018 (2017: 100.0%) and recognises an associated non-controlling interest.

Parent entity financial result and position

The SAL parent has designated its investment 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 SAL. Changes in fair value of this investment are recognised by the parent entity as income.

	SAL		SAT1	
	2018 $m	2017 $m	2018 $m	2017 $m
Result of the parent entity				
Profit after income tax expense	1,258.6	3,507.6	231.9	242.8
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	1,223.3	3,507.6	231.9	242.8
Financial position of parent entity				
Current assets	252.7	204.5	5.8	128.4
Total assets	16,385.1	16,056.0	1,921.9	1,929.1
Current liabilities	158.5	283.0	117.9	127.8
Total liabilities	1,818.7	2,157.5	117.9	127.8
Total equity of the parent entity comprising of:				
Contributed equity	5,823.7	5,800.4	2,770.1	2,767.1
Retained profits	8,742.7	8,098.1	1.5	1.8
Reserves	-	-	(967.6)	(967.6)
Total equity	14,566.4	13,898.5	1,804.0	1,801.3

Parent entity guarantees, commitments and contingencies

At 31 December 2018 the parent entities:

- Have no contingent assets or liabilities which are material either individually or as a class;
- Have not made any capital expenditure commitments (2017: $nil); and
- Have not guaranteed debts of their subsidiaries (2017: $nil).

SAL is the head company of the SAL Tax Consolidated Group (SAL TCG) (refer to note 12). At 31 December 2018 no current tax liabilities exist within the SAL TCG (2017: $nil).

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17 Related party disclosures

Resources Agreement fee

SACL and TTCSAL entered into a Resources Agreement where SACL provides resources to enable TTCSAL to perform various functions in connection with its role as Responsible Entity of SAT1 and trustee of one of its subsidiaries, Sydney Airport Trust 2 (SAT2). Fees are charged from SACL to TTCSAL for resources provided, calculated under the provisions in the Resources Agreement. TTCSAL is entitled to recover these fees out of the assets of SAT1 and SAT2 under their respective constitutions.

During the year ended 31 December 2018:

- $102,485 fees were charged by SACL to TTCSAL (2017: $112,381) with $57,238 payable at 31 December 2018 (2017: $60,000); and
- $266,185 was charged by TTCSAL to SAT1 as RE fees (2017: $258,624) and $134,736 payable at 31 December 2018 (2017: $65,144).

At the date of this report, both the $57,238 and $134,736 have been paid.

Put Option Deed

Under the Put Option Deed (the POD) entered into in connection with the Sydney Airport governance arrangements, SAL has granted The Trust Company Limited (TTCL) an option to require SAL (or a SAL nominee) to purchase all of the issued shares in TTCSAL. Before TTCL can exercise the option under the POD, it is required to engage with SAL for a period which is expected to allow a replacement responsible entity or an alternative purchaser of the issued shares in TTCSAL to be identified. This is intended to avoid any potential adverse outcome that would arise on the issued shares in TTCSAL being acquired by SAL (or one of its subsidiaries). No value has been attributed to the option under the POD.

SAT1 and SAL cross staple loan

In December 2013, an interest bearing, unsecured subordinated loan was entered into between SAT1 as lender and SAL as borrower. The loan expires on 28 November 2023 and interest is calculated at 13.0%, per annum payable in advance during the first two months of semi-annual periods beginning on 1 January and 1 July. Interest which is not paid is capitalised.

In November 2017, SAL made a part repayment of cross staple loan of A$90,000,000 to enable SAT1 to fund the withholding tax indemnity payment. Refer note 9. No repayments were made in 2018.

The loan balances and transactions are as follows:

	2018 $	2017 $
Loan principal		
Opening balance	1,796,467,057	1,886,467,057
Paid during the year	-	(90,000,000)
Closing balance	1,796,467,057	1,796,467,057
Interest		
Opening balance	(1,057,808)	-
Interest accrued	233,540,717	244,182,909
Paid during the year	(232,482,909)	(245,240,717)
Closing balance payable/(prepaid)	-	(1,057,808)

Custodian fees

TTCL was a related entity of SAT1 for the years ended 31 December 2018 and 31 December 2017. During the 2018 financial year, custodian fees of $105,143 were charged by TTCL (2017: $105,226) and $52,590 remains unpaid at 31 December 2018 (2017: $26,318).

Transactions with other related parties

SACL entered into contracts with wholly owned subsidiaries of Downer EDI Ltd. Grant Fenn is Non-Executive Director of SAL and is CEO of Downer EDI Ltd. The contracts were made following a competitive tender process and at arm's length. These are detailed below:

Entity	Contract Value[1] $	Amounts paid during the financial year ended 31 December 2018 $
Downer EDI Works Pty Ltd	31,467,481	20,561,217
Downer Engineering Power Pty Ltd	1,605,680	1,605,680

1 Contract value includes variations as applicable.

18 Remuneration of auditors

	SAL Group		SAT1 Group	
	2018 $	2017 $	2018 $	2017 $
Amounts paid or payable to auditors (KPMG) for:				
Audit and review of financial statements	545,000	523,900	55,750	53,900
Other services				
- Trust compliance services	-	9,600	-	9,600
- Other assurance services	323,963	126,555	-	-
Total amount paid or payable to auditors	868,963	660,055	55,750	63,500

There were no advisory services provided in 2018 or 2017.

Other assurance services in 2018 and 2017 included amounts charged for work relating to the refinancing of senior debt and the provision of accounting advice.

19 Operating lease receivable arrangements

Future minimum rentals are receivable under non-cancellable operating leases. The associated revenue will be recognised on a straight-line basis over the lease term in future periods. These are as follows:

SAL Group	2018 $m	2017 $m
Receivable within one year	376.1	373.8
Receivable later than one year but no later than five years	726.8	1,029.8
Receivable after five years	38.4	51.3
	1,141.3	1,454.9

20 Events occurring after balance sheet date

In October 2018, Sydney Airport issued an AUD400 million equivalent multi-tranche US private placement bond. The proceeds of this bond were received by 7 February 2019. For further information, refer to the Capital management and distribution section of the Operating and Financial Review.

The final distribution for the period ended 31 December 2018 of $428.5 million or 19.0 cents per stapled security (2017: $405.2 million or 18.0 cents) was paid on 14 February 2019 by:

- SAL $311.2 million or 13.8 cents (2017: $282.5 million or 12.55 cents); and
- SAT1 $117.3 million or 5.2 cents (2017: $122.7 million or 5.45 cents).

A DRP operated in respect of the 31 December 2018 final distribution. To satisfy the DRP take up, 1.9 million stapled securities were issued to DRP participants $6.60 per stapled security.

The directors of SAL and TTCSAL 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 SAL and SAT1 Groups, the results of those operations or the state of affairs of the Groups in the period subsequent to the year ended 31 December 2018.

Statement by the Directors of Sydney Airport Limited

In the opinion of the Directors of Sydney Airport Limited (SAL):

a. the consolidated financial statements and notes for SAL set out on pages 92 to 133 and the Remuneration Report in the Directors' Report (set out on pages 63 to 78), 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 SAL Group's financial position at 31 December 2018 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the SAL 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 2018.

The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 98.

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

Trevor Gerber

Sydney
20 February 2019

John Roberts

Sydney
20 February 2019

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

In the opinion of the Directors of The Trust Company (Sydney Airport) Limited, the Responsible Entity of Sydney Airport Trust 1 (SAT1):

a. the consolidated financial statements and notes for SAT1 set out on pages 92 to 133, 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 SAT1 Group's financial position at 31 December 2018 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that SAT1 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 2018.

The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 98.

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

P. S. Gourley

Patrick Gourley

Sydney
20 February 2019

Eleanor Padman

Eleanor Padman

Sydney
20 February 2019

Security holder information

at 18 February 2019

Distribution of stapled securities

Range	Total holders	Number of stapled securities	% of stapled securities
1 – 1,000	41,662	18,451,190	0.8
1,001 – 5,000	45,338	117,694,913	5.2
5,001 – 10,000	14,660	106,615,882	4.7
10,001 – 100,000	10,814	233,929,731	10.4
>100,001	334	1,780,387,669	78.9
Total	112,808	2,257,079,385	100.0

Unmarketable Parcels	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $6.91 per stapled security	73	2,583	73,569

Top 20 holders of stapled securities

Rank	Investor	Number of stapled securities	% of stapled securities
1.	HSBC Custody Nominees (Australia) Limited	517,851,763	22.94
2.	BNP Paribas Nominees Pty Ltd	411,173,958	18.22
3.	J P Morgan Nominees Australia Pty Limited	333,078,246	14.76
4.	Citicorp Nominees Pty Limited	147,785,394	6.55
5.	National Nominees Limited	82,290,157	3.65
6.	Custodial Services Limited	30,222,927	1.34
7.	Citicorp Nominees Pty Limited	28,524,067	1.26
8.	MTAA Super Fund (Air-Serv Intnl Hold.) Utilities Pty Ltd	19,863,923	0.88
9.	Australian Foundation Investment Company Limited	16,952,593	0.75
10.	BNP Paribas Noms Pty Ltd	15,565,662	0.69
11.	Argo Investments Limited	14,758,175	0.65
12.	Netwealth Investments Limited	8,112,574	0.36
13.	HSBC Custody Nominees (Australia) Limited	7,960,211	0.35
14.	AMP Life Limited	6,933,106	0.31
15.	National Nominees Limited	5,348,336	0.24
16.	Mr Nicholas Moore	5,067,766	0.22
17.	UBS Nominees Pty Ltd	4,794,654	0.21
18.	Navigator Australia Ltd	4,590,916	0.20
19.	BKI Investment Company Limited	4,560,427	0.20
20.	Ms Kerrie Mather	3,974,305	0.18

Substantial security holders

Range	Number of stapled securities[1]	% of stapled securities
Unisuper Ltd	393,850,785	17.49

1 Figure is based on the substantial security holder notice made by Unisuper Ltd on 19 January 2018.

Special notice and disclaimer

STAPLING

In accordance with its requirements in respect of stapled securities, ASX reserves the right to remove SAL and/or SAT1 from the official list of ASX if, while the stapling arrangements apply, the securities in one entity cease to be stapled to the securities in the other entity or an entity issues securities which are not then stapled to the securities in the other entity.

FOREIGN OWNERSHIP RESTRICTIONS

The SAL and SAT1 constitutions set out a process for disposal of securities to prevent ASX-listed Sydney Airport from becoming a Foreign Person or to cure the situation where ASX-listed Sydney Airport becomes a Foreign Person (Foreign Ownership Situation). Where a Foreign Ownership Situation occurs or is likely to occur, SAL and the RE can require a foreign security holder (on a last-in, first-out basis) to dispose of Sydney Airport securities. SAL and the RE have the power to commence procedures to divest foreign security holders once the foreign ownership of ASX-listed Sydney Airport reaches 48.5% under the Foreign Ownership Divestment Rules that apply. If the foreign security holder fails to dispose of its Sydney Airport securities, SAL and the RE may sell those securities at the best price reasonably obtainable at the time.

PRIVACY

We understand the importance you place on your privacy and are committed to protecting and maintaining the confidentiality of the personal information you provide to us. Sydney Airport's privacy policy is available on its website.

VOTING RIGHTS

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*, ASX Listing Rules and the foreign ownership provisions in the SAL and RE 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 one vote for each share they hold in SAL.

DISCLAIMER

The information in this annual report is given in good faith and derived from sources believed to be accurate at this date but no warranty of accuracy or reliability is given and no responsibility arising in any other way, including by reason of negligence for errors or omission herein is accepted by Sydney Airport Limited, The Trust Company (Sydney Airport) Limited or their respective officers.

This annual report is general advice and does not take into account the particular investment objectives, financial situation or particular needs of the investor. Before making an investment in Sydney Airport, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

FORECASTS

Information, including forecast financial information, in this report should not be considered as a recommendation in relation to holding, purchasing or selling Sydney Airport securities. Due care and attention has been used in the preparation of forecast information. However, actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Sydney Airport. Past performance is not a reliable indication of future performance.

BUY-BACK

There is no current on-market buy-back in operation for Sydney Airport securities.

COMPLAINTS RESOLUTION

A formal complaints handling procedure is in place for ASX-listed Sydney Airport and is explained in section 6 of the continuous disclosure and communications policy, available from the Sydney Airport website (www.sydneyairport.com.au).

The RE is a member of the Australian Financial Complaints Authority. Investor complaints should, in the first instance, be directed to Sydney Airport Limited.

Corporate directory

SYDNEY AIRPORT LIMITED

ACN 165 056 360
Central Terrace Building
10 Arrivals Court
Sydney International Airport NSW 2020

Investor Relations: +61 2 9667 9871
Toll free: 1800 181 895
www.sydneyairport.com.au/investor

Directors of Sydney Airport Limited:
- Trevor Gerber (Chairman)
- Michael Lee
- John Roberts
- Stephen Ward
- Ann Sherry AO
- Grant Fenn
- Abi Cleland
- David Gonski AC

Chief executive officer: Geoff Culbert

Company secretary: Jamie Motum

THE TRUST COMPANY (SYDNEY AIRPORT) LIMITED

ACN 115 967 087 / AFSL 301162
Level 18
123 Pitt Street
Sydney NSW 2000

Directors of The Trust Company (Sydney Airport) Limited:
- Russell Balding AO
- Patrick Gourley
- Eleanor Padman
- Christopher Green (Alternate Director)

Company secretaries:
Jamie Motum and Sylvie Dimarco

The Trust Company (Sydney Airport) Limited is the responsible entity of Sydney Airport Trust 1.

REGISTRY

Computershare Investor Services Pty Limited
GPO Box 2975 Melbourne VIC 3001
Telephone: 1800 102 368 or +61 3 9415 4195
Facsimile: +61 2 8234 5050

SUSTAINABILITY REPORT

Our 2018 Sustainability Report will be published in February 2019. The report will be available on our website.

CORPORATE GOVERNANCE STATEMENT

Sydney Airport's Corporate Governance Statement is in the Corporate section of our website. www.sydneyairport.com.au/corporate/about/corporate-governance

ANNUAL GENERAL MEETING

Sydney Airport's Annual General Meeting is scheduled to be held on Friday, 24 May 2019.

You can opt to receive your security holder communication electronically at www.investorcentre.com/ecomms or by contacting Computershare on 1800 102 368

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