Southern Cross Airports Corporation Holdings Limited

For the half year ended 30 June 2019

Interim Financial Report

ACN 098 082 029

Contents

Directors' report

for the half year ended 30 June 2019

The financial report for the half year ended 30 June 2019 (the financial report) covers the consolidated entity Southern Cross Airports Corporation Holdings Limited (SCACH) and its controlled entities (the Group). The Group's functional and presentation currency is Australian dollars ($), rounded to the nearest hundred thousand dollars.

Directors

The following persons were current directors of SCACH during the year and until the date of this report:

Name	Role	Period of directorship
Trevor Gerber	Non-executive director, Chairman	Appointed director 4 January 2012, Chairman 14 May 2015
Michael Lee	Non-executive director	Appointed 4 January 2012, resigned 24 May 2019
John Roberts	Non-executive director	Appointed 15 February 2006
Stephen Ward	Non-executive director	Appointed 4 January 2012
Ann Sherry AO	Non-executive director	Appointed 1 May 2014
Grant Fenn	Non-executive director	Appointed 1 October 2015
Geoff Culbert	Executive director	Appointed 21 February 2018
Abi Cleland	Non-executive director	Appointed 5 April 2018
David Gonski AC	Non-executive director	Appointed 8 October 2018

Corporate structure

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

- Sydney Airport Corporation Limited (SACL)
- Southern Cross Airports Corporation Pty Limited (SCAC)
- Sydney Airport Finance Company Pty Limited (FinCo)
- Sydney Airport RPS Company Pty Limited (RPSCo)
- SA (F1) Pty Limited (SAF1)

All companies in the SCACH Group (as listed above), excluding SAF1 and FinCo, have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016. The deed of cross guarantee ensures that each group company is jointly liable for the debts of all the companies party to the cross guarantee. This enables external stakeholders, such as creditors, to be able to rely on the consolidated accounts. The deed of cross guarantee can be found at www.sydneyairport.com.au/corporate/about/reports-and-publications.

Directors' report

for the half year ended 30 June 2019

Registered office

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

Principal activities

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

Review of operations and results

The consolidated entity earned a profit before depreciation and amortisation, net finance costs and income tax (EBITDA) of $648.5 million for the half year ended 30 June 2019 (30 June 2018: $625.4 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net profit was $27.8 million (30 June 2018: net profit of $6.6 million). The net profit is after deducting redeemable preference share costs to shareholders totalling $147.2 million (30 June 2018: $145.1 million) which are held by the ordinary shareholder.

Total expenses were $148.6 million (30 June 2018: $145.5 million). Depreciation and amortisation costs were $187.3 million (30 June 2018: $177.6 million).

Net finance costs were $351.8 million (30 June 2018: $371.2 million) and primarily consist of interest expense payable to third parties (secured senior debt) and associated debt establishment costs totalling $202.7 million (30 June 2018: $216.6 million), and interest on redeemable preference shares totalling $147.2 million (30 June 2018: $145.1 million).

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

Financing metrics

The following table shows the net senior debt and selected ratios as at 30 June 2019.

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

	30 June 2019[1] $m	31 December 2018 $m	30 June 2018 $m
Gross total debt [2]	8,968.8	8,750.1	8,602.4
Less: total cash [3]	(304.0)	(218.9)	(279.5)
Net debt	8,664.8	8,531.2	8,322.9
Net senior debt	8,664.8	8,531.2	8,322.9
EBITDA (12 months historical)	1,309.2[3]	1,286.1[3]	1,245.7
Net debt/EBITDA [3]	6.6[3]	6.6x[3]	6.7x
Cash flow cover ratio [4]	3.2[3]	3.2x[3]	3.1x

1 Calculations includes lease liabilities and related interest expense due to the application of AASB 16
2 Gross total debt refers to principal amount drawn, refer to Note 2 and excludes shareholder related borrowing (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds
3 Excludes parent entity cash, in accordance with finance documents
4 Calculation on a 12 month rolling basis, in accordance with finance documents

Directors' report

for the half year ended 30 June 2019

In May 2019, Sydney Airport successfully refinanced $1.4 billion of bank debt facilities by way of a 3,4 and 5 year tenor syndicated (multi-bank) Sustainability Linked Loan, further demonstrating our continued leadership and innovation across finance and sustainability.

The market-leading transaction represented the first syndicated Sustainability Linked Loan in Australia and was the largest of its kind across the Asia Pacific.

Bank debt facility margins will marginally decrease or increase depending on our sustainability performance over time, further incentivising the delivery of our sustainability commitments (including achieving carbon neutrality by 2025) and other sustainability improvements.

Outcomes of this refinancing were:

- A$1.4 billion of bank debt facilities refinanced at lower margins
- Weighted average debt maturity extended three months to mid-2025
- Debt maturities over 2021-22 reduced by 38% with next major maturity in late-2020
- Strong liquidity position maintained, providing significant capital management flexibility
- Direct link established between our sustainability performance and funding costs

Independent valuation

As at 30 June 2019, the Group has net liabilities of $4,428.3 million (31 December 2018: $ 3,937.7 million). An independent valuation by Deloitte as at 31 December 2018 supported an Equity Value that, if applied in the financial report of the Group as at 30 June 2019, would have more than absorbed the consolidated deficiency position at 30 June 2019. A new valuation will be carried out for each financial year end or as otherwise required.

In considering its dividend declaration, Southern Cross Airports Corporation Holdings Limited, the parent of the SCACH consolidated group considers the requirements of Section 254T of the *Corporations Act 2001*.

At 30 June 2019, Southern Cross Airports Corporation Holdings Limited is in a net asset position of $4.0 billion (31 December 2018: net asset of $3.3 billion). It considers the payment of a dividend is fair and reasonable to its shareholders and that the payment does not materially prejudice the company's ability to pay its creditors.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2018. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

Dividends and distributions

In 2002, and subsequently, the economic equity for the SCACH Group was contributed in the form of ordinary shares issued, each stapled 1:1 to redeemable preference shares (RPS). The right to receive payments on the RPS held by the ordinary shareholder is subordinated to senior debt and ordinary creditors of the Group. Under current accounting standards:

- the $2,092.7 million carrying value of the RPS at 30 June 2019 (30 June 2018: $2,075.3 million) is classified as borrowings rather than equity; and
- the $137.8 million (30 June 2018: $137.8 million) RPS interest paid to the shareholder during the period is included as interest expense rather than as a distribution of profits.

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

Dividends and distributions paid	**Half year ended 30 June 2019 $m**	**Half year ended 30 June 2018 $m**
On ordinary shares[1]	323.3	297.5
On RPS[1]	137.8	137.8
	461.1	435.3

1 Represents cash paid as per the Consolidated Statement of Cash Flows.

In respect of the quarter ended 30 June 2019, the directors approved an ordinary dividend of $138.3 million (30 June 2018: $125.1 million) and RPS distribution of $68.9 million (30 June 2018: $68.9 million). These amounts were paid on 29 July 2019.

Directors' report

for the half year ended 30 June 2019

Significant changes in the state of affairs

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

Events occurring after balance sheet date

Dividends and distributions

In respect of the quarter ended 30 June 2019, the directors approved an ordinary dividend of $138.3 million (30 June 2018: $125.1 million) and RPS distribution of $68.9 million (30 June 2018: $68.9 million). These amounts were paid on 29 July 2019.

Auditor's independence declaration

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

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise indicated, under the option available to SCACH under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.

Throughout this financial report, percentage change calculations have been prepared using non-rounded balances.

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

On behalf of the Directors

Trevor Gerber

Sydney
14 August 2019

Statement by the Directors of Southern Cross Airports Corporation Holdings Limited

for the half year ended 30 June 2019

In the opinion of the Directors of Southern Cross Airports Corporation Holdings Limited:

1. The financial statements and notes set out on pages 10 to 24 are in accordance with the *Corporations Act 2001* including:
   a. Giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half year ended on that date; and
   b. Complying with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.
3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Trevor Gerber

Sydney
14 August 2019

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

To the Directors of Southern Cross Airports Corporation Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Southern Cross Airports Corporation Holdings Limited for the half-year ended 30 June 2018 there have been:

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

KPMG

KPMG

Leann K Yuen

Leann Yuen
Partner

Sydney
14 August 2019

Independent Auditor's Review Report

To the shareholders of Southern Cross Airports Corporation Holdings Limited

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Southern Cross Airports Corporation Holdings Limited.

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2019
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Pages 14 to 24 comprising a summary of significant accounting policies and other explanatory information, including notes 1 to 8
- The Directors' Declaration.

The **Group** comprises Southern Cross Airports Corporation Holdings Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Leann K Yuen

Leann Yuen
Partner

Sydney
14 August 2019

Consolidated statement of comprehensive income

for the half year ended 30 June 2019

	Note	6 months to 30 June 2019 $m	6 months to 30 June 2018 $m
Revenue			
Aeronautical revenue		361.3	345.0
Aeronautical security recovery		50.1	48.2
Retail revenue		184.2	177.1
Property and car rental revenue		120.3	118.2
Parking and ground transport revenue		77.6	78.6
Other revenue		3.6	3.8
Total revenue		797.1	770.9
Operating expenses			
Employee benefits expense		(29.8)	(29.8)
Services and utilities expense		(40.3)	(42.5)
Property and maintenance expense		(15.3)	(14.9)
Security recoverable expense		(46.7)	(44.6)
Other operational costs		(14.1)	(13.7)
Total operating expenses		(146.2)	(145.5)
Other expenses			
Restructuring and redundancy expenses		(2.4)	-
Total expenses before depreciation, amortisation, net finance costs and income tax		(148.6)	(145.5)
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)		648.5	625.4
Depreciation		(167.7)	(158.0)
Amortisation		(19.6)	(19.6)
Profit before net finance costs and income tax (EBIT)		461.2	447.8
Finance income	6	1.9	2.5
Finance costs	6	(350.0)	(361.7)
Change in fair value of swaps	6	(3.7)	(12.0)
Net finance costs		(351.8)	(371.2)
Profit before income tax expense		109.4	76.6
Income tax expense		(81.6)	(70.0)
Net gain attributable to owners of the company		27.8	6.6
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedges		(282.6)	(92.3)
Changes in fair value of foreign currency basis spread		4.1	2.3
Tax on items that may be reclassified to profit or loss		83.6	27.0
Total items that may subsequently be reclassified to profit or loss		(194.9)	(63.0)
Other comprehensive loss, net of tax		(194.9)	(63.0)
Total comprehensive loss attributable to owners of the company		(167.1)	(56.4)

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2019

	Note	30 June 2019 $m	31 December 2018 $m
Current assets			
Cash and cash equivalents	3	304.5	219.5
Trade and other receivables		162.1	230.7
Refinancing proceeds receivable	2	-	398.9
Derivative financial instruments	5	12.3	0.2
Other assets		1.0	0.8
Total current assets		479.9	850.1
Non-current assets			
Trade and other receivables		82.9	75.5
Property, plant and equipment		3,505.1	3,549.5
Intangible assets	7	3,764.5	3,783.9
Derivative financial instruments	5	965.0	851.8
Other assets		17.4	10.0
Total non-current assets		8,334.9	8,270.7
Total assets		8,814.8	9,120.8
Current liabilities			
Trade and other payables		485.7	442.7
Lease liabilities		0.4	-
Derivative financial instruments	5	105.0	108.7
Provisions for employee benefits		10.7	13.1
Total current liabilities		601.8	564.5
Non-current liabilities			
Interest bearing liabilities – external	2	10,006.7	10,081.0
Interest bearing liabilities – shareholder related	2	2,092.7	2,083.3
Lease liabilities		0.4	-
Derivative financial instruments	5	516.4	224.4
Deferred tax liabilities		21.4	103.2
Provisions for employee benefits		3.7	2.1
Total non-current liabilities		12,641.3	12,494.0
Total liabilities		13,243.1	13,058.5
Net liabilities		(4,428.3)	(3,937.7)
Equity			
Issued capital		1,533.0	1,533.4
Cash flow hedge reserve		(514.2)	(316.4)
Foreign currency basis spread reserve		5.3	2.4
Accumulated losses		(5,452.4)	(5,157.1)
Total equity		(4,428.3)	(3,937.7)

The above Consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the half year ended 30 June 2019

	Issued capital[1] $m	Accumulated losses[2] $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Total equity $m
Total equity at 1 January 2019	1,533.4	(5,156.9)	(316.4)	2.4	(3,937.5)
Profit for the period	-	27.8	-	-	27.8
Other comprehensive loss	-	-	(197.8)	2.9	(194.9)
Dividends on ordinary shares	-	(323.3)	-	-	(323.3)
Equity contribution from parent	-	-	-	-	-
Equity-settled shares	(0.4)	-	-	-	(0.4)
Total equity at 30 June 2019	1,533.0	(5,452.4)	(514.2)	5.3	(4,428.3)
Total equity at 1 January 2018	1,532.3	(4,623.9)	(201.1)	-	(3,292.7)
Profit for the period	-	6.6	-	-	6.6
Other comprehensive (loss)/income	-	-	(64.6)	1.6	(63.0)
Dividends on ordinary shares	-	(297.5)	-	-	(297.5)
Equity contribution from parent	0.3	-	-	-	0.3
Equity-settled shares	0.5	-	-	-	0.5
Total equity at 30 June 2018	1,533.1	(4,914.8)	(265.7)	1.6	(3,645.8)

1 Issued capital comprise 13,648,394 issued and fully paid ordinary shares.
2 Accumulated losses brought forward has been adjusted by $0.2 million following the implementation of AASB16: Leases. For further information refer to Changes in accounting policies in the accompanying notes.

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

Consolidated statement of cash flows

for the half year ended 30 June 2019

	Note	6 months to 30 June 2019 $m	6 months to 30 June 2018 $m
Cash flow from operating activities			
Receipts from customers		938.3	867.2
Interest received		2.1	2.5
Payments to suppliers and employees		(249.5)	(238.3)
Interest paid		(172.0)	(162.3)
Interest rate swaps payments		(19.3)	(29.4)
Net cash flow from operating activities		499.6	439.7
Cash flow from investing activities			
Acquisition of property, plant and equipment		(146.3)	(210.7)
Capitalised borrowing costs		(5.1)	(5.1)
Net cash flow used in investing activities		(151.4)	(215.8)
Cash flow from financing activities			
Proceeds received from borrowings		603.5	900.1
Repayment of borrowings		(395.0)	(674.0)
Borrowing costs paid		(10.6)	(7.2)
Proceeds from parent		-	0.3
Dividends paid – ordinary shares	1	(323.3)	(297.5)
Interest paid – redeemable preference shares		(137.8)	(137.8)
Net cash flow used in financing activities		(263.2)	(216.1)
Net increase in cash and cash equivalents		85.0	7.8
Cash and cash equivalents at beginning of the period		219.5	272.0
Cash and cash equivalents at the end of the period	3	304.5	279.8

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

Notes to the financial statements

for the half year ended 30 June 2019

General

Basis of preparation and statement of compliance

This is the financial report for Southern Cross Airports Corporation Holdings Limited (SCACH, the Company) and its controlled entities (collectively referred to as the Group).

The Group is a for-profit entity for the purposes of preparing the financial statements.

This financial report:

- Consists of the consolidated financial statements of the Group, as permitted by Australian Securities & Investments Commission (ASIC) Class Order 10/654;
- Is to be read in conjunction with the annual report of the Group for the year ended 31 December 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*;
- Is a general purpose financial report;
- Is prepared in accordance with *Corporations Act 2001* and the *Australian Accounting Standard 134: Interim Financial Reporting* adopted by the Australian Accounting Standards Board (AASB);
- 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 the Group, 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 on 14 August 2019.

Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, directors have made judgements, estimates and assumptions about future events. Critical estimates and assumptions were made in relation to fair value measurement of financial instruments (refer notes 2 and 5).

Significant accounting policies

This is the first financial report where AASB 16 *Leases* applied. The changes from this standard are described under 'Changes in accounting policies' below. Except for these, the accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's 31 December 2018 annual financial report.

Net current liability position

The SCACH Group is in a net current liability position of $121.9 million at 30 June 2019 (31 December 2018: net current asset of $285.6 million), which is fully covered by undrawn committed bank facilities.

Independent valuation

As at 30 June 2019, the SCACH Group has net liabilities of $4,428.3 million (31 December 2018: $3,937.7 million). An independent valuation by Deloitte as at 31 December 2018 supported an equity value that, if applied in the financial report of the Group as at 30 June 2019, would have more than absorbed the consolidated deficiency position at 30 June 2019. A new valuation will be carried out for each financial year end or as otherwise required.

In considering its dividend declaration, Southern Cross Airports Corporation Holdings Limited, the parent of the SCACH consolidated group considers the requirements of Section 254T of the *Corporations Act 2001.*

At 30 June 2019, Southern Cross Airports Corporation Holdings Limited is in a net asset position of $4.0 billion (31 December 2018: net asset of $3.3 billion). It considers the payment of a dividend is fair and reasonable to its shareholders and that the payment does not materially prejudice the company's ability to pay its creditors.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2018. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

Notes to the financial statements

for the half year ended 30 June 2019

Changes in accounting policies

The Group has adopted AASB 16 *Leases* retrospectively from 1 January 2019, and has not restated comparatives, as permitted by the transition provisions of the standard. The cumulative impact of this new standard has therefore been recognised in the opening balance sheet on 1 January 2019.

Further details of this standard, SCACH's accounting policies and impacts to the 2019 Interim financial statements are disclosed below.

AASB 16 *Leases*

AASB 16 introduced a new definition for leases and a single, on-balance sheet accounting model for lessees. As a result, the Group has recognised a right-of-use asset, representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments for certain assets for which we are a lessee. There has been no change to lessor accounting as a result of this new accounting standard.

The Group has adopted the 'modified retrospective' transition method in the preparation of these financial statements. This requires the cumulative effect of initial application to be recognised in retained earnings at 1 January 2019, and no restatement of comparative information necessary.

Accounting policy – Leases

The Group leases various equipment, data centre space and land for periods between 12 months and 99 years. Previously these leases were classified as either finance or operating leases, in accordance with AASB 117. Operating lease payments made were charged to the profit or loss on a straight-line basis over the life of the lease.

From 1 January 2019, the following components are recognised in relation to leases:

Balance Sheet component	Description	Measurement at recognition	Subsequent measurement
Right-of-Use asset	The right to use the underlying asset	Cost, comprising: • Initial measurement of the liability; • Any lease payments pre-commencement date, offset by any lease incentives received; • Initial direct costs; and • Restoration costs.	The Right-of-Use asset is depreciated over the shorter of the asset's useful life and the life of the lease, on a straight-line basis.
Lease liability	The obligation to make lease payments	Net Present Value of the lease payments, being: • Fixed payments, offset by any lease incentives receivable; • Variable lease payments linked to an index or rate; • Exercise price of a purchase option (where the Group is reasonably certain to exercise that option); and • Payment of penalties for terminating the lease (where the life of the lease has assumed termination).	Payments made are allocated between liability and finance cost, with the finance cost charged to interest expense over the life of the lease.

Payments associated with short-term leases (i.e. those with a life of 12 months or less), and low-value assets (i.e. those at a cost of $10,000 or less), are recognised as an expense in profit or loss on a straight-line basis.

Notes to the financial statements

for the half year ended 30 June 2019

Impact to the 2019 Interim financial Statements

Transition

As a result of the implementation of AASB 16, the Group has recognised a lease liability in relation to three leases, with the remaining contracts considered service contracts, and expensed as incurred.

Balance sheet impact as at 1 January 2019:

	$m
Asset	
Right-of-Use asset (included in Non-current Other Assets)	1.3
Liability	
Current lease liability	(0.5)
Non-current lease liability	(0.6)
Equity	
Retained earnings	(0.2)

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was consistent with that used in the Goodwill impairment testing.

The application of AASB 16 has had no impact to the financial statements of the SCACH Group for finance leases already held at 1 January 2019, including the Airport Operating Licence and Leasehold Land. This is due to these assets currently being measured on a basis consistent with that required by AASB 16. Furthermore, no lease liability exists for these finance leases.

New standards and interpretations not yet adopted

The Group has adopted new and revised Standards and Interpretations issued by the AASB that are relevant to operations and effective for the current reporting period. The adoption of new and revised Standards and Interpretations have not had a material impact on the Group for the half year ended 30 June 2019.

Notes to the financial statements

for the half year ended 30 June 2019

Capital management

1 Dividends and distributions paid and proposed

Stapled ordinary and redeemable preference shares

The economic equity for the Group is in the form of ordinary shares stapled 1:1 to redeemable preference shares (RPS) at a nominal value of $150 each. RPS are redeemable at a premium of $50 per RPS on 28 June 2032.

Ordinary shareholders' entitlements

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

Each fully paid ordinary share entitles its holder to one vote, either in person or by proxy, at a meeting of the company.

RPS shareholders' entitlements

The RPS carry an entitlement to a fixed cumulative interest at a rate of 13.5% p.a. Interest is payable quarterly, subject to availability of cash within the Group and distributable profits within SCACH. Principal and interest payments on the RPS are subordinated to other debt and ordinary creditors of the Group. RPS shareholders have no acceleration rights if interest is not paid.

Notes to the financial statements

for the half year ended 30 June 2019

1 Dividends and distributions paid and proposed (continued)

Ordinary dividends paid and proposed during the period are shown in the table below:

	6 months to 30 June 2019		6 months to 30 June 2018	
	$ per share	**$m**	**$ per share**	**$m**
Amounts paid in period				
December quarter paid in January 2019 (2018: January 2018)	12.15	165.8	10.69	146.0
March quarter paid in April 2019 (2018: April 2018)	11.54	157.5	11.10	151.5
		323.3		297.5

Ordinary dividends proposed subsequent to 30 June are shown in the table below.

	6 months to 30 June 2019		6 months to 30 June 2018	
	$ per share	**$m**	**$ per share**	**$m**
Amounts paid after period end				
June quarter paid in July 2019 (2018: July 2018)	10.13	138.3	9.16	125.1

Total dividends attributable to the half year ended 30 June 2019 were $295.8 million (30 June 2018: $276.6 million). These dividends were unfranked.

2 Interest bearing liabilities

The Group has external and shareholder related interest bearing liabilities, as follows:

External

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

Shareholder related

- Redeemable preference shares (RPS).

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

At 30 June 2019 and 31 December 2018, the value of all fixed interest rate bonds were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

2 Interest bearing liabilities (continued)

Type	Maturity	Carrying amount		Fair value		Principal amount drawn In AUD		Principal amount drawn In original currency		Issue Currency	Interest rate
		30 June 2019 $m	31 Dec 2018 $m	30 June 2019 $m	31 Dec 2018 $m	30 June 2019 $m	31 Dec 2018 $m	30 June 2019 $m	31 Dec 2018 $m		
External											
Syndicated facility	April 2022	266.0	454.1	266.0	454.1	266.0	455.0	266.0	455.0	AUD	Floating[3]
Wrapped domestic bond[1]	November 2021	199.4	199.2	199.4	199.2	200.0	200.0	200.0	200.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2022	744.9	744.2	744.9	744.2	750.0	750.0	750.0	750.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2027	650.6	650.2	650.6	650.2	659.0	659.0	659.0	659.0	AUD	Floating[4]
USPP bond	August 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	179.0	179.0	223.3	204.7	180.0	180.0	180.0	180.0	AUD	6.04%[5]
USPP bond	November 2028	57.7	57.7	69.9	63.9	58.0	58.0	58.0	58.0	AUD	5.60%[5]
USPP bond	November 2029	135.2	135.3	164.9	151.4	136.0	136.0	136.0	136.0	AUD	5.70%[5]
USPP bond	February 2034	73.2	67.3	68.4	62.1	62.5	-	45.0	-	USD	4.25%[5]
USPP bond	February 2039	134.2	134.9	154.1	135.3	135.0	-	135.0	-	AUD	4.76%[5]
USPP bond	February 2044	99.4	99.9	115.8	100.9	100.0	-	100.0	-	AUD	4.85%[5]
USPP bond	February 2049	99.4	99.9	116.2	101.1	100.0	-	100.0	-	AUD	4.90%[5]
Euro bond	April 2024	1,240.6	1,225.5	1,274.1	1,247.1	1,033.4	1,033.4	700.0	700.0	EUR	2.75%[5]
Euro bond	April 2028	869.1	824.7	871.7	822.0	796.1	796.1	500.0	500.0	EUR	1.75%[5]
US144A/RegS bond	February 2021	711.4	702.9	741.3	732.2	518.7	518.7	500.0	500.0	USD	5.13%[5]
US144A/RegS bond	March 2023	1,210.3	1,173.2	1,225.8	1,168.6	802.4	802.4	825.0	825.0	USD	3.90%[5]
US144A/RegS bond	April 2025	711.5	708.7	725.8	682.4	643.0	643.0	500.0	500.0	USD	3.38%[5]
US144A/RegS bond	April 2026	1,276.1	1,270.8	1,314.3	1,228.1	1,163.4	1,163.4	900.0	900.0	USD	3.63%[5]
CIB[2]	November 2020	750.1	760.3	771.6	764.9	763.2	757.0	763.2	757.0	AUD	3.76%[5]
CIB[2]	November 2030	399.8	394.4	420.4	371.2	401.4	398.1	401.4	398.1	AUD	3.12%[5]
Total external interest bearing liabilities		10,006.7	10,081.0	10,317.3	10,082.4	8,968.1	8,750.1	n/a	n/a		
Shareholder related											
Redeemable preference shares	June 2032	2,092.7	2,083.3	3705.6[6]	3433.9[6]	2,047.3	2,047.3	2,047.3	2,047.3	AUD	13.50%
Total shareholder related interest bearing liabilities		2,092.7	2,083.3	3,705.6	3,433.9	2,047.3	2,047.3	2,047.3	2,047.3		

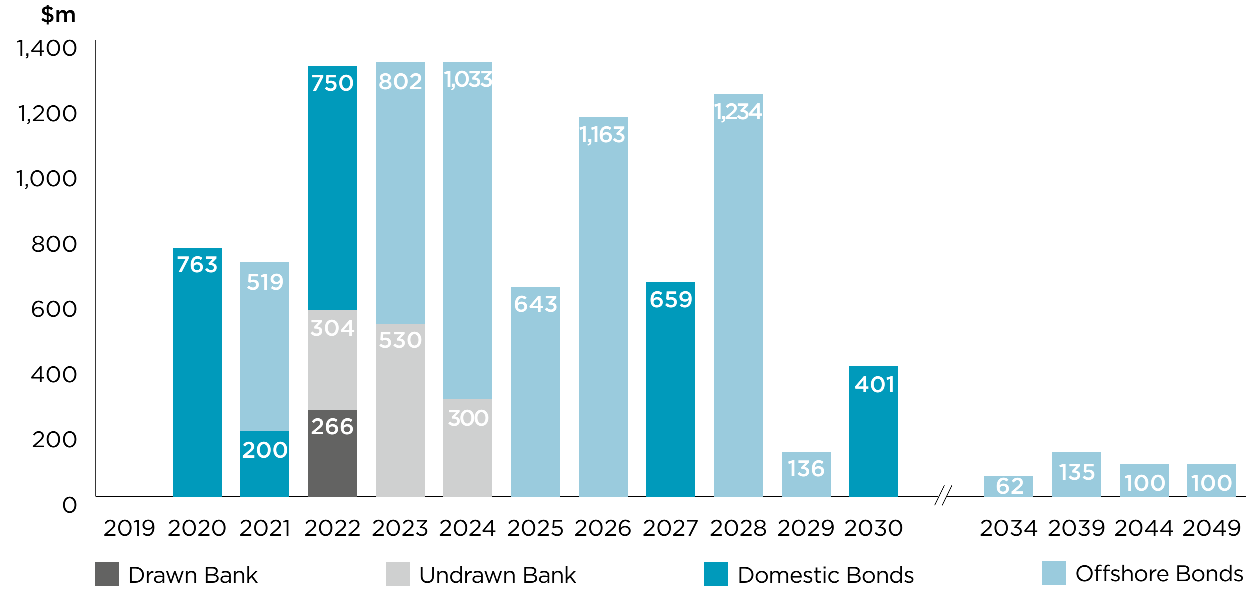
1 Financial guarantees are provided by MBIA Insurance Corporation, and Assured Guaranty Municipal Corp.
2 Financial guarantees are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.
3 Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
4 Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
5 Fixed interest rates reflective of coupons in respective currencies/markets.
6 The $50 premium on redemption on 28 June 2032 is included in the calculation of fair value in 2019 and 2018.

Notes to the financial statements

for the half year ended 30 June 2019

2 Interest bearing liabilities (continued)

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



Assets pledged as security

All external interest bearing liabilities of the Group are of equal rank. The security consists of fixed and floating charges over the assets of the Group (excluding deferred tax and goodwill) and a mortgage over the Airport lease.

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 to maturity of three months or less. They are used for the purpose of meeting the short-term cash commitments of the Group.

	30 June 2019 $m	**31 December 2018 $m**
Cash on hand	183.2	179.1
Deposits[1]	121.3	40.4
Total cash and cash equivalents	304.5	219.5

1 Included in the Group's consolidated deposit balance is $11.3 million (31 December 2018: $10.4 million) held by SACL which is restricted to fund maintenance capital expenditure.

Treasury and financial risk management

4 Financial risk management

Financial risk management framework

There have been no changes to the Group's financial risk management program during the period.

4.1 Foreign currency risk

The Group is primarily exposed to foreign currency risk from interest bearing liabilities in foreign currencies. At 30 June 2019, these interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds.

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

	30 June 2019			31 December 2018		
	EURm	USDm	Equivalent total AUDm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(1,200.0)	(2,770.0)	(5,019.5)	(1,200.0)	(2,770.0)	(5,019.5)
Cross currency swaps	1,200.0	2,770.0	5,019.5	1,200.0	2,770.0	5,019.5
Exposure	-	-	-	-	-	-

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. The Group enters into floating for fixed interest rate swap contracts to hedge risk of rising interest rates in accordance with the Group's annual bands.

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

	Average contracted fixed interest rate[1]		Notional principal amount		Fair value	
	30 June 2019 %	31 December 2018 %	30 June 2019 $m	31 December 2018 $m	30 June 2019 $m	31 December 2018 $m
1 year or less	2.86%	2.04%	2,035.2	796.1	(20.0)	(0.6)
1 to 2 years	3.83%	3.38%	518.7	1,239.1	(23.7)	(20.2)
2 to 5 years	3.14%	3.20%	3,585.7	3,071.1	(234.5)	(103.4)
5 years or more	3.06%	3.10%	4,307.1	5,340.4	(328.0)	(155.1)
	n/a	n/a	10,446.7	10,446.7	(606.2)	(279.3)

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

5 Derivative financial instruments

The Group uses derivative financial instruments to mitigate its exposures to foreign currency and interest rate risks. The net derivative position at the reporting date is presented below:

	30 June 2019			31 December 2018		
$m	**Cross currency swaps**	**Interest rate swaps**	**Total**	**Cross currency swaps**	**Interest rate swaps**	**Total**
Current assets	12.3	-	12.3	0.2	-	0.2
Non-current assets	965.0	-	965.0	851.8	-	851.8
Current liabilities	(15.2)	(89.8)	(105.0)	(53.8)	(54.9)	(108.7)
Non-current liabilities	-	(516.4)	(516.4)	-	(224.4)	(224.4)
Net derivative position	962.1	(606.2)	355.9	798.2	(279.3)	518.9

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

At 30 June 2019 and 31 December 2018, all derivative financial instruments were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

6 Net finance costs

Finance costs consist of borrowing costs and the fair value adjustments of the derivative instruments.

	6 months to 30 June 2019 $m	**6 months to 30 June 2018 $m**
Finance income		
Bank interest	1.9	2.5
Total finance income	1.9	2.5
Finance costs		
Senior debt interest paid or accrued	(113.1)	(157.6)
Net swap interest expense	(89.1)	(43.0)
CIBs capitalised	(9.5)	(12.5)
Amortisation of debt establishment costs	7.1	(5.8)
Recurring borrowings costs paid	(3.2)	(2.8)
Borrowing costs capitalised	5.1	5.1
RPS interest paid or accrued	(137.8)	(137.8)
Lease interest expense	(0.1)	-
Amortisation of RPS debt establishment costs	(9.4)	(7.3)
Total finance costs	(350.0)	(361.7)
Change in fair value of swaps	(3.7)	(12.0)
Net finance costs	(351.8)	(371.2)

Notes to the financial statements

for the half year ended 30 June 2019

Financial results and financial position

7 Intangible assets

Consolidated ($m)	Goodwill	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	95	95	
At 30 June 2019				
Cost				
Opening balance as at 1 January 2019	700.7	2,058.1	1,672.0	4,430.8
Closing balance	700.7	2,058.1	1,672.0	4,430.8
Accumulated amortisation				
Opening balance as at 1 January 2019	-	(357.7)	(289.2)	(646.9)
Amortisation	-	(10.6)	(8.8)	(19.4)
Closing balance	-	(368.3)	(298.0)	(666.3)
Total carrying amount	700.7	1,689.8	1,374.0	3,764.5
At 31 December 2018				
Cost				
Opening balance as at 1 January 2018	700.7	2,058.1	1,672.0	4,430.8
Closing balance	700.7	2,058.1	1,672.0	4,430.8
Accumulated amortisation				
Opening balance as at 1 January 2018	-	(336.0)	(271.6)	(607.6)
Amortisation	-	(21.7)	(17.6)	(39.3)
Closing balance	-	(357.7)	(289.2)	(646.9)
Total carrying amount	700.7	1,700.4	1,382.8	3,783.9

Intangible assets items explained

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

Leasehold land and the airport operator licence have been recognised at their cost of acquisition by reference to the purchase consideration and independent valuation.

Notes to the financial statements

for the half year ended 30 June 2019

Other disclosures

8 Events occurring after balance sheet date

Dividends and distributions

In respect of the quarter ended 30 June 2019, the directors approved an ordinary dividend of $138.3 million (30 June 2018: $125.1 million) and RPS distribution of $68.9 million (30 June 2018: $68.9 million). These amounts were paid on 29 July 2019.

The directors 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 Group, the results of those operations or the state of affairs of the Group in the period subsequent to the half year ended 30 June 2019.

Southern Cross Airports Corporation Holdings Limited