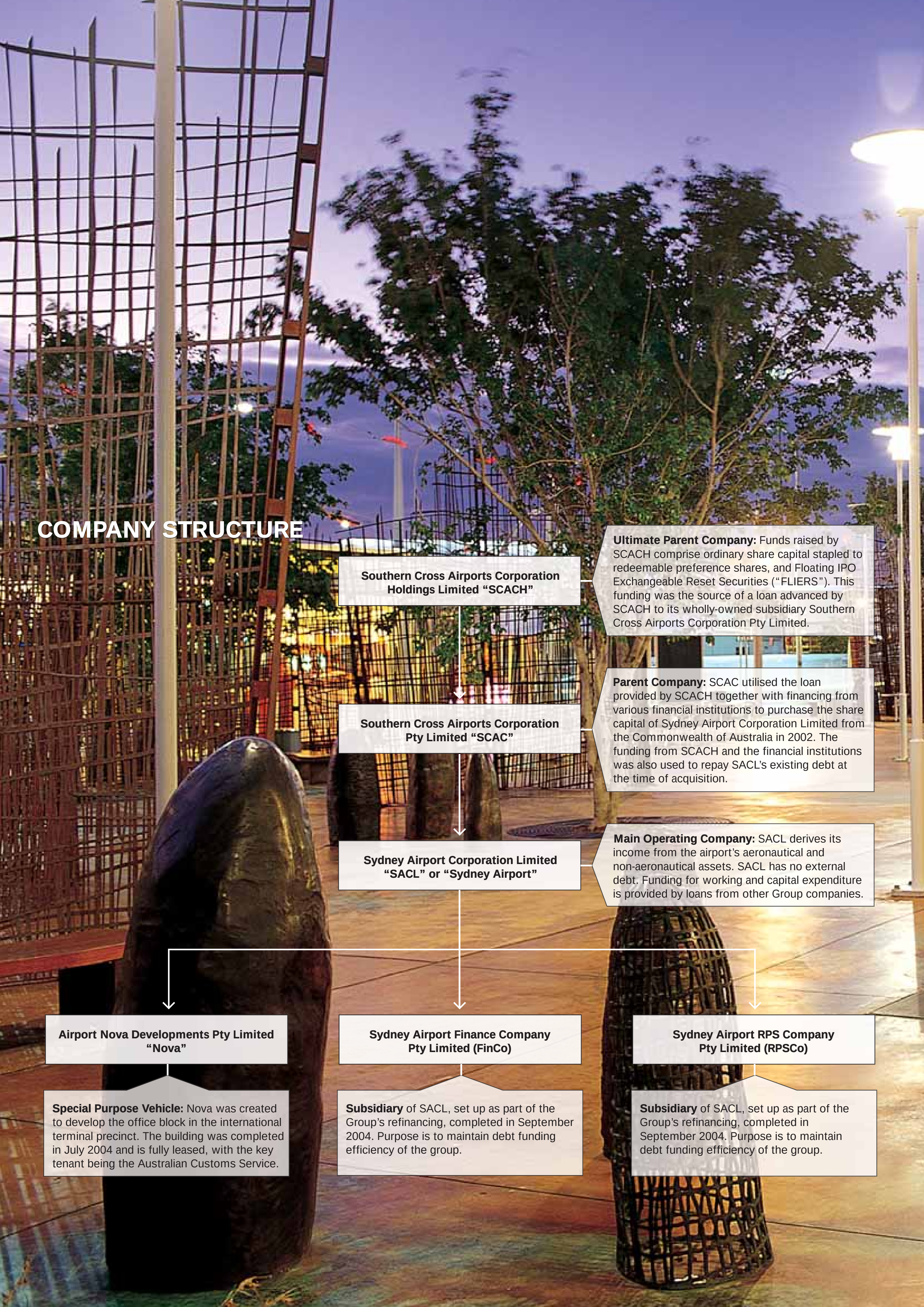
SOUTHERN CROSS AIRPORTS
CORPORATION HOLDINGS LIMITED

2006 ANNUAL REPORT



COMPANY STRUCTURE

Southern Cross Airports Corporation Holdings Limited "SCACH"

Ultimate Parent Company: Funds raised by SCACH comprise ordinary share capital stapled to redeemable preference shares, and Floating IPO Exchangeable Reset Securities ("FLIERS"). This funding was the source of a loan advanced by SCACH to its wholly-owned subsidiary Southern Cross Airports Corporation Pty Limited.

Southern Cross Airports Corporation Pty Limited "SCAC"

Parent Company: SCAC utilised the loan provided by SCACH together with financing from various financial institutions to purchase the share capital of Sydney Airport Corporation Limited from the Commonwealth of Australia in 2002. The funding from SCACH and the financial institutions was also used to repay SACL's existing debt at the time of acquisition.

Sydney Airport Corporation Limited "SACL" or "Sydney Airport"

Main Operating Company: SACL derives its income from the airport's aeronautical and non-aeronautical assets. SACL has no external debt. Funding for working and capital expenditure is provided by loans from other Group companies.

Airport Nova Developments Pty Limited "Nova"

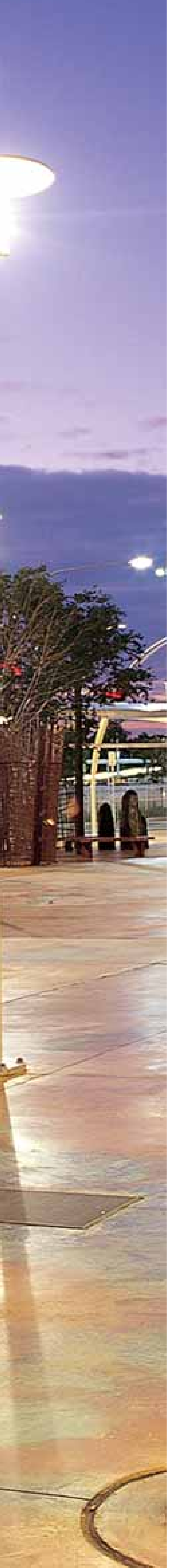
Special Purpose Vehicle: Nova was created to develop the office block in the international terminal precinct. The building was completed in July 2004 and is fully leased, with the key tenant being the Australian Customs Service.

Sydney Airport Finance Company Pty Limited (FinCo)

Subsidiary of SACL, set up as part of the Group's refinancing, completed in September 2004. Purpose is to maintain debt funding efficiency of the group.

Sydney Airport RPS Company Pty Limited (RPSCo)

Subsidiary of SACL, set up as part of the Group's refinancing, completed in September 2004. Purpose is to maintain debt funding efficiency of the group.



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LETTER FROM THE CHAIRMAN

Over the past four years Sydney Airport has made the considerable transformation from being a government owned entity to a private company after privatisation July 2002.

Since July 2002 passenger numbers have grown from 24 million to 29 million in FY06. This has seen aeronautical revenues increase to $269.1 million, up from $202 million in FY03 with the level of airport charges to airlines remaining stable. The results of the restructuring program implemented in 2003 have kept costs under control. Total operating expenses have decreased from $138 million in FY02 to $135 million in FY06 despite the continuing growth of the Airport.

Importantly, Sydney Airport Corporation Limited (SACL) has committed high levels of capital investment in the airport in order to grow the business. Over the past four years more than $600 million has been spent on capital expenditure. This investment has been vital for SACL to meet the growing demands of its airline customers as passenger numbers continue to grow. We have spent $76 million preparing the airport for the arrival of the A380 in late 2006 which will herald a new era in global aviation. Improved security measures have been put in place with the implementation of 100% Checked Bag Screening at the T1 International Terminal from 1 January 2006 and the development of 100% Checked Bag Screening for T2 Domestic Terminal. These security projects have been undertaken at a cost of $90 million. Over the next five years we are committed to deliver a number of key capital works including implementation of Project STAR to further enhance facilities at the T1 International Terminal.

Today the Airport's Retail & Commercial Development and Property & Development businesses deliver nearly 50 percent of SACL's total revenue, accounting for $327.5 million in FY06. These areas continue to grow strongly as we expand our product offerings in areas such as car parking and deliver projects such as the redevelopment of retail and food and beverage offerings at the T2 Domestic Terminal.

I would like to personally thank the team at Sydney Airport for their dedication and focus over the years that I was Chief Executive. The new CEO, Mr Russell Balding, brings with him a depth of experience across a range of sectors, most recently as Managing Director of the Australian Broadcasting Corporation. This broad experience has given him the ability to be able to manage the wide range of stakeholders across both the public and private sectors, which have an interest in Sydney Airport. As Chairman I am looking forward to working closely with him and management in the years ahead to shape the direction of Sydney Airport for the benefit of our customers and stakeholders.

Max Moore-Wilton

Max Moore-Wilton, AC
Chairman

FY06 HIGHLIGHTS

STRONG EARNINGS GROWTH
EBITDA for FY06 of $525.6 million represents a 6.1 percent increase in earnings over the previous financial year.

SOLID PASSENGER GROWTH
Sydney Airport welcomed 29.1 million passengers through its terminals in FY06. This was a 2.9 percent increase on the previous year.

TERMINAL TWO
T2 is now the Airport's busiest terminal with more than 10 million passengers in FY06, an increase of 9.5 percent over last year.

AERONAUTICAL CHARGES
Since privatisation aeronautical charges at Sydney Airport have remained stable. During FY06 charges for aviation users at Sydney Airport have only varied to cover the cost of providing Government mandated security services and undertaking new investment agreed with airlines.

CAPITAL EXPENDITURE
Capital expenditure saw a substantial increase in FY06 – up by 71 percent to $218.7 million. Largely due to investment in A380 related works.

CHECKED BAG SCREENING
SACL completed the implementation of 100% Checked Bag Screening for international baggage at T1 which became operational on 1 January 2006, in line with Federal Government requirements.

T2 RETAIL REDVELOPMENT
A $20 million retail redevelopment of T2 is underway. This will expand the total retail space by 1,500m^2 to a total 5,000m^2 and increase the number of tenancies to more than 50 outlets, expanding customer choice.

PROJECT STAR LAUNCHED
Project STAR, a five-year $500 million redevelopment of the International Terminal and airfield to deliver a state of the art facility for all airport users, is underway. Project STAR will include a:

- Self-service check in;
- An improved baggage system;
- A world-class shopping precinct and food court; and
- Improved outward processing facilities for passengers.

SERVICE QUALITY PROGRAM
SACL launched an internal Service Quality Improvement Program aimed at increasing the awareness of service quality and identifying opportunities to drive continuous improvement across the airport for the benefit of passengers and visitors to the terminal.

COMMUNITY TIES
SACL's ongoing Education Grants Scheme provided support for projects at local schools and kindergartens.

CHIEF EXECUTIVE'S REPORT

Sydney Airport, with more than 29 million passengers in FY06, is Australia's leading international gateway and domestic airport. It accounts for half of all Australia's international passengers and a quarter of its domestic passengers. It continues to exhibit strong growth as Australia's tourism and business sectors grow. This growth is expected to continue as Sydney Airport welcomes Jetstar's international services and the world's first commercial A380 flight in FY07. Sydney Airport has spent $76 million so far preparing the airport for the A380, which will represent a major milestone in global aviation.

The Year in Review

In FY06, total revenue and other income for Sydney Airport was $A659.3 million – a 6.2 percent increase over the previous financial year. This is the fourth consecutive year of earnings growth. EBITDA (including specific non-recurring expenses) increased to $523.8 million.

Sydney Airport saw 29.1 million passengers through its terminals in FY06. This was a 2.9 percent increase on the previous year. Growth was seen in both domestic and international passengers. Passenger numbers at T2 expanded as Jetstar's growth continued, with larger Airbus A320 aircraft and NSW regional services experiencing increased passenger numbers. T2 is now the Airport's busiest terminal, with more than 10 million passengers in FY06, an increase of 9.5 percent over last year.

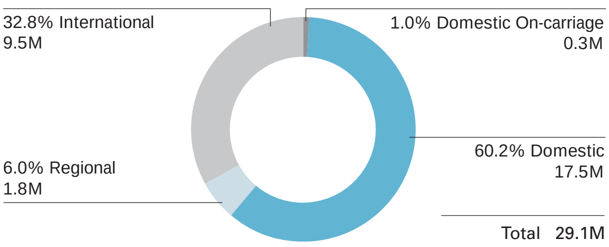
Since privatisation, aeronautical charges at Sydney Airport have remained stable. During FY06, charges for aviation users at Sydney Airport only varied to cover the cost of providing Government mandated security services and undertake new investment agreed with airlines. Aeronautical security recovery was higher than the previous year due to an overall increase in security costs resulting from enhanced security measures.

Aeronautical revenue grew by 4.2 percent to $269.1 million. This increase was attributed to the steady growth of new international services as well as service growth by other existing customers. Strong growth from China and India has been driven by their strong domestic economic growth. It is expected that in the coming years we will see a new generation of low-cost long-haul carriers emerge from these markets to cater for the increasing demand for travel.

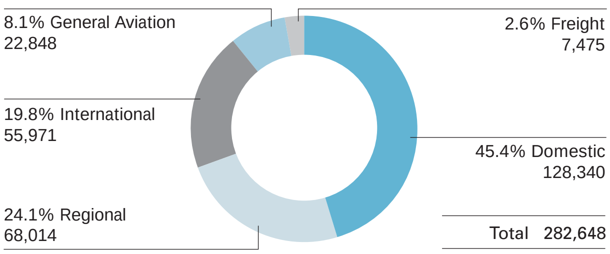
Increased expenditure on recoverable security requirements was responsible for total operating expenses, including

Key Traffic Data – 2006

Passenger Movements



Aircraft Movements



specific non-recurring expenses, increasing by 7.6 percent to $A135.5 million.

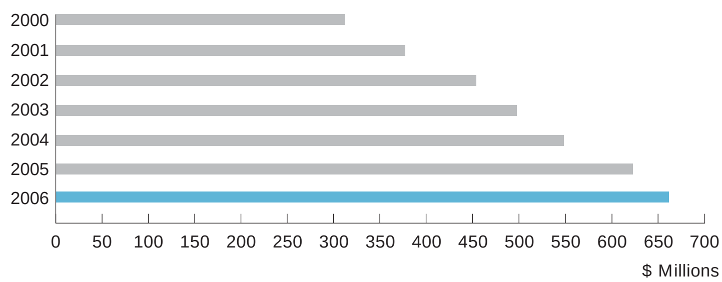
Capital expenditure increased substantially in FY06 to $218.7 million. Major investments were undertaken in the new 100% Checked Bag Screening system and A380 terminal and airfield works.

SACL also initiated discussions with the Board of Airline Representatives (BARA) and individual airlines on a new long-term pricing agreement for the use of Sydney Airport's international aeronautical services and facilities. The new pricing proposal provides for a five-year fixed price arrangement with separate recovery of new capital expenditure. This would enhance certainty for both airlines and SACL.

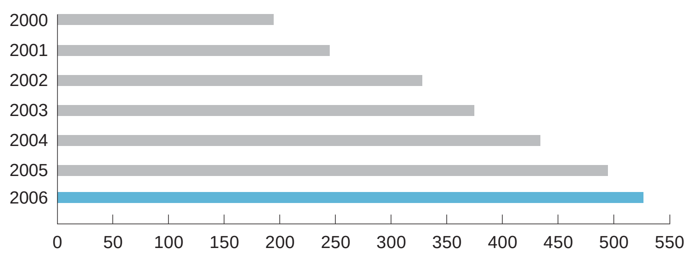
Safety and Security
Providing passengers, visitors and our airline customers with a safe and secure environment continues to be a number one priority at Sydney Airport. In FY06 a national review of airport security and policing arrangements was delivered by Sir John Wheeler. In response, the Federal Government announced a $200 million package to implement the Wheeler recommendations. These measures have the strong support of SACL and include the delivery of a significantly improved policing arrangement that addresses criminal and terrorist activity. SACL also completed the implementation of 100% Checked Bag Screening for international baggage at T1, which became operational on 1 January 2006 in line with Federal Government requirements. Work began on the implementation of

Russell Balding, CEO of SACL

Total Revenue



EBITDA (before specific non-recurring expenses)



100% Checked Bag Screening for domestic flights, which will be available for testing in September 2006.

Commercial Activities

SACL's retail operations continued to perform strongly. The retail business outperformed passenger growth with a 4.4 percent increase in revenue to $156 million. SACL took the duty-free contract to the international market. It is expected that a new eight-year contract will commence on 1 November 2006. A $20 million retail redevelopment of T2 is underway. This will expand the total retail space by 1,500m^2 to a total 5,000m^2 and increase the number of tenancies to more than 50 outlets. A new food court has been completed with 14 new tenancies, 600 seats and five speciality retail tenancies, providing greater choice for our customers.

Commercial trading, which is comprised of car parking and car rental, continued to grow with an increase in revenue of 8.6 percent in FY06 to $85 million. This was driven by the launch of new car parking products, repositioning of existing car parking products, targeted marketing initiatives and the appointment of a new car park manager. The car rental business contributed strongly due to the benefits of a new car rental concession arrangement from December 2005 and passenger growth.

SACL's property portfolio continued to perform strongly with revenues increasing by 8.2 percent to $86.6 million. In January 2006, Mercedes Benz opened its state-of-the-art "Airport Express" facility at the entrance to the domestic precinct, thereby providing a new level of service to airport users. In Terminal 1 the Emirates Lounge opened for passenger use in FY06 and work began on the development of a new Qantas Club.

Two alternative Major Development Plan (MDP) schemes for direct factory outlets and home-maker goods were exhibited between November 2005 and January 2006. Following consultation and feedback, a revised version of the smaller scheme was selected to be put forward to the Federal Government for consideration.

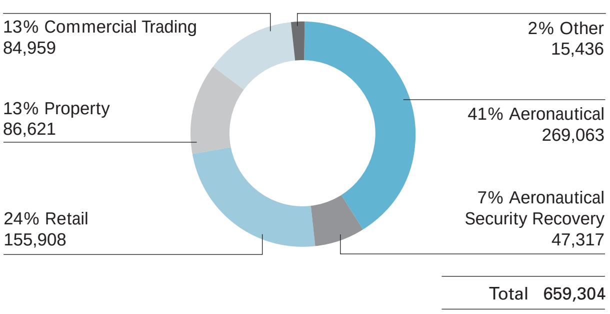
Environment and Community Initiatives

The Airport Environment Strategy, endorsed by the Federal Government in 2005, is now being implemented with a range of initiatives now underway. In FY06 work was undertaken on areas such as reducing water use, wetlands enhancement program, reducing ground-based noise and air emissions, and reducing energy use.

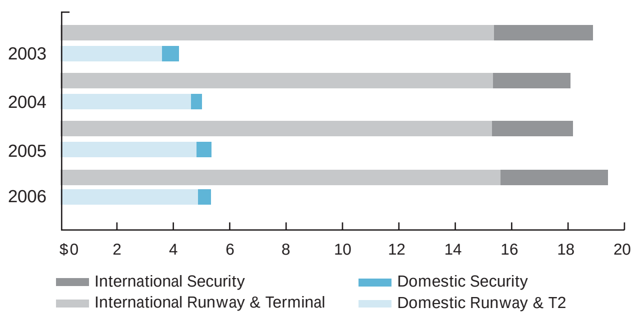
It is vital that SACL connects with its surrounding community and does so through its Community Investment Program, which focuses on educational and environmental initiatives. Through the program, support is provided to local schools and kindergartens. Surf Life Saving Sydney Branch Nipper activities at beaches south of the harbour are also beneficiaries of the program, as are a range of charities.

The highly successful Gold Ambassador program continued in FY06. The program is supported by over 100 volunteers who devote their time and effort to delivering to passengers and visitors to Sydney Airport an unsurpassed level of personal service and attention.

Revenue and Other Income ($'000)



Aero Revenue per Passenger





Strategies Going Forward

Improving customer service is of continuing importance for SACL. I have initiated a number of programs aimed to improve the level of customer service that we deliver both to passengers and our airline customers. These include the internal Service Quality Improvement Program, which aims to drive continuous improvement across the airport for the benefit of passengers, airport partners and visitors to the terminals.

It is important that we maintain our understanding of our customers and their needs by undertaking regular surveys. These surveys are conducted by independent parties and enable our performance to be benchmarked across airports globally. The results allow SACL to focus on issues that are of importance to customers, and to drive ongoing improvements in our service and facilities. In the year ahead, I expect that these programs and others will deliver a continually improving level of service that will drive higher levels of customer satisfaction.

One example of our efforts to satisfy our customers is Project STAR, a $500 million, five-year redevelopment of the International Terminal and airfield to deliver a state-of-the-art facility for all airport users. Project STAR will include:

- Self-service check in;
- An improved baggage system;
- A world class shopping precinct and food court; and
- Improved outward processing facilities for passengers.

In FY07, SACL will refinance part of its existing bank debt and maturing capital markets facilities and raise new debt facilities. The size of the debt facilities raised will ultimately depend on market conditions.

As Sydney Airport continues to grow provision continues to be made to accommodate it. Work is underway on the redevelopment of the freight area in the Northern Land precinct. This will provide freight operators at Sydney Airport with modern new facilities in the coming years. Corporate aviation also continues to grow and an MDP is underway for a new 46,000m^2 facility in the Airport's Corporate Aviation precinct.

Sydney Airport looks forward to welcoming the international services announced by Jetstar and intends to work actively to attract other new carriers.

Importantly, the stewardship of Max Moore-Wilton (who stepped down as CEO on 31 March 2006, but remains as Chairman of Sydney Airport) needs to be acknowledged. His significant contribution to steering SACL since privatisation and building it into a growing and profitable company needs to be recognised. We are fortunate he can continue to contribute to the company in his ongoing role as Chairman.

I am looking forward to working with our committed staff and our business partners and stakeholders in the year ahead to ensure Sydney Airport remains Australia's premier airport offering world class facilities to our airline customers, passengers and visitors.


SCACH
SCAC
SACL
RPSCo
EBITDA
Aeronautical
Retail
Commercial
Property
Opex

OVERVIEW: FINANCIAL PERFORMANCE

The consolidated profit before depreciation and amortisation, net finance costs, income tax, and specific non-recurring expenses (EBITDA excluding specific non-recurring expenses) was $525.6 million for the financial year ending 30 June 2006 – a 6.1 percent increase in earnings over the previous corresponding period (pcp) adjusted for AIFRS (FY05: $496.3 million). EBITDA (including specific non-recurring expenses) increased to $523.8 million (FY05: $494.3 million).

Total revenue and other income from all business units was $659.3 million – a 6.2 percent increase over pcp (FY05 $620.6 million).

Aeronautical revenue rose by 4.2 percent to $269.1 million (FY05: $258.3 million). Growth in aeronautical revenue reflected the continued expansion of airline services at Sydney Airport. In the international market, Air Tahiti Nui became the 40th international carrier operating out of Sydney Airport when it commenced services to Papeete early in the financial year, whilst Qantas, Emirates, Jetstar, Pacific Blue and Polynesian Blue also added services to international destinations during the year. In the domestic market, both Virgin Blue and Jetstar commenced new services during the year.

Aeronautical security recovery rose by 25.2 percent to $47.3 million (FY05 $37.8 million). Over the full financial year, aeronautical security recovery was higher than pcp due to an overall increase in security costs resulting from the implementation of enhanced security measures at the airport. This increase in overall security costs was despite the Federal Government funding Counter Terrorist First Response costs from 1 January 2006, which were previously paid for by the Airport and recovered from airlines. The increase in security recovery revenue for FY06 also reflected the implementation of the new 100% Checked Bag Screening system at the international terminal.

Retail revenue rose by 4.4 percent to $155.9 million (FY05: $149.4 million). During the year, a new food court was completed as part of the $20 million redevelopment of the retail offering at T2. At T1, new jewellery offerings were introduced and the currency exchange offering was expanded. A new advertising contract with APN Outdoor commenced in October 2005, covering the airport's outdoor sites and the indoor sites at the international terminal.

Property revenue rose by 8.2 percent to $86.6 million (FY05: $81.6 million). The property portfolio continued to perform strongly, with further rental streams added over the course of the year. Works were completed on both the new Emirates customer lounge at the international terminal, and the purpose-built Mercedes-Benz workshop and showroom in the domestic precinct.

Commercial trading revenue rose by 8.6 percent to $85.0 million (FY05: $78.2 million). Growth in commercial trading revenues reflects a continued positive contribution from the car parking business, which benefited from additional capacity available in both the long-term and domestic multi-storey car parks. The parking offering was broadened with the addition during the year of undercover parking in the long-term car park. Furthermore, the appointment in the first half of the financial year of Secure Central as manager of the Airport's public car parks has brought both local experience and international parking expertise to the management of the various parking offerings at the Airport.

Total operating expenses, including specific non-recurring expenses, increased 7.3 percent on pcp to $135.5 million (FY05: $126.3 million), principally as a result of increased expenditure on recoverable security requirements. Total operating expenses, excluding specific non-recurring expenses, increased 7.6 percent on pcp to $133.7 million (FY05: $124.3 million).

In FY06, there was again a significant increase in expenditure on security as a result of expanded government-mandated security requirements, with SACL implementing a package of new enhanced security measures from early in the financial year. Security-related operating costs increased on pcp notwithstanding the Federal Government's deci-

sion to fund Counter Terrorist First Response costs from 1 January 2006.

Capital Expenditure
Total capital expenditure increased 71 percent on pcp to $218.7 million (FY05: $128.1 million), with major investments including the new 100% Checked Bag Screening system and A380 airfield and terminal works. SACL is spending over $100m to prepare the airport for commercial operation of the new A380 aircraft starting in the first half of the next calendar year, and the required airfield works are almost complete. The new 100% Checked Baggage Screening system at T1 is now operational, and work is well advanced on the 100% screening system at T2.

Depreciation and amortisation
Depreciation and amortisation increased marginally by 1.6 percent to $149.9 million (FY05: $147.6 million). The FY05 and FY06 depreciation expense reflects the revaluation of certain assets to fair value using the Optimised Depreciated Replacement Cost (ODRC) method, which is taken as deemed cost from 1 July 2004 on transition to A-IFRS.

Finance Costs
External finance costs decreased by 8.0 percent to $342.4 million (FY05: $372.0 million), due to a decrease in the amortisation charge for deferred debt establishment costs.

Distributions to FLIERS and RPS shareholders reflect amounts paid or payable to Southern Cross FLIERS Trust and holders of redeemable preference shares. These amounts are treated as finance costs in the financial statements.

FINANCIAL HIGHLIGHTS ($'000)

The following table shows that the cash generated by the business is significantly larger than the annual debt service requirements. In the September 2004 refinance, the Group's lenders acknowledged that the Group's cash reserves were in excess of requirements. Accordingly, the Group's financiers approved the release of the excess reserves, to occur during the 2005 and 2006 financial years. The effect of these reserve releases is also shown in the table below.

	2006	2005
Revenue	659	621
Operating Expenses	-135	-126
EBITDA	524	495
Interest revenue	10	18
Other capex	-19	-10
Cash available for annual debt service (to external lenders)	515	503
Interest – Senior Debt	-241	-229
Interest – FLIERS	-58	-57
Cash available after annual debt service	216	217
Debt reserve releases	78	200
Surplus cash after debt requirements of external lenders	294	417

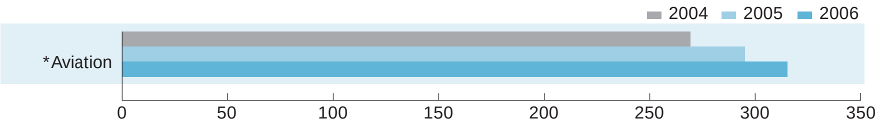
BUSINESS REVIEW – AVIATION

Aeronautical revenue rose by 4.2 percent to $269.1 million (2005: $258.3 million). The increase was due to steady growth of new international services.

Traffic – A key driver of financial performance

2006 saw sustained traffic despite significant fuel increases which were passed on to passengers. The majority of this growth was from new international services, including Emirates' second daily service to Dubai, new services by Qantas to Beijing in January 2006, San Francisco in April 2006 and Vancouver in June 2006, new airlines Air Tahiti Nui in July 2005 and Polynesian Blue in October 2005, Jetstar's first international services to New Zealand in November 2005, and service growth by other existing customers. The T2 terminal continued to experience strong passenger growth in its third full year of operation (having commenced trading in late September 2002).

2006 Aviation Revenue (Including Security Recovery)



*Aviation revenue includes security recovery

International

Despite a challenging aviation environment in FY06, Sydney Airport attracted a significant share of new seat capacity and services, including to new destinations. The growth in international traffic was driven primarily by new and improved air rights delivering new capacity on previously constrained routes, including China, Hong Kong, India and Malaysia. The year also saw the normalisation of the growth rate in our largest international market, New Zealand, following above-average growth in FY05.

Marketing to airlines in conjunction with tourism authorities continued,

TRAFFIC HIGHLIGHTS

	FY06	FY05	CHANGE	% CHANGE
PASSENGER MOVEMENTS				
Domestic	**17,510,908**	17,035,199	475,709	2.8%
Regional	**1,757,642**	1,609,115	148,527	9.2%
Total Domestic and Regional	**19,268,550**	18,644,314	624,236	3.3%
International	**9,533,633**	9,240,750	292,883	3.2%
Domestic on-carriage (DOC)	**306,283**	409,253	-102,970	-25.2%
Total International and DOC	**9,839,916**	9,650,003	189,913	2.0%
Total Passenger Movements	**29,108,466**	28,294,317	814,149	2.9%
AIRCRAFT MOVEMENTS				
Domestic	**128,340**	135,203	-6,863	-5.1%
Regional	**68,014**	61,889	6,125	9.9%
International	**55,971**	56,125	-154	-0.3%
General Aviation	**22,848**	24,059	-1,211	-5.0%
Freight	**7,475**	8,230	-755	-9.2%
Total Aircraft Movements	**282,649**	285,506	-2,857	-1.0%
TONNAGE (000s)				
Domestic	**5,662**	5,579	83	1.5%
Regional	**614**	509	105	20.5%
International	**7,222**	7,388	-166	-2.3%
General Aviation	**87**	75	12	15.7%
Freight	**578**	554	24	4.3%
Total Tonnage	**14,162**	14,106	57	0.4%

NOTES:
FY06
1. Passenger movements, Aircraft movements and Tonnage include estimates.

FY05
2. Pax movements, Aircraft movements and Tonnage have been updated with actuals compared to the Annual Report 2005.
Source: International and DOC are provided by Dept. of Immigration and Australian Customs. Domestic and regional are provided by airlines or estimated. Aircraft movements and tonnage are provided by Airservices Australia.

3. DOC reduction relates to airlines reducing the number of domestic sectors of international flights.

with a focus on consolidating the significant capacity delivered in FY05. Marketing efforts assisted the growth in the following key markets:

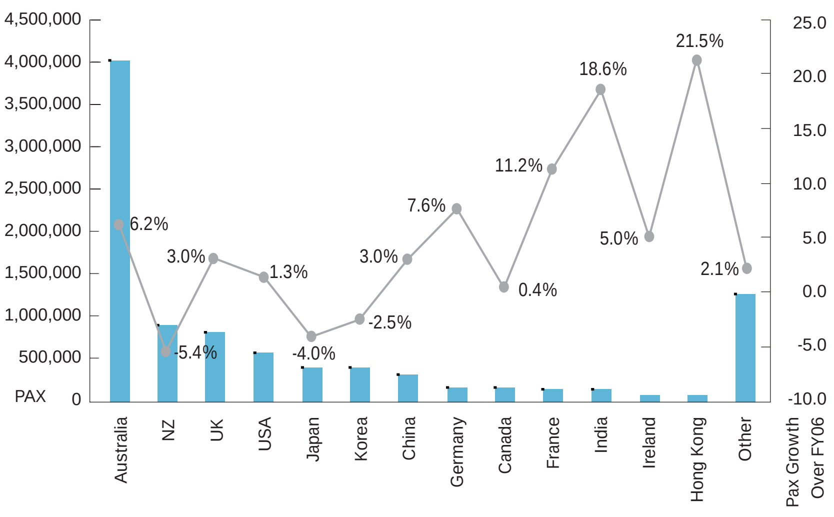
- Australian travellers underpinned the international growth on the back of a strong Australian dollar exchange rate and a robust economy.
- The key developing markets of China and India maintained good growth, with India stronger than most established markets. Both markets appear to be driven by strong domestic economic growth and significant new capacity. The number of Chinese travellers was boosted by the first full year of Qantas services to Shanghai, including an increase in frequency to four services a week, and in January 2006 Qantas commenced three services to Beijing a week. The first full year of Qantas services to Mumbai was enhanced with the introduction of the Airbus A330 aircraft on the route.

- European nationalities performed well, with UK, French, German and Irish travellers growing following introduction in November 2004 of Qantas's third daily service to London and the commencement of services in December 2004 of Virgin Atlantic.
- Hong Kong travellers benefited from the new Virgin Atlantic service (which operates via Hong Kong) and the commencement of Cathay Pacific's third daily service, both of which boosted growth.
- In July 2005 Emirates started a second daily service to New Zealand operating to Christchurch.
- Air Tahiti Nui increased the frequency of its services between Sydney and Papeete from two to three a week.
- The link between Sydney and the South Pacific region was strengthened by Pacific Blue launching two services a week to Tonga and Virgin Blue's new subsidiary Polynesian Blue starting three services a week to Apia in Samoa in October 05.

Domestic and Regional

Growth in domestic traffic slowed following the previous year's strong price-led competition driven by the commencement of Jetstar domestic services in May 2004. Capacity growth moderated as Virgin Blue completed its cycle of aircraft deliveries and Jetstar continued with the replacement of its interim aircraft with the larger Airbus A320.

Sydney Airport Key Nationality Markets FY06



Numbers of New South Wales regional passengers saw good growth with new services being added by Jetstar, Virgin Blue, REX and QantasLink.

Freight

Sydney Airport saw positive development in dedicated freight services, driven by growth in the import market. New services routed through Singapore and Dubai provided a basis for growth to both these markets. On the whole, existing services such as those to China and the United States were maintained throughout the year.

While airfreight contributed less than 3 percent of SACL's revenues, it is strategically vital to long-haul passenger operations, as nearly 80 percent of airfreight travels in the bellyhold of passenger aircraft. Nearly 300,000 tonnes of international airfreight worth over $33 billion was loaded or discharged at Sydney Airport through cargo terminals operated by Australian Air Express, DHL, Menzies Aviation, Patrick Air Services and Qantas Freight. Over 60 percent of exports from Sydney Airport were discharged in New Zealand, Japan, Hong Kong, Singapore or the USA. The export market to the United Arab Emirates experienced the highest level of growth as a result of new services over the last two years. Meanwhile, the import market from China continued to grow as dedicated freight services increased.

Airfreight Statistic Sources: ABS/Maritrade

Regulation

Since 1 July 2002, Australian airports including Sydney Airport have operated under a probationary five-year "light handed" regulatory regime for aeronautical charges[1]. This followed the adoption by the Federal Government in May 2002 of the recomendations made by the Productivity Commission in its review of airport pricing regulation. The Productivity Commission considered that the threat of government re-regulation combined with airline countervailing power and other commercial incentives was sufficient to prevent airports from exercising any unjustifiable market power.

SACL's charges continue to remain within the framework established by the ACCC in its pricing approval for Sydney Airport's charges in May 2001. The following charts show the movement in international and domestic charges for passenger services since privatisation of Sydney Airport. During FY06, charges for aviation users at Sydney Airport varied only sufficiently to recover the cost of providing security services required by Government and undertake new investment agreed with airlines.

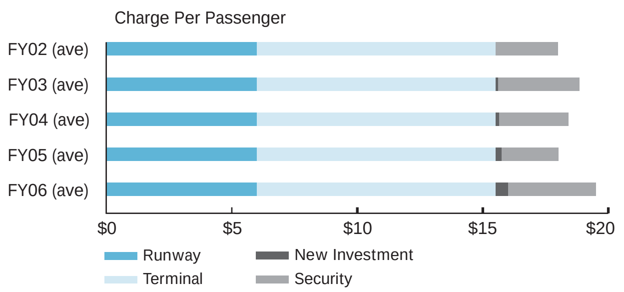
In December 2005, the Australian Competition Tribunal (ACT) announced its decision to declare that Sydney Airport's domestic airside facilities under Part IIIA of the Trade Practices Act. This followed the appeal by Virgin Blue of the Government's earlier decision not to declare. SACL applied to the Full Federal Court for judicial review of the ACT's decision. The Federal Court has since heard SACL's application. The declaration remains in place while the Federal Court's decision is pending. The declaration requires SACL to negotiate with users regarding the terms of use of the domestic airside facilities and provides for arbitration by the Australian Competition and Consumer Commission where agreement cannot be reached.

In April 2006, the Federal Government announced the commencement of the scheduled five-year review of the light-handed regulation of major airports. This review is being undertaken by the Productivity Commission, with an expectation that its findings will be available to Government to facilitate an announcement of future regulatory arrangements prior to the end of FY07.

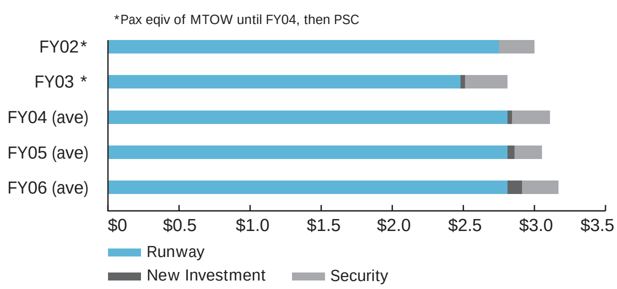
Prior to the ACT decision, and notwithstanding a five-year price path agreement in place since May 2001, SACL commenced engagement with the Board of Airline Representatives in Australia (BARA) and airline customers in relation to a new long-term pricing agreement for the use of Sydney Airport's aeronautical services and facilities. SACL continues in good faith with these negotiations, following the principles set down by the Government, and consistent with the approach adopted by other major Australian airports.

The new pricing proposal provides for a five-year fixed-price arrangement with separate recovery of new capital expenditure. This would provide funding for significant new services and facilities intended to ensure that Sydney Airport remains a world-class facility. The proposal also provides enhanced terms and conditions of use for airlines, in particular new service level commitments. Overall, the proposed arrangements provide for enhanced certainty for both airlines and Sydney Airport.

International Unit Charges



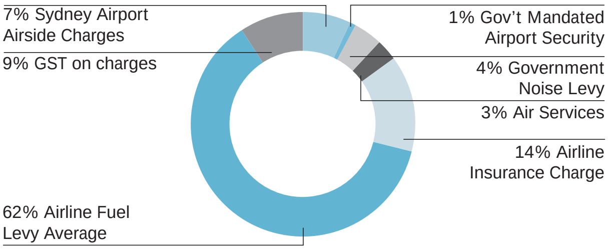
Domestic Unit Charges



The following charts illustrate aspects of SACL's fees and charges as a portion of total ticket price.

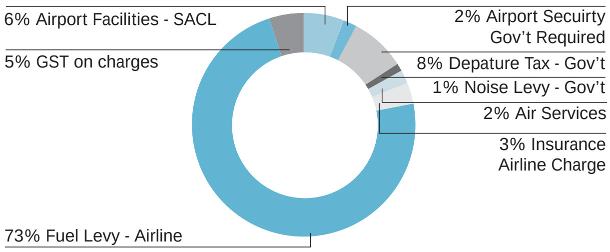
Domestic Passenger Ticket Estimated Components of 'Taxes and Charges'

Indicative average return trip from Sydney Airport, excluding destination Airport charges

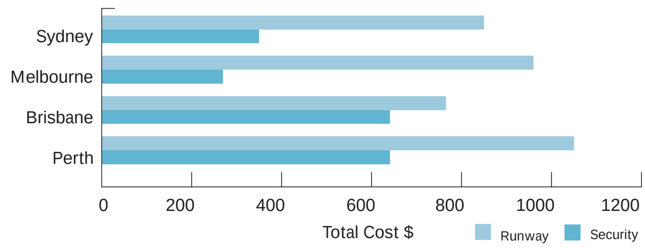


International Passenger Ticket Component of 'Taxes and Charges'

Indicative average return international trip from Sydney Airport, excluding destination Airport charges



Domestic Charge per Aircraft turnaround (737-800)



Source: Published airport charges, assumes 737-800 with 75% load factor.

SACL's charges remain industry competitive and continue to represent a small proportion of overall traveller cost, with SACL's airside charges representing between 2 percent and 4 percent of an average return airfare to Melbourne, depending on actual facilities used. Airfield and terminal charges represent approximately 1 percent of an average London airfare.

The airport's charges also represent a small proportion of the 'taxes and charges' levied by airlines on an airline ticket, with the majority comprising airline levies (such as fuel surcharges) and government charges. SACL's airside charges for an indicative return flight to Melbourne (excluding destination charges) now represent approximately 7 percent of 'taxes and charges' levied on an airline ticket, with airline levies comprising up to 75 percent. For an international service (excluding destination charges), SACL's airside and terminal facilities comprise approximately 6 percent of applicable 'taxes and charges', with airline levies accounting for some 75 percent. As of 1 July 2006, the Aircraft Noise Levy ceased to be collected.

A successful outcome on aeronautical charges and commercial agreements with airlines will underpin the future continued provision of internationally recognised, high quality services and facilities at Australia's premier international airport.

1 Aeronautical charges for regional (NSW intra-state) services remain subject to prices notification to the Australian Competition and Consumer Commission (ACCC).


EXIT
SUSHI WOK
food court

BUSINESS REVIEW – COMMERCIAL

In FY06 Retail and Commercial Development and Property and Development accounted for $327.5 million in annual revenue, representing nearly 50 percent of total SACL revenue. In an environment where competition for discretionary spend became more demanding, the retail business at Sydney Airport outperformed passenger growth with a 4.4 percent increase to $156 million. Overall property revenue rose 8.2 percent to $86.6 million (2005: $80.1 million). Commercial trading revenue (which comprises both car parking and car rental revenue) rose 8.6 percent to $85.0 million (2005: $78.2 million).

Retail & Commercial Development
Planning continues for the T1 retail redevelopment as part of Project STAR. In the interim, the existing retail offer has been refreshed to meet a changing market profile. Agreements were finalised with DFS for fashion boutiques Gucci and Ralph Lauren plus Omega concept store and Watch Galleria. Destiny Jewellers, Swarovski and Guess were also added to the speciality retail mix.

A Request For Proposal for the duty-free business was extensively marketed to the international duty-free industry. Initially 12 globally recognised companies were short listed with ultimately seven following through with six proposals (one joint venture). Nuance secured preferred tender status and subject to several matters being satisfactorily resolved, a new eight-year contract will commence on 1 November 2006.

During the course of the year, the Request For Proposal was sought for T1 and outdoor advertising. SACL, through the appointment of APN, secured improved commercial terms for this business.

The $20 million retail redevelopment of the Domestic Terminal (T2) will expand the overall retail area by some 2,200m^2 to a total of 5,000m^2. The number of tenancies will increase to over 50 outlets. Phases 1 and 2 of the development saw the completion of the new Food Court with 14 new tenancies, 600 seats and five speciality retail outlets.

The new T2 Food Court boasts brand names including McDonalds, Subway, Krispy Kreme, Red Rooster, Boost Juice and Sumo Salad. These will be complemented by contemporary cafes, a bar and a pub. New speciality retail stores continue to open as works progress. Once development works are complete, the retail mix will include Witchery, French Connection, RM Williams, Occhiali, Bijoux, CarriOn and others. These will supplement existing stores, including Bonds, Beach Culture and Vodafone.

The sense of space created through the blend of height and natural light has produced an environment that is conducive to both airline operations and customer demand. The redevelopment will be completed in the third quarter of 2007.

During the year, SACL introduced and funded a new customer service initiative called ACE™ (Airport Customer Experience). The programme involves the auditing of every store in T1 and T2 by a specialist mystery shopping company. Staff will be rewarded if they achieve a 100 percent score in the mystery shop (ACE™). Since the programme's inception, 126 retail staff have achieved an ACE™. The programme has been positively received by retailers and their staff, and demonstrates SACL's commitment to work with its business partners for the benefit of passengers.

Property and Development Business
The Property and Development business unit comprises the Property Management, Property and Project Development, Car Parking and Ground Transportation teams, which throughout FY06 were responsible for

managing the Airport's portfolio of 428 leased sites (over 130 tenants), the delivery of car parking and ground transport products, and the continued pursuit of commercial development opportunities in accordance with the Master Plan. The property portfolio vacancy rate currently stands at 0.5 percent of the lettable portfolio.

Recently Completed Property Developments

In January 2006, Mercedes Benz opened its state-of-the-art "Airport Express" facility at the entrance to the Domestic Terminal precinct. The facility provides high-profile showroom and workshop facilities offering vehicle sales and service to Mercedes customers using Sydney Airport. The Airport Express has experienced greater than anticipated patronage for both the sales and the service.

Projects Underway

A significant development within the International Terminal is the commencement of construction of a new 2,400m^2 airline lounge for Qantas. Incorporating streamlined design features, this exciting new addition to the terminal skyline will be handed over for fit-out at the end of calendar 2006.

Due to high demand for both office and ramp space within the International Terminal, vacancies are at a minimum. As airlines increasingly outsource their ground handling operations, there has been strong demand for accommodation from both new and existing operators. SACL has plans to construct up to 1000 m^2 of additional ramp accommodation.

Work has also commenced on a new BP Roadside Service Centre on General Holmes Drive. The facility is well located for city-bound users of the M5 East freeway and is due for completion late calendar 2006. Negotiations have concluded for the establishment of an international fast food restaurant and drive-through offering adjacent to the BP Service Centre. A second roadside service centre is under investigation for city and south-bound traffic.

Work will commence shortly on the construction of a pet boarding and care facility as an added service and amenity for travellers, and holiday makers who will be able to leave their pets in professional care conveniently located in close proximity to the long-term car park.

Future Development Opportunities and Initiatives

Two alternative Major Development Plan (MDP) schemes for direct factory outlets and home-maker goods were exhibited between November 2005 and January 2006. Following consultation and feedback, a revised version of the smaller scheme was selected to be put forward to the Federal Government for consideration.

An MDP for the provision of additional public car parking and commercial office facilities within the boundaries of the International Terminal car park was approved in April 2005. Design work has progressed during the past year and an initial car parking development is expected to begin in the next financial year.

An MDP for the development of a freight area of 110,000 m^2 in the Northern Airport precinct is being prepared. Until the MDP is approved, interim uses have been identified for the area to take advantage of the shortage of land for lease within the local region. Extensive preliminary planning work involving infrastructure plans, traffic and access plans and assessments, as well as industry consultation, have been undertaken during the year.

Also underway is an MDP for 46,000 m^2 of new aviation facilities in the Airport's Corporate Aviation precinct. When constructed over the next few years, the facilities will provide new aircraft storage and maintenance facilities, a corporate aviation terminal, and office facilities. Provision will be made for the operators of the NSW Air Ambulance Service.

Commercial Trading Business

The car parking business contributed $71.5 million, an increase of 8.3 percent over the prior year (2005: $66.0 million). Growth in revenue was attributable to the launch of new car parking products, repositioning of existing car parking products, targeted marketing initiatives and the appointment of a new car park manager providing improved operational management.

The car rental business contributed $13.4 million, a 10.3 percent increase on the prior year (2005: $12.2 million), due to the benefits of new car rental concession arrangements (from December 2005) and passenger growth.

International Car Park

The International Car Park generated $24.4 million in revenue, representing an increase of 10.1 percent over the previous year (2005: $22.1 million). The car park continued to provide a high level of service for the meeter/greeter and fareweller market, while maximum utilisation was experienced during the Christmas school holiday period. Additional spaces have been constructed within the International precinct to meet further anticipated peak car parking demands.

In addition, a new International Terminal Long Stay product was launched in November 2005, with a range of reduced parking fees for stays of two days or longer. Acceptance of this product has been positive and plans are underway to construct an International Terminal multistorey car park to meet the expected increased demand for both short and long-stay parking at the International Terminal.

Domestic Car Park

The Domestic Car Park generated revenue of $25.8 million, an increase of 5.7 percent over the prior year (2005: $24.4 million). A range of improvements to the entry and exit arrangements were implemented during the year. In addition, the number of spaces provided to short-stay parkers (less than three hours) was increased at all entry points locations, improving accessibility between the car park and the terminals.

Long-Term Car Park

The Long-Term Car Park generated $9.5 million in revenue, representing a growth of 5.3 percent (2005: $9.1 million). During the year, a new premium long-stay undercover parking product was launched, providing protected parking for over 120 vehicles. Since launch, the undercover product has experienced an average occupancy of over 90 percent. Plans are underway to double this area to accommodate expected future growth in demand.

Pronto! Valet Parking

The Pronto! Valet Car Park and Car Wash businesses increased revenue to $5.6 million, representing growth of 7.0 percent over the previous year (2005: $5.3 million). The popularity of the Pronto! Valet undercover product in the Domestic car park continued with strong patronage from the business and corporate sectors. Additional undercover storage areas were allocated within the Domestic Car Park in December 2005 to meet the increased peak demands.

T2 Valet Parking

The T2 Qantas/Jetstar and Virgin Blue Valet businesses continued strong growth during the year generating $1.4 million in revenue, representing growth of 25.2 percent over the previous year (2005: $1.1 million). The T2 Valet pickup and set-down areas are being expanded to meet expected future growth in these products.

Car Park Management

SACL appointed Secure Central Parking to manage all of the Airport's car parking businesses in October 2005. Secure Central Parking is a joint venture between one of Australia's leading car park managers, Secure Parking, and the world's largest airport car park management company, Central Parking System (UK). The management contract provides improved operational and financial management using a blend of local knowledge and international airport experience. During FY07 we expect to launch valet parking facilities for international travellers and a facility for all passengers to pre-book their parking online.

Car Rental

Expressions of Interest were sought in mid 2005 to enter into new licences with SACL allowing major rental car operators an opportunity to operate from Sydney Airport. The outcome of the process was positive with the six existing on-airport operators being awarded new licences on enhanced commercial terms effective 1 December 2005 for three years with two one-year options.

Within the Domestic Precinct an area currently used by Rental Car Operators for stacked vehicle parking will be redeveloped into a "quick turnaround facility". Rental Car Operators will have the use of manual/automatic wash bays, vacuuming areas, refuelling and general support facilities to enable operators to process their vehicles more efficiently and reduce turnaround times.

Ground Transport

The Ground Transport business contributed $5.8 million in revenue, representing growth of 71 percent over the prior period (2005: $3.4 million, representing eight months from November 2004).

During the year, a number of improvements and initiatives were implemented to the ground transport facilities on the airport, including:

- New and expanded ground transport holding areas in the Domestic precinct for buses, hire cars and taxis;
- Enhancements to the food and beverage outlet in the Domestic holding area for taxi drivers, including shaded seating areas;
- New and expanded toilet amenities for taxi drivers in the International holding area;
- Continuation of one of the lowest priced retail gas offerings in the airport region (the Airport taxi fuel service station operated by Unigas);
- Introduction of an automated taxi short-fare return priority system; and
- A new inter-terminal bus between the Domestic and International Terminals known as the TBus

The proposed full e-tag automation of the ground transport access system was developed during the year, with commissioning targeted by the end of calendar 2006. This initiative will enhance transport efficiency through the terminal roads and pick-up zones, and further reduce ground transport management operating costs.

BUSINESS REVIEW – ASSET MANAGEMENT

SACL is continuing to upgrade airfield and terminal facilities to accommodate the new A380 aircraft. The airport is now ready to accept the new generation aircraft with work complete on the widening of the aircraft pavements and bridge strengthening, and the first of the A380-capable parking bays. The second bay is scheduled to be operational in November 2006 and another four bays are to be upgraded over the following two years. All A380 parking positions at T1 will have three-door aerobridges to provide for faster boarding of the new aircraft and greater passenger convenience.

To date SACL has spent $76 million upgrading the airport for the A380 and expects to spend a further $30 million over the next two financial years to complete the terminal upgrade.

100% Check Bag Screening Project

Work on the $90 million upgrades of the baggage systems in T1 and T2 to provide 100% Check Bag Screening is in the final stages of completion. The system has been operational in T1 since 1 January 2006 as required by the Federal Government. The work to provide additional redundancy and backup systems is in the final stages of testing. The T2 work is also well advanced and will be available for testing by September 2006.

Other Works

Other work undertaken in the 2006 financial year includes:

- Ongoing work on the $20 million project to upgrade the retail precinct, amenities, passenger waiting areas and security facilities at T2. This includes the construction and fit out of a new food court at T2;
- Stage two of a five-year program to upgrade and refurbish existing amenities, floor coverings and lounge areas in T1;
- Stage two of a program to replace the Flight Information Screens in T1 with new large LCD monitors;
- Completion of an airport-wide landscaping and streetscape improvement program and the commencement of a major Terminal forecourt improvement project;
- Commencement of a $20 million project to re-align Taxiway Golf to provide obstacle clearances for new-generation aircraft using the 07/25 runway and to provide better low visibility capacity on the airfield;
- Stage 1 ($4 million) of the resheet of runway 16L/34R and the adjacent taxiways. Stage 2 will be undertaken in FY07 ($5 million); and
- A further $10 million was spent in the ongoing upgrade of the airport lighting systems to improve operational performance and safety on the runways and major taxiways.

Other Improvements

Work was undertaken to expand and update other infrastructure systems such the electrical distribution systems, airconditioning, fire protection and stormwater systems.

To improve asset and financial management, SACL upgraded its maintenance management systems with the latest version of the Maximo Asset Management System (MXES), introduced a new Oracle-based project management system and started work on a new energy metering and billing system. SACL also upgraded the T2 data network.

A utilities Master Plan has been prepared that supports the airport Master Plan and that provides a strategy for the expansion of the utilities supply systems in the areas of water, sewage, stormwater, gas, electricity and communications. This will ensure that there is sufficient capacity for the airport's growing aviation and commercial requirements.

Water and Energy Efficiencies and Reduction Measures

Water reduction plans and energy savings action plans have been developed and submitted to the Department of Energy and Utilities and Sustainability. The water plans will build on the already considerable work done under the Every Drop Counts program undertaken in conjunction with Sydney Water. It will complement the water monitoring system that has already allowed the identification and prevention of the loss of 123.6 million litres of water per annum. The energy plans will build on significant work already completed, such as changes to air conditioning controls and building structure, to make Sydney Airport more energy efficient.

SACL is also actively seeking ways of improving sustainability, including a water reuse project, use of low emission vehicles and green targets for new buildings.

Airport Ground Travel Plan

SACL has completed stage one of an Airport Ground Travel Plan to address ground transport options to and from the airport for the future. The first stage has involved major surveys to determine usage patterns and travel preferences for travellers and visitors to Sydney Airport. Stage 2, currently in progress, will be finalised in FY07 and will develop framework strategies for future implementation programs to deliver the target of a 5 percent mode shift to sustainable forms of transport by 2024. There will be ongoing consultation with the NSW Government and airport stakeholders on the plan over the next 12 months.

PROJECT STAR

Project STAR is a $500 million project that has been developed in response to changing technologies, customer feedback, and passenger growth. It will upgrade the airport, especially T1, over the next five years.

STAR includes the modernisation and expansion of the International Terminal (T1) to increase capacity and improve various elements of its operations, from aircraft parking areas, check-in, passport controls, security and baggage delivery to the retail, food and beverage offerings. The T1 project is designed to take the terminal through its next phase of expansion to cater for new generation aircraft and significantly enhanced passenger processing facilities. Automation, efficiency and product differentiation are the key drivers of the project and it is designed to link with both Government and IATA moves to simplify and speed up airline travel. Consultations on the project are underway with airlines, government agencies and tenants.

A key feature of the STAR project in T1 will be the reconfiguration of the retail offering, restaurants and waiting areas airside. This follows feedback from customers wanting more variety, improved product range and dining as well as a comfortable place to wait for the departure of their aircraft. This is consistent with the global trend for passengers to complete their departure processing and to move airside earlier. STAR will not only provide for new retail brands and a food court, but also additional seating and access to communications and data services.

Work is well advanced on the design of upgrades to the Departures facilities at T1. Design work has also commenced on upgraded arrival facilities to provide additional baggage reclaims and improved passenger processing areas for Customs and Quarantine inspections. Work on the new arrivals facilities is expected to start in FY07. Efficiency gains and an improved customer experience will be delivered from these changes.

Planning and design work has now commenced on a major expansion of the outbound baggage system to provide additional capacity and to introduce new technologies such as radio frequency identification scanning to provide faster and more reliable sbaggage sorting.

Additional aircraft parking areas are to be built in the southwest sector of the airport to provide additional layover parking and to allow better use of aerobridges by supplying alternative areas for off-schedule aircraft arrivals. Construction on the first of these bays will start in FY07.

Project STAR will also deliver technical upgrades to various sub-systems such as airport lighting controls, aerobridges, security facilities and communications.

SAFETY AND SECURITY

The review of airport security and policing arrangements by Sir John Wheeler during FY06 provided a comprehensive and positive assessment of Australian airport security policy settings. The detailed report noted the significant resources applied in response to the post 11 September security environment.

The Government accepted the Wheeler Report recommendations and announced a $200 million package to implement the proposals, including substantially improved policing arrangements to collectively address terrorist and criminal activity.

SACL fully supports the new measures and continues to work closely with government on these and other issues, affording security the highest of priorities.

Some of the changes during FY06 include:

Initiatives generated by the Wheeler Report such as:

- Strengthening the role and decision making capability of the airport security committee;
- Implementing a unified airport policing model to address both acts of unlawful interference and criminality; and
- Enhancing controls and measures for airside access.

The completion of several major Sydney Airport projects including mandated requirements to:

- Providing 100% Checked Baggage Screening for international flights; and
- Completing a review of all application for ASIC cards issued by SACL against newly introduced criteria.

SACL business initiatives including the:

- Completion of a highly sophisticated Emergency Operations Centre; and
- Introduction of a fully serviced Mobile Command Base unit for airfield control.

Unified Airport Policing Model

In 2005, the Council of Australian Governments (COAG) supported a single law-enforcement command structure at Australian airports and agreed to establish a unified policing model at each of the 11 major airports. At Sydney Airport this Australian Federal Policing model, fully funded by Government, will comprise five elements:

- An airport policing commander who will mange an integrated and coordinated approach to intelligence, general policing, terrorism first-response and investigations;
- A community policing presence full-time consisting of uniformed police officers to be established by July 2007;
- A joint airport intelligence group comprising specialists from various Governments intelligence agencies;
- A Counter Terrorism First Response capability already resourced and operational at airports; and
- Joint airport investigation teams to detect, interdict and prosecute serious and organised criminal activity.

Quality Standards and Compliance

SACL continues to participate in extensive consultation with Government and is involved in a number of forums, including the aviation security advisory forum and work groups to ensure that aviation policy and flexible security outcomes meet contemporary threats.

A comprehensive security quality program has been developed to ensure our security obligations are met. During the year, both the Office of Transport Security and the International Civil Aviation Organisation undertook audits of Sydney Airport with positive outcomes. This demonstrates the priority afforded to security by SACL.

Safety

Safety is considered paramount to SACL's ongoing operations. In addition to the potential impact on our most valuable resource, our people, safety issues arise that could impact on other parties. The airport is a diverse work environment with a number of inherent hazards. Those hazards arise from various activities that occur on the airfield and aprons, in terminals and other airport facilities.

Appropriate risk management is required to ensure that the exposure to hazards is either removed or minimised to the fullest extent. Safety staffing levels have recently been increased to support the overall safety strategy. The SACL OH&S Committee has been reconstituted as a result of the two-year tenure of the previous committee members coming to an end. Sydney Airport's Safety Management System was submitted to the Civil Aviation Safety Authority (CASA) late in 2005 as part of the airport certification process.

Key initiatives planned over the course of the next financial year include:

- Further development and roll-out of the Safety Management System across all business units;
- Improving safety levels in relation to vehicle runway incursions and airside driving;
- Ensuring that all safety-related risk management elements associated with SACL projects and ongoing maintenance, including commissioning, are effectively addressed; and
- Ensuring safety compliance strategies and actions are effectively managed.

SACL is subject to annual audits from CASA and maintains a strong and effective working relationship with WorkCover NSW.

There were 33 Sydney Airport staff incidents reported during the last financial year and six Lost Time Injuries (LTIs). There has been no discernible upward trend in the number of reported incidents or LTIs, although the ultimate target for LTIs each year is nil.

QUALITY OF SERVICE

Delivering high levels of passenger satisfaction requires the efforts of the entire team at Sydney Airport, including all business partners and stakeholders working in and around the terminals. To this end, quality of service continues to be a key focus for Sydney Airport. As our plans for the future progress, we want to ensure that all staff involved are aware that the focus on excellence in service delivery is as important as the delivery of world-class terminal facilities. Our ongoing commitment to our customers will be set out in FY07 and widely circulated.

SACL recently launched an internal Service Quality Improvement Program. The main objectives of the program are to increase awareness of service quality and identify opportunities to drive continuous improvement across the airport for the benefit of passengers and visitors to the terminal.

The initial phase of the program involves working with our front-line staff in an endeavour to improve some of the key issues which have been identified. These range from elements of communication, which can be challenging in a dynamic operational environment, through to the development of an airport-wide induction kit aimed to provide all on-airport staff with useful information designed to improve the passengers' experience.

The next steps in this program include the establishment of a steering committee. The committee will comprise representatives from each of the key on-airport partners, and service providers who will be charged with identifying areas for improvement across all services and facilities for both arrivals and departures.

During the year, SACL launched another program focused on solely on the delivery of excellent customer service in the retail and food and beverage outlets. The Airport Customer Experience program known as ACE™ involves each food and beverage, retail and foreign exchange outlet being audited each week by a mystery shopper who rates staff against a set of criteria developed to gauge levels of customer service. Staff who perform well and deliver "ACE™" levels of service are rewarded for their efforts. The program has been well received, and we have seen improvements in the area of customer service reflected in our ongoing passenger satisfaction surveys.

Our dedicated team of Gold Ambassadors have completed another year of invaluable service. The Gold Ambassadors are a team of over one hundred volunteers who are passionate about customer service and are committed to assisting passengers and visitors to the terminal. They are an inspiration for SACL staff, and a valuable part of our operation.

Research continues to play a major part in measuring performance and understanding key drivers of passenger satisfaction. Sydney Airport continues to participate in the Airport Council International-backed Airport Service Quality benchmarking program. With close to eighty airports participating globally in the program, it provides SACL with an opportunity to benchmark its performance against other similar airports worldwide.

In addition, SACL conducts an independently facilitated passenger satisfaction survey. Completed on a monthly basis at both T1 and T2, the results provide an opportunity to measure both our performance, and that of our key service providers. The survey asks passengers to rate their satisfaction in over fifty areas.

Research conducted at Sydney Airport continues to highlight areas of strong performance and areas in need of improvement. Passengers have consistently rated their overall satisfaction with all our services and facilities in the eighty percent range.

Quality of service and the passenger experience played a key role in many of the terminal upgrade programs which took place in FY06. This important focus on the planning and delivery stage of programs helps to ensure that passenger satisfaction is a vital part of each and every project.

Upgrade work at T1 over the past year driven by feedback from our customer surveys has included the complete and partial refurbishment of washroom facilities, the commencement of the tiling of the departures level and the installation of new flight information display screens. In addition, significant work is underway to increase and improve the landscaping in the terminal forecourt area.

At T2, terminal upgrades are well underway with the addition of a new food court area offering passengers a comprehensive range of choices representing good value. In addition, new tiling has been extended towards the departure gate areas, creating cleaner lines and a more modern atmosphere.

With the planned quality-of-service improvements in place, SACL is well positioned to improve on the progress made to date in this important area.

OUR PEOPLE

The ability of SACL to deliver world-class services and consistent business results is directly attributable to our quality of management and team performance.

Over the course of FY06 our staffing remained stable. The number of employees remained at an average of 287 and staff turnover, absenteeism and lost-time injuries are at consistently moderate levels.

Due to major systems changes, SACL now has better information management capabilities in relation to employees. During the year, SACL completed the outsourcing of its payroll/HRIS and the successful migration to a new Oracle-based platform. Importantly, this web-based system allows individuals to directly monitor and manage employment information. This has reduced a number of paper-based processes and significantly increased data integrity.

SACL continued to look for ways to maintain a safe workplace. Consultations with employees revealed they endorsed changes to the Occupational Health and Safety Committee. This was accompanied by a continuing focus on providing appropriate training across business areas to enable employees to better understand health and safety matters and effectively identify and manage risks.


Airport

COMMUNITY TIES

Sydney Airport's Community Investment Program is designed to assist our local communities. Educational and environmental initiatives are a focus, as well as activities that help to create a sense of community.

An Educational Approach

SACL's ongoing Education Grants Scheme provided support for projects at local schools and kindergartens. In total, 10 local schools and 12 kindergartens benefited this year. Schools from the Botany, Marrickville, Rockdale and Sutherland areas shared in the grants which funded proposals to improve school facilities for students. The program seeks specifically to support environmental and education initiatives and those events and activities which help create a sense of community around the Airport.

Kids in Sport

As part of the Community Investment Program, SACL continued its involvement in local sports by supporting five junior soccer teams in neighbouring communities. Other major beneficiaries of the sporting sponsorship program are the Junior Jets rugby league team, of which SACL is the major sponsor.

SACL renewed its sponsorship agreement with Surf Life Saving Sydney Branch Nipper activities at beaches south of the harbour from North Bondi to Burning Palms in the Royal National Park. Our involvement with Surf Life Saving was extended to sponsorship of the Shark Island Swim at South Cronulla Beach for a second year.

Local Charities

Sydney Airport's support of local charities continues with an agreement between SACL and the Rotary Clubs of Botany, Rockdale and Marrickville allowing those clubs to collect funds from charity collection bins at Sydney Airport. Over $90,000 was collected during the year. The funds are distributed locally to worthy charities, with a proportion going to overseas programs. SACL also continued its support of other charities, including Youth Off The Streets, The Wesley Mission, the Lions Club and St George Hospital.

SACL continues to play an active role in supporting both local community endeavours and major charity groups. Efforts and funds have been directed at the Royal Australian Flying Doctors, Cooks Sites Exhibition at the Museum of Sydney and a range of educational and sporting projects.

Staff are encouraged to participate in other fundraising activities, including Jeans for Genes Day, Daffodil Day, Shine Day and many other charities which depend on the support of organisations.

ENVIRONMENTAL ACHIEVEMENTS

In the first full year of implementation, SACL's Airport Environment Strategy recorded a series of major achievements across a range of environmental initiatives. This demonstrates SACL's ongoing commitment to managing the airport's environmental impact.

Airport Environment Strategy
The Airport Environment Strategy 2005-2010 (AES) provides key strategic direction for environmental management at the airport. Its main objectives are to manage the significant environmental risks associated with the airport while facilitating continual improvement of the airport environment and its management.

Implementation of the many initiatives under the current AES, endorsed by the Minister of Transport and Regional Services in 2005, are well under way, including:

- Seeking accreditation of its EMS system to ISO14001;
- Reducing water use and improving water quality;
- Wetland Enhancement Program for significant wetland areas on the airport;
- Reducing ground-based noise and air emissions;
- Development of a whole-of-airport ground travel plan;
- Reducing natural resource and energy use; and
- Initiation of an airport heritage management plan.

Note: The complete AES can viewed at SACL's website www.sydneyairport.com.au/SACL/Corporate+Information/Environment/Environment+Strategy/default.htm

Sydney Airport Environmental Management / Audit Program
In line with its responsibility to ensure that it appropriately manages environmental risk and assesses compliance with environmental policy at the airport, SACL has committed to undertaking ISO 14001 accreditation, an internationally recognised standard for measuring environmental performance.

To date, Sydney Airport has completed an audit program of its internal environmental performance as well as a gap analysis of current performance relative to ISO 14001certification standards. These results were positive and demonstrated that SACL is on target for achieving ISO 14001 certification by 2010.

Airport Water and Energy Saving Strategies
SACL initiated a number of energy and water savings measures outlined in its energy and water reduction management plans recently completed for the NSW State Government.

Water Use Accountability & Leak Detection
As part of the Sydney Water "Every Drop Counts" program, Sydney Airport installed a number of water meters, enabling the reduction of water consumption and improving water use efficiency and identification of unaccounted water use.

Water Efficiency and Re-use
New airport developments such as that of Mercedes Benz are incorporating water saving technologies including rainwater tanks and waterless urinals for use in their operations.

Additionally, SACL has completed a feasibility study and concept design on a black water treatment plant to treat up to one million litres of sewage per day from the Cooks River Sewer Pumping Station for use in toilet flushing, landscape irrigation, cooling towers, friction testing and de-rubberisation works.

Energy
Most of the energy consumed at Sydney Airport is used to run air conditioning systems in the Terminals. To try and minimise consumption, SACL has initiated energy reduction measures for the air conditioning systems, as well as looking at accountability for energy use, overall airport energy efficiency strategies and assessment of new/alternative energy technologies such as solar and passive cooling systems.

Air Quality/Cleaner Energy
During 05/06, Sydney Airport turned its focus from simply monitoring air quality to proactive measures to improve air quality. This included the addition of six new Toyota Prius hybrid cars to the airport fleet, investigating options for cleaner energy production and putting

in place measures to improve energy efficiency throughout the airport and its associated developments.

Stormwater Management/ Monitoring

SACL has recently initiated a major stormwater monitoring program to assess and improve the quality of stormwater from the airport. Results will be used to build upon existing stormwater quality data and assist SACL in determining what future stormwater pollution mitigation programs are required.

As a part of SACL's four-year stormwater infrastructure improvement program, three new gross pollutant traps (GPTs) are being installed in the International Carpark to collect litter and pollutants before stormwater can enter the Cooks River.

Wetland Enhancement Program

Implementation of SACL's wetland enhancement program has made significant progress and has included weed removal and management, a carp control program and the installation of a gross pollutant trap to facilitate the removal of weed and litter as it enters the Engine Ponds. FY07 will see the implementation of a revegetation program and the installation of a fish ladder to allow the movement of fish from Botany Bay into the wetland which is currently obstructed by a weir.

Restoring Lady Robinsons Beach

During FY06, Sydney Airport finalised its commitment of $2.7 million to the $8.4 million Lady Robinsons Beach restoration project. The works required the construction of five groynes in the northern section of the beach which was renourished with sand and stabilised with dunal grasses. The project, which began in 2004, will be finalised with the monitoring of the effectiveness of the sea grass transplantation and the stability of this new beach environment.


WAY OUT
Terminals
3
3

Statutory Information

BOARD OF DIRECTORS

Max Moore-Wilton AC, BEc.
– Chairman

Mr Max Moore-Wilton is Chairman of the SCACH Group of companies. He was appointed to this position in January 2003. Mr Moore-Wilton was CEO of the SCACH Group of companies from January 2003 to April 2006. Prior to this, Mr Moore-Wilton was Secretary to the Department of the Prime Minister and Cabinet, a position he held from 1996.

Mr Moore-Wilton is currently Chairman of Macquarie Airports Management Limited and an Executive Director of Macquarie Bank Limited.

Mr Moore-Wilton has also held a number of key executive roles both within the public and private sectors and he has extensive experience in the transport sector. Mr Moore-Wilton was appointed a Companion in the General Division of the Order of Australia in the Australia Day Honours List 2001.

Russell Balding Dip Tech (Com), B Bus, FCPA, MAICD
– Chief Executive Officer

Mr Balding has had a distinguished managerial career, having held senior positions in a number of major organisations which have required extensive government, stakeholder, community and customer interaction. Prior to his current role, Mr Balding was the Managing Director of the Australian Broadcasting Corporation (ABC), and before that Director, Funding Finance and Support Services at the ABC, Director of Finance at the NSW Roads & Traffic Authority and Financial Controller at the NSW Department of Housing.

Patrick Gourley BEc (Hons), MEc
– Director

Mr Gourley is a former senior officer of the Department of Defence and the Commonwealth Department of Industrial Relations, and a former member of the Military Superannuation Board of Trustees. Mr Gourley is a director of the Great Energy Alliance Corporation and the Loy Yang Marketing and Management Company and is a consultant to the Motor Trades Association of Australia Superannuation Fund.

Meredith Hellicar B.A., LL.M (Hons.), L.Mus.A, FAICD. – Director

Ms Hellicar is a director of various listed Australian entities including AMP Limited, James Hardie Industries NV and Amalgamated Holdings Limited and also holds a number of non-listed and voluntary board and council memberships. Previous positions include Managing Director of InTech Financial Services, Chief Executive of Corrs, Chambers Westgarth and Managing Director of TNT Logistics Asia PTE Ltd.

Kerrie Mather BA MComm
– Director

Ms Mather is an Executive Director of Macquarie Bank Limited and the Chief Executive Officer of Macquarie Airports. Ms Mather has extensive experience in transport infrastructure acquisitions, investments and financings, with a particular focus on airports. Ms Mather is also on the Board of Brussels Airport, Copenhagen Airports, Birmingham Airport and the Rome airport investment company.

John Roberts LLB
– Director

John Roberts joined Macquarie in 1991. He is based in Sydney and is the Global Head of the Investment Banking Group's funds business and Joint Head of Macquarie's Corporate Finance division. Prior to his return to Sydney in 2003, John led the Infrastructure Funds group in London and was responsible for Macquarie's Investment Banking Group activities in Europe, as well as being head of Macquarie's London office. John is currently a member of several investment committees and boards of Macquarie-managed vehicles.

Shelley Roberts BBus Sci; ACA
– Director

Ms Roberts is an Associate Director of Macquarie Bank. She is a Chartered Accountant who has previously worked for easyJet and KPMG in the UK. Ms Roberts has extensive experience in Strategic Business Planning and Corporate Finance activities. Ms Roberts joined Macquarie Airports in October 2005.

Holger Linkweiler Diplom Oeconom
– Director

Mr Linkweiler is Head of Business Planning and Financing at HOCHTIEF AirPort GmbH. In this function he has played a leading role in all major acquisitions, projects and financing of the company. Mr Linkweiler is also Managing Director of HOCHTIEF Airport Capital (HTAC).

Luis Sanchez Salmeron BEc. MBA.
– Director

Mr Sánchez Salmerón is the director of the Airports Division of Ferrovial Infraestructuras S.A. Mr Sánchez Salmerón has been involved in local and international transportation and infrastructure projects and has considerable business, finance and strategic planning expertise, having held senior positions with Acciona and Grupo Dragados in Spain, the UK, Chile and Mexico. He has recently been appointed the Deputy Chairman of BAA plc, a company listed on the London Stock Exchange which has interests in airports around the world, including Melbourne and Perth airports in Australia.

Company Secretary
Ms Clair Hodge
B Com LLB (UNSW) GAICD FCIS

Ms Hodge is General Counsel and Company Secretary. She has over 10 years' company secretarial experience in both private and Commonwealth enterprise environments. She is a NSW Council member of Chartered Secretaries Australia and a member of its national Corporate and Leagal Issues Committee.

CORPORATE GOVERNANCE

The Board of Directors

The compositions of the boards of SCACH, SCAC, SACL, FinCo and RPSCo are identical while the Board of Nova is made up of those directors who are members of the SACL Board Strategy Committee (refer below).

References to the "Board" in this section are to the SCACH Board.

The Board, management and shareholders are committed to a high standard of corporate governance. SCACH's corporate governance procedures and structures have been formulated with regard to ongoing developments in corporate governance practice.

The Role of the Board

The Board is responsible for the overall direction of the SCACH Group. Four board committees have been established through SACL, the main operating entity of the Group, for the purpose of enhancing corporate governance and establishing strategic and financial priorities and objectives – the Strategy Committee, the Audit and Corporate Governance Committee, the Human Resources Committee and the Safety, Security, Environment and Health Committee.

The Board monitors management's performance and provides constructive input toward accomplishing the Group's goals. Responsibility for the day-to-day management of each Group company rests with the Chief Executive Officer and his management team. One of the aims of the corporate governance procedures is to ensure that the Board, the committees and management understand their roles and can operate in a constructive and value-adding environment. This environment includes shareholder and director support (and advice through each Board and committee structure) as well as the consultancy referred to below.

Size and Composition

At the date of this Annual Report, the Board of Directors consisted of the Chairman, the Chief Executive Officer and seven non-executive directors.

MEMBER	BOARD	STRATEGY	AUDIT AND CORPORATE GOVERNANCE	HUMAN RESOURCES	SAFETY, SECURITY ENVIRONMENT AND HEALTH
Maxwell Moore-Wilton	● ■	● ■	● ■	● ■	● ■
Russell Balding	●	●	●	●	●
Patrick Gourley	●		●	●	
Meredith Hellicar	●		●		●
Kerrie Mather	●	● ▲		●	●
John Roberts	●				
Shelley Roberts	●	●	●		
Luis Sánchez Salmeron	●	●		●	
Holger Linkweiler	●	●		●	●

● Member ■ Chair ▲ Deputy Chair

In the event a Director has a material personal interest in a matter that relates to the affairs of any group company, the Director must not vote on the matter nor be present while the matter is being considered at that company's board meetings. To assist in pro-actively identifying conflicts or potential conflicts, each Director has completed a Standing Disclosure Statement and is requested to confirm to the Company Secretary the continuing accuracy of this or her disclosures on a half-yearly basis. Each Group company's constitution also contains conflicts of interest and related-party transaction requirements which are additional to those set out in the Corporations Act.

Non Executive Directors' Fees

Non-executive directors' fees are $60,000 per director per year (plus reimbursement of expenses incurred in attending meetings, attending to business of the Group, and carrying out duties as a director for the Group). The total cost of directors' fees and Board expenses of the Group for the year amounted to $420,000. Non-executive directors who are members of committees do not receive a committee fee. The Chief Executive Officer does not receive a director's fee or a committee fee. In FY07 director's fees will reduce as shareholders have aggreed that only one director's fee per shareholder will be paid.

Company Policies
The Board has adopted a number of policies in key areas including finance and treasury risk management, internal audit, workplace health and safety, environment, equal employment opportunity, privacy, trade practices and dealings by employees in units in the Southern Cross FLIERS Trust and securities of other companies.

Group Board Committees
As noted above, four committees have been established through SACL to assist each Board with the execution of its responsibilities. These committees meet regularly and make recommendations to each Board on matters delegated to them in accordance with their written terms of reference or as a result of a specific request by a board. The committee papers and minutes of each committee meeting are provided to all directors together with the agendas for upcoming meetings so that non-committee members can attend if they wish. The committees engage with management as appropriate and operate in accordance with their terms of reference. All committees may at any time obtain professional advice to assist in the carrying out of their functions.

Terms of Reference and Composition of Committees

Strategy Committee
This Committee is chaired by Max Moore-Wilton, other members being Russell Balding, Kerrie Mather, Shelley Roberts, Luis Sánchez Salmeron, Holger Linkweiler and the Chief Financial Officer, Ruth Martin. The Secretary is the General Counsel & Company Secretary, Clair Hodge.

The role of this committee is to make recommendations to each board in relation to business strategy, business development and major projects.

Audit and Corporate Governance Committee
The Audit and Corporate Governance Committee is chaired by Max Moore-Wilton, the other members being Russell Balding, Patrick Gourley, Meredith Hellicar and Shelley Roberts. The Chief Financial Officer attends by invitation. The Secretary is Financial Controller, Nick Livesey.

Members of the committee are appointed for an initial term of three years and are eligible for reappointment at the first SACL Board meeting following the third anniversary of the member's appointment.

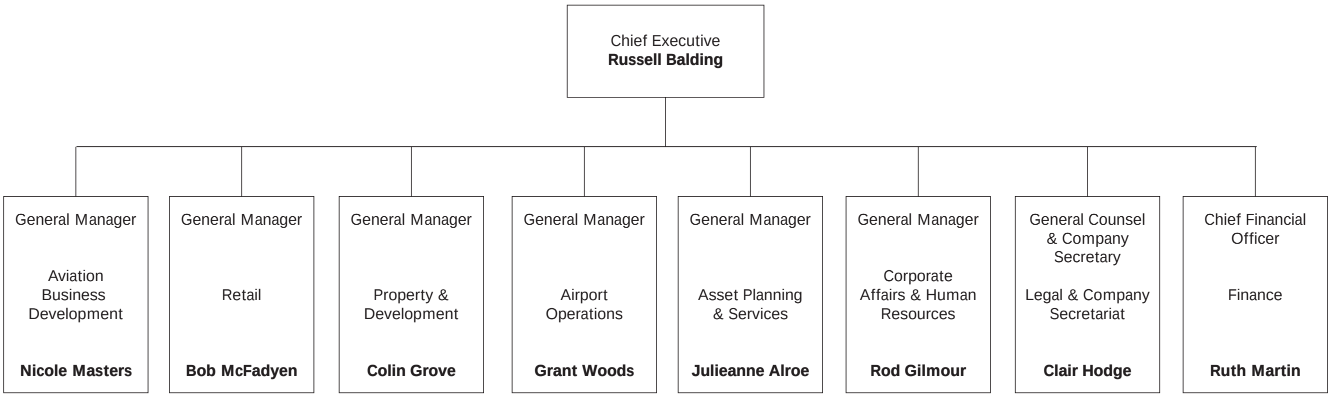
A Charter of Audit Independence is in place to ensure that this committee and the relevant Boards are satisfied that the Group's auditor is at all times independent and is seen to be independent. The Charter sets out procedures that need to be followed to ensure this independence as well as identifying the various responsibilities of the external auditor, management and the Audit and Corporate Governance Committee. There is also provision in the committee's terms of reference for the internal and external auditors to meet with the non-executive committee members without management being present. Additionally, the Chair of the committee is required to call a meeting if the auditors request it.

The Committee's role is to assist each board in fulfilling its responsibilities relating to the accounting, reporting and corporate governance practices of the Group.

Human Resources Committee
The Human Resources Committee is chaired by Max Moore-Wilton, the other members being Russell Balding, Patrick Gourley, Kerrie Mather, Luis Sánchez Salmeron and Holger Linkweiler. The Secretary is the General Manager, Corporate Affairs and Human Resources, Rod Gilmour. The Committee provides advice and makes recommendations to the SACL Board (and the Chief Executive Officer where appropriate) in relation to senior executive appointments, performance, remuneration policies, strategies relating to senior management, the organisational structure and succession planning. The Committee also reviews issues and practices relating to staff development and career progression and monitors employment policy and guidelines.

Safety, Security, Environment and Health Committee
The Safety, Security, Environment and Health Committee is chaired by Max Moore-Wilton, the other members being Russell Balding, Meredith Hellicar, Kerrie Mather and Holger Linkweiler. The Secretary is one of the internal senior corporate lawyers, Wayne Leach.

The Committee monitors and considers reports and proposals in relation to airport security (including legislative changes); the airside safety policy plan; the auditing of internal practices to ensure that legislative and technological safe practices and standards are continually maintained, and environmental policies and strategies (including developing and reviewing occupational health and safety policies



and strategies to ensure compliance with relevant legislation and best industry practices).

The Executive

At the date of this Annual Report, the Chief Executive Officer has eight senior executives who report directly to him. The Chief Executive Officer together with the senior executives comprise the Senior Management Team which meets regularly to consider:

- Strategic objectives;
- Operational matters;
- Corporate issues; and
- Recommendations and advice, from and to, each Board and the committees.

The current management structure is as above.

The SACL Board has delegated the day-to-day operation of the Airport to the CEO via a written Standing Instrument of Delegation, who in turn has sub-delegated a number of his delegated powers to his direct reports and to a limited number of other managers. Compliance by employees with the Standing Instrument of Delegation and CEO Sub-Delegation is monitored by the SACL Company Secretarial and Finance Departments.

Airport Strategic Consultancy Agreement

This consultancy arrangement is intended to ensure that advice from shareholders Hochtief Airport GmbH and Macquarie Airports Management Limited is provided transparently to the Group and enables the members of the Strategy Committee to work with the consultants and management to make recommendations to each Board.

Risk Management

An integrated risk management framework is in place for identifying and evaluating risk.

Each member of senior management is responsible for identifying and managing risks pertaining to their areas of responsibility. In addition, risks are collectively identified and managed through reports to the relevant Group Board and the SACL Board Committees, the corporate planning processes and the internal audit function.

Environmental Regulation

The primary piece of environmental legislation applicable to the SCACH Group is the Airports Act 1996 (the Act) and regulations made under that Act, including the Airports (Environment Protection) Regulations 1997. The main environmental requirements of the Act and the Regulations include:

- The development and implementation of an environment strategy;
- The monitoring and remediation of air, 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 Act and Regulations); and
- The enforcement of the provisions of the Act and associated regulations, by statutory office holders of the Commonwealth Department of Transport and Regional Services. These office holders are known as Airport Environment Officers (AEOs).

Environment Strategy

As required under the Act, an Environment Strategy was approved by the Minister for Transport and Regional Services on 18 January 2005.

The strategy outlines the SCACH Group's plans and actions to measure, monitor, enhance and report on environmental performance over the five-year period from 2005 to 2010. The SCACH Group's aim reflected in the strategy is to continually improve environmental performance and minimise the impact of the SCACH Group's operations on the environment. The strategy supports world-class initiatives in environmental management beyond regulatory requirements.

Regulatory Compliance

During the year ended 30 June 2006 the AEO did not issue SACL with any environmental remediation orders, environmental protection orders or infringement notices. In certain circumstances, an 'authorisation' may be sought where it is expected that the pollution limits set out in the Regulations may be exceeded.

Monitoring

During the year ended 30 June 2006:

- Air quality monitoring continued to demonstrate that air emissions are within relevant regulatory limits and guidelines;
- SACL's stormwater monitoring program was completed during the reporting period. Results showed that pollutant concentrations were similar to those from Bankstown Airport and urban Sydney runoff. These results have been reviewed by the AEO;
- SACL continued to implement a risk-based approach to managing existing contaminated sites and preventing future contamination;
- Master Plan for Sydney Airport (amongst other things) considers environmental issues resulting from Sydney Airport's future operations until 2024. The document can be viewed on SACL's website, sydneyairport.com;
- No breaches of the regulatory limits were detected and reported to the AEOs. No action was taken against SACL by any party under the Regulations; and
- Further information on the SACL's environmental performance can be viewed on SACL's website, sydneyairport.com.au.

CONCISE CONSOLIDATED FINANCIAL REPORT

Southern Cross Airports Corporation Holdings Limited

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DIRECTORS' REPORT

The directors present their report on the audited consolidated results of Southern Cross Airports Corporation Holdings Limited ("SCACH") and its controlled entities for the financial year ended 30 June 2006.

Directors

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

NAMES AND PARTICULARS	APPOINTMENT DATE	RESIGNATION DATE
Max Moore-Wilton AC, Chairman, has held various key executive positions in the public and private sectors. He is an Executive Director of Macquarie Bank Limited and the Chairman of Macquarie Airports Management Limited.	22 January 2003	–
Russell Balding, Chief Executive Officer, is a former Managing Director of the Australian Broadcasting Corporation. His career spans a number of major organisations which have required extensive government, stakeholder, community and customer interaction.	4 April 2006	–
Martyn Booth is an Executive Director of Macquarie Bank Limited. He is the Airport Director of Macquarie Airports Management Limited.	25 July 2002	15 February 2006
Patrick Gourley is a former senior officer of the Department of Defence and the Commonwealth Department of Industrial Relations.	10 September 2002	–
Meredith Hellicar is a Director of various publicly listed companies including AMP Limited, James Hardie Industries NV and Amalgamated Holdings Limited.	18 February 2003	–
Holger Linkweiler is Managing Director of Hochtief Airport Capital and Head of Business Planning & Financing of Hochtief AirPort GmbH.	17 October 2005	–
Kerrie Mather is an Executive Director of Macquarie Bank Limited and the Chief Executive Officer of Macquarie Airports Management Limited.	27 June 2002	–
Nicholas Moore is Global Head of the Investment Banking Group of Macquarie Bank Limited, and is a Director of Macquarie Airports Management Limited.	25 July 2002	15 February 2006
John Roberts is Global Head of Macquarie Bank Limited's Investment Banking Group's Funds business and Joint Head of Macquarie's Corporate Finance division.	15 February 2006	–
Shelley Roberts is an Associate Director of Macquarie Bank Limited. Prior to her role with Macquarie Airports, she worked for easyJet and KPMG in the UK.	15 February 2006	–
Luis Sánchez Salmeron is the Director of the Airports Division of Ferrovial Infraestructuras S.A.	26 May 2003	–
Dr Ulrich Stucke was previously Managing Director of HOCHTIEF AirPort GmbH.	10 April 2003	17 October 2005

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

ALTERNATE DIRECTORS	APPOINTMENT DATE	RESIGNATION DATE
Juan Angoitia (for Hellicar)	18 February 2003	–
Juan Angoitia (for Sanchez)	29 May 2003	–
Mar Nunez Beltran (for Hellicar)	18 February 2003	10 January 2006
Mar Nunez Beltran (for Sanchez)	29 May 2003	10 January 2006
Martyn Booth (for Moore)	1 January 2005	15 February 2006
Martyn Booth (for Mather)	10 August 2005	–
Martyn Booth (for J Roberts)	15 February 2006	–
Martyn Booth (for S Roberts)	15 February 2006	–
Michael Delaney (for Gourley)	18 September 2003	–
Meredith Hellicar (for Sánchez)	29 May 2003	–
Holger Linkweiler (for Stucke)	14 April 2003	17 October 2005
Kerrie Mather (for Booth)	10 August 2005	15 February 2006
Kerrie Mather (for Moore)	16 December 2004	15 February 2006
Kerrie Mather (for J Roberts)	15 February 2006	–
Kerrie Mather (for S Roberts)	15 February 2006	–
Nicholas Moore (for Booth and Mather)	10 August 2005	15 February 2006
Lars Petzold (for Linkweiler)	18 October 2005	–
Gerhard Schroeder (for Linkweiler)	26 June 2006	30 June 2006
John Roberts (for Mather)	15 February 2006	–
John Roberts (for S Roberts)	15 February 2006	–
Shelley Roberts (for Mather)	15 February 2006	–
Shelley Roberts (for J Roberts)	15 February 2006	–
Luis Sanchez Salmeron (for Hellicar)	30 May 2003	–
Richard Sheppard (for Booth, Mather & Moore)	29 January 2003	15 February 2006

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

Company Secretary

Ms Clair Hodge B Com LLB (UNSW) GAICD FCIS is General Counsel and Company Secretary. She has over 10 years of company secretarial experience in both the private and government sector. She is on the NSW Council of Chartered Secretaries Australia and a member of its national Corporate & Legal Issues Committee.

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 year:

Southern Cross Airports Corporation Pty Limited (“SCAC”)
Sydney Airport Corporation Limited (“SACL”)
Airport Nova Developments Pty Limited (“Nova”)
Sydney Airport Finance Company Pty Ltd (“FinCo”)
Sydney Airport RPS Company Pty Ltd (“RPSCo”)

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

Review of operations and results (comparatives adjusted for A-IFRS)
The consolidated entity earned a consolidated profit before depreciation and amortisation, net borrowing costs and income tax (EBITDA) of $523.8 million for the year ended 30 June 2006 (2005 $494.3 million). EBITDA excluding specific non-recurring expenses increased to $525.6 million (2005: $496.4 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $147.7 million (2005 $168.8 million).

EBITDA (excluding specific non-recurring expenses) represents a 5.9% increase in earnings over the previous corresponding period.

Total revenue increased by 6.2% over the previous corresponding period to $659.2 million (2005: $620.6 million).

Total expenses excluding specific non-recurring expenses increased by 7.6% to $133.7 million (2005: $124.3 million). Total expenses including specific non-recurring expenses increased by 7.3% to $135.5 million (2005: $126.3 million) principally due to an increase in recoverable security related costs.

Depreciation and amortisation costs increased marginally by 1.6% to $149.9 million (2005 : $147.6 million).

Net finance costs decreased by 8.9% to $521.2 million (2005: $572.0 million) primarily explained by a non-recurring write off of deferred debt establishment fees at the time of the September 2004 refinance in the prior comparison period. The redeemable preference share distributions to shareholders and FLIERS Trust distributions are included as finance costs in the Income Statement.

Financial position (comparatives adjusted for A-IFRS)
During the period the consolidated entity complied with the maximum gearing and minimum cash flow cover ratio covenants contained in its various debt agreements. Borrowing costs paid or proposed to be paid in respect of the FLIERS Trust and redeemable preference shares for the year ended 30 June 2006 totalled $58.2 million (2005: $57.2 million) and $205.1 million (2005: $218.0 million) respectively.

SCACH’s investment grade corporate credit ratings by Standard & Poors and Moody’s remain unchanged at BBB-/stable and Baa3/stable respectively. SCAC’s senior secured debt credit ratings by Standard & Poors and Moody’s remain unchanged at BBB/stable and Baa2/stable respectively. FinCo’s senior debt credit ratings from Standard & Poors and Moody’s remain unchanged at BBB/stable and Baa2/stable respectively.

In July 2006, SCACH announced that it intends to refinance part of its existing bank debt and maturing capital markets facilities, and to raise new debt facilities. Part of the additional debt facilities will be used to fund planned capital expenditure projects and to provide additional liquidity and working capital for the business. The consolidated entity will manage the debt raising programme to ensure that the existing credit ratings are maintained. At this stage, SCACH intends to implement the refinance in two stages with the bulk of the facilities to be arranged by December 2006 and a smaller debt raising to be completed in 2007.

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

Dividends and Distributions

Dividends and distributions paid during the year ended 30 June 2006:

	2006 $'000	2005 $'000
– on ordinary shares	48,764	–
– on floating IPO exchangeable reset securities ("FLIERS") (i)	58,230	56,974
– on redeemable preference shares ("RPS") (i)	223,380	374,746
	330,374	431,720

The FLIERS and RPS distributions are included as finance costs in the Income Statement.
(i) Represents cash paid

Significant changes in the state of affairs

During the reporting period there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

Significant events after the balance date

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto, that has arisen since the end of the reporting period that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future years.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulation and performance

In recognition of its environmental responsibilities SACL has a five-year Environment Strategy designed to protect the environment and ensure compliance with the relevant environmental regulations. SACL also provides an annual environment report to the Commonwealth Government outlining its performance in achieving the policies and targets of the Environment Strategy and compliance with the relevant environmental legislation. The Environment Strategy is available on Sydney Airport's website, sydneyairport.com.

Indemnities and insurance of officers and auditors

Indemnities

SCACH's constitution indemnifies (to the extent permitted by law) each officer of SCACH and its controlled entities against a liability incurred by that person as an officer unless that liability arises out of conduct involving a lack of good faith. The constitution also provides that SCACH may make a payment to an officer or employee (by way of advance, loan or otherwise) for legal costs incurred by them in defending legal proceedings in their capacity as an officer or employee.

SCACH has entered into a Deed of Access, Indemnity and Insurance with each director and alternate director which applies during their term in office and after their resignation (except where a director engages in conduct involving a lack of good faith).

SCACH's constitution provides that it may indemnify its auditor against liability incurred in its capacity as the auditor of SCACH and its controlled entities. SCACH has not provided such an indemnity.

Insurance

During the reporting period and since the end of the reporting period, the consolidated entity has paid premiums in respect of a contract insuring directors and officers of the consolidated entity in relation to certain liabilities. The insurance policy prohibits disclosure of the nature of the liabilities insured and the premium paid.

During or since year to 30 June 2006 the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by the auditors of SCACH and its controlled entities.

Directors' meetings

The number of meetings of directors (including meetings of board committees) held during the year ended 30 June 2006 and the number of meetings attended by each director were as follows:

DIRECTOR	BOARD OF DIRECTORS		AUDIT AND CORPORATE GOVERNANCE		HUMAN RESOURCES		SAFETY SECURITY ENVIRONMENT AND HEALTH		STRATEGY	
	H	A	H	A	H	A	H	A	H	A
Max Moore-Wilton	13	13	4	4	3	3	6	6	6	6
Russell Balding	4	4	1	1	1	1	2	2	2	2
Martyn Booth	7	4	–	–	–	–	–	–	3	3
Patrick Gourley	13	12	4	4	3	3	–	–	–	–
Meredith Hellicar	13	10	4	3	–	–	6	4	–	–
Holger Linkweiler	10	4	–	–	2	–	5	1	5	1
Kerrie Mather	13	12	–	–	3	2	6	4	6	5
Nicholas Moore	7	5	3	3	–	–	–	–	–	–
John Roberts	6	4	–	–	–	–	–	–	–	–
Shelley Roberts	6	5	1	1	–	–	–	–	3	3
Luis Sanchez Salmeron	13	3	–	–	3	–	–	–	6	1
Ulrich Stucke	3	1	–	–	1	–	1	–	1	–

H – meetings held whilst director A – meetings attended '–' indicates not applicable to that director

The number of meetings of directors (including meetings of board committees) held during the year ended 30 June 2006 and the number of meetings attended by each alternate director were as follows:

DIRECTOR	BOARD OF DIRECTORS		AUDIT AND CORPORATE GOVERNANCE		HUMAN RESOURCES		SAFETY SECURITY ENVIRONMENT AND HEALTH		STRATEGY	
	H	A	H	A	H	A	H	A	H	A
Juan Angoitia (for Sanchez Salmeron)	13	9	–	–	–	–	–	–	6	2
Juan Angoitia (for Hellicar)	13	3	4	1	–	–	6	1	–	–
Holger Linkweiler (for Stucke)	3	2	–	–	1	1	1	1	1	1
Kerrie Mather (for Booth)	7	2	–	–	–	–	–	–	–	–
Kerrie Mather (for Moore)	7	1	–	–	–	–	–	–	–	–
Lars Petzold (for Linkweiler)	10	5	–	–	2	1	5	3	5	3
Gerhard Schroeder (for Linkweiler)	1	1	–	–	1	1	1	1	1	1
Shelley Roberts (for Mather)	–	–	–	–	–	–	1	1	–	–
Richard Sheppard (for Booth)	7	1	–	–	–	–	–	–	–	–
Luis Sanchez Salmeron (for Hellicar)	–	–	–	–	–	–	6	1	–	–

H – meetings held whilst alternate director A – meetings attended '–' indicates not applicable to that director

Auditor's independence declaration

The auditor's independence declaration required under the Corporations Act 2001 is included on page 48 of the financial report.

Rounding

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

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Max Moore-Wilton
Chairman

Sydney, 22 August 2006

Deloitte Touche Tohmatsu
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AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors

Southern Cross Airports Corporation Holdings Limited
The Ulm Building
1 Link Road
Sydney International Airport
Mascot NSW 2020

22 August 2006

Dear Board Members

SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Southern Cross Airports Corporation Holdings Limited.

As lead audit partner for the audit of the financial statements of Southern Cross Airports Corporation Holdings Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) Any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

James Riddell
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of
Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOUTHERN CROSS AIRPORTS CORPORATIONS HOLDINGS LIMITED

Scope

The concise financial report and directors' responsibility

The concise financial report of Southern Cross Airports Corporation Holdings Limited comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, and accompanying notes for the consolidated entity for the year ended 30 June 2006 as set out on pages 50 – 72. The consolidated entity comprises both Southern Cross Airports Corporation Holdings Limited (the company) and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 "Concise Financial Reports". This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

Audit Approach

We have conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We have also performed an independent audit of the full financial report of the company for the year ended 30 June 2006. Our audit report on the full financial report was signed on 22 August 2006, and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the concise financial report of Southern Cross Airports Corporation Holdings Limited for the year ended 30 June 2006 complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

James Riddell
Partner
Chartered Accountants

Sydney, 22 August 2006

DIRECTORS' DECLARATION

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made persuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Max Moore-Wilton

Max Moore-Wilton
Chairman

Sydney, 22 August 2006

INCOME STATEMENT

For the Financial year ended 30 June 2006

	NOTES	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Revenue					
Aeronautical revenue		269,063	258,279	–	–
Aeronautical security recovery	2	47,317	37,779	–	–
Retail revenue		155,908	149,397	–	–
Property revenue		86,621	81,615	–	–
Commercial trading revenue		84,959	78,226	–	–
Other		15,362	15,347	–	–
Total revenue		659,230	620,643	–	–
Income					
Profit on disposal of non-current assets		74	–	–	–
Expenses					
Employee benefits expense		(34,902)	(32,454)	–	–
Services and utilities		(68,581)	(61,665)	–	–
Other operational costs		(14,994)	(16,401)	–	–
Property and maintenance		(15,246)	(13,773)	–	–
Specific expenses:					
Restructuring and redundancy		(653)	(294)	–	–
Airline regulatory action		(1,090)	(1,682)	–	–
Loss on disposal of non-current assets		–	(43)	–	–
Total expenses before depreciation, amortisation and finance costs		(135,466)	(126,312)	–	–
Profit before depreciation and amortisation, finance costs and income tax (EBITDA)		523,838	494,331	–	
Depreciation and amortisation		(149,900)	(147,598)	–	–
Profit before finance costs and income tax (EBIT)		373,938	346,733	–	–
Interest income from other corporations		10,010	17,975	1,901	2,619
Interest income from wholly-owned entities		–	–	752,939	535,408
Change in fair value of FLIERS and interest rate swaps		16,589	–	13,774	–
Borrowing costs – redeemable preference share held by ordinary shareholders (i)		(205,376)	(217,998)	(205,376)	(217,998)
Borrowing costs – FLIERS		(58,886)	(57,217)	(58,886)	(57,217)
Borrowing costs – senior debt		(283,549)	(258,189)	–	–
Deferred debt establishment costs and other borrowing costs		–	(56,558)	–	(5,659)
Finance (costs)/income		(521,212)	(571,987)	504,352	257,153
(Loss)/profit before income tax expense		(147,274)	(225,254)	504,352	257,153
Income tax (expense)/credit		(425)	56,497	(148,383)	(75,857)
Net (loss)/profit for the year attributable to members of the parent entity		(147,699)	(168,757)	355,969	181,296

(i) Redeemable preference shares are stapled to ordinary shares

Notes to the financial statements are included on pages 55 – 72

BALANCE SHEET
as at 30 June 2006

	NOTES	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	COMPANY 2006 $'000	COMPANY 2005 $'000
Current assets					
Cash and cash equivalents		197,010	262,858	32,059	32,280
Trade and other receivables		64,369	63,416	1,085	632
Other financial assets		9,952	–	1,044,166	236,455
Other assets		–	641	–	–
Total current assets		271,331	326,915	1,077,310	269,367
Non-current assets					
Property, plant and equipment		2,070,634	1,946,778	–	–
Intangibles	4	3,550,368	3,589,379	–	–
Goodwill	5	688,284	688,284	–	–
Trade and other receivables		23,947	22,714		
Other financial assets		19,752	–	2,408,608	2,792,145
Other assets		1,174	194,060	–	75,993
Deferred tax assets		–	–	225,413	272,881
Total non-current assets		6,354,159	6,441,215	2,634,021	3,141,019
Total assets		6,625,490	6,768,130	3,711,331	3,410,386
Current liabilities					
Trade and other payables		135,997	161,362	270,382	210,517
Provisions		7,043	6,505	–	–
Other current liabilities		22,919	10,924	–	–
Total current liabilities		165,959	178,790	270,382	210,517
Non-current liabilities					
Borrowings	6	6,432,510	6,272,730	2,109,539	2,111,250
Provisions		1,400	3,220	–	–
Deferred tax liabilities		71,845	84,707	–	–
Total non-current liabilities		6,505,755	6,360,657	2,109,539	2,111,250
Total liabilities		6,671,714	6,539,447	2,379,921	2,321,767
Net (liabilities)/assets		(46,224)	228,683	1,331,410	1,088,619
Equity					
Issued capital		467,902	467,902	467,902	467,902
Cash flow hedge reserve		(19,426)	–	–	–
(Accumulated losses)/Retained earnings		(494,700)	(239,219)	863,508	620,717
Total equity		(46,224)	228,683	1,331,410	1,088,619

Notes to the financial statements are included on pages 55 – 72

CASH FLOW STATEMENT

For the Financial year ended 30 June 2006

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers	668,951	599,582	–	–
Interest received	10,910	17,721	330,153	428,600
Cash was applied to:				
Payments to suppliers and employees	(148,723)	(124,941)	–	–
Interest – senior debt	(240,682)	(228,922)	–	839
Distribution – FLIERS	(58,230)	(56,974)	(58,230)	(56,974)
Net cash flows provided by operating activities	232,226	206,466	271,923	370,787
Cash flows from investing activities				
Cash was provided from:				
Proceeds from disposal of property, plant and Equipment	85	131	–	–
Cash was applied to:				
Acquisition of property, plant and equipment	(218,677)	(128,102)	–	–
Capitalised borrowing costs	(9,448)	(2,917)	–	–
Net cash flows used in investing activities	(228,040)	(130,888)	–	–
Cash flows from financing activities				
Cash was provided from:				
Proceeds from borrowings – medium term notes and bank loans	415,640	2,658,000	–	–
Loans from other entities in wholly owned group	–	–	536	839
Cash was applied to:				
Repayment of borrowings – medium term notes and bank loans	(201,895)	(2,391,000)	–	–
Debt establishment costs	(11,635)	(150,731)	(536)	–
Dividends paid – ordinary shares	(48,764)	–	(48,764)	–
Distribution – redeemable preference shares	(223,380)	(374,746)	(223,380)	(374,746)
Net cash flows provided used in financing activities	(70,034)	(258,477)	(272,144)	(373,907)
Net decrease in cash and cash equivalents	(65,848)	(182,899)	(221)	(3,120)
Cash and cash equivalents at beginning of the financial year	262,858	445,757	32,280	35,400
Cash and cash equivalents at end of the financial year	197,010	262,858	32,059	32,280

Notes to the financial statements are included on pages 55 – 72

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the Financial year ended 30 June 2006

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Cash flow hedge:				
Gain/(loss) taken to equity	36,652	–	–	–
Recognition of deferred tax	(10,774)	–	–	–
Actuarial gain/(loss) on defined benefit plans	2,844	2,178	–	–
Recognition of deferred tax	(3,806)	(1,904)	(2,955)	(1,251)
Other	135	246	–	–
Net income recognised directly in equity	25,051	520	(2,955)	(1,251)
Net (loss)/profit for the year	(147,699)	(168,757)	355,969	181,296
Total recognised income and expense for the period	(122,648)	(168,237)	353,014	180,045
Attributable to:				
Equity holders of the parent	(122,648)	(168,237)	353,014	180,045

Notes to the financial statements are included on pages 55 – 72

NOTES TO THE FINANCIAL STATEMENTS

For the Financial year ended 30 June 2006

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation

The concise financial report has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 'Concise Financial Reports'. The concise financial report, including the financial statements and specific disclosures included in the concise financial report, has been derived from the full financial report of Southern Cross Airport Corporation Holdings Limited.

All amounts are presented in Australian dollars.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with the Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in 1 (d).

These accounting policies have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 1 (d), except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions – instead, adjustments are made to the opening balances of the current financial year to ensure that the opening balances comply with the new accounting policies.

(b) Going Concern

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at the financial year ended 30 June 2006, the consolidated entity has net liabilities of $46.2 million. Note 11 of the financial report refers to an independent valuation by KPMG as at 30 June 2006 that reflected an increase in the SCACH Equity Value since acquisition of approximately $2,870 million (2005: $2,670 million). This valuation increment, if applied in the financial statements of the consolidated entity, would more than absorb the deficiency in net assets. In addition during the previous financial year the consolidated entity successfully completed the refinancing of $2,570 million senior debt facilities and established $585 million of new facilities for capital expenditure, liquidity and general working capital purposes. As at 30 June 2006, $286 million in committed facilities remain undrawn.

Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

(c) Comparative information – financial instruments

The Group has made its election in relation to the transitional exceptions and exemptions allowed by AASB 1 in relation to the requirement to restate comparative information for compliance with AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement".

The accounting policies applied to accounting for financial instruments in the current financial year are detailed in full financial report of Southern Cross Airport Holdings Limited. The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(c) Comparative information – financial instruments (cont'd)

Borrowing costs

Establishment costs are amortised on a straight line basis over the term of the applicable borrowings. Borrowing costs comprise interest and the amortisation of costs incurred in establishing borrowing facilities.

Where borrowings are specifically incurred in relation to qualifying assets, the actual borrowing costs are capitalised to those assets. Where borrowings are not specifically incurred in relation to qualifying assets the capitalisation rate is determined as the proportion of the total borrowing costs which relate to the capital development. Borrowing costs are capitalised up to the date when the asset is substantially complete and ready for use and are subsequently amortised over the useful life of the asset.

Derivative financial instruments

Derivative financial instruments are predominantly interest rate swaps transacted to manage interest rate risk. Speculative trading is specifically prohibited by Board policy.

Interest income and expense incurred under interest rate swap contracts is recognised in the statement of financial performance on the same basis that interest expense is recognised on the underlying financial liabilities. The carrying amounts of interest rate swaps, being a net interest receivable or payable, are accrued and included in assets or liabilities respectively.

Financial instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

Interest – bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Bills of exchange and promissory notes are carried at the principal amount plus deferred interest.

Payables

Liabilities for trade payables and other amounts payable are carried at the principal amount, which is the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Settlement terms for other liabilities are set out in the respective notes.

Receivables

Trade receivables are recorded at amounts invoiced less any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(c) Comparative information – financial instruments (cont'd)

Effect of changing the accounting policies for financial instruments

The effect of changes in accounting policies for financial instruments on the balance sheet for each line effected by the change as at 1 July 2005 is shown below:

	CONSOLIDATED 30 JUNE 2005 $'000	CONSOLIDATED EFFECT OF ADDOPTION $'000	CONSOLIDATED 1 JULY 2005 $'000	COMPANY 30 JUNE 2005 $'000	COMPANY EFFECT OF ADOPTION $'000	COMPANY 1 JULY 2005 $'000
Other assets	194,060	(194,060)	_	75,993	(75,993)	_
Deferred tax assets	_	_	_	272,881	26,339	299,220
Total non-current assets	6,441,215	(194,060)	6,247,155	3,141,019	(49,654)	3,091,365
Total assets	6,768,130	(194,060)	6,574,070	3,410,386	(49,654)	3,360,732
Non-current liabilities						
Borrowings (i)	6,272,730	(52,231)	6,220,499	2,111,250	11,805	2,123,055
Other financial liabilities	_	9,764	9,764	_	_	_
Deferred tax liabilities	84,707	(27,867)	56,840	_	_	_
Total non-current liabilities	6,360,657	(70,334)	6,290,323	2,111,250	11,805	2,123,055
Total liabilities	6,539,447	(70,334)	6,469,113	2,321,767	11,805	2,333,572
Net (liabilities)/assets	228,683	(123,726)	104,957	1,088,619	(61,459)	1,027,160
Equity						
Cash flow hedge reserve (ii)	_	(65,535)	(65,535)	_	_	_
(Accumulated losses)/ Retained earnings (iii)	(239,219)	(58,191)	(297,410)	620,717	(61,459)	559,258
Total equity	228,683	(123,726)	104,957	1,088,619	(61,459)	1,027,160

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(c) Comparative information – financial instruments (cont'd)

Adjustments to borrowings, cash flow hedge reserve and accumulated losses/retained earnings are as follows:

	CONSOLIDATED	COMPANY
(i) Borrowings		
Fair value of FLIERS	73,021	73,021
Reclassification of deferred borrowing costs from other non-current assets	(194,060)	(75,993)
Derecognition of FLIERS borrowing costs	19,900	19,900
Swap reset costs reclassified to cash flow hedge reserve	58,699	–
Amortisation of deferred borrowing costs using effective interest rate method	(9,791)	(5,123)
	(52,231)	11,805
(ii) Cash flow hedge reserve		
Swap reset costs reclassified from borrowings	(58,699)	–
Fair value of swaps	(9,764)	–
Deferred tax	2,928	–
	(65,535)	–
(iii) (Accumulated losses)/Retained earnings		
Fair value revaluation of FLIERS	(73,021)	(73,021)
Derecognition of FLIERS borrowing costs	(19,900)	(19,900)
Application of effective interest-rate method for borrowings	9,791	5,123
Recognition of deferred tax	24,939	26,339
	(58,191)	(61,459)

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(d) Impact of adoption of A-IFRS

The impacts of adopting A-IFRS on the total equity and net result after tax as reported under previous AGAAP applicable are illustrated below.

i) Reconciliation of total equity under previous AGAAP to that under A-IFRS

	CONSOLIDATED	
	30/06/05 $'000	1/07/04 $'000
Total equity under previous AGAAP	(270,907)	(52,774)
Adjustment to net result:		
Amortisation of intangibles – leasehold land (A)	17,979	–
Amortisation of intangibles – airport operator licence (A)	(15,931)	–
Depreciation of property, plant & equipment (B)	(9,748)	–
Loss on disposal of property, plant and equipment	(55)	–
Recognition of operating leases (C)	1,556	–
Restatement of defined benefit expense (D)	(402)	–
Tax effect of the adjustments (G)	56,497	–
	49,896	–
Adjustments to retained earnings:		
Restatement of property, plant & equipment (B)	424,921	424,921
Recognition of operating lease revenue (C)	3,937	3,937
Recognition of defined benefit plan deficit (D)	(3,313)	(3,313)
Amortisation of intangibles (H)	4,290	4,290
Tax effect of adjustments in retained earnings (E)	19,859	19,859
Total equity under A-IFRS	228,683	396,920

i) Reconciliation of total equity under previous AGAAP to that under A-IFRS (cont'd)

	CONSOLIDATED	
	30/06/05 $'000	1/07/04 $'000
Total equity under previous AGAAP	956,225	699,072
Adjustments to net result:		
Tax effect of the adjustments (G)	(75,857)	–
Tax effect of adjustments in retained earnings (F)	(1,251)	–
Adjustments to retained earnings:		
Tax effect of adjustments in retained earnings (E)	209,502	209,502
Total equity under A-IFRS	1,088,619	908,574

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(d) Impact of adoption of A-IFRS (cont'd)

ii) Reconciliation of net result after tax under previous AGAAP to that under A-IFRS

	CONSOLIDATED 2005 $'000	COMPANY 2005 $'000
Net (loss)/profit under previous AGAAP	(218,133)	257,153
Adjustment to (loss)/profit:		
Amortisation of intangibles – leasehold land (A)	17,979	–
Amortisation of intangibles – airport operator licence (A)	(15,931)	–
Depreciation of property, plant & equipment (B)	(10,268)	–
Loss on disposal of property, plant and equipment	(55)	–
Recognition of operating leases (C)	1,556	–
Restatement of defined benefit expense (D)	(402)	–
Tax effect of the adjustments (G)	56,497	(75,857)
	49,376	(75,857)
Net (loss)/profit under A-IFRS	(168,757)	181,296

(A) The Group applied AASB 3 "Business Combinations" ("AASB 3") retrospectively to the acquisition made on 28 June 2002. Leasehold land and airport operator license were restated to their fair value as at the date of acquisition and resulted in changes to amortisation charges.

(B) In accordance with the optional exemption in AASB 1, property, plant and equipment was revalued to fair value at the date of transition, 1 July 2004. That fair value has been used as the item's deemed cost at that date. Higher depreciation charges resulted in the 2005 year.

(C) Application of AASB 117 "Leases" resulted in straight line adjustments to operating leases not recognised under AGAAP.

(D) Based on an actuarial assessment as at the date of transition from AGAAP to A-IFRS, a superannuation plan deficit relating to the defined benefit plan was recognised in accordance with AASB 119 "Employee Benefits". Subsequent to retrospective recognition of superannuation plan deficit, actuarial gains were recognised in Retained Earnings)

ii) Reconciliation of net result after tax under previous AGAAP to that under A-IFRS (cont'd)

(E) The tax effect on transition is summarised as follows:

	CONSOLIDATED 1/07/04	COMPANY 1/07/04
Deferred tax arises on the following temporary differences:		
Tax losses recognised under A-IFRS	94,914	94,914
Temporary differences	(72,055)	114,588
	19,859	209,502

(F) Tax effect of share capital issuance costs.

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(d) Impact of adoption of A-IFRS (cont'd)

(G) The above tax effect of adjustments in the income statement arises as follows:

	CONSOLIDATED 2005 $'000	COMPANY 2005 $'000
Deferred tax arises on the following temporary differences:		
Deferred debt establishment cost	(11,201)	(3,971)
Accrued interest payable on FLIERS and redeemable preference shares	(46,950)	(46,950)
Defined benefit plan deficit	(189)	–
Property, plant & equipment	1,820	–
Accrued revenue	(467)	600
Accrued expense and provisions	(1,466)	–
Tax losses	114,950	(25,536)
Deferred tax recognised in retained earnings	56,497	(75,857)

(H) As a result of applying AASB 3 retrospectively to the acquisition made on 28 June 2002, depreciation and amortisation charges were adjusted to reflect new categories of assets and their useful life.

iii) Explanation of material adjustments to the Cash Flow Statements

Under previous AGAAP, debt establishment fees and redeemable preference share distributions have been disclosed as a component of cash flows from operating activities as borrowing costs paid. Following the transition to A-IFRS, in compliance with AASB 107 "Cash Flow Statements", these costs have been reclassified to cash flows from financing activities.

2. AERONAUTICAL SECURITY RECOVERY

The income statement includes both revenues and costs relating to aeronautical security recovery.

Security recovery charges are set at appropriate levels to ensure cost recovery only, in accordance with ACCC guidelines for pass-through of Government mandated security costs.

Aeronautical security recoveries include charges in relation to services provided on both international and

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

a) International services include checked baggage screening, passenger screening, counter terrorist first response and additional security measures. All charges are levied on a per passenger basis.

b) Domestic services include counter terrorist first response, additional security measures, Terminal 2 checked bag screening and Terminal 2 passenger screening. All charges are levied on a per passenger basis.

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

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

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Revenue				
Security recovery	47,317	37,779	–	–
Expenses				
Direct costs	(37,291)	(32,661)	–	–
Depreciation	(5,838)	(3,122)	–	–
Borrowing costs	(4,188)	(1,996)	–	–
Surplus/deficit	–	–	–	–

3. DIVIDENDS AND DISTRIBUTIONS PAID AND PROPOSED

		CONSOLIDATED		COMPANY	
		2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Ordinary shares					
Declared and paid during the year		48,764	–	48,764	–
No dividend was proposed for the ordinary shares for the years ended 30 June 2005 and 30 June 2006					
Dividends were paid on 21 October 2005, 23 January 2006 and 21 April 2006					
Floating IPO exchangeable reset securities (“FLIERS”)					
Proposed distribution at the beginning of the period		(11,579)	(11,336)	(11,579)	(11,336)
Distribution paid		58,230	56,974	58,230	56,974
Proposed distribution at the end of the period		11,557	11,579	11,557	11,579
	(i)	58,206	57,217	58,206	57,217
Redeemable preference shares (“RPS”)					
Proposed distribution at the beginning of the period		(57,949)	(214,697)	(57,949)	(214,697)
Distributions paid		223,380	374,746	223,380	374,746
Proposed distribution at the end of the period		39,686	57,949	39,686	57,949
	(i)	205,117	217,998	205,117	217,998

(i) Distributions in respect of FLIERS and RPS (which are stapled to ordinary shares) are included as borrowing costs in the income statement consistent with the balance sheet classification of the related instrument.

Proposed distributions include only that portion of the proposed distribution that is attributable to the accounting period. Distributions in respect of FLIERS were made on 20 July 2005, 20 October 2005, 20 January 2006 and 20 April 2006 and in respect of RPS were made on 21 July 2005, 21 October 2005, 23 January 2006 and 21 April 2006.

4. INTANGIBLE ASSETS

Significant intangible assets

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

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

	LEASEHOLD LAND		AIRPORT OPORATOR LICENSE		TOTAL	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Carrying amount	1,578,946	1,596,295	1,971,422	1,993,084	3,550,368	3,589,379
Remaining useful life	91 years	92 years	91 years	92 years		

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

4. GOOD WILL

	CONSOLIDATED		COMPANY	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Net book value	688,284	688,284	–	–

Goodwill relates to the acquisition of Sydney Airport at 28 June 2002 and is considered as an indefinite life asset.

Indefinite life intangible assets, such as goodwill, are reviewed annually for impairment. Definite life intangible assets, leasehold land and airport operator licence, are reviewed for impairment when indicators of impairment exists. The recoverable amount of such assets is assessed by reference to their fair value less costs to sell. Fair value less costs to sell is determined by reference to discounted cash flow forecasts for the cash generating unit of Sydney Airport.

Under the Group's debt documents, SCACH is required to undertake an annual independent Valuation based on 20 year forecast cashflows. The key assumptions upon which management has based the cashflow projections are passenger forecasts, revenue and operating expenses, interest rates, inflation and future financing assumptions. A five year Corporate Plan was approved by the Board in June 2006 and this is used as the basis of the first 5 years of cashflows. The five year Corporate Plan is the result of a detailed business planning process, based on historical performance and the company's views on key drivers. For the remaining 15 years of the forecasts, the assumptions are based on the five year Corporate Plan and industry comparables for key drivers including inflation and long term passenger forecasts. A period of 20 years is used for cashflow projections as the airport operates under a 50 year lease (42 years remaining) from the Commonwealth, with an additional zero cost 49 year option.

In its Valuation as at 30 June 2006, KPMG Corporate Finance calculated the Equity Value of the cash generating unit (SCACH) in accordance with the Group's debt documents by discounting the SCACH equity cashflows at a discount rate derived using the CAPM model, being 15.75% per annum. Net Finance Debt is then added to Equity Value to arrive at Enterprise Value. Further details of the Valuation as at 30 June 2006, performed by KPMG Corporate Finance are contained below.

During the financial year, no such assets were found to be impaired (2005 : $Nil).

5. GOODWILL (cont'd)

Valuation of Sydney Airport

In accordance with the senior debt documentation the shares in SACL held by SCAC were independently valued as at 30 June 2006. A valuation of $6,895.5 million was adopted by the Board and was based on a valuation range determined by KPMG Corporate Finance Pty Limited (2005: $6,808.1 million). The valuation as at 30 June 2006 equates to an Enterprise Value of the SCACH Group of $9,747 million (2005: $9,280 million) compared to a book value of $6,272.9 million (2005: $6,136.1 million), which represents the total of equity and net debt. Net debt comprises interest bearing liabilities and accrued interest less cash and deferred borrowing costs. The 30 June 2006 enterprise valuation of $9,747 million reflects a cumulative increase in the SCACH Equity Value since acquisition of approximately $2,870 million.

6. NON-CURRENT BORROWINGS

		CONSOLIDATED		COMPANY	
		2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
At amortised cost (2005: cost)					
Bank loans	(i)	1,090,077	1,088,000	–	–
Medium term notes	(ii)	2,876,573	2,920,000	–	–
Capital indexed bonds	(iii)	356,321	153,480	–	–
FLIERS	(iv)	659,246	600,000	659,246	600,000
Redeemable preference shares	(v)	1,450,293	1,511,250	1,450,293	1,511,250
		6,432,510	6,272,730	2,109,539	2,111,250

Following the transition to A-IFRS, deferred debt establishment costs are presented net of related borrowings as 30 June 2006.

(i) Bank loans

Senior bank debt facilities as at 30 June 2006 and as at 30 June 2005 comprised of three tranches with the following maturities:

		PRINCIPAL AMOUNT DRAWN		CARRYING AMOUNT	
	MATURITY DATE	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000
Tranche A	10 September 2009	450,000	450,000	447,846	450,000
Tranche B	10 September 2011	348,105	550,000	345,424	550,000
Tranche C	10 September 2009	299,000	88,000	296,807	88,000
		1,097,105	1,088,000	1,090,077	1,088,000

Interest is charged at Bank Bill Rate Yield ("BBSY") plus a pre-determined margin. Refer to Note 7 for disclosure of the effective interest rate.

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

6. NON-CURRENT BORROWINGS (cont'd)

(ii) Medium term notes ("MTN")

MTN as at 30 June 2006 and 30 June 2005 comprised of five issues with the following maturities:

		PRINCIPAL AMOUNT DRAWN		CARRYING AMOUNT	
	MATURITY DATE	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000
Issue 1	11 October 2007	1,220,000	1,220,000	1,217,886	1,220,000
Issue 2	20 November 2009	420,000	420,000	412,762	420,000
Issue 3	11 October 2012	280,000	280,000	267,519	280,000
Issue 4	20 November 2014	700,000	700,000	684,967	700,000
Issue 5	20 November 2015	300,000	300,000	293,439	300,000
		2,920,000	2,920,000	2,876,573	2,920,000

Interest is charged on the floating rate notes at the Bank Bill Rate ("BBSW") plus a pre-determined margin. Refer to Note 7 for disclosure of the effective interest rate.

MTN are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. A financial guarantee in respect of the notes is provided by MBIA Insurance Corporation. Medium term notes rank pari passu with the senior bank debt and capital indexed bonds.

(iii) Capital indexed bonds ("CIB")

		PRINCIPAL AMOUNT DRAWN		CARRYING AMOUNT	
	MATURITY DATE	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000
CIB	20 November 2020	368,515	153,480	356,321	153,480

Interest is charged at a fixed rate of 3.76% p.a. Additionally, the bond liability is increased through to maturity linked to the rate of inflation ("CPI"). The fixed interest charged is calculated on the increasing liability. Refer to Note 7 for disclosure of the effective interest rate.

CIB are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. A financial guarantee in respect of the note is provided by MBIA Insurance Corporation. Capital indexed bonds rank pari passu with the senior bank debt and medium term notes.

(iv) Floating IPO exchangeable reset securities ("FLIERS")

The FLIERS issued by SCACH are redeemable convertible preference shares carrying a cumulative dividend at BBSY plus a margin of 4%.

The FLIERS mature on 28 June 2012 and can be redeemed at SCACH's option at a premium of 7% on 28 June 2007. In the event of an initial public offering ("IPO") by SCACH, the FLIERS may be converted into ordinary shares at a discount to the listing price. This is considered an embedded derivative and is required to be recognised at fair value. FLIERS have been fair valued and, as a result, the embedded derivative has been fair valued.

6. NON-CURRENT BORROWINGS (cont'd)

(iv) Floating IPO exchangeable reset securities ("FLIERS") (cont'd)

Where an IPO has not occurred prior to 28 June 2007, the FLIERS' dividend rate will be increased by 1%. On 28 June 2012, if not converted, the FLIERS will be redeemed at face value.

The Group has adopted the AASB 1 "First-time adoption of AIFRS" option of applying AASB 139 "Financial Instruments: Measurement and Recognition" from 1 July 2005. FLIERS have been fair valued in accordance with AASB 139 together with the embedded derivative. As such, the FLIERS were restated from their carrying value of $600,000 as at 1 July 2005 to fair value of $673,020. The recognition of the increase in value of $59,246 at 30 June 2006 has increased the accumulated losses by $73,020 and decreased the net loss for the period by $13,744 resulting in carrying value of 659,246.

Refer to Note 7 for disclosure of the effective interest rate.

Distributions are payable quarterly in arrears, subject to availability of cash within the consolidated entity and distributable profits within SCACH. The dividend rate applicable for the quarter ended 20 July 2006 was 9.745% p.a.

Holders of the FLIERS rank in priority to ordinary shares and redeemable preference shares for the payment of distributions and return of capital and are entitled to vote at a general meeting of SCACH in limited circumstances.

All FLIERS on issue are owned by the Southern Cross FLIERS Trust ("SCFT"), a registered managed investment scheme listed and traded on the Australian Stock Exchange.

(v) Redeemable preference shares ("RPS")

	PRINCIPAL AMOUNT DRAWN		CARRYING AMOUNT	
MATURITY DATE	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000	**30 JUNE 2006 $'000**	30 JUNE 2005 $'000
28 June 2032	1,511,250	1,511,250	1,450,293	1,511,250

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

The shares carry an entitlement to a fixed cumulative dividend at a rate of 13.5% p.a.. Dividends are payable quarterly, subject to availability of cash within the consolidated entity and distributable profits within SCACH. Failure to pay RPS dividends will trigger restrictions on payment of ordinary share dividends. Refer to Note 7 for disclosure of the effective interest rate.

(vi) Deferred debt establishment costs

The Group has adopted the AASB 1 "First-time adoption of AIFRS" option of applying AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Measurement and Recognition from 1 July 2005. The application of AASB 132 has resulted in these deferred establishment costs being classified together with the underlying financial instrument whereas under AGAAP this item was shown as non-current assets. It has also resulted in the derecognition of the carrying balance of deferred establishment costs of $19,900 relating to the FLIERS, as these are now carried at fair value.

Deferred establishment costs are amortised over the term of maturity of the underlying financial instrument following the effective interest rate method. Refer to Note 7 for disclosure of maturities.

7. FINANCIAL INSTRUMENTS

Accounting policies and financial risk management objectives and policies

Details of the accounting policies adopted as well as the financial risk management objectives and policies in place are disclosed in Note 1 to the full financial report.

Interest rate risk

The following tables set out the carrying amount by maturity of the financial instruments that are exposed to cash flow interest rate risks:

Consolidated 2006

	WEIGHTED AVERAGE EFFERCTIVE INTEREST RATE (iii) %	VARIABLE INTEREST RATE $'000	FIXED INTEREST RATE MATURITY 1 YEAR ORLESS $'000	1 TO 2 YEARS $'000	2 TO 3 YEARS $'000	3 TO 4 YEARS $'000	3 TO 4 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial Assets										
Trade and other receivables	–	–	–	–	–	–	–	–	88,316	88,316
Derivative assets-interest rate swaps	–	29,704	–	–	–	–	–	–	–	29,704
Cash assets – cash at bank and short term deposits	5.59	197,010	–	–	–	–	–	–	–	197,010
		226,714	**–**	**–**	**–**	**–**	**–**	**–**	**88,316**	**315,030**
Financial Liabilities										
Trade and other liabilities	–	–	–	–	–	–	–	–	135,997	135,997
Borrowings – CIB	3.76	–	–	–	–	–	–	356,321	–	356,321
Borrowings – RPS	13.5 (i)	–	–	–	–	–	–	1,450,293	–	1,450,293
Borrowings – bank loans	6.28	1,090,077	–	–	–	–	–	–	–	1,090,077
Borrowings – MTN	6.58	2,876,573	–	–	–	–	–	–	–	2,876,573
Borrowings – FLIERS	9.74	659,246	–	–	–	–	–	–	–	659,246
Derivatives – interest rate swaps (ii)	–	(3,259,730)	–	–	2,859,730	–	400,000	–	–	–
		1,366,166	**–**	**–**	**2,859,730**	**–**	**400,000**	**1,806,614**	**135,997**	**6,568,507**

(i) RPS distribution is payable at 13.5% p.a of the face value of shares
(ii) Notional principal amounts.
(iii) Weighted average effective interest rate is calculated over the 12 month period.

7. FINANCIAL INSTRUMENTS (cont'd)
Consolidated 2005

	WEIGHTED AVERAGE EFFERCTIVE INTEREST RATE (iii)	VARIABLE INTEREST RATE $'000	FIXED INTEREST RATE MATURITY 1 YEAR ORLESS $'000	1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial Assets							
Cash assets – cash at bank and short term deposits	5.52	262,858	–	–	–	–	262,858
Receivables	–	–	–	–	–	63,785	63,785
		262,858	**–**	**–**	**–**	**63,785**	**326,643**
Financial Liabilities							
Trade and other payables	–	–	–	–	–	161,361	161,361
Borrowings – CIB	3.76	–	–	–	153,480	–	153,480
Borrowings – RPS	13.5 (i)	–	–	–	1,511,250	–	1,511,250
Borrowings – bank loans	6.84	1,088,000	–	–	–	–	1,088,000
Borrowings – MTN	6.43	2,920,000	–	–	–	–	2,920,000
Borrowings – FLIERS	9.77	600,000	–	–	–	–	600,000
Derivative liabilities – interest rate swaps (ii)	5.66	(3,418,151)	–	3,018,151	400,000	–	–
		1,189,849	**–**	**3,018,151**	**2,064,730**	**161,361**	**6,434,091**

(i) RPS distribution is payable at 13.5% p.a of the face value of shares
(ii) Notional principal amounts.
(iii) Weighted average effective interest rate is calculated over the 12 month period.

7. FINANCIAL INSTRUMENTS (cont'd)

Hedging activities – Cash flow hedges

Interest rate swaps are used to reduce exposure to cash flow interest rate risk. They comprise contracts made with each other parties to exchange, at special intervals (known as payment or settlement dates), the difference between fixed rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. The payment or receipt of the net amount of interest is made every quarter.

At 30 June 2006, the Group had the following interest rate swap agreements in place to hedge the exposure to changes in the fair values of the floating interest liabilities:

NOTIONAL AMOUNT $'000	RECEIVE INTEREST RATE %	PAY INTEREST RATE %	MATURITY	UNDERLYING FINANCIAL INSTRUMENT
798,105	BBSY	5.690%	20 May 2009	Bank loans
1,360,046	BBSW	5.640%	20 May 2009	MTN
701,579	BBSW	5.640%	11 July 2009	MTN
*400,000	BBSW	6.015%	20 May 2011	MTN
3,259,730				

* Forward start swap, commencing 9 May 2009

The Group adopted the AASB 1 "First-time adoption of AIFRS" option of applying AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Measurement and Recognition" from 1 July 2005. Related fair value adjustments are disclosed in the Statement of Recognised Income and Expense and in the full 2006 financial report. An amount of $2,815 thousand of the related interest rate swaps was brought to the income statement during the year ended 30 June 2006 as they can not be considered effective under AASB139.

As at 30 June 2005, the Group had the following interest-rate swap contracts outstanding:

NOTIONAL AMOUNT $'000	RECEIVE INTEREST RATE %	PAY INTEREST RATE %	MATURITY	UNDERLYING FINANCIAL INSTRUMENT
1,000,000	BBSY	5.690%	20 May 2009	Bank loans
1,158,151	BBSW	5.640%	20 May 2009	MTN
860,000	BBSW	5.640%	11 July 2009	MTN
*400,000	BBSW	6.015%	20 May 2011	MTN
3,418,151				

* Forward start swap, commencing 9 May 2009

The table below shows the maturity analysis of interest rate contracts.

	AVERAGE CONTRACTED FIXED INTEREST RATES		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
OUTSTANDING FLOATING FOR FIXED CONTRACTS	2006 %	2005 %	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Less than 1 year	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–
2 to 5 years	5.74	5.66	2,859,730	3,018,151	28,349	(7,243)
5 years +	6.015	6.015	400,000	400,000	1,355	(2,520)
			3,259,730	3,418,151	29,704	(9,763)

From 22 November 2004, interest rate swaps contracts exchanging floating interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 22 November 2004 were recognised as financial assets on adoption AASB 132 and AASB 139.

8. AUDITOR'S REMUNERATION

	CONSOLIDATED		COMPANY	
	2006 **$**	2005 $	**2006** **$**	2005 $
Amounts received or due and receivable by Deloitte Touche Tohmatsu for:				
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	291,000	223,500	–	–
– other services in relation to the entity and any other entity in the consolidated entity:				
– tax compliance	78,119	193,873	–	–
– assurance related	20,000	–	–	–
– special audits	41,000	109,355	–	–
	430,119	526,728	–	–
Other auditors:				
Internal audit services	206,720	51,244	–	–

9. SEGMENT INFORMATION

The Group predominantly operates in one business segment which provides and operates airport facilities at Mascot, NSW, Australia.

10. EVENTS AFTER THE BALANCE SHEET DATE

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

11. DISCUSSION AND ANALYSIS

Review of operations and results

The consolidated entity earned a consolidated profit before depreciation and amortisation, net finance costs and income tax (EBITDA) of $523.8 million for the year to 30 June 2006 (2005: $494.3 million). EBITDA excluding specific non-recurring expenses increased to $525.6 million (2005: $496.3 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $147.7 million (2005: $168.8 million).

EBITDA (excluding specific non-recurring expenses) represents a 5.9% increase in earnings over the previous corresponding period.

Total revenue increased by 6.2% over the previous corresponding period to $659.2 million (2005: $620.6 million).

Total expenses excluding specific non-recurring expenses increased by 7.6% to $133.7 million (2005: $124.3 million). Total expenses including specific non-recurring expenses increased by 7.3% to $135.5 million (2005: $126.3 million) principally due to lower restructuring and redundancy costs.

Depreciation and amortisation increased marginally by 1.6% to $149.9 million (2005: $147.6 million).

11. DISCUSSION AND ANALYSIS (cont'd)

Review of operations and results (cont'd)

Net finance costs decreased by 8.9% to $521.2 million (2005: $572.0 million) primarily explained by a write-off of non-recurring deferred debt establishment fees at the time of the September 2004 refinance in the prior comparison period. In addition net finance costs include $16.6 million (2005: nil) of other finance income relating to the fair value adjustment to FLIERS and interest rate swaps. There is no corresponding amount in the prior period as these relate arise from the application of AASB 132 and AASB 139 from 1 July 2005 (see note 1 (c)). The redeemable preference share distributions to shareholders and FLIERS Trust distributions are included as borrowing costs in the Income Statement.

Financial Position

During the period the consolidated entity complied with the maximum gearing and minimum cash flow cover ratio covenants contained in its various debt agreements. Borrowing costs paid or proposed to be paid in respect of the FLIERS Trust and redeemable preference shares for the year ended 30 June 2006 totalled $58.2 million (2005: $57.2 million) and $205.1 million (2005: $218.0 million) respectively.

SCACH's investment grade corporate credit ratings by Standard & Poors and Moody's remain unchanged at BBB-/stable and Baa3/stable respectively. SCAC's senior secured debt credit ratings by Standard & Poors and Moody's

remain unchanged at BBB/stable and Baa2/stable respectively. FinCo's senior debt credit ratings from Standard & Poors and Moody's remain unchanged at BBB/stable and Baa2/stable respectively.

In July 2006, SCACH announced that it intends to refinance part of its existing bank debt and maturing capital markets facilities, and to raise new debt facilities. Part of the additional debt facilities will be used to fund planned capital expenditure projects and to provide additional liquidity and working capital for the business. The consolidated entity will manage the debt raising programme to ensure that the existing credit ratings are maintained. At this stage, SCACH intends to implement the refinance in two stages with the bulk of the facilities to be arranged by December 2006 and a smaller debt raising to be completed in 2007.

SYDNEY AIRPORT STATISTICS

Official name	Sydney (Kingsford Smith) Airport			
ICAO* code	YSSY			
IATA code**	SYD			
Reference point	33° 56.8’S 151° 10.6’E			
Elevation	21 feet			
Area	907 hectares			
Runways	16R/34L	3,962 metres		
	16L/34R	2,438 metres		
	07/25	2,530 metres		
NAVAIDS	ILS (Instrument Landing System)		16R/34L	
			16L/34R	
			07/25	
	VOR (VHF Omni Range)			
	DME (Distance Measuring Equipment)			
	NDB			
	Lighting	16R/34L	Category 1	TVASIS***
		16L/34R	Category 1	ATVASIS****
		07/25		TVASIS
				TVASIS
Terminals	T1 (International)	33 gates		
	T2 (Domestic)	18 gates		
	T3 (Qantas Domestic)	15 gates		
	Airfreight	3 international / 2 domestic		
Rail	Underground rail link to CBD from domestic and international terminals			
Fire and Rescue	Category 9 (0500–2330 AEST)			
	Category 7 (2330–0500 AEST)			
ATC	Terminal Area Control Unit and Tower			

*International Air Transport Association
**International Civil Aviation Organisation
***T Visual Approach Slope Indicator
****Asymmetric T Visual Approach Slope Indicator

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