Financial Report for the year ended 31 December 2020

Southern Cross Airports Corporation Holdings Limited

ACN 098 082 029

Financial report contents

Directors' report

for the year ended 31 December 2020

This audited general purpose financial report for the year ended 31 December 2020 covers the consolidated entity (the Group) comprising Southern Cross Airports Corporation Holdings Limited (SCACH, the Company) (ACN 098 082 029) and its controlled entities. The Group's functional and presentation currency is Australian Dollars ($), rounded to the nearest hundred thousand.

Directors

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

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

Director profiles of SCACH

Trevor Gerber
BAcc, CA
Chairman
(Non-executive)

Mr Gerber is the Chairman of ASX-listed Vicinity Centres (since November 2019, director since April 2014). Mr Gerber is a former non-executive director of ASX-listed Tassal Group Limited (April 2012 - October 2020), CIMIC Group Limited (June 2014 – Dec 2019) and Regis Healthcare Limited (October 2014 – November 2017). Mr Gerber has been a professional director since 2000. He previously worked for Westfield Holdings Limited for 14 years as Group Treasurer and subsequently as Director of Funds Management responsible for Westfield Trust and Westfield America Trust.

John Roberts
LLB
(Non-executive)

Mr Roberts is the chair of Axicom and non-executive chairman of Macquarie Infrastructure and Real Assets (MIRA) and serves on a number of boards and investment committees within MIRA, a division that has around $130 billion of assets under management. He is a former director of DUET Group (May 2004 – June 2015) and Atlas Arteria Limited (previously known as Macquarie Atlas Roads Limited) (February 2010 – September 2018). Mr Roberts joined Macquarie Group in 1991 and previously held roles within Macquarie Group including Head of Europe, Joint Head of Macquarie Capital Advisers, Global Head of Macquarie Capital Funds (prior to it being renamed MIRA), chairman of NYSE-listed Macquarie Infrastructure Company and executive chairman of Macquarie Funds Group.

Stephen Ward
LLB
(Non-executive)

Mr Ward is a non-executive director of several New Zealand companies including SecureFuture Wiri Limited, Restaurant Brands New Zealand Limited, Renaissance Holdings New Zealand and TCF Commercial Finance New Zealand Limited. He is a member of the National Provident Fund Trust Board and holds voluntary positions on the boards of Wellington Free Ambulance, including its Investment Management Committee, and deputy chair of the Life Flight Trust. Mr Ward is the independent chair of the Advisory Council for the Financial Dispute Resolution Service and a consultant to Simpson Grierson, one of New Zealand's largest law firms.

Ann Sherry AO
BA, Grad Dip IR,
FAICD, FIPAA,
HonDLitt Macq
(Non-executive)

Ms Sherry is a non-executive director of ASX-listed National Australia Bank since November 2017, director of the Palladium Group, Infrastructure Victoria, Cape York Partnerships, Museum of Contemporary Art, Australia New Zealand School of Government and Chair of UNICEF Australia. More recently, Ms Sherry was appointed as chair of ASX-listed Enero in January 2020.

Ms Sherry is the former chair and chief executive officer of Carnival Australia. She was previously at Westpac for 12 years and was the chief executive officer of Bank of Melbourne and Westpac New Zealand and Pacific Banking.

Grant Fenn BEc, CA (Non-executive)	Mr Fenn has been the managing director and chief executive officer of ASX-listed Downer Group since July 2010. He has over 30 years' experience in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Executive Committee, chairman of Star Track Express and a director of Australian Air Express. He held a number of senior roles at Qantas including executive general manager of Strategy and Investments and executive general manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses.
Geoff Culbert BEc, LLB (Hons) (Executive)	Mr Culbert serves on both the World Governing Board and Asia-Pacific Board of the Airports Council International (ACI), the global industry association representing airports around the world. He brings extensive commercial and operational experience to the airport from a number of senior global and domestic roles at General Electric (GE), including most recently as the President and Chief Executive of GE Australia and New Zealand and Papua New Guinea.
Abi Cleland MBA, BCom, GAICD (Non-executive)	Ms Cleland is currently a non-executive director of ASX-listed Computershare Limited (since February 2018), Coles Group Limited (since November 2018), Orora Limited (since February 2014) and a director of Swimming Australia (since June 2015). Ms Cleland has extensive global experience in strategy, M&A, digital and running businesses. This has been gained from senior executive roles in leading industrial, retail, agriculture and financial services companies, as well as, from her time as Managing Director of an advisory firm.
David Gonski AC BCom, LLB, FAICD (Life), FCPA (Non-executive)	Mr Gonski is Chancellor of the University of New South Wales, President of the Art Gallery of NSW Trust, a non-excecutive chairman of Barrenjoey Capital Partners Group Holdings Pty Limited and a member of the board of the Lowy Institute for International Policy. He is the former Chairman: Australian and New Zealand Banking Group Ltd (2014 - 2020), Coca-Cola Amatil Ltd (2001 to 2017, director from 1997) and the Australian Securities Exchange Ltd (2008-2012, director from 2007). Mr Gonski was appointed a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2003.

Company secretary profile

Karen Tompkins BA, LLB (Hons)	Ms Tompkins joined Sydney Airport in 2016 and was appointed as General Counsel and Company Secretary in July 2019. She has over 16 years legal experience. Prior to becoming General Counsel and Company Secretary, Ms Tompkins spent nine years in the legal team in ASX-listed Stockland and before that she held positions in law firms including Minter Ellison, Herbert Geer and Henry Davis York.

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:

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

All companies in the SCACH Group excluding SAF1 and FinCo have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016. The consolidated income statement and statement of financial position of the entities party to the cross guarantee are presented in note 17. The deed of cross guarantee ensures that each of the specified entities is jointly liable for the debts of all the companies party to the cross guarantee. This enables external stakeholders, such as creditors, to be able to rely on the consolidated accounts. The deed of cross guarantee can be found at www.sydneyairport.com.au/crossguarantee.

Review of operations and results

The consolidated entity earned a profit before depreciation, amortisation, net finance costs and income tax (EBITDA) of $605.4 million for the year ended 31 December 2020 (2019: $1,336.8 million). After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $490.1 million (2019: net profit $63.1 million).

Net finance costs were $741.8 million (2019: $714.6 million). It consists of interest expense payable to third parties (secured senior debt, associated debt establishment costs, lease interest expense from the application of AASB 16 *Leases)* totalling $375.6 million (2019: $424.6 million) and redeemable preference share costs totalling $311.7 million (2019: $293.9 million).

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

Directors' report
for the year ended 31 December 2020

COVID-19 pandemic

The consequences of the COVID-19 pandemic for the airport and broader aviation community have been severe. In response, Sydney Airport has rapidly adapted to the current environment, with the priority being to protect the health and safety of our staff and the airport community.

Whilst the Group delivered a solid start to the 2020 financial year, the subsequent spread of COVID-19 saw the aviation industry dramatically impacted from late February. Since that time, passenger traffic through Sydney Airport has been materially impacted, resulting in international and domestic passenger traffic being down 77.5% and 72.9% respectively for the full year of 2020 when compared to the prior comparative period. There were 9.0 million passengers in the quarter ended March 2020 and 2.2 million in the three quarters from April to December 2020. There were modest recoveries in domestic traffic at points across the year in the brief windows where unrestricted domestic travel was permitted between all Australian states and territories, however the domestic downturn is expected to persist until sustained unrestricted travel is permitted again. The downturn in international passenger traffic is expected to persist until government travel restrictions are eased.

The COVID-19 pandemic has impacted the full year financial report in various ways:

- The Group has made expected credit loss (ECL) provisions for both aeronautical and commercial customers. The recoverability of receivables has been assessed based on information available and our best judgement. Included within this amount is $13.8 million related to Virgin Group debts in respect of the period prior to Virgin being placed into voluntary administration and subsequent, up until the appointed administrator's personal liability commenced on 27 May 2020, including unpaid security charges less the agreed dividend amount from the assets of the creditors' trust as outlined in the Deed of Company Arrangement dated 25 September 2020. The agreed dividend amount of $8.0 million has not yet been received at signing date and is expected to be received during 2021.
- A range of rental concessions were provided during the year to both retail and property tenants, in line with the Australian Government's Commercial Code of Conduct issued in April 2020. Concessions in the form of rent abatements of $142.8 million and rent deferrals of $8.4 million were agreed. Of the abatements, $52.5 million were recognised through the provision for ECL. The remaining $90.3 million of abatements are recognised on a straight-line basis as a reduction to revenue over the remaining lease terms in accordance with the relevant Accounting Standard. $24.3 million was recognised as a reduction to revenue during the 2020 year.
- Rent deferrals provide an extension of payment terms with no impact to revenue. However, the Group assessed the expected recoverability of all deferred rents and have provided $5.2 million against the related receivables at 31 December 2020, based on its assessment of future recoverability.
- A review of all capital projects in progress was undertaken during the year. Following the review, a $28.2 million impairment charge was recognised in respect of certain capital projects that, due to their nature, are not expected to progress.
- In April 2020, the Group enrolled in the JobKeeper government assistance program for eligible employees. Over the nine months April 2020 to December 2020, the Group recognised $13.0 million in government assistance for employees. This has been recognised as an offset to Employee benefits expense in the Consolidated statements of comprehensive income for the year ended 31 December 2020.

Response through the recovery

The Group is well positioned to manage through the recovery from the COVID-19 pandemic:

- **A strong liquidity position:** Sydney Airport had a robust balance sheet heading into 2020, and the Group took further proactive steps over the course of the year to continue to strengthen its liquidity and balance sheet position. The Group's parent entity, Sydney Airport Limited, raised $2.0 billion of equity through a pro-rata accelerated renounceable entitlement offer (Entitlement offer) in the second half of the year. Available liquidity as at 31 December 2020 was $3.1 billion, comprising $0.8 billion of available cash and $2.3 billion of undrawn bank debt facilities. The Group continues to expect to remain compliant with its covenant requirements.
- **A focus on cash collection:** A strong focus on collecting outstanding receivables yielded positive results in 2020 and continues to remain a focus.
- **Tightly controlled operating expenditure:** Excluding the impact of expected credit loss provisions and security recoverable expenditure, operating expenditure for the 2020 year was $134.5 million, a decrease of 33.3% on the prior corresponding period. This decrease reflects the implementation of a wide range of cost reductions across every aspect of the controllable cost base. The Group's significantly outsourced operating model enabled it to quickly and effectively adjust service levels to the much lower levels of activity required. In addition, in the second half of the year after a 6-month period to assess the medium to longer term implications of the pandemic, the Group announced and completed an organisational restructure that impacted 118 roles across the organisation, representing approximately 22% of the total workforce.
- **Re-prioritisation of capital expenditure:** A modular capital expenditure program has provided significant flexibility and enabled the Group to rapidly and prudently scale back investment. Capital expenditure in the full year 2020 was $237.5 million, comprising $152.8 million and $84.7 million in the first and second halves of the year respectively. The Group continued to deliver critical projects targeting asset resilience, safety and security and a limited number of opportunistic projects, while taking steps to ensure capacity and expansion projects can be deferred and then re-started at the right time in the future.

- **Creation of a recovery taskforce:** Sydney Airport's recovery taskforce is committed to collaborating with its Australian and overseas airline partners, airports, industry and Governments to develop a safe and sustainable pathway for the resumption of domestic and international travel. Examples of work so far include the Australia New Zealand Leadership Forum (ANZLF) plan for the Trans-Tasman Safe Travel Zone which has formed the basis for the opening of quarantine free flights from New Zealand, and the Australian Aviation Recovery Coalition's COVID-safe Flying Principles and Processes Framework which achieved approval from the Australia Health Protection Principal Committee (AHPPC) and supports safe domestic flying. Work is now underway to look at how we can safely re-open domestic and international borders once vaccine roll-out is progressed in Australia and globally. The actions of the recovery taskforce, and it's many partners, will play an important role in driving recovery in the aviation sector and guiding the airport community through this period of uncertainty.
- **A fair and equitable sharing of pain with Sydney Airport tenants:** Sydney Airport has worked closely with all tenants on a case-by-case basis to provide fair and equitable concessions to reflect the impact of the COVID-19 pandemic. Between the period of April 2020 to December 2020, Sydney Airport offered temporary concessions to tenants in the form of rent deferrals and abatements. Each concession offered was assessed on a case-by-case basis and ranged from 0% to 100% of the relevant rental amount. Sydney Airport believes that an equitable sharing of the pain with tenants during this challenging time will deliver the best long-term outcome.
- **A focus on operational flexibility:** Despite the significant reductions in passenger traffic in 2020, our operational teams have implemented significant operational changes, both to ensure the safety of our customers and airports teams, and to respond to frequently changing government requirements. These responses have allowed us to keep the airport open and operational, facilitating the movement of essential workers, medical supplies, agricultural exports and Australians coming home. We have worked closely with Government departments and our airport partners to ensure the safe passage of arriving, transiting and departing passengers. To facilitate the quarantine-free arrival of passengers from New Zealand, we separated the International Terminal into Green and Red zones to ensure that those arriving from New Zealand (Green passengers) and entering the community were kept separate from other 'Red' passengers going straight to quarantine. The Green arrivals zone positions us to welcome other quarantine-free arrivals as we are able to safely open up borders on the path to recovery.

Extension of aeronautical agreements

The Group has worked through numerous expiring, expired or new aeronautical agreements and reached the following agreements during the year:

- An agreement was reached to extend the current aeronautical arrangements for Jetstar domestic and Qantas Group domestic runway and international operations until 30 June 2021. In addition, Sydney Airport and Qantas entered into new twelve-month non-aeronautical lease agreements until 30 June 2021, extending Qantas' use of the Jet Base and associated infrastructure, while providing for hand back of land specific to the development of Sydney Gateway.
- The Board of Airline Representatives Australia (BARA) endorsed Sydney Airport's proposal to its member airlines for international services and the recontracting process with airlines is substantially complete. This extends the pricing and service provisions under the previous five-year agreement for another twelve months to 30 June 2021.
- Virgin Australia's Domestic and International aeronautical agreements were extended until 30 June 2021 with certain variations reflecting changes to Virgin's operations post administration.

Financing metrics

The following table shows the net senior debt and selected ratios as at 31 December 2020. Non-IFRS financial information in this Directors' Report has not been audited or reviewed by the external auditors, but has been sourced from the financial report.

	31 December 2020[1] $m	31 December 2019[1] $m
Gross total debt [2]	8,542.3	9,114.9
Less: total cash [3]	(840.2)	(321.9)
Net debt	7,702.2	8,793.0
EBITDA (12 months historical)	605.4	1,336.8
Net debt/EBITDA [3,4]	12.7x	6.6x
Cash flow cover ratio [4,5]	1.8x	3.3x

1. Calculations includes lease liabilities and related interest expense due to the application of AASB 16 *Leases*.
2. Gross total debt refers to principal amounts drawn, refer to note 2 and excludes shareholder related borrowings (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds. Numbers may not add due to rounding differences.
3. Excludes parent entity cash, in accordance with finance documents.
4. Calculated on a rolling 12 month basis, reflecting reported performance for the 12 months to 31 December 2020 and 2019.
5. Cash flow cover ratio (CFCR) is summarised by cash flow divided by senior interest expense.

Directors' report

for the year ended 31 December 2020

In February 2020, the Group successfully priced a AUD598.0 million equivalent multi-tranche US private placement (USPP) bond over 15, 20 and 30-year tenors. Proceeds from the bond, received on 16 June 2020, further enhanced the Group's strong liquidity position. The bond included an AUD100.0m sustainability-linked tranche, demonstrating continued leadership and innovation across finance and sustainability. The sustainability-linked tranche coupon will decrease or increase depending on the Group's sustainability performance over time, further incentivising the delivery of sustainability commitments (including achieving carbon neutrality by 2025) and other sustainability improvements.

In April 2020, the Group successfully established AUD850.0 million of bilateral bank debt facilities over 2 and 3-year tenors, further improving the Group's liquidity position.

As at 31 December 2020, the next debt maturity is in February 2021 (US144A bond of USD500.0 million with carrying value of A$648.4 million). At reporting date, the Group has over $2.3 billion (2019: $1.0 billion) of undrawn bank facilities available to refinance any maturing debt.

As part of the ongoing financing arrangements, the Group has received an unconditional guarantee from members of the SCACH Group, except for SA(F1) Pty Limited, under the Security Trust Deed. Under the Security Trust Deed, each guarantor unconditionally and irrevocably guarantees the due and punctual payment of external borrowings. FinCo's senior secured debt credit ratings assigned by Standard & Poor's / Moody's are BBB+ / Baa1 respectively.

Independent valuation

As at 31 December 2020, the Group had net liabilities of $3,664.6 million (2019: $4,674.7 million).

An independent valuation of the SCACH Group equity value by Deloitte as at 31 December 2020 supported an equity value that, if applied in the financial report of the Group as at 31 December 2020, would have more than absorbed the consolidated deficiency position at 31 December 2020. The valuation was updated for COVID-19 impacts to the business and included assumptions regarding passenger numbers, revenue, operating expenses, capital expenditure and interest rates.

At the present time, management continues to consider that the COVID-19 pandemic will not impact the Group's ability to remain solvent or to continue to operate as a going concern. Management has implemented a range of counter measures to preserve liquidity in the near term including reductions to operating costs and capital expenditure. It has also undertaken measures to continue to strengthen the Group's liquidity position. Accordingly, the going concern basis of accounting is considered to be appropriate; management considers that the Group will be able to pay its debts as and when they become due and payable; and the equity value of the Group continues to absorb the consolidated deficiency position.

Dividends and distributions

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

- the $2,122.4 million carrying value of the RPS at 31 December 2020 (2019: $2,100.8 million) is classified as borrowings rather than equity; and
- the $290.2 million (2019: $276.4 million) RPS interest expensed to shareholders during the period is included as interest expense rather than as a distribution of profits.

The consolidated statement of comprehensive income and the consolidated statement of cash flows identify the portion of net finance costs that relate to external financing activities and shareholder related financing activities. Interest on RPS is only paid to shareholders after all other financial obligations of the Group have been met. Shareholders have no acceleration rights if interest is not paid.

During the financial year ended 31 December 2020, SCACH did not pay dividends or RPS interest other than for the December 2019 quarter which was paid in January 2020. This payment is reflected in the table below. RPS interest continues to accrue and any unpaid interest is cumulative.

Dividends and distributions paid	**31 December 2020 $m**	**31 December 2019 $m**
– on ordinary shares [1]	182.3	616.4
– on RPS [1]	69.7	276.4
	252.0	892.8

1. Represents cash paid as per the Consolidated statements of cash flows.

Significant events after the balance date

COVID-19

The downturn in domestic travel is expected to persist until sustained unrestricted travel is permitted again. The downturn in international passenger traffic is expected to persist until government travel restrictions are eased.

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

Significant changes in the state of affairs

Other than that described in the Review of operations and results, there were no other significant changes in the state of the affairs of the Group during the reporting year.

Environmental regulation and performance

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

- The development and implementation of an environment strategy;
- The monitoring of air, soil, water and noise pollution from ground-based sources (except noise from aircraft in-flight, landing, taking off and taxiing and pollution from aircraft, which are excluded by the Airports Act and Regulations); and
- The enforcement of the provisions of the Airports Act and associated regulations is undertaken by statutory office holders of the Commonwealth Department of Infrastructure, Transport, Regional Development and Communications. These office holders are known as Airport Environment Officers (AEOs).

The Group's Environment Strategy 2019 – 2024 forms part of the Sydney Airport Master Plan and was approved by the Australian Government on 28 March 2019. The Group's aims, reflected in the 2019 – 2024 Strategy, are to continually improve environmental performance and minimise the impact of the Group's operations on the environment. The 2019 – 2024 Strategy supports initiatives in environmental management beyond regulatory requirements. The 2019 – 2024 Strategy is available for download from Sydney Airport's website: www.sydneyairport.com.au.

The Group is not aware of any significant breaches of the above regulations.

The Group provides an annual Environment Report to the Commonwealth Government outlining its performance in achieving the policies and actions outlined in the strategy and compliance with the relevant environmental legislation.

Indemnities and insurance of officers and auditors

Indemnities

SCACH's constitution indemnifies each officer of SCACH and its controlled entities against any 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 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 the year ended 31 December 2020 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' report

for the year ended 31 December 2020

Directors' meetings

The number of meetings of directors (including meetings of board committees) held (H) during the year ended 31 December 2020 and the number of meetings attended (A) by each director were as follows:

Directors		Trevor Gerber [3]	John Roberts	Stephen Ward	Ann Sherry AO	Grant Fenn	Geoff Culbert	Abi Cleland	David Gonski AC
Board of Directors	H [1]	6	6	6	6	6	6	6	6
	A [2]	6	6	6	6	6	6	6	6

1. Number of meetings to which director was invited to attend.
2. Actual attendance.
3. Chairman of the SCACH Board.

Non-audit services

There are no non-audit services provided by the auditors during the year ended 31 December 2020. This is outlined in note 19 to the financial statements.

The directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence, based on advice received from the Sydney Airport Limited Audit and Risk Committee, for the following reasons:

– KPMG has confirmed their independence by providing an Audit Independence Declaration as required by s307C of the *Corporations Act*;

– There were no non-audit services provided to the Group during the year; and

– None of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Lead auditor's independence declaration

KPMG have been the lead auditors of the Group commencing 2010.

The lead auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is included on page 10 of the financial report.

Rounding

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

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

On behalf of the directors:

Trevor Gerber
Sydney
23 February 2021

Statement by the Directors of Southern Cross Airports Corporation Holdings Limited

for the year ended 31 December 2020

1. In the opinion of the directors of Southern Cross Airports Corporation Holdings Limited (the Company):
   a. the consolidated financial statements and notes for the SCACH Group that are set out on pages 17 to 56 are in accordance with the *Corporations Act 2001*, including;
      i. giving a true and fair view of the SCACH Group's financial position as at 31 December 2020 and of its performance, for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   b. there are reasonable grounds to believe that the SCACH Group will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the SCACH Group will be able to meet any obligations or liabilities to which it is or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the group entities as identified in note 17, pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016.
3. The directors draw attention to page 22 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Trevor Gerber
Sydney
23 February 2021

KPMG

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

To the Directors of Southern Cross Airports Corporation Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Southern Cross Airports Corporation Holdings Limited for the year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Leann Yuen
Partner

Sydney
23 February 2021

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Independent Auditor's Report

To the shareholders of Southern Cross Airports Corporation Holdings Limited

Opinion

We have audited the ***Financial Report*** of Southern Cross Airports Corporation Holdings Limited (the Company).

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Key Audit Matters

The ***Key Audit Matters*** we identified are:

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

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

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

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KPMG

Revenue recognition and measurement (A$803.8m)	
Refer to Consolidated Statement of Comprehensive income	
The key audit matter	**How the matter was addressed in our audit**
Revenue recognition was identified as a key audit matter due to the varying recognition and measurement principles in underlying contracts across the revenue streams. Assessing revenue recognition, measurement and disclosures required significant audit effort across each revenue stream and contract type. Rental concessions in the form of lease abatements relating to both commercial and retail leases were provided to tenants as a result of COVID-19. This impacted primarily Retail revenue and Property and car rental revenue. Rental concessions were therefore an additional key area of focus due to the complexity of the concession arrangements, their individualised terms, and value of abatements granted.	Our procedures included: • Understanding processes and testing the key control over revenue streams, being the input and authorisation of new or amended contracts; • For aeronautical and parking and ground transport revenue we checked a sample of revenue transactions to cash received per the bank statements and assessed the correlation of revenue recognised to movements in passenger numbers; • Checking a sample of Retail revenue and Property and car rental revenue calculations for accuracy of measurement and conformity of recognition with underlying contracts and Accounting Standards. • Checking a sample of COVID-19 lease abatement concessions granted for accuracy of measurement against the unique terms of the respective rental concession agreements and recognition in line with Accounting Standards; • Requesting and obtaining confirmations from a sample of airlines of passenger numbers used in the procedures above; • Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

KPMG

Hedging and valuation of derivatives (net: A$53.9m)	
Refer to Note 5 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The valuation of derivatives and associated hedge accounting was identified as a key audit matter due to the complexities arising from the application of multiple derivatives to hedge each underlying financial instrument. Our assessment is made more challenging given the high level of judgement involved in evaluating the Group's valuation assumptions and inputs such as yield curves and credit value adjustments. Additionally, several complex derivative reset transactions were undertaken during the year across multiple derivatives. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Involving our specialists, our procedures included: • Understanding the processes and testing key controls for the approval of new derivative contracts; • Obtaining hedge documentation relating to new hedge relationships and assessing it against the conditions for measurement and reporting in the accounting standard requirements; • For a sample of derivatives and hedge relationships, we checked the inputs of each item to confirmations we requested and obtained from counterparties; • Performing an independent valuation of a sample of derivatives impacted by the reset transactions which we compared to the Group's valuation. To do this we obtained the derivative reset transaction documentation, performed an independent valuation and assessed the methodology applied against the requirements of the Accounting Standards; • Performing an independent valuation of a sample of derivatives which we compared to the Group's valuation. To do this we obtained externally sourced market data from platforms such as Bloomberg for assumptions and inputs adopted in the valuation e.g. yield curves and credit value adjustments; • Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

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<table>
<tr><th colspan="2">Carrying value of intangible assets (A$3,646.6m)</th></tr>
<tr><td colspan="2">Refer to Note 9 to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>The key audit matter</td></tr>
<tr><td>
Carrying value of intangible assets was identified as a key audit matter due to the significant level of judgement used by the Group in forecasting and discounting future cash flows. Particular judgement is required when assessing the significant length of time relevant to an airport operation, which forms the basis for assessing intangible assets for impairment. There is also higher estimation uncertainty resulting from the business disruption impact of the COVID-19 global pandemic, particularly in relation to the expected rate of recovery.
In addition, judgement is involved in considering the appropriateness of the single cash generating unit (CGU) for impairment testing. Impairment testing is performed on a single CGU on the basis that the Group considers all income streams are intrinsically linked and cannot be separated from the airport operations.
We focused on the significant forward-looking assumptions the Group applied in their discounted cash flow model, including:

Using a financial model covering a twenty-year period;
Future cash flows, passenger numbers, growth rates and the terminal growth rate; and
Discount rate.

The business disruption globally and locally caused by COVID-19 as well as the ongoing government responses, as they relate to travelling, increases the risk of inaccurate forecasting for the Group.
An external expert is engaged annually to perform a valuation of the airport, including intangibles. The Group's forecast discounted cash flows form the basis of this valuation.
We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.
</td><td>
Involving our specialists, our procedures included:

Assessing the Group's methodology, including the use of a model covering a twenty-year period, against market and industry practices and accounting standards;
Evaluating the determination of a single CGU based on our understanding of the operations of the business and how independent cash inflows were generated against the accounting standard requirements;
Understanding the Group's cash flow forecasting process and testing the key approvals for the internal reporting of forecast income streams and cash flows;
Meeting with management to understand the impact of COVID-19 on the Group and impact of government response programs for the 2020 results;
Assessing the historical accuracy of forecasts by comparing to actual results, to use in our evaluation of forecasts included in the discounted cash flow model;
Assessing the consistency of the assumptions incorporated into the forecasts for alignment to the Sydney Airport COVID-19 adjusted Corporate Plan through inquiries and our industry knowledge. Comparing COVID-19 adjusted growth related assumptions to external data such as industry wide expectations of passenger activity and the Gross Domestic Product as published by the Reserve Bank of Australia;
Analysing the discount rate against publicly available data of a group of comparable entities;
Performing a sensitivity analysis on key assumptions, in particular, the discount rate and passenger numbers to assess the risk of bias or inconsistency in application;
Assessing the objectivity, scope, and competency of the external expert; and

</td></tr>
</table>

	• Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Southern Cross Airports Corporation Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Leann Yuen

Leann Yuen
Partner

Sydney
23 February 2021

Consolidated statements of comprehensive income

for the year ended 31 December 2020

	Note	2020 $m	2019 $m
Revenue			
Aeronautical revenue		238.2	739.3
Aeronautical security recovery		68.7	105.0
Retail revenue		244.2	374.9
Property and car rental revenue		199.1	251.2
Parking and ground transport revenue		49.1	162.0
Other revenue		4.5	7.4
Total revenue		803.8	1,639.8
Other income			
Gain on de-recognition of non-current assets	12	128.6	0.1
Total revenue and other income		932.4	1,639.9
Operating expenses			
Employee benefits expense		(39.3)	(56.8)
Services and utilities expense		(49.0)	(83.4)
Property and maintenance expense		(19.5)	(29.6)
Security recoverable expense		(62.9)	(98.3)
Expected credit loss expense	7	(93.9)	-
Other operational costs		(26.7)	(31.8)
Total operating expenses		(291.3)	(299.9)
Other expenses			
Write-off of non-current assets	8	(28.2)	-
Restructuring and redundancy expenses		(7.5)	(3.2)
Total other expenses		(35.7)	(3.2)
Total expenses before depreciation, amortisation, net finance costs and income tax		(327.0)	(303.1)
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)		605.4	1,336.8
Depreciation	8	(353.3)	(350.5)
Amortisation	9	(39.2)	(39.3)
Profit before net finance costs and income tax (EBIT)		212.9	947.0
Finance income	6	5.9	4.0
Finance costs	6	(687.3)	(718.5)
Change in fair value of swaps	6	(60.4)	(0.1)
Net finance costs		(741.8)	(714.6)
(Loss)/profit before income tax expense		(528.9)	232.4
Income tax benefit/(expense)	10	38.8	(169.3)
Net (loss)/gain attributable to owners of the company		(490.1)	63.1

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

Consolidated statements of comprehensive income

for the year ended 31 December 2020

	Note	2020 $m	2019 $m
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedges		(64.2)	(252.9)
Changes in fair value of foreign currency basis spread		(32.9)	(10.6)
Tax on items that may be reclassified to profit or loss [2]		5.9	79.1
Total items that may subsequently be reclassified to profit or loss		(91.2)	(184.4)
Items that will never be reclassified to profit or loss			
Remeasurement gain on defined benefit plan [1]		-	0.9
Tax on items that will never be reclassified to profit or loss [1]		-	(0.3)
Total items that will never be reclassified to profit or loss		-	0.6
Other comprehensive loss, net of tax		(91.2)	(183.8)
Total comprehensive loss attributable to owners of the company		(581.3)	(120.7)

1. The 2020 balances for remeasurement gain on defined benefit plan is $0.05 million and associated tax is $0.01 million. These have been rounded to nil in the consolidated statements of comprehensive income.
2. The Group entered into interest rate swap resets during the year ended 31 December 2020. Refer to further detail in note 4.2. The unamortised balance of reset swaps at reporting date of $77.5 million does not give rise to a temporary difference for tax purposes. Hence tax has not been calculated on the unamortised balance.

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

Consolidated statements of financial position

as at 31 December 2020

	Note	2020 $m	2019 $m
Current assets			
Cash and cash equivalents	3	840.6	322.4
Trade and other receivables	7	331.6	199.7
Derivative financial instruments	5	149.9	14.8
Other assets		1.5	0.7
Total current assets		1,323.6	537.6
Non-current assets			
Trade and other receivables	7	142.1	79.4
Property, plant and equipment	8	3,456.5	3,514.2
Intangible assets	9	3,646.6	3,744.6
Derivative financial instruments	5	543.8	936.7
Other assets		21.4	12.9
Total non-current assets		7,810.4	8,287.8
Total assets		9,134.0	8,825.4
Current liabilities			
Trade and other payables	16	660.8	616.3
Interest bearing liabilities - external	2	848.1	760.3
Lease liabilities	11	0.1	0.4
Derivative financial instruments	5	77.6	125.7
Provisions for employee benefits		8.5	9.7
Total current liabilities		1,595.1	1,512.4
Non-current liabilities			
Interest bearing liabilities – external	2	8,356.4	9,353.4
Interest bearing liabilities – shareholder related	2	2,122.4	2,100.8
Lease liabilities	11	0.1	0.2
Derivative financial instruments	5	670.0	500.6
Deferred tax liabilities	10	50.8	29.1
Provisions for employee benefits		3.8	3.6
Total non-current liabilities		11,203.5	11,987.7
Total liabilities		12,798.6	13,500.1
Net liabilities		(3,664.6)	(4,674.7)
Equity			
Issued capital		3,307.2	1,533.5
Accumulated losses		(6,382.1)	(5,709.7)
Cash flow hedge reserve		(557.6)	(493.4)
Foreign currency basis spread reserve		(32.1)	(5.1)
Total equity		(3,664.6)	(4,674.7)

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

Consolidated statements of changes in equity

for the year ended 31 December 2020

	Issued capital [1] $m	Accumulated losses $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Total equity $m
Total equity at 1 January 2020	1,533.5	(5,709.7)	(493.4)	(5.1)	(4,674.7)
Loss after tax	-	(490.1)	-	-	(490.1)
Other comprehensive loss	-	-	(64.2)	(27.0)	(91.2)
Dividends on ordinary shares	-	(182.3)	-	-	(182.3)
Equity contribution from parent	1,773.3	-	-	-	1,773.3
Equity-settled shares	0.4	-	-	-	0.4
Total equity at 31 December 2020	3,307.2	(6,382.1)	(557.6)	(32.1)	(3,664.6)
Total equity at 1 January 2019	1,533.4	(5,157.0) [2]	(316.4)	2.4	(3,937.6)
Profit after tax	-	63.1	-	-	63.1
Other comprehensive loss	-	0.6	(177.0)	(7.5)	(183.9)
Dividends on ordinary shares	-	(616.4)	-	-	(616.4)
Equity-settled shares	0.1	-	-	-	0.1
Total equity at 31 December 2019	1,533.5	(5,709.7)	(493.4)	(5.1)	(4,674.7)

1. Issued capital comprises 13,648,394 issued and fully paid ordinary shares with no par value
2. Accumulated losses of $0.2 million were adjusted on 1 January 2019 to include the transition adjustment of AASB 16 *Leases*.

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

Consolidated statements of cash flows

for the year ended 31 December 2020

	Note	2020 $m	2019 $m
Cash flow from operating activities			
Receipts from customers		780.2	1,844.2
Interest received		3.7	4.0
Government subsidy (Jobkeeper assistance)	22	11.7	-
Payments to suppliers and employees		(352.9)	(470.7)
Interest paid		(314.3)	(295.0)
Interest rate swaps payments		(48.2)	(109.9)
Net cash flow from operating activities	3	80.2	972.6
Cash flow from investing activities			
Proceeds from sale of property, plant & equipment		-	0.1
Acquisition of property, plant and equipment		(347.1)	(304.1)
Capitalised borrowing costs	8	(7.2)	(9.7)
Net cash flow used in investing activities		(354.3)	(313.7)
Cash flow from financing activities			
Proceeds received from borrowings		1,212.0	741.5
Repayment of borrowings		(1,791.8)	(395.0)
Borrowing costs paid		(11.6)	(9.7)
Interest rate swap reset		(137.6)	-
Proceeds from equity contribution from Parent		1,773.3	-
Dividends paid – ordinary shares	1	(182.3)	(616.4)
Interest paid – redeemable preference shares		(69.7)	(276.4)
Net cash flow from/(used in) financing activities		792.3	(556.0)
Net increase in cash and cash equivalents		518.2	102.9
Cash and cash equivalents at beginning of the period		322.4	219.5
Cash and cash equivalents at the end of the period	3	840.6	322.4

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

Notes to the financial statements

for the year ended 31 December 2020

General

Basis of preparation and statement of compliance

This is the financial report for Southern Cross Airports Corporation Holdings Limited (SCACH, the Company) and its controlled entities (collectively referred to as the Group). The Group is a for-profit entity for the purposes of preparing the financial statements.

This financial report:

– Consists of the consolidated financial statements of the Group, as permitted by Australian Securities & Investments Commission (ASIC) Class Order 10/654;

– Is a general purpose financial report;

– Is prepared in accordance with *Corporations Act 2001*, Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB);

– Is prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss; and

– Is presented in Australian dollars, which is the functional currency of the Group, with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.

The financial report was authorised for issue by the directors on 23 February 2021.

Going concern

The financial report of the Group has been prepared on a going concern basis that requires directors to have reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

At reporting date, the Group has met its debt covenant requirements. The Directors have reviewed the cash flow projections factoring in the impact of the COVID-19 pandemic on the Group covering a period of at least 12 months after the accounts are authorised for issue. This takes into account forecast revenue, operating cash flows, forecast capital expenditure and the Group's liquidity position. The Group expects to remain compliant with covenant requirements.

At 31 December 2020, the Group had $3.1 billion in liquidity with $0.8 billion in cash and $2.3 billion of undrawn bank debt facilities. The refinancing of maturing debt is a permitted use under the bank debt facilities. If required, this is sufficient to cover the Group's interest bearing liabilities that are due to expire within 12 months of reporting date - a US144A/RegS bond with principal value of $US 500.0 million ($A 518.7 million) expiring in February 2021 and wrapped domestic bond of $200.0 million expiring November 2021. A range of counter measures to preserve liquidity in the near term that include reductions to operating costs and capital expenditure have been implemented. This includes measures undertaken to continue to strengthen the Group's liquidity position.

At 31 December 2020, the Group was in a net liability position of $3,664.6 million (31 December 2019: 4,674.7 million). The Group considered the impacts of COVID-19 to the business and performed an assessment of impairment and considered if there was an impairment to goodwill. In making this assessment, the Group considered the independent valuation of Sydney Airport as at 31 December 2020. This is referred to in the Critical accounting estimates, assumptions and judgements. The result of the independent valuation confirms that the equity value of the Group continues to absorb the consolidated deficiency of the Group and that there is no impairment to goodwill at reporting date.

General continued

Critical accounting estimates and judgements

The preparation of the financial report requires the use of critical accounting estimates, assumptions and judgements that affect the reported amounts in the financial statements and the application of accounting policies. Such estimates and judgements are reviewed on an ongoing basis.

Fair value measurement of financial instruments

Management provides an estimate of the fair value of financial instruments at each reporting date. The value of financial instruments are determined based on observable markets inputs, categorised as Level 2 in accordance with AASB 13 *Fair Value Measurement*. Level 2 fair value measurements are determined by inputs other than quote prices included within Level 1 that are observable for the asset or liability, either directly (as priced) or indirectly (derived from prices).

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic has increased the estimation uncertainty in the preparation of this full year financial report. The Group's rationale and explanation of the critical estimates, assumptions and judgements that have been considered in light of the severe consequences of the COVID-19 pandemic for the aviation and airport community for this full year ended 31 December 2020 are described below.

Allowance for expected credit losses

- The Group has made expected credit loss (ECL) provisions for both aeronautical and commercial customers. $93.9 million has been recognised across aeronautical and commercial receivables. The recoverability of receivables has been assessed based on information available and our best judgement. Included within this amount is $13.8 million related to Virgin Group debts in respect of the period prior to Virgin being placed into voluntary administration and subsequent, up until the appointed administrator's personal liability that commenced on 27 May 2020, including unpaid security charges less the agreed dividend amount from the assets of the creditors' trust as outlined in the Deed of Company Arrangement dated 25 September 2020. The agreed dividend amount $8.0 million has not yet been received at signing date and is expected to be received during 2021.
- A range of rental concessions were provided during the year to both retail and property tenants, in-line with the Australian Government's Commercial Code of Conduct issued in April 2020. Concessions in the form of rent abatements of $142.8 million and rent deferrals of $8.4 million were agreed. Of the abatements, $52.5 million were recognised through the provision for ECL. The remaining $90.3 million of abatements are recognised on a straight-line basis as a reduction to revenue over the remaining lease terms in accordance with the relevant Accounting Standard. $24.3 million was recognised as a reduction to revenue during the 2020 year.
- Rent deferrals provide an extension of payment terms with no impact to revenue. However, the Group assessed the expected recoverability of all deferred rents and have provided $5.2 million against the related receivables as at 31 December 2020.

The movement in expected credit loss allowance is in note 7.

Impairment assessment on non-current assets

Following the Group's review of capital projects in progress, a $28.2 million impairment charge was recognised in respect of certain capital projects that, due to their nature, are not expected to progress. This is reflected in the Consolidated statements of comprehensive income and in note 8.

Impairment test of goodwill

As described under the Going concern note above, an independent valuation was undertaken at 31 December 2020. The valuation was updated for COVID-19 impacts to the business and included assumptions regarding future passenger numbers, revenue, operating expenses, capital expenditure and interest rates. There were no changes to valuation methodology. The result of the updated valuation indicated that the Group's equity value continued to absorb the consolidated deficiency of the Group and no impairment was required at reporting date. There are no known factors that would have had a significant adverse effect on the valuation since 31 December 2020. Assumptions included have been described in note 9.

Notes to the financial statements

for the year ended 31 December 2020

General continued

Significant accounting policies

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

i) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities comprising the consolidated entity, which are the Company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 127: *Consolidated and Separate Financial Statements*. Controlled entities are listed in note 17 to the financial statements.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

ii) Foreign currency transactions and balances

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

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

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

iii) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

Fair value measurements are determined as follows:

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

The Group's value of financial instruments are determined based on observable markets inputs, categorised as Level 2.

iv) Measurement of financial instruments

Financial instruments are classified by the following categories – amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial asset and whether contractual cash flows are solely from payments of principal and interest (SPPI).

v) Revenue recognition

Aeronautical revenues

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

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

Aeronautical revenues are billed and collected on a monthly basis.

General continued

Incentives or discounts are provided in line with terms of contracts with airlines and are generally based on passenger numbers, flight frequency and or new routes. Revenues from passenger charges are therefore variable consideration and estimated monthly. Discounts and incentives represent a reduction to revenue. They are paid annually based on contract commencement date and any unpaid amount is recognised as a payable. Variable revenue is only recognised when it is highly probable the revenues will not reverse. Whilst contracts with airlines exceed 12 months, revenue recognised is the amount to which we have the right to invoice for the current year.

Aeronautical security recovery revenues

Aeronautical security recovery revenue is primarily generated from contracts with airlines for the provision of government mandated security services. These include passenger and checked bag screening. Revenue is recognised as the expense is incurred. Aeronautical security recovery revenues are billed and collected on a monthly basis.

Retail revenues and Property and car rental revenues

Retail revenues comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, financial and advertising services. Property and car rental revenues comprises the lease of terminal space, buildings and other space at Sydney Airport. Both revenue streams are accounted for as operating lease revenues where rental revenues are recognised on a straight-line basis over the lease term. Concession fees are recognised based on sales turnover in accordance with the concession agreement.

Abatements provided to tenants are recognised in accordance with applicable accounting standards. Abatements provided prior to the execution of an agreement are expensed through expected credit loss. Abatements provided on execution of an agreement are amortised from the date of the agreement as a reduction to revenue over the remaining lease term.

vi) Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group expects to comply with the conditions. Refer to note 22 for further information.

Changes in accounting standards

The Group has initially adopted *Definition of Material (Amendments to AASB 101 and AASB 108)* and *Interest Rate Benchmark Reform (Amendments to AASB 9, AASB 139 and AASB 7)* from 1 January 2020.

Interest Rate Benchmark Reform AASB 2019-3 makes amendments to AASB 9, AASB 139 and AASB 7 which allows the Group to apply certain exceptions to the standard hedge accounting requirements in respect of hedge relationships that are impacted by a market wide interest rate benchmark reform. The specific interest rate benchmark reform that this amendment currently applies to is the planned discontinuation of the London Interbank Offered Rate (LIBOR) and Interbank Offered Rate on 31 December 2021. At 31 December 2020 the Group does not have:

- any debt instruments directly linked to LIBOR as all offshore bonds issued are fixed rate; or
- any interest rate swaps or cross currency interest rate swaps directly linked to LIBOR as these instruments swap the fixed foreign denominated interest rate to either a fixed or floating BBSW(Y) interest rate.

The Group continues to review its funding mix and would prefer to have the relief available in the event that a LIBOR interest rate instrument is entered into. The Group has performed an initial high level LIBOR exposure review and has not identified any direct LIBOR exposures. Further reviews will be performed in 2021.

A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

Notes to the financial statements

for the year ended 31 December 2020

General continued

New standards and interpretations not yet adopted

The accounting standards that are applicable to the Groups in future periods and have not been early adopted for the year ended 31 December 2020 are detailed below.

Accounting Standard	Requirement	Impact on Financial Statements
Interest Rate Benchmark Reform - Phase 2 (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16)	'Interest Rate Benchmark Reform — Phase 2 (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16)' addresses issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021.	No material impact is expected
Annual Improvements to IFRS Standards 2018-2020	'Annual Improvements to IFRS Standards 2018–2020' contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project: – AASB 3 Business Combinations – AASB 9 Financial Instruments – AASB 116 Property, Plant and Equipment and – AASB 137 Provisions, Contingent Liabilities and Contingent Assets The amendments are effective for annual reporting periods beginning on or after 1 January 2022.	No material impact is expected
Classifications of Liabilities as Current or Non-current (Amendments to AASB 101)	'Classification of Liabilities as Current or Non-current (Amendments to AASB 101)' provides a more general approach to the classification of liabilities under AASB 101 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.	No material impact is expected

Capital management

Overview

The capital structure of the Group consists of:

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

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

During the year ended 31 December 2020, the Group implemented financial countermeasures to significantly enhance its liquidity position in response to the COVID-19 pandemic. This included the issuance of a AUD598.0 million equivalent multi-tranche USPP bond, the establishment of AUD850 million in bilateral bank debt facilities. SCACH's parent entity issued AUD2.0 billion of equity through an accelerated renounceable entitlement offer in August 2020. The entitlement offer specifically served to reduce the Group's net debt position.

1. Dividends and distributions

Stapled ordinary and redeemable preference shares

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

Ordinary shareholders' entitlements

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

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

RPS shareholders' entitlements

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

Ordinary dividends paid and proposed during the year for the Group are shown in the table below:

	2020		2019	
	$ per share	$m	$ per share	$m
Amounts paid in period				
December quarter paid in January	13.35	182.3	12.15	165.8
March quarter paid in April	-	-	11.54	157.4
June quarter paid in July	-	-	10.13	138.3
September quarter paid in October	-	-	11.35	154.9
		182.3		616.4

During the year ended 31 December 2020, no dividends were declared. This is in line with the decision to preserve liquidity, taking into account the uncertainty on timing and strength of recovery from the COVID-19 pandemic. Dividends are unfranked.

Notes to the financial statements

for the year ended 31 December 2020

Capital management continued

2. Interest bearing liabilities

The Group has the following external and shareholder related interest bearing liabilities at reporting date:

External

- Syndicated sustainability linked bank facilities;
- Domestic bonds (including capital indexed bond (CIB));
- US private placement bonds (USPP);
- US144A/RegS bonds; and
- Euro bond.

Shareholder related

- Redeemable preference shares (RPS).

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

Capital management continued

2. Interest bearing liabilities continued

External	Maturity	Carrying amount [9] 31 Dec 2020 $m	Carrying amount [9] 31 Dec 2019 $m	Fair value 31 Dec 2020 $m	Fair value 31 Dec 2019 $m	Principal amount drawn – In AUD 31 Dec 2020 $m	Principal amount drawn – In AUD 31 Dec 2019 $m	Principal amount drawn – In original currency 31 Dec 2020 $m	Principal amount drawn – In original currency 31 Dec 2019 $m	Issue currency	Interest rate
Syndicated facility	April 2022	-	402.7	-	402.7	-	404.0	-	404.0	AUD	Floating [3,6]
Wrapped domestic bond [1,8]	November 2021	199.7	199.5	199.7	199.5	200.0	200.0	200.0	200.0	AUD	Floating [4]
Wrapped domestic bond [1]	October 2022	747.2	745.7	747.2	745.7	750.0	750.0	750.0	750.0	AUD	Floating [4]
Wrapped domestic bond [1]	October 2027	652.0	651.1	652.0	651.1	659.0	659.0	659.0	659.0	AUD	Floating [4]
USPP bond	August 2028	99.6	99.5	99.6	99.5	100.0	100.0	100.0	100.0	AUD	Floating [4]
USPP bond	November 2028	99.6	99.5	99.6	99.5	100.0	100.0	100.0	100.0	AUD	Floating [4]
USPP bond	November 2028	179.1	179.1	235.4	224.1	180.0	180.0	180.0	180.0	AUD	6.04% [5]
USPP bond	November 2028	57.7	57.7	74.0	70.2	58.0	58.0	58.0	58.0	AUD	5.60% [5]
USPP bond	November 2029	135.3	135.3	179.0	167.4	136.0	136.0	136.0	136.0	AUD	5.70% [5]
USPP bond	February 2034	73.6	73.7	74.3	71.5	62.5	62.5	45.0	45.0	USD	4.25% [5]
USPP bond	February 2039	134.2	134.2	178.6	158.8	135.0	135.0	135.0	135.0	AUD	4.76% [5]
USPP bond	February 2044	99.4	99.4	137.6	120.7	100.0	100.0	100.0	100.0	AUD	4.85% [5]
USPP bond	February 2049	99.4	99.4	142.9	123.2	100.0	100.0	100.0	100.0	AUD	4.90% [5]
USPP bond	June 2035	67.1	-	73.8	-	77.2	-	52.0	-	USD	2.83% [5]
USPP bond	June 2035	78.8	-	84.5	-	80.9	-	50.0	-	EUR	1.06% [5]
USPP bond	June 2040	99.5	-	109.2	-	100.0	-	100.0	-	AUD	3.28% [5,6]
USPP bond	June 2040	218.9	-	240.2	-	220.0	-	220.0	-	AUD	3.28% [5]
USPP bond	June 2050	119.4	-	137.9	-	120.0	-	120.0	-	AUD	3.53% [5]
Euro bond	April 2024	1,181.6	1,208.5	1,203.9	1,240.0	1,033.4	1,033.4	700.0	700.0	EUR	2.75% [5]
Euro bond	April 2028	861.4	853.8	862.1	867.9	796.1	796.1	500.0	500.0	EUR	1.75% [5]
US144A/RegS bond [8]	February 2021	648.4	711.6	652.7	735.4	518.7	518.7	500.0	500.0	USD	5.13% [5]
US144A/RegS bond	March 2023	1,130.5	1,210.6	1,138.8	1,231.9	802.4	802.4	825.0	825.0	USD	3.90% [5]
US144A/RegS bond	April 2025	645.7	711.5	706.1	737.0	643.0	643.0	500.0	500.0	USD	3.38% [5]
US144A/RegS bond	April 2026	1,163.0	1,276.5	1,290.3	1,333.5	1,163.4	1,163.4	900.0	900.0	USD	3.63% [5]
CIB [2]	November 2020	-	760.3	-	774.1	-	768.6	-	768.6	AUD	3.76% [5]
CIB [2]	November 2030	413.4	404.1	422.1	419.8	406.7	404.3	406.7	404.3	AUD	3.12% [5]
Total external interest bearing liabilities		9,204.5	10,113.7	9,741.5	10,473.5	8,542.3	9,114.4	n/a	n/a		
Shareholder related											
Redeemable preference shares [7]	June 2032	2,122.4	2,100.8	4,119.6	3,767.8	2,047.3	2,047.3	2,047.3	2,047.3	AUD	13.50%
Total shareholder related interest bearing liabilities		2,122.4	2,100.8	4,119.6	3,767.8	2,047.3	2,047.3	2,047.3	2,047.3		

1. Financial guarantees are provided by MBIA Insurance Corporation or Assured Guaranty Municipal Corp.
2. Financial gurantees are provided by either MBIA Insurance Corporation or Ambac Assurance Corporation.
3. Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
4. Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
5. Fixed interest rates are reflective of coupons in respective currencies/markets.
6. Represents base margin for the sustainability-linked tranche with an opportunity to earn a discount or incur a premium.
7. The $50 premium on redemption on 28 June 2032 is included in the calculation of fair value.
8. Classified as Current liability in the Consolidated statement of financial position.
9. Carrying amount includes capitalised establishment costs.

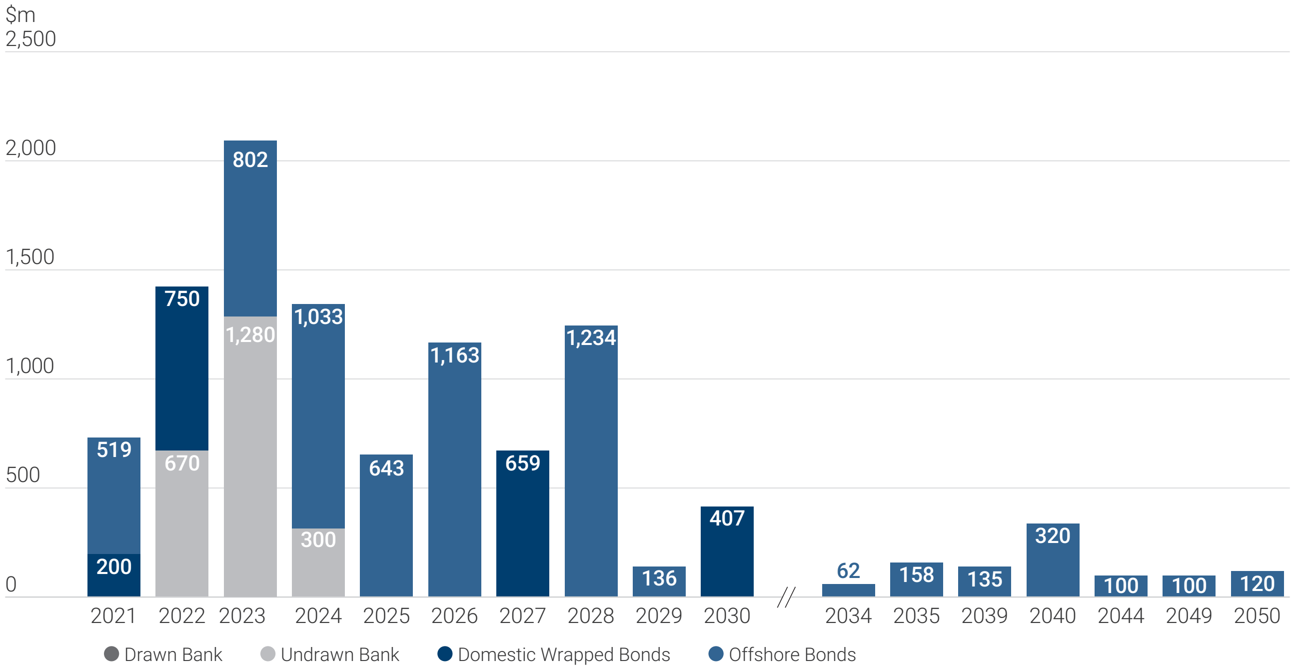
Notes to the financial statements
for the year ended 31 December 2020

Capital management continued

2. **Interest bearing liabilities** continued

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

Drawn & Undrawn Debt December 2020



Assets pledged as security

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

Recognition and measurement

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

The carrying value of foreign denominated interest bearing liabilities that are in a fair value hedge relationship includes the hedge gain/loss. Refer note 5 on fair value hedges.

At 31 December 2020 and 31 December 2019, the fair values of all fixed interest rate bonds were determined based on observable market inputs, categorised as Level 2. Bonds are valued using a Discounted Cashflow model, with available comparative market curves adopted as key inputs.

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

CIBs explained

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

Effective interest rate method explained

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

Capital management continued

2. Interest bearing liabilities continued

Reconciliation of movements of liabilities to cashflows arising from financing activities:

	2020		2019	
	Loans and Borrowings [1] $m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities $m	Loans and Borrowings [1] $m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities $m
Balance at 1 January	(12,214.5)	325.2	(12,164.3)	518.9
Changes from financing cashflows				
Interest swap payments	-	48.2	-	109.9
Proceeds received from borrowings	(1,212.0)	-	(741.5)	-
Repayments of borrowings	1,791.8	-	395.0	-
Total changes from financing cash flows	579.8	48.2	(346.5)	109.9
Liability related other changes				
Effects of changes in foreign currency rates	379.0	(379.0)	19.6	(18.4)
Changes in fair value	(20.1)	(48.3)	(86.9)	(285.2)
Add back of refinancing receivable	-	-	398.9	-
Other	(51.1)	-	(35.3)	-
Total liability related other changes	307.8	(427.3)	296.3	(303.6)
Balance at 31 December	(11,326.9)	(53.9)	(12,214.5)	325.2

1. Loans and Borrowings includes shareholder related Redeemable preference shares.

Notes to the financial statements

for the year ended 31 December 2020

Capital management continued

3. Cash and cash equivalents

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

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

	2020 $m	2019 $m
Cash on hand	828.8	311.2
Deposits [1]	11.8	11.2
Total cash and cash equivalents	840.6	322.4
Cash flow information		
Reconciliation of profit after tax to net cash flows from operating activities		
(Loss)/Profit for the year	(490.1)	63.1
Net interest & borrowing costs	31.0	43.6
Redeemable preference shares	311.7	269.8
Change in fair value of swaps	60.4	0.1
Depreciation and amortisation	392.5	389.8
Write-off of non-current assets	28.2	-
Gain on de-recognition of non-current assets	(128.6)	(0.1)
Operating lease straight lining adjustment	(20.8)	(6.4)
Share based payment expense	0.2	0.1
Decrease in receivables and other assets	10.4	25.0
(Decrease)/increase in payables	(75.9)	18.3
(Decrease)/increase in tax liabilities	(38.8)	169.3
Net cash flows from operating activities	80.2	972.6

1. Included in the Group's consolidated deposit balance is $11.8 million (2019: $11.2 million) held by SACL which is restricted to fund maintenance capital expenditure.

Recognition and measurement

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

Treasury and financial risk management

Overview

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

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

4. Financial risk management

Financial risk management framework

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

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

4.1 Foreign currency risk

Group policy

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

The Group is primarily exposed to foreign currency risk from interest bearing liabilities denominated in foreign currencies (USD and EUR). At 31 December 2020 and 31 December 2019, these interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds. As a result, a strengthening or weakening of the AUD will have no impact on profit or loss or equity.

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

	2020			2019		
	EURm	**USDm**	**Equivalent total AUDm**	**EURm**	**USDm**	**Equivalent total AUDm**
Senior secured bonds	(1,200.0)	(2,770.0)	(5,019.5)	(1,200.0)	(2,770.0)	(5,019.5)
Cross currency swaps	1,200.0	2,770.0	5,019.5	1,200.0	2,770.0	5,019.5
Exposure	-	-	-	-	-	-

	31 December 2020		31 December 2019	
	Notional maturity profile		**Notional maturity profile**	
Cross currency interest rate swaps	**EUR**	**USD**	**EUR**	**USD**
1 year or less (m)	-	500.0	-	-
1 to 2 years (m)	-	-	-	500.0
2 to 5 years (m)	700.0	1,325.0	700.0	825.0
5 years or more (m)	550.0	997.0	500.0	1,445.0
Average foreign exchange rate	0.65	0.86	0.66	0.87
Average interest rate	3M BBSW + 166bps	3M BBSW + 242bps	3M BBSW + 167bps	3M BBSW + 244bps

BBSW refers to the Bank Bill Swap Rate.

Notes to the financial statements

for the year ended 31 December 2020

Treasury and financial risk management continued

4. Financial risk management continued

4.2 Interest rate risk

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

Group policy

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

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

Interest rate swap (IRS) contracts

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

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

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

	Average contracted fixed interest rate [1]		Notional principal amount		Fair value	
	2020 %	2019 %	2020 $m	2019 $m	2020 $m	2019 $m
1 year or less	2.85	3.38	1,618.7	1,239.1	(6.5)	(4.3)
1 to 2 years	2.66	2.85	750.0	1,618.7	(20.9)	(47.7)
2 to 5 years	3.16	3.14	3,037.7	3,144.7	(232.7)	(225.6)
5 years or more	2.67	2.67	5,155.1	5,798.1	(398.7)	(305.8)
	n/a	n/a	10,561.5	11,800.6	(658.8)	(583.4)

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

The weighted average cash interest rate of the Group's interest bearing liabilities was 4.0% for the year ended 31 December 2020 (2019: 4.6%).

At 31 December 2020, 94.6% (2019: 90.5%) of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through IRS.

During the year, the Group executed $5.2 billion of interest rate swaps reset transactions (swap reset). This involved making upfront payments totaling $137.6 million to reduce the contracted fixed interest rates on these swaps to lower current market rates for approximately 12 months. Associated interest expense reductions have been recognised during the year ended 31 December 2020 with the remainder to be incorporated in the results of the future reporting period. The straight line amortisation of the swap resets of $60.1 million were recognised in the statements of comprehensive income during the year ended 31 December 2020. These are included in the Change in fair value of swaps.

The level of senior drawn borrowings (bank debt and capital markets debt) hedged through interest rate swaps remains unchanged following these transactions.

4. Financial risk management continued

Interest rate sensitivities

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

	2020 $m	2019 $m
Increase in interest rate +150bp		
Loss after tax	(4.3)	(9.1)
Equity	206.8	310.2
Decrease in interest rate -150bp		
Profit after tax	4.3	9.1
Equity	(238.3)	(350.8)

4.3 Credit risk

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

Group policy

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

Credit risks on receivables relate to aeronautical, retail and property trade receivables at the Airport asset level. These corporate counterparties have a range of credit ratings. Refer to further detail included at Note 7.

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained.

Notes to the financial statements

for the year ended 31 December 2020

Treasury and financial risk management continued

4. Financial risk management continued

4.4 Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meet its financial obligations when they fall due.

The Group has built in appropriate liquidity management requirements as part of its financial risk management framework. Due to the capital intensive nature of the underlying business, the Group's treasury operations works to achieve flexibility in funding by maintaining levels of undrawn committed bank facilities available for working capital and capital investment and maintaining capital expenditure reserve.

The Group's available liquidity position as at 31 December was $3.1 billion, comprising $0.8 billion of available cash and $2.3 billion of undrawn bank debt facilities.

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

	Carrying value $m	Contractual cash flows $m	1 year or less $m	1 to 5 years $m	5 years or more $m
Consolidated					
2020					
Trade payables and accrued interest	602.2	602.2	602.2	-	-
Lease liabilities	0.2	2.0	0.3	0.7	1.0
Bonds – domestic	1,598.9	1,632.8	5.4	963.6	663.8
USPP bonds- AUD	1,342.1	2,255.1	56.2	227.3	1,971.6
USPP bonds- USD	3,728.3	4,141.0	764.2	2,679.8	697.0
USPP bonds - EUR	78.8	91.3	0.8	3.3	87.2
EMTN Euro bonds	2,043.0	2,104.7	44.4	1,235.6	824.7
Capital indexed bonds	413.4	661.7	12.8	54.8	594.1
Redeemable preference shares	2,122.4	6,318.4	546.2	1,106.3	4,665.9
Derivatives	747.6	156.3	(594.9)	(687.7)	1,438.9
- Cross currency swaps	*88.4*	*(522.4)*	*(673.1)*	*(1,156.6)*	*1,307.3*
Inflows	*n/a*	*(6,336.9)*	*(809.4)*	*(3,918.7)*	*(1,608.8)*
Outflows	*n/a*	*5,814.5*	*136.3*	*2,762.1*	*2,916.1*
- Interest rate swaps	*659.2*	*678.7*	*78.2*	*468.9*	*131.6*
	12,676.9	17,965.5	1,437.6	5,583.7	10,944.2
2019 [1]					
Trade payables and accrued interest	569.2	569.2	569.2	-	-
Lease liabilities	0.6	0.6	0.4	0.2	-
Bank facilities	402.7	419.4	6.8	412.6	-
Bonds – domestic	1,596.3	1,697.2	18.6	998.1	680.5
USPP bonds- AUD	904.1	1,543.3	43.8	174.9	1,324.6
USPP bonds- USD	3,983.9	4,597.6	156.0	2,288.4	2,153.2
USPP bonds - EUR	2,062.3	2,167.0	44.9	1,276.6	845.5
Capital indexed bonds	1,164.4	1,493.9	820.0	54.4	619.5
Redeemable preference shares	2,100.8	6,048.6	276.4	1,106.3	4,665.9
Derivatives	626.3	(248.9)	86.2	(298.5)	(36.6)
- Cross currency swaps	*32.4*	*(866.9)*	*(26.2)*	*(669.0)*	*(171.7)*
Inflows	*n/a*	*(6,764.7)*	*(200.9)*	*(3,565.0)*	*(2,998.8)*
Outflows	*n/a*	*5,897.8*	*174.7*	*2,896.0*	*2,827.1*
- Interest rate swaps	*593.9*	*618.0*	*112.4*	*370.5*	*135.1*
	13,410.6	18,287.9	2,022.3	6,013.0	10,252.6

1. The 2019 comparatives were restated to reflect cash flows on cross currency swaps to align with 2020's presentation.

Treasury and financial risk management continued

5. Derivative financial instruments

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

	2020			2019		
$m	**Cross currency swaps**	**Interest rate swaps**	**Total**	**Cross currency swaps**	**Interest rate swaps**	**Total**
Current assets	149.9	-	149.9	14.3	0.5	14.8
Non-current assets	543.3	0.5	543.8	926.6	10.1	936.7
Current liabilities	(24.8)	(52.8)	(77.6)	(32.4)	(93.3)	(125.7)
Non-current liabilities	(63.6)	(606.4)	(670.0)	-	(500.6)	(500.6)
Net derivative position	604.8	(658.7)	(53.9)	908.5	(583.3)	325.2

Recognition and measurement

Hedge accounting

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

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

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

Cash flow hedges

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

Fair value hedges

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

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

Foreign currency basis spread is recognised as a component of equity. This represents the fair value of the cost to convert foreign currency to Australian dollars of cross currency swaps.

Critical estimates and assumptions – fair value measurement of financial instruments

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

At 31 December 2020 and 31 December 2019, all derivative financial instruments were determined based on observable market inputs, categorised as Level 2.

Notes to the financial statements

for the year ended 31 December 2020

Treasury and financial risk management continued

5. Derivative financial instruments

Hedge Accounting

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

	Fair value hedges		Cash flow hedges			Total
At 31 December 2020	**EUR CCIRS $m**	**USD CCIRS $m**	**EUR CCIRS $m**	**USD CCIRS $m**	**AUD IRS $m**	**$m**
Notional amount [1]	EUR1,200.0	USD1,620.0	AUD1,910.3	AUD3,007.7	AUD3,559.0	n/a
Carrying amount of the hedging instrument						
– Assets	70.8	132.1	152.1	316.9	0.5	672.4
– Liabilities	(6.4)	(2.8)	(244.1)	(189.6)	(349.3)	(792.2)
Total carrying amount of the hedging instrument	*64.4*	*129.3*	*(92.0)*	*127.3*	*(348.8)*	*(119.8)*
Cumulative FV adjustment on hedged item (excluding impact of changes in foreign exchange rates on notional amount)	(147.5)	(79.3)	n/a	n/a	n/a	(226.8)
Carrying amount of the hedged item recognised in the statement of financial position	(2,042.9)	(2,175.4)	n/a	n/a	n/a	(4,218.3)
Balance in CF hedge reserve on continuing hedges [4]	n/a	n/a	155.3	103.3	246.2	504.8
Balance in CF hedge reserve from hedging relationships where hedge accounting no longer applies	n/a	n/a	102.0	70.6	131.7	304.3
During the year:						
Change in value of hedging instrument used for calculating hedge effectiveness:						
- on continuing hedge relationships [2]	9.3	44.9	(101.8)	(344.4)	(98.9)	(490.9)
- on hedge relationships discontinued in July 2020 [2]	(1.0)	12.2	(1.0)	26.0	(24.3)	11.9
Cash payment on restructure of IRS during the year	-	-	33.5	48.2	55.6	137.3
Change in value of hedged item used for calculating hedge effectiveness:						
- on continuing hedge relationships [2]	(7.3)	(39.7)	95.2	344.7	97.5	490.4
- on hedge relationships discontinued in July 2020 [2]	0.2	(11.6)	1.2	(40.4)	25.1	(25.5)
Change in CF hedge reserve of the hedging instrument recognised in reserves:						
- continuing hedge relationships [4]	n/a	n/a	(57.8)	24.7	(98.0)	(131.1)
- hedge relationships discontinued in July 2020 [4]	n/a	n/a	(19.1)	21.7	(24.8)	(22.2)
Gain/loss reclassified from CF hedge reserve to P&L on discontinued hedges [4]	n/a	n/a	14.6	16.3	25.4	56.3
Change in profit or loss:						
Ineffectiveness recognised in P&L (continuing hedge relationships) [3]	2.0	5.2	(6.7)	(22.6)	(0.9)	(23.0)
Amount reclassified to P&L on discontinued hedges	11.7	6.5	(14.6)	(16.3)	(25.4)	(38.1)
Ineffectiveness recognised in P&L (hedge relationships discontinued in July 2020) [3,5]	(0.9)	0.5	(1.2)	1.6	0.5	0.5
Amount reclassified from hedge reserve to P&L [5]	-	-	17.6	351.2	-	368.8

1. Depending on the nature of the cross currency swap, a single cross currency swap may be broken down into a fair value hedge and a cash flow hedge. Each structure has a notional amount. Hence the notional amount disclosed will be greater than the principal amount of the debt hedged.
2. Hedge effectiveness is the extent to which the changes in fair value of the hedging instrument offsets changes in the fair value of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument.
4. Balance includes change in fair value of foreign currency basis spreads recognised in the Cost of Hedging Reserve. Balances are before tax.
5. Includes $3.1 million loss in cost of hedging reserve reclassified to profit or loss during the period, due to hedge de-designations.

Treasury and financial risk management continued

5. Derivative financial instruments continued

	Fair value hedges		Cash flow hedges			Total
At 31 December 2019	**EUR CCIRS $m**	**USD CCIRS $m**	**EUR CCIRS $m**	**USD CCIRS $m**	**AUD IRS $m**	**$m**
Notional amount [1]	EUR1,200.0	USD1,120.0	A$1,829.4	A$3,189.9	A$4,618.0	n/a
Carrying amount of the hedging instrument						
– Assets	146.7	43.0	-	530.1	-	719.8
– Liabilities	-	-	(113.3)	-	(281.3)	(394.6)
Total carrying amount of the hedging instrument	*146.7*	*43.0*	*(113.3)*	*530.1*	*(281.3)*	*325.2*
Cumulative FV adjustment on hedged item (excluding impact of changes in foreign exchange rates on notional amount) [6]	(152.1)	(54.6)	(88.6)	(757.1)	n/a	(1,052.4)
Carrying amount of the hedged item recognised in the statement of financial position	(1,640.1)	(2,062.2)	n/a	n/a	n/a	(3,702.3)
Effective portion recognised in reserves [4]	n/a	n/a	198.6	225.4	280.5	704.5
Balance in CF hedge reserve from hedging relationships where hedge accounting no longer applies	n/a	n/a	(3.7)	11.2	-	7.5
During the year:						
Change in the value of the hedging instrument used for calculating hedge effectiveness [2]	44.5	42.7	(127.7)	10.6	(163.8)	(193.7)
Change in the value of the hedged item used for calculating hedge effectiveness [2]	(44.7)	(42.2)	140.7	1.7	163.6	219.1
Change in value of the hedging instrument recognised in reserves [4]	n/a	n/a	(94.1)	(6.3)	(163.2)	(263.6)
Charged to profit and loss on discontinued hedges [5]	-	1.9	0.9	(1.5)	-	1.3
Ineffectiveness recognised in profit and loss [3]	(0.2)	(1.4)	(0.4)	0.9	(0.6)	(1.7)
Amount reclassified from hedge reserve to profit or loss [5,7]	n/a	n/a	(34.0)	17.5	-	(16.5)

1. Depending on the nature of the cross currency swap, a single cross currency swap may be broken down into a fair value hedge and a cash flow hedge. Each structure has a notional amount. Hence the notional amount disclosed will be greater than the principal amount of the debt hedged.
2. Hedge effectiveness is the extent to which the changes in fair value of the hedging instrument offsets changes in the fair value of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument. A positive number represents a gain in the Income Statement (Finance costs).
4. Effective portion includes fair values of foreign currency basis spreads recognised in the Cost of Hedging Reserve. Amounts are before tax. A positive number represets a gain on the cash flow hedge reserve.
5. A positive number represents a gain in the Income Statement (Finance costs).
6. A negative number represents an increase in liability.
7. This is fully offset within the Income Statement (Finance costs) by the change in fair value of foreign currency translation on foreign currency debt.

Notes to the financial statements

for the year ended 31 December 2020

Treasury and financial risk management continued

6. Net finance costs

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

	2020 $m	2019 $m
Finance income		
Bank interest [1]	5.9	4.0
Total finance income	5.9	4.0
Finance costs		
Senior debt interest paid or accrued	(312.5)	(318.3)
Net swap interest expense	(29.5)	(88.6)
CIBs capitalised	(7.6)	(17.8)
Amortisation of debt establishment costs	(26.2)	(4.2)
Recurring borrowings costs paid	(6.8)	(5.2)
Borrowing costs capitalised	7.2	9.7
RPS interest paid or accrued	(290.2)	(276.4)
Amortisation of RPS debt establishment costs	(21.5)	(17.5)
Lease interest expense	(0.2)	(0.2)
Total finance costs	(687.3)	(718.5)
Change in fair value of swaps [2]	(60.4)	(0.1)
Net finance costs	(741.8)	(714.6)

1. $2.3 million relates to interest income on Sydney Gateway (2019: nil). Refer to note 12.
2. 2020 includes $60.1 million in relation to the straight line amortisation of swap reset costs. Refer to note 4.2 for further detail.

Recognition and measurement

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

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

Capitalisation of borrowing costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets.

Financial results and financial position

Overview

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

7. Trade and other receivables

	2020 $m	2019 $m
Current		
Trade receivables	135.1	100.5
Allowance for expected credit loss	(61.3)	(0.1)
Net trade receivables	73.8	100.4
Accrued contract revenue	19.3	79.5
Other receivables [1,2]	238.5	19.8
Total current receivables	331.6	199.7
Non-current		
Trade receivables	1.4	-
Accrued contract revenue	6.6	7.4
Other receivables [2]	134.1	72.0
Total non-current receivables	142.1	79.4

1. $189.8 million relates to the Sydney Gateway transaction. Refer to note 12.
2. Abatements to be amortised against future revenues of $66.0 million are included in Other receivables. Those expected to be amortised in the following 12 months from reporting date are classified as Current of $43.6 million; the remainder has been classified as Non-current of $22.4 million.

Trade receivables are generally collected within 30 days of invoice date. Of the $135.1 million current trade receivables at 31 December 2020, $47.0 million relate to revenues earned from contracts with customers (Aeronautical and Parking and ground transport revenues), as explained in Significant accounting policies (2019: $42.9 million). The remainder relates to revenues from leases (Retail and Property and car rental revenues).

The net trade receivables balance at 31 December 2020 that relate to:

- *aeronautical customers* are predominantly from the Virgin Group relating to the dividend amount outlined Deed of Company Arrangement; and
- *commercial customers* include the remaining balance to be received post abatements and provisions, and amounts invoiced in advance in accordance with the lease agreement. Amounts invoiced in advance are also recognised in Payables.

Accrued revenue represents revenues the Group is entitled to receive but has not invoiced at reporting date.

The movement in allowance for expected credit losses (ECL):

	$m
As at 1 January 2019	-
New and increased provisions	(0.1)
Balance at 31 December 2019	(0.1)
New and increased provisions [3]	(93.9)
Increased provisions in relation to contracts with customers	(3.8)
Receivables provided for now written off as uncollectible	36.5
Balance at 31 December 2020	(61.3)

3. Expected credit loss expense in the Consolidated statements of comprehensive income.

Notes to the financial statements

for the year ended 31 December 2020

Financial results and financial position continued

7. Trade and other receivables continued

Recognition and measurement

The Group's trade and other receivables are initially recognised at fair value, which approximates their carrying value and includes transaction costs directly attributable to the acquisition of the asset. Subsequent measurement is recorded at amortised cost using the effective interest rate method, less any allowance for impairment raised for doubtful debts based on expected lifetime credit losses. The Group applies the simplified impairment approach of ECL, as permitted by AASB 9. This requires that expected lifetime losses be recognised from initial recognition of all financial assets. This is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

Credit risk on receivables relate to aeronautical, retail and property trade receivables at the Airport asset level. Prior to COVID-19, the Group had an ECL provision of $0.1 million. With the operational and liquidity pressures on the Group's aeronautical and commercial debtors following the impact of COVID-19, the Group assessed the recoverability of receivables on an individual debtor basis. The assessment was based on information available at the time and the Group's best judgement, with a relevant ECL provision was applied at reporting date. The Group will continue to assess the recoverability of trade debtors on an ongoing basis.

Concessions in the form of rent abatements of $142.8 million and rent deferrals of $8.4 million were negotiated during the year. Of the abatements, $52.5 million were recognised through an ECL provision. The remaining $90.3 million of abatements are recognised on a straight-line basis as a reduction to revenue over the remaining lease terms in accordance with the relevant Accounting Standards. $24.3 million was recognised as a reduction to revenue during 2020.

8. Property, plant and equipment

	Freehold land [1]	Buildings [1]	Runways, taxiways and aprons	Other infrastructure	Operational plant and equipment	Other plant and equipment	Capital works in progress	Total
Useful life (years)	99	5-60	6-99	9-40	14-20	3-60		
At 31 December 2020								
Cost								
Opening balance as at 1 January 2020	11.3	3,026.1	991.1	1,303.4	538.2	428.6	252.1	6,550.8
Additions [2]	-	-	-	-	-	-	323.8	323.8
Impairments	-	-	-	-	-	-	(28.2)	(28.2)
Transfers	-	28.2	6.9	99.3	2.4	36.4	(173.2)	-
Closing balance	11.3	3,054.3	998.0	1,402.7	540.6	465.0	374.5	6,846.4
Accumulated depreciation								
Opening balance as at 1 January 2020	(2.2)	(1,375.2)	(403.7)	(569.2)	(363.2)	(323.1)	-	(3,036.6)
Depreciation	(0.1)	(176.6)	(38.0)	(71.1)	(24.6)	(42.9)	-	(353.3)
Closing balance	(2.3)	(1,551.8)	(441.7)	(640.3)	(387.8)	(366.0)	-	(3,389.9)
Total carrying amount	9.0	1,502.5	556.3	762.4	152.8	99.0	374.5	3,456.5

1. A percentage of these assets are subject to operating leases with third parties. These vary from year to year.
2. Includes capitalised borrowing costs of $7.2 million (2019: $9.7 million).

Financial results and financial position continued

8. Property, plant and equipment continued

	Freehold land [1]	Buildings [1]	Runways, taxiways and aprons	Other infrastructure	Operational plant and equipment	Other plant and equipment	Capital works in progress	Total
Useful life (years)	99	5-60	6-99	9-40	14-20	3-60		
At 31 December 2019								
Cost								
Opening balance as at 1 January 2019	11.3	2,785.2	970.7	1,248.1	511.2	392.4	363.2	6,282.1
Additions [2]	-	-	-	-	-	0.8	314.4	315.2
Transfers	-	263.3	20.4	55.6	27.0	59.2	(425.5)	-
Disposals	-	(22.4)	-	(0.3)	-	(23.8)	-	(46.5)
Closing balance	11.3	3,026.1	991.1	1,303.4	538.2	428.6	252.1	6,550.8
Accumulated depreciation								
Opening balance as at 1 January 2019	(2.1)	(1,223.7)	(365.4)	(498.3)	(336.5)	(306.6)	-	(2,732.6)
Depreciation	(0.1)	(173.9)	(38.3)	(71.2)	(26.7)	(40.3)	-	(350.5)
Disposals	-	22.4	-	0.3	-	23.8	-	46.5
Closing balance	(2.2)	(1,375.2)	(403.7)	(569.2)	(363.2)	(323.1)	-	(3,036.6)
Total carrying amount	9.1	1,650.9	587.4	734.2	175.0	105.5	252.1	3,514.2

1. A percentage of these assets are subject to operating leases with third parties. These vary from year to year.
2. Includes capitalised borrowing costs of $7.2 million (2019: $9.7 million).

During the year ended 31 December 2020, the Group acquired Jet Fuel storage and reticulation assets for $85.0 million.

Following the review and re-prioritisation of critical projects targeting asset resilience, safety and security as a result of the impact of COVID-19, the Group recognised an impairment of $28.2 million in respect of certain capital works that are not progressing (2019: Nil).

Capital expenditure commitments

At reporting date, the Group had capital expenditure commitments of $168.1 million (2019: $194.7 million) which spans across 2021 to 2024.

Recognition and measurement

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2020

Financial results and financial position continued

9. Intangible assets

Consolidated ($m)	Goodwill	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	95	95	
At 31 December 2020				
Cost				
Opening balance as at 1 January 2020	700.7	2,058.1	1,672.0	4,430.8
Disposal	-	-	(72.9)	(72.9)
Closing balance	700.7	2,058.1	1,599.1	4,357.9
Accumulated amortisation				
Opening balance as at 1 January 2020	-	(379.4)	(306.8)	(686.2)
Amortisation	-	(21.7)	(17.5)	(39.2)
Disposal	-	-	14.1	14.1
Closing balance	-	(401.1)	(310.2)	(711.3)
Total carrying amount	700.7	1,657.0	1,288.9	3,646.6
At 31 December 2019				
Cost				
Opening balance as at 1 January 2019	700.7	2,058.1	1,672.0	4,430.8
Additions	-	-	-	-
Closing balance	700.7	2,058.1	1,672.0	4,430.8
Accumulated amortisation				
Opening balance as at 1 January 2019	-	(357.7)	(289.2)	(646.9)
Amortisation	-	(21.7)	(17.6)	(39.3)
Closing balance	-	(379.4)	(306.8)	(686.2)
Total carrying amount	700.7	1,678.7	1,365.2	3,744.6

During the year, the Group de-recognised leasehold land with cost of $72.9 million and accumulated depreciation of $14.1 million relating to the Sydney Gateway transaction. Refer to note 12.

Intangible assets items explained

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

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

Recognition and measurement

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

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

9. Intangible assets continued

Impairment of intangible assets

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

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

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

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

For year ended 31 December 2020 no intangible assets were impaired (2019: nil).

Valuation of Sydney Airport

As at 31 December 2020, the Group had net liabilities of $3,664.6 million (2019: $4,674.7 million). An independent valuation of the SCACH Group equity value by Deloitte as at 31 December 2020 supported an equity value that, if applied in the financial report of the Group as at 31 December 2020, would have more than absorbed the consolidated deficiency position at 31 December 2020. The valuation was updated for COVID-19 impacts to the business and included assumptions regarding future passenger numbers, revenue, operating expenses, capital expenditure and interest rates. There were no changes to valuation methodology. The result of the updated valuation indicated that no goodwill impairment was required.

Critical estimates and assumptions – impairment test for goodwill

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

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

The cash flows consider the decreased traffic, operational forecasts, cost of debt and uncertainty around the COVID-19 recovery. They are projected based on a Financial Model covering a twenty year period, as follows:

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

Cash flows are discounted using a post-tax discount rate calculated based on the Capital Asset Pricing Model (CAPM). Given the significant headroom of valuation above carrying value, a material change, such as twenty percentage points on top of the discount rate, would not result in an impairment of goodwill.

Other key assumptions used in the value-in-use calculation include international and domestic passenger numbers and inflation. Total passenger numbers were 11.2 million for the year ended 31 December 2020 (2019: 44.4 million). Average long-term inflation rates are assumed to be within the Reserve Bank of Australia (RBA) target range. A reasonably possible change in passenger numbers, inflation or discount rate, would not be expected to lead to an impairment of goodwill.

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

Notes to the financial statements
for the year ended 31 December 2020

Financial results and financial position continued

10. Taxation

Income tax expense
Reconciliation of tax expense to prima facie tax payable:

	Consolidated	
	2020 $m	**2019 $m**
(Loss)/profit before income tax	(528.9)	232.4
Income tax expense calculated at 30%	*158.7*	*(69.7)*
Expenses that are not deductible	(119.9)	(99.6)
Income tax benefit / (expense) reported in the income statement	38.8	(169.3)

	Consolidated	
	2020 $m	**2019 $m**
Current tax		
Total current income tax benefit/(expense)	69.8	(163.9)
Deferred tax		
Origination and reversal of temporary differences	(29.8)	(5.3)
Adjustments for the prior year	1.7	-
Total deferred income tax benefit/(expense)	(28.1)	(5.3)
Total income tax benefit/(expense) in the Consolidated Income Statement	38.8	(169.3)

Deferred taxes
The movements in deferred tax balances for the Group are shown in the tables below.

	Balance 1 January 2019 $m	**Temporary movements recognised $m**	**Balance 31 December 2019 $m**	**Temporary movements recognised $m**	**Balance 31 December 2020 $m**
Deferred assets/(liabilities):					
Property, plant and equipment	(217.6)	5.6	(212.0)	29.1	(182.9)
Deferred debt establishment costs	-	(2.5)	(2.5)	4.5	2.0
Accrued revenue and prepayments	(23.6)	(1.3)	(24.9)	(83.0)	(107.9)
Defined benefits plan	(2.0)	(0.2)	(2.2)	-	(2.2)
Deferred income	0.1	(0.1)	-	0.1	0.1
Other payables and lease liabilities	15.9	(2.6)	13.3	24.2	37.5
Cash flow hedge and Foreign currency basis reserve [1]	(32.0)	56.3	24.3	112.4	136.7
Interest bearing liabilities	156.0	18.9	174.9	(109.0)	65.9
Total	(103.2)	74.1	(29.1)	(21.7)	(50.8)

1. $5.9 million (2019: $79.1 million) was charged to equity and relates to changes in fair value of cashflow hedges and fair value of foreign currency basis reserve.

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

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

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

10. Taxation continued

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

SCACH and its wholly owned Australian subsidiaries are part of the Sydney Airport Limited (SAL) tax-consolidated group (TCG) under Australian income tax law, with SAL the head entity. Each entity in the SAL TCG accounts for current and deferred tax with tax expense and deferred tax assets and liabilities arising from temporary differences recognised in their separate financial statements using the 'standalone tax payer' approach. Under the tax sharing agreement between SAL TCG entities, amounts are recognised as payable to or receivable by each member of the SAL TCG in relation to the tax contribution amounts paid or payable between SAL and members of the SAL TCG. Any tax losses and current tax liabilities from subsidiaries are transferred to SAL.

11. Leases

Leases recognised as right-of-use assets where the SCACH Group is a lessee are described below.

Amounts recognised in the Statement of financial position

Included in Property, Plant and Equipment on the balance sheet is $0.4 million being the carrying amout of right-of-use assets at 31 December 2020. These relate mainly to the lease of data centre space. These leases expire between 2021 and 2031.

Lease liabilities included on the balance sheet is $0.1 million recognised as Current lease liabilities (2019: $0.4 million) and $0.1 million as Non-current lease liabilities (2019: $0.2 million).

There were no additions to right-of-use assets during the 2020 financial year.

Amounts recognised in the Statement of comprehensive income

	Consolidated	
	2020 $m	**2019 $m**
Lease interest expense	0.2	0.2
Depreciation expense	0.4	0.5

Recognition and measurement

Cost of right-of-use asset comprises the initial measurement of the liability, any lease payments pre-commencement date offset by any lease incentives received, initial direct costs and restoration costs, if applicable. The cost is depreciated over the shorter of the asset's useful life and the life of the lease on a straight-line basis.

Lease liabilities are measured by the net present value of fixed payments offset by any lease incentives receivable, and where applicable variable lease payments linked to an index or rate if applicable, exercise price of a purchase option (where the Group is reasonably certain to exercise that option); and payment of penalties for terminating the lease (where the life of the lease has assumed termination). Payments made are allocated between lease liability and finance cost, with the finance cost charged to interest expense over the life of the lease. The weighted average incremental borrowing rate was applied to the lease liabilities.

12. Sydney Gateway

In September 2018, Sydney Airport Corporation Limited (SACL), a wholly owned subsidiary of the SCACH Group, reached an agreement with the NSW Government on Sydney Gateway, in exchange for the Australian Government granting an easement to the NSW Government over part of the Sydney Airport site (easement sites). The NSW Government agreed to compensate the Group to the value of $170 million escalating annually at 5% over three years from the date of the agreement.

Access to all easement sites was provided during the year, resulting in the de-recognition of the carrying value of leasehold land of $58.8 million reflected in Note 11 *Intangible Assets*. The gain on de-recognition of $128.6 million and interest income of $2.3 million calculated from the date of de-recognition to 31 December 2020, is reflected in the Consolidated statements of comprehensive income. An associated current receivable of $189.8 million is reflected in Note 9 *Receivables* under Other receivables. Numbers may not add due to rounding.

Notes to the financial statements

for the year ended 31 December 2020

Employee benefits

Overview

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

13. Key management personnel

The remuneration structure of key management personnel (KMP) and other executives comprises of:

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

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

The CEO's contract: The CEO's employment may be terminated for any reason by giving six months' notice. In the event of any serious, willful or persistent misconduct, the Group may immediately terminate the CEO's employment. If employment is terminated as a consequence of an uncontrollable event (which includes death, permanent disability, retirement and termination without cause), subject to Board discretion any unvested STI or LTI award that has been awarded will remain on foot and vest in accordance with its terms.

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

KMP compensation for the Group comprised the following:

	SCACH Group	
	2020 $	**2019 $**
Short term employee benefits – salary and fees	4,357,074	4,931,675
Short term employee benefits – bonus and other [1]	-	3,794,598
Post employment benefits – superannuation	140,135	218,648
Share based payments (LTI)	322,861	247,123
Total KMP compensation	4,820,070	9,192,044

1. 2019 included cash and equity payments made in place of incentives foregone at their place of previous employment.

Sydney Airport (comprising the SCACH Group) provides incentives to executives in the form of share based payments. All staff are employed through SACL. The share based payments are in the form of ASX-listed SYD securities that is issued by the ultimate parent entity. Share based payments expensed during the year was $359,868 (2019: $90,944).

Long-term incentive plan

Sydney Airport has put in place a Long-Term Incentive Plan (LTIP) to provide an incentive for certain management personnel, linking their remuneration to Sydney Airport's long-term financial performance and security holder returns. The Board granted contractual rights (Rights) to certain management personnel to receive Sydney Airport stapled securities at a future date subject to the following performance conditions being satisfied:

Under the LTIP for the 2020 – 2022 LTI and 2019-2021 LTI series:

- half of the Rights granted are based on a market comparative Total Shareholder Return performance condition (TSR tranche); and
- half of the Rights granted are based on cash flow per stapled security performance conditions (CPS tranche).

For LTI series 2018 – 2020:

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

Employee benefits continued

14. Share based payments

Fair value calculations

Performance conditions are measured over a three year period. Rights do not have distribution entitlements during the vesting period. If a participant ceases employment due to circumstances such as death, permanent disability or redundancy, unvested rights may, at the Board's discretion, remain on foot, vest or lapse. If the participant resigns or is dismissed for cause, the rights lapse. These rights may be cash settled at the Board's discretion.

Any rights that vest are expected to be satisfied by stapled securities that may be issued or purchased on-market.

Recognition and measurement

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

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

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

The Board granted 475,721 LTI rights in 2020. Of these, 118,469 were forfeited during the year. At 31 December 2020, the following rights remain unvested.

LTI Series 2020 – 2022

Condition	Number of rights	Grant value	Vesting date
TSR tranche	178,626	$1.09	February 2023
CPS tranche	178,626	$5.21	February 2023

The Board granted 527,668 LTI rights in 2019. Of these, 108,372 rights were forfeited in during the year. At 31 December 2019, the following rights remain unvested.

LTI Series 2019 – 2021

Condition	Number of rights	Grant value	Vesting date
TSR tranche	209,648	$3.34	February 2022
CPS tranche	209,648	$6.11	February 2022

The Board granted 404,400 LTI rights in 2018. Of these, 79,495 were forfeited during the year. At 31 December 2020, the following rights remain unvested.

LTI Series 2018 – 2020

Condition	Number of rights	Grant value	Vesting date
TSR tranche	90,304	$2.82	February 2021
CPS tranche	90,304	$6.16	February 2021
Other tranche	90,303	$5.42	February 2021

Retention plan

Sydney Airport implemented a retention plan for certain KMP during the year to ensure leadership continuity through the COVID-19 crisis and recovery. Under the plan, 842,635 rights were granted in October 2020 with a three year vesting period. Providing the relevant KMP remains employed by Sydney Airport and performs to the Board's satisfaction during with vesting period, 100% of the rights will vest on October 2023. Grant value of each right at 31 December 2020 was $4.96.

Notes to the financial statements

for the year ended 31 December 2020

Employee benefits continued

15. Superannuation plan

The Group's employees are entitled to varying levels of benefits on retirement, disability or death through the Sydney Airport Superannuation Plan (the Plan). The Plan consists of a defined benefit plan, available only to existing members, which is fully funded and provides lump sum or pension benefits based on years of service and final average salary; and a defined contribution plan, available to all Sydney Airport employees. The Plan also provides accumulation style benefits for the Superannuation Guarantee and Members' Contributions. Employees contribute to the Plan at various percentages of their remuneration.

The Group contributes 9.5% of employees' remuneration on defined contribution plans. This is legally enforcable in Australia. For the year ended 31 December 2020 these amounted to $6.3 million (2019: $6.3 million).

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

	2020 $m	2019 $m
Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of defined benefit plans:		
Current service costs	(1.5)	(1.5)
Interest income	0.1	0.2
Total included in employee benefit expense	(1.4)	(1.3)
Remeasurement gains/(losses) recognised in other comprehensive income [1]	-	0.7
The amounts included in the Consolidated balance sheet arising from the Groups' obligations in respect of its defined benefit plans were:		
Present value of defined benefit obligations	(29.9)	(28.6)
Fair value plan assets [2]	37.2	36.0
Net asset arising from defined benefit obligations	7.3	7.4

1. The 2020 balances for remeasurement gain/(loss) on defined benefit plan is $0.05 million. This has been rounded to nil in the consolidated statements of comprehensive income.
2. Plan assets are held in managed funds, of which 41% are held in international and domestic equity investments, 32% in fixed income, 11% in cash and 16% in other asset classes (2019: 43%, 27%, 13% and 17% respectively).

Recognition and measurement

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Defined benefit plan (DBP)

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

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

Employee benefits continued

15. Superannuation plan continued

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

	2020	2019
Discount rate	1.3%	2.0%
Future salary increases	2.0%	3.0%
	0.5% decrease	0.5% increase
Discount rate ($m)	1.2	(1.1)
Future salary increases ($m)	(0.9)	1.0

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

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

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

Notes to the financial statements

for the year ended 31 December 2020

Other disclosures

Overview

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

16. Trade and other payables

	2020 $m	2019 $m
Trade and other payables	46.0	139.1
Accrued interest on external interest bearing liabilities	35.2	63.3
Accrued interest on shareholder related RPS	269.8	49.2
Unearned revenue	58.6	47.1
Intercompany tax payable to parent entity	251.2	317.6
Total trade and other payables	660.8	616.3

Trade payables and other payables are non-interest bearing and are normally settled on 30 day terms.

Unearned revenue represents amounts invoiced in advance but is not earned at reporting date. All unearned revenue is recognised as revenue in the following reporting period.

The SCACH Group had an intercompany tax payable to its parent entity as the head of the SAL tax consolidated group at 31 December 2020 and 31 December 2019.

Recognition and measurement

The Group's trade and other payables are initially recognised at fair value, which are estimated to approximate their carrying value and are subsequently measured at amortised cost using the effective interest rate method, which is also estimated to approximate fair value.

17. Group structure and parent entity

Group structure and corporate information

SCACH is the parent entity of the Group that has 100% equity interest in the following subsidiaries:

– Sydney Airport Corporation Limited (SACL)

– Southern Cross Airports Corporation Pty Limited (SCAC)

– Sydney Airport Finance Company Pty Limited (FinCo)

– Sydney Airport RPS Company Pty Limited (RPSCo)

– SA (F1) Pty Limited (SAF1)

All subsidiaries are incorporated in Australia. SAF1 is a 100% owned member of the SCACH Group, acquired in July 2017. There was no change to ownership interest during this financial year.

The ultimate parent entity and Australian parent entity of SCACH is Sydney Airport Limited (SAL).

The registered office and principal place of business of SCACH is:

10 Arrivals Court
Sydney International Airport
Mascot NSW 2020

Other disclosures continued

17. Group structure and parent entity continued

Deed of cross guarantee

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

It is a condition of the Instrument that the parent entity and each of the subsidiaries enter into a deed of cross guarantee (the Deed). The effect of the Deed is that the parent entity (Southern Cross Airport Corporation Holdings Limited), guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the parent entity will only be liable in the event that any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the parent entity is wound up.

The subsidiaries subject to the Deed are:

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

The SCACH Group consolidated financial statements include SAF1 and FinCo that are not party to the Deed. Consolidated information in respect of the SCACH Group that is part of the Deed is set out as follows:

Financial result of the SCACH Group excluding SAF1 and FinCo	**2020 $m**	**2019 $m**
Revenue	803.8	1,639.8
Gain on de-recognition of non-current assets	128.6	0.1
Total revenue and other income	932.4	1,639.9
Total operating expenses	(291.3)	(299.9)
Write off of non-current assets	(28.2)	-
Restructuring and redundancy expenses	(7.5)	(3.2)
Total other expenses	(35.7)	(3.2)
Total expenses before depreciation, amortisation, net finance costs and income tax	(327.0)	(303.1)
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)	605.4	1,336.8
Profit before net finance costs and income tax (EBIT)	212.9	947.0
Net finance costs	(741.8)	(714.6)
(Loss)/profit before income tax benefit/(expense)	(528.9)	232.4
Income tax benefit/(expense)	38.3	(176.9)
(Loss)/profit after income tax benefit/(expense)	(490.6)	55.5
Other comprehensive loss	-	-
Net (loss)/gain attributable to owners of the company	(490.6)	55.5

Notes to the financial statements

for the year ended 31 December 2020

Other disclosures continued

17. Group structure and parent entity continued

Financial position of the SCACH Group excluding SAF1 and FinCo	2020 $m	2019 $m
Current assets		
Cash and cash equivalents	840.6	322.4
Trade and other receivables	1,922.7	942.1
Other assets	1.5	1.3
Total current assets	2,764.8	1,265.8
Non-current assets		
Trade and other receivables	142.1	79.4
Property plant and equipment	3,456.4	3,513.9
Intangible assets	3,646.9	3,744.9
Other assets [1]	56.0	50.6
Total non-current assets	7,301.4	7,388.8
Total assets	10,066.2	8,654.6
Current liabilities		
Trade and other payables	(623.0)	(552.1)
Provisions for employee benefits	(8.5)	(9.7)
Other liabilities	(33.8)	(87.5)
Total current liabilities	(665.3)	(649.3)
Non-current liabilities		
Loans and borrowings	(10,035.6)	(9,841.6)
Interest bearing liabilities – shareholder related	(2,122.4)	(2,100.8)
Deferred tax liabilities	(257.2)	(199.3)
Other liabilities [1]	(3.9)	(3.8)
Total non-current liabilities	(12,419.1)	(12,145.5)
Total liabilities	(13,084.4)	(12,794.8)
Net liabilities	(3,018.2)	(4,140.2)
Total equity of the SCACH Group excluding SAF1 and FinCo comprising of:		
Issued capital	3,307.1	1,533.4
Other contributed equity	(36.0)	(36.0)
Accumulated losses [2]	(6,289.3)	(5,637.6)
Total equity	(3,018.2)	(4,140.2)

1. The 2019 intercompany receivables have been re-presented from non-current liabilites to non-current assets. This is in line with the 2020 presentation.
2. Movement relates to loss for the year and internal distributions within the wholly owned group.

Other disclosures continued

17. Group structure and parent entity continued

SCACH parent entity financial result and position

	2020 $m	2019 $m
Result of the parent entity		
Profit after income tax expense	3,018.7	2,546.3
Other comprehensive (loss)/income	-	-
Total comprehensive income for the year	3,018.7	2,546.3
Financial position of the parent entity		
Current assets	21,064.7	16,496.0
Total assets	46,727.9	40,449.3
Current liabilities	(6,776.1)	(5,360.1)
Total liabilities	(22,129.0)	(20,460.4)
Total equity of the parent entity comprising of:		
Issued capital	3,307.1	1,533.5
Retained earnings	21,291.8	18,455.4
Total equity	24,598.9	19,988.9

Investment in subsidaries are recognised at cost.

Parent entity guarantees, commitments and contingencies

At 31 December 2020 the parent entity:

– Has no contingent assets or liabilities which are material either individually or as a class; and

– Has not made any capital expenditure commitments (2019: $nil).

No liability was recognised by the parent entity in relation to the Deed as the fair value of the guarantee is immaterial.

18. Related party disclosures

Loans from SCACH to SCAC

Loans granted by SCACH to SCAC are repayable on 30 June 2048. Interest on the loan is charged at 18.0% per annum and interest on unpaid interest is charged at 19.0% per annum. The loans are considered recoverable at 31 December 2020 and 31 December 2019.

Resources agreement fee

SACL and The Trust Company (Sydney Airport) Limited (TTCSAL) entered into a Resources Agreement under which SACL provides resources to enable TTCSAL to perform various functions in connection with its role as Responsible Entity of SAT1 and one of its subsidiaries SAT2. Fees are charged from SACL to TTCSAL for resources provided, calculated per the relevant provisions in the Resources Agreement.

There were $349,876 fees charged by SACL to TTCSAL for year ended 31 December 2020 (2019: $186,802). $70,917 remains unpaid at 31 December 2020 (2019: $65,000).

Transactions with entities with joint-control or significant influence over the Group

A number of directors of SCACH also hold directorships on the Board of Directors of related companies. Transactions between the Group and related entities are stated above. SCACH's directors do not derive any direct personal benefit from the transactions between the Group and these businesses.

Transactions with parties related to a Director

Although not required, disclosure of the transactions during the reporting period with subsidiaries of Downer EDI Limited, a party related to a non-executive director, is made for transparency reasons. These were for services in relation to airfield resheet and power resilience works including substation and networks upgrades. Mr Fenn is a non-executive director of SAL and is CEO of Downer EDI Ltd. The contracts are at arm's length and were made following competitive tender processes. Mr Fenn was not involved in any board decision regarding the contracts.

Notes to the financial statements

for the year ended 31 December 2020

Other disclosures continued

18. Related party disclosures continued

Entity	Contract Value [1] $	Amounts paid during the financial year ended 31 December 2020 $
Downer EDI Works Pty Ltd	26,770,405	11,871,581
Downer Engineering Power Pty Ltd	15,423,188	4,010,209

1. Contract value includes variations as applicable.

19. Remuneration of auditors

	2020 $	2019 $
Amounts paid or payable to auditors (KPMG) for:		
Audit and review of financial statements	607,822	535,833
Other services		
- Other assurance services	87,806	56,888
- Non-assurance services	-	65,000
Total amount paid or payable to auditors	695,628	657,721

Other assurance services in 2020 relates to work performed on the Sustainability Report (2019: Sustainability report).

Non-assurance services in 2019 relates to the Operating model assessment.

20. Operating lease receivable arrangements

Future minimum rentals are receivable under non-cancellable operating leases. The associated revenue will be recognised on a straight-line basis over the lease term in future periods. These are as follows:

	2020 $m	2019 $m
Receivable within one year	239.6	356.2
Receivable later than one year but no later than five years	314.2	620.4
Receivable after five years	95.5	27.2
	649.3	1,003.8

21. Subsequent events

COVID-19

The downturn in domestic travel is expected to persist until sustained unrestricted travel is permitted again. The downturn in international passenger traffic is expected to persist until government travel restrictions are eased.

Other than the above, the directors are not aware of any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in the period subsequent to the year ended 31 December 2020.

22. Government assistance

In April 2020, the Group enrolled for the JobKeeper government assistance program for 498 eligible employees. During the year ended 31 December 2020, the Group recognised $13.0 million in government assistance. This has been recognised as an offset to Employee benefits expense in the Consolidated statement of comprehensive income for the year ended 31 December 2020, as permitted by AASB 120 Government Grants. Excluding the impact of JobKeeper, the Employee benefits expense would have been $52.3 million for the year ended 31 December 2020.

The Group received $11.7 million of the JobKeeper assistance. This is reflected in the Consolidated statements of cashflows.