23 February 2022

ASX Market Announcements Office
Australian Securities Exchange Limited

Lodged electronically via ASX Online

Sydney Airport Limited
FY21 Appendix 4E and Preliminary Final Report

Sydney Airport Limited attaches the following documents relating to its results for the full-year ended 31 December 2021:

- Appendix 4E; and
- Preliminary Final Report.

Yours faithfully,

Rob Catterall
Head of Investor Relations

Media Enquiries: +61 437 033 479
Investor Relations Enquiries: +61 2 9667 9871

Authorised for release by the Boards of Directors

Appendix 4E & Preliminary Final Report for the year ended 31 December 2021

Sydney Airport

Table of contents

Appendix 4E 1

Preliminary Final Report

Review of operations **2**

Consolidated statements of comprehensive income **13**

Consolidated statements of financial position **15**

Consolidated statements of changes in equity **16**

Consolidated statements of cash flows **18**

Condensed notes to the Preliminary Final Report

General 19

Capital management

1 Contributed equity and distributions 26
2 Interest bearing liabilities 27
3 Cash and cash equivalents 31

Treasury and financial risk management

4 Financial risk management 32
5 Derivative financial instruments 36
6 Net finance costs 39

Financial results and financial position

7 Segment reporting 40
8 Earnings per share 40
9 Receivables 40
10 Property, plant and equipment 42
11 Intangible assets 44
12 Taxation 46
13 Leases 48
14 Provisions 48
15 Sydney Gateway 49

Other disclosures

16 Subsequent events 50

Appendix 4E

Results for announcement to the market

	SAL Group 31 Dec 2021 $m	SAL Group 31 Dec 2020 $m	Movement $m	Movement %
Revenue	620.6	803.7	(183.1)	(22.8)
Other income	9.4	115.7	(106.3)	(91.9)
Total revenue	630.0	919.4	(289.4)	(31.5)
(Loss) after income tax expense	(262.3)	(107.5)	(154.8)	(144.0)
(Loss) after income tax expense attributable to securityholders	(266.9)	(145.6)	(121.3)	(83.3)

	SAT1 Group 31 Dec 2021 $m	SAT1 Group 31 Dec 2020 $m	Movement $m	Movement %
Revenue	-	-	-	-
Other income	-	-	-	-
Total revenue	-	-	-	-
Profit after income tax expense	255.8	154.2	101.6	65.9
Profit after income tax expense attributable to securityholders	255.8	154.2	101.6	65.9

Distributions

During the years ended 31 December 2021 and 31 December 2020, no distributions were declared or payable by SAL or SAT1.

Distribution Reinvestment Plan (DRP)

The distribution reinvestment plan (DRP) provides stapled securityholders with a method of automatically reinvesting all or part of their distributions into stapled securities. As there were no distributions declared for the year ended 31 December 2021 and for the year ended 31 December 2020, the DRP was not in operation.

Additional Appendix 4E disclosures can be found in the Preliminary Final Report for the Year Ended 31 December 2021, lodged with the ASX on 23 February 2022.

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

Review of operations

for the year ended 31 December 2021

ASIC Guidance

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In accordance with the Corporations Act 2001, the Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 31 December 2021. The Annual Financial Report is in the process of being audited.

Significant changes in state of affairs

COVID-19 pandemic

The COVID-19 pandemic has continued to have a severe impact on the aviation industry and airport community. Sydney Airport remains committed to keeping the airport open as an essential service, with our operational response guided by the principles to 'protect our people', and 'protect the business', whilst continuing 'to make Sydney proud every day'.

Passenger traffic through Sydney Airport, particularly international traffic, continues to be materially impacted, with international and domestic passengers down 95.5% and 74.0% respectively in 2021 when compared to the comparative period in 2019, which is prior to any impact of the COVID-19 pandemic.

The Group continues to closely monitor the impacts of the COVID-19 pandemic on passenger numbers, revenue, operating expenses, capital expenditures and interest rates. The Group continues to have significant levels of liquidity available and will be able to pay its debts as and when they become due and payable. Accordingly, the Group considers that the COVID-19 pandemic will not impact the ability of the Group to remain solvent or to continue to operate as a going concern.

Concessions and provisions on debts recognised in the full year preliminary final report are described below:

- Expected credit loss (ECL) provisions of $67.7 million (2020: $93.9 million) were recognised across debtors, where information available at this time indicates the probability that the debts owed may not be recovered. These relate to provisions for doubtful debts and rent deferred.
- A range of rental concessions continue to be provided across both the retail and property portfolios during the year ended 31 December 2021. Concessions in the form of rent abatements of $176.2 million (2020: $142.8 million) and rent deferrals of $1.7 million (2020: $8.4 million) were agreed during the period. Of the abatements, $68.0 million (2020: $52.5 million) was recognised through ECL expense. $13.9 million (2020: nil) in variable abatements was applied against revenue in line with variable lease payments and the remaining $94.3 million (2020: $90.3 million) of abatements will be recognised on a straight line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant Accounting Standard. Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term totalled $58.0 million (2020: $24.3 million). Of this, $30.9 million and $27.1 million relate to 2020 and 2021 abatements respectively.
- Rent deferrals provide an extension of payment terms with no impact to revenue. The Group re-assessed the expected recoverability of all deferred rents against the related receivables as at 31 December 2021. This had a favourable impact of $5.2 million (2020: $5.2 million expense), which was recognised through the Consolidated statements of comprehensive income during the year.
- The Group assessed the recoverability of its debtors and $4.9 million (2020: $36.2 million) was recognised through the Consolidated statements of comprehensive income during the year in relation to the provision for doubtful debts.

The SAL Group recognised $2.6 million (2020: $13.0 million) in assistance under the Federal Government's JobKeeper program prior to its completion on 28 March 2021. This has been recognised as an offset to Employee benefits in the Consolidated statements of comprehensive income for the year ended 31 December 2021. The SAL Group received $3.9 million cash in respect of JobKeeper assistance in the year ended 31 December 2021 (2020: $11.7 million). This is reflected in the Consolidated statements of cash flows.

Sydney Airport, as an eligible airport under the Domestic Airport Security Costs Support (DASCS) program, is entitled to the Federal Government's program funding allocation for security screening costs. This program commenced in March 2021 and concluded in December 2021. The SAL Group recognised $14.6 million as part of the Aeronautical security recovery in the Consolidated statements of comprehensive income for the year ended 31 December 2021. The cash received associated to DASCS amounted to $8.5 million and is reflected in the Consolidated statements of cash flows. Any funding not received is recognised as receivables in the Consolidated statements of financial position.

In September 2021, the Federal Government announced the International Aviation Security Charges Rebate (IASCR) program, designed to cover the in-month shortfall in security operating cost recovery for international operations. The program runs from 1 October 2021 to 31 March 2022. Sydney Airport is an eligible airport under the program but has not yet received any funding from the IASCR during the period ended 31 December 2021. Any funds not received is recognised as receivables in the Consolidated statements of financial position.

Similar to the prior year, a review of all capital projects in progress was undertaken during the year. Following the review, a $10.5 million (2020: $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.

Response through the recovery

The Group continues to be well-positioned to manage through a range of potential recovery scenarios:

- **A strong liquidity position:** Sydney Airport has a robust balance sheet. Available liquidity at 31 December 2021 was $2.8 billion (2020: $3.5 billion), comprised of $0.5 billion (2020: $1.1 billion) in available cash and $2.3 billion (2020: $2.4 billion) of undrawn bank debt facilities. The Group expects to remain compliant with its covenant requirements.
- **Tightly-controlled operating expenditure:** the Group's cost base has significantly reduced following a wide range of cost saving initiatives implemented since the start of 2020. Excluding the impact of rental abatements, ECL provisions and security recoverable expenditure, operating expenditure for the full year period to 31 December 2021 was $167.5 million, down 18.3% on the 2019 corresponding period. The increase in expenditure on the 2020 corresponding period of $28.7 million or 20.7% in part reflects the emerging recovery of activity at the airport.
- **Continued discipline in capital expenditure program:** an investment of $190.8 million across the full year ending 31 December 2021 reflects the Group's focus on prioritising its critical projects targeting asset resilience, safety and security.

Sydney Airport continues to collaborate with our airline partners and tenants, overseas airports, Governments and agencies both in Australia and internationally to develop a safe and sustainable pathway for the resumption of domestic and international travel.

SAL and SAT1 cross staple loan

In light of the continued impact of COVID-19 on the Group's operating environment and financial performance, SAL resolved, as is permitted under the loan documents, to defer payment of cross staple loan (CSL) interest to SAT1 for the six months from 1 January 2021 to 30 June 2021, and for the following six month period from 1 July 2021 to 31 December 2021. In December 2021, SAL further resolved to defer payment of the CSL interest to SAT1 for the six month period from 1 January 2022 to 30 June 2022. The deferred CSL interest has been capitalised to the outstanding principal in accordance with the agreement.

Acquisition of Sydney Airport via Schemes of Arrangement and Trust Scheme

On 13 September 2021, Sydney Airport announced that it had received a further revised indicative, conditional and non-binding proposal from a consortium of infrastructure investors (the Consortium) for $8.75 per stapled security to acquire 100% of the stapled securities in Sydney Airport by way of scheme of arrangement and trust scheme. The further revised indicative proposal followed an initial indicative proposal from the Consortium for $8.25 cash per stapled security as announced on 5 July 2021, and a revised indicative proposal for $8.45 cash per stapled security as announced on 16 August 2021, both of which the SAL and SAT1 Boards determined not to be in the best interests of Sydney Airport securityholders.

Both the SAL and SAT1 Boards considered the further indicative proposal against their assessment of the long-term value of Sydney Airport, including obtaining advice from their financial and legal advisers, and determined that it was in the best interests of Sydney Airport securityholders to provide the Consortium with access to due diligence on a non-exclusive basis. The SAL and SAT1 Boards also determined, subject to completion of due diligence and the agreement of acceptable transaction documentation, to unanimously recommend the further revised offer in the absence of a superior proposal.

On 8 November 2021, following the completion of due diligence, Sydney Airport announced that it had entered into a Scheme Implementation Deed with Sydney Aviation Alliance Pty Limited, an entity controlled by the Consortium. Under the Scheme Implementation Deed Sydney Airport agreed to put the scheme of arrangement and trust scheme (the Schemes) to a vote of Sydney Airport securityholders by way of Scheme Meetings. The SAL and SAT1 Boards unanimously recommended that Sydney Airport securityholders vote in favour of the Schemes at the Scheme meetings, in the absence of a superior proposal and subject to an independent expert concluding that the Schemes were in the best interests of Sydney Airport securityholders (other than UniSuper).

On 17 December 2021, Sydney Airport announced lodgement of the Scheme Booklet which provided Sydney Airport securityholders an explanatory statement and information about the Schemes for the purposes of the Scheme Meetings. The Scheme Booklet included the independent experts report which concluded the Schemes were in the best interests of securityholders (other than Unisuper) and were also fair and reasonable.

On 3 February 2022, Sydney Airport announced the results of the Scheme Meetings in which Sydney Airport securityholders had approved, by substantially exceeding the requisite majorities, the Schemes pursuant to which the Consortium would acquire 100% of the stapled securities in Sydney Airport.

On 9 February 2022, Sydney Airport announced that the Schemes were legally effective. This followed approval of the Schemes by the Supreme Court of New South Wales and the lodgement of the court orders made by the Supreme Court of New South Wales with the Australian Securities and Investments Commission. Sydney Airport securities were suspended from trading on the ASX from the close of trade on 9 February 2022 and it is currently expected that Sydney Airport securities will be delisted from the ASX on or around the business day immediately following the Implementation Date being 9 March 2022.

Review of operations continued

for the year ended 31 December 2021

Operating and Financial Review for Sydney Airport Limited (SAL)

Passengers	EBITDA	EBITDA (Excluding other income and other expenses)	Cash flow outcomes	Debt service coverage	Distribution to investors
7.9m	$329.6m	$331.9m	($62.6)m net operating receipts	1.7x cash flow cover ratio[2]	Nil per stapled security
(29.5)%[1]	(47.5)%[1]	(34.7)%[1]	(237.6)%[1]	(0.1)x[1]	

1. Compared to 31 December 2020.
2. Cash flow cover ratio (CFCR) is calculated as cash flow divided by senior interest expense, calculated for the Southern Cross Airports Corporation Holdings Limited (SCACH) Group.

Key performance measures

Key measures of Sydney Airport's financial performance for the year ended 31 December 2021 are shown in the table below.

		% change from 2020 [1]
Passengers	7.9 million	(29.5%)
Total revenue (including security recovery)	$620.6 million [1]	(22.8%)
Operating expenditure (excluding security recoverable and ECL expenses)	$167.5 million [1]	20.7%
EBITDA	$329.6 million [1]	(47.5%)
EBITDA (excluding other income and other expenses)	$331.9 million	(34.7%)
Net operating receipts (NOR)	($62.6) million	(237.6%)
Distributions per security to investors	Nil	N/A
Net movements in cash and cash equivalents held	($619.7) million [2]	(237.6%)

1. Taken from the Consolidated statement of comprehensive income in the Preliminary Final Report for the Year Ended 31 December 2021.
2. Taken from the Consolidated statement of cash flows in the Preliminary Final Report for the Year Ended 31 December 2021.

Net Operating Receipts (NOR)

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

Reconciliation of NOR

The following table reconciles the statutory result of ASX-listed Sydney Airport for the year ended 31 December 2021 to its NOR. Non-IFRS financial information has been sourced from the preliminary final report.

$m	2021 $m	2020 $m
Loss before income tax benefit [1]	(486.4)	(244.4)
Add back: depreciation and amortisation [1]	445.0	440.4
Profit before tax, depreciation and amortisation	(41.4)	196.0
Add/(subtract) non-cash expenses		
- Capital indexed bonds capitalised [2]	12.8	7.6
- Amortisation of debt establishment costs [2]	8.4	26.4
- Borrowing costs capitalised [2]	(3.9)	(7.2)
- Change in fair value of swaps [2]	156.5	60.4
Total non-cash financial expenses	173.8	87.2
Add/(subtract) other cash movements		
Movement in cash balances with restricted use [3]	1.8	(0.6)
Other	(23.8)	(19.3)
Total other cash movements	(22.0)	(19.9)
Add back		
- Indemnity refund [1]	(10.8)	(39.7)
- Sydney Gateway transaction [4]	(7.2)	(118.0)
- Amortisation on interest rate swap resets [5]	(164.9)	(60.1)
- Costs incurred associated with schemes of arrangement [1]	9.9	-
Net operating receipts	(62.6)	45.5
Weighted average stapled securities on issue (m)	2,698.7	2,408.6
Net operating receipts per stapled security	(2.3c)	1.9c
Distributions declared per stapled security	-	-
Ratio of net operating receipts to distributions	N/A	N/A

1. Taken from the Consolidated statement of comprehensive income in the Preliminary Final Report for the Year Ended 31 December 2021.
2. Taken from Note 6 in the Preliminary Final Report for the Year Ended 31 December 2021.
3. Taken from Note 3 in the Preliminary Final Report for the Year Ended 31 December 2021.
4. Interest income recognised for accounting purposes pursuant to the Sydney Gateway Implementation Deed. The prior year balance also includes the gain on de-recognition of leasehold land relating to Sydney Gateway of $115.7 million. Refer to Note 15 in the Preliminary Final Report for the year ended 31 December 2021.
5. This is a straight line amortisation of interest rate swap resets over the reset period recognised in the Change in fair value of swaps.

Review of operations continued

for the year ended 31 December 2021

Financial performance analysis

Revenue

	Revenue $m	Revenue [1] contribution	% change from 2020
Aeronautical services (excl. security recovery)	182.1	29.3%	(23.6%)
Retail	165.8	26.7%	(32.1%)
Property and car rental	172.8	27.8%	(13.2%)
Parking and ground transport	39.9	6.4%	(18.7%)

1. Calculated as a percentage of total revenue of $620.6 million.

The following table reflects revenue adjusted for abatements and provisions on debts not considered recoverable. Non-IFRS financial information has been sourced from the preliminary final report.

Statutory revenue adjusted for abatements and provisions on debts not considered recoverable

$m	Aero	Retail	Property	P&GT [4]	Total
Revenue for the year ended 31 December 2021 [1]	182.1	165.8	172.8	39.9	
Deduct:					
2021 Abatements that have been expensed in opex	-	(60.8)	(7.2)	-	(68.0) [3]
Variable abatements signed in 2021 [2]	-	(13.9)	-	-	(13.9)
Abatements to be amortised against future revenue	-	(74.9)	(19.2)	(0.2)	(94.3)
Total abatements provided in 2021	-	(149.6)	(26.4)	(0.2)	(176.2)
Deferred rents provided for in ECL expense	-	4.9	0.3	-	5.2
Doubtful debt provisions provided for in ECL expense	(0.9)	(2.0)	(1.7)	(0.3)	(4.9)
Provisions on debts not considered recoverable	(0.9)	2.9	(1.4)	(0.3)	0.3 [3]
Add back:					
Variable abatements signed in 2021 applied to revenue [2]	-	13.9	-	-	13.9
Abatements signed in 2021 amortised against revenue	-	18.6	8.4	0.1	27.1
Abatements signed in 2020 amortised against revenue	-	15.6	15.1	0.2	30.9
	181.2	67.2	168.5	39.7	

1. Taken from Consolidated statement of comprehensive income in the Preliminary Final Report for the Year Ended 31 December 2021.
2. Variable abatements provided in 2021. These have been accounted for as variable lease payments and recognised as a reduction in revenues.
3. The addition of these balances is the ECL expense that totals $67.7 million. Referenced in the Consolidated statement of comprehensive income in the Preliminary Final Report for the Year Ended 31 December 2021.
4. Parking and ground transport (P&GT).

Total revenues

The Group's full year results continue to be significantly impacted by COVID-19. Total passenger traffic was 7.9 million in the full year ended 2021, compared to 11.2 million in the prior comparative period.

Aeronautical revenues

The downturn in passenger traffic continues to have significant impact on aeronautical revenues. Aeronautical revenues were $182.1 million for the full year period, down $56.1 million or 23.6% on the prior comparative period. The decrease in revenues were due mainly to the timing of stay-at-home orders and border closures that were in place for significant parts of the year. Refer to the table above for an analysis of property revenues adjusted for abatements and provisions for doubtful debts.

Freight and apron parking experienced growth against the prior comparative period, primarily due to an increase in the frequency of dedicated freight flights that have replaced normal international services.

Retail revenues

Retail revenues were $165.8 million for the full year period, down $78.4 million or 32.1% on the prior corresponding period which had been only partly impacted by COVID-19 restrictions. Rental abatements provided to retail tenants in the full year period totalled $149.6 million, as Sydney Airport continued to provide fair and reasonable near-term abatements to tenants on a case-by-case basis. The impact of significant international border restrictions continued to impact duty free revenues. Refer to the table above for an analysis of retail revenues adjusted for abatements and provision for doubtful debts.

Property and car rental revenues

Property and car rental revenues were $172.8 million, down $26.3 million or 13.2% on the prior corresponding period. Reasonable near-term abatements continued to be provided by Sydney Airport to certain property and car rental tenants on a case-by-case basis. During 2021, rent abatements of $26.4 million were negotiated and agreed with tenants. Refer to the table above for an analysis of property revenues adjusted for abatements and provision for doubtful debts.

Parking and ground transport revenues

Parking and ground transport revenues were $39.9 million, down $9.2 million or 18.7% on the prior corresponding period. This was driven largely by the decline in passenger traffic.

Operating expenses

Operating expenses (excluding ECL and security recoverable expenses) for the full year to 31 December 2021 increased by 20.7% when compared to the prior comparative period but 18.3% lower than the comparative period in 2019 prior to COVID-19.

Strong cost discipline was retained throughout 2021. Operating expenses have been kept at reduced levels with scaled back non-critical activities, such as a reduction in the scope and frequency of some terminal operations and reducing discretionary spend. The Group also continues to outsource its cost base to third-party service providers to allow for flexibility in increasing service levels as passenger volumes return.

Category	2021 $m	2020 $m	% change from 2020
Employee benefits expense [1]	66.4	39.3	69.0%
Services and utilities expense	43.4	49.0	(11.4%)
Property and maintenance expense	19.9	19.5	2.1%
Security recoverable expense	53.5	62.9	(14.9%)
Expected credit loss expense	67.7	93.9	(27.9%)
Other operational costs	37.8	31.0	21.9%
Total operating expenses	288.7	295.6	(2.3%)
Excluding:			
Expected credit loss expense	67.7	93.9	(27.9%)
Security recoverable expense	53.5	62.9	(14.9%)
Total operating expenses excluding security recoverable and expected credit loss expenses	167.5	138.8	20.7%

1. Includes $2.6 million in JobKeeper government subsidy recognised (2020: $13.0 million).

Employee benefits expense and JobKeeper allowance

For the period ended 31 December 2021, Sydney Airport recognised $2.6 million (31 December 2020: $13.0 million) in government assistance in the form of the JobKeeper wage subsidy prior to its completion on 28 March 2021. This has been recognised as an offset to the employee benefits expense line.

Services and utilities expenses

Services and utilities expenses reduced by 11.4%, driven by a range of operational measures taken in response to COVID-19. These included the closure of car parks and certain terminal areas, reductions in the cost of operating our hotels, and a scale back in passenger facilitation services across kerbside and terminal areas. Included in this category are costs incurred from October 2020 onwards associated with operating Jet Fuel Infrastructure.

Property and maintenance expense

Most of the maintenance activity conducted at the airport is undertaken by our outsourced service providers. With lower passenger volumes and lower demand on our assets, we continue to work with our service providers to prudently reduce and optimize the level of maintenance activity required for terminal areas, baggage systems, aerobridges, aprons and roads. As a result, property and maintenance expenses were consistent with the prior comparative period.

Security recoverable expenses

These expenses relate to the cost of providing government mandated security measures, such as passenger and baggage screening. Since April 2020, Sydney Airport has maintained a number of security services to support the repatriation of international travelers (both to and from Australia) and reduced domestic flight activity. Security recoverable costs have reduced 14.9% on the prior comparative period.

Review of operations continued

for the year ended 31 December 2021

Expected credit loss expense

The ECL expense of $67.7 million was recognised in relation to abatements provided to commercial tenants and on debts owed where there were indications it would not be repaid. The assessment is made based on information available at the time. The total ECL allowance includes provisions of $68.0 million for abatements provided to retail and property tenants, $4.9 million for debts owed by aeronautical and commercial debtors, offset by a favourable impact of $5.2 million arising from re-assessment on the expected recoverability of all deferred rents against the related receivables.

Other operating costs

Other operating costs increased $6.8m or 21.9% on the prior comparative period mainly due to increases in insurance premiums and technology related support costs.

Other expenses

Category	2021 $m	2020 $m	% change from 2020
Write-off of non-current assets	(10.5)	(28.2)	(62.8%)
Restructuring and redundancy expenses	-	(7.5)	(100.0%)
Indemnity refund	10.8	39.7	(72.8%)
Costs incurred associated with schemes of arrangement	(9.9)	-	(100.0%)
Other expenses	(2.1)	-	(100.0%)
Total other expenses	(11.7)	4.0	(392.5%)

Write-off of non-current assets

A review of all capital projects in progress was undertaken during the year. Following the review, a $10.5 million (2020: $28.2 million) impairment charge was recognised in respect of certain capital projects, that due to their nature, are no longer expected to progress.

Indemnity refund

This relates to the ongoing and previously disclosed foreign Danish tax related litigation matters at the SAT1 Group. Further information on the Indemnity is described in Note 14 of the Preliminary Final Report for the Year Ended 31 December 2021.

Costs incurred associated with schemes of arrangement

During the year ended 31 December 2021, the Group has incurred $9.9 million of transaction costs associated with the schemes of arrangement. Further costs have been and are expected to be incurred after year end in respect of the schemes, estimates of which were detailed in the Scheme Booklet dated 17 December 2021.

Other expense

Pursuant to the AMIT regime, SAT1 has an obligation to fund 2020 and 2021 withholding tax on attributed income for foreign investors and local investors who have not registered their tax file numbers with Sydney Airport's share registry. At 31 December 2021, $2.1m has been recognised as part of Other Expense in the Consolidated statement of comprehensive income.

Capital expenditure

Capital investment for the year ended December 2021 of $190.8 million continued to target the delivery of critical and opportunistic projects.

Despite achieving the targeted reduction in capital investment relative to prior years, a number of key critical project milestones have been delivered over the course of 2021. These include:

- **Runway re-sheet project:** Ongoing through 2022
  The project to resurface the main north-south and east-west runways, and associated taxiways, significantly progressed with 50,000 tonnes of asphalt having been replaced to date. We were able to undertake the works in a condensed timeframe due to lower than normal traffic volumes.
- **Sydney Gateway:** Ongoing through 2024
  We have achieved the first key milestones in the project, which included completing works to relocate services and prepare sites for hand over to Transport for NSW between 1 July to 31 December 2021. To date 90% of land parcels have been handed over. The next phase of works continuing through to 2024 involves supporting Transport for NSW to create the road connections and complete the road corridor.

During the year ended 2021, we have also delivered key milestones on a number of opportunistic projects, including:

- **T1 Duty Free project:** Stage 3 completed in June 2021
  We remodelled the Duty-Free area at T1 to enhance the overall look and feel of the retail space and create additional tenancies for new luxury stores. Base build works for four new luxury fashion tenants were completed with closing stages due for completion in 1H22.
- **Customer experience amenities:** Stage 1 completed in 2021
  This project focused on enhancing customer touch points and included updates to wayfinding at T1 and remodelling of a bathroom at each of T2 and T3 to incorporate changing places and high support facilities for passengers with a disability. Works also commenced on the redesign and redevelopment of a new arrivals forecourt at T1, due for completion in 2022.

Several other major projects have been paused and will not be reactivated until there is further clarity around the timing and degree of the return of passengers.

Across the airport, the following projects were progressed over 2021:

Category	Project description	Benefits	Timing
Airfield	Runway works	– Re-sheeting works on the last section of the main runway to extend the runway life and improve its resilience	Ongoing to mid-2022
Terminal works	Baggage	– New conveyor sort line at T2 to improve outbound baggage capacity and system resilience	Ongoing to mid-2022
	Bathrooms	– Planned upgrades in the T1, T2 and T3 terminals to continue improving the customer experience	Throughout the year
	Terminals	– Remodelled the Duty Free area at T1 to update the ground level ambience and luxury precinct interfaces to enhance passenger experience	Ongoing to mid-2022
Property	Hotel Expansion	– Ongoing development of Sydney Airport's hotel portfolio	Ongoing to end-2024
Technology	Campus LAN	– Upgrades to critical technology infrastructure to improve technology resilience throughout the airport precinct	Delivered throughout the year
	Cyber resilience	– Essential 8 compliance achieved and ongoing enhancements to improve Sydney Airport's cyber resilience	Ongoing to mid-2022
Power	Electricity Supply	– Planned works to upgrade the substations and associated high voltage infrastructure that feeds into both terminal precincts and the airfield	Ongoing to mid-2024
Landside operations & transport	Roads and access	– Sydney Gateway works to relocate services and prepare further sites for handover to Transport for NSW	Ongoing to mid-2023
		– Development of the ground transport interchange at the Domestic precinct	Ongoing to end-2024

Review of operations continued

for the year ended 31 December 2021

Capital management and distribution

Sydney Airport maintains a strong focus on prudent capital management by diversifying the debt portfolio, addressing the refinancing of debt well in advance of its maturity and ensuring adequate levels of liquidity.

Interest rate swap resets

During the year, the Group executed a further $6.7 billion of interest rate swap reset transactions. This involved making upfront payments totaling $181.4 million to reduce the contracted fixed interest rates on these swaps to lower current market rates for approximately 12 months. Associated interest expense reductions of $87.4 million have been recognised during the year ended 31 December 2021, with the remainder of $94.0 million to be incorporated in the results of future reporting. Straight line amortisation during the year of $164.9 million relating to all reset swaps transactions ($87.4 million for interest rate swaps resets executed during the year and $77.5 million for interest rate swap resets executed during the year ended 31 December 2020) was recognised in the Consolidated statement of comprehensive income during the year. 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.

Liquidity

Sydney Airport's liquidity position as at 31 December 2021 was $2.8 billion, comprising $0.5 billion of available cash and $2.3 billion of undrawn bank debt facilities.

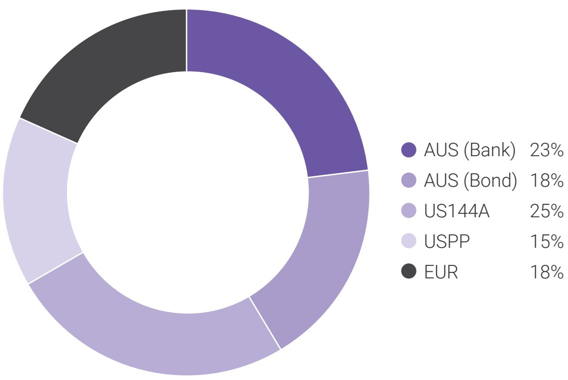
Credit metrics

Ratios are included below. Sydney Airport expects to remain compliant with its covenant requirements.

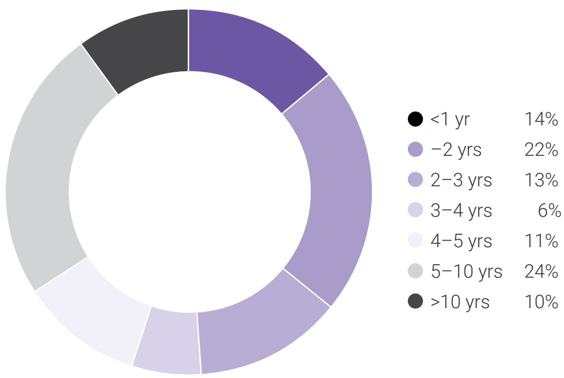
Category	2021 $m	2020 $m
Net debt [1,2]	$7.5 billion	$7.5 billion
Net debt/EBITDA [3]	22.7x	11.9x
Net debt/2019 EBITDA [4]	5.6x	5.6x
Cash flow cover ratio [3,5]	1.7x	1.8x
Average maturity	Late-2026	Mid-2026
Credit rating (S&P/Moody's) [6]	BBB+/Baa1	BBB+/Baa1

1. Includes any drawn amounts under the $150.0 million SAL bank debt facility as at 31 December 2021.
2. Calculations include lease liabilities and related interest expense due to the application of AASB 16.
3. Calculated on a rolling 12 month basis, reflecting reported performance for the 12 months to 31 December 2021.
4. Calculated reflecting SAL Group's reported adjusted performance for the 12 months to 31 December 2019 (excluding other expenses).
5. Cash flow cover ratio (CFCR) is calculated as cash flow divided by senior interest expense, calculated for the SCACH Group.
6. Negative outlook for both S&P and Moody's.

Funding portfolio by category



Debt maturity on drawn and undrawn debt



Distributions

During the years ended 31 December 2021 and 31 December 2020, no distributions were declared or paid.

Distribution Reinvestment Plan (DRP)

As there were no distributions declared for the year ended 31 December 2021 and 2020, there was no DRP in operation for the two years.

Cash flow

Category	2021 $m	2020 $m
Net cash flows from operating activities	346.5	434.3
Net cash flows from/(used in) investing activities	44.4	(354.3)
Net cash flows (used in)/from financing activities	(1,010.6)	370.5
Net (decrease)/increase in cash and cash equivalents held	(619.7)	450.5

Net cash flows from operating activities have decreased primarily due to lower cash receipts from customers, reflecting a full twelve months impact of COVID-19 in the current period.

Net cash flows used in investing activities reflects the capital expenditure of $195.7 million for the period, offset by the receipt of the $197.0 million from the NSW Government for Sydney Gateway receivable and the impact of indemnity matters of $43.1 million.

Net cash flows used in financing activities reflected borrowings repayment of $718.7 million, interest paid of $233.3 million and upfront payment for interest rate swap resets of $181.4 million, offset by proceeds received from borrowings of $100.0 million and interest rate swap receipts of $22.8 million.

Events occurring after balance sheet date

Acquisition of Sydney Airport via Schemes of arrangement and Trust Scheme

On 3 February 2022, Sydney Airport announced the results of the Scheme Meetings in which Sydney Airport securityholders had approved, by substantially exceeding the requisite majorities, the Schemes pursuant to which the Consortium would acquire 100% of the stapled securities in Sydney Airport.

On 9 February 2022, Sydney Airport announced that the Schemes were legally effective. This followed approval of the Schemes by the Supreme Court of New South Wales and the lodgement of the court orders made by the Supreme Court of New South Wales with the Australian Securities and Investments Commission. Sydney Airport securities were suspended from trading on the ASX from the close of trade on 9 February 2022 and its currently expected that Sydney Airport securities will be delisted from the ASX on or around the business day immediately following the Implementation Date being 9 March 2022.

Review of operations continued

for the year ended 31 December 2021

Operating and financial review for The Trust Company (Sydney Airport) Limited

The SAT1 Group continues to hold a financial loan asset, with SAL as borrower. The loan is interest bearing, unsecured and subordinated.

SAL and SAT1 cross staple loan

In light of the continued impact of COVID-19 on the Group's operating environment and financial performance, SAL resolved, as is permitted under the loan documents, to defer payment of the cross staple loan (CSL) interest to SAT1 for the six months from 1 January 2021 to 30 June 2021, and for the following six month period from 1 July 2021 to 31 December 2021. In December 2021, SAL further resolved to defer payment of the CSL interest to SAT1 for the six month period from 1 January 2022 to 30 June 2022. The deferred CSL interest has been capitalised to the outstanding principal in accordance with the agreement.

Indemnity matters

During the year ended 31 December 2021, SAT1 recognised indemnity income of $10.8 million in the Consolidated statement of comprehensive income. This reflects:

- $11.8 million reduction to the provision held for the dividend withholding tax matter from $63.1 million to $51.3 million following advice that, in the event of an unfavourable outcome, the Danish Tax Authority (DTA) will apply the same revised methodology for charging interest as it has in the interest withholding tax matter;
- $2.1 million in expenditure in contesting matters in the Danish High Court;
- $1.7 million refund following further favourable revisions by the DTA of its interest calculation in the interest withholding tax matter; and
- $0.6 million net expense in relation to a foreign exchange loss.

A detailed description is included in Note 14 to the Preliminary Final Report for the year ended 31 December 2021.

Taxation of SAT1 net income

During the year ended 31 December 2021, SAT1 derived interest income of $251.7 million from the cross staple loan to SAL (equivalent to 9.3 cents per unit).

Due to the impact of COVID-19 on Sydney Airport, SAT1 did not make a cash distribution to unitholders in respect of the year ended 31 December 2021. Despite this, the interest income derived by SAT1 is attributable to SAT1 unitholders, and therefore unitholders should be subject to tax on their proportionate share of SAT1's net taxable income for the year.

The Trustee board of SAT1 have resolved for SAT1 to elect to enter into the Attribution Managed Investment Trust (AMIT) regime in respect of the year ended 31 December 2020 onwards. One of the outcomes of electing into the AMIT regime is that it will provide unitholders an increase in the tax cost base of their SAT1 units where the taxable income attributed from SAT1 exceeds the cash distribution. The increase to tax cost base eliminates the possibility of double taxation which can occur where SAT1 has attributed taxable income to a unitholder but not distributed those amounts in cash and the unitholder subsequently disposes of their Sydney Airport securities.

Pursuant to the AMIT regime, SAT1 has an obligation to fund 2020 and 2021 withholding tax on attributed income for foreign investors and local investors who have not registered their tax file numbers with Sydney Airport's share registry. At 31 December 2021, $2.1m has been recognised as part of Other expenses in the Consolidated statement of comprehensive income.

Distributions

During the years ended 31 December 2021 and 31 December 2020, no distributions were declared or paid.

Events occurring after balance sheet date

Acquisition of Sydney Airport via Schemes of arrangement and Trust Scheme

On 3 February 2022, Sydney Airport announced the results of the Scheme Meetings in which Sydney Airport securityholders had approved, by substantially exceeding the requisite majorities, the Schemes pursuant to which the Consortium would acquire 100% of the stapled securities in Sydney Airport.

On 9 February 2022, Sydney Airport announced that the Schemes were legally effective. This followed approval of the Schemes by the Supreme Court of New South Wales and the lodgement of the court orders made by the Supreme Court of New South Wales with the Australian Securities and Investments Commission. Sydney Airport securities were suspended from trading on the ASX from the close of trade on 9 February 2022 and it is currently expected that Sydney Airport securities will be delisted from the ASX on or around the business day immediately following the Implementation Date being 9 March 2022.

Consolidated statements of comprehensive income

for the year ended 31 December 2021

		SAL Group		SAT1 Group	
	Note	2021 $m	2020 $m	2021 $m	2020 $m
Revenue					
Aeronautical revenue		182.1	238.2	-	-
Aeronautical security recovery		55.1	68.7	-	-
Retail revenue		165.8	244.2	-	-
Property and car rental revenue		172.8	199.1	-	-
Parking and ground transport revenue		39.9	49.1	-	-
Other revenue		4.9	4.4	-	-
Total revenue		620.6	803.7	-	-
Other income					
Gain on de-recognition of non-current assets	15	-	115.7	-	-
Other income		9.4	-	-	-
Total revenue and other income		630.0	919.4	-	-
Operating expenses					
Employee benefits expense		(66.4)	(39.3)	-	-
Services and utilities expense		(43.4)	(49.0)	-	-
Property and maintenance expense		(19.9)	(19.5)	-	-
Security recoverable expense		(53.5)	(62.9)	-	-
Expected credit loss expense	9	(67.7)	(93.9)	-	-
Other operational costs		(37.8)	(31.0)	(3.5)	(2.0)
Total operating expenses		(288.7)	(295.6)	(3.5)	(2.0)
Other expenses					
Write-off of non-current assets	10	(10.5)	(28.2)	-	-
Restructuring and redundancy expenses		-	(7.5)	-	-
Indemnity refund	14	10.8	39.7	10.8	39.7
Costs incurred associated with schemes of arrangement		(9.9)	-	(1.4)	-
Other expenses		(2.1)	-	(2.1)	-
Total other expenses		(11.7)	4.0	7.3	39.7
Total expenses before depreciation, amortisation, net finance costs and income tax		(300.4)	(291.6)	3.8	37.7
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)		329.6	627.8	3.8	37.7
Depreciation	10	(361.6)	(355.7)	-	-
Amortisation	11	(83.4)	(84.7)	-	-
(Loss)/profit before net finance costs and income tax (EBIT)		(115.4)	187.4	3.8	37.7
Finance income	6	8.6	8.2	252.0	233.6
Finance costs	6	(223.1)	(379.6)	-	(117.1)
Change in fair value of swaps	6	(156.5)	(60.4)	-	-
Net finance (costs)/income		(371.0)	(431.8)	252.0	116.5
(Loss)/profit before income tax benefit		(486.4)	(244.4)	255.8	154.2
Income tax benefit		224.1	136.9	-	-
(Loss)/profit after income tax benefit		(262.3)	(107.5)	255.8	154.2
(Loss)/profit after income tax benefit attributable to:					
Securityholders		(266.9)	(145.6)	255.8	154.2
Non-controlling interest		4.6	38.1	-	-
		(262.3)	(107.5)	255.8	154.2

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 2021

		SAL Group		SAT1 Group	
	Note	2021 $m	2020 $m	2021 $m	2020 $m
Items that may subsequently be reclassified to profit or loss					
Changes in fair value of cash flow hedges		458.9	(64.2)	-	-
Changes in fair value of foreign currency basis spread		18.0	(32.9)	-	-
Tax on items that may be reclassified to profit or loss [1]		(148.0)	5.9	-	-
Total items that may subsequently be reclassified to profit or loss		328.9	(91.2)	-	-
Items that will never be reclassified to profit or loss					
Remeasurement gain on defined benefit plan [2]		3.0	-	-	-
Tax on items that will never be reclassified to profit or loss [2]		(0.9)	-	-	-
Total items that will never be reclassified to profit or loss		2.1	-	-	-
Other comprehensive income/(loss), net of tax		331.0	(91.2)	-	-
Total comprehensive income/(loss)		68.7	(198.7)	255.8	154.2
Total comprehensive income/(loss) attributable to:					
Securityholders		64.1	(236.8)	255.8	154.2
Non-controlling interest		4.6	38.1	-	-
		68.7	(198.7)	255.8	154.2
Basic and diluted (loss)/earnings per share/unit from (loss)/profit after income tax	8	(9.89c)	(6.04c)	9.48c	6.40c

1. The SAL Group entered into interest rate swap resets during the years ended 31 December 2021 and 31 December 2020. Refer to further detail in Note 4.2. The unamortised balance of reset swaps at reporting date of $94.0 million (2020: $77.5 million) does not give rise to a temporary difference for tax purposes. Hence tax has not been calculated on the unamortised balance.
2. The 2020 balances for the remeasurement gain on the defined benefit plan is $0.05 million and the associated tax is $0.01 million. These have been rounded to nil in the Consolidated statements of comprehensive income.

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 2021

	Note	SAL Group 2021 $m	SAL Group 2020 $m	SAT1 Group 2021 $m	SAT1 Group 2020 $m
Current assets					
Cash and cash equivalents	3	455.9	1,075.6	236.8	200.1
Receivables	9	120.9	372.0	0.7	41.9
Derivative financial instruments	5	17.9	149.9	-	-
Other assets		3.0	1.4	-	-
Total current assets		597.7	1,598.9	237.5	242.0
Non-current assets					
Receivables	9	167.1	142.1	2,048.2	1,796.5
Property, plant and equipment	10	3,297.9	3,472.5	-	-
Intangible assets	11	6,990.5	7,073.9	-	-
Derivative financial instruments	5	608.6	543.8	-	-
Other assets		16.1	21.6	-	-
Total non-current assets		11,080.2	11,253.9	2,048.2	1,796.5
Total assets		11,677.9	12,852.8	2,285.7	2,038.5
Current liabilities					
Payables and deferred income		139.3	140.5	3.9	0.7
Interest bearing liabilities	2	748.7	848.1	-	-
Derivative financial instruments	5	45.5	77.6	-	-
Lease liabilities	13	0.2	0.1	-	-
Provisions	14	8.8	8.5	-	-
Total current liabilities		942.5	1,074.8	3.9	0.7
Non-current liabilities					
Interest bearing liabilities	2	7,751.7	8,352.8	-	-
Derivative financial instruments	5	233.5	670.0	-	-
Payables and deferred income		9.8	-	-	-
Lease liabilities	13	0.2	0.1	-	-
Deferred tax liabilities	12	1,575.1	1,650.3	-	-
Provisions	14	54.9	66.9	51.3	63.1
Total non-current liabilities		9,625.2	10,740.1	51.3	63.1
Total liabilities		10,567.7	11,814.9	55.2	63.8
Net assets		1,110.2	1,037.9	2,230.5	1,974.7
Equity					
Securityholders' interests					
Contributed equity	1	7,523.5	7,523.5	2,659.9	2,659.9
Retained earnings		(2,840.6)	(2,576.1)	625.3	369.5
Reserves		(3,418.0)	(3,750.2)	(1,054.7)	(1,054.7)
Total securityholders' interests		1,264.9	1,197.2	2,230.5	1,974.7
Non-controlling interest in controlled entities		(154.7)	(159.3)	-	-
Total equity		1,110.2	1,037.9	2,230.5	1,974.7

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 2021

SAL Group	Note	Contributed equity $m	Retained earnings [1] $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Other reserve [2] $m	Total equity [1] $m
Total equity at 1 January 2021		7,523.5	(2,735.4)	(557.6)	(32.1)	(3,160.5)	1,037.9
Comprehensive income							
Loss after tax		-	(262.3)	-	-	-	(262.3)
Cash flow hedges, net of tax		-	-	316.3	-	-	316.3
Foreign currency basis spread, net of tax		-	-	-	12.6	-	12.6
Remeasurement gain, net of tax		-	2.1	-	-	-	2.1
Total comprehensive loss		-	(260.2)	316.3	12.6	-	68.7
Transactions with owners of the company							
Equity-settled shares [3]		-	0.3	-	-	3.3	3.6
Total transactions with owners of the company		-	0.3	-	-	3.3	3.6
Total equity at 31 December 2021		7,523.5	(2,995.3)	(241.3)	(19.5)	(3,157.2)	1,110.2
Total equity at 1 January 2020		5,533.0	(2,627.6)	(493.4)	(5.1)	(3,160.5)	(753.6)
Comprehensive income							
Loss after tax		-	(107.5)	-	-	-	(107.5)
Cash flow hedges, net of tax		-	-	(64.2)	-	-	(64.2)
Foreign currency basis spread, net of tax		-	-	-	(27.0)	-	(27.0)
Remeasurement gain, net of tax [4]		-	-	-	-	-	-
Total comprehensive income		-	(107.5)	(64.2)	(27.0)	-	(198.7)
Transactions with owners of the company							
Issue of additional equity, net of transaction costs and deferred tax	1	1,979.6	-	-	-	-	1,979.6
Issue of securities through distribution reinvestment plan	1	10.9	-	-	-	-	10.9
Equity-settled shares		-	(0.3)	-	-	-	(0.3)
Total transactions with owners of the company		1,990.5	(0.3)	-	-	-	1,990.2
Total equity at 31 December 2020		7,523.5	(2,735.4)	(557.6)	(32.1)	(3,160.5)	1,037.9

1. Retained earnings and total equity are presented after deducting the non-controlling interest in controlled entities of $154.7 million (2020: $159.3 million).
2. The Other reserve represents the share based payment reserve, foreign currency translation reserve and the historical business combinations reserve.
3. $0.3 million relates to the reversal from Other reserve to Retained earnings of LTI 2018-2020 rights not vested.
4. The 2020 balances for remeasurement gain is $0.05 million and associated tax is $0.01 million. These have been rounded to nil.

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

Consolidated statements of changes in equity

for the year ended 31 December 2021

SAT1 Group	Note	Contributed equity $m	Retained earnings $m	Capital reserve [1] $m	Other reserve $m	Total equity $m
Total equity at 1 January 2021		2,659.9	369.5	(967.6)	(87.1)	1,974.7
Comprehensive income						
Profit after tax		-	255.8	-	-	255.8
Total comprehensive income		-	255.8	-	-	255.8
Total equity at 31 December 2021		2,659.9	625.3	(967.6)	(87.1)	2,230.5
Total equity at 1 January 2020		2,456.9	215.3	(967.6)	(87.1)	1,617.5
Comprehensive income						
Profit after tax		-	154.2	-	-	154.2
Total comprehensive income		-	154.2	-	-	154.2
Transactions with owners of the company						
Issue of additional equity, net of transaction costs		202.0	-	-	-	202.0
Issue of securities through distribution reinvestment plan	1	1.0	-	-	-	1.0
Total transactions with owners of the company		203.0	-	-	-	203.0
Total equity at 31 December 2020		2,659.9	369.5	(967.6)	(87.1)	1,974.7

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

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

Consolidated statements of cash flows

for the year ended 31 December 2021

	Note	SAL Group		SAT1 Group	
		2021 $m	2020 $m	2021 $m	2020 $m
Cash flow from operating activities					
Receipts from customers		640.1	780.1	-	-
Government subsidies		12.4	11.7	-	-
Payments to suppliers and employees		(307.5)	(364.1)	(6.6)	(9.7)
Interest received		1.5	6.6	0.2	0.1
Related party loan interest received		-	-	-	116.5
Net cash flow from/(used in) operating activities	3	346.5	434.3	(6.4)	106.9
Cash flow from investing activities					
Proceeds from de-recognition of non-current assets	15	197.0	-	-	-
Acquisition of property, plant and equipment		(191.8)	(347.1)	-	-
Capitalised borrowing costs	6	(3.9)	(7.2)	-	
Indemnity refund	14	43.1	-	43.1	-
Net cash flow from/(used in) investing activities		44.4	(354.3)	43.1	-
Cash flow from financing activities					
Airport borrowing costs paid		(232.6)	(325.8)	-	-
Corporate borrowings costs paid		(0.7)	(2.3)	-	-
Repayment of borrowings		(718.7)	(1,941.8)	-	-
Proceeds received from borrowings		100.0	1,284.0	-	-
Interest rate swap receipts/(payments) [1]		22.8	(48.2)	-	-
Interest rate swap reset [1]		(181.4)	(137.6)	-	-
Proceeds received from distribution reinvestment plan		-	10.9	-	1.0
Proceeds from issue of additional equity, net of transactions costs		-	1,971.7	-	202.0
Distributions paid to securityholders		-	(440.4)	-	(117.5)
Net cash flow (used in)/from financing activities		(1,010.6)	370.5	-	85.5
Net (decrease)/increase in cash and cash equivalents		(619.7)	450.5	36.7	192.4
Cash and cash equivalents at beginning of the year		1,075.6	625.1	200.1	7.7
Cash and cash equivalents at the end of the year	3	455.9	1,075.6	236.8	200.1

1. Prior year interest rate swap resets have been reclassed from interest rate swap payments, to align with current period classification.

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

Condensed notes to the preliminary final report

for the year ended 31 December 2021

General

Basis of preparation and statement of compliance

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

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

This preliminary final report:

- Consists of the consolidated financial statements of the SAL Group and SAT1 Group, as permitted by Australian Securities and Investments Commission (ASIC) Corporations (Stapled Group Reports) Instrument 2015/838;
- Is prepared in accordance with the Corporations Act 2001, Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB);
- Is prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss; and
- Is presented in Australian dollars, which is the functional currency of SAL and SAT1, with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.

The preliminary final report was authorised for issue by the directors of SAL and TTCSAL on 22 February 2022. The directors of SAL and TTCSAL have the power to amend and reissue the preliminary final report.

Going concern

The preliminary final report of the Groups has been prepared on a going concern basis that requires directors to have reasonable grounds to believe that the Groups 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 SAL directors reviewed the cash flow projections factoring in the impact of the COVID-19 pandemic on the SAL 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 2021, the SAL Group was in a net asset position of $1,110.2 million (31 December 2020: $1,037.9 million) and net current liability of $344.8 million (31 December 2020: net current asset of $524.1 million). At 31 December 2021, the SAL Group had $2.8 billion in liquidity with $2.3 billion of undrawn bank debt facilities (comprising the syndicated and bilateral facilities - refer to Note 2) and $0.5 billion of available cash. The refinancing of maturing debt is a permitted use under the bank debt facilities. If required, this is sufficient to cover the SAL Group's interest bearing liabilities that are due to mature within 12 months of reporting date – a Wrapped domestic bond with principal value of $750.0 million (carrying value of $748.7 million). This relates to a wrapped domestic bond maturing in October 2022. At the present time, the Group considers that the COVID-19 pandemic will not impact the Group's ability to remain solvent or to continue to operate as a going concern. Accordingly, the going concern basis of accounting is considered to be appropriate; it is considered that the Group will be able to pay its debts as and when they become due and payable.

The SAL Group considered the impacts of COVID-19 to the business and performed an assessment of impairment on the Group 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 2021. 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 is supported and there is no impairment to goodwill at reporting date.

The SAT1 Group had a net current asset position of $233.6 million at 31 December 2021 (31 December 2020: $241.3 million) and the ability to call on a prepayment of cross staple loan principal where required, the going concern basis of accounting is considered appropriate in the preparation of this SAT1 preliminary final report.

Net tangible asset backing per security

The ASX-listed Sydney Airport's net tangible assets (NTA) exclude non-controlling interests and are solely attributable to securityholders. The NTA backing per security was -$2.18 at 31 December 2021 (2020: -$2.24). This represents an increase of $0.06 or 2.6% (2020: increase of $1.30 or 36.7%).

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

General continued

Critical accounting estimates, assumptions and judgements

The preparation of the preliminary final report requires the use of critical accounting estimates, assumptions and judgements that affect the reported amounts in the preliminary final report 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 quoted 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 preliminary final 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 2021 are described below. It reflects the deterioration of the airport industry from late February 2020 resulting in disrupted passenger traffic through Sydney Airport, with international and domestic passengers down 95.5% and 74.0% respectively when compared to the comparative period in 2019, which was prior to any impact from the COVID-19 pandemic.

Allowance for expected credit losses

– ECL provisions of $67.7 million (2020: $93.9 million) were recognised across debtors, where information available at this time indicates the probability that the debts owed may not be recovered. These relate to provisions for doubtful debts and rent deferral.
– A range of rental concessions continue to be provided across both the retail and property portfolios during the year ended 31 December 2021. Concessions in the form of rent abatements of $176.2 million (2020: $142.8 million) and rent deferrals of $1.7 million (2020: $8.4 million) were agreed during the period. Of the abatements, $68.0 million (2020: $52.5 million) was recognised through ECL expense. $13.9 million (2020: nil) in variable abatements was applied against revenue in line with variable lease payments and the remaining $94.3 million (2020: $90.3 million) of abatements will be recognised on a straight line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant accounting standard. Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term totalled $58.0 million (2020: $24.3 million). Of this, $30.9 million and $27.1 million relate to 2020 and 2021 abatements respectively.
– Rent deferrals provide an extension of payment terms with no impact to revenue. The Group re-assessed the expected recoverability of all deferred rents against the related receivables as at 31 December 2021. This had a favourable impact of $5.2 million (2020: $5.2 million expense), which was recognised through the Consolidated statements of comprehensive income during the year.
– The Group assessed the recoverability of its debtors and $4.9 million (2020: $36.2 million) was recognised through the Consolidated statements of comprehensive income during the year in relation to the provision for doubtful debts.

The movement in the ECL allowance is in Note 9.

Impairment assessment on non-current assets

Similar to the prior year, a review of all capital projects in progress was undertaken during the year. Following the review, a $10.5 million (2020: $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 10.

Impairment test of goodwill

As described in the Going concern note above, an independent valuation was undertaken at 31 December 2021. The valuation was updated for ongoing 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 the valuation methodology from the previous year. The result of the updated valuation indicated that the Group's equity value was supported 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 2021. Valuation assumptions have been described in Note 11.

General continued

Significant accounting policies

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

i) Principles of consolidation

For the purpose of this preliminary final report:

- SAL has been identified as the parent of the consolidated group (defined as ASX-listed Sydney Airport) comprising the SAL Group and the SAT1 Group for the years ended 31 December 2021 and 31 December 2020; and
- SAT1 has been identified as the parent of the SAT1 Group for the years ended 31 December 2021 and 31 December 2020. The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as their parent companies. In preparing the Consolidated final report, all intercompany balances and transactions have been eliminated in full.

Controlled entities

The SAT1 Group's net result after tax for the years ended 31 December 2021 and 31 December 2020 and its contributed equity, reserves and retained earnings at 31 December 2021 and 31 December 2020 are attributed to non-controlling interests in the SAL Group Consolidated financial statements.

Business combinations

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

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

Acquisition of entities under common control

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

ii) Foreign currency transactions and balances

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

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

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

iii) Fair value of financial instruments

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

The Groups 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 and SAT1's value of financial instruments are determined based on observable market inputs, categorised as Level 2.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

General continued

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.

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 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 ECL. 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. Variable abatements agreed during the year are applied against revenue.

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 any conditions relevant to the grant.

Changes in accounting standards

During the year ended 31 December 2021 the Group adopted COVID-19 Related Rent Concessions (Amendments to AASB 16) and Interest Rate Benchmark Reform – Phase 2 (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 116).

COVID-19 Related Rent Concessions (Amendments to AASB16) introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVD-19. This practical expedient has been extended to apply to lease payments originally due on or before 31 December 2021, with application retrospective. These amendments do not apply.

The interest rate benchmark reform aims to discontinue Interbank Offered Rates (IBORs) and replace these interest rate benchmarks with alternate Risk Free Rates (RFRs).

In the prior year the Group adopted AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform (AASB 2019-3). These amendments modify specific hedge accounting requirements and allow the Group to apply certain exceptions in respect of hedge relationships that are impacted by market-wide interest rate benchmark reform.

In the current year, the Group adopted AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2 (AASB 2020-8). These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. Phase 2 amendments enable the Group to reflect the effects of transitioning IBORs to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements.

General continued

Risks arising from the interest rate benchmark reform

The Group has performed an assessment of exposures linked to USD LIBOR. At 31 December 2021, the Group has not identified any debt instruments or Cross Currency Interest Rate Swaps (CCIRS) directly linked to USD LIBOR as all offshore bonds issued are issued in fixed rate and on the CCIRS, the Group receives fixed USD/EUR.

Whilst not having a direct exposure to USD LIBOR on its debt or swap instruments, the Group has designated derivative hedging instruments in hedge accounting relationships against the fair value exposure of the Group's USD fixed rate debt associated with USD LIBOR benchmark interest rate risk. This will therefore result in an indirect exposure to changes in these benchmark interest rates. There is no intention of the Regulator to replace EURIBOR at the time of this assessment.

The valuation of some CCIRS hedging instruments are based on USD LIBOR swap rates, which will be impacted upon USD LIBOR discontinuation. The Group is working closely with its treasury management system vendor and swap counterparties to understand the impact that the transition might have on the availability and liquidity in forward interest rate curves and any impact on the valuation of the CCIRS. Despite the progress made on understanding the impacts of the IBOR transition, this has not resulted in any changes to risk management practices.

Accounting impacts arising from the application of the interest rate benchmark reform

The Group has an indirect exposure to the USD LIBOR3m benchmark within its hedge accounting relationships, which are subject to interest rate benchmark reform, with transition not expected to occur until 2023.

Despite not having any direct LIBOR3m linked debt or swap instruments, all cross currency swap hedge relationships reference USD LIBOR3m for both hedge accounting and valuation purposes. The Group has performed an initial high level IBOR exposure review and has not identified any direct USD LIBOR3m exposures or any additional indirect USD LIBOR3m exposures, other than those included in the schedule below.

<table>
<tr><th>Notional foreign currency $m</th><th>Notional AUD $m</th><th>Maturity</th><th>Hedge relationship</th><th>Hedging instrument (prior to transition)</th><th>Hedged item</th><th>Transition progress</th></tr>
<tr><td rowspan="3">USD 1,250</td><td rowspan="3">AUD 1,390.9</td><td rowspan="3">2023 to 2034</td><td>Fair value hedge</td><td>Receive benchmark interest rate (LIBOR3m) portion of USD coupon, pay LIBOR3m.</td><td>Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond.</td><td rowspan="5">The overall economics of the hedging transactions will not be modified as part of the transition process as there is no direct exposure to LIBOR3m, however, should any benchmark rates change this will be effected in the underlying hedge relationships. At 31 December 2021 no hedging instruments or related hedged items have transitioned to alternative benchmark rates.</td></tr>
<tr><td>Cash flow hedge</td><td>Receive LIBOR3m, pay AUD BBSW3m combined with USD and AUD principal exchanges at effective and maturity date.</td><td>USD principal repayment of the bond from first repayment date until maturity of the bond</td></tr>
<tr><td>Cash flow hedge</td><td>Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m.</td><td>USD margin above benchmark rate component of the USD fixed coupon payable on the bond (equivalent to credit margin on debt) over the term of the bond</td></tr>
<tr><td rowspan="2">USD 120</td><td rowspan="2">AUD 116.9</td><td rowspan="2">2023</td><td>Fair value hedge</td><td>Receive benchmark interest rate (LIBOR3m) portion of USD coupon, pay AUD BBSW 3m.</td><td>Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond, and USD principal repayment of the bond</td></tr>
<tr><td>Cash flow hedge</td><td>Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m.</td><td>USD margin above benchmark rate component of the USD fixed coupon payable on the bond (equivalent to credit margin on debt) over the term of the bond</td></tr>
</table>

Management have performed an assessment and believe the impact of these changes to be negligible to other assets held at fair value, including lease right-of-use assets.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

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 2021 are detailed below.

Accounting standard	Requirement	Impact on financial statements
Onerous Contracts: Cost of Fulfilling a Contract (Amendments to AASB 37)	Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37) clarify what are considered to be costs of fulfilling a contract, when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022.	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
Property, Plant and Equipment: Proceeds before intended use (Amendments to AASB 16)	Amendments made to AASB 116 Property Plant and Equipment including: – Sales proceeds will no longer be deducted from the cost of PPE, where the sale occurs before the PPE is available for use; – Clarification that testing where PPE is functioning will require assessment of technical and physical performance, rather than financial; and – Additional disclosures required for sales proceeds and production costs, where sales are made outside of a company's ordinary activities. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.	No material impact is expected

General continued

Accounting standard	Requirement	Impact on financial statements
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
AASB 17 Insurance Contracts	This new standard focuses on 'contracts' rather than 'companies', and so introduces recognition and measurement criteria for all companies with insurance contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.	No material impact is expected
Definition of Accounting Estimate (Amendments to AASB 108)	Amendments to IAS8 introduce a definition for accounting estimates to promote consistency in distinguishing between accounting estimates and accounting policies across companies. The amendments are effective for annual reporting periods on or after 1 January 2023.	No material impact is expected
Disclosure of Accounting Policies (Amendments to IAS 1, IFRS…Practice Statement 2)	Amendments have been made to accounting standards on the application of materiality to disclosure of accounting policies. The amendments are effective on annual reporting periods on or after 1 January 2023.	No material impact is expected
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to AASB 112)	Amendments to IAS12 Income Taxes have been made, in order to clarify how companies should account for deferred tax on certain transactions including lease and decommissioning provisions. The amendments are effective on annual reporting periods on or after 1 January 2023.	No material impact is expected

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

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 the current and future business activities and continue as a going concern, while optimising the debt and equity balance and returns to securityholders.

During the year ended 31 December 2021, the SAL Group has continued to maintain focus on ensuring adequate levels of liquidity in response to the COVID-19 pandemic. At 31 December 2021, the Group had $2.8 billion in liquidity with $0.5 billion in cash and $2.3 billion of undrawn bank debt facilities.

1. Contributed Equity and Distributions

Contributed equity

The movements in the contributed equity balance and number of shares/units on issue are shown in the table below. Fully paid ordinary shares have no par value.

	SAL Group		SAT1 Group	
	2021	2020	2021	2020
$m				
Opening balance	7,523.5	5,533.0	2,659.9	2,456.9
Issued pursuant to the DRP	-	10.9	-	1.0
Issue of additional equity (net of transaction costs and deferred tax)	-	1,979.6	-	202.0
Closing balance	7,523.5	7,523.5	2,659.9	2,659.9
Shares/units on issue (m)				
Opening balance	2,698.7	2,258.6	2,698.7	2,258.6
Issued pursuant to the DRP	-	1.2	-	1.2
Issue of additional equity	-	438.9	-	438.9
Closing balance	2,698.7	2,698.7	2,698.7	2,698.7

Distributions

During the year ended 31 December 2021, no distributions were declared or payable by SAL or SAT1.

Distribution reinvestment plan

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

As there were no distributions declared for the year ended 31 December 2021 and for the year ended 31 December 2020, the DRP was not in operation.

Capital management continued

2. Interest bearing liabilities

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

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

The Group has drawn down $100 million from its bank debt facilities leaving $2.3 billion undrawn at 31 December 2021 (31 December 2020: $2.4 billion undrawn).

At 31 December 2021, the value of all fixed interest rate bonds were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

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

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Capital management continued

2. Interest bearing liabilities continued

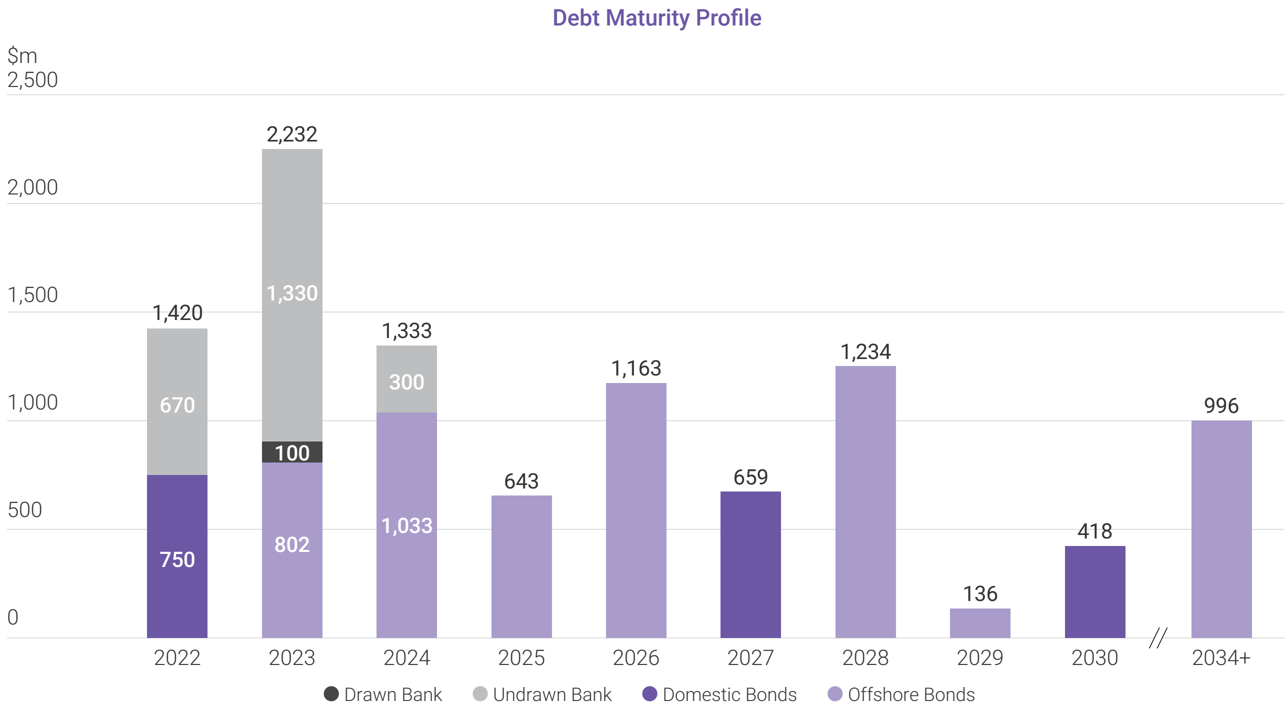
Type	Maturity	Carrying amount [8]		Fair value		Principal amount drawn: In AUD		Principal amount drawn: In original currency		Issue currency	Interest rate
		2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m		
Syndicated facility	April 2023	99.5	-	99.5	-	100.0	-	100.0	-	AUD	Floating [4,6]
Wrapped domestic bond [1]	November 2021	-	199.7	-	199.7	-	200.0	-	200.0	AUD	Floating [3]
Wrapped domestic bond [1,7]	October 2022	748.7	747.2	748.7	747.2	750.0	750.0	750.0	750.0	AUD	Floating [3]
Wrapped domestic bond [1]	October 2027	653.0	652.0	653.0	652.0	659.0	659.0	659.0	659.0	AUD	Floating [3]
USPP bond	August 2028	99.6	99.6	99.6	99.6	100.0	100.0	100.0	100.0	AUD	Floating [3]
USPP bond	November 2028	99.6	99.6	99.6	99.6	100.0	100.0	100.0	100.0	AUD	Floating [3]
USPP bond	November 2028	179.2	179.1	213.3	235.4	180.0	180.0	180.0	180.0	AUD	6.04% [5]
USPP bond	November 2028	57.7	57.7	67.2	74.0	58.0	58.0	58.0	58.0	AUD	5.60% [5]
USPP bond	November 2029	135.4	135.3	160.0	179.0	136.0	136.0	136.0	136.0	AUD	5.70% [5]
USPP bond	February 2034	72.6	73.6	71.8	74.3	62.5	62.5	45.0	45.0	USD	4.25% [5]
USPP bond	February 2039	134.3	134.2	157.0	178.6	135.0	135.0	135.0	135.0	AUD	4.76% [5]
USPP bond	February 2044	99.5	99.4	119.3	137.6	100.0	100.0	100.0	100.0	AUD	4.85% [5]
USPP bond	February 2049	99.5	99.4	121.8	142.9	100.0	100.0	100.0	100.0	AUD	4.90% [5]
USPP bond	June 2035	71.2	67.1	71.7	73.8	77.1	77.2	52.0	52.0	USD	2.83% [5]
USPP bond	June 2035	77.9	78.8	74.6	84.5	80.9	80.9	50.0	50.0	EUR	1.06% [5]
USPP bond	June 2040	99.6	99.5	95.3	109.2	100.0	100.0	100.0	100.0	AUD	3.28% [5,6]
USPP bond	June 2040	219.0	218.9	209.6	240.2	220.0	220.0	220.0	220.0	AUD	3.28% [5]
USPP bond	June 2050	119.5	119.4	115.7	137.9	120.0	120.0	120.0	120.0	AUD	3.53% [5]
Euro bond	April 2024	1,133.6	1,181.6	1,154.6	1,203.9	1,033.4	1,033.4	700.0	700.0	EUR	2.75% [5]
Euro bond	April 2028	817.1	861.4	819.5	862.1	796.1	796.1	500.0	500.0	EUR	1.75% [5]
US144A/RegS bond	February 2021	-	648.4	-	652.7	-	518.7	-	500.0	USD	5.13% [5]
US144A/RegS bond	March 2023	1,163.6	1,130.5	1,172.6	1,138.8	802.3	802.4	825.0	825.0	USD	3.90% [5]
US144A/RegS bond	April 2025	666.2	645.7	722.5	706.1	643.0	643.0	500.0	500.0	USD	3.38% [5]
US144A/RegS bond	April 2026	1,233.5	1,163.0	1,312.2	1,290.3	1,163.4	1,163.4	900.0	900.0	USD	3.63% [5]
CIB [2]	November 2030	420.6	409.8	405.4	422.1	418.4	406.7	418.4	406.7	AUD	3.12% [5]
Total external interest bearing liabilities		8,500.4	9,200.9	8,764.5	9,741.5	7,935.1	8,542.3	n/a	n/a		

1. Financial guarantees are provided by MBIA Insurance Corporation or Assured Guaranty Municipal Corp.
2. Financial guaranty is provided by Ambac Assurance Corporation.
3. Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
4. Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
5. Fixed interest rates 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. Classified as Current liability in the Consolidated statements of financial position.
8. Carrying amount includes amortised capitalised establishment costs.

Capital management continued

2. Interest bearing liabilities continued

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



Assets pledged as security

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

Recognition and measurement

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

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

At 31 December 2021 and 31 December 2020, 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 Cash flow model, with available comparative market curves adopted as key inputs.

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

CIBs explained

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

Effective interest rate method explained

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

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Capital management continued

2. Interest bearing liabilities continued

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

	2021		2020	
	Loans and Borrowings $m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities [1] $m	Loans and Borrowings $m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities [1] $m
Balance at 1 January	(9,200.9)	(53.9)	(10,186.3)	325.2
Changes from financing cashflows				
Interest swap payments	-	(22.8)	-	48.2
Interest rate swap resets	-	181.4	-	137.6
Proceeds received from borrowings	(100.0)	-	(1,284.0)	-
Repayments of borrowings	718.7	-	1,941.8	-
Total changes from financing cash flows	618.7	158.6	657.8	185.8
Liability related other changes				
Effects of changes in foreign currency rates	(25.0)	25.0	379.0	(379.0)
Changes in fair value	125.4	217.8	(20.1)	(185.9)
Other	(18.6)	-	(31.3)	-
Total liability related other changes	81.8	242.8	327.6	(564.9)
Balance at 31 December	(8,500.4)	347.5	(9,200.9)	(53.9)

1. Prior year presentation reclassified to align with current year classification.

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, subject to an insignificant risk of changes in value, and have an initial term of less than three months. They are used for the purpose of meeting the short-term commitments of the Group.

	SAL Group		SAT1 Group	
	2021 $m	2020 $m	2021 $m	2020 $m
Cash on hand	216.4	925.8	7.3	200.1
Deposits [1]	239.5	149.8	229.5	-
Total cash and cash equivalents	455.9	1,075.6	236.8	200.1
Cash flow information				
Reconciliation of profit after tax to net cash flows from operating activities				
(Loss)/Profit for the year	(262.3)	(107.5)	255.8	154.2
Net expenses relating to financing activities	215.9	377.3	-	-
Change in fair value of swaps	156.5	60.4	-	-
Depreciation and amortisation	445.0	440.4	-	-
Write-off of non-current assets	10.5	28.2	-	-
Gain from de-recognition of non-current assets	-	(115.7)	-	-
Decrease/(increase) in receivables and other assets	0.9	(51.9)	(253.0)	(41.9)
Increase/(decrease) in payables	4.1	(60.0)	(9.2)	(5.4)
(Decrease) in tax liabilities	(224.1)	(136.9)	-	-
Net cash flow from operating activities	346.5	434.3	(6.4)	106.9

1. Included in the SAL Group's consolidated deposit balance is $10.0 million (2020: $11.8 million) held by Sydney Airport Corporation Limited (SACL), which is restricted to fund maintenance capital expenditure.

Recognition and measurement

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

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

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 operates under policies approved by the Boards, and manages the Group's exposures 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 Group's operating units while investing excess liquidity. Speculative trading is specifically prohibited.

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 2021 and 2020, these interest bearing liabilities were 100% hedged through cross currency swaps (CCS) 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:

	2021			2020		
	EURm	USDm	Equivalent total AUDm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(1,250.0)	(2,322.0)	(4,658.7)	(1,200.0)	(2,770.0)	(5,019.5)
Cross currency swaps	1,250.0	2,322.0	4,658.7	1,200.0	2,770.0	5,019.5
Exposure	-	-	-	-	-	-

	31 December 2021 Notional maturity profile		31 December 2020 Notional maturity profile	
Cross currency interest rate swaps	EUR	USD	EUR	USD
1 year or less	-	-	-	500.0
1 to 2 years	-	825.0	-	-
2 to 5 years	700.0	1,400.0	700.0	1,325.0
5 years or more	550.0	97.0	550.0	997.0
Average foreign exchange rate	0.65	0.84	0.65	0.86
Average interest rate [1]	3M BBSW+166bps	3M BBSW+213bps	3M BBSW + 166bps	3M BBSW + 242bps

1. BBSW refers to the bank bill swap rate.

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 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.

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

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

	Average contracted fixed interest rate [1]		Notional principal amount		Fair value	
	2021 %	2020 %	2021 $m	2020 $m	2021 $m	2020 $m
1 year or less	2.66	2.85	750.0	1,618.7	1.1	(6.5)
1 to 2 years	3.19	2.66	1,102.4	750.0	(17.2)	(20.9)
2 to 5 years	3.14	3.16	1,935.4	3,037.7	(66.2)	(232.7)
5 years or more	2.67	2.67	5,155.1	5,155.1	(158.8)	(398.7)
	n/a	n/a	8,942.9	10,561.5	(241.1)	(658.8)

1. The average interest rate is based on the outstanding balance at reporting date excluding impact of interest rate swap resets.

The weighted average cash interest rate of the Group's interest bearing liabilities was approximately 2.5% for the year ended 31 December 2021 (2020: 4.0%). The equivalent rate excluding interest rate swap reset benefits was approximately 4.5% (2020: 4.7%).

At 31 December 2021, 98.0% (2020: 94.6%) of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through IRS.

Swap reset

During the year, the Group executed a further $6.7 billion of interest rate swap reset transactions. This involved making upfront payments totaling $181.4 million to reduce the contracted fixed interest rates on these swaps to lower current market rates for approximately 12 months. Associated interest expense reductions of $87.4 million have been recognised during the year ended 31 December 2021, with the remainder of $94.0 million to be incorporated in the results of future reporting. Straight line amortisation during the year of $164.9 million relating to all reset swaps transactions ($87.4 million for interest rate swaps resets executed during the year and $77.5 million for interest rate swap resets executed during the year ended 31 December 2020) was recognised in the Consolidated statements of comprehensive income during the year. 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.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Treasury and financial risk management continued

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.

SAL Group	2021 $m	2020 $m
Increase in interest rate +150bp		
Loss after tax	(1.7)	(4.3)
Equity	162.0	206.8
Decrease in interest rate -150bp		
Profit after tax	1.7	4.3
Equity	(184.7)	(238.3)

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 9.

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

Other than as described, 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.

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 a capital expenditure reserve.

The Group's available liquidity position as at 31 December 2021 was $2.8 billion, comprising $0.5 billion of available cash and $2.3 billion of undrawn bank debt facilities.

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

	Carrying value $m	Contractual cash flows $m	1 year or less $m	1 to 5 years $m	5 years or more $m
2021					
Trade and other payables	149.1	149.1	139.3	9.8	-
Lease liabilities	0.4	1.8	0.3	0.7	0.8
Domestic bonds	1,401.7	1,424.4	754.2	9.4	660.8
Bank facilities	99.5	101.1	0.9	100.2	-
USPP bonds- AUD	1,342.9	2,198.2	56.6	226.7	1,914.9
USPP bonds- USD	3,207.1	3,578.1	117.0	3,291.9	169.2
USPP bonds - EUR	77.9	89.4	0.8	3.3	85.3
EMTN Euro bonds	1,950.7	2,034.9	43.8	1,190.3	800.9
Capital indexed bonds	420.6	651.9	13.2	56.4	582.2
Derivatives [1]	279.0	(278.8)	9.3	(325.0)	36.9
- Cross currency swaps [1]	*17.0*	*(530.6)*	*(33.2)*	*(522.1)*	*24.7*
Inflows	*n/a*	*(5,702.5)*	*(161.6)*	*(4,485.5)*	*(1,055.4)*
Outflows	*n/a*	*5,171.9*	*128.4*	*3,963.4*	*1,080.1*
- Interest rate swaps [1]	*262.0*	*251.8*	*42.5*	*197.1*	*12.2*
	8,928.9	9,950.1	1,135.4	4,563.7	4,251.0
2020					
Trade and other payables	140.5	140.5	140.5	-	-
Lease liabilities	0.2	2.0	0.3	0.7	1.0
Domestic bonds	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	409.8	661.7	12.8	54.8	594.1
Derivatives [1]	747.6	156.3	(594.9)	(687.7)	1,438.9
- Cross currency swaps [1]	*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 [1]	*659.2*	*678.7*	*78.2*	*468.9*	*131.6*
	10,089.2	11,185.4	429.7	4,477.4	6,278.3

1. For the above table, the carrying value disclosed represents the liability position only.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

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. There are no derivative financial instruments in the SAT1 Group.

	2021			2020		
	Cross currency swaps $m	Interest rate swaps $m	Total $m	Cross currency swaps $m	Interest rate swaps $m	Total $m
Current assets	16.4	1.5	17.9	149.9	-	149.9
Non-current assets	589.2	19.4	608.6	543.3	0.5	543.8
Current liabilities	(17.0)	(28.5)	(45.5)	(24.8)	(52.8)	(77.6)
Non-current liabilities	-	(233.5)	(233.5)	(63.6)	(606.4)	(670.0)
Net derivative position	588.6	(241.1)	347.5	604.8	(658.7)	(53.9)

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 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 and subsequent changes, being hedging gains or losses, 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 fair value 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 for 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 2021 and 31 December 2020, all derivative financial instruments were determined based on observable market inputs, categorised as Level 2, in accordance with AASB 9.

Treasury and financial risk management continued

5. Derivative financial instruments continued

At 31 December 2021	Fair value hedges EUR CCIRS $m	Fair value hedges USD CCIRS $m	Cash flow hedges EUR CCIRS $m	Cash flow hedges USD CCIRS $m	Cash flow hedges AUD IRS $m	Total $m
Notional amount [1]	EUR1,200.0	USD1,370.0	AUD1,910.3	AUD2,748.4	AUD3,359.0	n/a
Carrying amount of the hedging instrument						
– Assets	36.3	80.8	122.8	424.8	20.5	685.2
– Liabilities	(17.0)	(22.4)	(115.7)	(35.7)	(146.8)	(337.6)
Total carrying amount of the hedging instrument	19.3	58.4	7.1	389.1	(126.3)	347.6
Cumulative FV adjustment on hedged item (excluding impact of changes in foreign exchange rates on notional amount)	(77.6)	(23.9)	n/a	n/a	n/a	(101.5)
Carrying amount of the hedged item recognised in the statement of financial position	(1,950.7)	(1,902.4)	n/a	n/a	n/a	(3,853.1)
Balance in CF hedge reserve on continuing hedges [4]	n/a	n/a	(34.3)	(38.8)	71.1	(2.0)
Balance in CF hedge reserve from hedging relationships where hedge accounting no longer applies	n/a	n/a	154.3	94.6	85.3	334.2
During the year:						
Change in value of hedging instrument used for calculating hedge effectiveness:						
- on continuing hedge relationships [2]	(45.1)	(70.9)	2.2	188.0	158.0	232.2
- on hedge relationships discontinued during the year [2]	-	-	40.6	4.1	9.2	53.9
Cash payment on restructure of IRS during the year	-	-	56.2	70.0	55.2	181.4
Change in value of hedged item used for calculating hedge effectiveness:						
- on continuing hedge relationships [2]	45.5	73.4	(4.0)	(185.1)	(163.4)	(233.6)
- on hedge relationships discontinued during the year [2]	-	-	(42.0)	(5.0)	(9.8)	(56.8)
Change in CF hedge reserve of the hedging instrument recognised in reserves:						
- continuing hedge relationships [4]	n/a	n/a	57.3	71.8	159.4	288.5
- hedge relationships discontinued during the year [4]	n/a	n/a	40.0	10.2	9.8	60.0
Gain/(loss) reclassified from CF hedge reserve to P&L on discontinued hedges [4]	n/a	n/a	39.9	36.1	52.2	128.2
Change in profit or loss						
Ineffectiveness recognised in P&L (continuing hedge relationships) [3]	0.4	2.6	(29.8)	(27.9)	(2.8)	(57.5)
Amount reclassified to P&L on discontinued hedges	24.5	6.0	(39.9)	(36.1)	(52.2)	(97.7)
Ineffectiveness recognised in P&L (hedge relationships discontinued during the year) [3,5]	-	-	(0.3)	(1.6)	0.7	(1.2)
Amount reclassified from hedge reserve to P&L [5]	-	-	24.4	(137.8)	-	(113.4)

1. Depending on the nature of the CCS, a single CCS may be broken down into a FV hedge and a CF hedge . Each structure has a notional amount. Hence the notional amount displayed will be greater than the principal amount of the debt hedged.
2. Hedge effectiveness is the extent to which the changes in FV of the hedging instrument offsets changes in the FV of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the FV or the CF of the hedging instrument are greater or less than those on the hedged item. The source of the ineffectiveness includes the effect of credit risk on the hedging instrument.
4. Balance includes FV of foreign currency basis spreads recognised in the Cost of hedging reserve. Balances are before tax.
5. Includes $1.3 million loss in Cost of hedging reserve reclassified to profit or loss during the period, due to hedge de-designations.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Treasury and financial risk management continued

5. Derivative financial instruments continued

At 31 December 2020	Fair value hedges EUR CCIRS $m	Fair value hedges USD CCIRS $m	Cash flow hedges EUR CCIRS $m	Cash flow hedges USD CCIRS $m	Cash flow hedges AUD IRS $m	Total $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 [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 [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 [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) [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 CCS, a single CCS may be broken down into a FV hedge and a CF 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 FV of the hedging instrument offsets changes in the FV of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the FV or the CF of the hedging instrument are greater or less than those on the hedged item. The source of the ineffectiveness includes the effect of credit risk on the hedging instrument.
4. Balance includes FV 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

6. Net finance costs

		SAL Group		SAT1 Group	
		2021 $m	2020 $m	2021 $m	2020 $m
Finance income					
Interest income from other corporations [1]		8.6	8.2	0.3	0.1
Interest income from related parties		-	-	251.7	233.5
Total finance income		8.6	8.2	252.0	233.6
Finance costs					
Senior debt interest paid or accrued		(214.6)	(316.2)	-	-
Net swap interest expense		19.6	(29.5)	-	-
Capital indexed bonds capitalised		(12.8)	(7.6)	-	-
Amortisation of debt establishment costs		(8.4)	(26.4)	-	-
Recurring borrowing costs		(10.6)	(6.9)	-	-
Lease interest expense		(0.2)	(0.2)	-	-
Borrowing costs – capitalised	10	3.9	7.2	-	-
Interest waived [3]		-	-	-	(117.1)
Total finance costs		(223.1)	(379.6)	-	(117.1)
Change in fair value of swaps [2]		(156.5)	(60.4)	-	-
Net finance costs		(371.0)	(431.8)	252.0	116.5

1. $7.2 million relates to interest income on Sydney Gateway (2020: $2.3 million). Refer to Note 15.
2. $164.9 million relates to the straight line amortisation of swap reset costs (2020: $60.1 million). Refer to Note 4.2 for further details.
3. Under the Deed Poll, SAT1 agreed to waive its right to interest payable by SAL in respect of the period 1 July 2020 to 31 December 2020.

Recognition and measurement

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

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

Capitalisation of borrowing costs

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

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Financial results and financial position

Overview

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

7. Segment reporting

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

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

All revenue is generated from external customers within Australia.

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

Sydney Airport's revenues, expenses, assets and liabilities are consolidated and accounted for in accordance with the Group's accounting policies. For the years ended 31 December 2021 and 31 December 2020 the segment result, assets and liabilities were equal to that of the SAL Group.

8. (Loss)/Earnings per share

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

	SAL Group		SAT1 Group	
	2021	2020	2021	2020
(Loss)/profit after tax attributable to securityholders ($m)	(266.9)	(145.6)	255.8	154.2
Weighted average number of shares/units (m)	2,698.7	2,408.6	2,698.7	2,408.6
(Loss)/earnings per share	(9.89c)	(6.04c)	9.48c	6.40c

9. Receivables

Trade receivables are generally collected within 30 days of invoice date. The table on the following page reflects $38.9 million current trade receivables at 31 December 2021. Of this, $9.4 million (2020: $47.0 million) relates to revenues earned from contracts with customers (Aeronautical and Parking and ground transport revenues), as explained in Significant accounting policies. The remainder relates to revenues from leases (Retail and Property and car rental revenues).

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

Financial results and financial position continued

9. Receivables continued

	SAL Group		SAT1 Group	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Trade receivables	38.9	135.1	-	-
Allowance for expected credit loss	(33.2)	(61.3)	-	-
Net trade receivables	5.7	73.8	-	-
Accrued contract revenue	43.8	19.1	-	-
Other receivables [1,2]	71.4	279.1	0.7	41.9
Total current receivables	120.9	372.0	0.7	41.9
Non-current				
Loans to related parties [2]	-	1.4	2,048.2	1,796.5
Accrued contract revenue	5.8	6.6	-	-
Other receivables [3]	161.3	134.1	-	-
Total non-current receivables	167.1	142.1	2,048.2	1,796.5

1. The 2020 balance includes the Gateway receivable ($189.8 million) recognised for the agreement reached in September 2018 between SACL, a wholly-owned subsidiary of the SAL Group, and the NSW Government, to grant an easement over part of the Sydney Airport site. The receivable relates to compensation per the agreement. The full amount has been received during the year ended 31 December 2021. Refer to Note 15.
2. The fair value of the receivable at 31 December 2021 is $2,283.8 million (2020: $2,058.6 million).
3. Abatements to be amortised against future revenues of $102.4 million (2020: $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 $60.2 million (2020: $43.6 million). The remainder has been classified as Non-current of $42.2 million (2020: $22.4 million).

Movement in allowance for expected credit losses:

	SAL Group $m	SAT1 Group $m
As at 1 January 2020	(0.1)	-
New and increased provisions [4]	(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)	-
New and increased provisions [4]	(67.7)	-
Receivables provided for now written off as uncollectible	95.8	-
Balance at 31 December 2021	(33.2)	-

4. ECL expense in the Consolidated statements of comprehensive income.

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. The Group assesses the recoverability of receivables on an individual debtor basis. Assessment is based on information available at the time and the Group's best judgement, with a relevant ECL provision applied at reporting date. The Group will continue to assess the recoverability of trade debtors on an ongoing basis.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Financial results and financial position continued

9. Receivables continued

Concessions and provision on debts recognised in the full year Preliminary Final Report are described below:

- ECL provisions of $67.7 million (2020: $93.9 million) were recognised across debtors, where information available at this time indicates the probability that the debts owed may not be recovered. These relate to provisions for doubtful debts and rent deferred.
- A range of rental concessions continue to be provided across both the retail and property portfolios during the year ended 31 December 2021. Concessions in the form of rent abatements of $176.2 million (2020: $142.8 million) and rent deferrals of $1.7 million (2020: $8.4 million) were agreed during the period. Of the abatements, $68.0 million (2020: $52.5 million) was recognised through ECL expense. $13.9 million (2020: nil) in variable abatements was applied against revenue in line with variable lease payments and the remaining $94.3 million (2020: $90.3 million) of abatements will be recognised on a straight line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant accounting standard. Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term totalled $58.0 million (2020: $24.3 million). Of this, $30.9 million and $27.1 million relate to 2020 and 2021 abatements respectively.
- Rent deferrals provide an extension of payment terms with no impact to revenue. The Group re-assessed the expected recoverability of all deferred rents against the related receivables as at 31 December 2021. This had a favourable impact of $5.2 million (2020: $5.2 million expense), which was recognised through the Consolidated statements of comprehensive income during the year.
- The Group assessed the recoverability of its debtors and $4.9 million (2020: $36.2 million) was recognised through the Consolidated statements of comprehensive income during the year in relation to the provision for doubtful debts.

10. Property, plant and equipment

SAL Group ($m)	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		
2021								
Cost								
Opening balance	11.4	3,082.2	1,034.4	1,431.5	545.0	461.8	374.5	6,940.8
Additions [2]	-	-	-	-	-	0.5	197.0	197.5
Impairment	-	-	-	-	-	-	(10.5)	(10.5)
Transfers	-	30.3	26.8	38.3	55.3	105.8	(256.5)	-
Closing balance	11.4	3,112.5	1,061.2	1,469.8	600.3	568.1	304.5	7,127.8
Accumulated depreciation								
Opening balance	(1.6)	(1,589.0)	(458.4)	(659.7)	(393.6)	(366.0)	-	(3,468.3)
Depreciation	(0.1)	(162.2)	(37.8)	(72.4)	(26.2)	(62.9)	-	(361.6)
Closing balance	(1.7)	(1,751.2)	(496.2)	(732.1)	(419.8)	(428.9)	-	(3,829.9)
Total carrying amount	9.7	1,361.3	565.0	737.7	180.5	139.2	304.5	3,297.9

Financial results and financial position continued

10. Property, plant and equipment continued

SAL Group ($m)	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		
2020								
Cost								
Opening balance	11.4	3,054.0	1,027.5	1,332.2	542.6	425.4	252.1	6,645.2
Additions [2]	-	-	-	-	-	-	323.8	323.8
Impairment	-	-	-	-	-	-	(28.2)	(28.2)
Transfers	-	28.2	6.9	99.3	2.4	36.4	(173.2)	-
Closing balance	11.4	3,082.2	1,034.4	1,431.5	545.0	461.8	374.5	6,940.8
Accumulated depreciation								
Opening balance	(1.5)	(1,411.9)	(419.2)	(587.5)	(368.6)	(323.9)	-	(3,112.6)
Depreciation	(0.1)	(177.1)	(39.2)	(72.2)	(25.0)	(42.1)	-	(355.7)
Closing balance	(1.6)	(1,589.0)	(458.4)	(659.7)	(393.6)	(366.0)	-	(3,468.3)
Total carrying amount	9.8	1,493.2	576.0	771.8	151.4	95.8	374.5	3,472.5

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 $3.9 million (2020: $7.2 million).

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

Similar to the prior year, a review of all capital projects in progress was undertaken during the year. Following the review, a $10.5 million (2020: $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.

Capital expenditure commitments

At reporting date, the Group had capital expenditure commitments of $163.5 million (2020: $168.1 million) which spans across the years 2022 to 2026.

Recognition and measurement

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

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

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

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

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Financial results and financial position continued

11. Intangible assets

SAL Group ($m)	Goodwill	Concession and customer contracts	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	7-16	95	95	
2021					
Cost					
Opening balance as 1 January 2021	682.1	162.3	5,607.8	1,949.2	8,401.4
Closing balance	682.1	162.3	5,607.8	1,949.2	8,401.4
Accumulated amortisation					
Opening balance as 1 January 2021	-	(162.1)	(867.4)	(298.0)	(1,327.5)
Amortisation	-	-	(62.0)	(21.4)	(83.4)
Closing balance	-	(162.1)	(929.4)	(319.4)	(1,410.9)
Total carrying amount	682.1	0.2	4,678.4	1,629.8	6,990.5
2020					
Cost					
Opening balance as 1 January 2020	682.1	162.3	5,607.8	2,038.1	8,490.3
Disposals [1]	-	-	-	(88.9)	(88.9)
Closing balance	682.1	162.3	5,607.8	1,949.2	8,401.4
Accumulated amortisation					
Opening balance as 1 January 2020	-	(161.6)	(805.7)	(292.6)	(1,259.9)
Amortisation	-	(0.5)	(61.7)	(22.5)	(84.7)
Disposals [1]	-	-	-	17.1	17.1
Closing balance	-	(162.1)	(867.4)	(298.0)	(1,327.5)
Total carrying amount	682.1	0.2	4,740.4	1,651.2	7,073.9

1. During the year ended 31 December 2020, the Group de-recognised leasehold land with a cost of $88.9 million and accumulated depreciation of $17.1 million relating to the Sydney Gateway transaction. Refer to Note 15.

Airport operator licence and Leasehold land explained

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

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

Recognition and measurement

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

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

Financial results and financial position continued

11. 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.

An independent valuation is performed annually. For the year ended 31 December 2021, the independent valuation was updated for ongoing 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 from the prior year. The result of the updated valuation indicated that significant headroom remains and hence no goodwill impairment was required. The next independent valuation will be performed for the year ending 31 December 2022.

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. The 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 the 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 based on top-down forecasting incorporating the Group's views on key drivers such as passenger numbers but also the Group's longer term capital structure; 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, operating costs, capital investment, interest rates and inflation. Total passenger numbers were 7.9 million for the year ended 31 December 2021 (2020: 11.2 million). Interest rates are assumed to reflect prevailing market implied projections. Average long-term inflation rates are assumed to be within the Reserve Bank of Australia (RBA) target range. A reasonably possible change in any such assumptions 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.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Financial results and financial position continued

12. Taxation

Income tax expense

Reconciliation of tax expense to prima facie tax payable:

	SAL Group		SAT1 Group	
	2021 $m	2020 $m	2021 $m	2020 $m
(Loss)/profit before income tax	(486.4)	(244.4)	255.8	154.2
Income tax benefit calculated at 30%	145.9	73.3	(76.7)	(46.3)
Adjustments recognised in the current year that relate to the prior year	1.5	2.8	-	-
Utilisation of previously unrecognised deferred tax asset on capital tax losses	-	(1.1)	-	-
Capital losses previously not recognised	-	15.2	-	-
Tax effect of operating results of Australian trusts	76.7	46.7	76.7	46.3
Income tax benefit	224.1	136.9	-	-

	SAL Group		SAT1 Group	
	2021 $m	2020 $m	2021 $m	2020 $m
Deferred tax				
Origination and reversal of temporary differences	222.6	120.0	-	-
Recognition of capital losses	-	15.2	-	-
Adjustments for the prior year	1.5	1.7	-	-
Total income tax benefit in the Consolidated statements of comprehensive income	224.1	136.9	-	-

The SAL Group has no current tax expense as there is no current tax asset or liability.

Deferred taxes

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

SAL Group	Balance 1 January 2020 $m	Temporary movements recognised $m	Balance 31 December 2020 $m	Temporary movements recognised $m	Balance 31 December 2021 $m
Deferred tax assets/(liabilities):					
Property, plant and equipment	(217.9)	29.7	(188.2)	13.3	(174.9)
Intangibles	(1,886.2)	46.8	(1,839.4)	24.2	(1,815.2)
Interest bearing liabilities	(1.5)	0.3	(1.2)	(29.2)	(30.4)
Deferred debt establishment costs	(2.5)	4.5	2.0	(0.5)	1.5
Accrued revenue and prepayments	(24.9)	(83.0)	(107.9)	41.6	(66.3)
Defined benefits plan [1]	(1.7)	-	(1.7)	(0.9)	(2.6)
Deferred income	-	0.1	0.1	1.1	1.2
Deferred costs	0.1	-	0.1	-	0.1
Other payables and lease liabilities	14.6	30.1	44.7	22.5	67.2
Cash flow hedges [1]	199.0	3.4	202.4	(121.4)	81.0
Tax losses	119.9	118.9	238.8	124.5	363.3
Total	(1,801.1)	150.8	(1,650.3)	75.2	(1,575.1)

1. $148.9 million (2020: $13.8 million) was charged to equity. $148.0 million relates to changes in the fair value of cashflow hedges and the fair value of the foreign currency basis reserve. $0.9 million relates to the remeasurement of the defined benefit plan.

The SAT1 Group has no deferred tax transactions or balances.

Financial results and financial position continued

12. Taxation continued

Taxation of SAT1 net income

During the year ended 31 December 2021, SAT1 derived interest income of $251.7 million from the cross staple loan to SAL (equivalent to 9.3 cents per unit).

Due to the ongoing impact of COVID-19 on Sydney Airport, SAT1 did not make a cash distribution to unitholders in respect of the year ended 31 December 2021. Despite this, the interest income derived by SAT1 is attributable to SAT1 unitholders, and therefore unitholders should be subject to tax on their proportionate share of SAT1's net taxable income for the year.

The Trustee board of SAT1 resolved for SAT1 to elect to enter into the Attribution Managed Investment Trust (AMIT) regime in respect of the year ended 31 December 2020 onwards. One of the outcomes of electing into the AMIT regime is that it will provide unitholders an increase in the tax cost base of their SAT1 units where the taxable income attributed from SAT1 exceeds the cash distribution. The increase to tax cost base eliminates the possibility of double taxation which can occur where SAT1 has attributed taxable income to a unitholder but not distributed those amounts in cash and the unitholder subsequently disposes of their Sydney Airport securities.

Pursuant to the AMIT regime, SAT1 has an obligation to fund 2020 and 2021 withholding tax on attributed income for foreign investors and local investors who have not registered their tax file numbers with Sydney Airport's share registry. At 31 December 2021, $2.1m has been recognised as part of Other Expenses in the Consolidated statements of comprehensive income.

Recognition and measurement

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

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

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

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

SAL and its wholly owned Australian subsidiaries are members of a tax-consolidated group (SAL TCG) under Australian income tax law, with SAL the head entity. The SAL TCG held tax losses of $1,211.0 million at 31 December 2021 (2020: $795.7 million, inclusive of $50.7 million capital losses). During the period $466.0 million of additional tax losses were incurred and $50.7 million of capital tax losses utilised in relation to the Gateway transaction, resulting in the recognition of a deferred tax asset of $363.3 million, which is included on the balance sheet in deferred tax liabilities (31 December 2020: $238.8 million).

Each entity in the SAL TCG accounts for current and deferred tax with tax expense and deferred tax assets and liabilities arising from temporary differences recognised in their separate financial statements using the 'standalone tax payer' approach. Under the tax sharing agreement 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.

Stapled Securities Listed on ASX

Sydney Airport Limited (SAL)
(Head entity of the SAL TCG)

- As a company, SAL's taxable income or loss is subject to the Australian company tax rate of 30%.
- SAL will pay income tax once its losses are utilised, at which time franked dividends may be paid to securityholders.

Sydney Airport Trust 1 (SAT1)

- As a flow-through trust, SAT1 is not itself subject to income tax.
- Unitholders are generally subject to tax on their proportionate share of the net income of SAT1.

Sydney Airport's 2021 Tax Governance Statement is located on our website at www.sydneyairport.com.au/TaxGovernance2021.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Financial results and financial position continued

13. Leases

Leases recognised as right-of-use assets where the SAL Group is a lessee are described below. The SAT1 Group has no right-of-use assets.

Amounts recognised in the Consolidated statements of financial position

Included in Property, Plant and Equipment is $0.4 million being the carrying amount of right-of-use assets at 31 December 2021 (2020: $0.4 million). These relate mainly to the lease of data centre space. These leases expire between 2022 and 2031.

Lease liabilities included on the balance sheet are $0.2 million recognised as Current lease liabilities (2020: $0.1 million) and $0.2 million as Non-current lease liabilities (2020: $0.1 million).

There were additions of $0.5 million in relation to right-of-use assets during the 2021 financial year.

Amounts recognised in the Consolidated statements of comprehensive income

SAL Group	2021 $m	2020 $m
Lease interest expense	0.2	0.2
Depreciation expense	0.5	0.4

Recognition and measurement

The cost of right-of-use assets is comprised of 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, variable lease payments linked to an index or rate if applicable; the 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.

14. Provisions

	SAL Group		SAT1 Group	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Employee benefits	8.8	8.5	-	-
Total current provision	8.8	8.5	-	-
Non-current				
Employee benefits	3.6	3.8	-	-
Indemnity provision	51.3	63.1	51.3	63.1
Total non-current provisions	54.9	66.9	51.3	63.1

Indemnity provision

In 2011, the SAT1 Group sold stakes in both Copenhagen Airport and Brussels Airport to Ontario Teachers' Pension Plan Board (OTPP). In prior years, the Danish Tax Agency (DTA) issued assessments to Copenhagen Airports Denmark Holdings (CADH) in respect of dividend and interest withholding tax amounts for the 2006 – 2011 years inclusive. In response to demands from the DTA in 2017, CADH paid all disputed interest withholding tax liabilities. As OTPP is indemnified by SAT1 for its 52% share of any liabilities of CADH arising in respect of these matters, OTPP then issued indemnity claims for SAT1's share of those liabilities which were paid by SAT1 to OTPP in November 2017. This was recognised as a non-current receivable in the 31 December 2017 and 2018 Financial Reports. The assessments are currently being contested in the Danish High Court with resolution unlikely to be before late 2022.

Financial results and financial position continued

14. Provisions continued

SAL and SAT1 announced on 24 May 2019 that decisions of the Court of Justice of the European Union (ECJ decisions), although not in relation to CADH's interest and dividend withholding tax disputes being contested in the Danish High Court, had prompted reconsideration of the status of the indemnities provided by SAT1. Following analysis of all relevant information available to it at that time, SAT1 determined in the 31 December 2019 Financial Report to:

- Expense the $119.1 million non-current receivable which had been recognised in the 31 December 2018 Financial Report relating to the interest withholding tax indemnity; and
- Provide $63.1 million as a non-current provision for a possible call on the indemnity in respect of the dividend withholding tax matter. This provision reflected the Group's estimate of a final indemnity call which would be payable if an unfavourable resolution of the dispute had occurred as at 31 December 2019, including primary tax and additional interest accrued to that date. The non-current provision was to be escalated by around $6.0 million per annum in potential additional interest as long as the dividend withholding tax matter remains unresolved in the Danish High Court. No income tax benefit has been recognised against the indemnity expense.

On 24 June 2020, the DTA announced that:

- It had since 2008 incorrectly applied the rules concerning the application of interest in withholding tax cases currently before the Danish courts;
- It would review and recalculate interest in all affected cases;
- It would revise assessments and repay excess interest which had previously been paid; and
- It expected to finalise this process by the end of 2020.

On 21 December 2020, the DTA issued a revised interest calculation to CADH and, on 28 December 2020, repaid overcharged interest to CADH in respect of the interest withholding tax matter, followed by a payment of compensatory interest on the overcharged amount. Under the indemnity arrangements, OTPP is required to pay SAT1 52% of such amounts, net of costs incurred in pursuing the litigation. At 31 December 2020, SAT1 accordingly recognised $41.9 million as a receivable from OTPP. This reflected a partial write back of the $119.1 million previously expensed in relation to the interest withholding tax indemnity.

During the 12 months ended 31 December 2021:

- SAT1 received an indemnity refund of $41.2 million from OTPP in relation to the DTA's announcement in 2020 that it had overcharged interest on the interest withholding tax matter. The refund reflected a foreign exchange loss of $0.7 million on the $41.9 million receivable;
- Following the refund, SAT1 received an additional net $1.7 million, of which $1.9 million related to further revisions by the DTA of its interest calculation in the interest withholding tax matter, offset by $0.2 million which related to professional fees that SAT1 was required to pay. The refund reflected a foreign exchange gain of $0.1 million;
- SAT1 reduced its provision in respect of the dividend withholding tax matter by $11.8 million to $51.3 million following advice that, in the event of an unfavourable outcome, the DTA would apply the same revised methodology for charging interest as it has in the interest withholding tax matter.

CADH (in agreement with SAT1) continues to vigorously contest these matters in the Danish High Court. SAT1 has incurred expenditure of $2.1 million during the year to continue to fully explore options currently available.

These transactions total $10.8 million reflected in the Consolidated statements of comprehensive income as at 31 December 2021.

There remains uncertainty as to the outcome of the litigation which has the potential to change SAT1's accounting determinations described above.

15. Sydney Gateway

In September 2018, Sydney Airport Corporation Limited (SACL), a wholly-owned subsidiary of the SAL 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 $170.0 million, escalating annually at 5% over three years from the date of the agreement. This escalation is recognised as interest income from the date of de-recognition of leasehold land.

Following the derecognition of certain leasehold land sites during the financial year ended 31 December 2020, a compensation of $189.8 million was recognised as receivable from the NSW Government. This escalated by $7.2 million of interest to $197.0 million during the year, based on the terms of the September 2018 agreement.

During the 2021 year, the $197.0 million receivable has been paid in full by the NSW Government.

Condensed notes to the preliminary final report continued

for the year ended 31 December 2021

Other disclosures

16. Subsequent events

Acquisition of Sydney Airport via Schemes of arrangement and Trust Scheme

On 3 February 2022, Sydney Airport announced the results of the Scheme Meetings in which Sydney Airport securityholders had approved, by substantially exceeding the requisite majorities, the Schemes pursuant to which the Consortium would acquire 100% of the stapled securities in Sydney Airport.

On 9 February 2022, Sydney Airport announced that the Schemes were legally effective. This followed approval of the Schemes by the Supreme Court of New South Wales and the lodgement of the court orders made by the Supreme Court of New South Wales with the Australian Securities and Investments Commission. Sydney Airport securities were suspended from trading on the ASX from the close of trade on 9 February 2022 and it is currently expected that Sydney Airport securities will be delisted from the ASX on or around the business day immediately following the Implementation Date being 9 March 2022.

Other than these items, no other matters or circumstances not otherwise dealt with in the Preliminary Final Report have arisen that has significantly affected or may significantly affect the operations of the SAL and SAT1 Groups, the results of those operations or the state of affairs of the Group in the period subsequent to the year ended 31 December 2021.