SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED

INTERIM FINANCIAL REPORT FOR HALF YEAR ENDED
30 JUNE 2014

Index

Directors' Report

for half year ended 30 June 2014

This interim financial report for the half year ended 30 June 2014 covers the consolidated entity ("the Group") comprising Southern Cross Airports Corporation Holdings Limited ("SCACH") (ACN 098 082 029) and its controlled entities. The Group's functional and presentation currency is Australian dollars ("$"), rounded to the nearest hundred thousand.

Directors

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

Names	Appointment Date	Resignation Date
Max Moore-Wilton, Chairman	22 January 2003	-
Kerrie Mather, Chief Executive Officer	27 June 2002	-
John Roberts	15 February 2006	-
Trevor Gerber	4 January 2012	-
Robert Morris	4 January 2012	15 May 2014
Michael Lee	4 January 2012	-
Stephen Ward	4 January 2012	-
Ann Sherry	1 May 2014	-

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

Alternate Directors	Appointment Date	Resignation Date
Kerrie Mather (for J Roberts)	15 February 2006	19 June 2014
Kerrie Mather (for M Moore-Wilton)	25 June 2008	19 June 2014
John Roberts (for K Mather)	15 February 2006	19 June 2014
John Roberts (for M Moore-Wilton)	25 June 2008	19 June 2014
Max Moore-Wilton (for J Roberts)	25 June 2008	19 June 2014
Max Moore-Wilton (for K Mather)	25 June 2008	19 June 2014

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

Company secretary

Mr Jamie Motum BEc, LLB is General Counsel and Company Secretary. Mr Motum was appointed Company Secretary on 23 February 2010. He was previously a partner of DLA Phillips Fox.

Directors' Report
for half year ended 30 June 2014

Corporate structure

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

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

All companies in the SCACH Group (as listed above) have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Class Order 98/1418.

Registered office

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

Principal activities

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

Review of operations and results

The consolidated entity earned a profit before depreciation and amortisation, net borrowing costs and income tax (EBITDA) of $461.3 million for the half year ended 30 June 2014 (30 June 2013: $436.9 million). EBITDA excluding restructuring and redundancy costs was $461.4 million (30 June 2013: $436.9 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $105.4 million (30 June 2013: $31.8 million). This net loss is after deducting redeemable preference share distributions to shareholders totalling $141.2 million (30 June 2013: $140.7 million) which are held by the ordinary shareholders in their same proportions.

Total expenses excluding restructuring and redundancy costs was $107.1 million (30 June 2013: $101.1 million). Total expenses including restructuring and redundancy costs were $107.2 million (30 June 2013: $101.1 million). Depreciation and amortisation costs were $117.6 million (30 June 2013: $114.2 million).

Net finance costs were $427.1 million (30 June 2013: $359.8 million) and includes interest expense payable to third parties totalling $238.8 million (30 June 2013: $222.4 million), and redeemable preference share distributions to shareholders totalling $141.2 million (30 June 2013: $140.7 million).

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

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

Directors' Report

for half year ended 30 June 2014

Financial performance and position

The table below shows an approximation of the SCACH Distribution calculation for the six months to 30 June 2014 (the calculation is conducted quarterly on a rolling annual basis). The final result aligns with distributions declared by SCACH to its investors. In addition, the table shows the reconciliation between the SCACH statutory result and distributions.

	30 June 2014 $m	30 June 2013 $m
Loss before income tax expense[1]	(83.4)	(37.1)
Add back: interest on redeemable preference shares ("RPS") held by ordinary shareholders[1]	141.2	140.7
Add back: depreciation and amortisation[1]	117.6	114.2
Profit before tax, shareholder interest, depreciation and amortisation	175.4	217.8
Add back non-cash financial expenses		
- Fair value adjustment to swaps[2]	51.4	1.3
- Amortisation of deferred debt establishment costs and other borrowing costs[2]	15.4	5.3
- Capital indexed bonds ("CIB's") capitalised[2]	17.9	15.0
- Borrowing costs capitalised[2]	(3.2)	(4.1)
Non-cash financial expenses	81.5	17.5
Add/(subtract) other cash movements		
Movement in cash balances reserved for specific purposes[3]	1.0	(0.6)
Other	(1.2)	0.2
Other cash movements	(0.2)	(0.4)
Cash flow available to shareholders	256.7	234.9
Interest on RPS[4]	137.1	140.4
Ordinary dividends[4]	119.6	94.5
Total distribution to shareholders	256.7	234.9

1 These numbers are taken from the Consolidated Income Statement of SCACH Interim Financial Report to 30 June 2014.
2 Refer to Note 2(a) in the Notes to the Financial Report.
3 Refer to Note 9 in the Notes to the Financial Report.
4 Refer to Note 4 in the Notes to the Financial Report.

The following table shows the net senior debt and selected ratios as at 30 June 2014.

	30 June 2014 $m	31 December 2013 $m	30 June 2013 $m
Gross total debt[1]	6,787.0	6,651.0	6,499.6
Less: total cash[2]	(300.5)	(307.1)	(263.6)
Net debt	6,486.5	6,343.9	6,236.0
Net senior debt	6,486.5	6,343.9	6,236.0
EBITDA (12 mths historical)	934.7	910.3	873.8
Net debt/EBITDA	6.9x	7.0x	7.1x
Cashflow cover ratio[3]	2.3x	2.2x	2.2x

1 Gross total debt refers to principal amount drawn, (refer to Note 6) and excludes shareholder related borrowing (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds.

2 Refer to Note 9.

3 Cashflow Cover Ratio is calculated using defined terms in the Group's debt documents, summarised as cashflow divided by senior debt interest expense for a rolling 12 month period.

As at 30 June 2014, there is $700.0 million of debt due to mature in November 2014 which is covered by undrawn committed bank debt facilities. There is no further debt due to mature until July 2015. The Group had $1,234.0 million (30 June 2013: $1,022.0 million) in committed undrawn facilities available.

In April 2014, the Group successfully issued EUR700.0 million ($1.0 billion) of senior secured notes in the Euro bond market maturing April 2024. In May 2014, the Group successfully completed a $1.5 billion raising of senior bank debt with tenor ranging from three to five years. All proceeds received refinanced senior bank debt due to mature 2014, 2015, 2016 and 2017. The committed undrawn facilities are available to fund the $700.0 million bond maturing November 2014 and to fund future growth capital expenditure.

As part of the ongoing financing arrangements, the Group has received an unconditional guarantee from the parent and other members of the SCACH Group under the Security Trust Deed. Under the Security Trust Deed, each guarantor unconditionally and irrevocably guarantees the due and punctual payment of external borrowings.

Sydney Airport Finance Company Pty Limited's senior secured debt credit ratings assigned by Standard & Poor's and Moody's remain at BBB and Baa2 respectively.

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

Independent valuation

As at 30 June 2014, the Group has net liabilities of $1,938.1 million (31 December 2013: $1,749.2 million). An independent valuation by Deloitte as at 31 December 2013 supported an Equity Value that, if applied in the financial report of the Group as at 30 June 2014, would have more than absorbed the consolidated deficiency position at 30 June 2014.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2013. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

A new valuation will be carried out for each financial year end or as otherwise required.

Directors' Report

for half year ended 30 June 2014

Dividends and distributions

In 2002, and subsequently, the economic equity for the SCACH Group was contributed in the form of ordinary shares issued, each stapled 1:1 to a RPS. The right to receive payments on the RPS held by the ordinary shareholders is subordinated to senior debt and ordinary creditors of the Group. Despite this subordination, and the fact that the RPS are stapled to the ordinary shares, under current accounting standards:

- the $2,028.5 million carrying value of the RPS at 30 June 2014 is classified as borrowings rather than equity; and
- the $137.8 million RPS interest paid to shareholders during the period is included as interest expense rather than as a distribution of profits.

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

	Half year ended 30 June 2014 $m	Half year ended 30 June 2013 $m
- On ordinary shares (i)	120.7	93.6
- On RPS (i)	137.8	137.8
	258.5	231.4

(i) Represents cash paid as per the Consolidated Statement of Cash Flow.

In respect of the financial quarter ended 30 June 2014, the directors approved an ordinary dividend of $53.1 million and RPS distribution of $68.9 million. These amounts were paid on 28 July 2014. The ordinary dividend during the comparative financial quarter ended 30 June 2013 of $40.1 million and RPS distribution of $72.2 million were paid on 4 December 2013.

Significant changes in the state of affairs

There were no significant changes in the state of the affairs of the Group during the reporting period.

Significant events after the balance date

In respect of the financial quarter ended 30 June 2014, the directors approved an ordinary dividend of $53.1 million and RPS distribution of $68.9 million. These amounts were paid on 28 July 2014. The ordinary dividend during the comparative financial quarter ended 30 June 2013 of $40.1 million and RPS distribution of $72.2 million were paid on 4 December 2013.

In July 2014, the Group finalised documentation in the US Private Placement bond market to allow for A$380.0 million of 14 year senior secured notes, maturing August 2028 and November 2028. The receipt of proceeds in each of August (A$100.0 million) and November (A$280.0 million) is subject to satisfaction of procedural conditions precedent. All funds raised will repay senior debt.

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

Auditor's independence declaration

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

Directors' Report
for half year ended 30 June 2014

Rounding

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

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

On behalf of the Directors

Max Moore-Wilton

Sydney

20 August 2014

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

To: the directors of Southern Cross Airports Corporation Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett
Partner

Sydney

20 August 2014

Independent auditor's review report to the members of Southern Cross Airports Corporation Holdings Limited

We have reviewed the accompanying interim financial report of Southern Cross Airports Corporation Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett
Partner

Sydney

20 August 2014

Directors' Declaration

for half year ended June 2014

In the opinion of the directors of Southern Cross Airports Corporation Holdings Limited ("the Company"):

1. The financial statements and notes set out on pages 12 to 28 are in accordance with the Corporations Act 2001 including:

a. Giving a true and fair view of the Group's financial position as at 30 June 2014 and its performance for the six month period ended on that date; and

b. Complying with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

Max Moore-Wilton

Sydney

20 August 2014

Financial Report

for half year ended 30 June 2014

Consolidated Income Statement

	Note	30 June 2014 $m	30 June 2013 $m
Revenue			
Aeronautical revenue		236.3	223.6
Aeronautical security recovery	3	41.3	42.0
Retail revenue		125.0	116.4
Property and car rental revenue		96.4	90.3
Car parking and ground transport revenue		66.4	62.9
Other		3.1	2.7
Total revenue		568.5	537.9
Other income			
Profit on disposal of non-current assets		-	0.1
Expenses			
Employee benefits expense		(24.1)	(21.0)
Services and utilities		(27.0)	(25.6)
Other operational costs		(9.8)	(8.8)
Property and maintenance		(9.9)	(9.0)
Security recoverable expenses	3	(36.3)	(36.7)
Restructuring and redundancy	2(b)	(0.1)	-
Total expenses before depreciation, amortisation and finance costs		(107.2)	(101.1)
Profit before depreciation and amortisation, finance costs and income tax (EBITDA)		461.3	436.9
Depreciation		(98.0)	(94.6)
Amortisation	5	(19.6)	(19.6)
Profit before finance costs and income tax (EBIT)		343.7	322.7
External finance (costs)/income:			
Interest income	2(a)	4.3	4.7
Change in fair value of swaps	2(a)	(51.4)	(1.3)
Borrowing costs - senior debt	2(a)	(238.8)	(222.4)
Interest on finance leases	2(a)	-	(0.1)
Total external finance costs (i)	2(a)	(285.9)	(219.1)
Shareholder related finance costs			
Borrowing costs - redeemable preference shares held by ordinary shareholders (ii)	2(a)	(141.2)	(140.7)
Total finance costs	2(a)	(427.1)	(359.8)
Loss before income tax expense/benefit (iii)		(83.4)	(37.1)
Income tax (expense)/benefit		(22.0)	5.3
Net loss for the period attributable to owners of the company		(105.4)	(31.8)

Notes to the financial statements are included on pages 17 to 28.

(i) Borrowing costs include interest expense, amortisation of debt establishment costs and swap interest.

(ii) Redeemable preference shares ("RPS") are stapled to ordinary shares. Interest on RPS is only paid to shareholders after all other financial obligations of the Group have been met. Shareholders have no acceleration rights if interest is not paid.

(iii) This figure includes $141.2 million (30 June 2013: $140.7 million) of interest expense on RPS to ordinary shareholders, which is only paid after all other financial obligations to the Group have been met.

Financial Report
for half year ended 30 June 2014

Consolidated Statement of Comprehensive Income

	30 June 2014 $m	30 June 2013 $m
Net loss for the period	(105.4)	(31.8)
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	53.1	8.7
Tax on items that may be reclassified subsequently to profit or loss	(15.9)	(2.6)
Total items that may be reclassified subsequently to profit or loss	37.2	6.1
Other comprehensive income for the period, net of tax	37.2	6.1
Total comprehensive loss for the period	(68.2)	(25.7)
Attributable to:		
Owners of the company	(68.2)	(25.7)

Notes to the financial statements are included on pages 17 to 28.

Financial Report
as at 30 June 2014

Consolidated Statement of Financial Position

	Note	30 June 2014 $m	31 December 2013 $m
Current assets			
Cash and cash equivalents	9	300.5	307.1
Trade and other receivables		122.6	119.8
Other financial assets		2.0	1.4
Other assets		3.4	4.1
Total current assets		428.5	432.4
Non-current assets			
Property, plant and equipment		2,515.0	2,513.8
Intangibles	5	3,260.1	3,279.7
Goodwill		688.3	688.3
Trade and other receivables		37.2	41.8
Derivative financial instruments	8	-	9.9
Other assets		418.0	447.1
Total non-current assets		6,918.6	6,980.6
Total assets		7,347.1	7,413.0
Current liabilities			
Trade and other payables		230.7	245.5
Provisions		10.3	9.9
Borrowings - external	6	699.2	733.6
Derivative financial instruments	8	118.6	125.9
Finance lease liabilities		-	0.4
Total current liabilities		1,058.8	1,115.3
Non-current liabilities			
Borrowings – external	6	6,072.2	5,943.8
Borrowings – shareholder related	7	2,028.5	2,024.3
Deferred tax liabilities		82.4	77.5
Provisions		1.4	1.3
Derivative financial instruments	8	41.9	-
Total non-current liabilities		8,226.4	8,046.9
Total liabilities		9,285.2	9,162.2
Net liabilities		(1,938.1)	(1,749.2)
Equity			
Issued capital		1,314.0	1,314.0
Cash flow hedge reserve		(130.7)	(167.9)
Accumulated losses		(3,121.4)	(2,895.3)
Total equity		(1,938.1)	(1,749.2)

Notes to the financial statements are included on pages 17 to 28.

Consolidated Statement of Cash Flow

	Note	30 June 2014 $m	30 June 2013 $m
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		639.4	592.4
Interest received		4.4	4.7
Cash was applied to:			
Payments to suppliers and employees		(174.9)	(171.8)
Interest - senior debt		(125.6)	(124.4)
Interest rate swaps		(71.9)	(70.7)
Net cash flows provided by operating activities		271.4	230.2
Cash flows from investing activities			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		-	0.1
Cash was applied to:			
Acquisition of property, plant and equipment		(115.7)	(100.0)
Capitalised borrowing costs		(3.2)	(4.1)
Net cash flows used in investing activities		(118.9)	(104.0)
Cash flows from financing activities			
External financing activities:			
Cash was provided from:			
Proceeds from borrowings – medium term notes and bank loans		1,340.0	83.0
Cash was applied to:			
Repayment of borrowings – medium term notes and bank loans		(1,222.0)	-
Debt establishment costs		(18.2)	(11.6)
Finance lease payments		(0.4)	(1.2)
Net cash flows provided by external financing activities		99.4	70.2
Shareholder related financing activities:			
Dividends paid – ordinary shares		(120.7)	(93.6)
Interest paid – redeemable preference shares		(137.8)	(137.8)
Net cash flows used in shareholder related financing activities		(258.5)	(231.4)
Net cash flows used in financing activities		(159.1)	(161.2)
Net decrease in cash and cash equivalents		(6.6)	(35.0)
Cash and cash equivalents at beginning of the financial period		307.1	298.6
Cash and cash equivalents at end of the financial period	9	300.5	263.6

Notes to the financial statements are included on pages 17 to 28.

Financial Report
for half year ended 30 June 2014

Consolidated Statement of Changes in Equity

	Issued capital $m	Cash flow hedge reserve $m	Accumulated losses $m	Total $m
At 1 January 2013	1,314.0	(202.7)	(2,711.6)	(1,600.3)
Total comprehensive income/(loss) for the period	-	6.1	(31.8)	(25.7)
Dividends	-	-	(93.6)	(93.6)
At 30 June 2013	1,314.0	(196.6)	(2,837.0)	(1,719.6)
At 1 January 2014	1,314.0	(167.9)	(2,895.3)	(1,749.2)
Total comprehensive income/(loss) for the period	-	37.2	(105.4)	(68.2)
Dividends	-	-	(120.7)	(120.7)
At 30 June 2014	1,314.0	(130.7)	(3,121.4)	(1,938.1)

Notes to the financial statements are included on pages 17 to 28.

Notes to the Financial Report

for half year ended 30 June 2014

1. Summary of Accounting Policies

Basis of preparation

Statement of compliance

The interim financial report has been prepared in accordance with the Corporations Act 2001 and AASB 134: *Interim Financial Reporting.* The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 31 December 2013.

Basis of measurement

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the company's 31 December 2013 annual financial report for the financial year ended 31 December 2013.

The interim financial report has been prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value.

All amounts are presented in Australian dollars, unless otherwise noted.

Net current liability position

The Group is in a net current liability position of $630.3 million as at 30 June 2014. This is due to $699.2 million of MTNs classified as current borrowings (previously non-current borrowings), which is fully covered by undrawn committed bank debt facilities.

Adoption of new and revised accounting standards

New standards and interpretations

The Group has adopted new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB's) that are relevant to the Group's operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has not had a material impact on the Group for the half year ended 30 June 2014.

A number of new standards, amendments to Standards and Interpretations are effective for annual reporting periods commencing after 1 January 2015 and have not been applied in preparing these consolidated financial statements. AASB 9: *Financial Instruments* becomes mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets and liabilities and change the impact of underlying hedge accounting. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Notes to the Financial Report

for half year ended 30 June 2014

2. Revenue and Expenses

Group	Half year ended 30 June 2014 $m	Half year ended 30 June 2013 $m
(a) Finance (costs)/income		
External finance (costs)/income		
Interest income		
Bank interest	4.3	4.7
Other finance expenses		
Fair value adjustment to swaps	(51.4)	(1.3)
Borrowing costs – senior debt		
Senior debt interest paid or accrued	(129.2)	(130.7)
Capital indexed bonds ("CIBs") capitalised during the period	(17.9)	(15.0)
Net swap interest expense	(75.5)	(68.8)
Amortisation of deferred debt establishment costs and other borrowings costs	(15.4)	(5.3)
Recurring borrowing costs paid	(4.0)	(6.7)
Borrowing costs capitalised	3.2	4.1
	(238.8)	(222.4)
Interest on finance leases	-	(0.1)
Total external finance costs	(285.9)	(219.1)
Shareholder related finance costs		
Redeemable preference shares interest expense		
Redeemable preference shares held by ordinary shareholders interest paid or accrued	(137.1)	(137.1)
Amortisation of deferred debt establishment costs	(4.1)	(3.6)
	(141.2)	(140.7)
Total finance costs	(427.1)	(359.8)
(b) Non-recurring expenses		
Restructuring and redundancy costs (i)	(0.1)	-

(i) Costs relate to redundancies paid during the period.

3. Aeronautical Security Recovery

The Consolidated Income Statement includes both revenues and costs relating to aeronautical security recovery. Security recovery charges are set at appropriate levels to ensure cost recovery only, in accordance with Australian Competition and Consumer Commission ("ACCC") guidelines for pass-through of Government mandated security costs.

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

a. International services include checked baggage screening, passenger screening and additional security measures. All charges are levied on a per passenger basis.
b. Domestic services include additional security measures, Terminal 2 checked bag screening and Terminal 2 passenger screening. All charges are levied on a per passenger basis.

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

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

Group	Half year ended 30 June 2014 $m	Half year ended 30 June 2013 $m
Revenue		
Security recovery	41.3	42.0
Expenses		
Employee benefits expense	(1.6)	(1.7)
Services and utilities	(33.3)	(33.7)
Other operational costs	(0.2)	(0.4)
Property and maintenance	(1.2)	(0.9)
Total direct costs	(36.3)	(36.7)
Depreciation	(3.2)	(3.2)
Borrowing costs	(1.8)	(2.1)
Surplus/(deficit)	-	-

Notes to the Financial Report

for half year ended 30 June 2014

4. Dividends and Distributions Paid and Proposed

The economic equity for the SCACH Group is in the form of ordinary shares stapled 1:1 to a redeemable preference share ("RPS"). Payments on the RPS are subordinated to senior debt and ordinary creditors of the Group. Interest payments in respect of RPS are included as borrowing costs in the Consolidated Income Statement consistent with the classification in the Consolidated Statement of Financial Position of the related instrument. Ordinary dividends are only paid on shares if there is cash available after payment of RPS interest.

Group	Half year ended 30 June 2014 $m	Half year ended 30 June 2013 $m
RPS		
Accrued interest at the beginning of the period	(50.0)	(50.0)
Interest paid	137.8	137.8
Accrued interest at the end of the period	49.3	49.3
RPS interest expense	137.1	137.1

In respect of the financial quarter ended 30 June 2014, the directors approved RPS distribution of $68.9 million. This was paid on 28 July 2014. The RPS distribution during the comparable financial quarter ended 30 June 2013 of $72.2 million was paid on 4 December 2013, including $3.3 million of deferred interest.

	30 June 2014		30 June 2013	
	$ per share	Total $m	$ per share	Total $m
Ordinary shares				
Amounts paid in period				
Paid January in relation to previous quarter	3.97	54.2	2.87	39.2
Paid April in relation to previous quarter	4.88	66.5	3.99	54.4
		120.7		93.6
Amounts paid after period end				
Paid in relation to previous quarter	3.89	53.1	2.94	40.1

In respect of the financial quarter ended 30 June 2014, the directors approved an ordinary dividend of $53.1 million. This was paid on 28 July 2014. The ordinary dividend during the comparative financial quarter ended 30 June 2013 of 40.1 million was paid on 4 December 2013. Total dividends attributable for the six month period ended 30 June 2014 was $119.6 million (30 June 2013: $94.5 million). These dividends were all unfranked.

Notes to the Financial Report
for half year ended 30 June 2014

5. Intangible Assets

Group	Leasehold land $m	Airport operator licence $m	Total $m
Gross carrying costs			
At 30 June 2014	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2014	(201.2)	(249.2)	(450.4)
Amortisation	(8.8)	(10.8)	(19.6)
At 30 June 2014	(210.0)	(260.0)	(470.0)
At 30 June 2014			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation	(210.0)	(260.0)	(470.0)
Net carrying amount	1,462.0	1,798.1	3,260.1
Gross carrying costs			
At 31 December 2013	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2013	(183.6)	(227.5)	(411.1)
Amortisation	(17.6)	(21.7)	(39.3)
At 31 December 2013	(201.2)	(249.2)	(450.4)
At 31 December 2013			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation	(201.2)	(249.2)	(450.4)
Net carrying amount	1,470.8	1,808.9	3,279.7

Significant intangible assets

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

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

	Leasehold land		Airport operator license	
	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
Carrying amount	1,462.0	1,470.8	1,798.1	1,808.9
Remaining useful life	83 years	83.5 years	83 years	83.5 years

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

Leasehold land and the airport operator licence have been tested for impairment based on single cash generating unit approach. All income streams are inextricably linked to one single cash generating unit and individual cash flows cannot be separated from airport operations.

6. Borrowings - External

		Principal amount drawn		Carrying amount	
Group	Note	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
At amortised cost:					
Current					
Bank loans	(i)	-	35.5	-	35.4
Medium term notes	(ii)	700.0	700.0	699.2	698.2
		700.0	735.5	699.2	733.6
Non-current					
Bank loans	(i)	260.7	1,140.5	257.5	1,129.3
Medium term notes	(ii)	2,184.0	2,184.0	2,155.0	2,153.2
Medium term notes – foreign currency	(iii)	2,571.8	1,538.4	2,547.6	1,517.9
Capital indexed bonds	(iv)	1,070.5	1,052.6	1,029.0	1,014.1
		6,087.0	5,915.5	5,989.1	5,814.5
Fair value hedge adjustments		83.1	129.3	83.1	129.3
		6,170.1	6,044.8	6,072.2	5,943.8

Carrying amounts reflect financial liabilities measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Notes to the Financial Report

for half year ended 30 June 2014

6. Borrowings - External (continued)

(i) Bank loans

Senior bank debt facilities as at 30 June 2014 comprised of three drawn tranches (31 December 2013: nine tranches) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
Current					
Syndicated debt					
Tranche M	31-Oct-2014	-	35.5	-	35.4
Non-current					
Syndicated debt					
Tranche A	1-May-2017	180.0	-	178.0	-
Tranche N	31-Oct-2015	-	438.0	-	434.4
Tranche O	31-Oct-2017	-	227.0	-	225.2
Tranche P	30-Jun-2016	-	245.0	-	243.3
Tranche Q	30-Jun-2016	-	13.5	-	12.5
Tranche T	23-Nov-2016	-	110.0	-	108.9
Tranche U	23-Nov-2017	-	12.0	-	11.0
		180.0	1,045.5	178.0	1,035.3
Bilateral facilities					
Issue 1	23-Aug-2017	-	75.0	-	74.2
Issue 2	30-Nov-2016	-	20.0	-	19.8
Issue 3	1-May-2017	40.4	-	39.8	-
Issue 4	1-May-2017	40.3	-	39.7	-
		80.7	95.0	79.5	94.0
		260.7	1,140.5	257.5	1,129.3

Interest is charged at Bank Bill Swap Bid Rate ("BBSY") plus a pre-determined margin.

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

The Group had $1,234.0 million (30 June 2013: $1,022.0 million) in committed undrawn facilities available.

Notes to the Financial Report
for half year ended 30 June 2014

6. Borrowings - External (continued)

(ii) Medium term notes ("MTNs") - Domestic

MTNs as at 30 June 2014 comprised of seven issues (31 December 2013: seven issues) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
Current					
Wrapped[1]					
Issue 4	20-Nov-2014	700.0	700.0	699.2	698.2
Non-current					
Wrapped[1]					
Issue 5	20-Nov-2015	300.0	300.0	298.9	298.6
Issue 9	20-Nov-2021	200.0	200.0	198.2	198.0
Issue 10	11-Oct-2022	750.0	750.0	738.0	737.4
Issue 11	11-Oct-2027	659.0	659.0	646.4	646.0
		1,909.0	1,909.0	1,881.5	1,880.0
Unwrapped					
Issue 12	6-Jul-2015	175.0	175.0	174.4	174.2
Issue 13	6-Jul-2018	100.0	100.0	99.1	99.0
		275.0	275.0	273.5	273.2
		2,184.0	2,184.0	2,155.0	2,153.2

[1] Wrapped refers to credit wrapped bonds

Fixed interest is charged on the following MTNs at the following rates:

$175m (Issue 12)	8.00%
$100m (Issue 13)	7.75%

The remaining floating rate notes at the Bank Bill Swap Rate ("BBSW") plus a pre-determined margin.

All MTNs are secured by fixed and floating charges over the assets and undertakings of the consolidated entity (except as otherwise excluded) and a mortgage over the Airport lease. Financial guarantees in respect of the wrapped notes are provided by MBIA Insurance Corporation, Ambac Assurance Corporation and Assured Guaranty Municipal Corp. All medium term notes rank pari passu with the senior bank debt and capital indexed bonds.

Notes to the Financial Report

for half year ended 30 June 2014

6. Borrowings - External (continued)

(iii) Medium term notes ("MTNs") – Foreign Currency

MTNs as at 30 June 2014 comprised of four issues (31 December 2013: three) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
Non-current					
CAD MTN[1]	6-Jul-2018	217.4	217.4	215.8	215.7
USD MTN[2]	22-Feb-2021	518.7	518.7	511.5	511.2
USD MTN[3]	22-Mar-2023	802.3	802.3	794.3	791.0
EUR MTN[4]	23-Apr-2024	1,033.4	-	1,026.0	-
Fair value hedge adjustments		83.1	129.3	83.1	129.3
		2,654.9	1,667.7	2,630.7	1,647.2

[1] On 21 June 2011, Sydney Airport Finance Company Pty Ltd issued C$225 million in guaranteed senior secured notes maturing in 2018 at a fixed interest rate of 4.602% per annum (payable semi-annually) into the Canadian Maple bond markets. The total CAD dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

[2] On 30 September 2010, Sydney Airport Finance Company Pty Ltd issued US$500 million in guaranteed senior secured notes maturing in 2021 at a fixed interest rate of 5.125% per annum (payable semi-annually) into the US 144A / RegS bond markets. The total US dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

[3] On 16 and 25 October 2012, Sydney Airport Finance Company Pty Ltd issued US$600 million and US$225 million respectively, in guaranteed senior secured notes maturing in 2023 at a fixed interest rate of 3.900% per annum (payable semi-annually) into the US 144A/RegS bond markets. The total US dollar proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

[4] On 23 April 2014, Sydney Airport Finance Company Pty Ltd issued EUR700 million in guaranteed senior secured notes maturing in 2024 at a fixed interest rate of 2.750% per annum (payable annually) into the Euro bond market. The total Euro proceeds were swapped into Australian dollars and fully hedged through a cross currency swap until maturity of the notes.

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

(iv) Capital indexed bonds ("CIBs")

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2014 $m	31 December 2013 $m	30 June 2014 $m	31 December 2013 $m
Issue 1	20-Nov-2020	701.5	689.8	678.6	668.5
Issue 2	20-Nov-2030	369.0	362.8	350.4	345.6
		1,070.5	1,052.6	1,029.0	1,014.1

Interest is charged at a fixed rate of 3.76% p.a. on Issue 1 and 3.12% p.a. on Issue 2. Additionally, the principal repayable for both issues is increased through to maturity linked to the rate of inflation ("CPI"). The fixed interest charged is calculated on the increasing liability.

CIBs are secured by fixed and floating charges over the assets and undertakings of the Group (except as otherwise excluded) and a mortgage over the Airport lease. Financial guarantees in respect of the notes are provided by MBIA Insurance Corporation and Ambac Assurance Corporation. CIBs rank pari passu with the senior bank debt and medium term notes.

7. Borrowings – Shareholder Related

Redeemable preference shares ("RPS")

Group	Maturity date	Principal amount drawn 30 June 2014 $m	Principal amount drawn 31 December 2013 $m	Carrying amount 30 June 2014 $m	Carrying amount 31 December 2013 $m
	28-Jun-2032	2,047.3	2,047.3	2,028.5	2,024.3

Each RPS is stapled to one ordinary share of SCACH at a nominal value of $150 each. RPS are redeemable at a premium of $50 per RPS on 28 June 2032.

The shares carry an entitlement to a fixed cumulative interest at a rate of 13.5% p.a. Interest is payable quarterly, subject to availability of cash within the Group and distributable profits within SCACH. RPS shareholders have no acceleration rights if interest is not paid. Failure to pay RPS interest will trigger restrictions on payment of ordinary share dividends.

Carrying amounts reflect RPS measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the RPS.

8. Derivative Financial Instruments

Group	30 June 2014 $m	31 December 2013 $m
At fair value:		
Current liabilities		
Interest rate swaps	89.0	101.5
Cross currency swaps	29.6	24.4
	118.6	125.9
Non-current (assets)/liabilities		
Interest rate swaps	102.5	92.3
Cross currency swaps	(60.6)	(102.2)
	41.9	(9.9)

9. Notes to the Statement of Cash Flow

Group	Note	30 June 2014 $m	31 December 2013 $m
Reconciliation of cash and cash equivalents			
Cash at bank and in hand – available for general use	(i)	174.0	179.6
Cash and short term deposits – reserved for specific purposes	(ii)	126.5	127.5
		300.5	307.1

(i) Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

(ii) Short term deposits are generally made for a period of three months and earn interest at the respective short term deposit rates. The deposits are certain cash reserve accounts which are reserved for specific purposes in accordance with the terms of the current senior debt agreements.

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for half year ended 30 June 2014

10. Financial Instruments

Fair value of financial instruments

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

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions;
- the fair value of derivative instruments are based on market prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Except as detailed in the following table, the directors consider the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values:

Consolidated	Carrying amount 30 June 2014 $m	Carrying amount 31 December 2013 $m	Fair Value 30 June 2014 $m	Fair Value 31 December 2013 $m
Financial liabilities				
RPS[1]	2,028.5	2,024.3	3,613.7	3,308.5
$175m MTN[1]	174.4	174.2	184.3	188.3
$100m MTN[1]	99.1	99.0	117.7	116.2
US$500m MTN[1]	528.3	547.9	631.6	658.2
US$825m MTN[1]	845.0	864.7	977.0	996.9
CAD$225m MTN[1]	221.3	234.6	248.4	262.5
EUR700m MTN[1]	1,033.3	-	1,143.6	-
	4,929.9	3,944.7	6,916.3	5,530.6

1 Level 2 per the fair value measurement hieararchy.

Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 January 2009, the entity has adopted the amendment to AASB 13, Fair Value Measurement (2011): Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets for liabilities (level 1)

b. 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) (level 2), and

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014.

Group – as at 30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Liabilities				
Derivatives used for hedging	-	160.5	-	160.5

Group – as at 30 June 2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Liabilities				
Derivatives used for hedging	-	166.7	-	166.7

Notes to the Financial Report

for half year ended 30 June 2014

11. Events After The Balance Sheet Date

In respect of the financial quarter ended 30 June 2014, the directors approved an ordinary dividend of $53.1 million and RPS distribution of $68.9 million. These amounts were paid on 28 July 2014. The ordinary dividend during the comparative financial quarter ended 30 June 2013 of $40.1 million and RPS distribution of $72.2 million were paid on 4 December 2013.

In July 2014, the Group finalised documentation in the US Private Placement bond market to allow for A$380.0 million of 14 year senior secured notes, maturing August 2028 and November 2028. The receipt of proceeds in each of August (A$100.0 million) and November (A$280.0 million) is subject to satisfaction of procedural conditions precedent. All funds raised will repay senior debt.

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

12. Contingent Assets and Liabilities

In accordance with the provisions of the Australian Accounting Standard AASB 137: *Provisions, Contingent Liabilities and Contingent Assets,* there are no material unrecorded liabilities at 30 June 2014 nor are there any claims against the Group that, in the expectation of the directors, will give rise to a material loss in the future.