SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED

Sydney Airport
The right future. Starting now.

INTERIM FINANCIAL REPORT FOR HALF YEAR ENDED 30 JUNE 2012

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Directors' Report

This general purpose financial report for the half year ended 30 June 2012 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	-
Patrick Gourley	10 September 2002	-
Holger Linkweiler	17 October 2005	-
John Roberts	15 February 2006	-
Don Huse	15 December 2008	-
Trevor Gerber	4 January 2012	-
Bob Morris	4 January 2012	-
Michael Lee	4 January 2012	-
Stephen Ward	4 January 2012	-
Brenton Cox	22 December 2009	1 January 2012

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
Graham Matthews (for P Gourley)	28 October 2011	-
Kerrie Mather (for J Roberts)	15 February 2006	-
Kerrie Mather (for M Moore-Wilton)	25 June 2008	-
Kerrie Mather (for B Cox)	22 December 2009	1 January 2012
John Roberts (for K Mather)	15 February 2006	-
John Roberts (for M Moore-Wilton)	25 June 2008	-
John Roberts (for B Cox)	22 December 2009	1 January 2012
Gerhard Schroeder (for H Linkweiler)	1 October 2011	-
Max Moore-Wilton (for J Roberts)	25 June 2008	-
Max Moore-Wilton (for K Mather)	25 June 2008	-
Max Moore-Wilton (for B Cox)	22 December 2009	1 January 2012
Brenton Cox (for M Moore-Wilton)	22 December 2009	1 January 2012
Brenton Cox (for K Mather)	22 December 2009	1 January 2012
Brenton Cox (for J Roberts)	23 February 2010	1 January 2012

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

Corporate Structure

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

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

All companies in the SCACH Group, including SCACH itself and its subsidiaries 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 $411.1 million for the half year ended 30 June 2012 (30 June 2011: $381.5 million). EBITDA excluding specific expenses (predominantly restructuring and redundancy costs) increased to $412.1 million (30 June 2011: $381.8 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $48.0 million. (30 June 2011: $61.8 million). This net loss is after interest on redeemable preference share distributions held by shareholders totalling $141.0 million (30 June 2011: $139.8 million) which are held by the ordinary shareholders in their same proportions.

Total expenses excluding specific non-recurring expenses increased to $91.6 million (30 June 2011: $90.6 million). Total expenses including specific non-recurring expenses were $92.6 million (30 June 2011: $90.9 million). Depreciation and amortisation costs were $112.0 million (30 June 2011: $115.7 million).

Net finance costs were $360.1 million (30 June 2011: $346.7 million) and includes, among other items, interest expense payable to third parties (secured senior debt and SKIES holders) totalling $221.5 million (30 June 2011: $213.7 million), and interest on redeemable preference share distributions to shareholders totalling $141.0 million (30 June 2011: $139.8 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

Financial Performance and Position

The table below shows an approximation of the SCACH Distribution calculation for the six months to 30 June 2012 (the calculation is conducted quarterly on a rolling annual basis). The final result aligns with distributions declared by SCACH to its investors during the period. In addition, the table shows the reconciliation between the SCACH statutory result and distributions.

	30 June 2012 $m[1]	30 June 2011 $m[1]
Loss before income tax expense[2]	(61)	(81)
Add back: interest on redeemable preference shares ("RPS") held by ordinary shareholders[2]	141	140
Add back: depreciation and amortisation[2]	112	116
Profit before tax, shareholder interest, depreciation and amortisation	192	175
Add back non-cash financial expenses		
- Fair value adjustment to interest swaps not qualifying as hedges[3]	4	(1)
- Amortisation of deferred debt establishment costs and other borrowing costs[3]	10	7
- Capital indexed bonds ("CIB's") capitalised less interest expense[3]	13	13
- Borrowing costs capitalised[3]	(4)	(2)
- SKIES amortisation of establishment costs[3]	-	1
Non-cash financial expenses	23	18
Add / subtract other cash movements		
Movement in cash balances reserved for specific purposes[4]	34	(9)
Other	(6)	(1)
Other cash movements	28	(10)
Cash flow available to shareholders	243	183
Interest on RPS [5]	138	137
Ordinary dividends [5]	105	46
Total distribution to shareholders	243	183

[1] Numbers are rounded to the nearest million and may not exactly match the financial report which are rounded to the nearest hundred thousand.
[2] These numbers are taken from the Consolidated Income Statement of SCACH Half Year Financial Report to 30 June 2012.
[3] Refer to Note 2(a) in the Notes to the Financial Report.
[4] Refer to Note 9 in the Notes to the Financial Report.
[5] Distributions declared in the first quarter and second quarter. Refer to Note 4 in the Notes to the Financial Report.

Directors' Report

The following table shows the net senior debt and selected ratios as at 30 June 2012.

	30 June 2012 $m[1]	31 December 2011 $m[1]	30 June 2011 $m[1]
Gross total debt (including SKIES)[2]	6,259	6,825	6,043
Less: total cash[3]	(241)	(954)	(258)
Net debt	6,018	5,871	5,785
Less: SKIES[4]	-	(650)	(650)
Net senior debt	6,018	5,221	5,135
EBITDA (12 months historical)[5]	819	790	787
Net senior debt / EBITDA[6]	7.3x	6.6x	6.5x
Cashflow cover ratio[7]	2.1	2.2	2.3
Gearing ratio[8]	44%	42%	39%

1 Numbers are rounded to the nearest million and may not exactly match the financial report which are rounded to the nearest hundred thousand.

2 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.

3 Refer to Note 9.

4 Refer to Note 6.

5 Calculated as 12 months to Dec 2011 $790 million (extracted from the audited SCACH Financial Report for the year ended 31 December 2011) add 6 months to June 2012 $411 million less 6 months to June 2012 $382 million.

6 Change in Net senior debt / EBITDA ratio is due to the redemption of the SKIES instrument on 3 Jan 2012 funded through senior debt.

7 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.

8 Gearing ratio is calculated using defined terms in the Group's debt documents, summarised as net senior debt divided by enterprise value, as adopted by the SCACH Board on the basis of a valuation range provided by Deloitte as at 31 December 2011.

The Group redeemed the $650 million SKIES instrument on 3 January 2012, funded by senior debt facilities established during 2011. Accordingly, Southern Cross Airports Corporation Holdings Limited was removed from the official list of the Australian Stock Exchange at the close of trading on 4 January 2012.

As at 30 June 2012, there is $278 million of debt due to mature in October 2012 which is covered by undrawn committed bank debt facilities. There is no further debt due to mature until October 2013. In addition the Group had $967.0 million (30 June 2011: $856 million) in committed undrawn facilities available to it.

As part of the ongoing financing arrangements, the company 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.

Southern Cross Airports Corporation Pty Limited and Sydney Airport Finance Company Pty Limited's senior secured debt credit ratings assigned by Standard & Poor's, Moody's and Fitch remain at BBB, Baa2 and BBB 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 2012, the consolidated entity ("SCACH Group") has net liabilities of $1,490.5 million (31 December 2011: $1,304.2 million). An independent valuation by Deloitte as at 31 December 2011 supported an Equity Value that, if applied in the financial statements of the SCACH Group as at 30 June 2012, would have significantly absorbed the consolidated deficiency position at 30 June 2012.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2011.

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

Dividends and Distributions

In 2002, and subsequently, the economic equity for the SCACH Group was contributed in the form of ordinary shares issued, each share stapled 1:1 to a redeemable preference shares ("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 $2,013.2 million carrying value of the RPS at 30 June 2012 is classified as borrowings rather than equity; and
- the $138.6 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 Flows on pages 12 and 14 respectively, 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.

Dividends and distributions paid:

	Half year ended 30 June 2012 $m	Half year ended 30 June 2011 $m
- On ordinary shares	83.9	66.8
- On Sydney Kingsford Smith Interest Earning Securities ("SKIES") [i]	11.4	21.8
- On redeemable preference shares ("RPS") [i]	138.6	137.8
	233.9	226.4

[i] Represents cash paid as per the Consolidated Cash Flow Statement on page 14

In respect of the financial period ended 30 June 2012, the directors approved a final ordinary dividend of $36.4 million (30 June 2011: $12.5 million) and an RPS distribution of $68.9 million (30 June 2011: $68.9 million). These amounts were paid on 27 July 2012.

Significant Changes in the State of Affairs

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

Significant Events After the Balance Date

An ordinary interim dividend of $36.4 million was declared for the year ended 30 June 2012 (30 June 2011: $12.5 million).

Other than the matter referred to above, there has not been any matter or circumstance other than those 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 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.

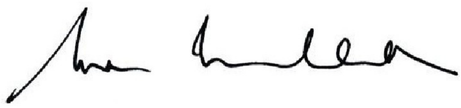
Directors' Report

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 / 100, 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
Chairman

Sydney, 22 August 2012

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 2012 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

22 August 2012

KPMG

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

Report on the financial report

We have reviewed the accompanying half-year financial report of Southern Cross Airports Corporation Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2012, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 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 half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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 half-year 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 2012 and of its performance for the half-year 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

22 August 2012

Directors' Declaration

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 27 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 2012 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
Chairman

Sydney, 22 August 2012

Consolidated Income Statement

For half year ended 30 June 2012

	Note	30 June 2012 $m	30 June 2011 $m
Revenue			
Aeronautical revenue		209.2	196.2
Aeronautical security recovery	3	38.2	38.0
Retail revenue		115.4	108.4
Property and car rental revenue		81.7	75.0
Car parking and ground transport revenue		56.4	52.2
Other		2.7	2.6
Total revenue		503.6	472.4
Other income			
Profit on disposal of non-current assets		0.1	-
Expenses			
Channel related initiatives		(2.2)	(1.7)
Employee benefits expense		(18.7)	(19.6)
Services and utilities		(21.8)	(22.3)
Other operational costs		(7.5)	(6.8)
Property and maintenance		(8.7)	(9.0)
Recoverable aeronautical security expenses [i]	3	(32.7)	(31.2)
Specific expenses:			
Restructuring and redundancy	2(b)	(1.0)	(0.3)
Total expenses before depreciation, amortisation and finance costs		(92.6)	(90.9)
Earnings before depreciation and amortisation, finance costs and income tax (EBITDA)		411.1	381.5
Depreciation and amortisation		(112.0)	(115.7)
Earnings before finance costs and income tax (EBIT)		299.1	265.8
External finance (costs) / income:			
Interest income	2(a)	6.3	6.1
Change in fair value of interest rate swaps not qualifying as hedges	2(a)	(3.6)	1.0
Borrowing costs – SKIES	2(a)	(0.4)	(22.6)
Borrowing costs – senior debt	2(a)	(221.1)	(191.1)
Interest on finance leases	2(a)	(0.3)	(0.3)
Total external finance costs [ii]	2(a)	(219.1)	(206.9)
Shareholder related finance costs:			
Interest on redeemable preference shares held by ordinary shareholders [iii]	2(a)	(141.0)	(139.8)
Total finance costs	2(a)	(360.1)	(346.7)
Loss before income tax expense [iv]		(61.0)	(80.9)
Income tax benefit		13.0	19.1
Net loss for the period attributable to owners of the company		(48.0)	(61.8)

Notes to the financial statements are included on pages 17 to 27.

[i] Prior year comparatives have been reclassified to align with the current year classification of recoverable aeronautical security expenses. Refer to Note 3 for further breakdown.

[ii] Borrowing costs include interest expense, amortisation of debt establishment costs and swap interest.

[iii] 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.

[iv] This figure includes $141.0 million (30 June 2011: $139.8 million) of interest expense on RPS to ordinary shareholders, which is only paid after all other financial obligations to the Group have been met.

Consolidated Statement of Financial Position

as at 30 June 2012

	Note	30 June 2012 $m	31 December 2011 $m
Current assets			
Cash and cash equivalents	9	240.9	953.5
Trade and other receivables		94.7	104.4
Other assets		2.8	1.0
Total current assets		338.4	1,058.9
Non-current assets			
Property, plant and equipment		2,447.5	2,427.2
Intangibles	5	3,338.6	3,358.3
Goodwill		688.3	688.3
Trade and other receivables		46.3	46.8
Other assets		6.8	7.8
Deferred tax assets		317.3	280.9
Total non-current assets		6,844.8	6,809.3
Total assets		7,183.2	7,868.2
Current liabilities			
Trade and other payables		206.4	226.5
Provisions		8.7	8.2
Borrowings - external	6	277.4	926.4
Derivative financial instruments	8	105.9	91.9
Finance lease liabilities		2.1	2.0
Total current liabilities		600.5	1,255.0
Non-current liabilities			
Borrowings – external	6	5,845.3	5,743.9
Borrowings – shareholder related	7	2,013.2	2,010.0
Provisions		2.0	2.2
Derivative financial instruments	8	211.2	158.7
Finance lease liabilities		1.5	2.6
Total non-current liabilities		8,073.2	7,917.4
Total liabilities		8,673.7	9,172.4
Net liabilities		(1,490.5)	(1,304.2)
Equity			
Issued capital		1,314.0	1,314.0
Cash flow hedge reserve		(212.3)	(157.9)
Accumulated losses		(2,592.2)	(2,460.3)
Total equity		(1,490.5)	(1,304.2)

Notes to the financial statements are included on pages 17 to 27 .

Consolidated Cash Flow Statement

For half year ended 30 June 2012

	Note	30 June 2012 $m	30 June 2011 $m
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		569.8	528.4
Interest received		6.6	6.3
Cash was applied to:			
Payments to suppliers and employees		(158.2)	(152.7)
Interest paid - senior debt		(154.2)	(133.7)
Interest rate swaps payments		(48.6)	(35.9)
Interest paid – SKIES		(11.4)	(21.8)
Net cash flows provided by operating activities		204.0	190.6
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		(107.5)	(80.4)
Capitalised borrowing costs		(4.1)	(2.3)
Net cash flows used in investing activities		(111.5)	(82.7)
Cash flows from financing activities			
External financing activities:			
Cash was provided from:			
Proceeds from borrowings – MTN's and bank loans		77.0	351.4
Cash was applied to:			
Repayment of borrowings – MTN's and bank loans		(650.0)	(298.0)
Debt establishment and recurring finance costs		(8.4)	(11.4)
Finance lease payments		(1.2)	(1.3)
Net cash flows provided by / (used in) external financing activities		(582.6)	40.7
Shareholder related financing activities:			
Dividends paid – ordinary shares		(83.9)	(66.8)
Interest paid – redeemable preference shares		(138.6)	(137.8)
Net cash flows used in shareholder related financing activities		(222.5)	(204.6)
Net cash flows used in financing activities		(805.1)	(163.9)
Net decrease in cash and cash equivalents		(712.6)	(56.0)
Cash and cash equivalents at beginning of the financial period		953.5	314.2
Cash and cash equivalents at end of the financial period	9	240.9	258.2

Notes to the financial statements are included on pages 17 to 27.

Consolidated Statement of Comprehensive Income

For half year ended 30 June 2012

	30 June 2012 $m	30 June 2011 $m
Net loss for the period	(48.0)	(61.8)
Cash flow hedge:		
Change in fair value	(77.7)	(28.2)
Recognition of deferred tax	23.3	8.4
Other comprehensive loss for the period, net of tax	(54.4)	(19.8)
Total comprehensive loss for the period	(102.4)	(81.6)
Attributable to:		
Equity holders of the parent	(102.4)	(81.6)

Notes to the financial statements are included on pages 17 to 27.

Consolidated Statement of Changes in Equity

For half year ended 30 June 2012

	Issued capital $m	Cash flow hedge reserve $m	Accumulated losses $m	Total $m
At 1 January 2011	1,314.0	(46.6)	(2,227.2)	(959.8)
Total comprehensive loss for the period	-	(19.8)	(61.8)	(81.6)
Dividends	-	-	(66.8)	(66.8)
At 30 June 2011	1,314.0	(66.4)	(2,355.8)	(1,108.2)
At 1 January 2012	1,314.0	(157.9)	(2,460.3)	(1,304.2)
Total comprehensive loss for the period	-	(54.4)	(48.0)	(102.4)
Dividends	-	-	(83.9)	(83.9)
At 30 June 2012	1,314.0	(212.3)	(2,592.2)	(1,490.5)

Notes to the financial statements are included on pages 17 to 27.

Notes to the Financial Report

For half year ended 30 June 2012

1. Summary of Accounting Policies

Statement of Compliance

The half year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134: *Interim Financial Reporting.* The half year 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 2011.

Basis of Preparation

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 31 December 2011 annual financial report for the financial year ended 31 December 2011.

The half year 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.

Taxation of Financial Arrangements (TOFA)

The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 and other technical amendments (TOFA legislation) provide a framework for the taxation of financial arrangements, bringing closer alignment between tax and accounting outcomes. The regime does this by introducing a number of default and elective tax timing methods which can be applied to take account of gains and losses from a financial arrangement.

TOFA came into effect for the company in the income year beginning 1 January 2011. There are specific transitional provisions in relation to the taxation of pre-commencement financial arrangements outstanding at the transition date (ie there is a choice to bring pre-commencement financial arrangements into the new regime subject to a balancing adjustment being calculated on transition that is assessable/deductible over the next succeeding four tax years). The company elected to apply TOFA to pre-existing arrangements as at 1 January 2011.

Adoption of New and Revised Accounting Standards

New standards and interpretations not yet adopted

The following standard has been identified which may impact the entity in the period of initial application. It was available for early adoption at 31 December 2011, but has not been applied in this interim financial report.

AASB 9: *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the project to replace AASB 139: *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 31 December 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 December 2012 or earlier. The Group has not yet determined the potential effect of the standard.

Other than the matter noted above, the directors anticipate that the adoption of the standard in future periods will have no material impact on the financial statements of the Group. This standard will first apply in the financial report of the Group that relates to the annual reporting period beginning after the effective date of the pronouncement.

Clean Energy Future

The Senate passed the Australian Government 'Clean Energy Future' legislation package on 8 November 2011 to be implemented from 1 July 2012. The scheme imposes a fixed price of $23 per tonne on carbon emissions for the first 3 years, followed by a flexible emissions trading scheme on 1 July 2015. This will impose a carbon price on domestic air travel which contributes a proportionately smaller amount to SCACH revenue than international air travel, which is not captured. Based on the details currently available and statements made by airlines operating in Australia regarding the likely impact on domestic airfares, the directors do not believe that the introduction of a carbon pricing mechanism will significantly impact the assumptions used for the purpose of the calculations used in asset impairment testing.

Notes to the Financial Report

For half year ended 30 June 2012

2. Revenue and Expenses

(a) Finance (costs) / income

	Consolidated	
	Half year ended 30 June 2012 $m	Half year ended 30 June 2011 $m
External finance (costs) / income		
Interest income		
Bank interest	6.3	6.1
Other finance income / (expenses)		
Fair value adjustment to interest rate swaps not qualifying as hedges	(3.6)	1.0
Interest expense		
SKIES interest paid or accrued	(0.4)	(21.6)
Amortisation of deferred debt establishment costs and other recurring borrowings costs	-	(1.0)
Borrowing costs – SKIES	(0.4)	(22.6)
Senior debt interest paid or accrued	(153.1)	(138.4)
Capital indexed bonds ("CIB's") capitalised during the period less interest expense	(13.2)	(12.9)
Net swap interest expense	(42.8)	(29.9)
Amortisation of deferred debt establishment costs and other borrowings costs	(10.1)	(6.5)
Recurring borrowing costs paid	(6.0)	(5.7)
Borrowing costs capitalised	4.1	2.3
Borrowing costs – senior debt	(221.1)	(191.1)
Interest on finance leases	(0.3)	(0.3)
Total external finance costs	(219.1)	(206.9)
Shareholder related finance costs		
Redeemable preference shares held by ordinary shareholders distributions paid or accrued	(137.8)	(137.1)
Amortisation of deferred debt establishment costs	(3.2)	(2.7)
Redeemable preference shares interest expense	(141.0)	(139.8)
Total finance costs	(360.1)	(346.7)

(b) Specific non-recurring expenses

	Consolidated	
	Half year ended 30 June 2012 $m	Half year ended 30 June 2011 $m
(i) Restructuring and redundancy costs	1.0	0.3

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, additional and enhanced security measures. All charges are levied on a per passenger basis.

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

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

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

	Consolidated	
	Half year ended 30 June 2012 $m	**Half year ended 30 June 2011 $m**
Revenue		
Security recovery	38.2	38.0
Expenses		
Employee benefits expense	(1.5)	(1.5)
Services and utilities	(29.8)	(28.4)
Other operational costs	(0.3)	(0.2)
Property and maintenance	(1.1)	(1.1)
Total direct costs	(32.7)	(31.2)
Depreciation	(3.1)	(4.1)
Borrowing costs	(2.4)	(2.7)
Surplus / (deficit)	-	-

Notes to the Financial Report

For half year ended 30 June 2012

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.

Consolidated	$ per share	Half year ended 30 June 2012 Total $m	$ per share	Half year ended 30 June 2011 Total $m
Redeemable preference shares ("RPS")				
Accrued interest at the beginning of the period		(50.0)		(50.0)
Interest paid		138.6		137.8
Accrued interest at the end of the period		49.2		49.3
Redeemable preference shares interest expense		137.8		137.1
Ordinary shares				
Amounts paid in the period				
Paid January in relation to previous quarter	1.1212	15.3	2.4364	33.3
Paid April in relation to previous quarter	5.0227	68.6	2.4556	33.5
		83.9		66.8
Amounts paid after period end				
Paid July in relation to previous quarter	2.6644	36.4	0.9191	12.5

In respect of the half year ended 30 June 2012, the directors approved an interim dividend of $36.4 million (30 June 2011: $12.5 million). This was paid on 27 July 2012 (30 June 2011: 27 July 2011). Total dividends attributable to half year ending 30 June 2012 were $105.0 million (30 June 2011: $46.0 million).These dividends were all unfranked.

5. Intangible Assets

Consolidated	Leasehold land $m	Airport operator licence $m	Total $m
30 June 2012			
Gross carrying amount	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2012	(166.0)	(205.8)	(371.8)
Amortisation	(9.0)	(10.7)	(19.7)
At 30 June 2012	(175.0)	(216.5)	(391.5)
At 30 June 2012			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation and impairment	(175.0)	(216.5)	(391.5)
Net carrying amount	1,497.0	1,841.6	3,338.6

Consolidated	Leasehold land $m	Airport operator licence $m	Total $m
31 December 2011			
Gross carrying amount	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2011	(148.5)	(184.1)	(332.6)
Amortisation	(17.5)	(21.7)	(39.2)
At 31 December 2011	(166.0)	(205.8)	(371.8)
At 31 December 2011			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation	(166.0)	(205.8)	(371.8)
Net carrying amount	1,506.0	1,852.3	3,358.3

Significant intangible assets

The Group holds the right to operate the leasehold land as an airport. As at 30 June 1998, the Commonwealth of Australia granted Sydney Airport Corporation Limited, a wholly-owned subsidiary, the ownership of a 50 plus 49 year lease of land. At the same time, an airport operator license was granted, which is 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	
Consolidated	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Carrying amount ($m)	1,497.0	1,506.0	1,841.6	1,852.3
Remaining useful life (years)	85.0	85.5	85.0	85.5

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

Notes to the Financial Report

For half year ended 30 June 2012

6. Borrowings - External

Consolidated		Principal amount drawn 30 June 2012 $m	Principal amount drawn 31 December 2011 $m	Carrying amount 30 June 2012 $m	Carrying amount 31 December 2011 $m
Current					
Medium term notes - domestic	(ii)	278.0	278.0	277.4	276.4
SKIES	(v)	-	650.0	-	650.0
Total Current		278.0	928.0	277.4	926.4
Non-current					
Bank loans	(i)	1,123.6	1,046.6	1,109.1	1,029.3
Medium term notes - domestic	(ii)	3,101.0	3,101.0	3,059.4	3,056.8
Medium term notes – foreign currency	(iii)	736.1	736.1	725.3	724.8
Capital indexed bonds	(iv)	1,020.7	1,013.1	972.1	958.6
		5,981.4	5,896.8	5,865.9	5,769.5
Fair value hedge adjustments		(20.6)	(25.6)	(20.6)	(25.6)
Total Non-current		5,960.8	5,871.2	5,845.3	5,743.9

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.

(i) Bank loans

Senior bank debt facilities as at 30 June 2012 comprised of seven drawn tranches (31 December 2011: seven tranches) with the following maturities:

Consolidated	Maturity date	Principal amount drawn 30 June 2012 $m	Principal amount drawn 31 December 2011 $m	Carrying amount 30 June 2012 $m	Carrying amount 31 December 2011 $m
Non-current					
Tranche I	31 December 2013	50.0	50.0	49.4	49.2
Tranche K	31 December 2013	30.0	30.0	29.7	29.6
Tranche L	31 October 2013	358.1	281.1	355.3	277.3
Tranche M	31 October 2014	35.5	35.5	35.1	35.0
Tranche N	31 October 2015 [1]	160.0	160.0	155.5	154.7
Tranche P	30 June 2016	245.0	245.0	242.3	242.0
Tranche R	30 June 2017	245.0	245.0	241.8	241.5
		1,123.6	1,046.6	1,109.1	1,029.3

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 Group (except as otherwise excluded) and a mortgage over the Airport lease. Senior bank debt ranks pari passu with the medium term notes and capital indexed bonds.

6. Borrowings - External (continued)

(ii) Medium term notes ("MTN's") - domestic

MTN's as at 30 June 2012 comprised of nine issues (31 December 2011: nine issues) with the following maturities:

Consolidated	Maturity date	Principal amount drawn 30 June 2012 $m	Principal amount drawn 31 December 2011 $m	Carrying amount 30 June 2012 $m	Carrying amount 31 December 2011 $m
Current					
Wrapped[1]					
Issue 3	11 October 2012	278.0	278.0	277.4	276.4
Non-current					
Wrapped[1]					
Issue 4	20 November 2014	700.0	700.0	695.4	694.6
Issue 5	20 November 2015	300.0	300.0	297.5	297.2
Issue 8	20 November 2013	217.0	217.0	216.2	215.9
Issue 9	20 November 2021	200.0	200.0	197.7	197.6
Issue 10	11 October 2022	750.0	750.0	735.6	735.1
Issue 11	11 October 2027	659.0	659.0	644.9	644.6
Unwrapped					
Issue 12	6 July 2015	175.0	175.0	173.4	173.1
Issue 13	6 July 2018	100.0	100.0	98.7	98.7
		3,101.0	3,101.0	3,059.4	3,056.8

1 Wrapped refers to credit wrapped bonds

Fixed interest is charged on the following MTN's at the following rates:

$38m (included in Issue 3)	6.425%
$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 MTN's 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.

6. Borrowings - External (continued)

(iii) Medium term notes ("MTN's") – foreign currency

As at 30 June 2012 this comprised of two issues (31 December 2011: two) with the following maturities:

		Principal amount drawn		Carrying amount	
Consolidated	Maturity date	30 June 2012 $m	31 December 2011 $m	30 June 2012 $m	31 December 2011 $m
Non-current					
USD MTN [1]	22 February 2021	518.7	518.7	510.1	509.8
CAD MTN [2]	6 July 2018	217.4	217.4	215.2	215.0
		736.1	736.1	725.3	724.8
Fair value hedge adjustments		(20.6)	(25.6)	(20.6)	(25.6)
		715.5	710.5	704.7	699.2

[1] 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.

[2] 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.

All MTN's 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 ("CIB's")

		Principal amount drawn		Carrying amount	
Consolidated	Maturity date	30 June 2012 $m	31 December 2011 $m	30 June 2012 $m	31 December 2011 $m
Issue 1	20 November 2020	668.9	663.9	640.2	631.1
Issue 2	20 November 2030	351.8	349.2	331.9	327.5
		1,020.7	1,013.1	972.1	958.6

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.

CIB's 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. Capital indexed bonds rank pari passu with the senior bank debt and medium term notes.

Notes to the Financial Report

For half year ended 30 June 2012

6. Borrowings - External (continued)

(v) Sydney Kingsford Smith Interest Earning Securities ("SKIES")

Consolidated	Maturity date	Principal amount drawn 30 June 2012 $m	Principal amount drawn 31 December 2011 $m	Carrying amount 30 June 2012 $m	Carrying amount 31 December 2011 $m
	20 December 2016	-	650.0	-	650.0

The SKIES issued by SCACH on 20 December 2006 were a subordinated debt instrument carrying a cumulative interest cost of BBSW plus a margin of 1.8%.

On 3 January 2012 the $650 million of SKIES were fully redeemed. Southern Cross Airports Corporation Holdings Limited was removed from the official list of the Australian Stock Exchange at the close of trading on 4 January 2012. In addition to the SKIES redemption, $11.4 million of interest was paid on 3 January 2012.

(vi) Deferred debt establishment costs

Deferred establishment costs are amortised over the term of maturity of the underlying financial instrument following the effective interest rate method.

7. Borrowings – Shareholder Related

Redeemable preference shares ("RPS")

Consolidated	Maturity date	Principal amount drawn 30 June 2012 $m	Principal amount drawn 31 December 2011 $m	Carrying amount 30 June 2012 $m	Carrying amount 31 December 2011 $m
	28 June 2032	2,047.3	2,047.3	2,013.2	2,010.0

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

Consolidated	30 June 2012 $m	31 December 2011 $m
At fair value:		
Current		
Interest rate swaps	88.6	71.2
Cross currency swaps	17.3	20.7
	105.9	91.9
Non-current		
Interest rate swaps	219.4	161.8
Cross currency swaps	(8.2)	(3.1)
	211.2	158.7

Notes to the Financial Report

For half year ended 30 June 2012

9. Notes to the Cash Flow Statement

	Consolidated	
	30 June 2012 $m	**31 December 2011 $m**
Reconciliation of cash and cash equivalents		
Cash at bank and in hand – available for general use (i)	132.6	160.8
Cash and short term deposits – reserved for specific purposes (ii)	108.3	792.7
	240.9	953.5

(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. As at 31 December 2011, short term deposits were primarily held for the redemption of all $650 million of SKIES on 3 January 2012. The movement year on year of cash and short term deposits reserved for specific purposes is a decrease of $34.4 million at June 2012 (June 2011: $8.6 million increase).

10. Events After The Balance Sheet Date

An ordinary interim dividend of $36.4 million was declared for the year ended 30 June 2012 (30 June 2011: $12.5 million).

Other than the matter 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.

11. Contingent Assets and Liabilities

There are no material unrecorded liabilities at 30 June 2012 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. In accordance with the provisions of the Australian Accounting Standard AASB 137: *Provisions, Contingent Liabilities and Contingent Assets,* the following contingent liability is disclosed:

Land Rich Stamp Duty

In June 2002, the Commonwealth Government ("Commonwealth") privatised Sydney Airport by selling all of its shareholding in Sydney Airport Corporation Limited ("SACL") to Southern Cross Airports Corporation Pty Limited ("SCAC"). As part of SCAC's acquisition of SACL, the Commonwealth Government agreed to pay any land rich stamp duty assessed to SCAC by the NSW Office of State Revenue ("OSR") in relation to the transfer of the shares to SCAC (including any penalties or interest that are payable).

On 17 November 2006, SCAC received a notice of assessment for stamp duty from the OSR. SCAC wrote to the Commonwealth providing a copy of the notice and directing the Commonwealth to pay the assessment amount in accordance with the share sale agreement. The assessment amount was for duty of $258.9 million plus interest.

The Commonwealth brought proceedings in the NSW Supreme Court in SCAC's name challenging the validity of the assessment. The Group has been advised that the proceedings between the Commonwealth and the OSR were settled in June 2012. The Group did not contribute to the settlement payment.