Southern Cross Airports Corporation Holdings Limited

Interim Financial Report

For the half year ended 30 June 2021

ACN 098 082 029

Financial report contents

Directors' report

for the half year ended 30 June 2021

The interim financial report for the half year ended 30 June 2021 (the financial report) covers the consolidated entity Southern Cross Airports Corporation Holdings Limited (SCACH) and its controlled entities (the Group). The Group's functional and presentation currency is Australian dollars ($), rounded to the nearest hundred thousand dollars.

Directors

The following persons were current directors of SCACH during the period and until the date of this report:

Name	Role	Period of directorship
David Gonski AC	Chairman, Non-executive director	Appointed director 8 October 2018, Appointed Chairman 21 May 2021
Trevor Gerber	Chairman, Non-executive director	Appointed director 4 January 2012, Retired as Chairman and Director 21 May 2021
John Roberts	Non-executive director	Appointed 15 February 2006
Stephen Ward	Non-executive director	Appointed 4 January 2012
Ann Sherry AO	Non-executive director	Appointed 1 May 2014
Grant Fenn	Non-executive director	Appointed 1 October 2015
Geoff Culbert	Executive director	Appointed 21 February 2018
Abi Cleland	Non-executive director	Appointed 5 April 2018

Karen Tompkins is the company secretary of SCACH.

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)
- SA (F1) Pty Limited (SAF1)

All companies in the SCACH Group (as listed above), excluding SAF1 and FinCo, have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016. The deed of cross guarantee ensures that each group company is jointly liable for the debts of all the companies party to the cross guarantee. This enables external stakeholders, such as creditors, to be able to rely on the consolidated financial report. The deed of cross guarantee can be found at www.sydneyairport.com.au/corporate/about/reports-and-publications.

Directors' report

for the half year ended 30 June 2021

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 aviation operations, 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 finance costs and income tax (EBITDA) of $201.6 million for the half year ended 30 June 2021 (30 June 2020: $304.1 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $299.5 million (30 June 2020: net loss of $221.5 million). The net loss is after deducting:

- total expenses of $149.6 million (30 June 2020: $207.1 million).
- depreciation and amortisation costs of $199.4 million (30 June 2020: $195.5 million).
- net finance costs of $351.9 million (30 June 2020: $356.7 million) that includes redeemable preference shares (RPS) interest expensed and amortisation of RPS debt establishment costs to shareholders totaling $167.4 million (30 June 2020: $148.6 million) which are held by the ordinary shareholder.

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.

COVID-19 pandemic

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

The introduction of the Trans-Tasman bubble allowing international travel between Australia and New Zealand, in addition to the easing of Australian domestic travel restrictions, has seen an improvement in passenger numbers in the six months to 30 June 2021. However, through the period, the Group has been required to respond at short notice to several 'freezes' to the Trans-Tasman bubble and multiple domestic border closures. Passenger traffic through Sydney Airport, particularly international traffic, continues to be materially impacted, with international and domestic passengers down 96.2% and 57.5% respectively in the first half of 2021 when compared to the comparative period in 2019, which is prior to any impact of the COVID-19 pandemic. The Group expects the downturn in passenger traffic to persist until government international travel restrictions are eased.

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

Concessions and provision on debts recognised in the interim financial report are described below:

- Expected credit loss (ECL) provisions of $24.5 million were recognised across debtors, where information available at this time indicates the probability that the debts owed may not be recovered. These relate to provisions for doubtful debts and rent deferrals.
- A range of rental concessions continue to be provided across both the retail and property portfolios for the period ended 30 June 2021. Concessions in the form of rent abatements of $77.0 million and rent deferrals of $1.0 million were negotiated during the period. Of the abatements, $27.7 million was recognised through ECL expense. $10.4 million in variable abatements was applied against revenue in line with variable lease payments and the remaining $38.9 million of abatements will be recognised on a straight-line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant Accounting Standards.

  Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term during the first half of 2021 totalled $29.2 million. Of this, $20.0 million and $9.2 million relate to 2020 and 2021 abatements respectively.

The Group enrolled in the JobKeeper government assistance program in April 2020 and received assistance until the program's completion on 28 March 2021. The Group received a total of $15.6 million from the program, with $13.0 million recognised in the 2020 financial year and $2.6 million during the period ended 30 June 2021. These have been recognised as an offset to Employee benefits expense in the Consolidated statement of comprehensive income.

Sydney Airport, as an eligible airport under the Domestic Airports Security Costs Support (DASCS) program, is entitled to the Federal Government's program funding allocation for security screening costs. This program commenced in March 2021 and concludes in December 2021. Sydney Airport has received $2.2 million from DASCS during the period ended 30 June 2021. This was recognised as part of Aeronautical security revenue in the Consolidated statement of comprehensive income.

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

- **A strong liquidity position:** Sydney Airport has a robust balance sheet. Available liquidity at 30 June 2021 was $2.5 billion, comprised of $0.2 billion in available cash and $2.3 billion of undrawn bank debt facilities. The Group expects to remain compliant with its covenant requirements.
- **Tightly controlled operating expenditure:** Excluding the impact of rental abatements, expected credit loss provisions and security recoverable expenditure, operating expenditure for the half year period to 30 June 2021 was $70.1 million, a decrease of $7.8 million or 10.0% on the 2020 corresponding period. This was down 29.5% on the 2019 corresponding period. This decrease reflects continued cost discipline across the Group's controllable cost base and the impact of a wide range of cost savings initiatives implemented since the start of 2020.
- **Re-prioritisation of capital expenditure:** A scaled back capital expenditure program continues, with $65.2 million in capital investment in the first half of 2021. The Group continues to deliver critical projects targeting asset resilience, safety and security, and a number of opportunistic projects.

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

Financing metrics

The following table shows the net senior debt and selected ratios as at 30 June 2021. The Group expects to remain compliant with its covenant requirements.

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

	30 June 2021[1] $m	31 December 2020[1] $m	30 June 2020[1] $m
Gross total debt [2]	8,029.8	8,542.3	9,959.9
Less: total cash [3]	(237.5)	(840.2)	(822.4)
Net debt	7,792.3	7,702.2	9,137.5
EBITDA (12 months historical)	502.9	605.4	992.7
Net debt/EBITDA [3,4]	15.5	12.7	9.2
Cash flow cover ratio [4,5]	2.0	1.8	2.4

1. Calculations include lease liabilities and related interest expense due to the application of AASB 16.
2. Gross total debt refers to principal amount drawn, refer to Note 2 in addition to lease liabilities, refer to the Statement of Financial Position. Shareholder related borrowing (RPS) and fair value hedge adjustments on foreign currency denominated bonds are excluded.
3. Excludes parent entity cash, in accordance with finance documents.
4. Calculated on a rolling 12 month basis, reflecting reported performance for the 12 months to 30 June 2021, 31 December 2020 and 30 June 2020 respectively.
5. Cash flow cover ratio (CFCR) is summarised by cash flow divided by senior interest expense.

Interest rate swap resets

During the half year, the Group executed a further $2.0 billion of interest rate swap reset transactions. This involved making upfront payments totaling $53.0 million to reduce the contracted fixed interest rates on these swaps to lower current market rates for approximately 12 months. Associated interest expense reductions of $9.4 million have been recognised during the half year ended 30 June 2021, with the remainder of $43.6 million to be incorporated in the results of future reporting periods. Straight line amortisation during the half year period 30 June 2021 of $75.1 million related to all reset swap transactions ($9.4 million for swap resets executed during the half year ended 30 June 2021 and $65.7 million for swap resets executed during the year ended 31 December 2020) was recognised in the Statements of comprehensive income during the period. These are included in the Change in fair value of swaps.

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

Directors' report

for the half year ended 30 June 2021

Liquidity

The Group's liquidity position as at 30 June 2021 was $2.5 billion, comprising $0.2 billion of available cash and $2.3 billion of undrawn bank debt facilities.

Dividends and distributions

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

- the RPS carrying value of $2,133.4 million at 30 June 2021 (30 June 2020: $2,111.6 million) is classified as borrowings rather than equity; and
- the RPS interest expensed to shareholders during the period of $156.4 million (30 June 2020: $137.8 million) is included as interest expense rather than as a distribution of profits.

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

During the half year ended 30 June 2021, SCACH did not pay dividends or RPS interest. RPS interest continues to accrue and any unpaid interest is cumulative.

Dividends and distributions paid	Half year ended 30 June 2021 $m	Half year ended 30 June 2020 $m
On ordinary shares[1]	-	182.3
On RPS[1]	-	69.7
	-	252.0

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

Significant changes in the state of affairs

Other than that described above, there were no other significant changes in the state of affairs of the Group during the reporting period.

Events occurring after balance sheet date

Aeronautical agreements

The Group has concluded negotiations with the Board of Airline Representatives Australia (BARA) on behalf of member airlines for international services. This negotiated agreement extends the pricing and service provisions under the previous agreement for another 12 months to 30 June 2022 on broadly the same terms and conditions. Sydney Airport is now in the process of contracting with BARA airlines individually.

An agreement was reached to extend the current aeronautical arrangements for Jetstar domestic and Qantas Group domestic runway and international operations until 30 June 2022. In addition, Sydney Airport and Qantas have reached an in-principle agreement for 12 months until 30 June 2022, extending Qantas' use of the Jet Base and associated infrastructure.

Discussions with Virgin Australia Group in relation to an extension of its current domestic aeronautical arrangements remain ongoing.

Further Government actions in response to COVID-19 pandemic

Subsequent to balance date, the impact of the COVID-19 pandemic has continued to evolve with the NSW Government having issued stay-at-home orders for Greater Sydney and regional NSW. All states and territories have announced a temporary closing of the border to residents of NSW, in addition to further travel restrictions imposed by other states across the country. These actions have had an adverse impact on domestic traffic levels.

Sydney Gateway consideration

Following the de-recognition of certain leasehold land sites during the year ended 31 December 2020, compensation receivable from the NSW Government was recognised of $189.8 million. This has escalated by interest of $4.7 million to $194.5 million at 30 June 2021 based on terms of the September 2018 agreement.

In July 2021 the first $70.0 million of consideration was received, with the balance of the consideration expected to be received in the fourth quarter of 2021.

Interest rate swap resets

Subsequent to balance sheet date, the Group executed interest rate swap reset transactions over approximately 12 months with upfront payments totaling $128.4 million. Associated interest expense reductions and related amortisation will be incorporated in the results of future reporting periods.

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

Unsolicited, conditional and non-binding proposal to acquire Sydney Airport (parent entity of the Group)

On 5 July 2021 Sydney Airport announced that it had received an unsolicited, conditional and non-binding proposal from a consortium of infrastructure investors to acquire 100% of the stapled securities in Sydney Airport. Both the SAL and SAT1 Boards considered the indicative proposal, including obtaining advice from their financial and legal advisers. On 15 July, both Boards unanimously concluded that the indicative proposal undervalued Sydney Airport, was not in the best interests of securityholders and rejected the proposal.

On 16 August 2021 Sydney Airport announced that it had received a revised indicative, conditional and non-binding proposal from the consortium to acquire 100% of the stapled securities in Sydney Airport by way of scheme of arrangement and trust scheme. Both the SAL and SAT1 Boards considered the indicative proposal, including obtaining advice from their financial and legal advisers. The two Boards unanimously concluded that the revised indicative proposal continues to undervalue Sydney Airport, was not in the best interests of securityholders and rejected the proposal.

Other than these, the directors of SCACH are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report that has significantly affected or may significantly affect the operations of the SCACH Group, the results of those operations or the state of affairs of the Group in the period subsequent to the half year ended 30 June 2021.

Auditor's independence declaration

The auditor's independence declaration required under section 307C of the *Corporations Act 2001* is included on page 9 of the financial report.

Rounding

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

Throughout this interim financial report, percentage change calculations have been prepared using rounded balances.

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

David Gonski AC
Sydney
19 August 2021

Statement by the Directors of Southern Cross Airports Corporation Holdings Limited

for the half year ended 30 June 2021

In the opinion of the Directors of Southern Cross Airports Corporation Holdings Limited and its controlled entities:

1. The consolidated financial statements and notes set out on pages 12 to 31 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 2021 and its performance for the half year ended on that date; and

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

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

Signed in accordance with a resolution of the directors:

David Gonski AC

Sydney

19 August 2021

Lead Auditor's Independence Declaration under 307C of the Australian 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 of Southern Cross Airports Corporation Holdings Limited for the half-year ended 30 June 2021 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

Leann Yuen

Leann Yuen
Partner

Sydney
19 August 2021

KPMG

Independent Auditor's Review Report

To the shareholders of Southern Cross Airports Corporation Holdings Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Southern Cross Airports Corporation Holdings Limited.

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:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2021 and of 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*.

The ***Interim Financial Report*** comprises

- Consolidated statement of financial position as at 30 June 2021.
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the six months ended on that date.
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The ***Group*** comprises Southern Cross Airports Corporation Holdings Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the six months ended on 30 June 2021.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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

KPMG

Responsibilities of the Directors 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*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. *ASRE 2410* requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 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*.

A review of an Interim Period 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.

KPMG

KPMG

Leann Yuen
Partner

Sydney
19 August 2021

Consolidated statement of comprehensive income

for the half year ended 30 June 2021

	Note	6 months to 30 June 2021 $m	6 months to 30 June 2020 $m
Revenue			
Aeronautical revenue		110.8	173.0
Aeronautical security recovery		28.1	41.5
Retail revenue		87.4	147.2
Property and car rental revenue		84.6	108.9
Parking and ground transport revenue		28.7	38.1
Other revenue		2.2	2.5
Total revenue		341.8	511.2
Other income			
Other income		9.4	-
Total revenue and other income		351.2	511.2
Operating expenses			
Employee benefits expense	10	(28.1)	(22.3)
Services and utilities expense		(19.8)	(31.2)
Property and maintenance expense		(8.5)	(11.5)
Security recoverable expense		(27.3)	(38.6)
Expected credit loss expense	7	(52.2)	(68.4)
Other operational costs		(13.7)	(12.9)
Total operating expenses		(149.6)	(184.9)
Other expenses			
Write-off of non-current assets	8	-	(22.2)
Total other expenses		-	(22.2)
Total expenses before depreciation, amortisation, net finance costs and income tax		(149.6)	(207.1)
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)		201.6	304.1
Depreciation	8	(180.2)	(175.9)
Amortisation	9	(19.2)	(19.6)
Profit before net finance costs and income tax (EBIT)		2.2	108.6
Finance income	6	5.4	1.2
Finance costs	6	(286.7)	(364.7)
Change in fair value of swaps	6	(70.6)	6.8
Net finance costs		(351.9)	(356.7)
Loss before income tax benefit		(349.7)	(248.1)
Income tax benefit		50.2	26.6
Net loss attributable to owners of the company		(299.5)	(221.5)
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedges		251.2	(92.8)
Changes in fair value of foreign currency basis spread		(2.3)	(6.9)
Tax on items that may be reclassified to profit or loss		(67.9)	29.9
Total items that may subsequently be reclassified to profit or loss		181.0	(69.8)
Other comprehensive income/(loss), net of tax		181.0	(69.8)
Total comprehensive loss attributable to owners of the company		(118.5)	(291.3)

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2021

	Note	30 June 2021 $m	31 December 2020 $m
Current assets			
Cash and cash equivalents	3	238.2	840.6
Trade and other receivables	7	358.0	331.6
Derivative financial instruments	5	42.2	149.9
Other assets		3.5	1.5
Total current assets		641.9	1,323.6
Non-current assets			
Trade and other receivables	7	158.5	142.1
Property, plant and equipment	8	3,344.4	3,456.5
Intangible assets	9	3,627.4	3,646.6
Derivative financial instruments	5	537.2	543.8
Other assets		14.8	21.4
Total non-current assets		7,682.3	7,810.4
Total assets		8,324.2	9,134.0
Current liabilities			
Trade and other payables		764.4	660.8
Interest bearing liabilities - external	2	199.9	848.1
Lease liabilities		0.3	0.1
Derivative financial instruments	5	94.4	77.6
Provisions for employee benefits		9.1	8.5
Total current liabilities		1,068.1	1,595.1
Non-current liabilities			
Trade and other payables		8.3	-
Interest bearing liabilities – external	2	8,375.3	8,356.4
Interest bearing liabilities – shareholder related	2	2,133.4	2,122.4
Lease liabilities		0.2	0.1
Derivative financial instruments	5	427.5	670.0
Deferred tax liabilities		89.8	50.8
Provisions for employee benefits		3.8	3.8
Total non-current liabilities		11,038.3	11,203.5
Total liabilities		12,106.4	12,798.6
Net liabilities		(3,782.2)	(3,664.6)
Equity			
Issued capital		3,308.1	3,307.2
Accumulated losses		(6,681.6)	(6,382.1)
Cash flow hedge reserve		(375.0)	(557.6)
Foreign currency basis spread reserve		(33.7)	(32.1)
Total equity		(3,782.2)	(3,664.6)

The above Consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the half year ended 30 June 2021

	Issued capital [1] $m	Accumulated losses $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Total equity $m
Total equity at 1 January 2021	3,307.2	(6,382.1)	(557.6)	(32.1)	(3,664.6)
Loss for the period	-	(299.5)	-	-	(299.5)
Other comprehensive income/(loss), net of tax	-	-	182.6	(1.6)	181.0
Equity-settled shares	0.9	-	-	-	0.9
Total equity at 30 June 2021	3,308.1	(6,681.6)	(375.0)	(33.7)	(3,782.2)
Total equity at 1 January 2020	1,533.5	(5,709.7)	(493.4)	(5.1)	(4,674.7)
Loss for the period	-	(221.5)	-	-	(221.5)
Other comprehensive loss, net of tax	-	-	(65.0)	(4.8)	(69.8)
Dividends on ordinary shares	-	(182.3)	-	-	(182.3)
Equity-settled shares	0.2	-	-	-	0.2
Total equity at 30 June 2020	1,533.7	(6,113.5)	(558.4)	(9.9)	(5,148.1)

1. Issued capital comprises 13,648,394 issued and fully paid ordinary shares.

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

Consolidated statement of cash flows

for the half year ended 30 June 2021

	Note	6 months to 30 June 2021 $m	6 months to 30 June 2020 $m
Cash flow from operating activities			
Receipts from customers		297.3	507.5
Interest received		0.8	1.3
Payments to suppliers and employees		(140.3)	(208.1) [1]
Interest paid		(139.2)	(183.8)
Government subsidies	10	6.1	3.0 [1]
Interest rate swap receipts/(payments)		27.6	(11.7)
Net cash flow from operating activities		52.3	108.2
Cash flow from investing activities			
Acquisition of property, plant and equipment		(75.3)	(177.9)
Capitalised borrowing costs		(2.4)	(4.3)
Net cash flow used in investing activities		(77.7)	(182.2)
Cash flow from financing activities			
Proceeds received from borrowings		-	832.0
Repayment of borrowings		(518.7)	-
Borrowing costs paid		(5.3)	(5.5)
Interest rate swap reset		(53.0)	-
Dividends paid – ordinary shares	1	-	(182.3)
Interest paid – redeemable preference shares		-	(69.7)
Net cash flow (used in)/from financing activities		(577.0)	574.5
Net (decrease)/increase in cash and cash equivalents		(602.4)	500.5
Cash and cash equivalents at beginning of the period		840.6	322.4
Cash and cash equivalents at the end of the period	3	238.2	822.9

1. Government subsidies have been reclassed from payments to suppliers and employees, to align with current period classification.

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

Notes to the financial statements

for the half year ended 30 June 2021

General

Basis of preparation and statement of compliance

This is the interim financial report for Southern Cross Airports Corporation Holdings Limited (SCACH, the Company) and its controlled entities (collectively referred to as the Group).

The Group is a for-profit entity for the purposes of preparing the consolidated financial statements.

This interim financial report:

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

– Is to be read in conjunction with the financial report of the Group for the year ended 31 December 2020 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*;

– Is a general purpose financial report;

– Is prepared in accordance with *Corporations Act 2001* and the *Australian Accounting Standard 134: Interim Financial Reporting* adopted by the Australian Accounting Standards Board (AASB);

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

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

The interim financial report was authorised for issue by the directors on 19 August 2021.

Going concern

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

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

At 30 June 2021, the Group had $2.5 billion in liquidity with $2.3 billion in undrawn bank debt facilities (comprising the syndicated and bilateral facilities - refer to Note 2) and $0.2 billion of available cash. The refinancing of maturing debt is a permitted use under the bank debt facilities. If required, this is sufficient to cover the Group's interest bearing liabilities that are due to expire within 12 months of reporting date with principal value of $200.0 million (carrying value of $199.9 million). This relates to a wrapped domestic bond maturing in November 2021.

At 30 June 2021, the Group was in a net liability position of $3,782.2 million (31 December 2020: $3,664.6 million) and a net current liability of $426.2 million (31 December 2020: $271.5 million). The net current liability is mainly driven by the unpaid redeemable preference shares (RPS) interest since Q1 2020, which accrues at 13.5% p.a. At the present time, management considers that the impacts of COVID-19 pandemic will not impact the Group's ability to remain solvent or to continue to operate as a going concern. Accordingly, the going concern basis of accounting is considered to be appropriate; it is considered that the Group will be able to pay its debts as and when they become due and payable.

Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's Financial Report for the year ended 31 December 2020.

General continued

Critical accounting estimates, assumptions and judgements

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

Fair value measurement of financial instruments

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

COVID-19 pandemic

The COVID-19 pandemic has increased the estimation uncertainty in the preparation of this interim financial report. The Group's rationale and explanation of the critical estimates, assumptions and judgements that have been considered in light of the severe consequences of the COVID-19 pandemic for the aviation and airport community for this half year ended 30 June 2021 are described below. It reflects the deterioration of the airport industry from late February 2020 resulting in disrupted passenger traffic through Sydney Airport, with international and domestic passengers down 96.2% and 57.5% respectively when compared to the comparative period in 2019, which was prior to any impact from the COVID-19 pandemic. The Group expects the downturn in passenger traffic to persist until government travel restrictions are eased.

Allowance for expected credit losses

- Expected credit loss provisions of $24.5 million were recognised across commercial debtors, where information available at this time indicates the probability that the debts owed may not be recovered. These relate to provisions for doubtful debts and rent deferred.
- A range of rental concessions continue to be provided across both the retail and property portfolios for the period ended 30 June 2021. Concessions in the form of rent abatements of $77.0 million and rent deferrals of $1.0 million were negotiated during the period. Of the abatements, $27.7 million was recognised through ECL expense. $10.4 million in variable abatements was applied against revenue in line with variable lease payments and the remaining $38.9 million of abatements will be recognised on a straight-line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant Accounting Standards.

  Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term during the first half of 2021 totalled $29.2 million. Of this, $20.0 million and $9.2 million relate to 2020 and 2021 abatements respectively.

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

Impairment test of goodwill

Management considered the impact of the COVID-19 pandemic on passenger numbers, revenue, operating expenses, capital expenditure and interest rates. No impairment was required.

Changes in accounting standards

During the interim period 30 June 2021 the Group adopted COVID-19 Related Rent Concessions *(Amendments to AASB 16)* and *Interest Rate Benchmark Reform – Phase 2 (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 116)*.

COVID-19 Related Rent Concessions (Amendments to AASB16) introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVD-19. This practical expedient has been extended to apply to lease payments originally due on or before 30 June 2021, with application retrospective. These amendments do not apply.

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

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

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

Notes to the financial statements

for the half year ended 30 June 2021

General continued

Risks arising from the interest rate benchmark reform

The Group has performed an assessment of exposures linked to USD LIBOR and EURIBOR. At 30 June 2021, the Group has not identified any debt instruments or Cross Currency Interest Rate Swaps (CCIRS) directly linked to USD LIBOR and EURIBOR as all offshore bonds issued are issued in fixed rate and on the CCIRS, the Group receives fixed USD/EUR.

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

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

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

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

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

General continued

Notional Foreign currency (m)	Notional AUD (m)	Maturity	Hedge relationship	Hedging instrument (prior to transition)	Hedged item	Transition progress
USD 1,250	AUD 1,390.9	2023 to 2034	Fair value hedge	Receive benchmark interest rate (LIBOR3m) portion of USD coupon, pay LIBOR3m	Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond	The overall economics of the hedging transactions will not be modified as part of the transition process as there is no direct exposure to LIBOR 3m, however, should any benchmark rates change this will be effected in the underlying hedge relationships. At 30 June 2021 no hedging instruments or related hedged items have transitioned to alternative benchmark rates
			Cash flow hedge	Receive LIBOR3m, pay AUD BBSW3m combined with USD and AUD principal exchanges at effective and maturity date	USD principal repayment of the bond from first repayment date until maturity of the bond	
			Cash flow hedge	Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m	USD margin above benchmark rate component of the USD fixed coupon payable on the Bond (equivalent to credit margin on debt) over the term of the bond	
USD 120	AUD 116.9	2023	Fair value hedge	Receive benchmark interest rate (LIBOR3m) portion of USD, pay AUD BBSW3m combined with USD and AUD principal exchanges at effective and maturity date	Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond, and USD principal repayment of the bond	
			Cash flow hedge	Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m	USD Margin above benchmark rate component of the USD fixed coupon payable on the Bond (equivalent to credit margin on debt) over the term of the bond	

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

New standards and interpretations not yet adopted

There are no new accounting standards, amendments and interpretations that are effective for the financial year beginning 1 January 2021 that are expected to have a material impact on the Group.

Notes to the financial statements

for the half year ended 30 June 2021

Capital management

1. Dividends and distributions paid and proposed

Stapled ordinary and redeemable preference shares

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

Ordinary shareholders' entitlements

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

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

RPS shareholders' entitlements

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

Dividends

During the half year ended 30 June 2021, no dividends were declared or proposed. This is reflected in the table below.

RPS Interest

During the half year ended 30 June 2021, the Group continued to accrue for RPS interest of $156.4 million (30 June 2020: $137.8 million). The higher RPS interest accrual against prior period is due to additional interest on unpaid cumulative RPS interest. There was no cash payment of RPS interest to shareholders.

Ordinary dividends paid during the period are shown in the table below:

	6 months to 30 June 2021		6 months to 30 June 2020	
	$ per share	$m	$ per share	$m
Amounts paid in period				
December quarter paid in January 2021 (2020: January 2020)	-	-	13.35	182.3
March quarter paid in April 2021 (2020: April 2020)	-	-	-	-
		-		182.3 [1]

1. This was the final distribution declared for the year ended 31 December 2019, and paid on 28 January 2020.

Capital management continued

2. Interest bearing liabilities

The Group has external and shareholder related interest bearing liabilities, as follows:

External

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

The Group's bank debt facilities were fully undrawn at 30 June 2021 and 31 December 2020.

Shareholder related

- Redeemable preference shares (RPS).

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

At 30 June 2021 and 31 December 2020, the value of all fixed interest rate bonds were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

Notes to the financial statements
for the half year ended 30 June 2021

Capital management continued

2. Interest bearing liabilities continued

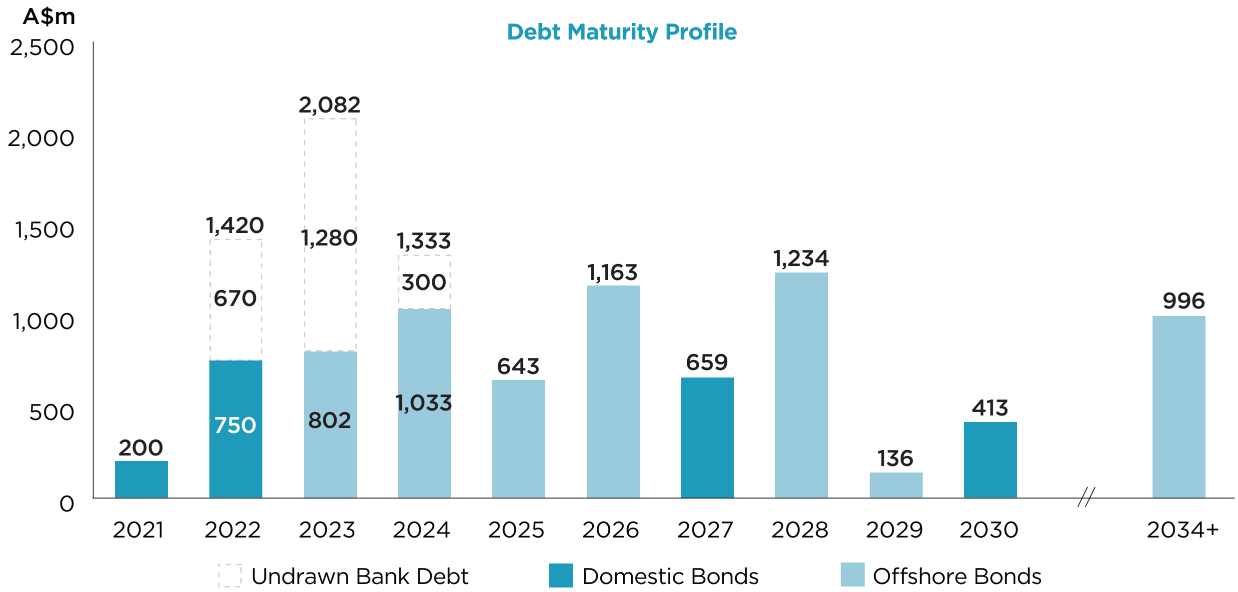
	Maturity	Carrying amount [8]		Fair value		Principal amount drawn: In AUD		Principal amount drawn: In original currency		Issue currency	Interest rate
External		30 June 2021 $m	31 Dec 2020 $m	30 June 2021 $m	31 Dec 2020 $m	30 June 2021 $m	31 Dec 2020 $m	30 June 2021 $m	31 Dec 2020 $m		
Wrapped domestic bond [1,7]	November 2021	199.9	199.7	199.9	199.7	200.0	200.0	200.0	200.0	AUD	Floating [3]
Wrapped domestic bond [1]	October 2022	747.9	747.2	748.0	747.2	750.0	750.0	750.0	750.0	AUD	Floating [3]
Wrapped domestic bond [1]	October 2027	652.5	652.0	652.5	652.0	659.0	659.0	659.0	659.0	AUD	Floating [3]
USPP bond	August 2028	99.6	99.6	99.6	99.6	100.0	100.0	100.0	100.0	AUD	Floating [3]
USPP bond	November 2028	99.6	99.6	99.6	99.6	100.0	100.0	100.0	100.0	AUD	Floating [3]
USPP bond	November 2028	179.1	179.1	224.3	235.4	180.0	180.0	180.0	180.0	AUD	6.04% [4]
USPP bond	November 2028	57.7	57.7	70.6	74.0	58.0	58.0	58.0	58.0	AUD	5.60% [4]
USPP bond	November 2029	135.4	135.3	169.0	179.0	136.0	136.0	136.0	136.0	AUD	5.70% [4]
USPP bond	February 2034	71.7	73.6	69.7	74.3	62.5	62.5	45.0	45.0	USD	4.25% [4]
USPP bond	February 2039	134.3	134.2	163.2	178.6	135.0	135.0	135.0	135.0	AUD	4.76% [4]
USPP bond	February 2044	99.5	99.4	124.9	137.6	100.0	100.0	100.0	100.0	AUD	4.85% [4]
USPP bond	February 2049	99.5	99.4	128.3	142.9	100.0	100.0	100.0	100.0	AUD	4.90% [4]
USPP bond	June 2035	69.0	67.1	70.3	73.8	77.0	77.2	52.0	52.0	USD	2.83% [4]
USPP bond	June 2035	78.7	78.8	77.3	84.5	80.9	80.9	50.0	50.0	EUR	1.06% [4]
USPP bond	June 2040	99.5	99.5	99.3	109.2	100.0	100.0	100.0	100.0	AUD	3.28% [4,5]
USPP bond	June 2040	219.0	218.9	218.4	240.2	220.0	220.0	220.0	220.0	AUD	3.28% [4]
USPP bond	June 2050	119.5	119.4	122.6	137.9	120.0	120.0	120.0	120.0	AUD	3.53% [4]
Euro bond	April 2024	1,157.6	1,181.6	1,193.1	1,203.9	1,033.4	1,033.4	700.0	700.0	EUR	2.75% [4]
Euro bond	April 2028	839.9	861.4	847.3	862.1	796.1	796.1	500.0	500.0	EUR	1.75% [4]
US144A/RegS bond	February 2021	-	648.4	-	652.7	-	518.7	-	500.0	USD	5.13% [4]
US144A/RegS bond	March 2023	1,146.7	1,130.5	1,159.1	1,138.8	802.4	802.4	825.0	825.0	USD	3.90% [4]
US144A/RegS bond	April 2025	654.5	645.7	714.4	706.1	643.0	643.0	500.0	500.0	USD	3.38% [4]
US144A/RegS bond	April 2026	1,195.9	1,163.0	1,302.6	1,290.3	1,163.4	1,163.4	900.0	900.0	USD	3.63% [4]
CIB [2]	November 2030	418.2	413.4	409.2	422.1	412.6	406.7	412.6	406.7	AUD	3.12% [4]
Total external interest bearing liabilities		8,575.2	9,204.5	8,963.2	9,741.5	8,029.3	8,542.3	n/a	n/a		
Shareholder related											
Redeemable preference shares [6]	June 2032	2,133.4	2,122.4	3,762.6	4,119.6	2,047.3	2,047.3	2,047.3	2,047.3	AUD	13.50%
Total shareholder related interest bearing liabilities		2,133.4	2,122.4	3,762.6	4,119.6	2,047.3	2,047.3	2,047.3	2,047.3		

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

Capital management continued

2. Interest bearing liabilities continued

The maturity profile of interest bearing liabilities as at 30 June 2021 is presented in the chart below.



Assets pledged as security

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

3. Cash and cash equivalents

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

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

	30 June 2021 $m	**31 December 2020 $m**
Cash on hand	230.4	828.8
Deposits [1]	7.8	11.8
Total cash and cash equivalents	238.2	840.6

1. Included in the Group's consolidated deposit balance is $7.8 million (31 December 2020: $11.8 million) held by SACL which is restricted to fund maintenance capital expenditure.

Notes to the financial statements

for the half year ended 30 June 2021

Treasury and financial risk management

4. Financial risk management

Financial risk management framework

There have been no changes to the Group's financial risk management program during the period.

4.1 Foreign currency risk

The Group is primarily exposed to foreign currency risk from interest bearing liabilities in foreign currencies. At 30 June 2021, these interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds.

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

	30 June 2021			31 December 2020		
	EURm	USDm	Equivalent total AUDm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(1,250.0)	(2,322.0)	(4,658.7)	(1,200.0)	(2,770.0)	(5,019.5)
Cross currency swaps	1,250.0	2,322.0	4,658.7	1,200.0	2,770.0	5,019.5
Exposure	-	-	-	-	-	-

4.2 Interest rate risk

The Group's interest rate risk arises primarily from interest bearing liabilities with variable interest rates where interest rate movements can impact the Group's cash flow. The Group enters into floating for fixed interest rate swap contracts to hedge risk of rising interest rates in accordance with the Group's annual bands.

The table below details the notional principal amounts and remaining terms of floating for fixed interest rate swap contracts outstanding at reporting date:

	Average contracted fixed interest rate [1]		Notional principal amount		Fair value	
	30 June 2021 %	31 December 2020 %	30 June 2021 $m	31 December 2020 $m	30 June 2021 $m	31 December 2020 $m
1 year or less	3.35	2.85	700.0	1,618.7	(5.9)	(6.5)
1 to 2 years	2.81	2.66	1,552.4	750.0	(53.7)	(20.9)
2 to 5 years	3.23	3.16	2,235.4	3,037.7	(177.6)	(232.7)
5 years or more	2.67	2.67	5,155.1	5,155.1	(246.0)	(398.7)
	n/a	n/a	9,642.9	10,561.5	(483.2)	(658.8)

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

The weighted average cash interest rate of the Group's interest bearing liabilities was approximately 2.9% annualised for the half year ended 30 June 2021 (31 December 2020: 4.0%). The equivalent rate excluding interest rate swap reset benefits was approximately 4.5% (31 December 2020: 4.6%).

At 30 June 2021, 99.2% of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through Interest Rate Swaps (31 December 2020: 94.6%).

Interest rate swap resets

During the half year, the Group executed a further $2.0 billion of interest rate swap reset transactions. This involved making upfront payments totaling $53.0 million to reduce the contracted fixed interest rates on these swaps to lower current market rates for approximately 12 months. Associated interest expense reductions of $9.4 million have been recognised during the half year ended 30 June 2021, with the remainder of $43.6 million to be incorporated in the results of future reporting periods. Straight line amortisation during the half year period 30 June 2021 of $75.1 million related to all interest rate resets swap transactions ($9.4 million for swap resets executed during the half year ended 30 June 2021 and $65.7 million for interest rate swap reset executed during the year ended 31 December 2020) was recognised in the Statements of comprehensive income during the period. These are included in the Change in fair value of swaps.

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

Treasury and financial risk management continued

4.3 Credit risk

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

Group policy

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

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

Other than as described, there are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been considered past due or impaired.

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

4.4 Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meet its financial obligations when they fall due. The Group has built in appropriate liquidity management required as part of its financial risk management framework.

The Group's available liquidity position as at 30 June 2021 was $2.5 billion (31 December 2020: $3.1 billion), comprising $0.2 billion (31 December 2020: $0.8 billion) of available cash and $2.3 billion (31 December 2020: $2.3 billion) of undrawn bank debt facilities.

5. Derivative financial instruments

The Group uses derivative financial instruments to mitigate its exposures to foreign currency and interest rate risks. The net derivative position at the reporting date is presented below:

	30 June 2021			31 December 2020		
$m	**Cross currency swaps**	**Interest rate swaps**	**Total**	**Cross currency swaps**	**Interest rate swaps**	**Total**
Current assets	42.2	-	42.2	149.9	-	149.9
Non-current assets	514.4	22.8	537.2	543.3	0.5	543.8
Current liabilities	(1.7)	(92.7)	(94.4)	(24.8)	(52.8)	(77.6)
Non-current liabilities	(14.2)	(413.3)	(427.5)	(63.6)	(606.4)	(670.0)
Net derivative position	540.7	(483.2)	57.5	604.8	(658.7)	(53.9)

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

At 30 June 2021 and 31 December 2020, all derivative financial instruments were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

Notes to the financial statements

for the half year ended 30 June 2021

Treasury and financial risk management continued

6. Net finance costs

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

	6 months to 30 June 2021 $m	6 months to 30 June 2020 $m
Finance income		
Interest income [1]	5.4	1.2
Total finance income	5.4	1.2
Finance costs		
Senior debt interest paid or accrued	(107.9)	(165.2)
Net swap interest income/(expense)	1.3	(33.6)
Capital indexed bonds capitalised	(5.9)	(13.2)
Amortisation of debt establishment costs	(4.1)	(5.5)
Recurring borrowings costs paid	(5.0)	(2.8)
Borrowing costs capitalised	2.4	4.3
RPS interest paid or accrued	(156.4)	(137.8)
Lease interest expense	(0.1)	(0.1)
Amortisation of RPS debt establishment costs	(11.0)	(10.8)
Total finance costs	(286.7)	(364.7)
Change in fair value of swaps [2]	(70.6)	6.8
Net finance costs	(351.9)	(356.7)

1. $4.7 million relates to the interest income on the receivable for the Sydney Gateway transaction (30 June 2020: nil). Refer to Note 7.
2. Includes amortisation of swap reset costs $75.1 million (30 June 2020: nil), refer to Note 4.2 for further details.

Financial results and financial position

7. Receivables

	30 June 2021 $m	31 December 2020 $m
Current		
Trade receivables	146.0	135.1
Allowance for expected credit loss	(74.6)	(61.3)
Net trade receivables	71.4	73.8
Accrued contract revenue	25.9	19.3
Other receivables [1,2]	260.7	238.5
Total current receivables	358.0	331.6
Non-current		
Trade receivables	1.3	1.4
Accrued contract revenue	6.2	6.6
Other receivables [2]	151.0	134.1
Total non-current receivables	158.5	142.1

1. $194.5 million (2020: $189.8 million) relates to the Gateway receivable for the agreement reached in September 2018 between SACL, a wholly-owned subsidiary of the SCACH Group, and the NSW Government, to grant an easement over part of the Sydney Airport site. The receivable relates to the compensation per the agreement. $70.0 million in respect of this agreement was received in July 2021, with the remaining balance expected to be received by the last quarter of 2021.
2. Abatements to be amortised against future revenues of $85.8 million (2020: $66.0 million) are included in Other Receivables. Those expected to be amortised in the following 12 months from reporting date are classified as Current of $47.7 million (2020: $43.6 million); the remainder has been classified as Non-current of $38.1 million (2020: $22.4 million).

The movement in allowance for expected credit loss (ECL) during the period is shown below:

	$m
As at 1 January 2020	**(0.1)**
New and increased provisions	(93.9)
Increased provisions in relation to contracts with customers	(3.8)
Receivables provided for now written off as uncollectible	36.5
Balance at 31 December 2020	**(61.3)**
New and increased provisions [3]	(52.2)
Receivables provided for now written off as uncollectible	38.9
Balance at 30 June 2021	**(74.6)**

3. Expected credit loss expense in the Consolidated statements of comprehensive income (30 June 2020: $68.4 million).

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

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

Concessions in the form of rent abatements of $77.0 million (31 December 2020: $142.8 million) and rent deferrals of $1.0 million (31 December 2020: $8.4 million) were negotiated during the period. Of the abatements, $27.7 million (31 December 2020: $52.5 million) was recognised through ECL expense. $10.4 million (31 December 2020: nil) in variable abatements was applied against revenue in line with variable lease payments and the remaining $38.9 million (31 December 2020: $90.3 million) of abatements will

Notes to the financial statements

for the half year ended 30 June 2021

Financial results and financial position continued

7. Receivables continued

be recognised on a straight-line basis as a reduction to revenue over the remaining lease terms, in accordance with the relevant Accounting Standards.

Abatements in 2020 and 2021 that have been recognised as a reduction to revenue over the remaining lease term during the first half of 2021 totalled $29.2 million (31 December 2020: $24.3 million). Of this, $20.0 million and $9.2 million relate to 2020 and 2021 abatements respectively.

The provisions during the half year ended 30 June 2021 represents the Group's judgement based on information available at the time on the recoverability of its aeronautical and commercial debtors. $52.2 million (31 December 2020: $93.9 million) was recognised through the Consolidated statements of comprehensive income during the period. This is made up of $27.7 million (31 December 2020: $52.5 million) of abatements expensed to ECL as described above, and provisions for doubtful debts and rent deferrals of $24.3 million (31 December 2020: $36.2 million) and $0.2 million (31 December 2020: $5.2 million) respectively.

8. Property, plant and equipment

Useful life (years)	Freehold land 99	Buildings 5-60	Runways, taxiways and aprons 6-99	Other infrastructure 9-40	Operational plant and equipment 14-20	Other plant and equipment 3-60	Capital works in progress	Total
At 30 June 2021								
Cost								
Opening balance as at 1 January 2021	11.3	3,054.3	998.0	1,402.7	540.6	465.0	374.5	6,846.4
Additions [1]	-	-	-	-	-	0.5	67.6	68.1
Transfers	-	14.5	45.5	8.1	31.8	84.5	(184.4)	-
Closing balance	11.3	3,068.8	1,043.5	1,410.8	572.4	550.0	257.7	6,914.5
Accumulated depreciation								
Opening balance as at 1 January 2021	(2.3)	(1,551.8)	(441.7)	(640.3)	(387.8)	(366.0)	-	(3,389.9)
Depreciation	(0.1)	(82.3)	(19.6)	(35.8)	(12.2)	(30.2)	-	(180.2)
Closing balance	(2.4)	(1,634.1)	(461.3)	(676.1)	(400.0)	(396.2)	-	(3,570.1)
Total carrying amount	8.9	1,434.7	582.2	734.7	172.4	153.8	257.7	3,344.4
At 31 December 2020								
Cost								
Opening balance as at 1 January 2020	11.3	3,026.1	991.1	1,303.4	538.2	428.6	252.1	6,550.8
Additions [1]	-	-	-	-	-	-	323.8	323.8
Impairments	-	-	-	-	-	-	(28.2)	(28.2)
Disposals	-	28.2	6.9	99.3	2.4	36.4	(173.2)	-
Closing balance	11.3	3,054.3	998.0	1,402.7	540.6	465.0	374.5	6,846.4
Accumulated depreciation								
Opening balance as at 1 January 2020	(2.2)	(1,375.2)	(403.7)	(569.2)	(363.2)	(323.1)	-	(3,036.6)
Depreciation	(0.1)	(176.6)	(38.0)	(71.1)	(24.6)	(42.9)	-	(353.3)
Closing balance	(2.3)	(1,551.8)	(441.7)	(640.3)	(387.8)	(366.0)	-	(3,389.9)
Total carrying amount	9.0	1,502.5	556.3	762.4	152.8	99.0	374.5	3,456.5

1. Capital works in progress additions of $67.6 million includes capitalised borrowing costs of $2.4 million. The 31 December 2020 full year additions included capitalised borrowing cost of $7.2 million.

The Group recognised no impairments to property, plant and equipment during the half year ended 30 June 2021.

During the year ended 31 December 2020, the Group undertook a review and re-prioritisation of projects due to the impact of COVID-19, which resulted in impairments totaling $28.2 million (30 June 2020: $22.2 million).

Financial results and financial position continued

9. Intangible assets

Consolidated ($m)	Goodwill	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	95	95	
At 30 June 2021				
Cost				
Opening balance as at 1 January 2021	700.7	2,058.1	1,599.1	4,357.9
Closing balance	700.7	2,058.1	1,599.1	4,357.9
Accumulated amortisation				
Opening balance as at 1 January 2021	-	(401.1)	(310.2)	(711.3)
Amortisation	-	(10.8)	(8.4)	(19.2)
Closing balance	-	(411.9)	(318.6)	(730.5)
Total carrying amount	700.7	1,646.2	1,280.5	3,627.4
At 31 December 2020				
Cost				
Opening balance as at 1 January 2020	700.7	2,058.1	1,672.0	4,430.8
Disposal	-	-	(72.9)	(72.9)
Closing balance	700.7	2,058.1	1,599.1	4,357.9
Accumulated amortisation				
Opening balance as at 1 January 2020	-	(379.4)	(306.8)	(686.2)
Amortisation	-	(21.7)	(17.5)	(39.2)
Disposal	-	-	14.1	14.1
Closing balance	-	(401.1)	(310.2)	(711.3)
Total carrying amount	700.7	1,657.0	1,288.9	3,646.6

Intangible assets items explained

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

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

Impairment test of goodwill

Management considered the impact of the COVID-19 pandemic on passenger numbers, revenue, operating expenses, capital expenditure and interest rates. No impairment was required.

Notes to the financial statements

for the half year ended 30 June 2021

Other disclosures

10. Government assistance

The SCACH Group recognised $2.6 million (30 June 2020: $5.0 million) in assistance under the Federal Government's JobKeeper program prior to its completion on 28 March 2021 for the half year ended 30 June 2021. This has been recognised as an offset to Employee benefits expense in the Consolidated statement of comprehensive income for the half year ended 30 June 2021, as permitted by AASB 120 *Government Grants*. Excluding the impact of JobKeeper, the Employee benefits expense would have been $30.7 million for the half year ended 30 June 2021 (30 June 2020: $27.3 million).

The SCACH Goup received $3.9 million cash in respect of JobKeeper assistance in the half year ended 30 June 2021 (30 June 2020 $3.0 million). This is reflected in the Consolidated statement of cashflows.

Sydney Airport, as an eligible airport under the Domestic Airports Security Costs Support (DASCS) program, is entitled to the Federal Government's program funding allocation for security screening costs. This program commenced in March 2021 and concludes in December 2021. Sydney Airport has received $2.2 million from DASCS during the period ended 30 June 2021. This was recognised as part of Aeronautical security revenue in the Consolidated statement of comprehensive income and reflected in the Consolidated statement of cashflows.

11. Events occurring after balance sheet date

Aeronautical agreements

The Group has concluded negotiations with the Board of Airline Representatives Australia (BARA) on behalf of member airlines for international services. This negotiated agreement extends the pricing and service provisions under the previous agreement for another 12 months to 30 June 2022 on broadly the same terms and conditions. Sydney Airport is now in the process of contracting with BARA airlines individually.

An agreement was reached to extend the current aeronautical arrangements for Jetstar domestic and Qantas Group domestic runway and international operations until 30 June 2022. In addition, Sydney Airport and Qantas have reached an in-principle agreement for 12 months until 30 June 2022, extending Qantas' use of the Jet Base and associated infrastructure.

Discussions with Virgin Australia Group in relation to an extension of its current domestic aeronautical arrangements remain ongoing.

Further Government actions in response to COVID-19 pandemic

Subsequent to balance date, the impact of the COVID-19 pandemic has continued to evolve with the NSW Government having issued stay-at-home orders for Greater Sydney and regional NSW. All states and territories have announced a temporary closing of the border to residents of NSW, in addition to further travel restrictions imposed by other states across the country. These actions have had an adverse impact on domestic traffic levels.

Sydney Gateway consideration

Following the de-recognition of certain leasehold land sites during the financial year ended 31 December 2020, compensation receivable from the NSW Government was recognised of $189.8 million. This has escalated by interest of $4.7 million to $194.5 million at 30 June 2021 based on terms of the September 2018 agreement.

In July 2021 the first $70.0 million of consideration was received, with the balance of the consideration expected to be received in the fourth quarter of 2021.

Interest rate swap resets

Subsequent to balance sheet date, the Group has executed interest rate swap reset transactions over approximately 12 months with upfront payments totaling $128.4 million. Associated interest expense reductions and related amortisation will be incorporated in the results of future reporting periods.

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

Other disclosures continued

11. Events occurring after balance sheet date continued

Unsolicited, conditional and non-binding proposal to acquire Sydney Airport (parent entity of the Group)

On 5 July 2021 Sydney Airport announced that it had received an unsolicited, conditional and non-binding proposal from a consortium of infrastructure investors to acquire 100% of the stapled securities in Sydney Airport. Both the SAL and SAT1 Boards considered the indicative proposal, including obtaining advice from their financial and legal advisers. On 15 July, both Boards unanimously concluded that the indicative proposal undervalued Sydney Airport, was not in the best interests of securityholders and rejected the proposal.

On 16 August 2021 Sydney Airport announced that it had received a revised indicative, conditional and non-binding proposal from the consortium to acquire 100% of the stapled securities in Sydney Airport by way of scheme of arrangement and trust scheme. Both the SAL and SAT1 Boards considered the indicative proposal, including obtaining advice from their financial and legal advisers. The two Boards unanimously concluded that the revised indicative proposal continues to undervalue Sydney Airport, was not in the best interests of securityholders and rejected the proposal.

Other than these, the directors of SCACH are not aware of any matter or circumstance not otherwise dealt with in the Financial Report that has significantly affected or may significantly affect the operations of the SCACH Group, the results of those operations or the state of affairs of the Group in the period subsequent to the half year ended 30 June 2021.

Southern Cross Airports
Corporation Holdings Limited