SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED

ACN 098 082 029

FOR HALF YEAR ENDED 30 JUNE 2015

CONTENTS

DIRECTORS' REPORT

For half year ended 30 June 2015

This interim financial report for the half year ended 30 June 2015 covers the consolidated entities comprising Southern Cross Airports Corporation Holdings Limited (SCACH) (ACN 098 082 029) 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 directors of SCACH from the dates noted.

Name	Role	Period of directorship
Trevor Gerber	Chairman	Appointed 14 May 2015
	Non-executive director	Appointed 4 January 2012
Max Moore-Wilton	Chairman, Non-executive director	Appointed 22 January 2003, Retired 14 May 2015
Michael Lee	Non-executive director	Appointed 4 January 2012
John Roberts	Non-executive director	Appointed 15 February 2006
Ann Sherry	Non-executive director	Appointed 1 May 2014
Stephen Ward	Non-executive director	Appointed 4 January 2012
Kerrie Mather	Executive director	Appointed 27 June 2002

Max Moore-Wilton retired as chairman and as a director on 14 May 2015.

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

Corporate Structure

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

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

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

Registered Office

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

Principal Activities

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

DIRECTORS' REPORT

For half year ended 30 June 2015

Review of Operations and Results

The consolidated entity earned a profit before depreciation and amortisation, net finance costs and income tax (EBITDA) of $489.9 million for the half year ended 30 June 2015 (30 June 2014: $461.3 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net loss was $33.4 million (30 June 2014: $105.4 million). The net loss is after deducting redeemable preference share costs to shareholders totalling $141.9 million (30 June 2014: $141.2 million) which are held by the ordinary shareholder.

Total expenses were $104.9 million (30 June 2014: $107.2 million). Depreciation and amortisation costs were $115.2 million (30 June 2014: $117.6 million).

Net finance costs were $355.6 million (30 June 2014: $427.1 million) and include items payable to third parties (secured senior debt) totalling $226.3 million (30 June 2014: $238.8 million), and redeemable preference shares totalling $141.9 million (30 June 2014: $141.2 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.

Financing Metrics

The following table shows the net senior debt and selected ratios as at 30 June 2015.

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

	30 June 2015 $m	31 December 2014 $m	30 June 2014 $m
Gross total debt[1]	7,124.4	6,926.8	6,787.0
Less: total cash[2]	(364.6)	(333.9)	(300.5)
Net debt	6,759.8	6,592.9	6,486.5
Net senior debt	6,759.8	6,592.9	6,486.5
EBITDA (12 months historical)	981.7	953.1	934.7
Net debt/EBITDA	6.9x	6.9x	6.9x
Cashflow cover ratio[3]	2.4x	2.3x	2.3x

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

2 Refer to Note 9.

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

In April 2015, the Group successfully issued $643.0 million (USD500.0 million) of senior secured notes in the US144A/RegS bond markets maturing in April 2025. All proceeds received were used to repay senior bank debt or used for general corporate purposes.

As at 30 June 2015, there were $175.0 million and $300.0 million of bonds due to mature in July 2015 and November 2015 respectively which are covered by undrawn committed bank debt facilities. There is no further debt due to mature until April 2017. At 30 June 2015, the Group had $1,432.5 million (30 June 2014: $1,234.0 million) in committed undrawn facilities available.

Financing Metrics (continued)

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

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

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

Independent Valuation

As at 30 June 2015, the Group has net liabilities of $2,403.4 million (31 December 2014: $2,265.9 million). An independent valuation by Deloitte as at 31 December 2014 supported an Equity Value that, if applied in the financial report of the Group as at 30 June 2015, would have more than absorbed the consolidated deficiency position at 30 June 2015.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2014. 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.

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 the ordinary shareholder is subordinated to senior debt and ordinary creditors of the Group. Under current accounting standards:

- the $2,037.9 million carrying value of the RPS at 30 June 2015 is classified as borrowings rather than equity; and
- the $137.8 million RPS interest paid to the shareholder during the period is included as interest expense rather than as a distribution of profits.

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

	Half year ended 30 June 2015 $m	Half year ended 30 June 2014 $m
On ordinary shares (i)	142.0	120.7
On RPS (i)	137.8	137.8
	279.8	258.5

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

In respect of the quarter ended 30 June 2015, the directors approved an ordinary dividend of $62.2 million (30 June 2014: $53.1 million) and RPS distribution of $68.9 million (30 June 2014: $68.9 million). These amounts were paid on 27July 2015.

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 refinancing activities.

DIRECTORS' REPORT

For half year ended 30 June 2015

Events Occuring After Balance Sheet Date

Dividend and distribution

In respect of the quarter ended 30 June 2015, the directors approved an ordinary dividend of $62.2 million (30 June 2014: $53.1 million) and RPS distribution of $68.9 million (30 June 2014: $68.9 million). These amounts were paid on 27 July 2015.

Bonds

On 6 July 2015, the Group repaid $175.0 million of bonds, funded by bank facilities.

Terminal 3 transaction

The Group signed an agreement with Qantas to take control of Terminal 3 for $535 million, four years ahead of the previous lease term. The transaction is a component of the Group's strategy as laid out in the 2033 Master Plan, with Terminal 3 being a common user terminal from mid-2019.

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

Auditor's Independence Declaration

The auditor's independence declaration required under section 307C of the *Corporations Act 2001* is included on page 6 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 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

Trevor Gerber

Sydney

17 August 2015

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 2015 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

17 August 2015

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

We have reviewed the accompanying interim financial report of Southern Cross Airports Corporation Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2015, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2015 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the interim period ended on that date; and

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

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett
Partner

Sydney

17 August 2015

DIRECTORS' DECLARATION

For half year ended 30 June 2015

In the opinion of the Directors of Southern Cross Airports Corporation Holdings Limited:

1. The financial statements and notes set out on pages 10 to 26 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 2015 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*.

Trevor Gerber

Sydney

17 August 2015

INTERIM FINANCIAL REPORT

For half year ended 30 June 2015

Consolidated Income Statement

	Note	30 June 2015 $m	30 June 2014 $m
Revenue			
Aeronautical revenue		247.1	236.3
Aeronautical security recovery	3	41.2	41.3
Retail revenue		129.9	125.0
Property and car rental revenue		101.0	96.4
Car parking and ground transport revenue		72.2	66.4
Other		3.3	3.1
Total revenue		594.7	568.5
Other income			
Gain on disposal of non-current assets		0.1	-
Expenses			
Employee benefits expense		(23.4)	(24.1)
Services and utilities expense		(25.9)	(27.0)
Property and maintenance expense		(9.8)	(9.9)
Security recoverable expense	3	(36.5)	(36.3)
Other operational costs		(9.3)	(9.9)
Total expenses before depreciation, amortisation and net finance costs		(104.9)	(107.2)
Profit before depreciation and amortisation, net finance costs and income tax (EBITDA)		489.9	461.3
Depreciation		(95.6)	(98.0)
Amortisation	5	(19.6)	(19.6)
Profit before net finance costs and income tax (EBIT)		374.7	343.7
External finance (costs)/income:			
Interest income	2	4.4	4.3
Borrowing costs - senior debt	2	(226.3)	(238.8)
Change in fair value of swaps	2	8.2	(51.4)
Net external finance costs (i)	2	(213.7)	(285.9)
Shareholder related finance costs			
Borrowing costs - redeemable preference shares held by ordinary shareholders (ii)	2	(141.9)	(141.2)
Net finance costs	2	(355.6)	(427.1)
Profit/(loss) before income tax expense (iii)		19.1	(83.4)
Income tax expense		(52.5)	(22.0)
Net loss for the period attributable to owners of the company		(33.4)	(105.4)

Notes to the financial statements are included on pages 15 to 26.

(i) Net external finance costs include interest expense, amortisation of debt establishment costs, swap reset costs and swap interest.

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

(iii) This figure includes $141.9 million (30 June 2014: $141.2 million) of interest expense on RPS to the shareholder, which is only paid after all other financial obligations of the Group have been met.

INTERIM FINANCIAL REPORT

For half year ended 30 June 2015

Consolidated Statement of Comprehensive Income

	30 June 2015 $m	30 June 2014 $m
Net loss for the period	(33.4)	(105.4)
Items that may subsequently be reclassified to profit or loss		
Changes in fair value of cash flow hedges	54.0	53.1
Tax on items that may subsequently be reclassified to profit or loss	(16.2)	(15.9)
Total items that may subsequently be reclassified to profit or loss	37.8	37.2
Other comprehensive income for the period, net of tax	37.8	37.2
Total comprehensive profit/(loss) for the period	4.4	(68.2)
Attributable to:		
Owner of the company	4.4	(68.2)

Notes to the financial statements are included on pages 15 to 26.

INTERIM FINANCIAL REPORT

As at 30 June 2015

Consolidated Statement of Financial Position

	Note	30 June 2015 $m	31 December 2014 $m
Current assets			
Cash and cash equivalents	9	364.6	298.9
Trade and other receivables		123.0	122.2
Other financial assets	9	-	35.0
Other assets		0.3	0.2
Total current assets		487.9	456.3
Non-current assets			
Property, plant and equipment		2,587.0	2,550.6
Intangibles	5	3,220.8	3,240.4
Goodwill		688.3	688.3
Trade and other receivables		44.4	35.4
Derivative financial instruments	8	464.3	442.8
Other assets		340.5	400.7
Total non-current assets		7,345.3	7,358.2
Total assets		7,833.2	7,814.5
Current liabilities			
Trade and other payables		243.5	257.4
Provisions		10.9	10.3
Borrowings - external	6	474.7	474.0
Derivative financial instruments	8	110.3	134.3
Total current liabilities		839.4	876.0
Non-current liabilities			
Borrowings – external	6	6,997.0	6,774.9
Borrowings – shareholder related	7	2,037.9	2,033.1
Deferred tax liabilities		199.6	194.1
Derivative financial instruments	8	160.9	200.7
Provisions		1.8	1.6
Total non-current liabilities		9,397.2	9,204.4
Total liabilities		10,236.6	10,080.4
Net liabilities		(2,403.4)	(2,265.9)
Equity			
Issued capital		1,314.1	1,314.0
Cash flow hedge reserve		(139.3)	(177.1)
Accumulated losses		(3,578.2)	(3,402.8)
Total equity		(2,403.4)	(2,265.9)

Notes to the financial statements are included on pages 15 to 26.

INTERIM FINANCIAL REPORT

For half year ended 30 June 2015

Consolidated Statement of Cash Flow

	Note	30 June 2015 $m	30 June 2014 $m
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		658.9	639.4
Interest received		4.7	4.4
Cash was applied to:			
Payments to suppliers and employees		(184.5)	(174.9)
Interest - senior debt		(147.5)	(125.6)
Interest rate swaps		(51.8)	(71.9)
Net cash flows provided by operating activities		279.8	271.4
Cash flows from investing activities			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		0.1	-
Proceeds from release of short term financial assets		35.0	-
Cash was applied to:			
Acquisition of property, plant and equipment		(138.4)	(115.7)
Capitalised borrowing costs		(4.5)	(3.2)
Net cash flows used in investing activities		(107.8)	(118.9)
Cash flows from financing activities			
External financing activities:			
Cash was provided from:			
Proceeds from borrowings – bonds and bank loans		769.0	1,340.0
Cash was applied to:			
Repayment of borrowings – bonds and bank loans		(578.7)	(1,222.0)
Debt establishment costs		(16.8)	(18.2)
Finance lease payments		-	(0.4)
Net cash flows provided by external financing activities		173.5	99.4
Shareholder related financing activities:			
Dividends paid – ordinary shares		(142.0)	(120.7)
Interest paid – redeemable preference shares		(137.8)	(137.8)
Net cash flows used in shareholder related financing activities		(279.8)	(258.5)
Net cash flows used in financing activities		(106.3)	(159.1)
Net increase/(decrease) in cash and cash equivalents		65.7	(6.6)
Cash and cash equivalents at beginning of the financial period		298.9	307.1
Cash and cash equivalents at end of the financial period	9	364.6	300.5

Notes to the financial statements are included on pages 15 to 26.

Consolidated Statement of Changes in Equity

	Note	Issued capital $m	Cash flow hedge reserve $m	Accumulated losses $m	Total $m
At 1 January 2014		1,314.0	(167.9)	(2,895.3)	(1,749.2)
Total comprehensive income/(loss) for the period		-	37.2	(105.4)	(68.2)
Dividends		-	-	(120.7)	(120.7)
At 30 June 2014		1,314.0	(130.7)	(3,121.4)	(1,938.1)
At 1 January 2015		1,314.0	(177.1)	(3,402.8)	(2,265.9)
Total comprehensive income/(loss) for the period		-	37.8	(33.4)	4.4
Dividends		-	-	(142.0)	(142.0)
Equity-settled share-based payments	11	0.1	-	-	0.1
At 30 June 2015		1,314.1	(139.3)	(3,578.2)	(2,403.4)

Notes to the financial statements are included on pages 15 to 26.

NOTES TO THE FINANCIAL REPORT

For half year ended 30 June 2015

1. Summary of Accounting Policies

Basis of preparation

Statement of compliance

The interim financial report has been prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards Board (AASB) 134: *Interim Financial Reporting.* The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 31 December 2014.

Basis of measurement

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Group's 31 December 2014 annual financial report for the year ended 31 December 2014.

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

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

Net current liability position

The Group was in a net current liability position of $351.5 million as at 30 June 2015. This was due to $474.7 million of bonds classified as current borrowings, fully covered by undrawn committed bank debt facilities.

Adoption of new and revised accounting standards

New standards and interpretations

The Group has adopted new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has not had a material impact on the Group for the half year ended 30 June 2015.

A number of new standards and amendments to Standards and Interpretations are effective for annual reporting periods commencing after 1 January 2015 and have not been applied in preparing these consolidated financial statements. AASB 9: *Financial Instruments* becomes mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets and liabilities and change the impact of underlying hedge accounting. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. AASB 15: *Revenue from Contracts with Customers* becomes mandatory for the Group's 2017 consolidated financial statements. The Group does not plan to adopt this standard early and it is not expected to have a material impact to the Group.

NOTES TO THE FINANCIAL REPORT

For half year ended 30 June 2015

2. Finance (Costs)/Income

Group	Half year ended 30 June 2015 $m	Half year ended 30 June 2014 $m
External finance (costs)/income		
Interest income		
Bank interest	4.4	4.3
Borrowing costs – senior debt		
Senior debt interest expense	(138.5)	(129.2)
Net swap interest expense	(69.2)	(75.5)
Capital indexed bonds capitalised	(7.3)	(17.9)
Amortisation of debt establishment costs and other borrowings costs[1]	(11.9)	(15.4)
Recurring borrowing costs paid	(3.9)	(4.0)
Borrowing costs capitalised	4.5	3.2
Total borrowing costs - senior debt	(226.3)	(238.8)
Change in fair value of swaps	8.2	(51.4)
Net external finance costs	(213.7)	(285.9)
Shareholder related finance costs		
Redeemable preference shares interest expense		
Redeemable preference shares held by ordinary shareholders interest paid or accrued	(137.1)	(137.1)
Amortisation of deferred debt establishment costs	(4.8)	(4.1)
Total shareholder related finance costs	(141.9)	(141.2)
Net finance costs	(355.6)	(427.1)

[1] For further information refer to Note 6(vi).

NOTES TO THE FINANCIAL REPORT

For half year ended 30 June 2015

3. Aeronautical Security Recovery

The 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 bag screening, passenger screening and additional security measures. All charges are levied on a per passenger basis.

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

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

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

Group	Half year ended 30 June 2015 $m	Half year ended 30 June 2014 $m
Revenue		
Security recovery	41.2	41.3
Expenses		
Employee benefits expense	(1.5)	(1.6)
Services and utilities expense	(33.3)	(33.3)
Other operational costs	(0.1)	(0.2)
Property and maintenance expense	(1.6)	(1.2)
Total direct costs	(36.5)	(36.3)
Depreciation	(3.1)	(3.2)
Borrowing costs	(1.6)	(1.8)
Surplus/(deficit)	-	-

NOTES TO THE FINANCIAL REPORT

For half year ended 30 June 2015

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

Group	Half year ended 30 June 2015 $m	Half year ended 30 June 2014 $m
RPS		
Accrued interest at the beginning of the period	(50.0)	(50.0)
Interest paid	137.8	137.8
Accrued interest at the end of the period	49.3	49.3
RPS interest expense	137.1	137.1

In respect of the financial quarter ended 30 June 2015, the directors approved an RPS distribution of $68.9 million (30 June 2014: $68.9 million). This was paid on 27July 2015 (30 June 2014: 28 July 2014).

	30 June 2015		30 June 2014	
	$ per share	Total $m	$ per share	Total $m
Ordinary shares				
Amounts paid in period				
Paid January in relation to previous quarter	4.46	60.9	3.97	54.2
Paid April in relation to previous quarter	5.95	81.1	4.88	66.5
		142.0		120.7
Amounts paid after period end				
Paid July in relation to previous quarter	4.55	62.2	3.89	53.1

In respect of the financial quarter ended 30 June 2015, the directors approved an ordinary dividend of $62.2 million (30 June 2014: $53.1 million). This was paid on 27 July 2015 (30 June 2014: 28 July 2014). Total dividends attributable for the half year ended 30 June 2015 was $143.3 million (30 June 2014: $119.6 million). These dividends were all unfranked.

NOTES TO THE FINANCIAL REPORT

For half year ended 30 June 2015

5. Intangible Assets

Group	Leasehold land $m	Airport operator licence $m	Total $m
Gross carrying costs			
At 30 June 2015	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2015	(218.8)	(270.9)	(489.7)
Amortisation	(8.8)	(10.8)	(19.6)
At 30 June 2015	(227.6)	(281.7)	(509.3)
At 30 June 2015			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation	(227.6)	(281.7)	(509.3)
Net carrying amount	1,444.4	1,776.4	3,220.8
Gross carrying costs			
At 31 December 2014	1,672.0	2,058.1	3,730.1
Accumulated amortisation			
Opening accumulated amortisation as at 1 January 2014	(201.2)	(249.2)	(450.4)
Amortisation	(17.6)	(21.7)	(39.3)
At 31 December 2014	(218.8)	(270.9)	(489.7)
At 31 December 2014			
Cost (gross carrying amount)	1,672.0	2,058.1	3,730.1
Accumulated amortisation	(218.8)	(270.9)	(489.7)
Net carrying amount	1,453.2	1,787.2	3,240.4

Significant intangible assets

The consolidated entity holds the right to operate the leasehold land as an airport. As at 30 June 1998, the Commonwealth of Australia granted Sydney Airport Corporation Limited, a wholly-owned subsidiary, a 50 plus 49 year lease of land. At the same time, an airport operator licence 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 licence	
	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Carrying amount	1,444.4	1,453.2	1,776.4	1,787.2
Remaining useful life	82 years	82.5 years	82 years	82.5 years

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

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

6. Borrowings - External

Group	Note	Principal amount drawn 30 June 2015 $m	Principal amount drawn 31 December 2014 $m	Carrying amount 30 June 2015 $m	Carrying amount 31 December 2014 $m
At amortised cost:					
Current					
Bonds - domestic	(ii)	475.0	475.0	474.7	474.0
Non-current					
Bank loans	(i)	62.0	514.7	60.7	508.4
Bonds - domestic	(ii)	1,709.0	1,709.0	1,684.2	1,683.0
Bonds - USPP - AUD	(iii)	574.0	574.0	569.8	569.7
Bonds – foreign currency	(iv)	3,214.8	2,571.8	3,179.8	2,548.7
Capital indexed bonds	(v)	1,089.6	1,082.3	1,058.6	1,044.3
Total before fair value hedge adjustments		6,649.4	6,451.8	6,553.1	6,354.1
Fair value hedge adjustments		-	-	443.9	420.8
Total after fair value hedge adjustments		6,649.4	6,451.8	6,997.0	6,774.9
Total borrowings - external		7,124.4	6,926.8	7,471.7	7,248.9

External borrowings listed are all subject to the same security arrangements, whereby SCACH has pledged all of its assets (excluding deferred tax and goodwill) as security for all its external borrowings. The security consists of fixed and floating charges over the assets of the Group and a mortgage over the Airport lease. All bonds rank pari passu with the senior bank debt and capital indexed bonds.

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 2015 comprised of one drawn tranche (31 December 2014: four drawn tranches) with the following maturities:

	Maturity date	Principal amount drawn 30 June 2015 $m	Principal amount drawn 31 December 2014 $m	Carrying amount 30 June 2015 $m	Carrying amount 31 December 2014 $m
Non-current					
Syndicated debt					
Tranche A	30 April 2017	62.0	208.0	60.7	206.4
Tranche B	30 April 2018	-	226.0	-	222.3
Total syndicated debt		62.0	434.0	60.7	428.7
Bilateral facilities					
Issue 3	30 April 2017	-	40.4	-	39.9
Issue 4	30 April 2017	-	40.3	-	39.8
Total bilateral facilities		-	80.7	-	79.7
Total non-current bank loans		62.0	514.7	60.7	508.4

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

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For half year ended 30 June 2015

6. Borrowings - External (continued)

(i) Bank loans (continued)

At reporting date, the following bank financing facilities had been negotiated and were available:

	30 June 2015 $m	31 December 2014 $m
Total committed bank facilities available	1,494.5	1,494.5
Bank facilities drawn at reporting date	(62.0)	(514.7)
Bank facilities undrawn at reporting date[1]	1,432.5	979.8

[1] Bank facilities undrawn at reporting date represent senior bank debt facilities. Undrawn facilities have maturities between April 2016 and April 2019.

(ii) Bonds – domestic

Bonds as at 30 June 2015 comprised of six issues (31 December 2014: six) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Current					
Wrapped[1]					
Issue 5	20 November 2015	300.0	300.0	299.7	299.3
Unwrapped					
Issue 12	6 July 2015	175.0	175.0	175.0	174.7
Total current bonds - domestic		475.0	475.0	474.7	474.0
Non-current					
Wrapped[1]					
Issue 9	20 November 2021	200.0	200.0	198.4	198.3
Issue 10	11 October 2022	750.0	750.0	739.3	738.7
Issue 11	11 October 2027	659.0	659.0	647.2	646.8
Total wrapped		1,609.0	1,609.0	1,584.9	1,583.8
Unwrapped					
Issue 13	6 July 2018	100.0	100.0	99.3	99.2
Total non-current bonds - domestic		1,709.0	1,709.0	1,684.2	1,683.0

[1] Wrapped refers to credit wrapped bonds.

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

$175m (Issue 12): 8.00%

$100m (Issue 13): 7.75%

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

The Group has issued a mixture of fixed and floating interest rate bonds. Financial guarantees in respect of the notes with carrying amounts as at 30 June 2015 of $1,884.6 million (31 December 2014: $1,883.1) million are provided by MBIA Insurance Corporation, Ambac Assurance Corporation and Assured Guaranty Municipal Corp.

6. Borrowings - External (continued)

(iii) Bonds – USPP - AUD

Bonds as at 30 June 2015 comprised of five series (31 December 2014: five) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Series A	20 August 2028	100.0	100.0	99.3	99.2
Series B	20 November 2028	100.0	100.0	99.3	99.2
Series C	20 November 2028	180.0	180.0	178.6	178.7
Series D	20 November 2028	58.0	58.0	57.6	57.6
Series E	20 November 2029	136.0	136.0	135.0	135.0
Total		574.0	574.0	569.8	569.7

Fixed interest is charged on the following series at the following rates

$180m (Series C):	6.04%
$58m (Series D):	5.60%
$136m (Series E):	5.70%

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

(iv) Bonds – foreign currency

Bonds as at 30 June 2015 comprised of five issues (31 December 2014: four) with the following maturities:

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Non-current					
CAD bond	6 July 2018	217.4	217.4	216.1	216.0
EUR bond[1]	23 April 2024	1,033.4	1,033.4	1,026.4	1,026.4
USD bond	22 February 2021	518.7	518.7	512.3	512.0
USD bond	22 March 2023	802.3	802.3	795.0	794.6
USD bond[2]	30 April 2025	643.0	-	630.0	-
Total before fair value hedge adjustments		3,214.8	2,571.8	3,179.8	2,548.7
Fair value hedge adjustments		-	-	443.9	420.8
Total after fair value hedge adjustments		3,214.8	2,571.8	3,623.7	2,969.5

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

2 On 23 April 2015, Sydney Airport Finance Company Pty Ltd issued USD500 million in guaranteed senior secured notes maturing in 2025 at a fixed interest rate of 3.375% per annum (payable semi-annually) into the US144A/RegS bond markets. The total US dollar proceeds were swapped into Australian dollars and fully hedged through cross currency swaps until maturity of the notes.

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For half year ended 30 June 2015

6. Borrowings - External (continued)

(v) Capital Indexed Bonds (CIBs)

		Principal amount drawn		Carrying amount	
	Maturity date	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Issue 1	20 November 2020	714.0	709.2	698.4	688.9
Issue 2	20 November 2030	375.6	373.1	360.2	355.4
Total		1,089.6	1,082.3	1,058.6	1,044.3

Interest is charged at a fixed rate of 3.76% p.a. on Issue 1 and 3.12% p.a. on Issue 2. The Group has issued two tranches of domestic secured CIBs. The bond principal for both tranches increases through to maturity by the Consumer Price Index (CPI). Both tranches of CIBs pay a fixed interest rate that is calculated on the increasing bond principal. Financial guarantees in respect of the bonds are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.

(vi) Deferred debt establishment costs

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

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For half year ended 30 June 2015

7. Borrowings – Shareholder Related

Redeemable preference shares (RPS)

		Principal amount drawn		Carrying amount	
Group	**Maturity date**	**30 June 2015 $m**	**31 December 2014 $m**	**30 June 2015 $m**	**31 December 2014 $m**
RPS	28 June 2032	2,047.3	2,047.3	2,037.9	2,033.1

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.

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. The RPS shareholder has no acceleration rights if interest is not paid. Failure to pay RPS interest will trigger restrictions on payment of ordinary share dividends.

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

8. Derivative Financial Instruments

Group	**30 June 2015 $m**	**31 December 2014 $m**
Non-current assets		
Cross currency swaps	464.3	442.8
Current liabilities		
Cross currency swaps	27.2	47.0
Interest rate swaps	83.1	87.3
Total current liabilities	110.3	134.3
Non-current liabilities		
Cross currency swaps	20.3	-
Interest rate swaps	140.6	200.7
Total non-current liabilities	160.9	200.7

9. Cash and Cash Equivalents

Group	**Note**	**30 June 2015 $m**	**31 December 2014 $m**
Reconciliation of cash and cash equivalents			
Cash at bank and in hand – available for general use	(i)	234.5	162.7
Cash and term deposits – with restricted use	(ii)	130.1	136.2
Total cash and cash equivalents		364.6	298.9

(i) Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. At 31 December 2014, a $35.0 million term deposit with a maturity date greater than three months but under one year has been reclassified to other financial assets.

(ii) Term deposits are generally made for a period of three months and earn interest at the respective term deposit rates. The deposits are certain cash reserve accounts which have restricted use.

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For half year ended 30 June 2015

10. Financial Instruments

Fair value of financial instruments

The fair value of financial instruments are determined:

- In accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Using market prices for the fair value of derivative instruments. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

The directors consider the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values, except as detailed below:

	Carrying amount		Fair Value	
Group	30 June 2015 $m	31 December 2014 $m	30 June 2015 $m	31 December 2014 $m
Financial liabilities				
RPS[1]	2,037.9	2,033.1	3,802.2	3,885.7
$175m bond[1]	175.0	174.7	175.2	179.8
$100m bond[1]	99.3	99.2	115.7	117.8
$180m bond[1]	178.6	178.6	230.1	236.3
$58m bond[1]	57.6	57.6	71.4	73.2
$136m bond[1]	135.0	135.0	169.8	174.4
CAD$225m bond[1]	231.4	235.0	258.7	261.6
EUR700m bond[1]	1,059.7	1,115.2	1,161.5	1,226.7
USD500m bond[1]	654.6	615.9	760.9	726.7
USD825m bond[1]	1,055.9	1,003.6	1,198.7	1,145.5
USD500m bond[1]	622.2	-	702.3	-
Total	6,307.2	5,647.9	8,646.5	8,027.7

[1] Level 2 per the fair value measurement hierarchy (see below).

Fair value measurements

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

The table below analyses financial instruments measured and recognised at fair value, which is determined by:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2015.

Group – as at 30 June 2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets/(Liabilities)				
Non-current asset derivatives used for hedging	-	464.3	-	464.3
Current liability derivatives used for hedging	-	(110.3)	-	(110.3)
Non-current liability derivatives used for hedging	-	(160.9)	-	(160.9)

Group – as at 31 December 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets/(Liabilities)				
Non-current asset derivatives used for hedging	-	442.8	-	442.8
Current liability derivatives used for hedging	-	(134.3)	-	(134.3)
Non-current liability derivatives used for hedging	-	(200.7)	-	(200.7)

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For half year ended 30 June 2015

11. Long Term Incentive Plan

In March 2015, the Sydney Airport Long Term Incentive Plan (LTIP) was put in place to provide an incentive for certain management personnel, linking their remuneration to Sydney Airport's long-term financial performance and security holder returns.

Under the LTIP, the Board has granted contractual rights (Rights) to receive Sydney Airport stapled securities at a future date subject to the following performance conditions being satisfied:

- For one third of the Rights granted, a market comparative Total Shareholder Return performance condition (TSR tranche);
- For one third of the Rights granted, a cash flow per stapled security performance condition (CPS tranche); and
- For one third of the Rights granted, non-financial performance conditions specific to each individual with vesting subject to the absolute discretion of the Board (Other tranche).

Performance conditions are measured over a three year period. Performance rights do not have distribution entitlements during the vesting period, and their fair value has been adjusted accordingly. Performance rights that do not satisfy the performance conditions will lapse immediately.

If a participant resigns or has their employment terminated with cause, all of their unvested rights will immediately lapse.

Any rights that vest are expected to be satisfied by way of the transfer of stapled securities purchased on-market.

The Board granted the following rights in April 2015:

Condition	Number of rights	Weighted Average Fair Value	Vesting Date
TSR tranche	111,286	$2.69	31 December 2017
CPS tranche	111,286	$4.60	31 December 2017
Other tranche	111,286	$4.22	31 December 2017

12. Contingent Assets and Liabilities

In accordance with the provisions of the Australian Accounting Standard AASB 137: *Provisions, Contingent Liabilities and Contingent Assets,* there are no material unrecorded liabilities at 30 June 2015 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.

13. Events Occuring After Balance Sheet Date

Dividend and distribution

In respect of the quarter ended 30 June 2015, the directors approved an ordinary dividend of $62.2 million (30 June 2014: $53.1 million) and RPS distribution of $68.9 million (30 June 2014: $68.9 million). These amounts were paid on 27 July 2015.

Bonds

On 6 July 2015, the Group repaid $175.0 million of bonds, funded by bank facilities.

Terminal 3 transaction

The Group signed an agreement with Qantas to take control of Terminal 3 for $535 million, four years ahead of the previous lease term. The transaction is a component of the Group's strategy as laid out in the 2033 Master Plan, with Terminal 3 being a common user terminal from mid-2019.

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