# Southern Cross Airports Corporation Holdings Limited

ACN 098 082 029

Financial Report
for the year ended 31 December 2019

# Financial report contents

# Directors' report

for the year ended 31 December 2019

This audited general purpose financial report for the year ended 31 December 2019 covers the consolidated entity (the Group) comprising Southern Cross Airports Corporation Holdings Limited (SCACH, the Company) (ACN 098 082 029) and its controlled entities. The Group's functional and presentation currency is Australian Dollars ($), rounded to the nearest hundred thousand.

**Directors**

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

| Name | Role | Period of directorship |
|---|---|---|
| Trevor Gerber | Non-executive director, Chairman | Appointed director 4 January 2012<br>Appointed chairman 14 May 2015 |
| Michael Lee | Non-executive director | Appointed 4 January 2012, resigned 24 May 2019 |
| 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 director 21 February 2018<br>Appointed CEO on 15 January 2018 |
| Abi Cleland | Non-executive director | Appointed 5 April 2018 |
| David Gonski AC | Non-executive director | Appointed 8 October 2018 |

## Director profiles of SCACH

**Trevor Gerber**
BAcc, CA
Chairman
(Non-executive)

Mr Gerber is Chairman of ASX-listed Vicinity Centres (since November 2019, director since April 2014). Mr Gerber is an independent non-executive director of ASX-listed Tassal group limited since April 2012. He is also a former director of Regis Healthcare Limited (October 2014 – November 2017) and CIMIC Group Limited (June 2014 – Dec 2019). Mr Gerber has been a professional director since 2000. He previously worked for Westfield Holdings Limited for 14 years as Group Treasurer and subsequently as Director of Funds Management responsible for Westfield Trust and Westfield America Trust.

**John Roberts**
LLB
(Non-executive)

Mr Roberts is the chair of Axicom and non-executive chairman of Macquarie Infrastructure and Real Assets (MIRA) and serves on a number of boards and investment committees within MIRA, a division that has around $100 billion of assets under management. He is a former director of DUET Group (May 2004 – June 2015) and Atlas Arteria Limited (previously known as Macquarie Atlas Roads Limited) (February 2010 – September 2018). Mr Roberts joined Macquarie Group in 1991 and previously held roles within Macquarie Group including Head of Europe, Joint Head of Macquarie Capital Advisers, Global Head of Macquarie Capital Funds (prior to it being renamed MIRA), chairman of NYSE-listed Macquarie Infrastructure Company and executive chairman of Macquarie Funds Group.

**Stephen Ward**
LLB
(Non-executive)

Mr Ward is a non-executive director of several New Zealand companies including NZX and ASX listed Restaurant Brands New Zealand Limited and he is the non-executive chair of SecureFuture Wiri Limited. He is a member of the National Provident Fund Trust Board and chair of its Audit and Risk Committee. He also holds voluntary positions on the boards of Wellington Free Ambulance and The Life Flight Trust. Mr Ward is the independent chair of the Advisory Council for the Financial Dispute Resolution Service and a consultant to Simpson Grierson, one of New Zealand's largest law firms.

**Ann Sherry AO**
BA, Grad Dip IR, FAICD, FIPAA, HonDLitt Macq
(Non-executive)

Ms Sherry is a non-executive director of ASX-listed National Australia Bank since November 2017, director of the Palladium Group, Infrastructure Victoria, Cape York Partnerships, Museum of Contemporary Art and Chair of UNICEF Australia. More recently, Ms Sherry was appointed as chair of ASX-listed Enero in January 2020.

Ms Sherry is the former chairman and chief executive officer of Carnival Australia. She was previously at Westpac for 12 years and was the chief executive officer of Bank of Melbourne and Westpac New Zealand and Pacific Banking.

| | |
|---|---|
| **Grant Fenn**<br>BEc, CA<br>(Non-executive) | Mr Fenn has been the managing director and chief executive officer of ASX-listed Downer Group since July 2010. He has over 30 years' experience in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Executive Committee, chairman of Star Track Express and a director of Australian Air Express. He held a number of senior roles at Qantas including executive general manager of Strategy and Investments and executive general manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses. |
| **Geoff Culbert**<br>BEc, LLB (Hons)<br>(Executive) | Mr Culbert serves on both the World Governing Board and Asia-Pacific Board of the Airports Council International (ACI), the global industry association representing airports around the world. He brings extensive commercial and operational experience to the airport from a number of senior global and domestic roles at General Electric (GE), including most recently as the President and Chief Executive of GE Australia and New Zealand & Papua New Guinea. |
| **Abi Cleland**<br>MBA, BCom, GAICD<br>(Non-executive) | Ms Cleland is currently a non-executive director of Computershare Limited, Orora Limited, Swimming Australia, Coles Group Limited and chair of Planwise Australia. Ms Cleland has extensive global experience in strategy, M&A, digital and business growth. This has been gained from senior executive roles in the industrial, retail, agriculture and financial services sector. |
| **David Gonski AC**<br>BCom, LLB, FAICD (Life), FCPA<br>(Non-executive) | Mr Gonski is the chairman of the Australia and New Zealand Banking Group Ltd, Chancellor of the University of New South Wales, President of the Art Gallery of NSW Trust, a member of the ASIC External Advisory Panel and the board of the Lowy Institute for International Policy. Mr Gonski was appointed a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2003. |
| **Retired:**<br>**Hon. Michael Lee**<br>BSc, BE, FIE Aust<br>(Non-executive) | Mr Lee is the chairman of Communications Alliance, the peak communications industry body, (director of Communications Compliance Ltd), chairman of Calvary Ministries and a director of Catholic Schools NSW Limited. He is a former director of DUET Group (August 2004 – May 2014), Superpartners, National Film and Sound Archive and former chair of the NSW TAFE Commission Board. Mr Lee served in the Australian Parliament for 17 years and held a number of senior positions in both government and opposition, including serving as Minister for Tourism, Communications and the Arts. |

### Company secretary profile

| | |
|---|---|
| **Karen Tompkins**<br>BA, LLB(Hons) | Ms Tompkins joined Sydney Airport in 2016 and was appointed as General Counsel and Company Secretary in July 2019. She has over 15 years legal experience. Prior to becoming General Counsel and Company Secretary, Ms Tompkins spent nine years in the legal team in ASX-listed Stockland and before that she held positions in law firms including Minter Ellison, Herbert Geer and Henry Davis York. |
| **Jamie Motum**<br>BEc, LLB | Mr Motum was appointed as company secretary and general counsel on 23 February 2010 and resigned on 12 July 2019. |

### 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 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 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 consolidated income statement and statement of financial position of the entities party to the cross guarantee are presented in note 16. The deed of cross guarantee ensures that each of the specified entities 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 accounts. The deed of cross guarantee can be found at www.sydneyairport.com.au/crossguarantee.

### Review of operations and results

The consolidated entity earned a profit before depreciation, amortisation, net finance costs and income tax (EBITDA) of $1,336.8 million for the year ended 31 December 2019 (2018: $1,286.1 million). After deducting depreciation and amortisation, net finance costs and income tax, the net profit was $63.1 million (2018: $35.9 million).

Net finance costs were $714.6 million (2018: $724.6 million). It consists of interest expense payable to third parties (secured senior debt), associated debt establishment costs, lease interest expense from the application of AASB 16 *Leases* totalling $424.6 million (2018: $433.0 million) and redeemable preference share costs totalling $293.9 million (2018: $291.6 million).

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

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

### Financing metrics

The following table shows the net senior debt and selected ratios as at 31 December 2019:

| | 31 December 2019[1] $m | 31 December 2018 $m |
|---|---|---|
| Gross total debt [2] | 9,114.9 | 8,750.1 |
| Less: total cash [3] | (321.9) | (218.9) |
| **Net debt** | 8,793.0 | 8,531.2 |
| **Net senior debt** | 8,793.0 | 8,531.2 |
| EBITDA (12 months historical) | 1,336.8 | 1,286.1 |
| **Net debt/EBITDA** | 6.6x | 6.6x |
| Cash flow cover ratio [4] | 3.3x | 3.2x |

1. Calculations includes lease liabilities and related interest expense due to the application of AASB 16 *Leases*.
2. Gross total debt refers to principal amounts drawn, refer to Note 2 and includes leases liabilities of $0.6 million due to the application of AASB 16 in 2019. It excludes shareholder related borrowing (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds. Numbers may not add due to roundings.
3. Excludes cash held by parent (SCACH), as required by financing documents.
4. Cash flow 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.

The Group refinanced $1.4 billion of bank debt facilities by way of a Sustainability Linked Loan (SLL) in April 2019. This established a direct link between our sustainability performance and funding costs, delivering strong capital management alongside sustainability outcomes. Under the loan, the Group has set a target to improve its sustainability performance. If this target is achieved, the margins on the bank debt facilities will decrease. If the Group's sustainability performance deteriorates to an agreed point, the margins on the bank debt facilities will increase.

As at 31 December 2019, there was no drawn debt due to mature until November 2020 (Capital indexed bonds with carrying value of A$760.3 million). At reporting date, the Group has over $1.0 billion (2018: $1.0 billion) of committed undrawn bank facilities available to refinance any near-term maturing debt.

As part of the ongoing financing arrangements, the Group has received an unconditional guarantee from the parent and other members of the SCACH Group, except for SA(F1) Pty Limited, under the Security Trust Deed. Under the Security Trust Deed, each guarantor unconditionally and irrevocably guarantees the due and punctual payment of external borrowings. FinCo's senior secured debt credit ratings assigned by Standard & Poor's / Moody's are BBB+ / Baa1 respectively.

**Independent valuation**

As at 31 December 2019, the Group has net liabilities of $4,674.7 million (2018: $3,937.7 million). An independent valuation of the SCACH Group equity value by Deloitte as at 31 December 2019 supported an equity value that, if applied in the financial report of the Group as at 31 December 2019, would have more than absorbed the consolidated deficiency position at 31 December 2019.

The directors believe that there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2019. 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 ordinary shareholders is subordinated to senior debt and ordinary creditors of the Group. Under current accounting standards:

– the $2,100.8 million carrying value of the RPS at 31 December 2019 (2018: $2,083.3 million) is classified as borrowings rather than equity; and

– the $276.4 million (2018: $276.4 million) RPS interest expensed to shareholders during the period 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.

| Dividends and distributions paid | 31 December 2019 $m | 31 December 2018 $m |
|---|---|---|
| – on ordinary shares [1] | 616.4 | 569.0 |
| – on RPS [1] | 276.4 | 276.4 |
| | 892.8 | 845.4 |

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

In respect of the quarter ended 31 December 2019, the directors approved a final ordinary dividend of $182.3 million (2018: $165.8 million) and an RPS distribution of $69.7 million (2018: $69.7 million). These amounts were paid on 28 January 2020.

**Significant events after the balance date**

On 28 January 2020 an ordinary dividend of $182.3 million (2018: $165.8 million) and an RPS distribution of $69.7 million (2018: $69.7 million) was paid for the quarter ended 31 December 2019. The final dividend has not been recognised in this financial report because it was declared after 31 December 2019.

On 17 February 2020, Sydney Airport announced that it had issued a multi-tranche US private placement bond, comprising tranches of approximately $600 million in total with maturities ranging between 15 and 30 years. These included a 20-year sustainability-linked tranche, which represents the first ever sustainability-linked bond in the US private placement bond market. The tranche coupon will decrease or increase depending on Sydney Airport's sustainability performance over time, which is a similar structure to the Sustainability Linked Loan entered into in 2019. The proceeds from this bond will be used to repay drawn bank debt, unlocking additional liquidity to cover future debt maturities and to fund planned capital expenditure.

Other than the matter 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.

### Significant changes in the state of affairs

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

### Environmental regulation and performance

The primary piece of environmental legislation applicable to the Group is the Airports Act 1996 (the Airports Act) and regulations made under it, including the Airports (Environment Protection) Regulations 1997 (the Regulations). The main environmental requirements of the Airports Act and the Regulations include:

- The development and implementation of an environment strategy;
- The monitoring of air, soil, water and noise pollution from ground-based sources (except noise from aircraft in-flight, landing, taking off and taxiing and pollution from aircraft, which are excluded by the Airports Act and Regulations); and
- The enforcement of the provisions of the Airports Act and associated regulations is undertaken by statutory office holders of the Commonwealth Department of Infrastructure, Regional Development and Cities. These office holders are known as Airport Environment Officers (AEOs).

The Group's Environment Strategy 2019 – 2024 forms part of the Sydney Airport Master Plan and was approved by the Australian Government on 28 March 2019. The Group's aims, reflected in the 2019 – 2024 Strategy, are to continually improve environmental performance and minimise the impact of the Group's operations on the environment. The 2019 – 2024 Strategy supports initiatives in environmental management beyond regulatory requirements. The 2019 – 2024 Strategy is available for download from Sydney Airport's website: www.sydneyairport.com.au.

The Group is not aware of any significant breaches of the above regulations.

The Group provides an annual Environment Report to the Commonwealth Government outlining its performance in achieving the policies and actions outlined in the strategy and compliance with the relevant environmental legislation.

### Indemnities and insurance of officers and auditors

#### Indemnities

SCACH's constitution indemnifies each officer of SCACH and its controlled entities against any liability incurred by that person as an officer unless that liability arises out of conduct involving a lack of good faith. The constitution also provides that SCACH may make a payment to an officer or employee (by way of advance, loan or otherwise) for legal costs incurred by them in defending legal proceedings in their capacity as an officer or employee.

SCACH has entered into a Deed of Access, Indemnity and Insurance with each director which applies during their term in office and after their resignation (except where a director engages in conduct involving a lack of good faith). SCACH's constitution provides that it may indemnify its auditor against liability incurred in its capacity as the auditor of SCACH and its controlled entities. SCACH has not provided such an indemnity.

#### Insurance

During the reporting period and since the end of the reporting period, the consolidated entity has paid premiums in respect of a contract insuring directors and officers of the consolidated entity in relation to certain liabilities. The insurance policy prohibits disclosure of the nature of the liabilities insured and the premium paid.

During or since the year ended 31 December 2019 the Company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by the auditors of SCACH and its controlled entities.

### Directors' meetings

The number of meetings of directors (including meetings of board committees) held (H) during the year ended 31 December 2019 and the number of meetings attended (A) by each director were as follows:

| Directors | | Trevor Gerber [3] | John Roberts | Stephen Ward | Ann Sherry AO | Grant Fenn | Geoff Culbert | Abi Cleland | David Gonski AC | Michael Lee [4] |
|---|---|---|---|---|---|---|---|---|---|---|
| Board of Directors | H [1] | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 1 |
| | A [2] | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 1 |

1. Number of meetings to which director was invited to attend.
2. Actual attendance.
3. Chairman of the SCACH Board.
4. Resigned as director in May 2019.

**Non-audit services**

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in note 18 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the period by the auditor (or by another person or firm on the auditor's behalf) is compatible with the standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 18 to the financial statements do not compromise the external auditor's independence, based on advice received from the Sydney Airport Limited Audit and Risk Committee, for the following reasons:

- KPMG has confirmed their independence by providing an Audit Independence Declaration as required by s307C of the *Corporations Act*;
- The scope and value of non-audit services provided during the year of $65,000 is not material and does not impinge on the auditor's independence; and
- None of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

**Lead auditor's independence declaration**

KPMG have been the lead auditors of the Group commencing 2010.

The lead auditor's independence declaration, as 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 Instrument 2016/191 dated 1 April 2016.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the directors:

**Trevor Gerber**
Sydney
19 February 2020

# Statement by the Directors of Southern Cross Airports Corporation Holdings Limited

for the year ended 31 December 2019

1. In the opinion of the directors of Southern Cross Airports Corporation Holdings Limited (the Company):
   a. the consolidated financial statements and notes for the SCACH Group that are set out on pages 16 to 53 are in accordance with the *Corporations Act 2001*, including;
      i. giving a true and fair view of the SCACH Group's financial position as at 31 December 2019 and of its performance, for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   b. 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.
2. There are reasonable grounds to believe that the SCACH Group will be able to meet any obligations or liabilities to which it is or may become subject to by virtue of the Deed of Cross Guarantee between the Company and the group entities as identified in note 16, pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016.
3. The directors draw attention to page 21 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

**Trevor Gerber**
Sydney
19 February 2020

KPMG

# 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 audit of Southern Cross Airports Corporation Holdings Limited for the year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Leann K Yuen

Leann Yuen
Partner

Sydney
19 February 2020

# Independent Auditor's Report

To the shareholders of Southern Cross Airports Corporation Holdings Limited

## Opinion

We have audited the ***Financial Report*** of Southern Cross Airports Corporation Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Revenue recognition and measurement
- Hedging and valuation of derivatives financial instruments
- Carrying value of intangible assets

***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition and measurement (A$1,639.8m)

Refer to page 22 – Revenue from Contracts with Customers

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Revenue recognition was identified as a key audit matter due to the numerous different underlying contracts which we considered in assessing when revenue was recognised. Varying recognition and measurement principles exist across the revenue streams.<br><br>Assessing revenue recognition, measurement and disclosures required significant audit effort across each revenue stream and contract type. | Our procedures included:<br>• Understanding processes and testing key controls regarding the Group's revenues. We tested controls for the authorisation of a sample of new or amended contracts. This included checking the contract terms to the Group's financial systems;<br>• For aeronautical and parking and ground transport revenue we checked a sample of the Group's revenue transactions to cash received per the Group's bank statements;<br>• Checking a sample of the Group's retail revenue and property and car rental revenue straight-lining calculations for accuracy and conformity with underlying contracts;<br>• For each significant individual revenue stream, we compared revenue recognised against prior year, and assessed the correlation to movements in passenger numbers (where relevant);<br>• For accrued revenue at period end, we compared our accrued revenue expectation using independently sourced inputs such as passenger numbers to actual accrued revenue recorded by the Group;<br>• Requesting confirmations from relevant airlines for a sample of passenger numbers used in the procedures above; |

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| | |
|---|---|
| | • Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

| **Hedging and valuation of derivatives financial instrument (net: A$518.9m)** | |
|---|---|
| Refer to Note 5 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The valuation of derivatives and associated hedge accounting was identified as a key audit matter due to the complexities arising from the application of multiple derivatives to hedge each underlying financial instrument.<br><br>Our assessment is made more challenging given the high level of judgement involved in evaluating valuation assumptions and inputs such as yield curves and credit value adjustments.<br><br>As such, senior audit team effort and specialist involvement was required. | Our procedures included:<br>• Understanding the Group's processes and test key controls for the approval of new derivative contracts;<br>• Obtaining hedge documentation relating to new hedge relationships and assessing it against the conditions for measurement and reporting in the accounting standard requirements;<br>• For a sample of derivatives and hedge relationships, we checked the inputs of each item to confirmations we requested and obtained from counterparties;<br>• Involving our valuation specialists we performed an independent valuation of a sample of derivatives which we compared to the Group's valuation. To do this we obtained externally sourced market data from platforms such as Bloomberg for assumptions and inputs adopted in the valuation e.g. yield curves and credit value adjustments;<br>• Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

| Carrying value of intangible assets (A$3,744.9m) | |
|---|---|
| Refer to Note 9 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Carrying value of intangible assets was identified as a key audit matter due to the significant level of judgment involved in forecasting and discounting future cash flows. Particular judgment is required when assessing the significant length of time relevant to an airport operation, which forms the basis for assessing intangible assets for impairment.<br><br>In addition, judgment is involved in considering the appropriateness of the single cash generating unit (CGU) for impairment testing. Impairment testing is performed on a single CGU on the basis that the Group considers all income streams are intrinsically linked and cannot be separated from the airport operations.<br><br>The impairment assessment of the Group's intangible assets is based on a discounted cash flow methodology, using a financial model covering a twenty year period. The model incorporates significant judgment in respect of future cash flows, discount rates, growth rates and the terminal value.<br><br>The Group engages an external expert annually to perform a valuation of the airport, including intangibles. The forecast discounted cash flows performed by the Group form the basis of this valuation. | Our procedures included:<br>• Understanding the Group's cash forecasting process and testing the key approvals for the internal reporting of forecast income streams and cash flows;<br>• Assessing the historical accuracy of forecasts by comparing to actual results, to use in our evaluation of forecasts included in the discounted cash flow model;<br>• Assessing the consistency of the future assumptions incorporated into the forecasts for alignment to the Sydney Airport Corporate Plan through inquiries with the Group and our industry knowledge;<br>• Evaluating the Group's determination of a single CGU based on our understanding of the operations of the Group's business and how independent cash inflows were generated against the requirements of the accounting standard requirements;<br>• Involving our specialists we evaluated the externally prepared valuation. This included:<br>  ◦ Assessing the valuation approach and methodology against market and industry practices and accounting standards;<br>  ◦ Analysing the Group's discount rate against publicly available data of a group of comparable entities;<br>  ◦ Comparing growth related assumptions, to external data such as industry wide expectations of passenger behaviour and the Gross Domestic Product growth as published by the Reserve Bank of Australia;<br>  ◦ Performing a sensitivity analysis on key assumptions, in particular, the discount rate to assess the risk of bias or inconsistency in application; |

| | |
|---|---|
| | • Assessing the objectivity, scope, and competency of the Group's external expert.<br>• Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

## Other Information

Other Information is financial and non-financial information in Southern Cross Airports Corporation Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

KPMG

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.This description forms part of our Auditor's Report.

KPMG

KPMG

Leann Yuen

Leann Yuen
Partner

Sydney
19 February 2020

# Consolidated statement of comprehensive income

for the year ended 31 December 2019

| | Note | 2019 $m | 2018 $m |
|---|---|---|---|
| **Revenue** | | | |
| Aeronautical revenue | | 739.3 | 721.7 |
| Aeronautical security recovery | | 105.0 | 98.7 |
| Retail revenue | | 374.9 | 357.0 |
| Property and car rental revenue | | 251.2 | 238.1 |
| Parking and ground transport revenue | | 162.0 | 162.1 |
| Other revenue | | 7.4 | 7.2 |
| **Total revenue** | | 1,639.8 | 1,584.8 |
| **Other income** | | | |
| Gain on disposal of non-current assets | | 0.1 | 0.2 |
| **Total revenue and other income** | | 1,639.9 | 1,585.0 |
| **Operating expenses** | | | |
| Employee benefits expense | | (56.8) | (62.2) |
| Services and utilities expense | | (83.4) | (83.7) |
| Property and maintenance expense | | (29.6) | (29.8) |
| Security recoverable expense | | (98.3) | (91.5) |
| Other operational costs | | (31.8) | (29.3) |
| **Total operating expenses** | | (299.9) | (296.5) |
| **Other expenses** | | | |
| Restructuring and redundancy expenses [1] | | (3.2) | (2.4) |
| **Total other expenses** | | (3.2) | (2.4) |
| **Total expenses before depreciation, amortisation, net finance costs and income tax** | | (303.1) | (298.9) |
| **Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)** | | 1,336.8 | 1,286.1 |
| Depreciation | 8 | (350.5) | (327.8) |
| Amortisation | 9 | (39.3) | (39.3) |
| **Profit before net finance costs and income tax (EBIT)** | | 947.0 | 919.0 |
| Finance income | 6 | 4.0 | 5.0 |
| Finance costs | 6 | (718.5) | (724.6) |
| Change in fair value of swaps | 6 | (0.1) | (5.0) |
| **Net finance costs** | | (714.6) | (724.6) |
| Profit before income tax expense | | 232.4 | 194.4 |
| Income tax expense | 10 | (169.3) | (158.5) |
| **Net profit attributable to owners of the company** | | 63.1 | 35.9 |

1. The prior year Restructuring and redundancy expense of $2.4 million was reclassified from Employee benefits expense to conform with the current period's presentation.

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

# Consolidated statement of comprehensive income

for the year ended 31 December 2019

| | 2019<br>$m | 2018<br>$m |
|---|---|---|
| **Items that may subsequently be reclassified to profit or loss** | | |
| Changes in fair value of cash flow hedges | (252.9) | (164.7) |
| Changes in fair value of foreign currency basis spread | (10.6) | 3.4 |
| Tax on items that may be reclassified to profit or loss | 79.1 | 48.4 |
| **Total items that may subsequently be reclassified to profit or loss** | (184.4) | (112.9) |
| **Items that will never be reclassified to profit or loss** | | |
| Remeasurement gain/(loss) on defined benefit plan | 0.9 | (0.1) |
| Tax on items that will never be reclassified to profit or loss | (0.3) | - |
| **Total items that will never be reclassified to profit or loss** | 0.6 | (0.1) |
| **Other comprehensive loss, net of tax** | (183.8) | (113.0) |
| **Total comprehensive loss attributable to owners of the company** | (120.7) | (77.1) |

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

# Consolidated statement of financial position

as at 31 December 2019

| | Note | 2019 $m | 2018 $m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 3 | 322.4 | 219.5 |
| Trade and other receivables | 7 | 199.7 | 230.7 |
| Refinancing proceeds receivable | 2 | - | 398.9 |
| Derivative financial instruments | 5 | 14.8 | 0.2 |
| Other assets | | 0.7 | 0.8 |
| **Total current assets** | | 537.6 | 850.1 |
| **Non-current assets** | | | |
| Trade and other receivables | 7 | 79.4 | 75.5 |
| Property, plant and equipment | 8 | 3,514.2 | 3,549.5 |
| Intangible assets | 9 | 3,744.6 | 3,783.9 |
| Derivative financial instruments | 5 | 936.7 | 851.8 |
| Other assets | | 12.9 | 10.0 |
| **Total non-current assets** | | 8,287.8 | 8,270.7 |
| **Total assets** | | 8,825.4 | 9,120.8 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 616.3 | 442.7 |
| Interest bearing liabilities – external | 2 | 760.3 | - |
| Lease liabilities | 11 | 0.4 | - |
| Derivative financial instruments | 5 | 125.7 | 108.7 |
| Provisions for employee benefits | | 9.7 | 13.1 |
| **Total current liabilities** | | 1,512.4 | 564.5 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities – external | 2 | 9,353.4 | 10,081.0 |
| Interest bearing liabilities – shareholder related | 2 | 2,100.8 | 2,083.3 |
| Lease liabilities | 11 | 0.2 | - |
| Derivative financial instruments | 5 | 500.6 | 224.4 |
| Deferred tax liabilities | 10 | 29.1 | 103.2 |
| Provisions for employee benefits | | 3.6 | 2.1 |
| **Total non-current liabilities** | | 11,987.7 | 12,494.0 |
| **Total liabilities** | | 13,500.1 | 13,058.5 |
| **Net liabilities** | | (4,674.7) | (3,937.7) |
| **Equity** | | | |
| Issued capital | | 1,533.5 | 1,533.4 |
| Accumulated losses | | (5,709.7) | (5,157.1) |
| Cash flow hedge reserve | | (493.4) | (316.4) |
| Foreign currency basis spread reserve | | (5.1) | 2.4 |
| **Total equity** | | (4,674.7) | (3,937.7) |

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

# Consolidated statement of changes in equity

for the year ended 31 December 2019

| | Issued capital [1] $m | Accumulated losses [2] $m | Cash flow hedge reserve $m | Foreign currency basis spread reserve $m | Total equity $m |
|---|---|---|---|---|---|
| **Total equity at 1 January 2019** | 1,533.4 | (5,157.0) | (316.4) | 2.4 | (3,937.6) |
| Profit for the period | - | 63.1 | - | - | 63.1 |
| Other comprehensive income/(loss) | - | 0.6 | (177.0) | (7.5) | (183.9) |
| Dividends on ordinary shares | - | (616.4) | - | - | (616.4) |
| Equity-settled shares | 0.1 | - | - | - | 0.1 |
| **Total equity at 31 December 2019** | 1,533.5 | (5,709.7) | (493.4) | (5.1) | (4,674.7) |
| **Total equity at 1 January 2018** | 1,532.3 | (4,623.9) | (201.1) | - | (3,292.7) |
| Profit for the period | - | 35.9 | - | - | 35.9 |
| Other comprehensive (loss)/income | - | (0.1) | (115.3) | 2.4 | (113.0) |
| Dividends on ordinary shares | - | (569.0) | - | - | (569.0) |
| Equity contribution from parent | 0.3 | - | - | - | 0.3 |
| Equity-settled shares | 0.8 | - | - | - | 0.8 |
| **Total equity at 31 December 2018** | 1,533.4 | (5,157.1) | (316.4) | 2.4 | (3,937.7) |

1. Issued capital comprises 13,648,394 issued and fully paid ordinary shares
2. Accumulated losses were adjusted on 1 January 2019 to include the transition adjustment of AASB 16 *Leases*. This is described further in the Notes to the Financial Statements - Changes in accounting standards.

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

# Consolidated statement of cash flows

for the year ended 31 December 2019

| | Note | 2019 $m | 2018 $m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Receipts from customers | | 1,844.2 | 1,706.3 |
| Interest received | | 4.0 | 4.8 |
| Payments to suppliers and employees | | (470.7) | (477.1) |
| Interest paid | | (295.0) | (299.5) |
| Interest rate swaps payments | | (109.9) | (93.5) |
| **Net cash flow from operating activities** | 3 | 972.6 | 841.0 |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant & equipment | | 0.1 | 0.2 |
| Acquisition of property, plant and equipment | | (304.1) | (392.2) |
| Capitalised borrowing costs | 6 | (9.7) | (10.6) |
| **Net cash flow used in investing activities** | | (313.7) | (402.6) |
| **Cash flow from financing activities** | | | |
| Proceeds received from borrowings | | 741.5 | 1,355.1 |
| Repayment of borrowings | | (395.0) | (991.4) |
| Borrowing costs paid | | (9.7) | (9.4) |
| Proceeds from parent | | - | 0.2 |
| Dividends paid – ordinary shares | 1 | (616.4) | (569.0) |
| Interest paid – redeemable preference shares | | (276.4) | (276.4) |
| **Net cash flow used in financing activities** | | (556.0) | (490.9) |
| Net increase/(decrease) in cash and cash equivalents | | 102.9 | (52.5) |
| **Cash and cash equivalents at beginning of the period** | | 219.5 | 272.0 |
| **Cash and cash equivalents at the end of the period** | 3 | 322.4 | 219.5 |

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

# General

### Basis of preparation and statement of compliance

This is the 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 financial statements.

This financial report:

- Consists of the consolidated financial statements of the Group, as permitted by Australian Securities & Investments Commission (ASIC) Class Order 10/654;
- Is a general purpose financial report;
- Is prepared in accordance with *Corporations Act 2001*, Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB);
- Is prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss; and
- Is presented in Australian dollars, which is the functional currency of 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 financial report was authorised for issue by the directors on 19 February 2020.

### Net current liability position

The SCACH Group is in a net current liability position of $974.8 million at 31 December 2019. This is due mainly to the capital indexed bond due in November 2020 (carrying value of $760.3 million) classified as a Current liability. At reporting date, the Group has over $1.0 billion of committed undrawn bank facilities available to refinance any near-term maturing debt. The Group was in a net current asset position of $285.6 million at 31 December 2018.

### Independent valuation

As at 31 December 2019, the SCACH Group has net liabilities of $4,674.7 million (2018: $3,937.7 million). An independent valuation of the SCACH Group equity value by Deloitte as at 31 December 2019 supported an equity value that, if applied in the financial report of the Group as at 31 December 2019, would have more than absorbed the consolidated deficiency position at 31 December 2019. A new valuation will be carried out for each financial year end or as otherwise required.

In considering its dividend declaration, Southern Cross Airports Corporation Holding Pty Limited, the parent of the SCACH consolidated group considers the requirements of Section 254T of the *Corporations Act 2001*.

The directors believe that there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2019. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the SCACH Group financial report.

### Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, directors have made judgements, estimates and assumptions about future events. Critical estimates and assumptions were made in relation to:

- Fair value measurement of financial instruments (refer note 2, 4 and 5); and
- Impairment test for goodwill (refer note 9).

### Significant accounting policies

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

#### i) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities comprising the consolidated entity, which are the Company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 127: *Consolidated and Separate Financial Statements*. Controlled entities are listed in note 16 to the financial statements.

The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as their parent company. In preparing the consolidated financial statements, all intercompany balances and transactions have been eliminated in full.

## General

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

### ii) Foreign currency transactions and balances

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

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

Foreign exchange gains and losses on translation are recognised in the consolidated statement of comprehensive income.

### iii) Fair value of financial instruments

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

- In accordance with generally accepted pricing models based on 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, discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used.

The directors consider the carrying amounts of financial assets and liabilities recorded in the financial statements approximate fair value, except for fixed interest rate bonds (refer to note 2).

Fair value measurements are determined as follows:

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

### iv) Measurement of financial instruments

Financial instruments are classified by the following categories – amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial asset and whether contractual cash flows are solely from payments of principal and interest (SPPI).

### v) Revenue recognition

**Aeronautical revenues**

Aeronautical revenue is primarily generated from contracts with airlines for the provision of access to terminals, infrastructure, apron parking, airfield and terminal facilities. Revenue is recognised as the service is provided:

- Passenger charges: On a per passenger basis as they arrive or depart;
- Runway charges: On a per passenger basis or on the basis of maximum take-off weight; and
- Aircraft parking charges: Over the duration of time the aircraft is parked and maximum take-off weight.

Aeronautical revenues are billed and paid on a monthly basis.

Incentives or discounts are provided in line with terms of contracts with airlines and are generally based on passenger numbers, flight frequency and or new routes. Revenues from passenger charges are therefore variable consideration and estimated monthly. Discounts and incentives are paid annually based on contract commencement date and any unpaid amount is recognised as a payable. Variable revenue is only recognised when it is highly probable the revenues will not reverse. Whilst contracts with airlines exceed 12 months, revenue recognised is the amount to which we have the right to invoice for the current year.

**Aeronautical security recovery revenues**

Aeronautical security recovery revenue is primarily generated from contracts with airlines for the provision of government mandated security services. These include passenger and checked bag screening. Revenue is recognised as the expense is incurred.

Aeronautical security recovery revenues are billed and paid on a monthly basis.

## General

**Retail revenues**
This comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, financial and advertising services. Rental revenues are recognised on a straight-line basis over the lease term. Concession fees are recognised based on sales turnover in accordance with the concession agreement.

**Property and car rental revenues**
This comprises the lease of terminal space, buildings and other space on Sydney Airport. Revenues are recognised on a straight line basis over the lease term.

**Parking and ground transport revenues**
Parking and ground transport revenue is primarily generated from passengers and staff for the provision of car parking and from taxis, buses and limousines for the provision of ground access services. Revenue is recognised over the period of time the car parking and ground access service is provided.

### Changes in accounting standards

The Group adopted AASB 16 *Leases* from 1 January 2019, and has not restated comparatives as permitted by the transition provisions of the standard. The cumulative impact of this new standard has been recognised in the opening balance sheet on 1 January 2019. The impact of this standard is described below:

### AASB 16 Leases

AASB 16 introduced a new definition for leases and a single on-balance sheet accounting model for lessees. As a result, the Group has recognised a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments for certain assets for which the Group are a lessee. There has been no change to lessor accounting as a result of this accounting standard.

The Group adopted the 'modified retrospective' transition method in the preparation of these financial statements. This requires the cumulative effect of initial application to be recognised in retained earnings at 1 January 2019, with no restatement of comparative information. There were no material operating leases or lease liabilities previously recognised under AASB 117.

**Accounting policy – Leases**
The Group leases various equipment, data centre space and land for periods between 12 months and 99 years. Operating lease payments made were charged to the profit or loss on a straight-line basis over the life of the lease.

From 1 January 2019, the following components are recognised in relation to leases:

| Balance Sheet component | Description | Measurement at recognition | Subsequent measurement |
|---|---|---|---|
| **Right-of-use asset** | The right to use the underlying asset | Cost comprising:<br>– Initial measurement of the liability;<br>– Any lease payments pre-commencement date offset by any lease incentives received;<br>– Initial direct costs; and<br>– Restoration costs. | The right-of-use asset is depreciated over the shorter of the asset's useful life and the life of the lease on a straight-line basis. |
| **Lease liability** | The obligation to make lease payments | Net present value of the lease payments being:<br>– Fixed payments offset by any lease incentives receivable;<br>– Variable lease payments linked to an index or rate;<br>– Exercise price of a purchase option(where the Group is reasonably certain to exercise that option); and<br>– Payment of penalties for terminating the lease (where the life of the lease has assumed termination). | Payments made are allocated between liability and finance cost, with the finance cost charged to interest expense over the life of the lease. |

Payments associated with short-term leases (i.e. those with a life of 12 months or less), and low-value assets (i.e. those at a cost of $10,000 or less) are recognised as an expense in the profit or loss on a straight-line basis.

## General

**Transition**

As a result of the implementation of AASB 16, the Group has recognised a lease liability in relation to three leases with the remaining contracts considered service contracts and expensed as incurred.

| Balance Sheet impact as at 1 January 2019 | $m |
|---|---|
| **Asset** | |
| Right-of-use asset (included in Property, Plant and Equipment) | 1.3 |
| **Liability** | |
| Current lease liability | (0.5) |
| Non-current lease liability | (0.6) |
| **Equity** | |
| Retained earnings | (0.2) |

The weighted average incremental borrowing rate was applied to the lease liabilities from 1 January 2019.

The application of AASB 16 has had no impact to the financial statements of the Group for finance leases already held at 1 January 2019, including the Airport Operating Licence and Leasehold Land. This is due to these asset currently being measured on the basis consistent with that required by AASB 16. There is no lease liability as this was included as part of the purchase price consideration at acquisition.

# Capital management

**Overview**

The Group manages and regularly reviews its capital structure to ensure it is able to finance current and future business activities and to continue as a going concern, while optimising the debt and equity balance and returns to security holders.

The capital structure of the Group consists of:

- debt;
- cash and cash equivalents;
- issued capital;
- reserves; and
- retained earnings.

During the year ended 31 December 2019, the Group's strategy remained unchanged.

## 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.

Ordinary dividends paid and proposed during the year for the Group are shown in the table below:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | $ per share | $m | $ per share | $m |
| Amounts paid in period | | | | |
| December quarter paid in January 2019 (2018: January 2018) | 12.15 | 165.8 | 10.69 | 146.0 |
| March quarter paid in April 2019(2018: April 2018) | 11.54 | 157.4 | 11.10 | 151.5 |
| June quarter paid in July 2019 (2018: July 2018) | 10.13 | 138.3 | 9.16 | 125.1 |
| September quarter paid in October 2019 (2018: October 2018) | 11.35 | 154.9 | 10.74 | 146.4 |
| | | 616.4 | | 569.0 |
| Amounts paid after period end | | | | |
| December quarter paid in January 2020 (2018: January 2019) | 13.35 | 182.3 | 12.15 | 165.8 |

Total dividends attributable to the period ended 31 December 2019 were $632.9 million (2018: $588.8 million). These dividends were unfranked.

## Capital management

## 2. Interest bearing liabilities

The Group has the following external and shareholder related interest bearing liabilities at reporting date:

**External**

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

**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.

Capital management

## 2. Interest bearing liabilities continued

| | Maturity | Carrying amount | | Fair value | | Principal amount drawn | | | | Issue currency | Interest rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | In AUD | | In original currency | | | |
| External | | 2019 $m | 2018 $m | 2019 $m | 2018 $m | 2019 $m | 2018 $m | 2019 $m | 2018 $m | | |
| Syndicated facilities | April 2022 | 402.7 | 454.1 | 402.7 | 454.1 | 404.0 | 455.0 | 404.0 | 455.0 | AUD | Floating [4] |
| Wrapped domestic bond [1] | November 2021 | 199.5 | 199.2 | 199.5 | 199.2 | 200.0 | 200.0 | 200.0 | 200.0 | AUD | Floating [5] |
| Wrapped domestic bond [1] | October 2022 | 745.7 | 744.2 | 745.7 | 744.2 | 750.0 | 750.0 | 750.0 | 750.0 | AUD | Floating [5] |
| Wrapped domestic bond [1] | October 2027 | 651.1 | 650.2 | 651.1 | 650.2 | 659.0 | 659.0 | 659.0 | 659.0 | AUD | Floating [5] |
| USPP bond | August 2028 | 99.5 | 99.4 | 99.5 | 99.4 | 100.0 | 100.0 | 100.0 | 100.0 | AUD | Floating [5] |
| USPP bond | November 2028 | 99.5 | 99.4 | 99.5 | 99.4 | 100.0 | 100.0 | 100.0 | 100.0 | AUD | Floating [5] |
| USPP bond | November 2028 | 179.1 | 179.0 | 224.1 | 204.7 | 180.0 | 180.0 | 180.0 | 180.0 | AUD | 6.04% [6] |
| USPP bond | November 2028 | 57.7 | 57.7 | 70.2 | 63.9 | 58.0 | 58.0 | 58.0 | 58.0 | AUD | 5.60% [6] |
| USPP bond | November 2029 | 135.3 | 135.3 | 167.4 | 151.4 | 136.0 | 136.0 | 136.0 | 136.0 | AUD | 5.70% [6] |
| USPP bond [2] | February 2034 | 73.7 | 67.3 | 71.5 | 62.1 | 62.5 | - | 45.0 | - | USD | 4.25% [6] |
| USPP bond [2] | February 2039 | 134.2 | 134.9 | 158.8 | 135.3 | 135.0 | - | 135.0 | - | AUD | 4.76% [6] |
| USPP bond [2] | February 2044 | 99.4 | 99.9 | 120.7 | 100.9 | 100.0 | - | 100.0 | - | AUD | 4.85% [6] |
| USPP bond [2] | February 2049 | 99.4 | 99.9 | 123.2 | 101.1 | 100.0 | - | 100.0 | - | AUD | 4.90% [6] |
| Euro bond | April 2024 | 1,208.5 | 1,225.5 | 1,240.0 | 1,247.1 | 1,033.4 | 1,033.4 | 700.0 | 700.0 | EUR | 2.75% [6] |
| Euro bond | April 2028 | 853.8 | 824.7 | 867.9 | 822.0 | 796.1 | 796.1 | 500.0 | 500.0 | EUR | 1.75% [6] |
| US144A/RegS bond | February 2021 | 711.6 | 702.9 | 735.4 | 732.2 | 518.7 | 518.7 | 500.0 | 500.0 | USD | 5.13% [6] |
| US144A/RegS bond | March 2023 | 1,210.6 | 1,173.2 | 1,231.9 | 1,168.6 | 802.4 | 802.4 | 825.0 | 825.0 | USD | 3.90% [6] |
| US144A/RegS bond | April 2025 | 711.5 | 708.7 | 737.0 | 682.4 | 643.0 | 643.0 | 500.0 | 500.0 | USD | 3.38% [6] |
| US144A/RegS bond | April 2026 | 1,276.5 | 1,270.8 | 1,333.5 | 1,228.1 | 1,163.4 | 1,163.4 | 900.0 | 900.0 | USD | 3.63% [6] |
| CIB [3,8] | November 2020 | 760.3 | 760.3 | 774.1 | 764.9 | 768.6 | 757.0 | 768.6 | 757.0 | AUD | 3.76% [6] |
| CIB [3] | November 2030 | 404.1 | 394.4 | 419.8 | 371.2 | 404.3 | 398.1 | 404.3 | 398.1 | AUD | 3.12% [6] |
| **Total external interest bearing liabilities** | | 10,113.7 | 10,081.0 | 10,473.5 | 10,082.4 | 9,114.4 | 8,750.1 | n/a | n/a | | |
| **Shareholder related** | | | | | | | | | | | |
| Redeemable preference shares [7] | June 2032 | 2,100.8 | 2,083.3 | 3,767.8 | 3,433.9 | 2,047.3 | 2,047.3 | 2,047.3 | 2,047.3 | AUD | 13.50% |
| **Total shareholder related interest bearing liabilities** | | 2,100.8 | 2,083.3 | 3,767.8 | 3,433.9 | 2,047.3 | 2,047.3 | 2,047.3 | 2,047.3 | | |

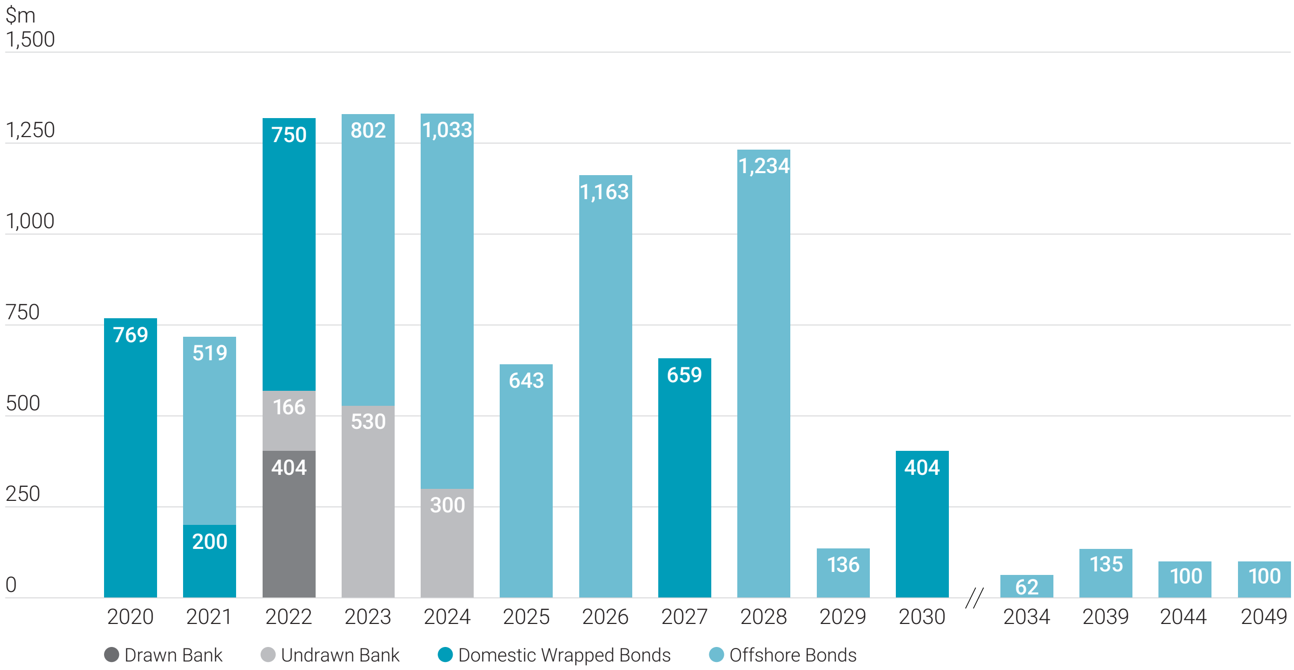
1. Financial guarantees are provided by MBIA Insurance Corporation, Ambac Assurance Corporation and Assured Guaranty Municipal Corp.
2. USPP bond proceeds were received on 7 February 2019.
3. Financial guarantees are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.
4. Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
5. Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
6. Fixed interest rates are reflective of coupons in respective currencies/markets.
7. The $50 premium on redemption on 28 June 2032 is included in the calculation of fair value.
8. Classified as Current liability in the Consolidated statement of financial position.

**Capital management**

## 2. Interest bearing liabilities continued

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

**Drawn & Undrawn Debt December 2019**




### 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.

### Recognition and measurement

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

At 31 December 2019 and 31 December 2018, the fair values of all fixed interest rate bonds were determined based on observable market inputs, categorised as Level 2. Listed bonds are valued at their traded price, and non-listed bonds valued using a Discounted Cashflow model, with available comparative market curves adopted as key inputs.

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

**CIBs explained**

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

**Effective interest rate method explained**

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

Capital management

## 2. Interest bearing liabilities continued

**Reconciliation of movements of liabilities to cashflows arising from financing activities:**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Loans and Borrowings [1] $m | Interest rate swaps and foreign exchange contracts used for hedging-liabilities $m | Loans and Borrowings [1] $m | Interest rate swaps and foreign exchange contracts used for hedging-liabilities $m |
| **Balance at 1 January** | (12,164.3) | 518.9 | (10,895.3) | 225.7 |
| **Changes from financing cashflows** | | | | |
| Interest swap payments | - | 109.9 | - | 93.4 |
| Proceeds received from borrowings | (741.5) | - | (1,355.1) | - |
| Repayments of borrowings | 395.0 | - | 991.4 | - |
| **Total changes from financing cash flows** | (346.5) | 109.9 | (363.7) | 93.4 |
| **Liability related other changes** | | | | |
| The effects of changes in foreign currency rates | 19.6 | (18.4) | (445.6) | 445.6 |
| Changes in fair value | (86.9) | (285.2) | (15.2) | (245.9) |
| Add back of refinancing receivable | 398.9 | - | (398.9) | - |
| Other | (35.3) | - | (45.6) | - |
| **Total liability related other changes** | 296.3 | (303.6) | (905.3) | 199.7 |
| **Balance at 31 December** | (12,214.5) | 325.2 | (12,164.3) | 518.9 |

1. Loans and Borrowings includes shareholder related Redeemable Preference Shares.

## Capital management

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

| | 2019 $m | 2018 $m |
|---|---|---|
| Cash on hand | 311.2 | 179.1 |
| Deposits [1] | 11.2 | 40.4 |
| **Total cash and cash equivalents** | 322.4 | 219.5 |
| **Cash flow information** | | |
| **Reconciliation of profit after tax to net cash flows from operating activities** | | |
| Profit for the year | 63.1 | 35.9 |
| Interest & borrowing costs | 43.6 | 56.9 |
| Redeemable preference shares | 269.8 | 276.4 |
| Loss on fair value of swaps | 0.1 | 5.0 |
| Depreciation and amortisation | 389.8 | 367.1 |
| Gain on sale of fixed assets | (0.1) | (0.2) |
| Operating lease straight lining adjustment | (6.4) | (3.4) |
| Long-term incentive share based payment expense | 0.1 | 0.8 |
| Decrease/(increase) in receivables and other assets | 25.0 | (45.7) |
| Decrease/(increase) in payables and other liabilities | 18.3 | (10.3) |
| Increase in tax liabilities | 169.3 | 158.5 |
| **Net cash flows from operating activities** | 972.6 | 841.0 |

1. Included in the Group's consolidated deposit balance is $11.2 million (2018: $10.4 million) held by SACL which is restricted to fund maintenance capital expenditure.

# Treasury and financial risk management

**Overview**

The Group's treasury operations include financing and investment activities, cash management and financial risk management. The strategic focus is to provide support to the business by maintaining the Group's financial flexibility and a minimum credit rating of BBB/Baa2.

This section explains the Group's exposure to and management of various financial risks and their potential effects on the Group's financial position and performance. It also details finance income and costs incurred during the year.

## 4. Financial risk management

**Financial risk management framework**

The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury operations, under policies approved by the Board, manages the Group's exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury operations identifies, evaluates and hedges exposures to financial risks in close co-operation with the operating units while investing excess liquidity. Speculative trading is specifically prohibited by Board policy.

### 4.1 Foreign currency risk

**Group policy**

The Group's treasury policy is to hedge 100% of foreign currency exposures related to borrowings and to hedge foreign currency exposures relating to revenue, operating expenditure and capital expenditure over certain thresholds.

The Group is primarily exposed to foreign currency risk from interest bearing liabilities denominated in foreign currencies (USD and EUR). At 31 December 2019 and 31 December 2018, these interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds. As a result, a strengthening or weakening of the AUD will have no impact on profit or loss or equity.

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | EURm | USDm | Equivalent Total AUDm | EURm | USDm | Equivalent Total AUDm |
| Senior secured bonds | (1,200.0) | (2,770.0) | (5,019.5) | (1,200.0) | (2,770.0) | (5,019.5) |
| Cross currency swaps | 1,200.0 | 2,770.0 | 5,019.5 | 1,200.0 | 2,770.0 | 5,019.5 |
| Exposure | - | - | - | - | - | - |

| | 31 December 2019 Notional maturity profile | | 31 December 2018 Notional maturity profile | |
|---|---|---|---|---|
| Cross currency interest rate swaps | EUR | USD | EUR | USD |
| 1 year or less (m) | - | - | - | - |
| 1 to 2 years (m) | - | 500.0 | - | - |
| 2 to 5 years (m) | 700.0 | 825.0 | - | 1,325.0 |
| 5 years or more (m) | 500.0 | 1,445.0 | 1,200.0 | 1,445.0 |
| Average foreign exchange rate | 0.66 | 0.87 | 0.66 | 0.87 |
| Average interest rate | 3M BBSW + 167bps | 3M BBSW + 244bps | 3M BBSW + 167bps | 3M BBSW + 244bps |

BBSW refers to the Bank Bill Swap Rate.

Treasury and financial risk management

## 4. Financial risk management continued

### 4.2 Interest rate risk

The Group's interest rate risk arises primarily from interest bearing liabilities with variable interest rates, where interest rate movements can impact the Group's cash flow exposures.

**Group policy**

The Group uses interest rate swap (IRS) contracts to mitigate interest rate risk. The Group's policy is to maintain hedging arrangements in accordance with the annual bands below:

- Year 1–2 65%–95%
- Year 3–4 50%–80%
- Year 5–6 35%–65%
- Year 7–8 20%–50%
- Year 9–10 5%–35%

**Interest rate swap (IRS) contracts**

By entering into IRS contracts, the Group agrees to exchange the net difference between fixed and floating interest rate amounts (based on Australian BBSW) calculated by reference to agreed notional principal amounts. IRS settle on a quarterly basis.

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

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

| | Average contracted fixed interest rate [1] | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2019 % | 2018 % | 2019 $m | 2018 $m | 2019 $m | 2018 $m |
| 1 year or less | 3.38 | 2.04 | 1,239.1 | 796.1 | (4.3) | (0.6) |
| 1 to 2 years | 2.85 | 3.38 | 1,618.7 | 1,239.1 | (47.7) | (20.2) |
| 2 to 5 years | 3.14 | 3.20 | 3,144.7 | 3,071.1 | (225.6) | (103.4) |
| 5 years or more | 2.67 | 3.10 | 5,798.1 | 5,340.4 | (305.8) | (155.1) |
| | n/a | n/a | 11,800.6 | 10,446.7 | (583.4) | (279.3) |

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 4.6% for the year ended 31 December 2019 (2018: 4.8%).

At 31 December 2019, 90.5% (2018: 94.8%) of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through IRS.

## 4. Financial risk management continued

**Interest rate sensitivities**

In reviewing interest rate sensitivities, a 150 basis point (bp) movement is used by management to assess possible changes in interest rates at reporting date.

| | 2019 $m | 2018 $m |
|---|---|---|
| **Increase in interest rate +150bp** | | |
| Loss after tax | (9.1) | (4.8) |
| Equity | 310.2 | 203.4 |
| **Decrease in interest rate -150bp** | | |
| Profit after tax | 9.1 | 4.8 |
| Equity | (350.8) | (221.9) |

### 4.3 Credit risk

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

**Group policy**

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

Credit risks on receivables relate to aeronautical, retail and property trade receivables at the Airport asset level. These corporate counterparties have a range of credit ratings. At the date of signing the accounts, the overdue trade receivables balances were less than 5% (2018: less than 5%). Key aeronautical customers including the Qantas and Virgin Groups accounted for 40% to 50% of aeronautical revenue for year ended 31 December 2019 (2018: 40% to 50%).

There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been considered past due or impaired.

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

Treasury and financial risk management

## 4. Financial risk management continued

### 4.4 Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meet its financial obligations when they fall due.

The Group has built in appropriate liquidity management requirements as part of its financial risk management framework. Due to the capital intensive nature of the underlying business, the Group's treasury operations works to achieve flexibility in funding by maintaining levels of undrawn committed bank facilities available for working capital and capital investment and maintaining capital expenditure reserve.

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

| | Carrying value $m | Contractual cash flows $m | 1 year or less $m | 1 to 5 years $m | 5 years or more $m |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| **2019** | | | | | |
| Bank facilities | 402.7 | 419.4 | 6.8 | 412.6 | - |
| Bonds – domestic | 1,596.3 | 1,697.2 | 18.6 | 998.1 | 680.5 |
| Bonds – USPP | 977.8 | 1,626.8 | 45.3 | 181.0 | 1,400.5 |
| Bonds – other foreign | 5,972.5 | 5,812.6 | 173.2 | 2,889.3 | 2,750.1 |
| Capital indexed bonds | 1,164.4 | 1,493.9 | 820.0 | 54.4 | 619.5 |
| Redeemable preference shares | 2,100.8 | 6,048.6 | 276.4 | 1,106.3 | 4,665.9 |
| Derivatives | 626.3 | 777.4 | 129.5 | 445.6 | 202.3 |
| Trade payables and accrued interest | 251.6 | 251.6 | 251.6 | - | - |
| Lease liabilities | 0.6 | 0.6 | 0.4 | 0.2 | - |
| | 13,093.0 | 18,128.1 | 1,721.8 | 6,087.5 | 10,318.8 |
| **2018** | | | | | |
| Bank facilities | 454.1 | 473.9 | 14.2 | 459.7 | - |
| Bonds – domestic | 1,593.6 | 1,929.7 | 137.7 | 1,069.9 | 722.1 |
| Bonds – USPP | 972.8 | 1,984.7 | 54.4 | 221.1 | 1,709.2 |
| Bonds – other foreign | 5,905.8 | 6,463.1 | 220.3 | 1,285.5 | 4,957.3 |
| Capital indexed bonds | 1,154.7 | 1,392.6 | 40.1 | 835.2 | 517.3 |
| Redeemable preference shares | 2,083.3 | 5,642.6 | 276.4 | 1,106.3 | 4,259.9 |
| Derivatives | 333.1 | 336.1 | 98.2 | 197.7 | 40.2 |
| Trade payables and accrued interest | 311.9 | 311.9 | 311.9 | - | - |
| | 12,809.3 | 18,534.6 | 1,153.2 | 5,175.4 | 12,206.0 |

Treasury and financial risk management

## 5. Derivative financial instruments

The Group uses derivative financial instruments to mitigate its exposures to foreign currency and interest rate risks, as described in note 4. The net derivative position at reporting date is presented below:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| $m | Cross currency swaps | Interest rate swaps | Total | Cross currency swaps | Interest rate swaps | Total |
| Current assets | 14.3 | 0.5 | 14.8 | 0.2 | - | 0.2 |
| Non-current assets | 926.6 | 10.1 | 936.7 | 851.8 | - | 851.8 |
| Current liabilities | (32.4) | (93.3) | (125.7) | (53.8) | (54.9) | (108.7) |
| Non-current liabilities | - | (500.6) | (500.6) | - | (224.4) | (224.4) |
| Net derivative position | 908.5 | (583.3) | 325.2 | 798.2 | (279.3) | 518.9 |

### Recognition and measurement

#### Hedge accounting

On initial designation of a derivative as a hedging instrument, the Group documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy for undertaking the hedge transaction.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss. When the Group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as either fair value or cash flow hedges.

The hedge ratio is one, due to the notional value of the hedged item being hedged equating to the notional value of the hedge instrument.

#### Cash flow hedges

The Group's interest rate swaps are accounted for as cash flow hedges. They are used to hedge exposure to variability in forecast cash flows where the transaction is committed or highly probable. Initial recognition of the derivative is at fair value with attributable transaction costs recognised in profit or loss as incurred. Subsequent to initial recognition, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the cash flow hedge reserve under equity. Any ineffective portion of the derivative is recognised immediately in profit or loss. The amount accumulated in the cash flow hedge reserve is reclassified to profit or loss in the same period that the hedged cash flow affects profit or loss. If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and the balance in equity is reclassified to profit or loss when the forecast transactions are not expected to occur any more.

#### Fair value hedges

The Group's cross currency swaps are mainly accounted for as fair value hedges. They are used to hedge the exposure to variability in the fair value of assets or liabilities that could affect profit or loss. Initial recognition of the derivative is at fair value of the hedging instrument and subsequent changes, being hedging gain or loss, are recognised in profit or loss. The carrying value of the hedged items are adjusted for the hedging gain or loss, with the adjustment being recognised in profit or loss. The cross currency swaps are considered to be highly effective hedges as they are matched against underlying foreign currency exposures. There is no significant cashflow hedge ineffectiveness in the current year or prior year.

If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and any adjustment between the carrying amount and the face value of a hedged item is amortised through profit or loss using the effective interest rate method.

Foreign currency basis spread is recognised as a component of equity. This represents the fair value of the cost to convert foreign currency to Australian dollars of cross currency swaps.

**Critical estimates and assumptions – fair value measurement of financial instruments**

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

At 31 December 2019 and 31 December 2018, all derivative financial instruments were determined based on observable market inputs, categorised as Level 2.

Treasury and financial risk management

## 5. Derivative financial instruments continued

### Hedge Accounting

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows. All amounts are presented in AUD, unless otherwise stated.

| At 31 December 2019 | Fair value hedges EUR CCIRS $m | Fair value hedges USD CCIRS $m | Cash flow hedges EUR CCIRS $m | Cash flow hedges USD CCIRS $m | Cash flow hedges AUD IRS $m | Total $m |
|---|---|---|---|---|---|---|
| Notional amount [1] | EUR1,200.0 | USD1,120.0 | A$1,829.4 | A$3,189.9 | A$4,618.0 | n/a |
| Carrying amount of the hedging instrument | | | | | | |
| – Assets | 146.7 | 43.0 | - | 530.1 | - | 719.8 |
| – Liabilities | - | - | (113.3) | - | (281.3) | (394.6) |
| *Total carrying amount of the hedging instrument* | *146.7* | *43.0* | *(113.3)* | *530.1* | *(281.3)* | *325.2* |
| Cumulative fair value adjustment on hedged item [7] | (152.1) | (54.7) | (88.6) | (757.1) | - | (1,052.4) |
| Effective portion recognised in reserves [6] | - | - | 194.9 | 236.6 | 280.5 | 712.0 |
| During the year: | | | | | | |
| Change in the value of the hedging instrument used for calculating hedge effectiveness [2] | 44.5 | 42.7 | (127.7) | 10.6 | (163.8) | (193.7) |
| Change in the value of the hedged item used for calculating hedge effectiveness [2] | (44.7) | (42.2) | 140.7 | 1.7 | 163.6 | 219.1 |
| Change in value of the hedging instrument recognised in reserves [4] | n/a | n/a | (94.1) | (6.3) | (163.2) | (263.6) |
| Charged to profit and loss on discontinued hedges [5] | - | 1.9 | 0.9 | (1.5) | - | 1.3 |
| Ineffectiveness recognised in profit and loss [3] | (0.2) | (1.4) | (0.4) | 0.9 | (0.6) | (1.7) |
| Amount reclassified from hedge reserve to profit or loss [5,8] | n/a | n/a | (34.0) | 17.5 | - | (16.5) |

1. Depending on the nature of the cross currency swap, a single cross currency swap may be broken down into a fair value hedge and a cash flow hedge . Each structure has a notional amount. Hence the notional amount disclosed will be greater than the principal amount of the debt hedged.
2. Hedge effectiveness is the extent to which the changes in fair value of the hedging instrument offsets changes in the fair value of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument. A positive number represents a gain in the Income Statement (Finance costs).
4. Effective portion includes fair values of foreign currency basis spreads recognised in the Cost of Hedging Reserve. Figures are before tax. A positive number represents a gain on the cash flow hedge reserve.
5. A positive number represents a gain in the Income Statement (Finance costs).
6. A positive number represents a loss on cash flow hedge reserve.
7. A negative number represents an increase in liability.
8. This is fully offset within the Income Statement (Finance costs) by the change in fair value of foreign currency translation on foreign currency debt.

Treasury and financial risk management

## 5. Derivative financial instruments continued

| At 31 December 2018 | Fair value hedges EUR CCIRS $m | USD CCIRS $m | Cash flow hedges EUR CCIRS $m | USD CCIRS $m | AUD IRS $m | Total $m |
|---|---|---|---|---|---|---|
| Notional amount [1] | EUR1,200.0 | USD1,120.0 | A$1,829.4 | A$3,189.9 | A$4,618.0 | n/a |
| Carrying amount of the hedging instrument | | | | | | |
| – Assets | 102.3 | 8.0 | 38.3 | 520.4 | - | 669.0 |
| – Liabilities | - | (7.7) | (24.0) | (0.9) | (117.5) | (150.1) |
| *Total carrying amount of the hedging instrument* | *102.3* | *0.3* | *14.3* | *519.5* | *(117.5)* | *518.9* |
| Cumulative fair value adjustment on hedged item [7] | (107.4) | (12.4) | (122.4) | (741.7) | - | (983.9) |
| Effective portion recognised in reserves [6] | - | - | 100.8 | 230.3 | 117.4 | 448.5 |
| During the year: | | | | | | |
| Change in the value of the hedging instrument used for calculating hedge effectiveness [2] | 18.5 | (6.6) | 15.8 | 321.3 | (46.2) | 302.8 |
| Change in the value of the hedged item used for calculating hedge effectiveness [2] | (21.7) | 4.6 | (28.1) | (482.5) | 50.5 | (477.2) |
| Change in value of the hedging instrument recognised in reserves [4] | n/a | n/a | (62.5) | (55.6) | (46.0) | (164.1) |
| Charged to profit and loss on discontinued hedges [5] | - | 1.9 | 0.9 | (1.5) | - | 1.3 |
| Ineffectiveness recognised in profit and loss [3] | (3.0) | (2.0) | (1.2) | 0.1 | (0.2) | (6.3) |
| Amount reclassified from hedge reserve to profit or loss [5,8] | n/a | n/a | 78.8 | 378.3 | - | 457.1 |

1. Depending on the nature of the cross currency swap, a single cross currency swap may be broken down into a fair value hedge and a cash flow hedge . Each structure has a notional amount. Hence the notional amount disclosed will be greater than the principal amount of the debt hedged.
2. Hedge effectiveness is the extent to which the changes in fair value of the hedging instrument offsets changes in the fair value of the hedged item.
3. Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument. A positive number represents a gain in the Income Statement (Finance costs).
4. Effective portion includes fair values of foreign currency basis spreads recognised in the Cost of Hedging Reserve. Figures are before tax. A positive number represents a gain on the cash flow hedge reserve.
5. A positive number represents a gain in the Income Statement (Finance costs).
6. A positive number represents a loss on cash flow hedge reserve.
7. A negative number represents an increase in liability.
8. This is fully offset within the Income Statement (Finance costs) by the change in fair value of foreign currency translation on foreign currency debt.

Treasury and financial risk management

## 6. Net finance costs

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

| | 2019 $m | 2018 $m |
|---|---|---|
| **Finance income** | | |
| Bank interest | 4.0 | 5.0 |
| **Total finance income** | 4.0 | 5.0 |
| **Finance costs** | | |
| Senior debt interest paid or accrued | (318.3) | (317.4) |
| Net swap interest expense | (88.6) | (84.4) |
| CIBs capitalised | (17.8) | (22.6) |
| Amortisation of debt establishment costs | (4.2) | (13.5) |
| Recurring borrowings costs paid | (5.2) | (5.7) |
| Borrowing costs capitalised | 9.7 | 10.6 |
| RPS interest paid or accrued | (276.4) | (276.4) |
| Amortisation of RPS debt establishment costs | (17.5) | (15.2) |
| Lease interest expense | (0.2) | - |
| **Total finance costs** | (718.5) | (724.6) |
| Change in fair value of swaps | (0.1) | (5.0) |
| **Net finance costs** | (714.6) | (724.6) |

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

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

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

# Financial results and financial position

**Overview**
This section provides additional information about those individual line items in the financial statements that are considered relevant to the operations of the Group.

## 7. Trade and other receivables

| | 2019 $m | 2018 $m |
|---|---|---|
| **Current** | | |
| Trade receivables | 100.5 | 138.9 |
| Provision for doubtful debts | (0.1) | (0.1) |
| Total trade receivables | 100.4 | 138.8 |
| Accrued revenue | 79.5 | 78.1 |
| Other receivables | 19.8 | 13.8 |
| **Total current receivables** | 199.7 | 230.7 |
| **Non-current** | | |
| Accrued revenue | 7.4 | 8.3 |
| Operating lease receivable | 70.2 | 65.0 |
| Other receivables | 1.8 | 2.2 |
| **Total non-current receivables** | 79.4 | 75.5 |

Trade receivables are generally collected within 30 days of invoice date. Of the $100.5 million current trade receivables at 31 December 2019, $42.9 million relate to revenue earned from contracts with customers, as explained in Significant accounting policies.

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

**Recognition and measurement**
The Group's trade and other receivables are initially recognised at fair value, which approximates their carrying value. Subsequent measurement is recorded at amortised cost using the effective interest rate method, less any allowance for impairment raised for any doubtful debts based on an ongoing review of all outstanding amounts.

## Financial results and financial position

## 8. Property, plant and equipment

| | Freehold land | Buildings | Runways, taxiways and aprons | Other infrastructure | Operational plant and equipment | Other plant and equipment | Capital works in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Useful life (years) | 99 | 5-60 | 6-99 | 9-40 | 14-20 | 3-60 | | |
| **2019** | | | | | | | | |
| **Cost** | | | | | | | | |
| Opening balance | 11.3 | 2,785.2 | 970.7 | 1,248.1 | 511.2 | 392.4 | 363.2 | 6,282.1 |
| Additions [1] | - | - | - | - | - | 0.8 | 314.4 | 315.2 |
| Transfers | - | 263.3 | 20.4 | 55.6 | 27.0 | 59.2 | (425.5) | - |
| Disposals | - | (22.4) | - | (0.3) | - | (23.8) | - | (46.5) |
| **Closing balance** | 11.3 | 3,026.1 | 991.1 | 1,303.4 | 538.2 | 428.6 | 252.1 | 6,550.8 |
| **Accumulated depreciation** | | | | | | | | |
| Opening balance | (2.1) | (1,223.7) | (365.4) | (498.3) | (336.5) | (306.6) | - | (2,732.6) |
| Depreciation | (0.1) | (173.9) | (38.3) | (71.2) | (26.7) | (40.3) | - | (350.5) |
| Disposals | - | 22.4 | - | 0.3 | - | 23.8 | - | 46.5 |
| **Closing balance** | (2.2) | (1,375.2) | (403.7) | (569.2) | (363.2) | (323.1) | - | (3,036.6) |
| **Total carrying amount** | 9.1 | 1,650.9 | 587.4 | 734.2 | 175.0 | 105.5 | 252.1 | 3,514.2 |
| **2018** | | | | | | | | |
| **Cost** | | | | | | | | |
| Opening balance | 11.3 | 2,626.1 | 932.2 | 1,173.5 | 497.2 | 356.4 | 300.8 | 5,897.5 |
| Additions [1] | - | - | - | - | - | - | 388.7 | 388.7 |
| Transfers | - | 162.1 | 38.5 | 74.6 | 14.2 | 36.9 | (326.3) | - |
| Disposals | - | (3.0) | - | - | (0.2) | (0.9) | - | (4.1) |
| **Closing balance** | 11.3 | 2,785.2 | 970.7 | 1,248.1 | 511.2 | 392.4 | 363.2 | 6,282.1 |
| **Accumulated depreciation** | | | | | | | | |
| Opening balance | (1.9) | (1,062.5) | (326.8) | (433.1) | (313.9) | (270.7) | - | (2,408.9) |
| Depreciation | (0.2) | (164.2) | (38.6) | (65.2) | (22.8) | (36.8) | - | (327.8) |
| Disposals | - | 3.0 | - | - | 0.2 | 0.9 | - | 4.1 |
| **Closing balance** | (2.1) | (1,223.7) | (365.4) | (498.3) | (336.5) | (306.6) | - | (2,732.6) |
| **Total carrying amount** | 9.2 | 1,561.5 | 605.3 | 749.8 | 174.7 | 85.8 | 363.2 | 3,549.5 |

1. Includes capitalised borrowing costs of $9.7 million (2018: $10.6 million).

### Capital expenditure commitments

At reporting date, the Group had capital expenditure commitments of $194.7 million (2018: $70.1 million) which spans across 2020 to 2024.

### Recognition and measurement

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

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

Financial results and financial position

## 8. Property, plant and equipment continued

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

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

## 9. Intangible assets

| | Goodwill | Airport operator licence | Leasehold land | Total |
|---|---|---|---|---|
| Useful life (years) | n/a | 95 | 95 | |
| **2019** | | | | |
| **Cost** | | | | |
| Opening balance | 700.7 | 2,058.1 | 1,672.0 | 4,430.8 |
| Additions | - | - | - | - |
| **Closing balance** | 700.7 | 2,058.1 | 1,672.0 | 4,430.8 |
| **Accumulated amortisation** | | | | |
| Opening balance | - | (357.7) | (289.2) | (646.9) |
| Amortisation | | (21.7) | (17.6) | (39.3) |
| **Closing balance** | - | (379.4) | (306.8) | (686.2) |
| **Total carrying amount** | 700.7 | 1,678.7 | 1,365.2 | 3,744.6 |
| **2018** | | | | |
| **Cost** | | | | |
| Opening balance | 700.7 | 2,058.1 | 1,672.0 | 4,430.8 |
| Additions | - | - | - | - |
| **Closing balance** | 700.7 | 2,058.1 | 1,672.0 | 4,430.8 |
| **Accumulated amortisation** | | | | |
| Opening balance | - | (336.0) | (271.6) | (607.6) |
| Amortisation | - | (21.7) | (17.6) | (39.3) |
| **Closing balance** | - | (357.7) | (289.2) | (646.9) |
| **Total carrying amount** | 700.7 | 1,700.4 | 1,382.8 | 3,783.9 |

**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.

## 9. Intangible assets continued

**Recognition and measurement**

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

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

**Impairment of intangible assets**

The carrying amounts of the Group's intangible assets other than deferred tax assets are reviewed at each reporting date to determine any indication of impairment. Assets with finite lives are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have an indefinite useful life (including goodwill) are not subject to amortisation and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired.

An impairment loss is recognised in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows – cash generating units (CGU).

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is never reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

For year ended 31 December 2019 no intangible assets were impaired (2018: nil).

**Critical estimates and assumptions – impairment test for goodwill**

Assessing value in use requires directors to make significant estimates and assumptions.

Goodwill has been allocated to the Group's CGU, identified as being the investment in Sydney Airport. Discounted cash flow methodology has been adopted to value the Group's investment. Under this methodology, estimated post-tax cash flows are discounted to their present value using a post-tax discount rate. The discount rate used reflects current market assessment of the time value of money and the risks specific to Sydney Airport as CGU.

The cash flows used are projected based on a Financial Model covering a twenty year period, as follows:

- Cash flows for the first five years are based on a detailed bottom-up business planning process referencing historical performance and the Group's views on key drivers such as passenger numbers;
- Long-term cash flows to equity after year five are extrapolated with an average growth rate that is consistent with the forecast Australian Gross Domestic Product, and
- Terminal value is calculated using the Gordon Growth Model.

Cash flows are discounted using a post-tax discount rate calculated based on the Capital Asset Pricing Model (CAPM). The Group takes into account historical and related market data in estimating individual components of the CAPM. An increase of approximately twenty percentage points in the market risk premium (a component of the discount rate) would not result in an impairment of goodwill.

Other key assumptions used in the value in use calculation include international and domestic passenger numbers and inflation. Total passenger numbers were 44.4 million for the year ended 31 December 2019 (2018: 44.4 million) and grew 0.1% during 2019 (2018: 2.5%). Average long-term inflation rates are assumed to be within the Reserve Bank of Australia (RBA) target range. A reasonably possible change in passenger numbers, inflation or discount rate, would not be expected to lead to an impairment of goodwill.

The valuation derived from this discounted cash flow methodology is benchmarked to other sources such as the ASX-listed Sydney Airport security price, analyst consensus and recent market transactions to ensure the valuation provides a reliable value in use measure.

Financial results and financial position

## 9. Intangible assets continued

### Valuation of Sydney Airport

As at 31 December 2019, the Group had net liabilities of $4,674.7 million (2018: $3,937.7 million). An independent valuation of the SCACH Group equity value by Deloitte as at 31 December 2018 supported an equity value that, if applied in the financial report of the Group as at 31 December 2019, would have more than absorbed the consolidated deficiency position at 31 December 2019.

## 10. Taxation

### Income tax expense

Reconciliation of tax expense to prima facie tax payable:

| | Consolidated 2019 $m | 2018 $m |
|---|---|---|
| Profit before income tax | 232.4 | 194.4 |
| Income tax expense calculated at 30% | (69.7) | (58.3) |
| Expenses that are not deductible | (99.6) | (98.8) |
| Adjustments recognised in the current year that relate to the prior year [1] | - | (1.4) |
| **Income tax expense reported in the income statement** | (169.3) | (158.5) |

### Deferred taxes

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

| | Balance 1 January 2018 $m | Temporary movements recognised $m | Balance 31 December 2018 $m | Temporary movements recognised $m | Balance 31 December 2019 $m |
|---|---|---|---|---|---|
| **Deferred assets/(liabilities):** | | | | | |
| Property, plant and equipment | (220.5) | 2.9 | (217.6) | 5.6 | (212.0) |
| Deferred debt establishment costs | (1.2) | 1.2 | - | (2.5) | (2.5) |
| Accrued revenue and prepayments | (22.5) | (1.1) | (23.6) | (1.3) | (24.9) |
| Defined benefits plan | (2.0) | - | (2.0) | (0.2) | (2.2) |
| Deferred income | 0.1 | - | 0.1 | (0.1) | - |
| Other payables and lease liabilities | 15.9 | - | 15.9 | (2.6) | 13.3 |
| Cash flow hedge and Foreign currency basis reserve [1] | 57.7 | (89.7) | (32.0) | 56.3 | 24.3 |
| Interest bearing liabilities | 15.0 | 141.0 | 156.0 | 18.9 | 174.9 |
| **Total** | (157.5) | 54.3 | (103.2) | 74.1 | (29.1) |

1. $79.1 million (2018: $48.4 million) was charged to Equity.

## 10. Taxation continued

### Recognition and measurement

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

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

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

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

SCACH and its wholly owned Australian subsidiaries are part of the Sydney Airport Limited (SAL) tax-consolidated group (TCG) under Australian income tax law, with SAL the head entity. Each entity in the SAL TCG accounts for current and deferred tax with tax expense and deferred tax assets and liabilities arising from temporary differences recognised in their separate financial statements using the 'standalone tax payer' approach. Under the tax sharing agreement between SAL TCG entities, amounts are recognised as payable to or receivable by each member of the SAL TCG in relation to the tax contribution amounts paid or payable between SAL and members of the SAL TCG. Any tax losses and current tax liabilities from subsidiaries are transferred to SAL.

## 11. Leases

Leases recognised as right-of-use assets where the SCACH Group is a lessee are described below.

### Amounts recognised in the Statement of financial position

Included in Property, Plant and Equipment on the balance sheet is $0.8 million being the carrying amout of right-of-use assets at 31 December 2019 following implementation of AASB 16. These relate mainly to the lease of data centre space. These leases expire between 2021 and 2031.

Lease liabilities included on the balance sheet is $0.4 million recognised as Current lease liabilities and $0.2 million as Non-current lease liabilities.

Transition adjustments have been described under Changes in accounting policies.

There were no additions to right-of-use assets during the 2019 financial year.

### Amounts recognised in the Statement of comprehensive income

| | SCACH Group |
|---|---|
| | 2019<br>$m |
| Lease interest expense | 0.2 |
| Depreciation expense | 0.5 |

### Recognition and measurement

Cost of right-of-use asset comprises the initial measurement of the liability, any lease payments pre-commencement date offset by any lease incentives received, initial direct costs and restoration costs, if applicable. The cost is depreciated over the shorter of the asset's useful life and the life of the lease on a straight-line basis.

Lease liabilities are measured by the net present value of fixed payments offset by any lease incentives receivable, and where applicable variable lease payments linked to an index or rate if applicable, exercise price of a purchase option (where the Group is reasonably certain to exercise that option); and payment of penalties for terminating the lease (where the life of the lease has assumed termination). Payments made are allocated between lease liability and finance cost, with the finance cost charged to interest expense over the life of the lease. The weighted average incremental borrowing rate was applied to the lease liabilities from 1 January 2019.

# Employee benefits

**Overview**
The Group aims to attract, retain and motivate high performing individuals and has various compensation and reward programs in place for employees and management, which are detailed in this section.

## 12. Key management personnel

The remuneration structure of key management personnel (KMP) and other executives comprises of:

– Fixed annual remuneration (FAR), consisting of base salary and benefits inclusive of the minimum regulatory superannuation contribution; and

– At risk remuneration (ARR), being the components which are variable and directly linked to the delivery of individual key performance targets and Sydney Airport's key financial and business objectives.

In the event of termination of KMP with cause, there is no termination payment except for their statutory entitlements.

The CEO's contract: The CEO's employment may be terminated for any reason by giving six months' notice. In the event of any serious, willful or persistent misconduct, the Group may immediately terminate the CEO's employment. If employment is terminated as a consequence of an uncontrollable event (which includes death, permanent disability, retirement and termination without cause), any unvested STI or LTI award that has been awarded will remain on foot and vest in accordance with its terms, unless the Board exercises its discretion to determine the relevant award lapses on termination.

Treatment of STI Deferral: Resignation or termination for serious and willful misconduct or persistent breach results in outstanding deferral elements being forfeited. Termination in all other circumstances results in outstanding deferral elements being payable, subject to the statutory requirements under the *Corporations Act*.

For other executives, termination without cause results in outstanding deferral elements being payable. Termination with cause results in outstanding deferral elements being forfeited. In the case of resignation, the deferral elements are forfeited unless there is specific provision within the employment contract. The Board has the overriding discretion in relation to treatment upon termination.

KMP compensation for the Group comprised the following:

| | SCACH Group | |
|---|---|---|
| | 2019<br>$ | 2018<br>$ |
| Short term employee benefits – salary and fees | 4,931,675 | 3,587,097 |
| Short term employee benefits – bonus and other [1] | 3,794,598 | 4,380,988 |
| Post employment benefits – superannuation | 218,648 | 182,108 |
| Share based payments (LTI) | 247,123 | 554,900 |
| **Total KMP compensation** | 9,192,044 | 8,705,093 |

1. Includes one-off cash and/or equity payments.

## Employee benefits

## 13. Long-term incentive plan

Sydney Airport (comprising the SCACH Group) has put in place a Long-Term Incentive Plan (LTIP) 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 for the 2019 – 2021 LTI series, the following performance conditions are required to be satisfied:

– half of the Rights granted are based on a market comparative Total Shareholder Return performance condition (TSR tranche); and

– half of the Rights granted are based on cash flow per stapled security performance conditions (CPS tranche).

For LTI series 2018 – 2020 and 2017 – 2019, the Board granted contractual rights (Rights) to certain management personnel to receive Sydney Airport stapled securities at a future date subject to the following performance conditions being satisfied:

– one third of the Rights granted are based on a market comparative Total Shareholder Return performance condition (TSR tranche);

– one third of the Rights granted are based on cash flow per stapled security performance conditions (CPS tranche); and

– one third of the Rights are assessed at the Board's discretion based on of the long-term performance of the business and each participants contribution to that long-term performance (Other tranche). Measures used to evaluate this tranche include outcomes and performance conditions specific to each individual, taking into account such elements as people and leadership, customer satisfaction and delivery of long-term financial outcomes.

### Fair value calculations

Performance conditions are measured over a three year period. Rights do not have distribution entitlements during the vesting period. If a participant resigns, or has their employment terminated with cause, all their unvested rights will immediately lapse. If a participant's employment ends by reason of an uncontrollable event (as defined in the LTIP) they may be entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

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

**Recognition and measurement**

Equity-settled share-based transactions are measured at fair value at the date of grant. The cost of these transactions are recognised in the profit or loss and credited to equity over the vesting period. At each reporting date, the Group revises its estimates of the number of rights that are expected to vest for service and non-market performance conditions. The expense recognised each year takes into account the most recent estimate.

The fair value of rights granted for each tranche is described below:

– the TSR tranche was determined at grant date using the Monte Carlo model;

– the CPS tranche was determined at grant date using the binomial option pricing model; and

– where applicable, the Other tranche will be remeasured each year until vesting as the grant date for this tranche has not been reached. The Board will determine what proportion (if any) of the rights will vest, having regard to individual and company performance.

The Board granted 527,668 LTI rights in 2019. At 31 December 2019, the following rights remain unvested.

**LTI Series 2019 – 2021**

| Condition | Number of rights | Grant value | Vesting date |
|---|---|---|---|
| TSR tranche | 263,834 | $3.34 | February 2022 |
| CPS tranche | 263,834 | $6.11 | February 2022 |

The Board granted 404,400 LTI rights in 2018. Of these, 53,994 right were forfeited in 2019. At 31 December 2019, the following rights remain unvested.

**LTI Series 2018 – 2020**

| Condition | Number of rights | Grant value | Vesting date |
|---|---|---|---|
| TSR tranche | 116,802 | $2.82 | February 2021 |
| CPS tranche | 116,802 | $6.16 | February 2021 |
| Other tranche | 116,802 | $7.33 | February 2021 |

## Employee benefits

### 13. Long-term incentive plan continued

The Board granted 164,823 LTI rights in 2017. Of these, 29,517 were forfeited in 2019. At 31 December 2019, the following rights remain unvested.

**LTI Series 2017 – 2019**

| Condition | Number of rights | Grant value | Vesting date |
|---|---|---|---|
| TSR tranche | 45,102 | $4.24 | February 2020 |
| CPS tranche | 45,102 | $6.37 | February 2020 |
| Other tranche | 45,102 | $7.41 | February 2020 |

Share based payments expensed was $90,944 (2018: $836,579).

### 14. Superannuation plan

Group employees are entitled to varying levels of benefits on retirement, disability or death through the Sydney Airport Superannuation Plan (the Plan). The Plan consists of a defined benefit plan, available only to existing members, which is fully funded and provides lump sum or pension benefits based on years of service and final average salary; and a defined contribution plan, available to all Sydney Airport employees. The Plan also provides accumulation style benefits for the Superannuation Guarantee Charge and Members' Contributions. Employees contribute to the Plan at various percentages of their remuneration. Contributions by the Group of 9.5% of employees' remuneration are legally enforceable in Australia and for the year ended 31 December 2019 amounted to $6.3 million (2018: $5.2 million).

The following table discloses the Group's details pertaining to the defined benefit plan:

| | 2019 $m | 2018 $m |
|---|---|---|
| **Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of defined benefit plans:** | | |
| Current service costs | (1.5) | (1.5) |
| Interest income | 0.2 | 0.2 |
| Total included in employee benefit expense | (1.3) | (1.3) |
| Remeasurement gains/(losses) recognised in other comprehensive income | 0.7 | (0.1) |
| **The amounts included in the Consolidated balance sheet arising from the Groups' obligations in respect of its defined benefit plans were:** | | |
| Present value of defined benefit obligations | (28.6) | (25.6) |
| Fair value plan assets [1] | 36.0 | 32.2 |
| **Net asset arising from defined benefit obligations** | 7.4 | 6.6 |

1. Plan assets include investments in unquoted securities of $20.6 million (2018: $18.0 million).

#### Recognition and measurement

**Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Employee benefits

## 14. Superannuation plan continued

### Defined benefit plan (DBP)

The net obligation in respect of DBP is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense or income on the net defined benefit liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The principal actuarial assumptions used in determining the Plan liability and sensitivities were:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 2.0% | 3.7% |
| Future salary increases | 3.0% | 3.5% |

| | 0.5% decrease | 0.5% increase |
|---|---|---|
| Discount rate ($m) | 1.3 | (1.2) |
| Future salary increases ($m) | (1.0) | 1.0 |

Remeasurements arising from DBP comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to DBP in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a DBP when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payment made directly by the Group in connection with the settlement.

# Other disclosures

**Overview**
This section provides details on other required disclosures relating to the Group to comply with accounting standards and other pronouncements.

## 15. Trade and other payables

| | 2019 $m | 2018 $m |
|---|---|---|
| Trade and other payables | 139.1 | 137.0 |
| Accrued interest | 112.5 | 107.6 |
| Unearned revenue | 47.1 | 45.0 |
| Intercompany tax payable to parent entity | 317.6 | 153.1 |
| **Total trade and other payables** | 616.3 | 442.7 |

Trade payables and other payables are non-interest bearing and are normally settled on 30 day terms.

Unearned revenue represents amounts invoiced in advance but is not earned at reporting date. All unearned revenue is recognised as revenue in the following reporting period.

The SCACH Group had an intercompany tax payable to its parent entity as the head of the SAL tax consolidated group at 31 December 2019 and 31 December 2018.

**Recognition and measurement**
The Group's trade and other payables are initially recognised at fair value, which are estimated to approximate their carrying value and are subsequently measured at amortised cost using the effective interest rate method, which is also estimated to approximate fair value.

## 16. Group structure and parent entity

**Group structure and corporate information**
SCACH is the parent entity of the Group that has 100% equity interest in the following subsidiaries:

- 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 subsidiaries are incorporated in Australia. SAF1 is a 100% owned member of the SCACH Group, acquired in July 2017. There was no change to ownership interest during this financial year.

The ultimate parent entity and Australian parent entity of SCACH is Sydney Airport Limited (SAL).

The registered office and principal place of business of SCACH is:

10 Arrivals Court
Sydney International Airport
Mascot NSW 2020

**Deed of cross guarantee**
Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (the Instrument) the wholly-owned subsidiaries listed on the following page are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and Directors' reports.

It is a condition of the Instrument that the parent entity and each of the subsidiaries enter into a deed of cross guarantee (the Deed). The effect of the Deed is that the parent entity (Southern Cross Airport Corporation Holdings Limited), guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the parent entity will only be liable in the event that any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the parent entity is wound up.

Other disclosures

## 16. Group structure and parent entity continued

The subsidiaries subject to the Deed are:

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

The SCACH Group consolidated financial statements include SAF1 and FinCo that are not party to the Deed. Consolidated information in respect of the SCACH Group that is part of the Deed is set out as follows:

| SCACH Group excluding SAF1 and FinCo | 2019 $m | 2018 $m |
|---|---|---|
| **Result of the SCACH Group excluding SAF1 and FinCo** | | |
| Total revenue and other income | 1,639.9 | 1,585.0 |
| Total operating expenses | (299.9) | (296.5) |
| Total other expenses | (3.2) | (2.4) |
| Total expenses before depreciation, amortisation, net finance costs and income tax | (303.1) | (298.9) |
| Profit before depreciation, amortisation, net finance costs and income tax (EBITDA) | 1,336.8 | 1,286.1 |
| Profit before net finance costs and income tax (EBIT) | 947.0 | 919.0 |
| Net finance costs | (714.6) | (724.6) |
| Profit before income tax expense | 232.4 | 194.4 |
| Income tax expense | (176.9) | (155.4) |
| Profit after income tax expense | 55.5 | 39.0 |
| Other comprehensive loss | - | (0.1) |
| **Total comprehensive income for the year** | 55.5 | 38.9 |

| Financial position of the SCACH Group excluding SAF1 and FinCo | 2019 $m | 2018 $m |
|---|---|---|
| Current assets | 1,265.8 | 1,471.0 |
| Non-current assets | 7,349.0 | - |
| **Total assets** | 8,614.8 | 1,471.0 |
| Current liabilities | (649.3) | (698.7) |
| Non-current liabilities | (12,105.7) | (4,339.2) |
| Total liabilities | (12,755.0) | (5,037.9) |
| **Net liabilities** | (4,140.2) | (3,566.9) |
| **Total equity of the SCACH Group excluding SAF1 and FinCo comprising of:** | | |
| Issued capital | 1,533.4 | 1,533.4 |
| Other contributed equity | (36.0) | (36.0) |
| Accumulated losses | (5,637.6) | (5,064.3) |
| **Total equity** | (4,140.2) | (3,566.9) |

The 2019 Financial Position includes adjustments to the classification of assets and liabilities compared to the prior year. The prior year balances reflect an offset of intercompany balances. In 2019, the intercompany balances have not been offset as this better represents the financial position of the SCACH Group excluding SAF1 and FinCo. Should these changes have been applied in 2018, there would have been no change to the net assets of the SCACH Group excluding SAF1 and FinCo.

**Other disclosures**

## 16. Group structure and parent entity continued

**SCACH parent entity financial result and position**

| | 2019 $m | 2018 $m |
|---|---|---|
| **Result of the parent entity** | | |
| Profit after income tax expense | 2,546.3 | 1,696.3 |
| Other comprehensive (loss)/income | - | - |
| **Total comprehensive income for the year** | 2,546.3 | 1,696.3 |
| **Financial position of the parent entity** | | |
| Current assets | 16,496.0 | 1,971.7 |
| Total assets | 40,449.3 | 17,727.8 |
| Current liabilities | (5,360.1) | (5,021.5) |
| Total liabilities | (20,460.4) | (7,207.9) |
| **Total equity of the parent entity comprising of:** | | |
| Issued capital | 1,533.5 | 1,533.4 |
| Retained earnings | 18,455.4 | 8,986.5 |
| **Total equity** | 19,988.9 | 10,519.9 |

The 2019 parent entity financial result and position include adjustments arising from the correction of an error in the AASB 9 *Financial Instruments* transition calculation of the fair values of intercompany loans between SCACH and its subsidiaries as well as the recognition of previously unrecognised earned interest on one intercompany loan. This has resulted in an increase in both current and total assets. The current year balances also reflect changes to the classification of assets and liabilities compared to the prior year. In the prior year, intercompany balances were offset whilst in the current year, intercompany balances have not been offset as this better represents the financial position of the SCACH parent entity. The impact of these changes compared to prior year eliminates on consolidation and has no impact on the SCACH Group.

**Parent entity guarantees, commitments and contingencies**

At 31 December 2019 the parent entity:

– Has no contingent assets or liabilities which are material either individually or as a class; and

– Has not made any capital expenditure commitments (2018: $nil).

No liability was recognised by the parent entity in relation to the Deed as the fair value of the guarantee is immaterial.

## Other disclosures

## 17. Related party disclosures

**Loans from SCACH to SCAC**

Loans granted by SCACH to SCAC are repayable on 30 June 2048. Interest on the loan is charged at 18.0% per annum and interest on unpaid interest is charged at 19.0% per annum. The loans are considered recoverable at 31 December 2019 and 31 December 2018.

**Resources Agreement Fee**

SACL and The Trust Company (Sydney Airport) Limited (TTCSAL) entered into a Resources Agreement under which SACL provides resources to enable TTCSAL to perform various functions in connection with its role as Responsible Entity of SAT1 and one of its subsidiaries SAT2. Fees are charged from SACL to TTCSAL for resources provided, calculated per the relevant provisions in the Resources Agreement.

There were $186,802 fees charged by SACL to TTCSAL for year ended 31 December 2019 (2018: $102,485). $65,000 remains unpaid at 31 December 2019 (2018: $57,238).

**Transactions with entities with joint-control or significant influence over the Group**

A number of directors of SCACH also hold directorships on the Board of Directors of related companies. Transactions between the Group and related entities are stated above. SCACH's directors do not derive any direct personal benefit from the transactions between the Group and these businesses.

**Transactions with other related parties**

SACL entered into contracts with wholly owned subsidiaries of Downer EDI Ltd, detailed below. Mr Fenn is non-executive director of SAL (the ultimate parent entity of the SCACH Group) and is CEO of Downer EDI Ltd. The contracts are at arm's length and were made following competitive tender processes. Mr Fenn was not involved in any board decision regarding the contracts.

| Entity | Contract Value [1] $ | Amounts paid during the financial year ended 31 December 2019 $ |
|---|---|---|
| Downer EDI Works Pty Ltd | 3,822,290 | 712,840 |
| Downer Engineering Power Pty Ltd | $21,494,981 | 2,993,994 |

1. Contract value includes variations as applicable.

## 18. Remuneration of auditors

| | 2019 $ | 2018 $ |
|---|---|---|
| Amounts paid or payable to auditors (KPMG) for: | | |
| Audit and review of financial statements | 535,833 | 433,500 |
| Other services | | |
| - Other assurance services | 56,888 | 163,963 |
| - Non-assurance services | 65,000 | 160,000 |
| **Total amount paid or payable to auditors** | 657,721 | 757,463 |

1. Comparative information has been re-presented. Amounts have been disaggregated to provide consistent reporting of audit and non-audit fee information in the current year.

Other assurance services in 2019 relates to work performed on the Sustainability Report. (2018: Sustainability report, refinancing of senior debt and the provision of accounting advice.)

Non-assurance services in 2019 relates to the finalisation of an Operating Model assessment ($65,000) (2018: Operating model assessment ($100,000), Taskforce for climate related disclosures gap analysis ($25,000) and Social licence to operate review ($35,000)).

## Other disclosures

## 19. Operating lease receivable arrangements

Future minimum rentals are receivable under non-cancellable operating leases. The associated revenue will be recognised on a straight-line basis over the lease term in future periods. These are as follows:

| | 2019 $m | 2018 $m |
|---|---|---|
| Receivable within one year | 356.2 | 376.1 |
| Receivable later than one year but no later than five years | 620.4 | 726.8 |
| Receivable after five years | 27.2 | 38.4 |
| | 1,003.8 | 1,141.3 |

## 20. Subsequent events

On 28 January 2020 an ordinary dividend of $182.3 million (2018: $165.8 million) and an RPS distribution of $69.7 million (2018: $69.7 million) was paid for the quarter ended 31 December 2019. The final dividend has not been recognised in this financial report because it was declared after 31 December 2019.

On 17 February 2020, the Group announced that it had issued a multi-tranche US private placement bond, comprising tranches of approximately $600 million in total with maturities ranging between 15 and 30 years. These included a 20-year sustainability-linked tranche, which represents the first ever sustainability-linked bond in the US private placement bond market. The tranche coupon will decrease or increase depending on the Group's sustainability performance over time, which is a similar structure to the Sustainability Linked Loan entered into in 2019. The proceeds from this bond will be used to repay drawn bank debt, unlocking additional liquidity to cover future debt maturities and to fund planned capital expenditure.

The directors are not aware of any other matter or circumstance not otherwise dealt with in the financial report 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 the period subsequent to the year ended 31 December 2019.