SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED

ACN 098 082 029

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 30 JUNE 2018

Contents

Directors' report

for the half year ended 30 June 2018

The financial report for the half year ended 30 June 2018 (the financial report) covers the consolidated entity Southern Cross Airports Corporation Holdings Limited (SCACH) and its controlled entities (the Group). The Group's functional and presentation currency is Australian dollars ($), rounded to the nearest hundred thousand dollars.

Directors

The following persons are current directors of SCACH:

Name	Role	Period of directorship
Trevor Gerber	Non-executive director, Chairman	Appointed director 4 January 2012, Chairman 14 May 2015
Michael Lee	Non-executive director	Appointed 4 January 2012
John Roberts	Non-executive director	Appointed 15 February 2006
Stephen Ward	Non-executive director	Appointed 4 January 2012
Ann Sherry	Non-executive director	Appointed 1 May 2014
Grant Fenn	Non-executive director	Appointed 1 October 2015
Abi Cleland	Non-executive director	Appointed 5 April 2018
Geoff Culbert	Executive director	Appointed director 21 February 2018 and CEO on 15 January 2018
Kerrie Mather	Executive director	Appointed 27 June 2002 Retired as Managing director and CEO on 15 January 2018

In July 2018, Sydney Airport announced the appointment of David Gonski as non-executive director from late September 2018.

Corporate structure

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

- Sydney Airport Corporation Limited (SACL)
- Southern Cross Airports Corporation Pty Limited (SCAC)
- Sydney Airport Finance Company Pty Limited (FinCo)
- Sydney Airport RPS Company Pty Limited (RPSCo)
- SA (F1) Pty Limited (SAF1)

All companies in the SCACH Group (as listed above), excluding SAF1, have entered into a deed of cross guarantee from 21 December 2007 pursuant to ASIC Corporations Instrument 2016/785 dated 29 September 2016. As all companies in the Group are party to the cross guarantee, the consolidated income statement and statement of financial position of the entities party to the cross guarantee are as presented in the consolidated column of the statement of comprehensive income and statement of financial position.

The deed of cross guarantee ensures that each group company is jointly liable for the debts of all the companies party to the cross guarantee. This enables external stakeholders, such as creditors, to be able to rely on the consolidated accounts. The deed of cross guarantee can be found at www.sydneyairport.com.au/corporate/about/reports-and-publications.

Directors' report

for the half year ended 30 June 2018

Registered office

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

Principal activities

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

Review of operations and results

The consolidated entity earned a profit before depreciation and amortisation, net finance costs and income tax (EBITDA) of $625.4 million for the half year ended 30 June 2018 (30 June 2017: $578.5 million).

After deducting depreciation and amortisation, net finance costs and income tax, the net profit was $6.6 million (30 June 2017: net loss of $1.8 million). The net profit is after deducting redeemable preference share costs to shareholders totaling $145.1 million (30 June 2017: $144.1 million) which are held by the ordinary shareholder.

Total expenses were $145.5 million (30 June 2017: $135.6 million). Depreciation and amortisation costs were $177.6 million (30 June 2017: $161.0 million).

Net finance costs were $371.2 million (30 June 2017: $348.8 million) and primarily consist of interest expense payable to third parties (secured senior debt) and associated debt establishment costs totalling $216.6 million (30 June 2017: $212.2 million), and interest on redeemable preference shares totalling $145.1 million (30 June 2017: $144.1 million).

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

Financing metrics

The following table shows the net senior debt and selected ratios as at 30 June 2018.

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

	30 June 2018 $m	31 December 2017 $m	30 June 2017 $m
Gross total debt [1]	8,602.4	8,363.7	8,153.0
Less: total cash [2]	(279.5)	(271.5)	(276.5)
Net debt	8,322.9	8,092.2	7,876.5
Net senior debt	8,322.9	8,092.2	7,876.5
EBITDA (12 months historical)	1,245.7 [4]	1,198.9 [3]	1,129.8
Net debt/EBITDA [3]	6.7x [4]	6.7x [3]	6.8x
Cash flow cover ratio [4]	3.1x [4]	3.0x [3]	2.9x

1 Gross total debt refers to principal amount drawn, refer to Note 2, and excludes shareholder related borrowing (RPS) (as they are subordinated to all other creditors) and fair value hedge adjustments on foreign currency denominated bonds.

2 Excludes cash held by Parent, as required by financing documents.

3 Excludes EBITDA in relation to the Ibis Budget Hotel for the September 2017 quarter given transitional treatment as an Excluded Subsidiary under finance documents.

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

Directors' report

for the half year ended 30 June 2018

In April 2018, Sydney Airport successfully issued a EUR500 million ($796 million) 10-year Euro bond. Proceeds raised were used to repay drawn bank debt, unlocking additional liquidity to cover debt maturities and fund planned ongoing investment.

Outcomes of this refinancing were:

- Strong liquidity position enhanced, with $1.4 billion in undrawn bank debt facilities available as at 30 June 2018
- Debt maturity profile lengthened, with average maturity extended four months to mid-2024
- Debt maturity profile smoothed, with less than 15% of debt maturing in any one year
- Funding sources diversified, with a second issuance into the Euro market

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

Sydney Airport Finance Company Pty Limited's senior secured debt credit ratings assigned by Standard & Poor's and Moody's have been upgraded from BBB to BBB+, and from Baa2 to Baa1 respectively.

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

Independent valuation

As at 30 June 2018, the Group has net liabilities of $3,645.8 million (31 December 2017: $ 3,292.7 million). An independent valuation by Deloitte as at 31 December 2017 supported an Equity Value that, if applied in the financial report of the Group as at 30 June 2018, would have more than absorbed the consolidated deficiency position at 30 June 2018.

The directors believe there are no known factors that would have had a significant adverse effect on the valuation since 31 December 2017. Accordingly, the going concern basis of accounting is considered to be appropriate in the preparation of the financial report.

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

Dividends and distributions

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

- the $2,075.3 million carrying value of the RPS at 30 June 2018 (30 June 2017: $2,061.1 million) is classified as borrowings rather than equity; and
- the $137.8 million (30 June 2017: $137.8 million) RPS interest paid to the shareholder during the period is included as interest expense rather than as a distribution of profits.

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

Dividends and distributions paid	Half year ended 30 June 2018 $m	Half year ended 30 June 2017 $m
On ordinary shares[1]	297.5	245.8
On RPS[1]	137.8	137.8
	435.3	383.6

1 Represents cash paid as per the Consolidated Statement of Cash Flows.

In respect of the quarter ended 30 June 2018, the directors approved an ordinary dividend of $125.1 million (30 June 2017: $115.4 million) and RPS distribution of $68.9 million (30 June 2017: $68.9 million). These amounts were paid on 27July 2018.

Directors' report

for the half year ended 30 June 2018

Significant changes in the state of affairs

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

Events occurring after balance sheet date

As at 30 June 2018, the Group had a AUD100.0 million unwrapped domestic bond and a CAD225.0 million Canadian Maple bond outstanding, with both of these bonds maturing in July 2018. Since the reporting date, these bonds were repaid using the Group's available bank debt facilities.

Dividends and distributions

In respect of the quarter ended 30 June 2018, the directors approved an ordinary dividend of $125.1 million (30 June 2017: $115.4 million) and RPS distribution of $68.9 million (30 June 2017: $68.9 million). These amounts were paid on 27 July 2018.

Auditor's independence declaration

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

Rounding

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

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

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

On behalf of the Directors

Trevor Gerber

Sydney
21 August 2018

Statement by the Directors of Southern Cross Airports Corporation Holdings Limited

for the half year ended 30 June 2018

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

1. The financial statements and notes set out on pages 10 to 25 are in accordance with the *Corporations Act 2001* including:
   a. Giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half year ended on that date; and
   b. Complying with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Trevor Gerber

Sydney
21 August 2018

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

To the Directors of Southern Cross Airports Corporation Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Southern Cross Airports Corporation Holdings Limited for the half-year ended 30 June 2018 there have been:

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

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

KPMG

KPMG

Leann K Yuen

Leann Yuen
Partner

Sydney
21 August 2018

Independent Auditor's Report

To the shareholders of Southern Cross Airports Corporation Holdings Limited

Conclusion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Pages 14 to 28 comprising a summary of significant accounting policies and other explanatory information, including notes 1 to 8; and
- The Directors' Declaration.

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

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Airports Corporation Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Leann K Yuen

Leann Yuen
Partner

Sydney
21 August 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of comprehensive income

for the half year ended 30 June 2018

	Note	6 months to 30 June 2018 $m	6 months to 30 June 2017 $m
Revenue			
Aeronautical revenue		345.0	320.6
Aeronautical security recovery		48.2	43.6
Retail revenue		177.1	162.6
Property and car rental revenue		118.2	106.6
Parking and ground transport revenue		78.6	77.1
Other revenue		3.8	3.6
Total revenue		770.9	714.1
Operating expenses			
Employee benefits expense		(29.8)	(28.1)
Services and utilities expense		(42.5)	(40.1)
Property and maintenance expense		(14.9)	(15.3)
Security recoverable expense		(44.6)	(39.7)
Other operational costs		(13.7)	(11.8)
Total operating expenses		(145.5)	(135.0)
Other expenses			
Western Sydney Airport project costs expensed		-	(0.6)
Total other expenses		-	(0.6)
Total expenses before depreciation, amortisation, net finance costs and income tax		(145.5)	(135.6)
Profit before depreciation, amortisation, net finance costs and income tax (EBITDA)		625.4	578.5
Depreciation		(158.0)	(141.4)
Amortisation		(19.6)	(19.6)
Profit before net finance costs and income tax (EBIT)		447.8	417.5
Finance income	6	2.5	1.9
Finance costs	6	(361.7)	(356.3)
Change in fair value of swaps	6	(12.0)	5.6
Net finance costs	6	(371.2)	(348.8)
Profit before income tax expense		76.6	68.7
Income tax expense		(70.0)	(70.5)
Net loss attributable to owners of the company		6.6	(1.8)
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of cash flow hedges		(92.3)	(37.9)
Changes in fair value of foreign currency basis spread		2.3	-
Tax on items that may be reclassified to profit or loss		27.0	11.4
Total items that may subsequently be reclassified to profit or loss		(63.0)	(26.5)
Other comprehensive loss, net of tax		(63.0)	(26.5)
Total comprehensive loss attributable to owners of the company		(56.4)	(28.3)

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

Consolidated statement of financial position

as at 30 June 2018

	Note	30 June 2018 $m	31 December 2017 $m
Current assets			
Cash and cash equivalents	3	279.8	272.0
Trade and other receivables		156.0	173.9
Derivative financial instruments	5	13.6	9.6
Other assets		0.9	0.9
Total current assets		450.3	456.4
Non-current assets			
Trade and other receivables		81.6	78.4
Property, plant and equipment		3,515.2	3,488.6
Intangible assets	7	3,803.6	3,823.2
Derivative financial instruments	5	591.4	531.9
Other assets		11.4	20.6
Total non-current assets		8,003.2	7,942.7
Total assets		8,453.5	8,399.1
Current liabilities			
Trade and other payables		335.8	307.4
Interest bearing liabilities – external	2	331.4	329.5
Derivative financial instruments	5	91.1	102.4
Provisions for employee benefits		13.6	13.6
Total current liabilities		771.9	752.9
Non-current liabilities			
Interest bearing liabilities – external	2	8,937.6	8,497.8
Interest bearing liabilities – shareholder related	2	2,075.3	2,068.0
Derivative financial instruments	5	190.4	213.4
Deferred tax liabilities		121.9	157.5
Provisions for employee benefits		2.2	2.2
Total non-current liabilities		11,327.4	10,938.9
Total liabilities		12,099.3	11,691.8
Net liabilities		(3,645.8)	(3,292.7)
Equity			
Issued capital		1,533.1	1,532.3
Cash flow hedge reserve		(265.7)	(201.1)
Foreign currency basis spread reserve		1.6	-
Accumulated losses		(4,914.8)	(4,623.9)
Total equity		(3,645.8)	(3,292.7)

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

Consolidated statement of changes in equity

for the half year ended 30 June 2018

	Issued capital[1] $m	Accumulated losses $m	Cash flow hedge reserve $m	Foreign currency basis spread reserve $m	Total equity $m
Total equity at 1 January 2018	1,532.3	(4,623.9)	(201.1)	-	(3,292.7)
Profit for the period	-	6.6	-	-	6.6
Other comprehensive income/(loss)	-	-	(64.6)	1.6	(63.0)
Dividends on ordinary shares	-	(297.5)	-	-	(297.5)
Equity contribution from parent	0.3	-	-	-	0.3
Equity-settled shares	0.5	-	-	-	0.5
Total equity at 30 June 2018	1,533.1	(4,914.8)	(265.7)	1.6	(3,645.8)
Total equity at 1 January 2017	1,496.3	(4,141.2)	(162.4)	-	(2,807.3)
Loss for the period	-	(1.8)	-	-	(1.8)
Other comprehensive income/(loss)	-	-	(26.5)	-	(26.5)
Dividends on ordinary shares	-	(245.8)	-	-	(245.8)
Equity-settled shares	0.6	-	-	-	0.6
Total equity at 30 June 2017	1,496.9	(4,388.8)	(188.9)	-	(3,080.8)

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

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

Consolidated statement of cash flows

for the half year ended 30 June 2018

	Note	6 months to 30 June 2018 $m	6 months to 30 June 2017 $m
Cash flow from operating activities			
Receipts from customers		867.2	809.4
Interest received		2.5	1.9
Payments to suppliers and employees		(238.3)	(222.0)
Interest paid		(162.3)	(157.0)
Interest rate swaps payments		(29.4)	(30.7)
Net cash flow from operating activities		439.7	401.6
Cash flow from investing activities			
Acquisition of property, plant and equipment		(210.7)	(163.0)
Capitalised borrowing costs		(5.1)	(4.7)
Net cash flow used in investing activities		(215.8)	(167.7)
Cash flow from financing activities			
Proceeds received from borrowings		900.1	479.0
Repayment of borrowings		(674.0)	(271.0)
Borrowing costs paid		(7.2)	(9.5)
Proceeds from parent		0.3	-
Dividends paid – ordinary shares	1	(297.5)	(245.8)
Interest paid – redeemable preference shares		(137.8)	(137.8)
Net cash flow used in financing activities		(216.1)	(185.1)
Net increase in cash and cash equivalents		7.8	48.8
Cash and cash equivalents at beginning of the period		272.0	227.7
Cash and cash equivalents at the end of the period	3	279.8	276.5

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

Notes to the financial statements

for the half year ended 30 June 2018

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 to be read in conjunction with the annual report of the Group for the year ended 31 December 2017 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*;
- Is a general purpose financial report;
- Is prepared in accordance with *Corporations Act 2001* and the *Australian Accounting Standard 134: Interim Financial Reporting* adopted by the Australian Accounting Standards Board (AASB);
- Is prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss; and
- Is presented in Australian dollars, which is the functional currency of the Group, with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016.

The financial report was authorised for issue by the directors on 21 August 2018.

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 notes 2 and 5).

Significant accounting policies

This is the first financial report where AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* are applied. The changes from these Standards are described under 'Changes in accounting policies' below. Except for these, the accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Groups' 31 December 2017 annual financial reports.

Net current liability position

The SCACH Group is in a net current liability position of $321.6 million at 30 June 2018 (31 December 2017: $296.5 million), which is fully covered by undrawn committed bank facilities.

Changes in accounting policies

The Group adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. The impact of these standards are described below.

AASB 9 *Financial Instruments*

AASB 9 (2014) *Financial Instruments* (AASB 9) sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The Group has applied AASB 9 from 1 January 2018 on a prospective basis.

The impact of AASB 9 on the Group's accounting policies and results is described below.

i. Classification and measurement of financial instruments

Whilst no changes have been made to the classification and measurement of financial liabilities, AASB 9 removes the following classification of financial assets – held to maturity, loans and receivables and available for sale. It requires financial assets, debt and equity investments to be classified between the following measurement 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 the contractual terms of the cash flows.

The following table illustrates the measurement requirements of AASB 9:

	Initial recognition	Subsequent measurement
Amortised Costs	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at amortised cost using the effective interest rate method, and reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.
FVTPL	Measured at fair value. Any transaction costs of acquisition are recognised in the profit or loss.	These assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.
FVOCI	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at fair value. Net gains and losses are recognised in OCI and are never reclassified to profit or loss.

There has been no impact as a result of these changes to the Group's financial statements for the half year ended 30 June 2018, as shown below:

	Original classification	New classification	Original carrying amount $m	New carrying amount $m
Cash and cash equivalents	Loans and receivables	Amortised cost	$279.8	$279.8
Trade and other receivables	Loans and receivables	Amortised cost	$237.6	$237.6
Interest rate swaps	Fair value – hedging instrument	Fair value – hedging instrument	$189.4	$189.4
Cross currency swaps	Fair value – hedging instrument	Fair value – hedging instrument	$512.9	$512.9

ii. Impairment

AASB 9 replaces the incurred loss model of AASB 139 with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI. Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

The Group assessed the ECL associated with:

- trade receivables by applying the simplified impairment approach permitted by AASB 9. This requires expected lifetime losses to be recognised from initial recognition of the receivables.
- all other financial assets, other than trade receivables, on a forward looking basis and measured using the expected lifetime ECL.

The result of the assessment is there is no impact of the new impairment model as required by AASB 9.

iii. Hedging

AASB 9 includes a new general hedge accounting model which better aligns hedge accounting with the Group's risk management policies. The analysis of AASB 9 and the key changes impacting the Group's hedging instruments are described below.

- The Group is required to determine the effectiveness of hedges in accordance with risk management policies on a prospective basis and is more qualitative in nature. The 80%–125% hedge effectiveness requirement of AASB 139 has been removed.

  Impact: No impact as the Group uses the critical terms method.

- Credit, foreign currency basis spread and derivative transaction costs are considered a source of hedge ineffectiveness. Under AASB 9, foreign currency basis spread must be recognised as a component of equity. Whilst AASB 9 requires hedge accounting to be applied prospectively, accounting for foreign currency basis spreads may be applied retrospectively for those hedging relationships that existed at the beginning of the comparative period, or were designated thereafter.

  Impact: The group has elected to separate and exclude foreign currency basis spreads and defer this to component to equity for hedge relationships in existence at 1 January 2018.

- Aggregate exposures now qualify as an eligible hedged item.

  Impact: This allows the Group to designate interest rate swaps into hedge relationships without undergoing a de-designation of existing hedge relationships and improves hedge effectiveness.

The following table summarises the impact, net of tax, of AASB 9 on the balance of reserves for the half year ended 30 June 2018.

Reserve	AASB 139 $m	AASB 9 $m	Impact $m
Cashflow hedge reserve	($264.1)	($265.7)	($1.6)
Foreign currency basis spread reserve	–	$1.6	$1.6
Other reserve	($3,159.7)	($3,159.7)	–

AASB 15 *Revenue from contracts with customers*

AASB 15 applies to all revenues arising from contracts with customers unless the contracts are within the scope of other standards, such as AASB 16 *Leases*. The standard outlines the application principles to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration it expects to be entitled to in exchange for fulfilling its performance obligations to a customer.

The Group has performed an analysis of the impact of this standard on the Group's revenue streams and determined this new standard does not have a material effect on the Group's financial report. This analysis is summarised below.

Aeronautical revenues

This comprises mainly of the provision of access to terminals, infrastructure, apron parking, airfield and terminal facilities. Revenues below are recognised on arrival and departure:

- various passenger charges based on the number of arriving and departing passengers
- runway charges based on the number of passengers or maximum take-off weight
- aircraft parking charges based on maximum take-off weight and time parked

Where incentives or discounts are provided to airlines, the revenues to which these relate are treated as variable consideration and only recognised when it is highly probable the revenues will not being reversed.
There is no change to timing of revenue recognition from AASB 15.

Aeronautical security recovery revenues

This comprises of charges for security services provided, including passenger and checked bag screening and other government mandated security measures.

Revenue is recognised on the provision of services based on the number of passengers or maximum take-off weight at the point of arrival and departure.

There is no change to timing of revenue recognition from AASB 15.

Parking and ground transport revenues

This comprises of the provision of car parking for passengers and staff and ground access services for taxis, buses and limousines.

Revenue is recognised over the period of time the car parking and ground access service is provided.

There is no change to timing of revenue recognition from AASB 15.

AASB 15 does not apply to revenues other than from contracts from customers, and does not apply to the following revenue streams:

Retail revenues

This comprises the lease of commercial space to tenants whose activities include duty free, food and beverage, financial and advertising services. These contracts contain lease components.

Property and car rental revenues

This comprises the lease of terminal space, buildings and other space on Sydney Airport. These contracts contain lease components.

New standards and interpretations not yet adopted

The Group has adopted new and revised Standards and Interpretations issued by the AASB that are relevant to operations and effective for the current reporting period. The adoption of new and revised Standards and Interpretations have not had a material impact on the Group for the half year ended 30 June 2018.

The accounting standard that has not been early adopted for the half year ended 30 June 2018 but will be applicable to the Groups in future reporting periods is detailed below.

Accounting Standard	Requirement	Impact on Financial Statements
AASB 16: *Leases*	AASB 16 provides a new model for accounting for leases. The standard becomes mandatory for the December 2019 financial year and will be applied prospectively.	No material impact expected.

Notes to the financial statements

for the half year ended 30 June 2018

Capital management

1 Dividends and distributions paid and proposed

Stapled ordinary and redeemable preference shares

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

Ordinary shareholders' entitlements

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

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

RPS shareholders' entitlements

The RPS carry an entitlement to a fixed cumulative interest at a rate of 13.5% p.a. Interest is payable quarterly, subject to availability of cash within the Group and distributable profits within SCACH. Principle 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.

1 Dividends and distributions paid and proposed (continued)

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

	6 months to 30 June 2018		6 months to 30 June 2017	
	$ per share	$m	$ per share	$m
Amounts paid in period				
December quarter paid in January 2018 (2017: January 2017)	10.7	146.0	8.43	115.2
March quarter paid in April 2018 (2017: April 2017)	11.1	151.5	9.57	130.6
		297.5		245.8
Amounts paid after period end				
June quarter paid in July 2018 (2017: July 2017)	9.2	125.1	8.45	115.4

Total dividends attributable to the half year ended 30 June 2018 were $276.6 million (30 June 2017: $246.0 million). These dividends were unfranked.

2 Interest bearing liabilities

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

External

- Bank facilities;
- Domestic bonds (including capital indexed bonds (CIB));
- US private placement bonds (USPP);
- US144A/RegS bonds;
- Euro bonds; and
- Canadian Maple 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.

At 30 June 2018 and 31 December 2017, the value of all fixed interest rate bonds were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

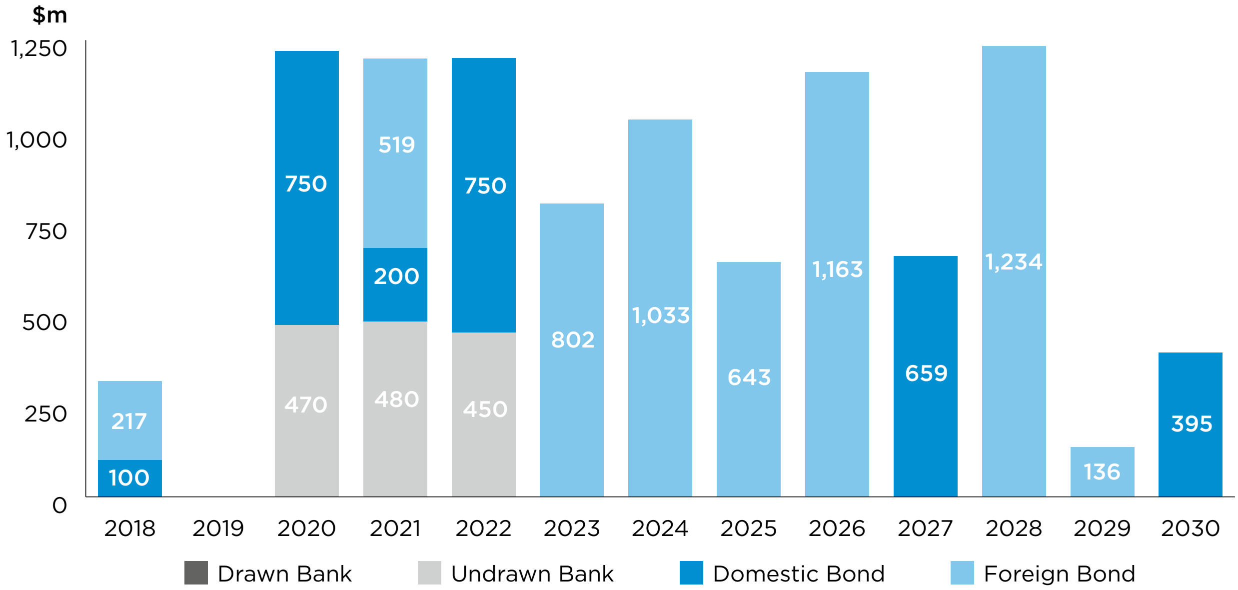
2 Interest bearing liabilities (continued)

Type	Maturity	Carrying amount 30 June 2018 $m	Carrying amount 31 Dec 2017 $m	Fair value 30 June 2018 $m	Fair value 31 Dec 2017 $m	Principal amount drawn In AUD 30 June 2018 $m	Principal amount drawn In AUD 31 Dec 2017 $m	Principal amount drawn In original currency 30 June 2018 $m	Principal amount drawn In original currency 31 Dec 2017 $m	Issue Currency	Interest rate
External											
Syndicated facility	April 2020	-	468.4	-	468.4	-	470.0	-	470.0	AUD	Floating[3]
Syndicated facility	April 2021	-	98.2	-	98.2	-	100.0	-	100.0	AUD	Floating[3]
Wrapped domestic bond[1]	November 2021	199.1	199.0	199.1	199.0	200.0	200.0	200.0	200.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2022	743.5	742.8	743.5	742.8	750.0	750.0	750.0	750.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2027	649.7	649.3	649.7	649.3	659.0	659.0	659.0	659.0	AUD	Floating[4]
Unwrapped domestic bond	July 2018	100.0[7]	99.9	100.1	103.0	100.0	100.0	100.0	100.0	AUD	7.75%[5]
USPP bond	August 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	99.4	99.4	99.4	99.4	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	178.9	178.9	234.5	235.9	180.0	180.0	180.0	180.0	AUD	6.04%[5]
USPP bond	November 2028	57.7	57.6	73.2	73.6	58.0	58.0	58.0	58.0	AUD	5.60%[5]
USPP bond	November 2029	135.2	135.2	175.5	176.1	136.0	136.0	136.0	136.0	AUD	5.70%[5]
Canadian Maple bond	July 2018	231.4[7]	229.6	231.8	233.4	217.4	217.4	225.0	225.0	CAD	4.60%[5]
Euro bond	April 2024	1,187.5	1,157.1	1,256.2	1,229.5	1,033.4	1,033.4	700.0	700.0	EUR	2.75%[5]
Euro bond	April 2028	791.2	-	781.8	-	796.1	-	500.0	-	EUR	1.75%[5]
US144A/RegS bond	February 2021	666.7	636.3	715.3	697.7	518.7	518.7	500.0	500.0	USD	5.13%[5]
US144A/RegS bond	March 2023	1,102.0	1,063.2	1,165.7	1,142.4	802.4	802.4	825.0	825.0	USD	3.90%[5]
US144A/RegS bond	April 2025	675.3	639.5	696.2	686.1	643.0	643.0	500.0	500.0	USD	3.38%[5]
US144A/RegS bond	April 2026	1,210.2	1,145.3	1,278.2	1,264.0	1,163.4	1,163.4	900.0	900.0	USD	3.63%[5]
CIB[2]	November 2020	752.4	743.7	763.5	743.6	750.4	742.2	750.4	742.2	AUD	3.76%[5]
CIB[2]	November 2030	389.4	384.5	344.1	338.1	394.6	390.3	394.6	390.3	AUD	3.12%[5]
Total external interest bearing liabilities		9,269.0	8,827.3	9,607.2	9,279.9	8,602.4	8,363.8	n/a	n/a		
Shareholder related											
Redeemable preference shares	June 2032	2,075.3	2,068.0	5,058.8[6]	5,093.4[6]	2,047.3	2,047.3	2,047.3	2,047.3	AUD	13.50%
Total shareholder related interest bearing liabilities		2,075.3	2,068.0	5,058.8	5,093.4	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 Financial guarantees are provided by MBIA Insurance Corporation and Ambac Assurance Corporation.
3 Floating rates are at Bank Bill Swap Bid Rate plus a predetermined margin.
4 Floating rates are at Bank Bill Swap Rate plus a predetermined margin.
5 Fixed interest rates reflective of coupons in respective currencies/markets.
6 The $50 premium on redemption on 28 June 2032 is included in the calculation of fair value in 2018 and 2017.
7 Classified as a current liability in the Consolidated Statement of Financial Position.

2 Interest bearing liabilities (continued)

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



Assets pledged as security

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

3 Cash and cash equivalents

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

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

	30 June 2018 $m	31 December 2017 $m
Cash on hand	189.4	95.2
Deposits[1]	90.4	176.8
Total cash and cash equivalents	279.8	272.0

1 Included in the Group's consolidated deposit balance is $10.4 million (31 December 2017: $9.8 million) held by SACL which is restricted to fund maintenance capital expenditure.

Treasury and financial risk management

4 Financial risk management

Financial risk management framework

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

4.1 Foreign currency risk

The Group is primarily exposed to foreign currency risk from interest bearing liabilities in foreign currencies. At 30 June 2018, these interest bearing liabilities were 100% hedged through cross currency swaps until maturity of the bonds.

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

	30 June 2018				31 December 2017			
	CADm	EURm	USDm	Equivalent total AUDm	CADm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(225.0)	(1,200.0)	(2,725.0)	(5,174.4)	(225.0)	(700.0)	(2,725.0)	(4,378.3)
Cross currency swaps	225.0	1,200.0	2,725.0	5,174.4	225.0	700.0	2,725.0	4,378.3
Exposure	-	-	-	-	-	-	-	-

4.2 Interest rate risk

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

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

	Average contracted fixed interest rate[1]		Notional principal amount		Fair value	
	30 June 2018 %	31 December 2017 %	30 June 2018 $m	31 December 2017 $m	30 June 2018 $m	31 December 2017 $m
1 year or less	-	4.65%	-	200.0	-	(0.8)
1 to 2 years	2.86%	-	2,035.2	-	(26.4)	-
2 to 5 years	3.14%	3.28%	2,771.1	3,207.8	(67.0)	(88.3)
5 years or more	3.16%	3.15%	3,890.4	3,896.7	(96.0)	(98.6)
	n/a	n/a	n/a	n/a	(189.4)	(187.7)

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

5 Derivative financial instruments

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

	30 June 2018			31 December 2017		
$m	Cross currency swaps	Interest rate swaps	Total	Cross currency swaps	Interest rate swaps	Total
Current assets	13.6	-	13.6	9.6	-	9.6
Non-current assets	590.2	1.2	591.4	527.2	4.7	531.9
Current liabilities	(39.4)	(51.7)	(91.1)	(42.2)	(60.2)	(102.4)
Non-current liabilities	(51.5)	(138.9)	(190.4)	(81.1)	(132.3)	(213.4)
Net derivative position	512.9	(189.4)	323.5	413.5	(187.8)	225.7

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

At 30 June 2018 and 31 December 2017, all derivative financial instruments were determined based on observable market inputs and categorised as Level 2 financial instruments per the fair value measurement hierarchy.

6 Net finance costs

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

	6 months to 30 June 2018 $m	6 months to 30 June 2017 $m
Finance income		
Bank interest	2.5	1.9
Total finance income	2.5	1.9
Finance costs		
Senior debt interest paid or accrued	(157.6)	(145.4)
Net swap interest expense	(43.0)	(46.5)
CIBs capitalised	(12.5)	(15.2)
Amortisation of debt establishment costs	(5.8)	(6.5)
Recurring borrowings costs paid	(2.8)	(3.3)
Borrowing costs capitalised	5.1	4.7
RPS interest paid or accrued	(137.8)	(137.8)
Amortisation of RPS debt establishment costs	(7.3)	(6.3)
Total finance costs	(361.7)	(356.3)
Change in fair value of swaps	(12.0)	5.6
Net finance costs	(371.2)	(348.8)

Notes to the financial statements

for the half year ended 30 June 2018

Financial results and financial position

7 Intangible assets

Consolidated ($m)	Goodwill	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	95	95	
At 30 June 2018				
Cost				
Opening balance as at 1 January 2018	700.7	2,058.1	1,672.0	4,430.8
Closing balance	700.7	2,058.1	1,672.0	4,430.8
Accumulated amortisation				
Opening balance as at 1 January 2018	-	(336.0)	(271.6)	(607.6)
Amortisation	-	(10.8)	(8.8)	(19.6)
Closing balance	-	(346.8)	(280.4)	(627.2)
Total carrying amount	700.7	1,711.3	1,391.6	3,803.6
At 31 December 2017				
Cost				
Opening balance as at 1 January 2017	688.3	2,058.1	1,672.0	4,418.4
Additions	12.4	-	-	12.4
Closing balance	700.7	2,058.1	1,672.0	4,430.8
Accumulated amortisation				
Opening balance as at 1 January 2017	-	(314.3)	(254.0)	(568.3)
Amortisation	-	(21.7)	(17.6)	(39.3)
Closing balance	-	(336.0)	(271.6)	(607.6)
Total carrying amount	700.7	1,722.1	1,400.4	3,823.2

Intangible assets items explained

The Commonwealth of Australia granted Sydney Airport Corporation Limited, a wholly-owned subsidiary of SAL, 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.

Notes to the financial statements

for the half year ended 30 June 2018

Other disclosures

8 Events occurring after balance sheet date

As at 30 June 2018, the Group had a AUD100.0 million unwrapped domestic bond and a CAD225.0 million Canadian Maple bond outstanding, with both of these bonds maturing in July 2018. Since the reporting date, these bonds were repaid using the Group's available bank debt facilities.

Dividends and distributions

On 27 July 2018 an ordinary dividend of $125.1 million (30 June 2017: $115.4 million) and an RPS distribution of $68.9 million (30 June 2017: $68.9 million) was declared for the quarter ended 30 June 2018. The interim dividend has not been recognised in this financial report because it was declared after 30 June 2018.

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 half year ended 30 June 2018.

SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LIMITED