

Appendix 4E

ASX Listing Rule 4.3A | Preliminary Financial Report for Year Ended 31 December 2019



Results for Announcement to the Market

	SAL Group 31 Dec 2019 \$m	SAL Group 31 Dec 2018 \$m	Movement \$m	Movement %
Revenue	1,639.6	1,584.7	54.9	3.5
Other income	0.1	0.2	(0.1)	(50.0)
Total revenue	1,639.7	1,584.9	54.8	3.5
Profit after income tax expense	215.0	371.0	(156.0)	(42.0)
Profit after income tax expense attributable to security holders	403.9	372.5	31.4	8.4

	SAT1 Group 31 Dec 2019 \$m	SAT1 Group 31 Dec 2018 \$m	Movement \$m	Movement %
Revenue	-	-	n/a	n/a
Other income	-	-	n/a	n/a
Total revenue	-	-	n/a	n/a
Profit after income tax expense	44.1	231.8	(187.7)	(81.0)
Profit after income tax expense attributable to security holders	44.1	231.8	(187.7)	(81.0)

Distributions

	SAL Group 31 Dec 2019 \$m	SAT1 Group 31 Dec 2019 \$m	SAL Group 31 Dec 2018 \$m	SAT1 Group 31 Dec 2018 \$m
Final distribution (100% unfranked)	440.4	117.5	428.5	117.3
Interim distribution (100% unfranked)	440.1	115.1	416.8	114.9

	SAL Group 31 Dec 2019 cents per stapled security	SAT1 Group 31 Dec 2019 cents per stapled security	SAL Group 31 Dec 2018 cents per stapled security	SAT1 Group 31 Dec 2018 cents per stapled security
Final distribution (100% unfranked)	19.50	5.20	19.00	5.20
Interim distribution (100% unfranked)	19.50	5.10	18.50	5.10

The total distributions by ASX-listed Sydney Airport for the year ended 31 December 2019 were \$880.5 million or 39.0 cents per stapled security (2018: \$845.3 million or 37.5 cents).

The interim distribution with record date of 30 June 2019 of \$440.1 million or 19.5 cents per stapled security (2018: \$416.8 million or 18.5 cents) was paid on 15 August 2019 by:

- SAL \$325.0 million or 14.40 cents (2018: \$301.9 million or 13.40 cents); and
- SAT1 \$115.1 million or 5.10 cents (2018: \$114.9 million or 5.10 cents).

The final distribution with record date of 31 December 2019, of \$440.4 million or 19.5 cents per stapled security (2018: \$428.5 million or 19.0 cents) was paid on 14 February 2020 by:

- SAL \$322.9 million or 14.30 cents (2018: \$311.2 million or 13.80 cents); and
- SAT1 \$117.5 million or 5.20 cents (2018: \$117.3 million or 5.20 cents).

The distributions are currently 100 per cent unfranked.

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Distribution Reinvestment Plan (DRP)

The DRP operated in respect of the 30 June 2019 interim distribution. 1.5 million stapled securities were issued to DRP participants at \$8.00 per stapled security on 15 August 2019.

In respect of the 31 December 2019 final distribution, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security on 14 February 2020.

Additional Appendix 4E disclosures can be found in the Notes to the Sydney Airport Financial Report for Year Ended 31 December 2019 and Results for Year Ended 31 December 2019 lodged with the ASX on 20 February 2020.

ASX-listed Sydney Airport (the Group) is comprised of Sydney Airport Limited (ABN 18 165 056 360) (SAL) and Sydney Airport Trust 1 (ARSN 099 597 921) (SAT1). The Trust Company (Sydney Airport) Limited (ABN 83 115 967 087) (AFSL 301162) (TTCSAL) is the responsible entity of SAT1.

Annual Report 2019

SYD



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Our ambition
is to make
Sydney proud
every day

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About Us

ASX-listed Sydney Airport (the Group) is comprised of Sydney Airport Limited (ABN 18 165 056 360) (SAL) and Sydney Airport Trust 1 (ARSN 099 597 921) (SAT1). The Trust Company (Sydney Airport) Limited (ABN 83 115 967 087) (AFSL 301162) (TTCSAL) is the responsible entity of SAT1. This report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in Sydney Airport, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Delivering in challenging times

Financial highlights

We are delivering on our strategy to preserve and grow investor value as we deliver more for the travelling public and our partners.

Total revenue

\$1,639.7m
↑3.5%

Earnings before interest,
tax, depreciation and
amortisation (EBITDA)¹

\$1,336.3m
↑4.0%

Net operating receipts

\$905.7m
↑5.2%

Total distribution

39.0¢
↑4.0%

Capital investment

\$5b
invested in capacity,
services and facilities
since 2002

Cash flow cover ratio

3.3x
↑0.1x

Revenue contributions
by business unit



● **\$739.3m**
Aeronautical Services

● **\$374.9m**
Retail

● **\$251.2m**
Property and Car Rental

● **\$162.0m**
*Parking and
Ground Transport*

1. Excluding other expenses

Sustainability highlights

Being a leader in sustainability is a core part of our purpose.

34.5%

reduction of emissions
intensity (per pax)
since 2010

43.4%¹

waste recycling rate
↑ from **42.9%** ^{in 2018}

30%

water recycling
rate at T1

5

employee Lost
Time Injuries

↓ from **10** ^{in 2018}

840

safety walks
completed

95.9²

gender pay equity
↑ from **93.4** ^{in 2018}

\$1.4b

Sustainability
Linked Loan

\$5.2m

in community
investment

4.19/5

overall customer
satisfaction rating
↑ from **4.14** ^{in 2018}

1. Excludes quarantine waste which cannot be recycled due to quarantine restrictions and requirements

2. Calculated on base salary and superannuation

Highlights

Passenger movements

We are offering our passengers a more personalised and seamless experience, from the first hello to the last goodbye.

Total passengers
44.4m
↑0.1%

International
↑1.1%
38% of total passengers

Domestic and regional
↓0.5%
62% of total passengers

1. Total does not equal 100 per cent due to rounding

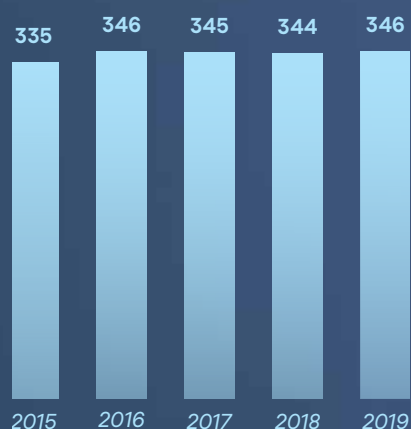
Aircraft movements

From next generation aircraft to dedicated regional and freight services, we're facilitating the many air services that keep our economy moving.

Total aircraft movements
346,182

44
International airlines

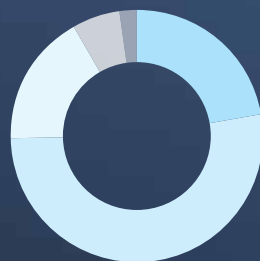
Total aircraft movements ('000)



7
Domestic and regional airlines

11
Freight airlines

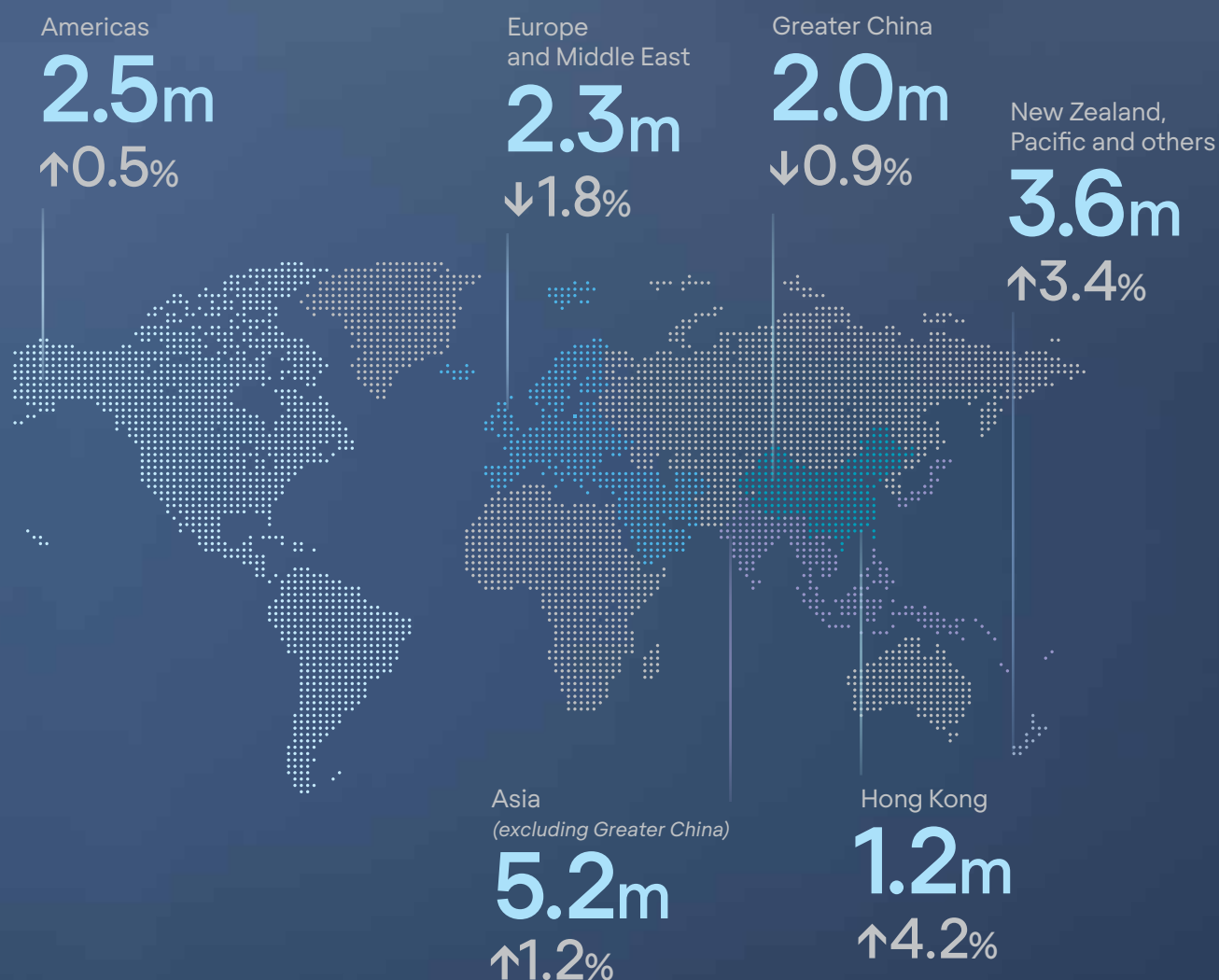
Aircraft movements by type¹



- 22% International
- 52% Domestic
- 17% Regional
- 6% General aviation
- 2% Freight

Passengers by geography¹

As Australia's gateway to the world, we're welcoming passengers from across the globe.



1. Based on country of origin and destination airports

SYD

100 years, a billion passengers, one purpose

Revenue growth

↑ **3.5%**
from 2018

Passenger growth

↑ **0.1%**
from 2018

Total distribution

39.0¢
↑ **4.0%** from 2018

2019 was a landmark year for Sydney Airport, celebrating both our centenary and the arrival of our billionth passenger. It's fitting that these milestones fell within a few months of each other, as more than anything else our 100-year history has been characterised by continued growth in demand for air travel.

In 2019 we welcomed 44.4 million passengers and delivered a solid performance across both our aeronautical and non-aeronautical businesses. The growth in revenues and a focus on operational efficiency enabled our Board to distribute a distribution of 39 cents per stapled security, an increase of four per cent that is fully covered by Net Operating Receipts.

The continued growth in distributions is especially pleasing as it was delivered in the context of some of the toughest trading conditions we've seen since the global financial crisis, reinforcing Sydney Airport's resilience and diversity as a business.

Our centenary and the arrival of our billionth passenger provided a catalyst for us to reflect on and redefine our purpose as an organisation.

In 2019 we launched Sydney Airport's new purpose statement – **to make Sydney proud every day** – which reflects a new level of expectation and aspiration in terms of how we invest and enhance the experience of the more than 44 million passengers who come through here each year, as well as the experience of our many airport partners.

In addition to our new purpose, 2019 was marked by several highlights.

We continued to invest in capital works at a run rate of nearly a million dollars a day, with the \$301 million we spent focused on projects that will make a real difference to our customers. This includes the upgrade of the T1 arrivals and departures areas to enhance accessibility and comfort, and the delivery of a buzzing new lifestyle precinct at T2.

In 2019 we also took full operational control of T3 from Qantas. This will deliver both efficiency and customer service improvements, with all three terminals now under Sydney Airport control for the first time.

Another highlight was refinancing \$1.4 billion of debt using a Sustainability Linked Loan, which ties our cost of capital to our sustainability performance. The facility is the first of its kind in Australia, the largest in the region and the largest of all airports globally, and ensures we are putting our money where our mouth is when it comes to sustainability.

Finally, we reinforced our commitment to our local community, investing \$5.2 million in local charitable initiatives throughout the year. This investment program is fundamental to us realising our purpose and fulfilling our role as a community asset, rather than simply an infrastructure asset.



Trevor Gerber
Chairman



Geoff Culbert
Chief Executive Officer

In an historic year we consolidated our position as Australia's busiest airport and reaffirmed our leading role in the social and economic fabric of Sydney and New South Wales.

Financial and operational snapshot

Revenue grew by 3.5 per cent from 2018 to 2019, with EBITDA (excluding indemnities and restructuring expenses) up by 4.0 per cent to \$1.34 billion and Net Operating Receipts up by 5.2 per cent to \$905.7 million over the same period.

In a year characterised by geo-political uncertainty, we still saw strong growth from key markets like the USA and India. To support the continued growth in demand for aviation to Sydney we invested \$301 million in capital infrastructure to enhance our capacity and create a better passenger experience.

Our overall non-aeronautical portfolio delivered strong results, particularly our retail and property portfolios, which grew at 5.0 per cent and 5.5 per cent respectively.

Safety

Safety remains the top priority for Sydney Airport and we are steadfast in our commitment to building an industry leading safety culture across all areas of our operations. We improved our safety performance in terms of lost time injuries, which fell from 10 in 2018 to 5 in 2019.

Our 2019 Sustainability Report details the important initiatives we have undertaken over the past 12 months to enhance our approach to safety.

Our customers

Our new purpose – to make Sydney proud every day – guides us in improving our experience for all passengers. Our customer satisfaction scores reached an all-time high in 2019, however we know there is plenty more we can do. We are continuing to invest in the things that matter to our customers and will remain an organisation that listens and responds rapidly to customer feedback.

Sustainability

We aspire to be an industry leader in sustainability and our sustainability strategy is strongly embedded within our broader business strategy. Sydney Airport's sustainability strategy anticipates challenges and ensures we remain flexible, responsive and agile as an organisation. We would encourage you to read our Sustainability Report which comprehensively details our sustainability initiatives.

Community

Sydney Airport aspires to be a community asset which means we not only actively involve the community in airport operations and development but seek to make a genuine, positive contribution to the lives of local people.

Whether it's scholarships to study at local universities or funds for community facilities like aquatic centres, we are committed to helping our neighbouring communities flourish and reach their full potential.

Corporate governance and the Board

A culture of strong corporate governance is incredibly important to Sydney Airport and we are committed to acting, as individuals and as an entity, in a way that is honest, ethical, transparent and cooperative. We believe that developing a strong culture requires ongoing effort and we are constantly seeking to maintain and improve our corporate governance and risk management frameworks.

Director retirement

In 2019 we farewelled the Hon Michael Lee after more than 15 years as a Director, and we thank him for his strong contribution to the airport.

Outlook

Sydney Airport enters a new decade continuing to be a strong, stable, and resilient asset with a proven history of performance and growth through all economic cycles.

This resilience will be especially important in a year where we have already seen challenges.

We stand in solidarity with anyone who has been affected by the bushfires that have raged across NSW, Victoria and the ACT. Sydney Airport will continue to support the recovery effort through a combination of direct funding, fundraising initiatives and supporting industry efforts to protect and promote travel and tourism and the livelihoods that depend on it.

We are also working tirelessly to ensure our passengers and community are well supported as we respond to the Coronavirus. We understand this is a time of high anxiety and are coordinating closely with government and our airline partners to give passengers confidence that we will always put their safety and wellbeing – and that of our people – first.

Our front-line employees have demonstrated immense courage and professionalism during this time and, through their actions, remind us why they are the heart and soul of the airport.

Irrespective of any challenge in 2020, we will continue to pursue growth opportunities across both our aeronautical and non-aeronautical businesses, and constantly seek ways to raise the bar for our customers.

On behalf of the Board and senior management we would like to thank our investors for their ongoing support and our employees for their outstanding contribution in 2019. We are well positioned for success and look forward to delivering a strong, positive result for our investors, community and stakeholders in 2020 and beyond.

Trevor Gerber
Chairman

Geoff Culbert
Chief Executive Officer

Leading for the future



Geoff Culbert

Chief Executive Officer

Geoff was appointed CEO in January 2018. He brings extensive commercial and operational experience from across the Asia Pacific as well as Australia.

Geoff is driven to deliver a better airport experience for everyone, from the millions of passengers that visit each year to the airlines, businesses and community members that it works alongside. He is focused on establishing Sydney Airport's position as a leader in sustainability as the airport builds on its commitment to make Sydney proud every day. Geoff also sits on the Airports Council International World Governing Board and Asia Pacific Regional Board, through which he is championing a global approach to climate for the aviation industry.

Hugh Wehby

Chief Operating Officer

Hugh was appointed Chief Operating Officer in 2017 having previously served as Chief Financial Officer from 2014.

Hugh has spent 15 years working for Sydney Airport and its predecessor companies in various roles covering strategy, projects, investor relations, asset management and corporate finance. As COO, he is responsible for Sydney Airport's aviation business, operations and corporate services.

Greg Botham

Chief Financial Officer

Greg joined Sydney Airport in 2017 and is responsible for treasury, investor relations, strategic projects and investment, procurement, financial performance and control.

A Chartered Accountant, Greg spent five years as Chief Financial Officer with ASX listed Spark Infrastructure. Prior to this, Greg had worked in senior finance and planning roles at Sydney Airport.

Vanessa Orth

Chief Commercial Officer

Vanessa joined Sydney Airport at the end of 2018 and is responsible for the commercial business including retail, property and ground transport.

Vanessa has substantial commercial, strategic and asset management experience. She was previously Head of Retail for the General Property Trust (GPT) Group, and held a number of leadership roles with GPT since 2007.

**Chris Evans****Chief Assets and Infrastructure Officer**

Chris joined Sydney Airport in August 2017 and leads key capital works projects to enhance the customer experience and support the airport's long-term growth. He holds responsibility for the planning, design and delivery of our extensive capital works program, with more than 200 projects underway across the airport precinct, as well as technology, baggage systems, cleaning services and facilities management of the airport's built assets.

Chris has significant experience leading and managing the delivery of major infrastructure projects over a 25-year career with John Holland, where he held a wide range of project, operational and executive roles.

Dhruv Gupta**Chief Strategy Officer**

Dhruv joined Sydney Airport in January 2019 and is responsible for pursuing strategic initiatives to drive growth. He was previously Group Director, Strategy and Corporate Development for Fairfax Media.

Dhruv has also worked in investment banking with Macquarie Group, strategy with Publishing and Broadcasting Limited and with Boston Consulting Group.

Karen Tompkins**General Counsel and Company Secretary**

Karen joined Sydney Airport in 2016 and was appointed as General Counsel & Company Secretary in July 2019.

Karen has over 15 years' legal experience. Prior to Sydney Airport, Karen spent nine years in the legal team of ASX-listed Stockland and before that she held positions in law firms including Minter Ellison, Herbert Geer and Henry Davis York.

How we create value

Driven by purpose

Our purpose

To make Sydney proud every day.

Our purpose statement reflects the positive impact we aspire to have in the community, with our customers and for NSW and Australia more broadly. It underpins our strategy and guides how we do business. We confirmed our new purpose statement in 2019, which was informed by extensive employee consultation and feedback.

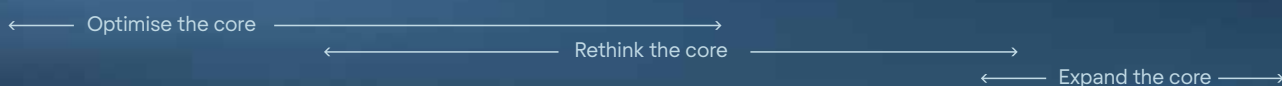
Forward looking statements

The Operating and Financial Review contains forward looking statements, including statements of current intention, opinion and expectation regarding the Group's present and future operations, possible future events and future financial prospects. While these statements reflect expectations at the date of this review, they are, by their nature, not certain and are susceptible to change. The SAL Group makes no representation, assurance or guarantee as to the accuracy of or likelihood of fulfilling any such forward looking statements (whether express or implied), and except as required by applicable law or the Australian Securities Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.

Our strategy

Our strategy is to support the growth of aviation and tourism, through a collaborative and integrated approach to meeting passenger, airline, business partner and community needs.

To deliver on our strategy while creating value for our investors, we continue to focus on four key elements. This approach will ensure we can grow and share in our success together with our airlines and partners, while strengthening our customer focus.



Operating efficiency and effectiveness

Improving processes and using technology to better manage costs, operations and capacity



Increase revenue per passenger

Grow revenue by better understanding and meeting customer needs



Grow number of high value passengers and movements

Growing capacity to meet needs, while better managing existing capacity utilisation



Leverage our capabilities beyond the core

Explore adjacencies that support the broader growth of Sydney Airport and service customer needs

Focused capital strategy

Aligned culture

Safety, security, integrity, community and sustainability



Delivering growth

EBITDA

\$1,336.3m

↑4.0% from 2018

Net operating receipts

\$905.7m

↑5.2% from 2018

Cash flow cover ratio¹

3.3x

↑0.1x from 2018

Investor returns per stapled security

39.0¢

↑4.0% from 2018

1. Cash flow cover ratio (CFCR) is calculated using defined terms in the finance documents, summarised by cash flow divided by senior debt interest expense for a rolling 12 month period

Key performance measures

Key measures of Sydney Airport's 2019 financial performance are shown in the table below.

		% Growth from 2018
Passengers	44.4 million	0.1 ↑
Revenue	\$1,639.7 million	3.5 ↑
Operating expenditure (excluding security recoverable expenses)	\$205.1 million	1.6 ↓
EBITDA ² (excluding other expenses)	\$1,336.3 million	4.0 ↑
Net operating receipts (NOR)	\$905.7 million	5.2 ↑
Distributions per security to investors	39.0 cents	4.0 ↑

2. Excludes specific expenses relating to restructuring and redundancy

Revenue streams

	Revenue (\$m)	Revenue Contribution ³	Revenue Growth
Aeronautical Services (excl. security recovery)	739.3	48%	2.4%
Retail	374.9	24%	5.0%
Property and Car Rental	251.2	16%	5.5%
Parking and Ground Transport	162.0	11%	(0.1%)

3. Total does not equal 100 per cent due to rounding

Distributions and Net Operating Receipts (NOR)

NOR provide a proxy for cash flows available to pay ASX-listed Sydney Airport distributions. As a result, it is a key measure of ASX-listed Sydney Airport's financial performance. NOR is a non-IFRS measure of cash flow that ASX-listed Sydney Airport can sustainably return to investors while investing in the infrastructure. NOR is derived from both income statement performance and the cash position of SAL and SAT1.

Reconciliation of NOR

The following table reconciles the statutory result of ASX-listed Sydney Airport for the year ended 31 December 2019 to its NOR. Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial reports.

	2019 \$m	2018 \$m
Profit before income tax expense ¹	286.6	433.5
Add back: depreciation and amortisation ¹	438.0	415.6
Profit before tax, depreciation and amortisation	724.6	849.1
Add/(subtract) non-cash expenses		
– Capital indexed bonds capitalised ²	17.8	22.6
– Amortisation of debt establishment costs ²	4.2	13.4
– Borrowing costs capitalised ²	(9.7)	(10.6)
– Change in fair value of swaps ²	0.1	5.0
Total non-cash expenses	12.4	30.4
Add/(subtract) other cash movements		
Movement in cash balances with restricted use ³	(0.8)	(0.6)
Other	(18.1)	(18.0)
Total other cash movements	(18.9)	(18.6)
Indemnity and MALSA costs ¹	187.6	–
Net operating receipts	905.7	860.9
Average stapled securities on issue (m) ⁴	2,257.4	2,253.8
Net operating receipts per stapled security	40.1c	38.2c
Distributions declared per stapled security	39.0c	37.5c
Ratio of net operating receipts to distribution	103%	102%

1. Taken from the Consolidated Statements of Comprehensive Income in the Sydney Airport Financial Report for the Year Ended 31 December 2019.

2. Taken from Note 6 in the Sydney Airport Financial Report for Year Ended 31 December 2019.

3. Taken from Note 3 in the Sydney Airport Financial Report for Year Ended 31 December 2019.

4. Taken from Note 8 in the Sydney Airport Financial Report for Year Ended 31 December 2019.

Revenue growth at Sydney Airport

Sydney Airport revenue growth is driven by these key inputs:

Passenger growth

Passengers travelling through the airport are the major consumers of the services provided by Sydney Airport. A large majority of aeronautical revenues are directly linked to passenger numbers. Charges are generally tied to passenger numbers, with most charges levied per passenger to the airlines for use of the terminal and airfield infrastructure, providing a direct linkage to revenue growth. The commercial revenues (including Retail, Property and Car Rental, Parking and Ground Transport) are directly and indirectly linked to passenger volumes.

Capital investment

Sydney Airport takes a disciplined approach to investment. It earns a return on aeronautical and commercial infrastructure capital investments. Investment is made to accommodate more passengers at the airport, improve the efficiency of the airport and improve the experience of airport customers.

Management initiatives

Management continually reviews the airport's assets, contracts and operations for opportunities to better utilise assets, increase the value of available space, reduce costs and improve efficiency. These initiatives contribute significantly to increasing real revenues and earnings per passenger.

A more detailed analysis of specific growth drivers is provided in the following revenue streams and operating expense sections.

Driving efficiency

Operating expenses

At the beginning of 2019, we implemented a range of cost control measures to deliver cost savings across the business. These actions allowed us to reduce operating costs by 1.6 per cent on 2018 levels (excluding security recoverable expenses) and will lead to sustainable savings.

Category	2019 (\$m)	2018 (\$m)	% Change
Employee benefits expense ¹	56.8	62.2	8.7
Services and utilities expense	83.4	83.7	0.4
Property and maintenance expense	29.6	29.8	0.7
Security recoverable expense	98.3	91.5	(7.4)
Other operational costs	35.3	32.7	(8.0)
Total operating expenses	303.4	299.9	(1.2)
Excluding:			
Security recoverable expense	98.3	91.5	(7.4)
Total operating expenses (excluding security recoverable expenses)	205.1	208.4	1.6

1. Excludes specific expenses relating to restructuring and redundancy

Employee benefits expense

An organisational restructure was undertaken towards the end of the first half of 2019 to simplify the organisation and better align the team to our strategy of delivering on the core, expanding the core, and building the culture. This contributed to employee expenses reducing by \$5.4 million or 8.7 per cent.

Services and utilities expense

In 2019, services and utilities expense reduced by \$0.3 million or 0.4 per cent driven by a range of initiatives. These included savings in energy costs from a new power purchase agreement, lower rates as a result of recent contract renegotiations, and lower baggage and cleaning costs as a consequence of procurement initiatives.

Property and maintenance expense

The property and maintenance expense category covers the cost of maintaining airfield and airport infrastructure, contracted through major service contracts. Disciplined management and staging of planned maintenance activities drove a decrease of \$0.2 million or 0.7 per cent in this expense category.

Security recoverable expenses

These expenses relate to the cost of providing government-mandated security measures, such as passenger and baggage screening. We recover these costs from airlines through per passenger charges at no margin. Security recoverable costs increased 7.4 per cent year on year largely due to additional government-mandated security measures introduced in 2017.

Other operational costs

Other operational costs include technology related costs and various corporate items. 2019 saw further investment in technology systems and capabilities supporting customer experience and cyber resilience. Other operational costs increased by \$2.6 million or 8.0 per cent in 2019.



Outlook

Our focus on cost will continue in 2020 as we tightly manage expenditure while investing in the things that matter. Increases are expected from the full year impact of taking operational control of T3 during the course of 2019, and from initiatives to improve the pick-up and drop-off experience for passengers. 2020 will also see continued prudent increases in technology investment supporting enhanced customer experience, network resilience and cyber risk management. Cost saving initiatives will continue to be delivered across all categories of spend.

Cash flow

Net cash inflows from operating activities increased during the year due mainly to increased airport revenues received offset by airport operating expenses paid.

Net cash flows used in investing activities in 2019 reflected the Group's ongoing capital investments.

Net cash flows used in financing activities in 2019 reflected: distributions paid to security holders as well as funds retained from the operation of the distribution reinvestment plan; proceeds received from borrowings including the proceeds of the new USPP bond received in February 2019; additional debt drawn to fund growth capital expenditure; repayment of bank debt and borrowing costs paid.

Distributions were paid to ASX-listed Sydney Airport security holders during the year amounting to \$868.6 million, fully covered by NOR. This is reflected in the Consolidated Statements of Cash Flows in the Sydney Airport Financial Report for the Year Ended 31 December 2019.

Category	2019 (\$m)	2018 (\$m)
Net cash flows from operating activities	1,370.7	1,232.5
Net cash flows used in investing activities	(313.5)	(402.4)
Net cash flows used in financing activities	(908.4)	(837.2)
Net movements in cash and cash equivalents held	148.8	(7.1)

Building capacity



We're improving the airport experience from the first hello to the last goodbye. We invested \$300.8 million in capital expenditure during the year to improve the customer experience across all aspects of the airport's operations. A number of significant projects were completed in 2019 as we prepare for future growth.



Terminal works

1 T1 improvements



T1 Departures

T1 Departures

Completed in March

We completed a 600 square metre gate lounge expansion at T1, including improved sightlines and wayfinding, a boutique style atrium and improved facilities.

Completed in August

Our new SYD Departures wall was unveiled, providing an enhanced visitor experience and increasing capacity to allow faster movement of passengers during peak processing times.



T1 Arrivals

T1 Arrivals

Completed in March

The redevelopment and refurbishment of the T1 Arrivals hall was completed to improve ambience and the passenger experience.

Baggage reclaims

Completed in February

We improved the T1 baggage reclaims hall and conveyors.



Bathrooms

Delivered throughout the year

Our precinct-wide bathroom refurbishment program continued, delivering new bathrooms across T1 to improve the customer experience. This included new bathrooms at Gate 54, the T1 Arrivals meeting point and at ramp level



Terminal works

2 T2 improvements



Completed in March

We launched the new T2 lifestyle precinct at Domestic Pier B as part of a staged expansion of specialty retail. The precinct delivered new commercial space and comfortable dwell areas for passengers, with four new tenancies delivered.



Airfield

3 Airfield resurfacing

Delivered throughout the year

We completed extensive resurfacing of the airfield including the parallel runway and associated taxiways, and the northern section of the main runway.

4 Airfield operations

Completed in May

We built a new storage area for airside vehicles and equipment.



Property

5 Hotel expansion

Completed in May

We expanded the Ibis Budget Hotel at the T2/T3 Domestic precinct, with 78 additional rooms.



Technology

Cyber security






Completed in November

A new cyber security program and control centre was implemented to reduce the risk of data and information security threats.

Capital expenditure

We have a substantial program of works in progress to continue to build our offering to the Sydney community and travelling public.

Major projects that are in progress:

Category	Benefit
 Airfield	
Apron expansion	<ul style="list-style-type: none"> – Conversion of Northern Ponds layover bays to active (fuelled) bays to capture forecast passenger growth – Construction of four additional layover bays and associated taxiways in the South East Sector to provide additional apron flexibility
Runway works	<ul style="list-style-type: none"> – Resheeting works on the main runway
 Terminal works	
Baggage	<ul style="list-style-type: none"> – A new southern bag room at T1 to improve outbound baggage capacity and system resilience – New conveyor sort line at T2 to improve capacity and system resilience of the baggage system at T2
Bathrooms	<ul style="list-style-type: none"> – Planned upgrades in the T1, T2 and T3 terminals to continue improving the customer experience
Terminals	<ul style="list-style-type: none"> – T1 Pier A to provide additional aircraft parking positions, new contact gates, improved bussing facilities and an expanded departures area for passengers – Staged expansion and upgrade of the retail offering at T1, T2 and T3
 Landside operations and transport	
Roads and access	<ul style="list-style-type: none"> – Development of the domestic transport interchange at the Domestic precinct – Sydney Gateway works
 Property	
Hotels strategy	<ul style="list-style-type: none"> – Ongoing development of Sydney Airport's hotel portfolio
Arrivals lounge	<ul style="list-style-type: none"> – Improvements to T1 Arrivals to enhance passenger offering
 Technology	
Wifi	<ul style="list-style-type: none"> – Campus wide upgrades to improve Wifi access for passengers
Digital platforms	<ul style="list-style-type: none"> – Enhanced digital platforms and selling channels, including revenue and yield management system improvements, and enhanced digital marketing capability



	Completion			
	2020	2021	2022	2023
	→			
	→			
	→			
	→			
	→			
	→			
	→			
	→			
	→			
		→		
		→		
	→			
	→			
	→			
	→			

Sustainable investment and returns

Capital management and distribution

In May 2019, Sydney Airport successfully refinanced \$1.4 billion of bank debt facilities by way of a three, four and five year tenor syndicated (multi-bank) Sustainability Linked Loan, further demonstrating our continued leadership and innovation across finance and sustainability. The market-leading transaction represented the first syndicated Sustainability Linked Loan in Australia and was the largest of its kind across the Asia Pacific.

Bank debt facility margins will decrease or increase depending on our sustainability performance over time, further incentivising the delivery of our sustainability commitments (including achieving carbon neutrality by 2025) and other sustainability improvements.

Outcomes of this refinancing were:

- A\$1.4 billion of bank debt facilities refinanced at lower margins
- Weighted average debt maturity extended three months to mid-2025
- Debt maturities over 2021-22 reduced by 38 per cent with next major maturity in late-2020
- Strong liquidity position maintained, providing significant capital management flexibility
- Direct link established between our sustainability performance and funding costs

Category ¹	2019 ²	2018
Net debt	\$8.6 billion ³	\$8.4 billion ⁴
Cash flow cover ratio ⁵	3.3x	3.2x
Net debt/EBITDA ⁵	6.6x	6.6x
Average maturity	Mid-2025	Early 2025
Credit rating (S&P/Moody's) ⁶	BBB+/Baa1	BBB+/Baa1

1. Metrics and ratios are calculated where relevant using defined terms in the finance documents

2. Calculations includes lease liabilities and related interest expense due to the application of AASB16

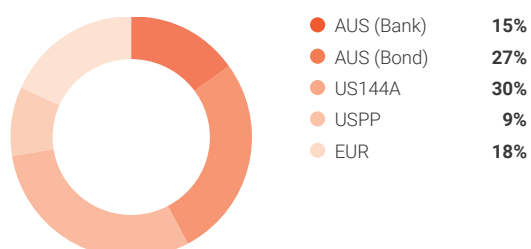
3. Includes \$150 million SAL working capital facility (\$78 / \$72 million drawn/undrawn respectively) and leases liabilities of \$0.6m due to the application of AASB16

4. Includes \$85 million SAL working capital facility (\$78 / \$7 million drawn/undrawn respectively)

5. Calculation on a 12-month rolling basis, in accordance with finance documents

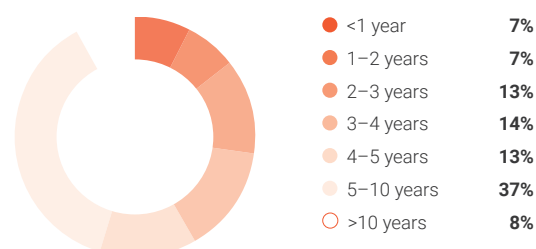
6. Stable outlook for both S&P and Moody's

Funding portfolio by category¹



1. Total does not equal 100 per cent due to rounding

Debt maturity on drawn and undrawn debt¹



Distribution

Total distributions paid / payable by ASX-listed Sydney Airport Group are as follows:

	2019	2018
\$m		
Final distribution ¹	440.4	428.5
Interim distribution ²	440.1	416.8
	880.5	845.3
Cents per stapled security		
Final distribution ¹	19.50	19.00
Interim distribution ²	19.50	18.50
	39.00	37.50

The distribution portions paid / payable by SAL and SAT1 are as follows:

	2019		2018	
	SAL	SAT1	SAL	SAT1
\$m				
Final distribution ¹	322.9	117.5	311.2	117.3
Interim distribution ²	325.0	115.1	301.9	114.9
	647.9	232.6	613.1	232.2
Cents per stapled security				
Final distribution ¹	14.30	5.20	13.80	5.20
Interim distribution ²	14.40	5.10	13.40	5.10
	28.70	10.30	27.20	10.30

1. Recognised as payable at year end, paid 14 February 2020 (2018: 14 February 2019)

2. Paid on 15 August 2019 (2018: 14 August 2018)

The Group's distributions are currently 100 per cent unfranked.

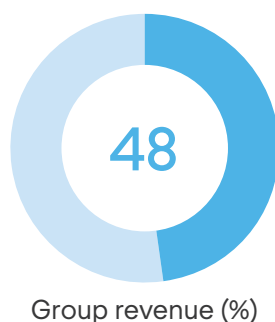
Distribution reinvestment plan (DRP)

The DRP operated in respect of the 30 June 2019 interim distribution and 31 December 2019 final distribution.

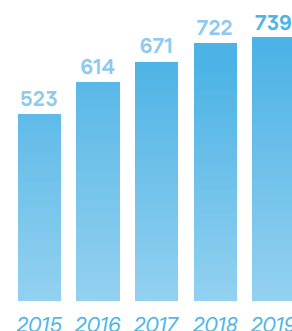
In respect of the 30 June 2019 distribution, 1.5 million stapled securities were issued to DRP participants at \$8.00 per stapled security on 15 August 2019. In respect of the final distribution for the year ended 31 December 2019, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security on 14 February 2020.

Welcoming the next generation

2019 revenue
\$739.3m
 ↑2.4% from 2018



Group revenue (%)



As more of our airline partners move to next generation aircraft, we're preparing for a new future of international air travel.

Our diverse passenger base drove the continued strong performance of the aviation business despite softening economic conditions, with revenue rising 2.4 per cent to \$739.3 million. The total number of passengers grew by 0.1 per cent, with international growth of 1.1 per cent offsetting a decline in domestic traffic. A significant shift in the adoption of next generation aircraft highlighted the potential for medium term growth as demand for air travel continues to rise and ultra-long haul widebody and narrow body routes become increasingly viable.

Benefiting from a diverse international passenger base

Our international passenger numbers continued to grow as we focused on further building the diversity of our passenger base. While total international seats declined by 1.2 per cent, average load factors increased by 1.7 per cent, highlighting the strength of the Sydney market.

Japan was our fastest growing route for the second consecutive year, recording more than twice the growth of any other market. The rising popularity of Japan as a destination for Australian travellers has created new opportunities for additional services, providing a more evenly balanced market on a route that was dominated by inbound traffic in the 1980s and 90s. In 2019, Qantas added additional frequency on its Osaka service and launched its new seasonal Sapporo service.

Further growth is anticipated in 2020, with ANA adding a second daily service to Haneda in March ahead of the Olympic Games, and Japan Airlines moving its Narita service to Haneda. Indonesia was also a strong source of growth as Malindo Air added a daily Denpasar service and Qantas up-gauged its existing operations to Bali and increased frequencies to Jakarta. India and New Zealand also recorded strong passenger growth for the year.

The emerging market of South America was boosted when LATAM Airlines commenced a three-weekly direct service from Santiago in October.

While the diversity of international routes operating from Sydney Airport highlighted the resilience of the aviation business, this was offset by airline business decisions to respond to emerging events during the year. The Boeing 737MAX grounding led to Fiji Airways and China Southern Airlines redirecting aircraft, while Virgin Australia and Air New Zealand each made network changes following the conclusion of their Tasman alliance.

In the domestic market, airline capacity management, high cancellation rates and subdued demand also saw both load factors and the number of available seats fall. This was primarily the result of broader economic conditions.

Next generation aircraft transforming the aviation opportunity

The emergence of long range widebody and narrow body aircraft is putting new markets in reach of Sydney Airport, providing potential for the creation of direct services to new destinations.

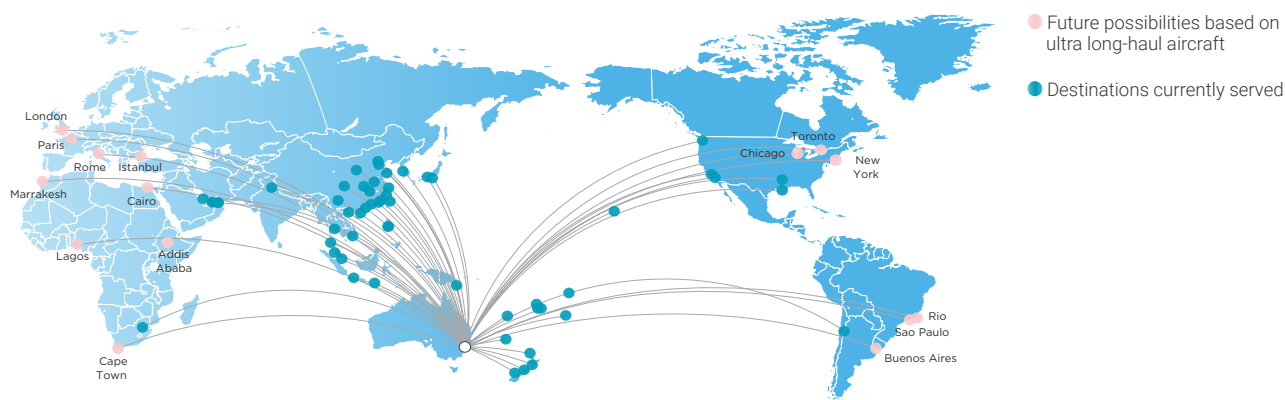
The proportion of next generation aircraft operations at Sydney Airport rose to 25 per cent in 2019, up from 15.3 per cent in the prior year. The rapid adoption of these aircraft has not only delivered efficiency for airlines, but is also delivering sustainability benefits in the form of lower noise and carbon emissions.

The year also saw exciting progress towards the adoption of ultra long-haul routes with Qantas completing its New York and London test flights to Sydney. These test flights reflected the potential for new market opportunities that will emerge for Sydney Airport with the adoption of ultra long-haul aircraft such as the Boeing 777-X and Airbus A350 1000. We continue to engage with our airline partners on their planning for these aircraft to identify new opportunities as they enter the market.

We have also seen emerging opportunities for narrow body markets that can be served by aircraft such as the A321 neo and A320 neo. These aircraft bring new destinations and secondary markets into range for the first time, particularly within the Asia Pacific.

The ultra long-haul opportunity

The range capability of aircraft equipped with ultra long-haul seat configurations are creating new market opportunities within reach of Sydney



Emerging narrow body markets

Sydney Airport also sees great opportunities for new markets to be serviced with narrow body aircraft, making new routes to currently unserved destinations in the Asia-Pacific more viable



Aeronautical Services



T3 transition to deliver efficiency gains

Sydney Airport took over full management of T3 in 2019, paving the way for efficiency and customer service benefits across our operations and business. The transition to Sydney Airport control was managed during the year to ensure a smooth transition with minimal passenger disruption.

This culminated in Sydney Airport taking control of terminal operations, operational maintenance of the baggage handling system and security, access control, CCTV and checked bag screening in October. It is anticipated this will deliver greater efficiencies and flexibility over time, with all three terminals now under Sydney Airport control for the first time.

Investment program to boost capacity

A number of capacity building projects were progressed during the year to address both immediate airline operational needs and long term demand at the airport.

We completed the design phase for the Pier A project, which will include the provision of additional gates at T1 to substantially increase international contact gate capacity.

Civil enabling works began on the southern bag room project, which will deliver increased capacity and improved efficiencies for ground handlers and airlines.

This project will leverage new technology and automation to improve safety outcomes and increase system resilience. The project will include the installation of new automated bag drops, CT scanners and bag stores at T1 and will also meet new government-mandated security requirements. We completed a significant consultation program with airlines and ground handlers in 2019 to ensure the project meets current and future needs as we grow. A major contractor and baggage systems supplier were appointed, with the project to be operational by 2022.

We commenced work on the Northern Ponds and South East Sector projects to fuel three existing layover bays and construct four additional layover bays. These projects will provide short term apron capacity and help facilitate future development at the airport.

We also continued to upgrade airside roadways and pavements to support our operations, and upgraded the lighting on the parallel runway to enhance operations in lower visibility conditions.

New airline partnerships team to drive innovation and growth

We established a new airline partnerships team to ensure we continue to support both our new and existing airline partners. As the only team of its kind in Australia, the new division is leading an innovative marketing approach to help ensure the success of our partners and build Sydney Airport's competitive advantage.

The team has embarked on structured marketing campaigns that support the business case for both inbound and outbound markets. This is a departure from the traditional approach in Australia that saw airports focus solely on inbound tourism and is ensuring we are better able to work with our airline partners to develop a commercially successful and sustainable service. This is not only creating a mutually beneficial relationship with our key airline partners, but also supports our engagement with tourism boards, travel media and travel distributors. A new set of key opportunities using this approach will be pursued in 2020.

Improving outcomes for airline partners

Using our agreed Key Performance Indicators (KPIs), we were able to take a more focused approach to our engagement with airline partners during the year. Our KPIs track a range of operational and customer datasets including on time performance (OTP), bussing, baggage and customer experience metrics. They have provided an objective and reliable data source on which to discuss our key projects and initiatives with our airline partners.

Our KPI framework was introduced in consultation with airlines in 2017 and has since helped to guide and prioritise our investment decisions. Reporting against these measures has clearly translated into improved outcomes for passengers, with broad improvements recorded in 2019 compared to the prior year.



OTP for both arrivals and departures, as well as bussing times, improved on the prior year. Importantly, airline customer satisfaction scores also continued to rise as we maintained our focus on investing in facilities and services to meet travellers' needs.

With two full years of reporting, our KPIs provide important baseline data as we prepare to renew airline service agreements in 2020.

Creating more connected airport operations

We formalised a partnership with Airservices Australia, airports and airlines in December to undertake the first network-wide implementation of Airport Collaborative Decision Making (A-CDM). Sydney, Melbourne, Brisbane and Perth airports joined with key airlines and Airservices Australia as part of the agreement.

Partnering organisations will share data to improve real time decision making, which is expected to lead to better utilisation of runway and gate capacity, as well as smoother recovery from disruptions. The project will be progressively implemented in 2020 with full commissioning in 2021.

Consultation for our Airport Operators Licence (AOL) was also carried out during the year, working with the International Air Transport Association (IATA) and our stakeholders throughout the consultation process. The project is expected to deliver improved efficiency and safety outcomes in operational areas and will move into its implementation phase in 2020.

Security

We continued to work with the Australian Government and border agencies to respond to emerging risks in the security environment. We completed a trial of level three CT scanning for checked and carry-on baggage as we continue to progressively implement new equipment to meet government-mandated security requirements. The trial successfully achieved improved security outcomes, while also enabling increased throughput to deliver a faster, more seamless customer experience.

Outlook

Bushfires and the Coronavirus outbreak have both impacted performance in 2020. We will continue to work with the Federal and NSW Governments as we respond to the Coronavirus outbreak, always putting our people, passengers and local communities first.

We liaised closely with health authorities to ensure our people had up-to-date guidance on how to minimise their risk of infection, making personal protective equipment available to all employees. We also sought assurances from our contractors and partners to ensure they were mirroring our approach across the airport community.

Significant operational resources were also deployed to assist Federal biosecurity and NSW Health officials in screening passengers at the airport. Our approach helped minimise both disruption to passengers and delays to processing more broadly as a result of enhanced screening measures.

The mainland China origin and destination passengers accounted for 11.6 per cent of international passengers in 2019. The impact on passenger numbers in 2020 will depend on the timing of the containment of the virus, and when travel restrictions are lifted.

Throughout our long history, Sydney Airport has weathered many significant global events including one-off disruptions and economic shocks. The airport has proven resilient and able to recover quickly and deliver long-term, stable growth.

Despite current events, we continue to pursue growth opportunities, targeting new routes and additional services across emerging markets while also increasing frequency and gauge on existing services. We have identified a number of under-served markets and new, medium-sized origin and destination markets. We will build on these opportunities as we continue to support a diversified international traffic base in 2020 and beyond.

Our airline service agreements are due for renewal in 2020. We will seek to better align these agreements with our investment cycle to focus on driving shared value for both the airport and our airline partners.

Our investment program to build capacity and operational efficiency will also continue in 2020, with work to progress on the Northern Ponds and South East Sector projects. Construction of the southern bag room will also continue.

Aeronautical Services



New Departures wall improves efficiency, celebrates excitement of travel

A 53-metre, Tasmanian oak curved wall has breathed new life into the T1 Departures zone, creating an engaging and memorable space for visitors while facilitating an improved experience for passengers.

The wall was officially unveiled as part of our centenary celebrations by NSW Minister for Jobs, Investment, Tourism and Western Sydney Stuart Ayres (pictured above with Sydney Airport CEO Geoff Culbert).

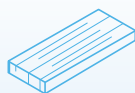
The wall features expanded entry points and a state-of-the-art digital screen to deliver a better experience for travellers, their families and friends.

The Departures wall has long been one of the most tagged social media locations in Sydney as visitors mark the start of their outbound journey. The upgrade has created a new and memorable experience for travellers and has already featured heavily on social media channels, further connecting Sydney to the rest of the world.

Key facts



53m
curved wall



10,000
lineal metres of
Tasmanian oak



252
individual
digital panels



The new wall has also effectively doubled the circulation space in the area, making passengers' journey through to passport control even easier, particularly during peak periods. This is a good example of innovative design to improve efficiency at key processing points while also capturing the excitement of international travel.

The unveiling of the Departures wall was followed by the launch of our new T1 meeting place in Arrivals. These improvements across the terminal are providing a more consistent, enjoyable and welcoming experience for passengers at every stage of their journey.



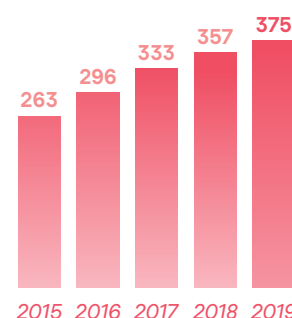
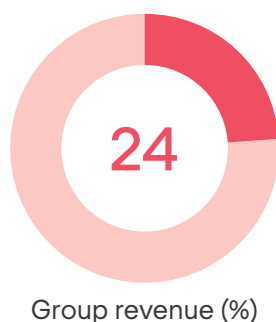
25m
state-of-the-art
digital screen



2 Expanded
entry points
accommodating a
greater number of
passengers

Celebrating our SYD lifestyle

2019 revenue
\$374.9m
 ↑5.0% from 2018



We continue to transform the airport experience for our domestic and international travellers, creating an offering worth arriving early for.

The retail business continued to deliver strong financial performance during the year, with revenue increasing five per cent to \$374.9 million.

With all three terminals now under Sydney Airport's management, our retail strategy is better meeting the demographics of each terminal to maximise revenue per passenger and encourage visitors to arrive early to make the most of their time at the airport.

Domestic upgrade delivers new lifestyle precinct

The latest stage of improvements at T2 were completed as we unveiled a new lifestyle precinct within Pier B. The upgrade featured hand-picked brands to create a fresh, relaxing pre- and post-flight experience. This included the opening of the first BONDS airport store in the country, a new LEGO showcase and the largest offering by JB Hi-Fi at an Australian airport.

Concept bar Fat Yak also opened during the year, offering a contemporary menu and extensive collection of local craft beers and wine.

The improvements responded to customer feedback by providing a more contemporary dwell area with furniture, fixtures, greenery, enhanced connectivity,

upgraded wayfinding and space to provide live entertainment.

We also enhanced the retail mix at T3, identifying distinct travel retail precincts within the terminal. New brands such as Mecca and Orotan were introduced during the year to better suit the customer demographic of the terminal.





Our retail offering

T1

128

stores

21,559m²

retail area

T2

70

stores

6,127m²

retail area

T3

49

stores

4,603m²

retail area

International precinct brings differentiated travel experience

Key initiatives at T1 during the year focused on building the excitement of travel. Heinemann Tax and Duty Free continued to show strong innovation in 2019, understanding the need for choice and value while delivering a range of unique and limited-edition concepts only available at Sydney Airport.

A series of pop up shops were secured during the year to provide exclusive experiences for people travelling through Sydney Airport. The La Prairie Art of Luxury was the first pop up of its kind in Australia when it launched in April, providing an immersive, pre-flight experience for travellers.

In November, Archie Rose opened its 16-seat pop up cocktail bar to deliver a one-of-a-kind experience for passengers to enjoy before their flight, while the Bombay Sapphire pop up was also launched in December. These initiatives supported passenger demand for unique experiences at the airport.

Advertising growth

The presentation of our advertising sites and sales collateral improved following the acquisition of APN Outdoor by JCDecaux, providing greater access to the global advertising market.

JCDecaux became the first out-of-home operator selling at all three terminals after we began operating T3 during the year. Existing assets at the terminal were updated or removed, with new assets introduced in key passenger areas. We also continued to refresh a range of external signage around the airport and surrounding motorways, and digitised several key assets.

Outlook

As part of the continued focus on enhancing the experience throughout the airport, the relocation of Tourist Refund Scheme (TRS) at T1 will provide new space to leverage high demand from global luxury fashion brands.

The introduction of Moncler and Saint Laurent will further our offering in the T1 luxury retail precinct. These improvements will continue to encourage passengers to maximise their time at the airport as we better respond to their needs.

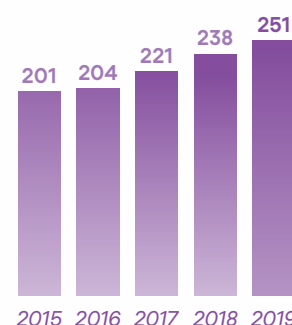
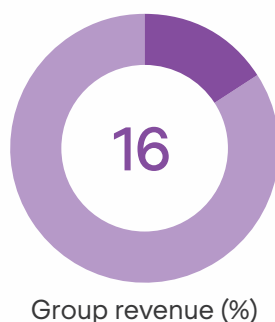
We will also focus on leveraging technology to enable one-to-one communications with passengers in the new year to build customer engagement across the airport journey.

We will continue our work to deliver a refreshed product mix and food offering at T3 in 2020.

Further enhancements will also be implemented at T2, which remains one of the most productive retail precincts in Australia.

Unlocking new value

2019 revenue
\$251.2m
↑5.5% from 2018



Our real estate portfolio across all sectors is experiencing high occupancy and strong demand, as we focus on unlocking the value of our land holdings.

We have further leveraged Sydney Airport's position as a key property district within eight kilometres of the city centre to deliver another year of growth in the Property and Car Rental business. Revenue increased 5.5 per cent to \$251.2 million as our property assets continued to benefit from strong demand.

With our hotels delivering high yields and our freight and logistics hub growing in strategic value, the business benefited from rent reviews, new leases and robust hotel occupancy rates during the year.

Developing our commercial master plan

We assessed land use across the airport this year as we completed the discovery phase of the development of our commercial master plan. The process will address six strategic objectives to create real estate solutions to meet the needs of the community.

In 2020, we will define our value proposition, business case options and preferred solutions as part of the commercial master plan, which will be delivered in 2021.

Airport hotels continue to deliver growth

Our hotels in the Domestic precinct continued to deliver strong investment yields and commercial returns as customers sought convenient, on-airport accommodation.

We opened the 78-room extension to the IBIS Budget Hotel to expand our offering to the budget travel market. Since its launch in May, the customer satisfaction rating has risen to 73 per cent, from 69 per cent.



The Mantra delivered strong occupancy rates once again during the year, with food and beverage performance improving yields and guest sentiment rising to 84 per cent. Mantra also joined the Accor distribution channel in November, allowing guests to book directly through the Accor loyalty platform.

We announced the development of a new Aerotel this year, confirming 15 unique pod rooms would be created at T1 to cater to travellers looking for a comfortable spot to rest after a long flight. This short stay accommodation will be delivered in 2020 to meet demand from international travellers arriving in Sydney during the morning peak period in particular, well before most hotels are available for check in. This further diversifies our offering to customers within the international precinct.

Freight hub driving strategic value

A new long-term and strategic partnership with DHL Express reinforced the airport's position as a key freight hub. Our logistics portfolio now includes more than 90 tenants across 879,000 square metres, with 98 per cent occupancy.

The new partnership saw the development of a 12,051 square metre freight facility – the largest for DHL Express in its Oceania portfolio. DHL Express processes 44 per cent of its freight in the Oceania region at Sydney Airport, with its proximity to the city and direct access to major road networks ensuring expedient delivery of goods for local and international businesses.

The partnership confirmed the strong demand for logistics space at Sydney Airport, with both cargo terminal operators and freight providers requiring on-airport sortation and distribution facilities. We have seen rising demand for distribution facilities closer to the end customer as e-commerce service level delivery agreements become more competitive.

We also agreed new commercial terms with Qantas to extend its freight facilities at the airport. Qantas will invest in upgrading its facilities to provide greater flexibility for their on-airport offering.

Airline lounges building customer offering

Access to airport lounges continues to rise in popularity as travellers appreciate the exclusive environment, complimentary dining and luxury amenities they offer. A range of providers at Sydney Airport have expanded their offerings to provide paid access to their lounges for economy class customers and non-cardholders.

In October, American Express opened its new card member lounge near Gates 50-63 at T1. The 600 square metre space is operated by Plaza Premium and offers guests a premium airline lounge experience. Etihad's The House was also refurbished during the year.

A refurbishment of the Qantas Business Class lounge is expected to be completed in 2020.

Car rental

Car rental turnover increased as we completed upgrades to operational areas to support the industry. We introduced damage camera technology at the international precinct to take photos of vehicles before and after they are rented. This seeks to reduce the number of damage complaints for the industry.

Outlook

There remains further opportunities for the development of strategic partnerships to support freight and logistics expansion at the airport. With about 80 per cent of air freight carried in the bellyhold of passenger aircraft, our freight offering provides mutually beneficial outcomes for the airport and our airline partners. We will continue to focus on creating a dedicated freight precinct and introducing more competition into the market.

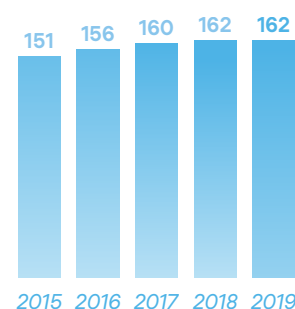
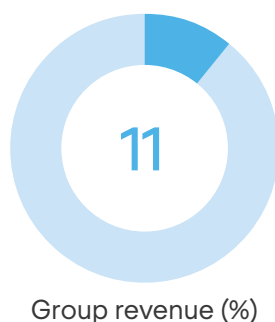
Work on our domestic hotels precinct and aerotel facilities will also further diversify our offering in 2020, while creating operational synergies within the portfolio.

The Qantas Jet Base lease expires on 30 June 2020. The 30 hectare site is located adjacent to the domestic terminals and has direct access to airside areas of the airport. When the lease expires, it will be the first time since privatisation that Sydney Airport has full operational control of the entire airport site, providing a significant strategic opportunity. As we consider future uses for the site, we will seek to identify options that enhance our product offering, and increase capacity and efficiency.



Connecting to our city

2019 revenue
\$162.0m
↓0.1% from 2018



We've continued to invest in key projects to improve ground access as we work collaboratively with external stakeholders to make it easier to access the airport.

Parking and Ground Transport revenue remained in line with 2018 at \$162 million as we continued to support a wide range of modal choice for visitors accessing the airport.

Our parking business remains closely aligned to domestic traffic numbers, with the decline in domestic passengers impacting parking performance.

About 45 per cent of parking customers took advantage of online booking, which continues to offer good discounts when compared to drive up rates.

The strong interest in online booking remains an opportunity for Sydney Airport to create more engaged customers, and we continue to enhance our systems to make the process faster and easier. We also completed value based customer segmentation during the year to better target our parking product offering. An engagement plan based on these segments will be delivered in 2020.

Investing in a more seamless trip to the airport

We continued to deliver a range of programs to improve access to the airport this year, seeking opportunities to co-invest with our government partners where possible.

We widened the Airport Drive link to Centre Road at the International precinct to support smooth traffic flows and improved signage to better inform motorists approaching the airport.

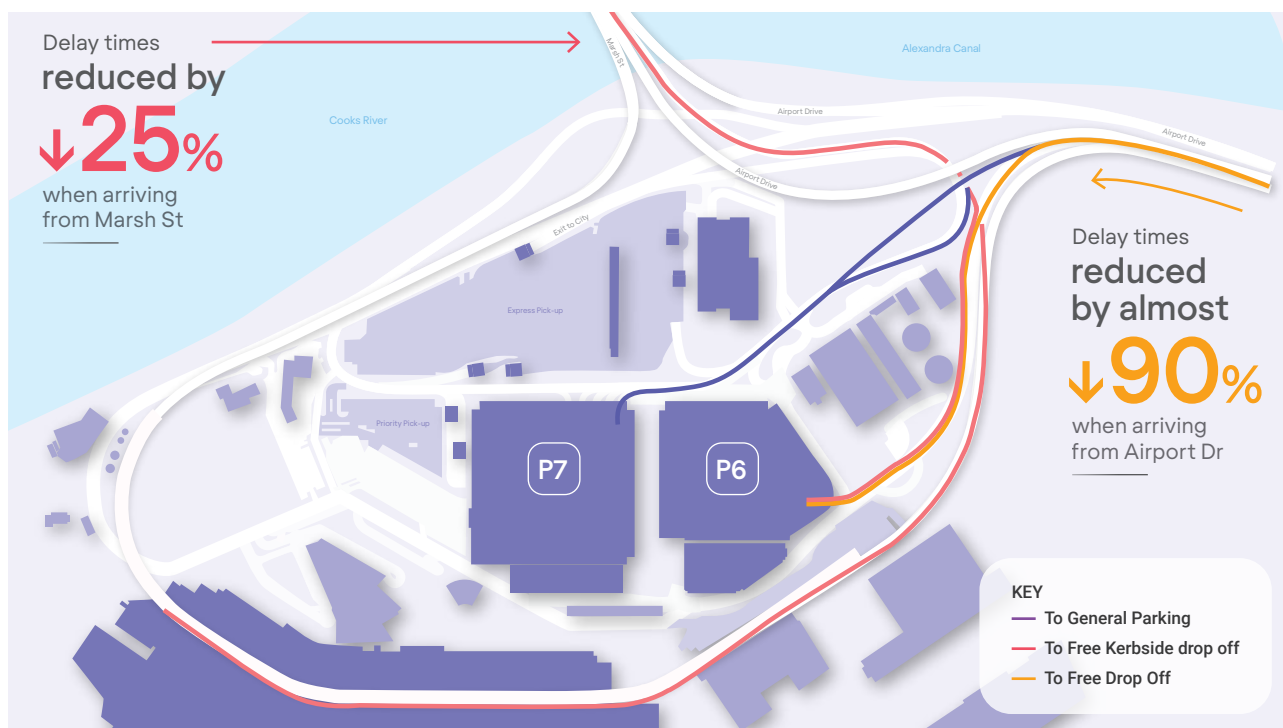
The Landside Operations Centre was incorporated into the Integrated Operations Centre to deliver better efficiencies when managing ground transport.

New message boards outside the airport precinct were installed to inform travellers of delays or congestion, and the best travel path to get to the airport in real time.

This has been supported by our continued work in partnership with Roads and Maritime Services and the Transport Management Centre to refine traffic signalling and monitoring in the airport precinct.

Within the airport precinct, we have further improved overflow drop off areas to meet demand during peak periods. New arrangements for the T1 departures overflow drop-off eased congestion in the precinct during the morning peak, delivering 25 per cent of vehicles to the overflow to allow for quicker passenger drop offs (see page 35 for details). The success of the drop off area in the International precinct led to a trial of a domestic departures overflow in the early morning peak period.

We have now taken on the management of T3 valet parking following the transition of the terminal to Sydney Airport management, with all valet operations being managed by the airport at year end.



Faster, more streamlined drop off arrangements during peak periods

Our international overflow drop off areas have created faster access for passengers being driven to the airport during peak periods. The overflow area operates four days per week during the morning peak, and every day during school holiday peak periods. We provide additional staff to assist passengers with their bags and provide guidance as required to ensure an easy and seamless experience.

Preparing for Sydney Gateway

Planning and approvals for Sydney Gateway were underway during the year. We continued to work with the NSW Government as the project progressed. Approvals are expected to be finalised in 2020, with a construction contract award expected by mid-2020. We have continued our discussions with government on potential ground transport solutions to support better access to the airport, using Sydney Airport's contributions from the Gateway project.

Making it easier to access taxis and rideshare services

Sydney Airport became the first Australian and New Zealand airport to make UberPool available in February as part of our commitment to delivering greater choice and value to our customers.

The service supports our objective to further reduce congestion, encouraging people to share rideshare services and reduce the total number of vehicles required. We expect this will lead to fewer vehicles and improved wait times over the long term, while also offering an affordable alternative for passengers.

We also introduced queue wait time monitors at our T1 taxi rank, so passengers have real time insight into how long they will need to wait for a taxi. We will be investing in new initiatives to support taxi operations at the airport in 2020.

Outlook

Enabling works for the Domestic Ground Transport Interchange will begin in mid-2020 and works are expected to be completed in line with the delivery of the Gateway project.

This will provide a significant boost in the airport's ability to facilitate additional transport services in the future to offer more choice for our visitors.

The completion of a new T1 taxi rank in 2020 is expected to deliver faster throughput and enhanced customer experience.

We will also be introducing electric charging stations for commercial operators at the south-east precinct and for our valet services. Priority pick-up at the Domestic precinct will also be redesigned to improve throughput and traffic management.

Responsible growth

Sustainability underpins our commitment to responsible growth that delivers positive outcomes for our customers, investors and the communities in which we operate. It is integral to our business strategy and the delivery of our purpose: to make Sydney proud every day.

Our sustainability principles are integrated into our business decision making. Our sustainability strategy responds to our changing world. It considers the challenges and opportunities that shape business in Australia and globally.

We recognise the important role our airport can play in environmental and social challenges, now and into the future. This was the first year of delivery under our refreshed sustainability strategy and three-year commitments. These commitments drive our activities towards our strategic focus areas, which create the most value for stakeholders.

This year, we continued to support and positively contribute to the United Nations Sustainable Development Goals (SDGs). Sydney Airport has been a signatory to the United Nations Global Compact since 2017 and we are pleased to reaffirm our commitment to this initiative and its principles.

Sustainability Linked Loan

We refinanced \$1.4 billion in bank debt facilities by way of a market-leading Sustainability Linked Loan (SLL) this year. This establishes a direct link between our sustainability performance and funding cost, delivering strong capital management alongside sustainability outcomes.

Under the loan, we have set a target to improve our sustainability performance. If we achieve this target, the margins on our bank debt facilities will decrease. If our performance deteriorates to an agreed point, the margins on our bank debt facilities will increase. This means sustainability is further embedded in the way we do business.

Our SLL was the first syndicated loan of its kind in Australia, the largest syndicated SLL in the Asia Pacific and largest syndicated airport SLL globally. It was recognised by GlobalCapital as Green/SRI Loan of the Year, while Sydney Airport was named Most Impressive Green/SRI Loan Borrower. Sydney Airport was also named Issuer of the Year – Sustainability by FinanceAsia and the SLL as Syndicated Loan Deal of the Year by KangaNews.

Our sustainability strategy

The three pillars of our sustainability strategy guide our focus and support our objective to be a leader in sustainability. Our 2019-2021 commitments embed sustainability in all aspects of our business in line with the pillars of our strategy, while our flagship initiatives focus attention on issues where we can drive a step change in our performance. Our material issues and their alignment to the pillars of our strategy are listed below. Further details on our approach to sustainability are set out in our 2019 Sustainability Report which is available on our website, including progress in delivering on our sustainability commitments and our 2019 materiality assessment.

Responsible business	Planning for the future	Supporting our communities
We strive to be ethically responsible and transparent in how we do business	Delivering operational excellence through innovative technology-based solutions and supporting customer needs now and into the future	Working with communities to create shared value
Material issues		
<ul style="list-style-type: none"> – Safety – Security – Cyber security – Environmental management – Employee attraction, retention and development – Diversity and inclusion – Fair and ethical business 	<ul style="list-style-type: none"> – Climate change – Sustainable development of the airport – Operational efficiency and continuous improvement – Customer experience – Business continuity and performance – Access to and from the airport – Innovation and technology 	<ul style="list-style-type: none"> – Community investment and engagement – Aircraft noise – Safety – Climate change – Economic performance
Flagship initiatives		
<ul style="list-style-type: none"> – Climate resilience – Electrification – Airspace and airfield efficiency 		
Contribution to the SDGs		



Doing things the right way

We strive to be ethically responsible and transparent in how we do business.

Safety and wellbeing

Employee Lost Time Injuries

5
↓ from 10
in 2018

Class 1 Injuries¹

0

Completed safety walks

840

We updated our safety strategy to further develop our safety culture and build on our safety systems to enhance risk management.

This focus saw lost time injuries fall from 10 in 2018 to five, during more than 931,675 hours worked by Sydney Airport staff across the airport during the year. There were also no class 1 injuries¹.

New safety KPIs for people leaders introduced in 2018 led to a stronger safety culture across the organisation, with 90 per cent of our people leaders completing four safety walks each in 2019 – exceeding our target.

We strengthened our focus on mental health in our business, hiring a new mental health specialist to join our safety team. In 2020, a mental health strategy will be developed.

Aviation safety remains critical to the ongoing operation of our airport. This year, we continued our focus on monitoring unsafe behaviours on the airfield, completing over 6,280 aviation safety hours.

We also created a dedicated Foreign Object Debris (FOD) sub-committee of our Aviation Safety Committee to bring together ground handlers, airlines and airport staff to specifically look at FOD management.

1. A class 1 injury is one that results in a fatality, total permanent disability or total partial disability





Diversity and inclusion

Part of making Sydney proud every day is our commitment to fostering workplace diversity and inclusion.

In 2019, we refreshed our diversity and inclusion strategy, and formed a Diversity Council and Working Group to drive its delivery.

The number of female employees across the organisation remained consistent with 2018 at 39 per cent, while the number of women in management roles increased from 35 per cent in 2018 to 37 per cent. Our gender pay ratio continued to improve, up from 93.4 in 2018 to 95.9¹ this year.

We conducted a diversity and inclusion survey during the year to better understand our workforce. We learned that we come from 46 countries and speak over 30 languages, with 30 per cent of us speaking a language other than English at home.

Building engagement and supporting workforce development

We recognise the contribution an engaged workforce can make to our business success.

We're focused on making sure Sydney Airport is a place our employees love to work. In surveys conducted during the year, our people told us they feel safe when they are at work, believe the work they do is meaningful and are excited about Sydney Airport's future. In 2020, we are working to enhance the experience of our people at work by continuing to build a great culture, improving collaboration between teams, communicating regularly and recognising performance and achievement.

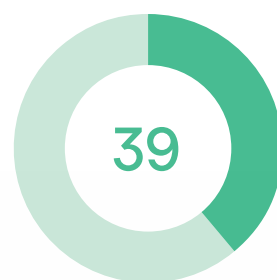
We want to develop and maintain a culture that supports our people to reach their full potential. This year, the average hours of training per employee increased by nine per cent, to 15.5.

We continued to invest in building capability in our people with the introduction of a new Educational Support Policy, which assists employees to undertake external tertiary programs. We also encourage our people to apply for internal job opportunities to further develop their skills and experience and continue their career at Sydney Airport. During the year, 31 per cent of roles were filled by internal candidates.

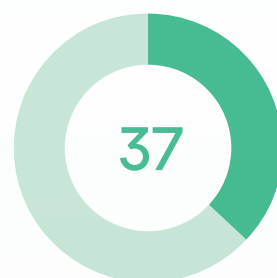
1. Calculated on base salary and superannuation

Number of employees

508



Female employees (%)

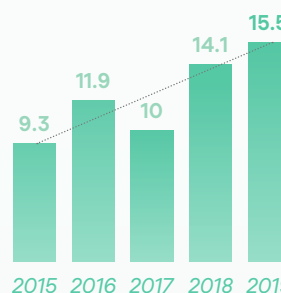


Females in management roles (%)

Gender pay ratio¹

95.9

Average hours of training (per employee)



Sustainability

Environmental management

34.5%

reduction in emissions
intensity per pax
since 2010

30%

water recycling
rate at T1

43.4%

waste recycling rate³

↑42.9% from
2018

The strategic direction for the environmental performance and management of Sydney Airport is set every five years in our Airport Environment Strategy. Our current strategy (2019-2024) was approved early in the year.

We continued to work towards achieving a 50 per cent reduction in emissions per passenger by 2025¹, and to be carbon neutral by 2025 in line with the Airport Carbon Accreditation (ACA) program. During the period, our Scope 1 and 2 emissions reduced by four per cent and our carbon intensity² continued our five-year downwards trend.

We reduced the number of pool cars in our fleet and replaced three petrol vehicles with hybrid electric vehicles.

We upgraded airfield and landside lighting systems and installed a new lighting control system in the baggage reclaim halls which allows us to switch to power saving modes during curfew periods.

We also continued to work with airport stakeholders on initiatives to reduce Scope 3 emissions, which were 884 kt

CO2e during the period. Our disclosures in line with the Taskforce on Climate related Financial Disclosures (TCFD) are provided in the risk management section of this report, and in our Sustainability Report which is available on our website.

The volume of water treated at our onsite water treatment plant increased by 19 per cent during the year, bringing the volume treated over the past five years to more than 980 megalitres.

During 2019, total waste generation at the airport reduced by two per cent and we recycled 43 per cent of non-quarantine waste.

We continued to work with retailers to remove single-use plastic bags and straws, setting ourselves the target to remove them from T1 retailers by 2021. We exceeded that goal, securing the removal of plastic bags and straws

from across 113 tenancies in all three terminals. We continued to install water refill stations across the airport, which this year had an average refill rate of 1,400 vessels per day.

We also adopted organic waste recovery with our T1 landside retailers following a successful trial in 2018. We expanded the program to include food waste as well as coffee grounds. This waste is transported to a waste to energy facility to generate renewable electricity.

1. Based on 2010 levels

2. kgCO2-e per passenger

3. Excludes quarantine waste, which cannot be recycled due to quarantine restrictions and requirements

Emergency preparedness and operational resilience

As a piece of critical national infrastructure, we need to ensure we are resilient and can continue to operate under a range of circumstances. We continued to run emergency exercises to test our response to a range of potential incidents in and around the airport. We hosted multi-agency desktop exercises this year under a range of scenarios including the activation of the Emergency Operations Centre in a missing flight scenario, a response to drone activity, and a health pandemic on an inbound flight requiring quarantine.

We conducted a modular exercise to test the aerodrome secondary staging area and site control activation, and another for an active armed offender scenario on the airport precinct.

We also revised and improved our crisis protocol and delivered refresher training in incident and crisis management to key personnel involved in responding to a crisis situation.

As the security threat landscape evolves, we continue to focus on managing current and emerging cyber risks.

Our cyber security program is designed to protect our networks, devices and data from attack through a series of controls and defence mechanisms.

Fair and ethical business

Our Code of Conduct sets the standards for how we work together to operate the airport in a safe, secure, responsible and ethical manner. It underpins a culture of high ethical standards and integrity. This year, we introduced a new online Code of Conduct training module for all employees to ensure everyone understands what is expected of them. Employees will be required to undertake refresher training each year.

Our Whistleblower Policy was reviewed and updated in 2019. Our Board also reviewed our procedure and participated in refresher training on the process for handling any whistleblower complaints they may directly receive.

Our Supplier Code of Conduct sets out how we manage our relationships with suppliers and our minimum expectations.

During the year we assessed 25 suppliers, which account for 72 per cent of our in-scope third party spend, against the expectations set out in the Supplier Code of Conduct. Most of those suppliers met or exceeded our expectations, with six supplier improvement plans issued.

We completed a risk assessment for modern slavery in our business and supply chain. We reviewed our existing controls, and where necessary, we are working to strengthen these to ensure we're not inadvertently doing business with individuals or companies that profit from modern slavery. We developed a roadmap for the next 18 months to strengthen or implement controls to meet stakeholder expectations and prepare for reporting under the Commonwealth *Modern Slavery Act 2018* in 2021.

We also launched a pilot, six-month modern slavery awareness campaign in partnership with the Australian Federal Police and Anti-Slavery Australia. A series of posters designed to raise awareness of forced marriage, one type of modern slavery, were installed across our terminals. The posters were designed to provide potential victims or their friends or family with a pathway to seek help if they need it. As Australia's busiest airport, we were proud to support this important campaign.



We're Sydney's airport

We're committed to working with communities to create shared value.

\$5.2m

in community
investment

29

community organisations
supported

32,000

people in our on-airport
community

Community engagement

In a first for a major Australian airport, we established a deliberative community engagement forum, the Community Panel, during the year. Panel members nominated to be a part of this forum to answer the question "How can Sydney Airport support its local community?" International best practice examples were shared with panel members who also heard from key industry experts and community speakers.

A series of recommendations in the areas of environment, education and employment, experience and equality were provided by the panel and are under consideration by the executive team.

Our community engagement program this year focused on the preliminary draft major development plan for the Sydney Gateway Project and the main north-south runway resurfacing project.

We continued to be active members of the Sydney Airport Community Forum, alongside government, local mayors and representatives of the local community and aviation industry.

Airport community

As we embed our purpose across our business, we are also working to build a shared sense of purpose with the wider airport community.

A new SYD Support Group was established in 2019, providing opportunities for employee volunteers to assist our customers during peak times and when disruptions occur. This new approach supports improved service delivery times and helps smooth the journey through the airport for our passengers.

We began developing a new Community Portal during the year to help us better communicate with our airport partners

and foster a vibrant culture across the precinct. The portal will connect the 32,000 people working across the airport, providing news and updates, safety information, project notifications and staff profiles.

Reconciliation Action Plan

This was the first year of our inaugural Innovate Reconciliation Action Plan (RAP), which we officially launched during National Reconciliation Week.

One of our goals included incorporating Indigenous suppliers into our supply chains, which we have done by procuring an Indigenous stationary supplier, a local Indigenous photographer and forming an ongoing partnership with the Gujaga Foundation to provide consulting services with regard to progressing our RAP goals.



We also welcomed another CareerTrackers intern at Sydney Airport this year over the summer university break in our Resilience team.

We launched SYD Stories, an online platform that tells the stories and history of Sydney Airport. As a part of this platform, we collaborated with local Indigenous people who have lived and managed the land around Sydney Airport and Gamay (Botany Bay) for hundreds of generations to tell their story. Go to sydstories.com.au to learn more.

We also celebrated Aboriginal and Torres Strait Islander culture in our airport with smoking ceremonies and performances for passengers and staff during NAIDOC Week, Reconciliation Week and at our centenary gala celebration.



Investing in our community



Live Local

We are committed to being a good neighbour and playing a role in keeping our local communities connected, healthy, vibrant and thriving



Leading and Learning

We support initiatives that provide opportunities for our leaders of tomorrow. We support those to be the best in their field, with a particular focus on supporting minority groups and reducing inequalities in our community



Sydney's Airport

We are working to strengthen relationships between the airport and our communities by supporting tourism-generating initiatives that benefit the city and local communities, and by developing a sense of place at Sydney Airport that reflects our city



Community investment

In 2019, we contributed \$5.2 million in value to the communities in which we work, as verified by LBG Australia and New Zealand. The includes \$4.4 million in cash, time, in-kind donations and management costs – more than double our 2018 contribution of \$2.2 million.

Our investment was delivered across our three pillars, Live Local, Leading and Learning and Sydney's Airport as part of our commitment to be an active part of our community.

We celebrated our centenary year with the announcement of a new SYD100 scholarship, to help foster education in the fields of aviation and commerce. Under the program, we will award one scholarship each year for the next 100 years for a student to study aviation and commerce at UNSW. The scholarship will be awarded to students from groups under-represented in aviation, including Indigenous students, women, students from diverse cultural backgrounds and those who are financially disadvantaged. The scholarship program provides a lasting commitment well beyond our centenary year to continue fostering the growth and success of our city and its people.

We have also committed to invest \$12 million to establish the Community and Environmental Projects Reserve Fund with Bayside Council to deliver projects over 10 years. This year, we continued to work with Bayside Council to identify priority projects under the fund. The Greening Bayside project will be the first to be delivered, with Sydney Airport to contribute \$1 million over five years to fund extensive planting in streets and reserves across the Bayside local government area.

This is an important project that will deliver lasting benefits to local residents and the environment. We will also contribute \$5 million over several years to the upgrade of the Botany Aquatic Centre.

Supporting the bushfire recovery effort

All of our people at Sydney Airport were deeply concerned for the families and businesses impacted by the Australian bushfires in 2019 and early 2020.

We joined the fundraising effort to support those affected in December, making an initial direct donation of \$25,000 to the Red Cross. This was done through our partnership with the Sydney Sixers cricket team during their match against the Thunder, where we donated \$400 for every four that was hit and \$600 for every six.

We also pledged to match donations collected in our terminals, with Sydney Airport staff volunteering their time to rattle tins across the airport. We were delighted with the strong support we received from our passengers and the airport community, raising \$50,174.68 as part of the effort. This increased to more than \$100,000 through our matched donation.

All money raised went to the Australian Red Cross and the NSW Wildlife Information, Rescue and Education Service (WIRES) to support the recovery effort. Post year end, we also contributed \$50,000 to the Community Rebuilding Initiative led by the Business Council of Australia (BCA). In 2020, we will continue to engage with our local community and tourism partners to support the recovery effort.

Bid for Good

This year's 'Bid for Good' lost property auction raised \$190,000 through the sale of unclaimed items left in our terminals, with nine local organisations benefiting from the proceeds.

The auction was delivered in partnership with the Sydney Community Foundation, with Marrickville Legal Centre receiving the \$100,000 major grant in 2019.

The funds will support the Centre's financial empowerment project to provide at-risk women with the skills and confidence to identify financial abuse early and seek assistance.

An additional eight not-for-profit organisations received grants of \$10,000 or \$20,000 to fund community programs and initiatives in the NSW community.

Christmas Giving Appeal

We partnered with Surf Life Saving Sydney for our 2019 Christmas Giving Appeal, building on our 18-year relationship with the organisation.

The appeal featured our biggest ever Runway Run, with more than 1,000 participants joining in the run on Sydney Airport's airfield. Additional in-terminal activities were held throughout the Christmas season, providing the chance for members of the wider airport community to get involved in the fundraising effort.

Money raised by the appeal will support the efforts of frontline lifesavers at Sydney beaches.



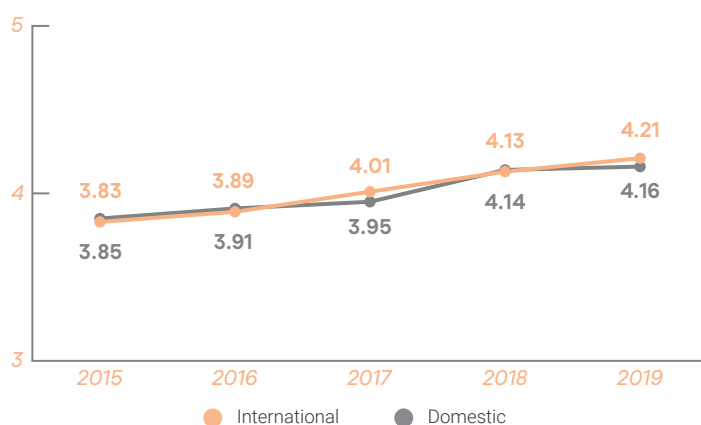
Putting our customers first

We're investing to provide an easy, seamless and enjoyable journey for our customers to help them make the most of their time at the airport and get to the gate on time.

Investment drives improved satisfaction

We continued our investment program to support an enhanced customer experience, responding to feedback that our visitors wanted to see a greater focus on more comfortable spaces throughout our terminals. Customer improvements delivered during the year led to both precincts outperforming customer satisfaction score benchmarks. At T1, our customer satisfaction rating rose to 4.21 out of five, while our domestic rating increased to 4.16.

Improved customer satisfaction across our terminals (scores out of five)



Gate lounge upgrades improve dwell areas

Gate lounge redevelopment works at T1 continued in 2019, with gates 30-37 and 50-63 upgraded. The program has increased the gate lounge area by 60 per cent in Pier B and 41 per cent in Pier C. The new gate lounges feature improved boarding arrangements, enhanced wayfinding and additional seating to improve passenger processing and optimise boarding operations. This has minimised queuing across the terminal concourse to improve the overall amenity of the terminal.

The upgrades followed extensive consultation on their design with airlines and ground handlers to maximise efficiency gains associated with the project. This led to Pier C being significantly expanded to make way for a new boarding zone at gates 58-59 and provide increased seating for people waiting for their flights.

Bathroom refurbishments improve facilities, access

We continued our precinct-wide bathroom refurbishment program, opening a new bathroom at Gate 54 arrivals to increase available facilities and improve the customer experience.



The upgrade program also saw the creation of a Changing Places accredited bathroom with full-sized changing tables and hoists to assist people with profound disabilities and an assistance animal toilet for companion animals. The bathroom also incorporates a Parent Room that has achieved an Australian Breastfeeding Association five-star rating and has been highly commended for Australia's best bathroom 2019.

We also completed the upgrade of the arrivals meeting point bathroom to maximise space and provide improved amenities for visitors. The project responded to passenger feedback and improves access and safety outcomes. The upgrade included the installation of a further Changing Places facility and family room to improve accessibility across the airport.

Creating more space, comfort and seamless transfer for passengers

Upgrades to the T1 baggage reclaim hall has created a more friendly, intuitive, spacious and modern area for our customers when they arrive. Improvements to the baggage carousels, finishes, wayfinding, signage and fittings have improved ease of use in the area to deliver enhanced customer experience outcomes.

Improvements for departing passengers included the installation of a new kids' zone at T1. The installation of fun, interactive and educational games targets children aged four to 10 years and has become a focal point for families waiting for their flight.

At T2, the first phase of the substantial works in Pier B also delivered 340 square metres of increased space for passengers to dwell. The final phases of the project now underway will deliver further customer benefits, by increasing circulation space and providing multiple charging options for passengers including USB, standard power points and wireless charging. This newly created zone has seating areas overlooking the airfield, increasing comfort and sightlines for passengers while waiting for their flights.

Keeping our visitors connected

Sydney Airport explored a range of device charging solutions for passengers during the year. The adoption of wireless charging in public spaces is expected to grow rapidly in the coming years, providing a cord-free solution for passengers on the move. We trialled Aircharge wireless charging solutions at T1 during the year, before implementing the technology at T2.

We also upgraded wifi at T3 following the terminal's transition to Sydney Airport management. A new, single sign-on page and the installation of additional access points significantly increased customer satisfaction, from 54 per cent to 80 per cent. The rollout of a wifi upgrade at T1 also began and is due to be completed in the first quarter of 2020. Further upgrades at T2 will also take place in 2020.

Listening to our customers

As we continue to act on what our customers are telling us, we have furthered our commitment to ensuring visitors can easily contact us to seek assistance or share feedback. We refreshed the 'contact us' section of the website to allow customers to choose from self-serve options to gain faster answers to their queries. The new page also enables us to leverage analytics for further service improvements. It was developed using a human-centred design solution informed by stakeholder interviews, user testing and prototyping to support more flexibility.

A resilient business

We understand that risk management is at the core of a sustainable business. We continue to evolve our risk management approach to make sure it keeps pace with the dynamic and ever-changing environment we operate in.



Sydney Airport's approach to risk management

The risk management framework

The risk management framework is the overarching policy which guides how we identify, assess and manage our risks across the business. It creates an environment where risk taking is based on a calculated process which takes into account and works within the risk appetite set by the Board. It also enables creative, effective and focused decision making to harness growth opportunities in all areas of the business.

The role of the Board

The Audit and Risk Committee of the Sydney Airport Board is accountable for regularly ensuring the risk management

framework is fit for purpose, maintained and implemented across the business; reviewing our group risk profile; and monitoring the implementation of risk reduction and mitigation measures. The Committee presents the group risk profile and executive risk report to the Board twice a year. The Board and Committee holds the Chief Executive Officer accountable for the management of risk within our risk management framework.

The role of management

Sydney Airport's leadership team is responsible for the implementation of our risk management framework within their business units. Members of our leadership team provide updates on the management of risks they are responsible for as part of the Audit

and Risk Committee's twice-yearly review of the group risk profile.

Our progress this year

The Board refreshed Sydney Airport's material risk matrix and profile in 2019 to ensure our approach to risk management continued to be relevant within our changing operating environment.

We also commenced a review of our risk management framework as part of this process. In 2020, we will embed a new risk management guide across the business to provide clear guidance for our people on how to manage risk in their roles. This simple, non-technical guide will support our people to innovate and make decisions, confident that the outcome of those decisions will ultimately support our purpose.



Risk management

Material risks

	Risk	Risk mitigants or controls
Commercial	Current business operations and a significant portion of revenues are calculated based on the number of passengers that use Sydney Airport, which may decline or experience growth constraints due to factors beyond the airport's control, including global economic conditions, fuel prices and international government relations	Delivering responsible and sustainable growth through a framework of cost discipline Continuing to focus on attracting passengers and services to Sydney, including working with the Australian Government to increase air rights to priority markets Further strengthening airline and airport partner engagement
	The airport faces competition for new business from interstate and overseas airports and may face increased competition with the Australian Government's development of Western Sydney Airport (due to be operational in 2026), or expansion of other modes of transport in the Sydney region	Continuing to embed a customer-focused culture in everything we do Exploring practical business opportunities across our business portfolio including aeronautical and non-aeronautical activities
Operational	The operation of Sydney Airport depends upon the performance of a variety of third parties	Continuing to optimise the utilisation of airport infrastructure and develop new capacity
	Airport operations could be materially adversely affected by climate change, information security incidents, cyber-attacks, terrorist attacks and the threat of war Airport operations are dependent on the full functionality of our terminal, airfield, road and technology infrastructure Operations face risk associated with aircraft accidents Ongoing environmental management including historical contamination	Established a Project Management Office to ensure master programming of all major works and identification of risks that may impact operations Using tailored delivery mechanisms to mitigate operational risk or customer experience impact Developing critical infrastructure master plans to identify and remove 'single points of failure' Implemented our Information Security Management System to manage cyber risks and respond in the event of an incident Implementing a technology transformation program to phase out outdated and end-of-life technology most susceptible to cyber risks and our cyber security program continues to be enhanced A Climate Risk Assessment and Adaptation Plan has been developed to understand climate risks under the IPCC Representative Consultation Pathways to identify mitigations and build resilience Our airport emergency plan includes exercises and simulations with Federal and State emergency services Environment strategy that includes a five-year action plan to address a range of environmental impacts and a requirement for tenants to develop a risk based environmental management plan

	Risk	Risk mitigants or controls
Regulatory	We operate in a regulated environment across many aspects of our business. The way we operate the business may change if there is regulatory change	Maintaining structured engagement with government stakeholders to understand, and where necessary act upon, industry issues or concerns and propose potential regulatory improvements
	The financial performance of the business may be adversely affected by regulatory change	Continuing to build a robust compliance culture and framework
Financial	Sydney Airport has significant net debt and there is a requirement to refinance portions of this debt each year	Maintaining a presence across multiple debt capital markets. Ensuring undrawn debt facilities are provided by multiple lenders
	Airline customers and airport partners may experience adverse financial and operating conditions, which could have a materially adverse impact on our revenues and costs	Assessing the required level of liquidity, considering debt maturing within at least the next 12 months in addition to at least six to nine months of forecast growth capex.
Customer	Delivery of customer experience to the standard expected by passengers and airlines	Developing a future customer strategy, vision and journey with a focus on voice of customer to prioritise investment in customer experience improvements
	Inconsistent customer outcomes lead to adverse business outcome	Completing terminal audits and customer experience training to identify and address short term responses
		Continuously improving the customer journey from home to the runway
		Customer focused initiatives such as improved facilities, wayfinding and technology, informed by customer surveys have been, and continue to be, delivered
		Using technology and data to ensure we are driving customer-led initiatives

Risk management

Climate resilience and adaptation

Sydney Airport recognises our need to contribute to addressing climate change, and restrict global temperature increases to less than 2°C in line with the Paris Agreement.

The airport is an essential piece of regional and national infrastructure which supports the mobility and economic growth of the communities we serve. Our infrastructure and operations deliver high levels of availability, reliability and resilience and we recognise climate change has the potential to affect our business through physical, transitional and regulatory changes.

We have identified climate change risk as significant in our annual reporting since 2017. It is an area of focus under the Responsible Business and Planning for the Future pillars of our 2019-2021 Sustainability Strategy, as well as our flagship initiatives. It is included in our company-wide risk register and is subject to ongoing reviews to ensure relevancy and focus on risks associated with climate change and the transition towards a low-carbon economy.

Mitigation and adaptation planning

We are committed to reducing our emissions footprint, improving our operational resilience and adapting to the predicted effects of a changing climate. We see achieving carbon neutral operations by 2025 as a contribution to goals of the Paris Agreement and our road to neutrality considers various decarbonisation options ranging from

energy efficiency, strategic sourcing of renewables, engagement and carbon offsets.

During the year, we reassessed potential impacts and consequences of climate change on the airport business and operations in our updated Climate Risk and Adaptation Plan. We assessed both physical and transition risks based on climate scenarios based on the Intergovernmental Panel on Climate Change's (IPCC) Representation Concentration Pathways outlined in the IPCC Fifth Assessment Report, and International Energy Agency scenarios outlined in the World Energy Outlook 2018.

We have adopted adaptation actions that aim to address priority physical and transition climate-related risks and opportunities identified in the 2019 Climate Change Risk Assessment and Adaptation Plan. Adaptation themes were developed with consideration of Sydney Airport's ability to control and influence action, as well as best practice in climate change adaptation and flood mitigation at national and international airports. The actions include mechanisms to embed climate change adaptation and resilience into airport planning, design and operations.

Metrics and targets

We monitor and disclose the following metrics in our Sustainability Report each year to help understand climate-related risks:

- Direct and indirect greenhouse gas emissions (Scope 1, 2 and 3)
- Emissions intensity per passenger
- Energy consumption
- Onsite energy generation
- Waste generation, disposal and intensity
- Water consumption

We will continue to review climate indicators developed for our scenario analysis on an ongoing basis to understand and monitor evolving climate change trajectories.

Our climate resilience targets also support our ability to reduce emissions and manage climate-related risks and opportunities. They are:

- Follow the recommendations of the TCFD in public disclosure
- Achieve carbon neutrality by 2025, in line with the ACI's Airport Carbon Accreditation Scheme
- Reduce carbon emissions per passenger by 50 per cent from 2010 baseline levels by 2025

Performance against these targets is reported annually in our Sustainability Report.



Reporting against TCFD recommendations

We are supporters of the Taskforce on Climate-related Financial Disclosures (TCFD) and have disclosed our climate change risk management in line with their reporting framework since 2018. Refer to our 2019 Sustainability Report for our detailed disclosures in line with the TCFD Framework.

	TCFD recommended disclosures	Disclosure	Location
Governance	Board oversight of climate related risks and opportunities	Governance and oversight of climate-related risks	Pg 36
	Management's role in assessing and managing climate related risks and opportunities	Governance and oversight of climate-related risks	Pg 36
Strategy	Risks and opportunities identified in the short, medium and long term	Climate risk management and controls	Pg 38
		Climate-related risks and opportunities	Pg 39
	Impact of climate related risks and opportunities on the organisation's strategy and financial planning	Climate resilience strategy	Pg 36
	Describe the resilience of the organisation's strategy under different climate scenarios	Scenario analysis	Pg 37
Risk management	Processes for identifying and assessing climate-related risks, and integration of climate related risks into overall risk management framework	Climate risk management and controls	Pg 38
	Processes for managing climate-related risks	Climate risk management and controls	Pg 38
		Scenario analysis	Pg 37
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Directors' report

for the year ended 31 December 2019

Overview of ASX-listed Sydney Airport

ASX-listed Sydney Airport (the Group) consists of Sydney Airport Limited (SAL) and Sydney Airport Trust 1 (SAT1). Shares and units in the Group are stapled, quoted and traded on the Australian Securities Exchange as if they were a single security. They consist of one share in SAL and one unit in SAT1. SAL holds a 100% economic interest in Sydney (Kingsford Smith) Airport at 31 December 2019 (2018: 100%).

For the year ended 31 December 2019, the directors of SAL submit their report on the consolidated financial report of ASX-listed Sydney Airport on pages 88 to 128. SAL has been identified as the parent of the consolidated group comprising SAL and its controlled entities and SAT1 and its controlled entities, together the Group.

For the year ended 31 December 2019, the directors of The Trust Company (Sydney Airport) Limited (TTCSAL or the Responsible Entity) also submit their report on the consolidated financial report of SAT1 comprising SAT1 and its controlled entities (the SAT1 Group) on pages 88 to 128.

Directors' Report for Sydney Airport Limited

Principal activities

The principal activity of the SAL Group is the ownership of Sydney Airport. The SAL Group's investment policy is to invest funds in accordance with the provisions of the governing documents of the individual entities within the SAL Group. There were no significant changes in the nature of the SAL Group's activities during the year.

Director profiles

Directors of SAL during the year and until the date of this report are as follows:

Trevor Gerber BAcc, CA

Chairman
(Non-executive)

Mr Gerber was appointed as a Sydney Airport director in May 2002, appointed director of SAL in October 2013 and appointed chairman on 14 May 2015. He is a member of the Audit and Risk Committee and Nomination and Remuneration Committee. He 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

Executive

Mr Roberts was appointed as a Sydney Airport director in October 2009 and appointed director of SAL in October 2013. He is chairman of the Audit and Risk Committee. He 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). 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 was appointed as a Sydney Airport director in February 2011 and appointed director of SAL in October 2013. He is the chair of the Safety, Security and Sustainability Committee.

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.

Directors' report

for the year ended 31 December 2019

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

Ms Sherry was appointed as a Director of SAL in May 2014. She is chair of the Nomination and Remuneration Committee and a member of the Safety, Security and Sustainability Committee. 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 chair 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
BEc, CA
(Non-executive)

Mr Fenn was appointed as a director of SAL in October 2015. He is a member of the Nomination and Remuneration Committee and Safety, Security and Sustainability Committee. 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.

Abi Cleland
MBA, BCom, GAICD
(Non-executive)

Ms Cleland was appointed as a director of SAL in April 2018 and is a member of the Audit and Risk Committee. She 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
BCom, LLB, FAICD
(Life), FCPA
(Non-executive)

Mr Gonski was appointed as a director of SAL in October 2018. He is chair 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, and director of 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:
Hon. Michael Lee
BSc, BE, FIE Aust
(Non-executive)

Mr Lee was appointed director of SAL in October 2013. He resigned on 24 May 2019. He was a member of the Audit and Risk Committee and Safety, Security and Sustainability Committee. He 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
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
BEc, LLB

Mr Motum was appointed as company secretary of ASX-listed Sydney Airport in January 2012, and resigned on 12 July 2019.

Directors' report

for the year ended 31 December 2019

Board skills matrix

SAL's director selection and appointment practices ensure the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Sydney Airport.

Set out in the following table are the skills and experience of SAL's directors and requirements of the business:

Skills and experience		Number of directors
	Aviation and transport Experience in aviation or transport. Aviation is our core business and an understanding of the complex network of stakeholders is of critical importance	4
	Property and construction Experience in all aspects of major property infrastructure and delivery of large construction programs	3
	Technology Knowledge and experience in implementing and adopting new technologies within large organisations. With an understanding of digital disruptions, data, cyber security and technology related innovation	3
	Retail Retail industry experience, with deep understanding of product delivery and customer strategy	4
	Banking and finance Experience in financial and capital management strategies, treasury, accounting and reporting, corporate finance and internal controls, including assessing the quality of financial controls	6
	Strategic and commercial acumen Using commercial judgement and experience in assessing, monitoring and where necessary questioning and challenging strategic objectives and delivery	7
	Risk management Knowledge and experience in assessing and monitoring appropriateness of risk management frameworks, building and adapting organisational risk culture, proactive identification of financial and non financial risks, developing effective policy and procedures to manage risks	7
	Leadership CEO or senior position in listed companies or large organisation with experience in driving direction, guidance, leading organisational change and strategic planning	7
	Governance and compliance Experience in implementing and providing direction on organisation-wide governance and compliance policies, systems and frameworks, training and education, and ensuring compliance	7
	Health, safety and environment Experience in developing health, safety and environment policy, strategies and initiatives	5
	Government relations Having worked with or experience in interacting with domestic and international, state and federal governments and regulators	5
	People, culture and remuneration Experience in developing and implementing people, culture and remuneration frameworks, policies and practices to attract, retain and motivate employees, succession planning and talent management programs, driving and monitoring a culture of compliance and integrity across the organisation	7

Directors' report

for the year ended 31 December 2019

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 are in the table below. Only members of the committee have voting rights. All directors are welcome to attend any standing committee of the board. Various directors chose to do so throughout the year.

Directors		Trevor Gerber ³	Michael Lee ⁷	John Roberts ⁴	Stephen Ward ⁵	Ann Sherry AO ⁶	Grant Fenn	Abi Cleland	David Gonski AC ⁸
SAL Board	H ¹	8	3	8	8	8	8	8	8
	A ²	8	3	8	8	8	8	7	8
Audit and Risk Committee	H ¹	4	1	4	-	-	-	4	2
	A ²	4	1	4	-	-	-	4	2
Nomination and Remuneration Committee	H ¹	4	2	-	4	4	4	-	-
	A ²	4	2	-	4	4	4	-	-
Safety, Security and Sustainability Committee	H ¹	-	2	-	4	4	4	-	2
	A ²	-	2	-	4	4	4	-	2

1. Number of meetings to which director was invited to attend.

2. Actual attendance.

3. Chairman of the SAL Board.

4. Chairman of the Audit and Risk Committee.

5. Chairman of the Safety, Security and Sustainability Committee.

6. Chairman of the Nomination and Remuneration Committee.

7. Mr Lee resigned as director in May 2019.

8. Mr Gonski was appointed as member of the Audit and Risk Committee and Safety, Security and Sustainability Committee in August 2019.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the SAL Group during the year ended 31 December 2019.

Operating and Financial Review

The Operating and Financial Review is included in the Annual Report on pages 10 to 51.

Directors' report

for the year ended 31 December 2019

Audited remuneration report

Overview

Sydney Airport has continued to deliver strong growth in 2019 in a challenging year, building and leveraging Sydney Airport's diverse revenue portfolio. Whilst passengers grew 0.1% the lowest increase in a decade, the team delivered revenue growth of 3.5% against 2018. Non-aeronautical revenues were 51.6% of overall revenues (excluding security recovery). Retail and Property and Car Rental revenue streams delivered revenue growth of 5.0% and 5.5% respectively with Aeronautical service revenues delivering revenue growth of 2.4%. We had 44 international airlines flying 56 destinations. A range of cost control and resilience measures were implemented resulting in operating costs excluding security recoverable expenses decrease by 2.7%.

The reward outcomes in this Remuneration report reflect the accountability for overall performance outcomes for Sydney Airport in 2019. Our long-term incentive (LTI) plan had its second vesting in February 2019 (for the 2016 – 2018 series) and the actual awards are outlined in this report.

During the year the Board approved a policy for Directors that requires Directors to hold stapled securities equivalent to one times their net base fees, with this equity acquired over the three-year period of 2019 to 2021. The introduction of this policy is to further align the interests of the Directors with our shareholders.

We farewelled the Hon. Michael Lee who left ASX-listed Sydney Airport in May 2019 after more than 15 years as a Director. We are truly sorry to see Michael go. His contribution to the Board throughout his tenure as Director has been significant. On behalf of Sydney Airport, we thank him for his dedication and judgement and wish him the very best in his future endeavours.

1. Introduction

The directors present the Remuneration Report for Sydney Airport Limited (SAL) for the period 1 January 2019 to 31 December 2019. The information in this report has been audited in accordance with section 308(3C) of the *Corporations Act*. This report details remuneration arrangements for key management personnel (KMP) who are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of SAL, directly or indirectly. They include the non-executive directors (NEDs) of SAL, the chief executive officer (CEO) and other key executives who are employed by Sydney Airport Corporation Limited (SACL), a wholly owned subsidiary of SAL.

1.1 Directors

The following persons were directors of SAL (identified as the parent of ASX-listed Sydney Airport) for the period from 1 January 2019 to 31 December 2019 and up to the date of this report:

Name	Role	Period of directorship
Trevor Gerber	Chairman, Non-executive director	Appointed director 18 October 2013 Appointed chairman 14 May 2015
Michael Lee	Non-executive director	Appointed 18 October 2013 Retired as non-executive director on 24 May 2019
John Roberts	Non-executive director	Appointed 18 October 2013
Stephen Ward	Non-executive director	Appointed 18 October 2013
Ann Sherry AO	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
David Gonski AC	Non-executive director	Appointed 8 October 2018

Directors' report

for the year ended 31 December 2019

Audited remuneration report

1.2 Key management personnel

The following individuals were determined to be KMP by the directors for the year ended 31 December 2019.

Key Executive	Title
Geoff Culbert	Chief Executive Officer (CEO)
Hugh Wehby	Chief Operating Officer (COO)
Vanessa Orth	Chief Commercial Officer (CCO)
Greg Botham	Chief Financial Officer (CFO)

There were no changes to our KMP during 2019.

2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee (NRC) of SAL is responsible for making recommendations to the Board on director and executive remuneration policy and structure.

In 2019 the Nomination and Remuneration Committee comprised of four NEDs:

- Ann Sherry AO (Chair)
- Trevor Gerber
- Stephen Ward
- Grant Fenn

2.1 Remuneration consultant

During 2019 no 'remuneration recommendation' (as defined by Part 2D.8 of the *Corporations Act*) was made.

3. Remuneration principles, policy and structure

Sydney Airport aims to deliver superior, sustainable returns to its security holders. Sydney Airport's remuneration strategy is a key driver in achieving these objectives and in attracting, retaining and motivating high performing individuals. It aligns the interests of executives and security holders and is tailored to the unique characteristics of the business.

To ensure that Sydney Airport continues to deliver superior performance, our remuneration structure links the potential benefits for participants to the continued growth in Sydney Airport's sustained long-term financial performance and security holder returns.

3.1 Background

Sydney Airport is an ASX25 entity with an enterprise value of approximately \$28.0 billion at 31 December 2019. Sydney Airport is one of the most significant transport infrastructure assets in Australia. It is a highly complex asset and facilitates the movement of people and goods to allow the economy and transport network to function effectively.

The CEO and KMP have oversight and accountability for the development, operation and security of the airport facilities, supporting a diverse range of aeronautical, retail, property and car rental, parking and ground transport businesses. The Executives have oversight of significant ongoing capital expenditure and the development of a forward-looking strategic plan, incorporating airfield upgrades, apron development, terminal expansions, car park development, retail and commercial developments, and other significant initiatives. Since privatisation in 2002, Sydney Airport has invested approximately \$5 billion in aeronautical capacity, operational efficiency and improving passenger facilities. Executives are also accountable for a wide range of stakeholder relationships including airlines, passengers, concessionaires, tenants, service providers, governments, regulatory bodies, the community and security holders.

Executives' remuneration and performance awards are determined by the Board and NRC. In determining awards, the Board and NRC take into consideration the:

- Complexity of the business;
- Responsibility of each Executive;
- Executive's experience and tenure; and
- Executive's performance against key objectives.

Additionally, Executives' salaries are benchmarked against comparable market participants based on data from remuneration consultants.

Directors' report

for the year ended 31 December 2019

Audited remuneration report

3.2 Remuneration structure for Executives (including KMP) at 31 December 2019

The STI for each of the KMP is assessed on three elements with the associated weighting shown:

STI element	Associated weighting %
Financial results	50%
Strategic initiatives	30%
Culture	20%

The Financial results are shared by all KMP and each individual has the same percentage opportunity and receives the same percentage outcome for the Financial Results element.

Within the Strategic initiatives and Culture elements, there are specific individual objectives and leadership expectations which results in each individual achieving a different percentage for each of these two elements.

The information provided in section 3.4 of the 2019 Remuneration Report aligns to the three components.

The remuneration structure of the Executives (including KMP) 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. There are three components to the at-risk remuneration:
 - i. Short term incentive – paid as cash;
 - ii. Short term incentive – deferred cash payment (two years); and
 - iii. Long term incentive – equity plan, with a three-year performance period.

The second long-term incentive (LTI) plan introduced in 2016 for the CEO and other Executives and the performance period for the second series (2016 – 2018), vested on 21 February 2019. The subsequent LTI series 2017 – 2019, 2018 – 2020 and 2019 – 2021 will vest in February 2020, 2021 and 2022 respectively.

The LTI is designed to provide an incentive for participants to ensure that Sydney Airport continues its superior performance by linking potential benefits to the CEO and other Executives to the continued growth in Sydney Airport's sustained long-term financial performance and security holder returns. Under the LTI plan the vesting rights are conditional on the achievement of performance conditions and the satisfaction of the other vesting requirements.

A review of our LTI plan was undertaken in 2019 to ensure its structure continues to meet regulatory requirements and emerging stakeholder expectations and better practice. The changes to the plan include:

- Introduction of a new CPS CAGR target of 6-12%;
- Alignment of the VWAP period for the LTI offer with the VWAP for the start of the performance period;
- Making the CEO LTI offer conditional upon AGM approval and aligning the LTI invitation with the March remuneration cycle; and
- Removal of the 'discretionary' element from the performance-based conditions in the operation of the 2019 – 2021 LTI plan.

The performance conditions for 2019 – 2021 LTI are:

- One half of the rights granted are based on a three-year market comparative Total Shareholder Return (TSR) performance condition (TSR tranche). The Board chose this measure because it provides a comparison of Sydney Airport's performance against the S&P ASX 100 index. The hurdles ensure that the rights can only begin vesting if Sydney Airport outperforms at least half of the S&P ASX 100 index.
- One half of the rights are based on a cash flow per stapled security (CPS) performance condition (CPS Tranche). The Board chose this measure because of the importance of cash flow to our investors. Rights can begin vesting if Sydney Airport attains a compound annual CPS growth rate of equal to or greater than 6%.

The performance conditions for the LTI series up to and including 2018 – 2020 are:

- One third of the rights granted are based on a three-year market comparative Total Shareholder Return (TSR) performance condition (TSR tranche). The Board chose this measure because it provides a comparison of Sydney Airport's performance against the S&P ASX 100 index. The hurdles ensure that the rights can only begin vesting if Sydney Airport outperforms at least half of the S&P ASX 100 index

Audited remuneration report

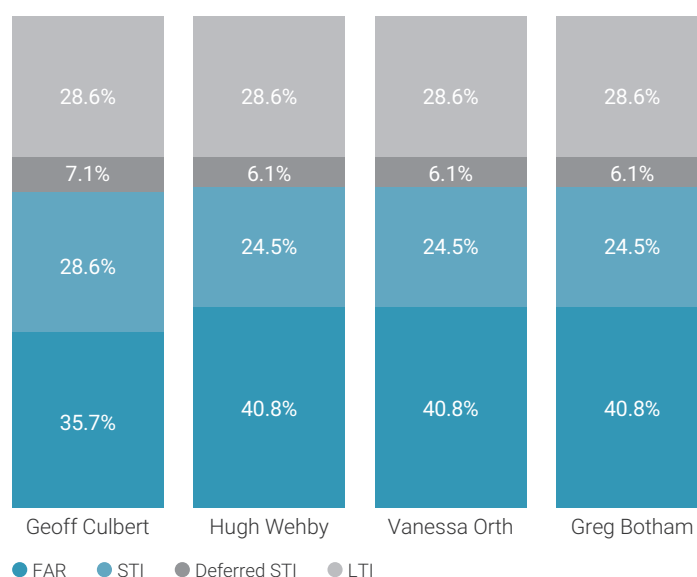
- One third of the rights are based on a cash flow per stapled security (CPS) performance condition (CPS Tranche). The Board chose this measure because of the importance of cash flow to our investors. Rights can begin vesting if Sydney Airport attains a compound annual CPS growth rate of equal to or greater than 8%.
- One third of the rights are assessed at the Board's discretion based on the long-term performance of the business and each participant's 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.

The measurements for the performance condition outcomes for the LTI are as follows:

- TSR is calculated by taking into account the change in an entity's security price over the relevant measurement period as well as the distributions received (and assumed to be reinvested back into the entity's securities) during that period. A minimum TSR ranking for Sydney Airport at the 50th percentile measured against the S&P ASX 100 index is required for any rights in the TSR tranche to vest. All of the TSR tranche will vest if Sydney Airport's TSR ranking is at or above the 75th percentile measured against the S&P ASX 100 index. Vesting will occur progressively on a pro-rata basis from 50% up to 100% of the TSR tranche for a TSR ranking for Sydney Airport between the 50th percentile and the 75th percentile.
- CPS is the cash flow per stapled security for a particular financial year, and is derived by dividing the Net Operating Receipts (as disclosed in the Directors' Report for Sydney Airport for the relevant financial year, and subject to adjustment by the Board for any extraordinary or non-recurring items) by the weighted average number of stapled securities on issue during the financial year. The CPS tranche will vest (wholly or in part) upon Sydney Airport attaining a compound annual CPS growth rate equal to or greater than 8% over the performance period. A compound annual CPS growth rate equal to or greater than 12% over the performance period will result in 100% of the rights in the CPS tranche vesting. Vesting will occur progressively on a pro-rata basis from 50% up to 100% of the CPS tranche for a compound annual CPS growth rate between 8% and 12% over the performance period.
- Up to and including 2018 – 2020 LTI series: The Board will determine what proportion (if any) of the rights will vest in the Other Tranche, having regard to long-term individual and company performance, taking into account such elements as people and leadership, customer satisfaction and delivery of long-term financial outcomes. The discretionary component allows the board to exercise judgement where the quality of the results or the behaviours of the executive are not aligned with long-term security holder expectations.

Performance conditions are measured over a three-year period. Performance 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 LTI plan) they may be entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

The remuneration mix for the KMPs for 2019 is expressed as a percentage of total remuneration and set out in the table below:



Directors' report

for the year ended 31 December 2019

Audited remuneration report

3.3 Link between remuneration and performance

3.3.1 History of corporate performance

Measure	2019	2018	2017	2016	2015
Security price at year end	\$8.66	\$6.73	\$7.05	\$5.99	\$6.35
Ordinary distribution paid per stapled security	\$0.390	\$0.375	\$0.345	\$0.310	\$0.255
Earnings before interest, tax, depreciation and amortisation ¹ (EBITDA) (\$ million)	\$1,145.5	\$1,282.6	\$1,196.4	\$1,085.7	\$1,003.6
EBITDA excluding Other expenses ² (\$ million)	\$1,336.3	\$1,285.0	\$1,198.9	\$1,106.8	\$1,003.6
Cash flow per stapled security (CPS) (cents)	40.1	38.2	35.0	30.2	26.0

1. EBITDA is from the Consolidated Income Statements of Comprehensive Income in the Sydney Airport Financial Report for Year Ended 31 December 2015, 2016, 2017, 2018 and 2019.

2. Other expenses is from the Consolidated Income Statements of Comprehensive Income in the Sydney Airport Financial Report for Year Ended 31 December 2015, 2016, 2017, 2018 and 2019.

3.3.2 2019 Security price performance

Sydney Airport's listed security price benefited from solid business performance and the global fall in bond yields in 2019.

Total investor return over the year assuming reinvested distributions was 34.7%. This includes the 39.0 cent per stapled security distribution representing growth of 4.0% from 2018.

Sydney Airport's five-year total security holder return of 18.5% p.a. (assuming reinvested distributions) which compares to the ASX100 accumulation index performance of 10.6% p.a. over the same period. That means if \$10,000 was invested in Sydney Airport securities on 31 December 2014, the value of that investment including reinvested distributions would be approximately \$29,300 at 31 December 2019. The equivalent investment in the ASX100 would be worth approximately \$12,900.

Source: Bloomberg.

Drivers of the 2019 performance include:

- Total passenger numbers travelling through Sydney Airport grew by 0.1% to 44.4 million in 2019, with 1.1% international growth and (0.5)% domestic (including regional) growth;
- The Group's EBITDA growth (excluding Other expenses) of 4.0% to \$1,336.3 million, driven by solid Aeronautical Services, Retail and Property revenue growth, management initiatives across the business and prudent operating expense control;
- Delivery of significant capacity expansions and passenger experience improvements through investing \$300.1 million on facilities and infrastructure.

3.4 Performance of executives

3.4.1 2019 Group performance and Short Term Incentive (STI) Awards

Objective	Weighting	Performance for STI award
Financial results	50%	<p>The STI outcome was 49.0% for this component for all individuals. This represents 99% achievement, which equates to the financial results which were 99% of budget.</p> <p>Strong growth was achieved in all financial metrics: Revenue grew by 3.5%, EBITDA (excluding Other expenses) grew by 4.0% and Net Operating Receipts (NOR) grew by 5.2%. Debt refinancings during the year delivered superior outcomes to target including via the Sustainability Linked Loan. Operating expenses exceeded target based on structured cost controls and represents a year on year reduction (excluding securities recoveries) for the first time in over a decade.</p> <p>Revenue, EBITDA and NOR achievement was 99% of target and each achieved in a year of challenging market conditions:</p> <ul style="list-style-type: none">– Revenue achieved \$1,639.6 million vs target of \$1,671 million– EBITDA (excluding Other expenses) achieved \$1,336.3 million vs target of \$1,347 million– NOR achieved \$905.7 million vs target of \$915 million

Directors' report

for the year ended 31 December 2019

Audited remuneration report

Objective	Weighting	Performance for STI award
Strategic initiatives	30%	<p>The majority of the strategic objectives were achieved in the 2019 calendar year. Based on Sydney Airport's long-term strategic plans including Master Plan and investment in infrastructure, many of these initiatives are multi-year initiatives. The STI outcomes reflect the delivery of outperformance on the initiatives.</p> <p>The individual outcomes for this element ranged between 25% and 33% (with a target of 30%), taking into consideration individual achievements.</p> <p>The team effectively managed the five yearly Productivity Commission Review process.</p> <p>The capital invested during 2019 in improving airport efficiency, expanding facilities, including our bathroom program upgrade, has enhanced the customer experience and contributed to the achievement of customer satisfaction targets for all three terminals.</p> <p>The transition of the T3 operations to Sydney Airport was completed on time and optimised revenue for 2019.</p> <p>Our traffic management strategy delivered the Wentworth Avenue expansion and reduced International 'peak period' congestion and improving congestion across both International and Domestic terminals.</p> <p>There are a number of additional strategic initiatives that individuals were progressing during 2019 which at this point are commercially sensitive.</p>
Culture	20%	<p>The majority of the cultural objectives were achieved in the 2019 calendar year. Once again, most of these initiatives are multi-year initiatives, such as sustainability, customer and stakeholder relations. The STI outcomes reflect the progress in building culture.</p> <p>The individual outcomes for this element ranged between 15% and 23% (with a target of 20%), taking into consideration individual achievements.</p> <p>This element of the STI encompasses customer and community engagement, stakeholder relationships, sustainability, safety, governance and compliance and people.</p> <p>Customer satisfaction scores and sustainability outcomes were above target levels including the successful execution of a market leading Sustainability Linked Loan, the first of its kind by an airport globally and internationally, recognised through numerous awards.</p> <p>In relation to safety outcomes, 2019 Lost Time Injuries, Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate improved year on year. Safety reporting measures were strong with an increase in hazards and near-misses being reported and we saw strong safety culture scores in our 2019 employee engagement survey. Safety walks were a successful initiative with the target of over 90% of people leaders completing their safety walks for the year being exceeded, with 92% and over 840 safety walks being completed in 2019.</p> <p>The organisation structure was simplified, and a new Leadership Team formed, comprising five Chiefs and the CEO to ensure the right people and capability are in place to drive the culture and performance of the business. We launched the new SYD Brand and defined our new Purpose, in consultation with our people which is to 'make Sydney proud every day.' A comprehensive employee engagement survey was undertaken.</p> <p>We have continued to improve the diversity of our workforce. A Diversity and Inclusion (D&I) Council, sponsored by our Chief Commercial Officer and Chief Financial Officer was established to drive D&I initiatives and outcomes. All employees were invited to complete a D&I survey in 2019 so Sydney Airport now has a better understanding of the diversity of its workforce to make improvements.</p>

Directors' report

for the year ended 31 December 2019

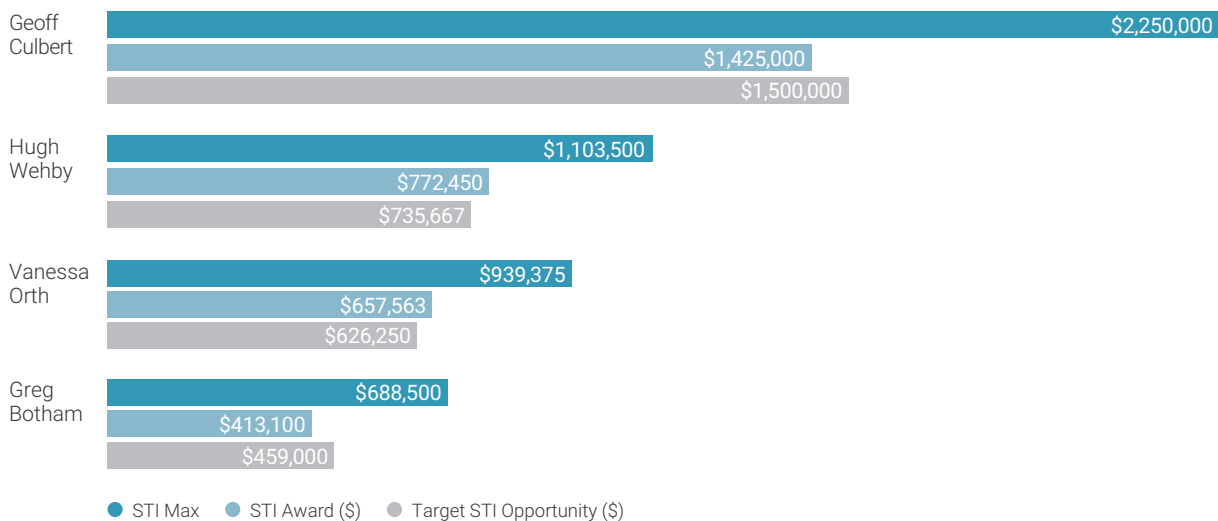
Audited remuneration report

3.4.2 Performance pay outcomes for 2019

The Board and NRC review the overall performance outcome for an individual based on the agreed performance objectives (as outlined in 3.4.1) but retain overriding discretion when determining the value of any STI award to a KMP. The Board and NRC approved the STI opportunity for KMP including a maximum award opportunity, 150% of target STI, awarded for exceptional performance only. The introduction of a maximum target STI was the outcome of a broader review of remuneration principles and structure by the Board and NRC to motivate and drive exceptional KMP performance in alignment with our shareholder interests. The following table shows the 2019 STI outcomes for KMP.

KMP	STI Maximum % of Target	Target STI	STI outcome % of maximum	STI outcome % of Target	STI forfeited maximum %	STI forfeited target %	Actual STI awarded	
							Cash award \$	STI deferred \$
Geoff Culbert	150.0%	100.0%	63.0%	95.0%	37.0	5.0	1,140,000	285,000
Hugh Wehby	150.0%	75.0%	70.0%	105.0%	30.0	-	617,960	154,490
Vanessa Orth	150.0%	75.0%	70.0%	105.0%	30.0	-	526,050	131,513
Greg Botham	150.0%	75.0%	60.0%	90.0%	40.0	10.0	330,480	82,620

STI target and max table



3.4.3 STI deferrals from previous period

Key Executives	Award date	Deferred \$	Vesting date
Geoff Culbert	15 Mar 2019	270,000	15 Mar 2021
Hugh Wehby	15 Mar 2019	105,877	15 Mar 2021
	15 Mar 2018	76,609	15 Mar 2020
Vanessa Orth	n/a	n/a	n/a
Greg Botham	15 Mar 2019	67,138	15 Mar 2020
	15 Mar 2018	40,282	15 Mar 2020

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3.4.4 Details of LTI rights granted to KMP

Name	Series	Rights granted	Grant date	Grant valuation ¹ \$	Grant value \$
Geoff Culbert	2019 – 2021⁴	172,718	31 May 2019		
	TSR tranche	86,359		3.34	288,439
	CPS tranche	86,359		6.11	527,653
	2018 – 2020³	181,698	31 May 2018		
	TSR tranche	60,566		2.82	170,796
	CPS tranche	60,566		6.16	373,087
	Other tranche	60,566		7.33	443,949
Hugh Wehby	2019 – 2021⁴	88,752	31 May 2019		
	TSR tranche	44,376		3.34	148,216
	CPS tranche	44,376		6.11	271,137
	2019 – 2021⁴	5,038	28 June 2019		
	TSR tranche	2,519		4.06	10,227
	CPS tranche	2,519		6.93	17,457
	2018 – 2020³	77,322	31 May 2018		
	TSR tranche	25,774		2.82	72,683
	CPS tranche	25,774		6.16	158,768
	Other tranche	25,774		7.33	188,923
	2017 – 2019²	42,590	31 May 2017		
	TSR tranche	14,197		4.24	60,195
	CPS tranche	14,197		6.37	90,435
	Other tranche	14,196		7.41	105,192
Vanessa Orth	2019 – 2021⁴	84,128	31 May 2019		
	TSR tranche	42,064		3.34	140,494
	CPS tranche	42,064		6.11	257,011
Greg Botham	2019 – 2021⁴	44,044	31 May 2019		
	TSR tranche	22,022		3.34	73,553
	CPS tranche	22,022		6.11	134,554
	2018 – 2020³	36,342	31 May 2018		
	TSR tranche	12,114		2.82	34,161
	CPS tranche	12,114		6.16	74,622
	Other tranche	12,114		7.33	88,796
	2017 – 2019²	26,593	31 May 2017		
	TSR tranche	8,865		4.24	37,588
	CPS tranche	8,864		6.37	56,464
	Other tranche	8,864		7.41	65,682

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

- TSR tranche was determined at grant date using the Monte Carlo model
- CPS tranche was determined at grant date using the binomial option pricing model
- Other tranche will be remeasured each year until vesting as the grant date for this tranche has not been reached. The conditions for this tranche vest at the Board's determination for LTI series 2017 – 2019 and 2018 – 2020.

2. The LTI has a three year performance period. No rights will vest until February 2020.

3. The LTI has a three year performance period. No rights will vest until February 2021.

4. The LTI has a three year performance period. No rights will vest until February 2022.

Directors' report

for the year ended 31 December 2019

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3.4.5 LTI vesting

Details of the results achieved and the corresponding LTI outcomes for the 2016 – 2018 LTI series that vested on 21 February 2019 for each of the three tranches are outlined in the table below.

Vesting condition	Percentage of total award	Outcome	% of Maximum award
TSR	33.33%	TSR -%	-
<50th percentile – 0% awarded		47.8 percentile	
50th percentile – 50% awarded			
>75th percentile – 100% awarded			
(Pro rata awarded between 50th and 75th percentile)			
CPS	33.33%	CAGR 13.0%	100.0%
<8% CAGR – 0% awarded			
8% CAGR – 50% awarded			
12% CAGR – 100% awarded			
(Pro rata awarded between 8% and 12% CAGR)			
Other	33.33%		80.0%
Consideration of:		The Board in their discretion made an assessment of the organisational performance, projects and outcomes delivered over the three years for all participants	
– operational aspects			
– people and leadership			
– customer satisfaction			
– delivery of financial outcomes			
Total	100.0%		59.9%

3.4.6 Details of LTI vested

The 2016 – 2018 LTI series vested on 21 February 2019.

Name	Series	Rights granted	Rights vested	Grant date	Grant valuation ¹ \$	Grant value \$	Rights vested ² \$
Current KMP:							
Hugh Wehby	2016 – 2018	25,255	15,153				107,132
	TSR tranche	8,419	-	31 May 2016	3.75	31,571	-
	CPS tranche	8,418	8,418	31 May 2016	6.27	52,781	59,515
	Other tranche	8,418	6,735	31 May 2016	7.07	59,515	47,616

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

- TSR tranche was determined at grant date using the Monte Carlo model
- CPS tranche was determined at grant date using the binomial option pricing model
- Other tranche as measured based on the security price at 31 December 2018 less the final distribution for the period ending 31 December 2018 of 19.0 cents per stapled security. The conditions for this tranche vest at the Board's determination.

2. Valuation based on the security price at 21 February 2019 of \$7.07.

Mr Culbert, Ms Orth and Mr Botham were not employed at the time of granting the 2016 – 2018 LTI series.

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for the year ended 31 December 2019

Audited remuneration report

4. KMP remuneration arrangements for year ended 31 December 2019

4.1 Service agreements

KMP	Length of contract	Notice period	Maximum STI opportunity (as a % of Target)	Target STI opportunity (as a % of FAR)	Termination period	Termination payment
Geoff Culbert	Permanent	6 months	150.0%	100.0%	6 months	6 months
Hugh Wehby	Permanent	6 months	150.0%	75.0%	6 months	6 months
Vanessa Orth	Permanent	6 months	150.0%	75.0%	6 months	6 months
Greg Botham	Permanent	6 months	150.0%	75.0%	6 months	6 months

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

CEO

Mr Culbert or Sydney Airport may terminate Mr Culbert's employment for any reason by giving six months' notice. In the event of any serious, wilful or persistent misconduct, Sydney Airport may immediately terminate Mr Culbert's employment. If Mr Culbert's 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 wilful 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*.

KMP

Treatment of STI Deferral: Termination without cause results in outstanding deferral elements being payable. Termination with cause results in this element 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.

Directors' report

for the year ended 31 December 2019

Audited remuneration report

4.2 Statutory remuneration table

The following table discloses total remuneration of KMP in accordance with the Corporations Act and Australian Accounting Standards:

Name	Short-term benefits			STI	Post employment benefits	Long-term benefits	Share based payments (LTI) ²	Total \$	At-risk %
	Salary ¹ \$	STI \$	Other \$	STI deferred \$	Super-annuation \$	Long service leave \$			
Current KMP									
Geoff Culbert									
2019	1,468,088	1,140,000	339,035 ⁴	285,000	20,531	36,991	98,902	3,388,547	45.0
2018	1,478,614 ³	1,080,000	1,716,865 ⁴	270,000	19,564	35,568	191,856	4,792,467	32.2
Hugh Wehby									
2019 ⁷	875,893	617,960	-	154,490	20,531	24,011	81,588	1,774,473	48.1
2018	770,857	529,257	n/a	105,877	20,290	20,751	222,244	1,669,276	51.4
Vanessa Orth									
2019	839,277	526,000	187,500 ⁶	131,513	25,000	20,252	30,236	1,759,778	39.1
2018	72,293 ⁵	n/a	262,500 ⁶	n/a	2,083	1,609	n/a	338,485	n/a
Greg Botham									
2019	549,906	330,480	-	82,620	25,000	14,677	36,397	1,039,080	43.3
2018	569,383	335,612	n/a	67,138	25,000	14,367	90,981	1,102,481	44.8
Total KMP									
2019	3,733,164	2,614,440	526,535	653,623	91,062	95,931	247,123	7,961,878	
2018	2,891,147	1,944,869	1,979,365	443,015	66,937	72,295	505,081	7,902,709	

1. Actual salary paid and net annual leave accrual.

2. This is expensed value of the 2016 – 2018, 2017 – 2019, 2018 – 2020 and 2019 – 2021 LTI series. Other than the 2016 – 2018 LTI series, no actual benefits have been received by the KMP for these LTI awards at reporting date. The LTI vesting will not occur until after the performance periods end and will be conditional upon achieving the required performance measures. Refer to 3.4.6 on the details of the 2016 – 2018 LTI series that vested on 21 February 2019.

3. Mr Culbert's remuneration reflects his commencement date of 15 January 2018.

4. This is the one-off cash and equity payments paid to Mr Culbert in 2018 and 2019. As previously disclosed in the 2018 Remuneration Report, these payment were in recognition of incentives foregone at his previous employer.

5. Ms Orth's remuneration reflected her commencement date of 3 December 2018.

6. This includes the one-off cash payment to Ms Orth paid in 2018 and 2019. These payments were in recognition of incentives foregone at her previous employer.

7. Mr Wehby's FAR was increased on 1 July 2019 to compensate for the increased responsibility including the addition of the corporate service functions (Corporate Affairs, Legal and Human Resources).

Directors' report

for the year ended 31 December 2019

Audited remuneration report

5. Non-Executive Directors' remuneration

5.1 Non-Executive Directors' remuneration policy

The Board sets NEDs' fees. Directors' remuneration is set with reference to external benchmarking undertaken by consultants engaged by the Board. An external benchmark of directors' fees was undertaken which indicated that the current fees are around the 25th percentile of a comparator group of 20 ASX-listed companies. The directors decided not to adjust the fees at this stage but these will be kept under review. A small increase to Committee Chair and Member fees was approved, with Audit and Risk Chair fees increasing to \$50,000, Nomination and Remuneration Committee Chair fees increasing to \$40,000 and all committee member fees increasing to \$20,000.

NEDs do not participate in nor receive at-risk remuneration in-line with ASX Corporate Governance principles.

The maximum directors' fee pool for SAL is \$2,500,000.

Role	Annual fee \$
SAL Board	
Chair	481,250
Member	175,000
SAL Audit and Risk Committee	
Chair	50,000
Member	20,000
SAL Nomination and Remuneration Committee	
Chair	40,000
Member	20,000
SAL Safety, Security, and Sustainability Committee	
Chair	40,000
Member	20,000

Directors' report

for the year ended 31 December 2019

Audited remuneration report

5.2 Non-Executive Directors' remuneration for the year

Fees and other benefits provided to NEDs of SAL during the year and during the prior year are set out in the following tables. Any contributions to personal superannuation or pension funds on behalf of NEDs are deducted from their overall fee entitlements.

SAL	Short-term employee benefits	Post employment benefits	
Name	Directors' fees \$	Superannuation \$	Total \$
Trevor Gerber (Chair)			
2019	460,719	20,531	481,250
2018	460,960	20,290	481,250
Michael Lee			
2019 ¹	77,369	8,168	85,537
2018	199,210	20,290	219,500
John Roberts			
2019	225,000	-	225,000
2018	215,000	-	215,000
Stephen Ward			
2019	207,766	27,234	235,000
2018	198,210	20,290	218,500
Ann Sherry AO			
2019	214,469	20,531	235,000
2018	200,710	20,290	221,000
Grant Fenn			
2019	196,793	18,207	215,000
2018	176,864	16,802	193,666
Abi Cleland			
2019	178,542	16,458	195,000
2018	126,611	12,028	138,639
David Gonski AC			
2019	174,895	16,457	191,352
2018	36,947	3,510	40,457
Total NEDs			
2019	1,735,553	127,586	1,863,139
2018	1,614,512	113,500	1,728,012

1. Mr Lee resigned as director on 24 May 2019. His fee has been pro-rated accordingly.

Directors' report

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Audited remuneration report

Security Holdings in ASX-listed Sydney Airport

The table below details the relevant interests in ASX-listed Sydney Airport stapled securities by each director and KMP held at the date of this report.

Name	Balance at 1 Jan 2019	Movement	Balance at 31 Dec 2019	Changes prior to signing	Balance at signing date
Current directors and KMP					
Trevor Gerber	228,063	-	228,063	-	228,063
Michael Lee	9,274 ¹	n/a	n/a	-	n/a
John Roberts	172,825	-	172,825	-	172,825
Stephen Ward	51,818	-	51,818	-	51,818
Ann Sherry AO	22,000	-	22,000	-	22,000
Grant Fenn	-	-	-	-	-
Abi Cleland	15,000	-	15,000	-	15,000
David Gonski AC	100,000	-	100,000	-	100,000
Geoff Culbert	89,304	89,305	178,609	-	178,609
Hugh Wehby	32,516	15,153	47,669	-	47,669
Vanessa Orth	-	-	-	-	-
Greg Botham	14,000	754	14,754	326	15,080

1. Mr Lee resigned as director on 24 May 2019 with 9,541 securities.

Directors' report

for the year ended 31 December 2019

Events occurring after balance sheet date

The final distribution of \$440.4 million or 19.5 cents per stapled security (2018: \$428.5 million or 19.0 cents) was paid on 14 February 2020 by:

- SAL \$322.9 million or 14.3 cents (2018: \$311.2 million or 13.8 cents); and
- SAT1 \$117.5 million or 5.2 cents (2018: \$117.3 million or 5.2 cents).

A DRP operated in respect of the 31 December 2019 final distribution. To satisfy the DRP take up, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security.

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.

Since the end of the year, the directors of SAL are not aware of any other matter or circumstance not otherwise dealt with in the Directors' Report that has significantly affected or may significantly affect the operations of the SAL 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.

Indemnification and insurance of officers and auditors

All directors have executed a deed of access, insurance and indemnity under which SAL indemnifies them against any liability incurred by them, including all legal costs in defending any proceeding (whether criminal, civil, administrative or judicial) or appearing before any court, tribunal, authority or other body because of their respective capacities. The indemnity does not apply to the extent of any restriction imposed by law or the SAL constitution.

Additionally during the period, a directors' and officers' insurance policy applied to the directors and officers of SAL. SAL is contractually bound by arrangements with insurers to not disclose terms and limits, or premiums paid.

The auditor of the SAL Group is in no way indemnified out of the assets of the Group.

Environmental regulation and performance

The primary piece of environmental legislation applicable to Sydney Airport 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).

Sydney Airport's Environment Strategy 2019-2024 forms part of the Sydney Airport Master Plan and was approved by the Australian Government on 28 March 2019. Sydney Airport's aims, reflected in the 2019 – 2024 Strategy, are to continually improve environmental performance and minimise the impact of Sydney Airport'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.

Sydney Airport is not aware of any significant breaches of the above regulations.

Sydney Airport 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.

Directors' report

for the year ended 31 December 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 20 to the financial statements.

The directors of SAL 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 of SAL are of the opinion that the services relevant to the respective groups as disclosed in note 20 to the financial statements do not compromise the external auditor's independence, based on advice received from the 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 service 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 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 Groups, acting as advocate for the Groups or jointly sharing economic risks and rewards.

Lead auditor's independence declaration

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

A copy of the lead auditor's independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 78 and forms part of the Directors' Report for the year ended 31 December 2019.

Rounding of amounts in the Directors' Report and the consolidated financial statements

The SAL Group is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars unless otherwise stated.

Application of class order

The financial reports for the SAL Group and SAT1 Group are jointly presented in one report as permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838.

This report is made in accordance with a resolution of the directors of SAL.



Trevor Gerber

Sydney
19 February 2020



John Roberts

Sydney
19 February 2020

Directors' report

for the year ended 31 December 2019

Directors' Report for The Trust Company (Sydney Airport) Limited

For the year ended 31 December 2019, the directors of The Trust Company (Sydney Airport) Limited (TTCSAL or the Responsible Entity) submit the following report on the consolidated financial report of SAT1 comprising SAT1 and its controlled entities (the SAT1 Group).

Principal activities

The principal activity of the SAT1 Group is to hold financial loan assets. There were no significant changes in the nature of the SAT1 Group's activities during the year.

Director profiles

The directors during the year and until the date of this report are as follows:

Russell Balding AO Dip Tech (Com), BBus, FCPA, MAICD

Mr Balding was appointed as a TTCSAL director in October 2013. He has had a long and distinguished non-executive director and managerial career, having held numerous directorships and senior executive positions in a number of major organisations which have required extensive government, stakeholder, community and customer interaction.

Mr Balding is currently chair of Racing NSW, deputy chair of Destination NSW and deputy chair of Racing Australia Limited. He was previously chairman of Cabcharge Australia Pty Limited, deputy chairman of Racing NSW, a director of ComfortDelgro Cabcharge Pty Ltd and a director of CityFleet Networks Pty Ltd (UK).

Mr Balding was formerly the chief executive officer of Southern Cross Airports Corporation Holdings Limited (SCACH) from 4 April 2006 to 30 June 2011 and the managing director of the Australian Broadcasting Corporation (ABC).

Patrick Gourley BEc (Hons), MEd

Mr Gourley was appointed as a TTCSAL director in October 2013. Previously, he was a director of SCACH from 10 September 2002 to 23 September 2013. Prior to that, he was a senior officer of the Australian Department of Industrial Relations from 1989 to 1992, a senior officer of the Department of Defence from 1992 to 2000 and a member of the Military Superannuation Board of Trustees from 1992 to 2000. Mr Gourley is a former director of the Great Energy Alliance Corporation and the Loy Yang Marketing Management Company.

Anne Rozenauers BComm, MBA

Ms Rozenauers was appointed a director in September 2019. She is a financial services professional with over 25 years of experience gained in Australia, the US and Asia. Her experience spans investment management, capital markets, superannuation and risk management across listed and unlisted financial products. Ms Rozenauers is currently General Manager – Product at Perpetual Limited where she is responsible for leading product strategy, design, development and lifecycle management of Perpetual's Investment and Advice product suite. Previous roles at Perpetual have included responsibility for Investment Risk, Responsible Investments and Investor Relations for a Listed Investment Company.

Prior to joining Perpetual in 2014, Ms Rozenauers held roles with a number of financial services organisations including BT Financial Group, Canadian Imperial Bank of Commerce and Macquarie Bank.

Ms Rozenauers has a Bachelor of Commerce (Accounting and Finance) from the University of NSW and a Masters of Business Administration from London Business School.

Eleanor Padman BA (Hons) OXON, AGIA, ACIS

Mrs Padman was appointed director in October 2018. She resigned on September 2019. She was the Company Secretary of Perpetual Limited and head of Perpetual's Legal compliance and Company Secretariat teams. Mrs Padman was previously General Counsel and Company Secretary of Pinnacle Investment Management Limited and General Counsel and head of Risk and Compliance at its predecessor, Wilson HTM Investment Group Limited. Mrs Padman is a lawyer with over 20 years' commercial experience gained in-house and in private practice, both in the UK and Australia. Mrs Padman has also served on a number of boards in public, private and not-for-profit arenas.

Directors' report

for the year ended 31 December 2019

Directors' Report for The Trust Company (Sydney Airport) Limited

Company secretary profile

Karen Tompkins BA, LLB(Hons)

Ms Tompkins was appointed as co-company secretary on 12 July 2019. She has over 15 years legal experience. Prior to becoming co-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.

Sylvie Dimarco LLB, GradDipACG, FGIA, FCIS, MAICD

Ms Dimarco was appointed as co-company secretary of TTCSAL in December 2015. She joined Perpetual Limited in March 2014 and is the Head of Company Secretary & Governance. Ms Dimarco has over twelve years of experience in company secretariat practice and corporate governance for listed and unlisted companies. Ms Dimarco previously practised as a commercial lawyer.

Gananatha Minithantri LLB (1st Hons), LLM, MAICD

Mr Minithantri was appointed co-company secretary in February 2019.

Mr Minithantri joined Perpetual Limited in December 2018 and is the Assistant Company Secretary. Prior to joining Perpetual, he was the assistant company secretary at Mirvac Group. Mr Minithantri is a lawyer with over five years' experience in compliance, governance and company secretariat practice spanning the real estate, venture capital, mining and professional services sectors. He is also currently completing his Graduate Diploma of Applied Corporate Governance.

Jamie Motum BEC, LLB

Mr Motum was appointed as company secretary of ASX-listed Sydney Airport in January 2012, and resigned on 12 July 2019.

Directors' meetings

TTCSAL board met six times in 2019. All six meetings were attended by all eligible Directors, as follows:

Board meetings	Eligible to attend	Attended
Russell Balding AO	6	6
Patrick Gourley	6	6
Anne Rozenauers ²	1	1
Eleanor Padman ¹	5	4

1. Mrs Padman resigned as a director on 27 September 2019.

2. Ms Rozenauers was appointed as a director on 27 September 2019.

Security holdings in ASX-listed Sydney Airport

The TTCSAL directors and TTCSAL does not hold any interest in ASX-listed Sydney Airport securities.

Review of operations

The SAT1 Group continues to hold a financial loan asset, with SAL as borrower. The loan is interest bearing, unsecured and subordinated. Further details including loan principal outstanding, amounts paid during the year and interest accrued are included in note 19.

There have been no changes in the state of affairs of the SAT1 Group.

Directors' report

for the year ended 31 December 2019

Directors' Report for The Trust Company (Sydney Airport) Limited

Distributions

The Group's distributions are currently 100 per cent unfranked.

Total distributions paid / payable by ASX-listed Sydney Airport Group are as follows:

	2019	2018
\$m		
Final distribution	440.4	428.5
Interim distribution	440.1	416.8
	880.5	845.3
Cents per stapled security		
Final distribution	19.50	19.00
Interim distribution	19.50	18.50
	39.00	37.50

The distribution portions paid / payable by SAL and SAT1 are as follows:

	2019		2018	
	SAL	SAT1	SAL	SAT1
\$m				
Final distribution	322.9	117.5	311.2	117.3
Interim distribution	325.0	115.1	301.9	114.9
	647.9	232.6	613.1	232.2
Cents per security				
Final distribution	14.30	5.20	13.80	5.20
Interim distribution	14.40	5.10	13.40	5.10
	28.70	10.30	27.20	10.30

Events occurring after balance sheet date

The final distribution for the period ended 31 December 2019 of \$440.4 million or 19.5 cents per stapled security (2018: \$428.5 million or 19.0 cents) was paid on 14 February 2020 by:

- SAL \$322.9 million or 14.3 cents (2018: \$311.2 million or 13.8 cents); and
- SAT1 \$117.5 million or 5.2 cents (2018: \$117.3 million or 5.2 cents).

A DRP operated in respect of the 31 December 2019 final distribution. To satisfy the DRP take up, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security.

At reporting date, the SAT1 Group raised a provision of \$4.2 million in respect of withholding tax on distributions received by MAP Airports (Luxembourg) S.A.R.L. (MALSA). Refer to Note 14 in the Notes to the Financial Statements for further detail. Subsequent to reporting date SAT1 received a notice of payment from the Italian Tax Authority advising that the equivalent of \$4.2 million was payable. This was paid on 13 February 2020.

Since the end of the year, the directors of TTCSAL are not aware of any other matter or circumstance not otherwise dealt with in the Directors' Report that has significantly affected or may significantly affect the operations of the SAT1 Group, the results of those operations or the state of affairs of the Group in the period subsequent to year ended 31 December 2019.

Directors' report

for the year ended 31 December 2019

Directors' Report for The Trust Company (Sydney Airport) Limited

Indemnification and insurance of officers and auditors

All directors have executed a deed of access, insurance and indemnity under which TTCSAL indemnifies them against any liability incurred by them, including all legal costs in defending any proceeding (whether criminal, civil, administrative or judicial) or appearing before any court, tribunal, authority or other body because of their respective capacities. The indemnity does not apply to the extent of any restriction imposed by law or the SAT1 constitution.

Additionally during the period, a directors' and officers' insurance policy applied to the directors and secretaries of TTCSAL. TTCSAL are contractually bound by arrangements with insurers to not disclose terms and limits, or premiums paid.

The auditors of the SAT1 Group are in no way indemnified out of the assets of the Group.

Non-audit services

There were no amounts paid or payable to the auditor for non-audit services provided during the year.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 85 and forms part of the Directors' Report for year ended 31 December 2019.

Rounding of amounts in the Directors' Report and the consolidated financial statements

The SAT1 Group is of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest hundred thousand unless otherwise stated.

Application of class order

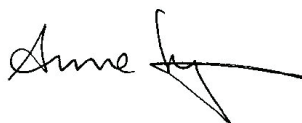
The financial reports for the SAT1 Group and the SAL Group are jointly presented in one report as permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838.

This report is made in accordance with a resolution of the directors of TTCSAL.



Patrick Gourley

Sydney
19 February 2020



Anne Rozenauers

Sydney
19 February 2020



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

To the Directors of Sydney Airport Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Sydney Airport 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

Nigel Virgo
Partner

Sydney

19 February 2020



Independent Auditor's Report

To the stapled security holders of Sydney Airport

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Sydney Airport Limited (the Company) as deemed parent presenting the stapled security arrangement of **Sydney Airport** (the Stapled Group Financial Report).

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 **Stapled 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** of the **Stapled Group** 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
(collectively referred to as Financial Statements)
- Directors' Declaration made by the Directors of Sydney Airport Limited.

Sydney Airport (the **Stapled Group**) consists of Sydney Airport Limited and the entities it controlled at the year-end or from time to time during the financial year, and Sydney Airport Trust 1 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.

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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\$1,639.6m)

Refer to page 96 – Revenue from Contracts with Customers

The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>Assessing revenue recognition, measurement and disclosures required significant audit effort across each revenue stream and contract type.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Understanding processes and testing key controls regarding the Stapled 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; • For aeronautical and parking and ground transport revenue we checked a sample of the Stapled Group's revenue transactions to cash received per the Group's bank statements; • Checking a sample of the Stapled Group's retail revenue and property and car rental revenue straight-lining calculations for accuracy and conformity with underlying contracts; • For each significant individual revenue stream, we compared revenue recognised against prior year, and assessed the correlation to movements in passenger numbers (where relevant); • 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; • Requesting confirmations from relevant airlines for a sample of passenger numbers used in the procedures above; • Assessing the relevant disclosures in the



	financial report using our understanding obtained from our testing and against the requirements of the accounting standards.
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Hedging and valuation of derivatives financial instruments (net: A\$518.9m)	
Refer to Note 5 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>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.</p> <p>As such, senior audit team effort and specialist involvement was required.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Understanding the Stapled Group's processes and test key controls for the approval of new derivative contracts; • Obtaining hedge documentation relating to new hedge relationships and assessing it against the conditions for measurement and reporting in the accounting standard requirements; • For a sample of derivatives and hedge relationships, we checked the inputs of each item to confirmations we requested and obtained from counterparties; • Involving our valuation specialists we performed an independent valuation of a sample of derivatives which we compared to the Stapled 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; • 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\$7,230.4m)	
Refer to Note 11 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Understanding the Stapled Group's cash forecasting process and testing the key approvals for the internal reporting of forecast income streams and cash flows; • 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; • 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; • Evaluating the Stapled Group's determination of a single CGU based on our understanding of the operations of the Stapled Group's business and how independent cash inflows were generated against the requirements of the accounting standard requirements; • Involving our specialists we evaluated the externally prepared valuation. This included: <ul style="list-style-type: none"> • Assessing the valuation approach and methodology against market and industry practices and accounting standards; • Analysing the Stapled Group's discount rate against publicly available data of a group of comparable entities; • 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; • 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 Stapled Group's external expert.



	<ul style="list-style-type: none">Assessing the relevant disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.
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Other Information

Other Information is financial and non-financial information in Sydney Airport's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Sydney Airport Limited and the Directors of The Trust Company (Sydney Airport) Limited 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, with the exception of the Remuneration Report and our related assurance opinion.

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 of Sydney Airport Limited 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 Stapled 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 Stapled Group or to cease operations, or have no realistic alternative but to do so.

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.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Sydney Airport Limited for the year ended 31 December 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of Sydney Airport Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 58 to 71 of the Directors' report for the year ended 31 December 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Nigel Virgo
Partner

Sydney
19 February 2020



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

To the Directors of The Trust Company (Sydney Airport) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Sydney Airport Trust 1 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

Nigel Virgo
Partner

Sydney

19 February 2020



Independent Auditor's Report

To the unitholders of Sydney Airport Trust 1

Opinion

We have audited the **Financial Statements** and Director's Declaration of Sydney Airport Trust 1 (the Trust **Financial Report**).

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

- giving a true and fair view of the **Trust'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** of the Trust 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
(collectively referred to as **Financial Statements**)
- Directors' Declaration made by the Directors of the Trust Company (Sydney Airport) Limited (the Responsible Entity).

The Stapled Group consists of Sydney Airport Limited and the entities it controlled at the year-end or from time to time during the financial year and Sydney Airport Trust 1 and the entities it controlled at the year-end or from time to time during the financial year (the **Trust**).

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 Trust and the Responsible Entity 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.

Other Information

Other Information is financial and non-financial information in Sydney Airport's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Sydney Airport Limited and the Directors of The Trust Company (Sydney Airport) Limited 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

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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 of the Responsible Entity 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 Trust'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 Trust or to cease operations, or have no realistic alternative but to do so.

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/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Nigel Virgo
Partner

Sydney
19 February 2020

Consolidated statements of comprehensive income

for the year ended 31 December 2019

		SAL Group		SAT1 Group	
	Note	2019 \$m	2018 \$m	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		7.2	7.1	-	-
Total revenue		1,639.6	1,584.7	-	-
Other income					
Gain on disposal of non-current assets		0.1	0.2	-	-
Total revenue and other income		1,639.7	1,584.9	-	-
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		(35.3)	(32.7)	(2.0)	(1.9)
Total operating expenses		(303.4)	(299.9)	(2.0)	(1.9)
Other expenses					
Indemnity expense	14	(183.4)	-	(183.4)	-
MALSA expense	14	(4.2)	-	(4.2)	-
Restructuring and redundancy expenses ¹		(3.2)	(2.4)	-	-
Total other expenses		(190.8)	(2.4)	(187.6)	-
Total expenses before depreciation, amortisation, net finance costs and income tax		(494.2)	(302.3)	(189.6)	(1.9)
Profit/(loss) before depreciation, amortisation, net finance costs and income tax (EBITDA)		1,145.5	1,282.6	(189.6)	(1.9)
Depreciation	10	(352.7)	(330.3)	-	-
Amortisation	11	(85.3)	(85.3)	-	-
Profit/(loss) before net finance costs and income tax (EBIT)		707.5	867.0	(189.6)	(1.9)
Finance income	6	8.3	9.3	233.7	233.7
Finance costs	6	(429.1)	(437.8)	-	-
Change in fair value of swaps	6	(0.1)	(5.0)	-	-
Net finance costs		(420.9)	(433.5)	233.7	233.7
Profit before income tax expense		286.6	433.5	44.1	231.8
Income tax expense	12	(71.6)	(62.5)	-	-
Profit after income tax expense		215.0	371.0	44.1	231.8
Profit after income tax expense attributable to:					
Security holders		403.9	372.5	44.1	231.8
Non-controlling interest		(188.9)	(1.5)	-	-
		215.0	371.0	44.1	231.8

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 statements of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statements of comprehensive income

for the year ended 31 December 2019

		SAL Group		SAT1 Group	
	Note	2019 \$m	2018 \$m	2019 \$m	2018 \$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 income, net of tax		(183.8)	(113.0)	-	-
Total comprehensive income		31.2	258.0	44.1	231.8
Total comprehensive income attributable to:					
Security holders		220.1	259.5	44.1	231.8
Non-controlling interest		(188.9)	(1.5)	-	-
Total comprehensive income		31.2	258.0	44.1	231.8
Earnings per share/unit from profit after income tax	8	17.89c	16.53c	1.95c	10.28c

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

Consolidated statements of financial position

as at 31 December 2019

		SAL Group		SAT1 Group	
	Note	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Current assets					
Cash and cash equivalents	3	625.1	476.3	7.7	5.8
Receivables	9	199.7	235.6	-	3.5
Refinancing proceeds receivable	2	-	398.9	-	-
Derivative financial instruments	5	14.8	0.2	-	-
Other assets		0.6	0.8	-	-
Total current assets		840.2	1,111.8	7.7	9.3
Non-current assets					
Receivables	9	79.4	194.6	1,796.5	1,915.6
Property, plant and equipment	10	3,532.6	3,570.1	-	-
Intangible assets	11	7,230.4	7,315.7	-	-
Derivative financial instruments	5	936.7	851.8	-	-
Other assets		13.1	10.2	-	-
Total non-current assets		11,792.2	11,942.4	1,796.5	1,915.6
Total assets		12,632.4	13,054.2	1,804.2	1,924.9
Current liabilities					
Distribution payable	1	440.4	428.5	117.5	117.3
Payables and deferred income		254.7	245.4	6.1	4.2
Interest bearing liabilities	2	759.6	-	-	-
Derivative financial instruments	5	125.7	108.7	-	-
Lease liabilities	13	0.4	-	-	-
Provisions		9.9	13.1	-	-
Total current liabilities		1,590.7	795.7	123.6	121.5
Non-current liabilities					
Interest bearing liabilities	2	9,426.7	10,151.8	-	-
Derivative financial instruments	5	500.6	224.4	-	-
Lease liabilities	13	0.2	-	-	-
Deferred tax liabilities	12	1,801.1	1,808.3	-	-
Provisions	14	66.7	2.1	63.1	-
Total non-current liabilities		11,795.3	12,186.6	63.1	-
Total liabilities		13,386.0	12,982.3	186.7	121.5
Net (liabilities) / assets		(753.6)	71.9	1,617.5	1,803.4
Equity					
Security holders' interests					
Contributed equity	1	5,533.0	5,508.6	2,456.9	2,454.3
Retained earnings		(2,430.3)	(1,954.8)	215.3	403.8
Reserves		(3,659.0)	(3,473.5)	(1,054.7)	(1,054.7)
Total security holders' interests		(556.3)	80.3	1,617.5	1,803.4
Non-controlling interest in controlled entities		(197.3)	(8.4)	-	-
Total equity		(753.6)	71.9	1,617.5	1,803.4

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

Consolidated statements of changes in equity

for the year ended 31 December 2019

SAL Group	Note	Contributed equity \$m	Retained earnings ¹ \$m	Cash flow hedge reserve \$m	Foreign currency basis spread reserve \$m	Other reserve ² \$m	Total equity ¹ \$m
Total equity at 1 January 2019		5,508.6	(1,963.0)	(316.4)	2.4	(3,159.5)	72.1
Comprehensive income							
Profit after tax		-	215.0	-	-	-	215.0
Cash flow hedges, net of tax		-	-	(177.0)	-	-	(177.0)
Foreign currency basis spread, net of tax		-	-	-	(7.5)	-	(7.5)
Remeasurement gain, net of tax		-	0.6	-	-	-	0.6
Total comprehensive income		-	215.6	(177.0)	(7.5)	-	31.1
Transactions with owners of the company							
Issue of securities through distribution reinvestment plan		24.4	-	-	-	-	24.4
Distributions provided for or paid	1	-	(880.5)	-	-	-	(880.5)
Equity-settled shares		-	0.3	-	-	(1.0)	(0.7)
Total transactions with owners of the company		24.4	(880.2)	-	-	(1.0)	(856.8)
Total equity at 31 December 2019		5,533.0	(2,627.6)	(493.4)	(5.1)	(3,160.5)	(753.6)
Total equity at 1 January 2018		5,482.3	(1,488.3)	(201.1)	-	(3,159.0)	633.9
Comprehensive income							
Profit after tax		-	371.0	-	-	-	371.0
Cash flow hedges, net of tax		-	-	(115.3)	-	-	(115.3)
Foreign currency basis spread, net of tax		-	-	-	2.4	-	2.4
Remeasurement gain, net of tax		-	(0.1)	-	-	-	(0.1)
Total comprehensive income		-	370.9	(115.3)	2.4	-	258.0
Transactions with owners of the company							
Issue of securities through distribution reinvestment plan		26.3	-	-	-	-	26.3
Distributions provided for or paid	1	-	(845.3)	-	-	-	(845.3)
Equity-settled shares		-	(0.5)	-	-	(0.5)	(1.0)
Total transactions with owners of the company		26.3	(845.8)	-	-	(0.5)	(820.0)
Total equity at 31 December 2018		5,508.6	(1,963.2)	(316.4)	2.4	(3,159.5)	71.9

1. Retained earnings and total equity are presented after deducting non-controlling interest in controlled entities of \$197.3 million (2018: \$8.4 million). Refer note 18 to the financial statements for details.

Retained earnings 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.

2. The Other reserve represents transactions between equity holders and movements in other reserves resulting from historical business combinations.

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

Consolidated statements of changes in equity

for the year ended 31 December 2019

SAT1 Group	Note	Contributed equity \$m	Retained earnings \$m	Capital reserve ¹ \$m	Other reserve \$m	Total equity \$m
Total equity at 1 January 2019		2,454.3	403.8	(967.6)	(87.1)	1,803.4
Comprehensive income						
Profit after tax		-	44.1	-	-	44.1
Total comprehensive income		-	44.1	-	-	44.1
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		2.6	-	-	-	2.6
Distributions provided for or paid	1	-	(232.6)	-	-	(232.6)
Total transactions with owners of the company		2.6	(232.6)	-	-	(230.0)
Total equity at 31 December 2019		2,456.9	215.3	(967.6)	(87.1)	1,617.5
Total equity at 1 January 2018		2,451.3	404.2	(967.6)	(87.1)	1,800.8
Comprehensive income						
Profit after tax		-	231.8	-	-	231.8
Total comprehensive income		-	231.8	-	-	231.8
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		3.0	-	-	-	3.0
Distributions provided for or paid	1	-	(232.2)	-	-	(232.2)
Total transactions with owners of the company		3.0	(232.2)	-	-	(229.2)
Total equity at 31 December 2018		2,454.3	403.8	(967.6)	(87.1)	1,803.4

1. The Capital reserve represents amounts transferred from retained profits to facilitate distributions from SAT1 in accordance with the SAT1 constitution

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

Consolidated statements of cash flows

for the year ended 31 December 2019

		SAL Group		SAT1 Group	
	Note	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Cash flow from operating activities					
Interest received		8.3	8.7	0.1	0.2
Related party loan interest received	19	-	-	233.5	232.5
Receipts from customers		1,844.2	1,706.2	-	-
Payments to suppliers and employees		(481.8)	(482.4)	(1.9)	(1.6)
Net cash flow from operating activities	3	1,370.7	1,232.5	231.7	231.1
Cash flow from investing activities					
Proceeds from disposal of fixed assets		0.1	0.4	-	-
Acquisition of property, plant and equipment		(303.9)	(392.2)	-	-
Capitalised borrowing costs		(9.7)	(10.6)	-	-
Net cash flow used in investing activities		(313.5)	(402.4)	-	-
Cash flow from financing activities					
Airport borrowing costs paid		(297.8)	(308.9)	-	-
Corporate borrowings costs paid		(3.1)	(2.9)	-	-
Repayment of borrowings		(395.0)	(991.4)	-	-
Proceeds received from borrowings		741.5	1,355.1	-	-
Interest rate swap payments		(109.9)	(93.4)	-	-
Proceeds received from distribution reinvestment plan		24.5	26.3	1.3	3.0
Distributions paid to security holders		(868.6)	(822.0)	(231.1)	(237.6)
Net cash flow used in financing activities		(908.4)	(837.2)	(229.8)	(234.6)
Net increase/(decrease) in cash and cash equivalents		148.8	(7.1)	1.9	(3.5)
Cash and cash equivalents at beginning of the period		476.3	483.4	5.8	9.3
Cash and cash equivalents at the end of the period	3	625.1	476.3	7.7	5.8

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

Notes to the financial statements

for the year ended 31 December 2019

General

Basis of preparation and statement of compliance

This is the financial report for Sydney Airport Limited (SAL) and its controlled entities (collectively referred to as the SAL Group), and Sydney Airport Trust 1 (SAT1) and its controlled entities (collectively referred to as the SAT1 Group).

The SAL Group and SAT1 Group (together, the Groups) are for-profit entities for the purposes of preparing the consolidated financial statements. The Trust Company (Sydney Airport) Limited (TTCSAL) is the Responsible Entity of SAT1.

This financial report:

- Consists of the consolidated financial statements of the SAL Group and SAT1 Group, as permitted by Australian Securities and Investments Commission (ASIC) Corporations (Stapled Group Reports) Instrument 2015/838;
- 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 SAL and SAT1, 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 of SAL and TTCSAL on 19 February 2020. The directors of SAL and TTCSAL have the power to amend and reissue the financial report.

Net current liability position

The SAT1 Group's net current liability position of \$115.9 million (2018: \$112.2 million) at 31 December 2019 is attributable to distributions payable to SAT1 unitholders of \$117.5 million (2018: \$117.3 million), which were paid on 14 February 2020. Distribution payments, a key obligation of the SAT1 Group, are supported by the funding structure under which it receives interest on the cross staple loan from SAL. Due to timing, where the semi-annual distributions are declared before each balance date (and therefore a liability at each balance date) and the interest payments are received in advance after each balance date, the SAT1 Group is expected to be in a net current liability position at future balance dates.

The SAL Group is in a net current liability position of \$750.5 million (2018: net current asset \$316.1 million). The net current liability position is a result of the capital indexed bond maturing in November 2020 (carrying value of \$759.6 million) classified as a current liability.

Independent valuation

As at 31 December 2019, the SAL Group was in a net liability position of \$753.6 million. An independent valuation of the Sydney Airport as at 31 December 2019 supported an equity value that, if applied in the financial report of the SAL 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, Sydney Airport Limited, the parent of the SAL consolidated group considers the requirements of Section 254T of the *Corporations Act 2001*.

As at 31 December 2019, Sydney Airport Limited is in a net asset position of \$16.0 billion (2018: \$14.6 billion). It considers the payment of a dividend is fair and reasonable to its shareholders and that the payment does not materially prejudice the company's ability to pay its creditors.

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.

Net tangible asset backing per security

The ASX-listed Sydney Airport's net tangible assets (NTA) exclude non-controlling interests and are solely attributable to security holders. The NTA backing per security was -\$3.53 at 31 December 2019 (2018: -\$3.21). This represents a decrease of \$0.32 or 10.0% (2018: decrease of \$0.20 or 6.6%).

Critical accounting estimates and judgements

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

- Impairment test of goodwill (refer note 11); and
- Fair value measurement of financial instruments (refer notes 2, 4 and 5).

Notes to the financial statements

for the year ended 31 December 2019

General

Significant accounting policies

This financial report contains all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide 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

For the purpose of this financial report:

- SAL has been identified as the parent of the consolidated group (defined as ASX-listed Sydney Airport) comprising the SAL Group and the SAT1 Group for the years ended 31 December 2019 and 31 December 2018; and
- SAT1 has been identified as the parent of the SAT1 Group for the years ended 31 December 2019 and 31 December 2018. The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as their parent companies. In preparing the consolidated financial statements, all intercompany balances and transactions have been eliminated in full.

Controlled entities

The SAT1 Group's net result after tax for the years ended 31 December 2019 and 31 December 2018 and its contributed equity, reserves and retained earnings at 31 December 2019 and 31 December 2018 are attributed to non-controlling interests in the SAL Group consolidated financial report.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition related costs are expensed as incurred in profit or loss, except for costs arising on the issue of equity instruments which are recognised directly in equity.

Identifiable net assets acquired and contingent liabilities assumed in a business combination are measured at fair value at acquisition date, irrespective of the extent of any non-controlling interest. The excess of acquisition cost over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (refer to note 11).

Acquisition of entities under common control

Acquisition of interest in entities that are under the control of the Group's controlling security holders are deemed to be common control transactions. The net assets acquired are recognised at the carrying amounts recognised previously in the Group's controlling security holder's consolidated financial statements. Any difference between the carrying value of net assets acquired and related consideration is held in a common control reserve.

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 statements 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).

Notes to the financial statements

for the year ended 31 December 2019

General

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.

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 rights to use the underlying asset and a lease liability representing its obligation to make lease payments for certain assets for which we 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.

Notes to the financial statements

for the year ended 31 December 2019

General

Accounting policy – Leases

The Group leases relate mainly to data centre space. These leases expire between 2021 and 2031. 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: <ul style="list-style-type: none"> – Initial measurement of the liability; – Any lease payments pre-commencement date offset by any lease incentives received; – Initial direct costs; and – 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: <ul style="list-style-type: none"> – Fixed payments offset by any lease incentives receivable; – Variable lease payments linked to an index or rate; – 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 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.

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.

Notes to the financial statements

for the year ended 31 December 2019

Capital management

Overview

The Group manages and regularly reviews its capital structure to ensure it is able to finance the current and future business activities and 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 capital management strategy remained unchanged.

1. Distributions paid and proposed

Security holders' entitlements

SAL

Each ordinary share in SAL entitles its holder to distributions as may be determined by the SAL Directors from time to time. The distribution amount which the Directors determine as payable is divisible among holders so that the same sum is paid on each fully paid share and (if relevant) a proportionate sum is paid on each partly paid share.

SAT1

Each unit on issue in SAT1 entitles its holder to a distribution of a pro-rata proportion of the SAT1 net income as determined by the Responsible Entity in respect of that income period. The distribution will be distributed to the unitholder within two months of the last day of the income period.

Distributions

Total distributions paid / payable by ASX-listed Sydney Airport Group are as follows:

	2019	2018
\$m		
Final distribution	440.4	428.5
Interim distribution	440.1	416.8
	880.5	845.3
Cents per stapled security		
Final distribution	19.50	19.00
Interim distribution	19.50	18.50
	39.00	37.50

The Group's distributions are currently 100 per cent unfranked.

Notes to the financial statements

for the year ended 31 December 2019

Capital management

1. Distributions paid and proposed continued

The distribution portions paid / payable by SAL and SAT1 are as follows:

	2019		2018	
	SAL	SAT1	SAL	SAT1
\$m				
Final distribution	322.9	117.5	311.2	117.3
Interim distribution	325.0	115.1	301.9	114.9
	647.9	232.6	613.1	232.2
Cents per security				
Final distribution	14.30	5.20	13.80	5.20
Interim distribution	14.40	5.10	13.40	5.10
	28.70	10.30	27.20	10.30

Distribution reinvestment plan

The distribution reinvestment plan (DRP) provides stapled security holders with a method of automatically reinvesting all or part of their distributions in stapled securities.

The DRP operated in respect of the 30 June 2019 interim and 31 December 2019 final distributions.

In respect of the 30 June 2019 distribution, 1.5 million stapled securities were issued to DRP participants at \$8.00 per stapled security on 15 August 2019.

In respect of the final distribution for the year ended 31 December 2019, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security on 14 February 2020.

Contributed equity

The movements in the contributed equity balance and number of shares/units on issue are shown in the table below:

	SAL Group		SAT1 Group	
	2019	2018	2019	2018
\$m				
Opening balance	5,508.6	5,482.3	2,454.3	2,451.3
Issued pursuant to the DRP	24.4	26.3	2.6	3.0
Closing balance	5,533.0	5,508.6	2,456.9	2,454.3
Shares/units on issue (m)				
Opening balance	2,255.3	2,251.5	2,255.3	2,251.5
Issued pursuant to the DRP	3.3	3.8	3.3	3.8
Closing balance	2,258.6	2,255.3	2,258.6	2,255.3

2. Interest bearing liabilities

The Group's debt comprises the following at reporting date:

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

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

Notes to the financial statements

for the year ended 31 December 2019

Capital management

2. Interest bearing liabilities continued

Type	Maturity	Carrying amount		Fair value		Principal amount drawn				Issue currency	Interest rate
		2019 ⁷		2018 ⁷		In AUD		In original currency			
		\$m	\$m	\$m	\$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m		
Bilateral facility	February 2023	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	AUD	Floating ³
Syndicated facilities	April 2022	402.7	454.1	402.7	454.1	404.0	455.0	404.0	455.0	AUD	Floating ³
Wrapped domestic bond ¹	November 2021	199.5	199.2	199.5	199.2	200.0	200.0	200.0	200.0	AUD	Floating ⁴
Wrapped domestic bond ¹	October 2022	745.7	744.2	745.7	744.2	750.0	750.0	750.0	750.0	AUD	Floating ⁴
Wrapped domestic bond ¹	October 2027	651.1	650.2	651.1	650.2	659.0	659.0	659.0	659.0	AUD	Floating ⁴
USPP bond	August 2028	99.5	99.4	99.5	99.4	100.0	100.0	100.0	100.0	AUD	Floating ⁴
USPP bond	November 2028	99.5	99.4	99.5	99.4	100.0	100.0	100.0	100.0	AUD	Floating ⁴
USPP bond	November 2028	179.1	179.0	224.1	204.7	180.0	180.0	180.0	180.0	AUD	6.04% ⁵
USPP bond	November 2028	57.7	57.7	70.2	63.9	58.0	58.0	58.0	58.0	AUD	5.60% ⁵
USPP bond	November 2029	135.3	135.3	167.4	151.4	136.0	136.0	136.0	136.0	AUD	5.70% ⁵
USPP bond ⁸	February 2034	73.7	67.3	71.5	62.1	62.5	-	45.0	-	USD	4.25% ⁵
USPP bond ⁸	February 2039	134.2	134.9	158.8	135.3	135.0	-	135.0	-	AUD	4.76% ⁵
USPP bond ⁸	February 2044	99.4	99.9	120.7	100.9	100.0	-	100.0	-	AUD	4.85% ⁵
USPP bond ⁸	February 2049	99.4	99.9	123.2	101.1	100.0	-	100.0	-	AUD	4.90% ⁵
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% ⁵
Euro bond	April 2028	853.8	824.7	867.9	822.0	796.1	796.1	500.0	500.0	EUR	1.75% ⁵
US144A/RegS bond	February 2021	711.6	702.9	735.4	732.2	518.7	518.7	500.0	500.0	USD	5.13% ⁵
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% ⁵
US144A/RegS bond	April 2025	711.5	708.7	737.0	682.4	643.0	643.0	500.0	500.0	USD	3.38% ⁵
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% ⁵
CIB ^{2,6}	November 2020	759.6	758.9	774.1	764.9	768.6	757.0	768.6	757.0	AUD	3.76% ⁵
CIB ²	November 2030	399.4	388.6	419.8	371.2	404.3	398.1	404.3	398.1	AUD	3.12% ⁵
Total external interest bearing liabilities		10,186.3	10,151.8	10,551.5	10,160.4	9,192.4	8,828.1	n/a	n/a		

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 are reflective of coupons in respective currencies/markets.

6. Classified as Current Liability.

7. Carrying amount includes capitalised establishment costs.

8. USPP bond proceeds were received by 7 February 2019.

Notes to the financial statements

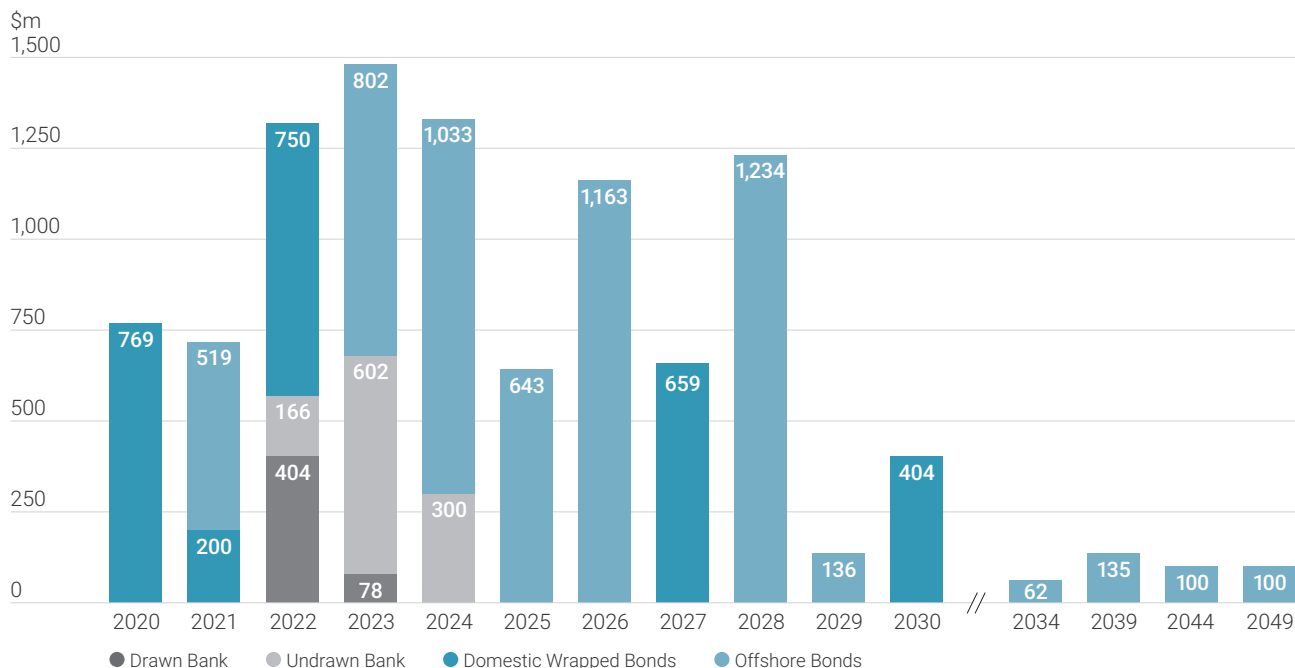
for the year ended 31 December 2019

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 SCACH, a wholly owned subsidiary, are of equal rank with respect to security. The security consists of fixed and floating charges over the assets of the SCACH 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 Cash flow 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 term of the loan. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Notes to the financial statements

for the year ended 31 December 2019

Capital management

2. Interest bearing liabilities continued

Reconciliation of movement of liabilities to cash flows arising from financing activities.

	2019		2018	
	Loans and Borrowings \$m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities \$m	Loans and Borrowings \$m	Interest rate swaps and foreign exchange contracts used for hedging-liabilities \$m
Balance at 1 January	(10,151.8)	518.9	(8,896.1)	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)	(245.8)
Add back of refinancing receivable	398.9	-	(398.9)	-
Other	(19.6)	-	(32.3)	-
Total liability related other changes	312.0	(303.6)	(892.0)	199.8
Balance at 31 December	(10,186.3)	325.2	(10,151.8)	518.9

Notes to the financial statements

for the year ended 31 December 2019

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, 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 the short-term cash commitments of the Group.

	SAL Group		SAT1 Group	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Cash on hand	448.9	275.9	7.7	5.8
Deposits ¹	176.2	200.4	-	-
Total cash and cash equivalents	625.1	476.3	7.7	5.8
Cash flow information				
Reconciliation of profit after tax to net cash flows from operating activities				
Profit for year	215.0	371.0	44.1	231.8
Expenses relating to financing activities	422.6	437.8	-	-
Loss on derivative instruments	0.1	5.0	-	-
Depreciation and amortisation	438.0	415.6	-	-
Gain from disposal of non-current assets	(0.1)	(0.2)	-	-
Increase in receivables and other assets	148.7	(55.7)	122.6	(0.1)
Increase/(decrease) in payables	74.8	(3.5)	65.0	(0.6)
Increase in tax liabilities	71.6	62.5	-	-
Net cash flow from operating activities	1,370.7	1,232.5	231.7	231.1

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

Non-cash financing and investing activities

During the year ended 31 December 2019 and 31 December 2018, the Group's non-cash financing and investing activities relate to the issuance of securities under the DRP (for details refer note 1).

Recognition and measurement

Cash and cash equivalents are recognised in the Consolidated statements of financial position at the date when cash is received or contractual terms of deposit accepted. Their fair value is considered equal to the carrying value. Cash and cash equivalents in foreign currencies are translated to AUD at the reporting date and foreign exchange gains or losses resulting from translation are recognised in the statements of comprehensive income.

Notes to the financial statements

for the year ended 31 December 2019

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 SAL Board, manages the Group's exposures 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 Group's operating units while investing excess liquidity. Speculative trading is specifically prohibited by SAL 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 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	-	-	-	-
1 to 2 years	-	500.0	-	-
2 to 5 years	700.0	825.0	-	1,325.0
5 years or more	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.

Notes to the financial statements

for the year ended 31 December 2019

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 reporting date are determined by discounting the related future cash flows using the cash and swap curves at 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 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%). The SAT1 Group's interest bearing liabilities are at fixed interest rates.

At 31 December 2019, 89.8% (2018: 94.0%) of senior drawn borrowings (bank debt and capital markets debt) were either fixed or hedged through IRS.

Notes to the financial statements

for the year ended 31 December 2019

Treasury and financial risk management

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.

SAL Group	2019 \$m	2018 \$m
Increase in interest rate +150bp		
Loss after tax	(9.9)	(4.8)
Equity	310.2	203.4
Decrease in interest rate -150bp		
Profit after tax	9.9	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 Groups. 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 respectfully. 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 the year ended 31 December 2019 (2018: 40% to 50%).

For the SAT1 Group, credit risk on receivables primarily relates to interest income receivable and an interest bearing loan to SAL, a related party (refer to note 19).

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

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

4.4 Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meets 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 a capital expenditure reserve.

The following table details the SAL 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.

Notes to the financial statements

for the year ended 31 December 2019

Treasury and financial risk management

4. Financial risk management continued

	Carrying value \$m	Contractual cash flows \$m	1 year or less \$m	1 to 5 years \$m	5 years or more \$m
2019					
Bank facilities	480.7	503.7	8.8	494.9	-
Domestic bonds	1,596.3	1,697.2	18.6	998.1	680.5
USPP bonds	977.8	1,626.8	45.3	181.0	1,400.5
Other foreign bonds	5,972.5	5,812.6	173.2	2,889.3	2,750.1
Capital indexed bonds	1,159.0	1,493.9	820.0	54.4	619.5
Derivatives	626.3	777.4	129.5	445.6	202.3
Distribution payable	440.6	440.6	440.6	-	-
Trade and other payables	254.7	254.7	254.7	-	-
Lease liabilities	0.6	0.6	0.4	0.2	-
	11,508.5	12,607.5	1,891.1	5,063.5	5,652.9
2018					
Bank facilities	532.1	555.3	17.1	538.2	-
Domestic bonds	1,593.6	1,929.7	137.7	1,069.9	722.1
USPP bonds	972.8	1,984.7	54.4	221.1	1,709.2
Other foreign bonds	5,905.7	6,463.1	220.3	1,285.5	4,957.3
Capital indexed bonds	1,147.5	1,392.6	40.1	835.2	517.3
Derivatives	333.1	336.1	98.2	197.7	40.2
Distribution payable	428.5	428.5	428.5	-	-
Trade and other payables	199.7	199.7	199.7	-	-
	11,113.0	13,289.7	1,196.0	4,147.6	7,946.1

Notes to the financial statements

for the year ended 31 December 2019

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:

\$m	2019			2018		
	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 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 gains or losses, 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.

Notes to the financial statements

for the year ended 31 December 2019

Treasury and financial risk management

5. Derivative financial instruments continued

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, in accordance with AASB 9.

	Fair value hedges		Cash flow hedges			Total
	EUR CCIRS \$m	USD CCIRS \$m	EUR CCIRS \$m	USD CCIRS \$m	AUD IRS \$m	\$m
At 31 December 2019						
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)
<i>Total carrying amount of the hedging instrument</i>	<i>146.7</i>	<i>43.0</i>	<i>(113.3)</i>	<i>530.1</i>	<i>(281.3)</i>	<i>325.2</i>
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)

- 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 displayed will be greater than the principal amount of the debt hedged.
- 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.
- 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. The source of ineffectiveness includes the effect of credit risk on the hedging instrument. A positive number represents a gain in the Income statement (Finance costs).
- The 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 cash flow hedge reserve.
- A positive number represents a gain in the Income statement (Finance costs).
- A positive number represents a loss on the cash flow hedge reserve.
- A negative number represents an increase in liability.
- This is fully offset within the Income Statement (Finance costs) by the change in fair value of foreign currency translation on foreign currency debt.

Notes to the financial statements

for the year ended 31 December 2019

Treasury and financial risk management

5. Derivative financial instruments continued

	Fair value hedges		Cash flow hedges			Total
	EUR CCIRS \$m	USD CCIRS \$m	EUR CCIRS \$m	USD CCIRS \$m	AUD IRS \$m	\$m
At 31 December 2018						
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)
<i>Total carrying amount of the hedging instrument</i>	<i>102.3</i>	<i>0.3</i>	<i>14.3</i>	<i>519.5</i>	<i>(117.5)</i>	<i>518.9</i>
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 displayed 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. The source of ineffectiveness includes the effect of credit risk on the hedging instrument. A positive number represents a gain in the Income statement (Finance costs).

4. The 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 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 the 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.

Notes to the financial statements

for the year ended 31 December 2019

Treasury and financial risk management

6. Net finance costs

		SAL Group		SAT1 Group	
	Note	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Finance income					
Interest income from other corporations		8.3	9.3	0.1	0.1
Interest income from related parties	19	-	-	233.6	233.6
Total finance income		8.3	9.3	233.7	233.7
Finance costs					
Senior debt interest expense		(322.6)	(322.1)	-	-
Net swap interest expense		(88.6)	(84.4)	-	-
Capital indexed bonds capitalised		(17.8)	(22.6)	-	-
Amortisation of debt establishment costs		(4.2)	(13.4)	-	-
Recurring borrowing costs		(5.2)	(5.7)	-	-
Borrowing costs – corporate debt		(0.2)	(0.2)	-	-
Borrowing costs capitalised		9.7	10.6	-	-
Lease interest expense		(0.2)	-	-	-
Total finance costs		(429.1)	(437.8)	-	-
Change in fair value of swaps		(0.1)	(5.0)	-	-
Net finance costs		(420.9)	(433.5)	233.7	233.7

Recognition and measurement

Finance income relates to the interest income on cash and cash equivalents 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.

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

Overview

This section provides additional information about the individual line items in the financial statements that are considered relevant to the operations or financial position of the Groups.

7. Segment reporting

The CEO monitors and manages the SAL Group's core asset – the investment in Sydney Airport, and considers this to be the Group's single operating segment. The segment result for the year represents earnings before interest, tax, depreciation and amortisation (EBITDA).

The segment's revenues, expenses, assets and liabilities are as presented in the consolidated statements of comprehensive income and statements of financial position.

All revenue is generated from external customers within Australia.

Income from interest, dividends and other distributions received from investments are measured at the fair value of the consideration received or receivable and recognised in the consolidated statements of comprehensive income.

Sydney Airport's revenues, expenses, assets and liabilities are consolidated and accounted for in accordance with the Group's accounting policies. For the years ended 31 December 2019 and 31 December 2018 the segment result, assets and liabilities were equal to that of the SAL Group.

8. Earnings per share

The calculation of earnings per share is based on the profit after tax attributable to security holders and the weighted average number of shares/units on issue.

	SAL Group		SAT1 Group	
	2019	2018	2019	2018
Profit after tax attributable to security holders (\$m)	403.9	372.5	44.1	231.8
Weighted average number of shares/units (m)	2,257.4	2,253.8	2,257.4	2,253.8
Earnings per share	17.89c	16.53c	1.95c	10.28c

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

9. Receivables

	Note	SAL Group		SAT1 Group	
		2019 \$m	2018 \$m	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		79.2	77.8	-	-
Other receivables		20.1	19.0	-	3.5
Total current receivables		199.7	235.6	-	3.5
Non-current					
Loans to related parties	19	-	-	1,796.5	1,796.5
Indemnity receivable		-	119.1	-	119.1
Accrued revenue		7.4	8.3	-	-
Other receivables		72.0	67.2	-	-
Total non-current receivables		79.4	194.6	1,796.5	1,915.6

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.

In 2019, the Indemnity receivable was expensed. Further details are provided in Note 14.

Recognition and measurement

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

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

10. Property, plant and equipment

SAL Group (\$m)	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	11.4	2,814.8	1,007.1	1,276.9	515.6	390.0	363.2	6,379.0
Additions ¹	-	-	-	-	-	0.8	314.4	315.2
Transfers	-	263.3	20.4	55.6	27.0	59.2	(425.5)	-
Disposals	-	(24.1)	-	(0.3)	-	(24.6)	-	(49.0)
Closing balance	11.4	3,054.0	1,027.5	1,332.2	542.6	425.4	252.1	6,645.2
Accumulated depreciation								
Opening balance	(1.4)	(1,261.6)	(380.4)	(515.4)	(341.8)	(308.3)	-	(2,808.9)
Depreciation	(0.1)	(174.4)	(38.8)	(72.4)	(26.8)	(40.2)	-	(352.7)
Disposals	-	24.1	-	0.3	-	24.6	-	49.0
Closing balance	(1.5)	(1,411.9)	(419.2)	(587.5)	(368.6)	(323.9)	-	(3,112.6)
Total carrying amount	9.9	1,642.1	608.3	744.7	174.0	101.5	252.1	3,532.6
2018								
Cost								
Opening balance	11.4	2,655.7	968.6	1,202.3	501.6	354.1	300.8	5,994.5
Additions ¹	-	-	-	-	-	-	388.7	388.7
Transfers	-	162.1	38.5	74.6	14.2	36.9	(326.3)	-
Disposals	-	(3.0)	-	-	(0.2)	(1.0)	-	(4.2)
Closing balance	11.4	2,814.8	1,007.1	1,276.9	515.6	390.0	363.2	6,379.0
Accumulated depreciation								
Opening balance	(1.3)	(1,098.6)	(342.3)	(449.0)	(319.1)	(272.5)	-	(2,482.8)
Depreciation	(0.1)	(166.0)	(38.1)	(66.4)	(22.9)	(36.8)	-	(330.3)
Disposals	-	3.0	-	-	0.2	1.0	-	4.2
Closing balance	(1.4)	(1,261.6)	(380.4)	(515.4)	(341.8)	(308.3)	-	(2,808.9)
Total carrying amount	10.0	1,553.2	626.7	761.5	173.8	81.7	363.2	3,570.1

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

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

10. Property, plant and equipment continued

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.

Depreciation of property, plant and equipment is accounted for on a straight-line basis in profit or loss over the remaining useful lives of each component, from the date that they are installed and are 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.

11. Intangible assets

SAL Group (\$m)	Goodwill	Concession and customer contracts	Airport operator licence	Leasehold land	Total
Useful life (years)	n/a	7-16	95	95	
2019					
Cost					
Opening balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Additions	-	-	-	-	-
Closing balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Accumulated amortisation					
Opening balance	-	(160.8)	(743.7)	(270.1)	(1,174.6)
Amortisation	-	(0.8)	(62.0)	(22.5)	(85.3)
Closing balance	-	(161.6)	(805.7)	(292.6)	(1,259.9)
Total carrying amount	682.1	0.7	4,802.1	1,745.5	7,230.4
2018					
Cost					
Opening balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Additions	-	-	-	-	-
Closing balance	682.1	162.3	5,607.8	2,038.1	8,490.3
Accumulated amortisation					
Opening balance	-	(160.0)	(681.7)	(247.6)	(1,089.3)
Amortisation	-	(0.8)	(62.0)	(22.5)	(85.3)
Closing balance	-	(160.8)	(743.7)	(270.1)	(1,174.6)
Total carrying amount	682.1	1.5	4,864.1	1,768.0	7,315.7

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

11. Intangible assets continued

Airport operator licence and Leasehold land 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 an airport operator licence.

An independent valuation was conducted in 2007 valuing the leasehold land and the intrinsic value of operating the land as an airport.

Recognition and measurement

Except for goodwill, the Group recognises intangible assets at cost directly attributable to the acquisition of an 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 asset's estimated useful lives from the date they are available for use.

Goodwill arises on acquisition of a business combination. It is 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 the year ended 31 December 2019 no intangible assets were impaired (2018: nil).

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

11. Intangible assets continued

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.

12. Taxation

Income tax expense

Reconciliation of tax expense to prima facie tax payable:

	SAL Group		SAT1 Group	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Profit before income tax	286.6	433.5	44.1	231.8
Income tax expense calculated at 30%	(86.0)	(130.0)	(13.2)	(69.5)
Adjustments recognised in the current year that relate to the prior year	1.7	(1.4)	-	-
Utilisation of previously unrecognised deferred tax asset on capital tax losses	(1.9)	(0.6)	-	-
Tax effect of operating results of Australian trusts	14.5	69.5	13.2	69.5
Income tax expense	(71.6)	(62.5)	-	-

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

12. Taxation continued

Deferred taxes

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

SAL Group	Balance 1 January 2018 \$m	Temporary movements recognised \$m	Balance 31 December 2018 \$m	Temporary movements recognised \$m	Balance 31 December 2019 \$m
Deferred tax assets/(liabilities):					
Property, plant and equipment	(226.9)	3.2	(223.7)	5.8	(217.9)
Intangibles	(1,936.8)	25.3	(1,911.5)	25.3	(1,886.2)
Interest bearing liabilities	(2.7)	0.6	(2.1)	0.6	(1.5)
Deferred debt establishment costs	(1.3)	1.3	-	(2.5)	(2.5)
Accrued revenue and prepayments	(22.2)	(1.4)	(23.6)	(1.3)	(24.9)
Defined benefits plan	(1.6)	0.1	(1.5)	(0.2)	(1.7)
Deferred income	0.1	-	0.1	(0.1)	-
Deferred costs	0.1	-	0.1	-	0.1
Other payables and lease liabilities	15.8	0.1	15.9	(1.3)	14.6
Cash flow hedges ¹	72.5	51.3	123.8	75.2	199.0
Tax losses	308.7	(94.5)	214.2	(94.3)	119.9
Total	(1,794.3)	(14.0)	(1,808.3)	7.2	(1,801.1)

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

The SAT1 Group has no deferred tax transactions or balances.

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. These are offset if there is a legal enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These 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.

SAL and its wholly owned Australian subsidiaries are members of a tax-consolidated group (SAL TCG) under Australian income tax law, with SAL the head entity. The SAL TCG had estimated tax losses of \$399.4 million at 31 December 2019 (2018: \$714.0 million).

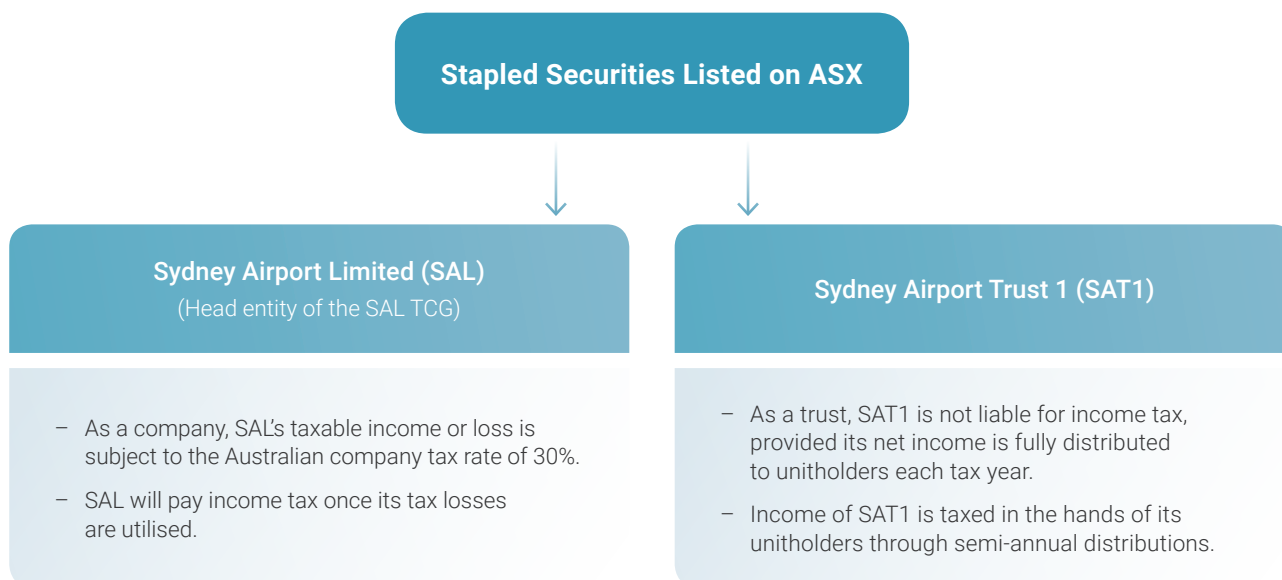
Each entity in the SAL TCG accounts for current and deferred tax with tax expense and deferred tax assets and liabilities arising from temporary differences recognised in their separate financial statements using the 'standalone tax payer' approach. Under the tax sharing agreement (SAL TSA) between SAL 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.

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

12. Taxation continued



Sydney Airport's 2019 Tax Governance Statement is located on our website at www.sydneyairport.com.au/TaxGovernance2019.

13. Leases

Leases recognised as right-of-use assets where the SAL Group is a lessee are described below. The SAT1 Group has no right-of-use assets.

Amounts recognised in the Statement of financial position

Included in Property, Plant and Equipment is \$0.8 million being the carrying amount of right-of-use assets at 31 December 2019 following implementation of AASB 16 Leases. 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

	SAL Group
	2019 \$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.

Notes to the financial statements

for the year ended 31 December 2019

Financial results and financial position

14. Foreign litigation

By the end of 2011 the SAT1 Group had disposed of its interests in foreign airports. At the time of disposal, foreign withholding tax disputes had arisen in respect of its holdings in Copenhagen Airport and Rome Airport.

The disputes have no material impact on Sydney Airport's future Net Operating Receipts. There are no other matters subject to litigation in foreign jurisdictions.

Indemnity provision

In 2011, the SAT1 Group sold stakes in both Copenhagen Airport and Brussels Airport to Ontario Teachers' Pension Plan Board (OTPP).

In prior years, the Danish tax authority (SKAT) issued assessments to Copenhagen Airports Denmark Holdings (CADH in respect of dividend and interest withholding tax amounts for the 2006 – 2011 years inclusive. In response to demands from SKAT in 2017, CADH paid all disputed interest withholding tax liabilities. As OTPP is indemnified by SAT1 for its 52% share of any liabilities of CADH arising in respect of these matters, OTPP then issued indemnity claims for SAT1's share of those liabilities which were paid by SAT1 to OTPP in November 2017. This was recognised as a non-current receivable in the 31 December 2017 and 2018 Financial Reports. The assessments are currently being contested in the Danish High Court with resolution unlikely to be before 2022.

SAL and SAT1 announced on 24 May 2019 that decisions of the Court of Justice of the European Union (ECJ decisions), after finalisation and release of Sydney Airport's 31 December 2018 Financial Report, had prompted reconsideration of the status of the indemnities provided by SAT1. The ECJ decisions were not in relation to CADH's interest and dividend withholding tax disputes being contested in the Danish High Court, although they could be taken to indicate how the Court might decide in the CADH case.

Following analysis of all relevant information available to it, SAT1 determined to:

- Expense the \$119.1 million non-current receivable in the 31 December 2018 Financial Report (Note 9) relating to the interest withholding tax indemnity; and
- Provide \$63.1 million as a non-current provision for a possible call on the indemnity in respect of the dividend withholding tax matter. This provision reflects management's estimate of a final indemnity call which would be payable if an unfavourable resolution of the dispute had occurred as at 31 December 2019, including primary tax and additional interest accrued to that date. The non-current provision has been estimated using the spot exchange rate of AUD/DKK 4.67 as at 31 December 2019. This provision will escalate by around \$6.0 million per annum for as long as the dividend withholding tax matter remains unresolved in the Danish High Court.

No income tax benefit has been recognised against the indemnity expense.

Notwithstanding the recent ECJ decisions and consideration of the status of the indemnities, CADH (in agreement with SAT1) continues to vigorously contest these matters in the Danish High Court. In addition, SAT1 has incurred expenditure of \$1.2 million to fully explore options currently available.

There remains uncertainty as to the outcome of the litigation which has the potential to change SAT1's accounting determinations described above.

Rome Airport dividend withholding tax

Following a distribution paid to MAp Airports (Luxembourg) S.A.R.L. (MALSA) in 2003, the Italian tax authority (ITA) issued a bill of payment to MALSA in respect of dividend withholding tax, claiming a higher rate of tax than that already paid. The bill of payment has been contested in Italy, with the most recent Supreme Court decision in October 2019 finding for the ITA.

Following analysis of all relevant information now available to it, SAT1 has determined that a \$4.2 million current provision should be raised in respect of the expected bill of payment. The provision has been estimated using the spot exchange rate of AUD/EUR 0.62 as at 31 December 2019.

Subsequent to reporting date SAT1 received a notice of payment from the ITA advising that the equivalent of \$4.2 million was payable. This was paid on 13 February 2020.

Notes to the financial statements

for the year ended 31 December 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.

15. Key management personnel

Key management personnel (KMP) compensation for the Groups for the year comprised the following:

	SAL Group		SAT1 Group	
	2019 \$	2018 \$	2019 \$	2018 \$
Short term employee benefits – salary and fees ¹	5,564,648	4,713,762	91,533	91,533
Short term employee benefits – bonus and other ²	3,794,598	4,380,988	-	-
Post employment benefits – superannuation	218,648	182,108	8,696	8,696
Share based payments (LTI)	247,123	554,900	-	-
Total KMP compensation	9,825,017	9,831,758	100,229	100,229

1. KMP short term employee benefits for SAT1 comprises Directors' fees only.

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

16. Long-term incentive plan

Sydney Airport 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.

Notes to the financial statements

for the year ended 31 December 2019

Employee benefits

16. Long-term incentive plan continued

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

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).

Notes to the financial statements

for the year ended 31 December 2019

Employee benefits

17. Superannuation plan

Sydney Airport 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 SAL 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 details pertaining to the defined benefit plan:

	2019 \$m	2018 \$m
Amounts recognised in the Consolidated Statements 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 Statements of Financial Position 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.

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 SAL Group determines the net interest expense or income on the net defined benefit liability or asset for the year 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 SAL 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 SAL 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 SAL Group. An economic benefit is available to the SAL Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Notes to the financial statements

for the year ended 31 December 2019

Employee benefits

17. Superannuation plan continued

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

	SAL Group 2019	SAL Group 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 SAL 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 SAL 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 SAL Group in connection with the settlement.

Notes to the financial statements

for the year ended 31 December 2019

Other disclosures

Overview

This section provides details on other required disclosures relating to the Group's compliance with accounting standards and other pronouncements.

18. Group structure and parent entity

SAL and SAT1

Sydney Airport (the Group) is a stapled vehicle comprised of SAL and SAT1, formed in Australia. A stapled security in the Group consists of one share in SAL and one unit in SAT1. They are quoted and traded on the ASX as if they were a single security.

SAL holds a 100% economic interest in Sydney (Kingsford Smith) Airport through its ownership of the Sydney Airport operating entities, including Sydney Airport Corporation Limited (SACL), the lessee and operator of Sydney (Kingsford Smith) Airport.

The Trust Company (Sydney Airport) Limited (TTCSAL) is the Responsible Entity of SAT1. SAT1 has ownership of various Australian and foreign non-operating entities.

Significant subsidiaries

The Group has 100% ownership interest in Southern Cross Airports Corporation Holdings Limited (SCACH) and SACL, both incorporated in Australia.

Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785 the wholly-owned subsidiaries listed below 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 Company (SCACH) and each of its subsidiaries enter into a deed of cross guarantee (the Deed). The effect of the Deed is that SCACH 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, SCACH will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that SCACH is wound up.

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)

Non-controlling interest

SAL is identified as the parent of the consolidated group comprising SAL and its controlled entities and SAT1 and its controlled entities at 31 December 2019. SAL Group is deemed to control the SAT1 Group and therefore consolidates 100.0% of the assets, liabilities and results of the SAT1 Group into its consolidated financial report for the year ended 31 December 2019 (2018: 100.0%) and recognises an associated non-controlling interest.

Notes to the financial statements

for the year ended 31 December 2019

Other disclosures

18. Group structure and parent entity continued

Parent entity financial result and position

The SAL parent has designated its investment in airport assets as financial assets at fair value through profit or loss, determined in accordance with a valuation framework adopted by the directors of SAL. Changes in fair value of this investment are recognised by the parent entity as income.

	SAL		SAT1	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Result of the parent entity				
Profit after income tax expense	2,123.2	1,258.6	48.4	231.9
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	2,123.2	1,258.6	48.4	231.9
Financial position of parent entity				
Current assets	296.2	252.7	8.0	5.8
Total assets	18,139.8	16,385.1	1,808.3	1,921.9
Current liabilities	323.2	158.5	122.8	117.9
Total liabilities	2,077.3	1,818.7	185.9	117.9
Total equity of the parent entity comprising of:				
Contributed equity	5,845.5	5,823.7	2,772.6	2,770.1
Retained profits / (Accumulated losses)	10,217.0	8,742.7	(182.6)	1.5
Reserves	-	-	(967.6)	(967.6)
Total equity	16,062.5	14,566.4	1,622.4	1,804.0

Parent entity guarantees, commitments and contingencies

At 31 December 2019 the parent entities:

- have no contingent assets or liabilities which are material either individually or as a class;
- have not made any capital expenditure commitments (2018: \$nil); and
- have not guaranteed debts of their subsidiaries (2018: \$nil).

SAL is the head company of the SAL Tax Consolidated Group (SAL TCG) (refer to note 12). At 31 December 2019 no current tax liabilities exist within the SAL TCG (2018: \$nil).

19. Related party disclosures

Resources Agreement fee

SACL and TTCSAL entered into a Resources Agreement where SACL provides resources to enable TTCSAL to perform various functions in connection with its role as Responsible Entity (RE) of SAT1 and trustee of one of its subsidiaries, Sydney Airport Trust 2 (SAT2). Fees are charged from SACL to TTCSAL for resources provided, calculated under the provisions in the Resources Agreement. TTCSAL is entitled to recover these fees out of the assets of SAT1 and SAT2 under their respective constitutions.

During the year ended 31 December 2019:

- \$186,802 was charged by SACL to TTCSAL (2018: \$102,485) with \$65,000 payable at 31 December 2019 (2018: \$57,238); and
- \$267,589 was charged by TTCSAL to SAT1 as RE fees (2018: \$266,185) and \$66,897 payable at 31 December 2019 (2018: \$134,736).

Notes to the financial statements

for the year ended 31 December 2019

Other disclosures

19. Related party disclosures continued

Put Option Deed

Under the Put Option Deed (the POD) entered into in connection with the Sydney Airport governance arrangements, SAL has granted The Trust Company Limited (TTCL) an option to require SAL (or a SAL nominee) to purchase all of the issued shares in TTCSAL. Before TTCL can exercise the option under the POD, it is required to engage with SAL for a period which is expected to allow a replacement responsible entity or an alternative purchaser of the issued shares in TTCSAL to be identified. This is intended to avoid any potential adverse outcome that would arise on the issued shares in TTCSAL being acquired by SAL (or one of its subsidiaries). No value has been attributed to the option under the POD.

SAT1 and SAL cross staple loan

In December 2013, an interest bearing, unsecured subordinated loan was entered into between SAT1 as lender and SAL as borrower. The loan expires on 28 November 2023 and interest is calculated at 13.0%, per annum payable in advance during the first two months of semi-annual periods beginning on 1 January and 1 July. Interest which is not paid is capitalised.

The loan balances and transactions are as follows:

	2019 \$	2018 \$
Loan principal		
Opening balance	1,796,467,057	1,796,467,057
Paid during the year	-	-
Closing balance	1,796,467,057	1,796,467,057
Interest		
Opening balance	-	(1,057,808)
Interest accrued	233,540,717	233,540,717
Paid during the year	(233,540,717)	(232,482,909)
Closing balance payable/(prepaid)	-	-

Custodian fees

TTCL was a related entity of SAT1 for the years ended 31 December 2019 and 31 December 2018. During the 2019 financial year, custodian fees of \$106,921 was charged by TTCL (2018: \$105,143) and \$26,295 remains unpaid at 31 December 2019 (2018: \$52,590).

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 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 EDI Engineering Power Pty Ltd	21,494,981	2,993,994

1. Contract value includes variations as applicable.

Notes to the financial statements

for the year ended 31 December 2019

Other disclosures

20. Remuneration of auditors

	SAL Group		SAT1 Group	
	2019 \$	2018 \$	2019 \$	2018 \$
Amounts paid or payable to auditors (KPMG) for:				
Audit and review of financial statements	653,333	545,000	57,700	55,750
Other services				
- Other assurance services	56,888	163,963	-	-
- Non-assurance services	65,000	160,000	-	-
Total amount paid or payable to auditors	775,221	868,963	57,700	55,750

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)).

21. 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
SAL Group		
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

22. Subsequent events

The final distribution of \$440.4 million or 19.5 cents per stapled security (2018: \$428.5 million or 19.0 cents) was paid on 14 February 2020 by:

- SAL \$322.9 million or 14.3 cents (2018: \$311.2 million or 13.8 cents); and
- SAT1 \$117.5 million or 5.2 cents (2018: \$117.3 million or 5.2 cents).

A DRP operated in respect of the 31 December 2019 final distribution. To satisfy the DRP take up, 1.2 million stapled securities were issued to DRP participants at \$8.84 per stapled security.

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.

The directors of SAL and TTCSAL 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 SAL and SAT1 Groups, the results of those operations or the state of affairs of the Groups in the period subsequent to the year ended 31 December 2019.

Statement by the Directors of Sydney Airport Limited

In the opinion of the Directors of Sydney Airport Limited (SAL):

- a. the consolidated financial statements and notes for SAL set out on pages 88 to 128 and the Remuneration Report in the Directors' Report (set out on pages 58 to 71), are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory reporting requirements;
 - ii. giving a true and fair view of the SAL Group's financial position at 31 December 2019 and of its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the SAL Group will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for year ended 31 December 2019.

The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 94.

This declaration is made in accordance with a resolution of the Directors.



Trevor Gerber
Sydney
19 February 2020



John Roberts
Sydney
19 February 2020

Statement by the Directors of the Responsible Entity of Sydney Airport Trust 1

In the opinion of the Directors of The Trust Company (Sydney Airport) Limited, the Responsible Entity of Sydney Airport Trust 1 (SAT1):

- a. the consolidated financial statements and notes for SAT1 set out on pages 88 to 128, are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory reporting requirements;
 - ii. giving a true and fair view of the SAT1 Group's financial position at 31 December 2019 and of its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that SAT1 will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for year ended 31 December 2019.

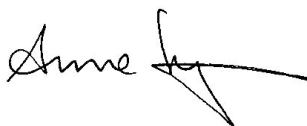
The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 94.

This declaration is made in accordance with a resolution of the Directors.



Patrick Gourley

Sydney
19 February 2020



Anne Rozenauers

Sydney
19 February 2020

Security holder information

at 14 February 2020

Distribution of stapled securities

Range	Total holders	Number of stapled securities	% of stapled securities
1 – 1,000	41,448	18,030,321	0.8
1,001 – 5,000	43,952	113,293,836	5.0
5,001 – 10,000	13,944	101,120,256	4.5
10,001 – 100,000	10,236	219,560,430	9.7
>100,001	314	1,807,821,596	80.0
Total	109,785	2,259,826,439	100.0

Unmarketable Parcels	Minimum parcel size	Holders	Units
Minimum \$500.00 parcel at \$8.58 per stapled security	59	2,302	49,673

Top 20 holder of stapled securities

Rank	Investor	Number of stapled securities	% of stapled securities
1	HSBC Custody Nominees (Australia) Limited	607,153,984	26.9
2	BNP Paribas Nominees Pty Ltd	414,706,985	18.4
3	J P Morgan Nominees Australia Pty Limited	288,439,958	12.8
4	Citicorp Nominees Pty Limited	149,966,547	6.6
5	National Nominees Limited	59,166,235	2.6
6	Custodial Services Limited	31,794,776	1.4
7	MTAA Super Fund (Air-Serv Intl Hold.) Utilities Pty Ltd	19,863,923	0.9
8	Australian Foundation Investment Company Limited	19,572,593	0.9
9	Citicorp Nominees Pty Limited	19,195,230	0.8
10	Argo Investments Limited	14,758,175	0.7
11	BNP Paribas Noms Pty Ltd	13,689,068	0.6
12	Netwealth Investments Limited	8,264,844	0.4
13	HSBC Custody Nominees (Australia) Limited	7,856,522	0.3
14	National Nominees Limited	7,614,259	0.3
15	National Nominees Limited N A/C	5,588,268	0.2
16	AMP Life Limited	5,381,586	0.2
17	Mr Nicholas Moore	5,067,766	0.2
18	Milton Corporation Limited	4,874,629	0.2
19	BKI Investment Company Limited	4,857,677	0.2
20	HSBC Custody Nominees (Australia) Limited-GSCO ECA	4,609,001	0.2

Substantial security holders

Investor	Number of stapled securities ¹	% of stapled securities
Unisuper Ltd	393,850,785	17.5

1. Figure is based on the substantial security holder notice made by Unisuper Ltd on 19 January 2018.

Special notice and disclaimer

Stapling

In accordance with its requirements in respect of stapled securities, ASX reserves the right to remove SAL and/or SAT1 from the official list of ASX if, while the stapling arrangements apply, the securities in one entity cease to be stapled to the securities in the other entity or an entity issues securities which are not then stapled to the securities in the other entity.

Foreign ownership restrictions

The SAL and SAT1 constitutions set out a process for disposal of securities to prevent ASX-listed Sydney Airport from becoming a Foreign Person or to cure the situation where ASX-listed Sydney Airport becomes a Foreign Person (Foreign Ownership Situation). Where a Foreign Ownership Situation occurs or is likely to occur, SAL and the RE can require a foreign security holder (on a last-in, first-out basis) to dispose of Sydney Airport securities. SAL and the RE have the power to commence procedures to divest foreign security holders once the foreign ownership of ASX-listed Sydney Airport reaches 48.5% under the Foreign Ownership Divestment Rules that apply. If the foreign security holder fails to dispose of its Sydney Airport securities, SAL and the RE may sell those securities at the best price reasonably obtainable at the time.

Privacy

We understand the importance you place on your privacy and are committed to protecting and maintaining the confidentiality of the personal information you provide to us. Sydney Airport's privacy policy is available on its website.

Voting rights

Each fully paid stapled security confers the right to vote at meetings of security holders, subject to any voting restrictions imposed on a security holder under the Corporations Act 2001, ASX Listing Rules and the foreign ownership provisions in the SAL and RE constitutions. On a show of hands, every security holder present in person or by proxy has one vote. On a poll, every security holder who is present in person or by proxy has one vote for each dollar of the value of the total interests they have in SAT1 and one vote for each share they hold in SAL.

Disclaimer

The information in this annual report is given in good faith and derived from sources believed to be accurate at this date but no warranty of accuracy or reliability is given and no responsibility arising in any other way, including by reason of negligence for errors or omission herein is accepted by Sydney Airport Limited, The Trust Company (Sydney Airport) Limited or their respective officers. This annual report is general advice and does not take into account the particular investment objectives, financial situation or particular needs of the investor. Before making an investment in Sydney Airport, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Forecasts

Information, including forecast financial information, in this report should not be considered as a recommendation in relation to holding, purchasing or selling Sydney Airport securities. Due care and attention have been used in the preparation of forecast information. However, actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Sydney Airport. Past performance is not a reliable indication of future performance.

Buy back

There is no current on-market buy-back in operation for Sydney Airport securities.

Complaints resolution

A formal complaints handling procedure is in place for ASX-listed Sydney Airport and is explained in section 6 of the continuous disclosure and communications policy, available from the Sydney Airport website (www.sydneyairport.com.au). The RE is a member of the Australian Financial Complaints Authority. Investor complaints should, in the first instance, be directed to Sydney Airport Limited.

Corporate Directory

Sydney Airport Limited

ACN 165 056 360
10 Arrivals Court
Sydney International Airport NSW 2020

Investor Relations +61 2 9667 9871
Toll Free 1800 181 895
www.sydneyairport.com.au/investor

Directors of Sydney Airport Limited

- Trevor Gerber (Chairman)
- John Roberts
- Stephen Ward
- Ann Sherry AO
- Grant Fenn
- Abi Cleland
- David Gonski AC

Chief executive officer

Geoff Culbert

Company secretary

Karen Tompkins

The Trust Company (Sydney Airport) Limited

ACN 115 967 087 AFSL 301162
Level 18
123 Pitt Street
Sydney NSW 2000

Directors of The Trust Company (Sydney Airport) Limited

- Russell Balding AO
- Patrick Gourley
- Anne Rozenauers

Company secretaries

Karen Tompkins, Sylvie Dimarco and Gananatha Minithantri

The Trust Company (Sydney Airport) Limited is the responsible entity of Sydney Airport Trust 1

Registry

Computershare Investor Services Pty Limited
GPO Box 2975 Melbourne VIC 3001
Telephone: 1800 102 368 or +61 3 9415 4195
Facsimile: +61 2 8234 5050

Sustainability Report

Our 2019 Sustainability Report will be published in February 2020. The report is available on our website.

Corporate Governance Statement

Our Corporate Governance Statement is in the Corporate section of our website. www.sydneyairport.com.au/corporate/about/corporate-governance

Annual General Meeting

SYD's Annual General Meeting is scheduled to be held on Friday 22 May 2020.

Closing date for the receipt of nominations from persons wishing to be considered for election as a director is 1 April 2020.



SYD