SYDNEY AIRPORT

APPENDIX 4E

ASX Listing Rule 4.3A

Preliminary Financial Report for Year Ended 31 December 2016

Results for Announcement to the Market

	SAL Group 31 Dec 2016 $m	SAL Group 31 Dec 2015 $m	Movement $m	Movement %
Revenue	1,364.6	1,228.9	135.7	11.0%
Other income	-	0.1	(0.1)	n/a
Total revenue	1,364.6	1,229.0	135.6	11.0%
Profit after income tax expense	319.6	281.1	38.5	13.7%
Profit after income tax expense attributable to security holders	320.9	283.0	37.9	13.4%

	SAT1 Group 31 Dec 2016 $m	SAT1 Group 31 Dec 2015 $m	Movement $m	Movement %
Revenue	-	-	-	n/a
Other income	-	-	-	n/a
Total revenue	-	-	-	n/a
Profit after income tax expense	244.8	243.2	1.6	0.7%
Profit after income tax expense attributable to security holders	244.8	243.2	1.6	0.7%

Distributions

Distributions	SAL Group 31 Dec 2016 $m	SAT1 Group 31 Dec 2016 $m	SAL Group 31 Dec 2015 $m	SAT1 Group 31 Dec 2015 $m
Final distribution (100% unfranked)	360.0	122.6	289.8	123.7
Interim distribution (100% unfranked)	334.4	121.5	277.1	119.7

Distributions	SAL Group 31 Dec 2016 cents per stapled security	SAT1 Group 31 Dec 2016 cents per stapled security	SAL Group 31 Dec 2015 cents per stapled security	SAT1 Group 31 Dec 2015 cents per stapled security
Final distribution (100% unfranked)	16.00	5.45	13.00	5.55
Interim distribution (100% unfranked)	15.00	5.45	12.50	5.40

The total distributions by ASX-listed Sydney Airport for the year ended 31 December 2016 were $694.4 million or 31.0 cents per stapled security (2015: $566.9 million or 25.5 cents).

The interim distribution with record date of 30 June 2016 of $334.4 million or 15.0 cents per stapled security (2015: $277.1 million or 12.5 cents) was paid on 12 August 2016 by:

- SAL $212.9 million or 9.55 cents (2015: $157.4 million or 7.1 cents); and
- SAT1 $121.5 million or 5.45 cents (2015: $119.7 million or 5.4 cents).

The final distribution with record date of 31 December 2016, of $360.0 million or 16.0 cents per stapled security (2015: $289.8 million or 13.0 cents) was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents (2015: $166.1 million or 7.45 cents); and
- SAT1 $122.6 million or 5.45 cents (2015: $123.7 million or 5.55 cents).

There are $nil imputation credits (2015: $nil) available to pay franked distributions.

Distribution Reinvestment Plan (DRP)

The DRP operated in respect of the 30 June 2016 interim distribution. 20.4 million stapled securities were issued and transferred to DRP participants at $6.99 with a 1.5% discount applied, totalling $142.3 million on 12 August 2016. The cash was used to repay drawn bank debt facilities.

There was no DRP in operation for the 31 December 2016 final distribution as the Commonwealth Government had previously indicated its intention to issue Sydney Airport with the Notice of Intention (NOI) prior to 31 December 2016. Depending on the terms contained in the NOI and Sydney Airport's assessment of them, this circumstance had the potential to place Sydney Airport in possession of information which would be material to the price of Sydney Airport's securities and not yet available to the market generally.

FINANCIAL REPORT

FOR YEAR ENDED 31 DECEMBER 2016

ASX-listed Sydney Airport comprises
Sydney Airport Limited (ACN 165 056 360) and
Sydney Airport Trust 1 (ARSN 099 597 921)

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.

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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 2016 (2015: 100%).

For year ended 31 December 2016, the directors of SAL submit their report on the consolidated financial report of ASX-listed Sydney Airport on pages 2 to 52. 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 year ended 31 December 2016, 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 53 to 55.

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 period.

Director profiles

The following persons are current directors of SAL:

TREVOR GERBER B ACC, CA Chairman (Non-executive)	Mr Gerber was appointed as a Sydney Airport director in May 2002, appointed director of SAL in October 2013 and was appointed chairman on 14 May 2015. He is chairman of the Western Sydney Airport Committee and a member of the Audit and Risk Committee and Nomination and Remuneration Committee. He is an independent non-executive director of the following ASX listed entities - Tassal Group Limited since April 2012, Vicinity Centres since April 2014, CIMIC Group Limited since June 2014 and Regis Healthcare Limited since October 2014. 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.
HON. MICHAEL LEE B SC, BE, FIE AUST (Non-executive)	Mr Lee was appointed as a Sydney Airport director in June 2003 and appointed director of SAL in October 2013. He is the chairman of the Safety, Security and Sustainability Committee and a member of the Audit and Risk Committee, Nomination and Remuneration Committee and Western Sydney Airport Committee. He is the chairman of Communications Alliance, the peak communications industry body, director of Communications Compliance Ltd and director of Calvary Ministries. 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.

JOHN ROBERTS **LLB** (Non-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 and a member of the Western Sydney Airport Committee. He is a director of Macquarie Atlas Roads Limited since February 2010, director of Axicom and non-executive chairman of ASX-listed Macquarie Infrastructure and Real Assets (MIRA) and has served on a number of boards and investment committees within MIRA, a division that has around $100 billion of assets under management. He previously served for just over 10 years as a director of DUET Group (May 2004 - June 2015). 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 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 chairman of the Nomination and Remuneration Committee and a member of the Western Sydney Airport Committee. Mr Ward is a non-executive director of several New Zealand companies including Sovereign Assurance Company Limited and SecureFuture Wiri Limited. He is a member of the National Provident Fund Board and holds voluntary positions on the boards of Wellington Free Ambulance, including its Investment Management Committee, and the Life Flight Trust. Mr Ward is the independent chair of the Advisory Council for the Financial Dispute Resolution Service and a consultant to Simpson Grierson, one of New Zealand's largest law firms.
ANN SHERRY **AO, BA, GRAD DIP IR, FAICD, FIPAA, HONDLITT MACQ** (Non-executive)	Ms Sherry was appointed as a director of SAL in May 2014. She is a member of the Nomination and Remuneration Committee, Safety, Security and Sustainability Committee and Western Sydney Airport Committee. She is the Executive Chairman of Carnival Australia, a division of Carnival Corporation, the world's largest cruise ship operator which owns ten iconic brands including P&O Cruises, Princess Cruises, Cunard, Holland America, Seabourn, which operate in the Australian and New Zealand cruise market. Ms Sherry is also a member of the supervisory board, ING Group, a non-executive director of ING Direct (Australia), director of Infrastructure Victoria, Australian Rugby Union, Cape York Partnerships, Museum of Contemporary Art and The Palladium Group. Ms Sherry 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 **B EC, CA** (Non-executive)	Mr Fenn was appointed as a director of SAL in October 2015. He is a member of the Western Sydney Airport Committee. Mr Fenn has been the managing director and chief executive officer of ASX-listed Downer Group since July 2010. He has over 20 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.

KERRIE MATHER BA, MCOMM (Executive)	Ms Mather was appointed Sydney Airport's managing director and chief executive officer (CEO) in July 2011. She is a member of the Safety, Security and Sustainability Committee and Western Sydney Airport Committee. Under her stewardship, Sydney Airport has taken a leadership role in tourism development and growing aviation in Sydney and Australia, in partnership with airlines, government, industry and the broader Sydney community. Ms Mather has been instrumental in driving an investment program of around $3.4 billion since 2002, which has delivered significant aviation capacity and customer service improvements. In June 2015, a new international airline agreement was reached and forms part of the further $1.3 billion which will be invested over the next five years, ensuring Sydney Airport's place as Australia's premier international gateway. She is deeply committed to the industry and to growing aviation for the benefit of Sydney, NSW and Australia. Accordingly, she is a Director of the World Governing Board of Airports Council International (ACI), President of ACI Asia-Pacific Regional Board, Deputy Chair of the Tourism and Transport Forum, and a Board member of the Committee for Sydney. Prior to joining Sydney Airport, she was CEO of the largest global airport investment fund from 2002 until 2011, and previously worked in investment banking where she advised on many aviation industry transactions, including leading the acquisition of Sydney Airport in 2001.

Company secretary profile

JAMIE MOTUM B EC, LLB	Mr Motum was appointed as Company Secretary of ASX-listed Sydney Airport in January 2012, and as Company Secretary of SAL from its incorporation on 30 July 2013. He is a qualified solicitor with over 15 years' experience. Prior to becoming General Counsel and Company Secretary of Sydney Airport Corporation Limited in February 2010, Mr Motum was a partner in the Corporate Group of DLA Phillips Fox specialising in mergers and acquisitions and corporate advisory work where he began his legal career in 1996. Mr Motum was appointed as co-Company Secretary of TTCSAL on 23 October 2013.

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
Aviation and transport – Experience in aviation or transport with a large quality organisation. Aviation is our core business and an understanding of the complex network of stakeholders is of critical importance
Construction and engineering – Sydney Airport has a significant annual capex program involving construction and engineering to ensure that airfield, terminal and landside works are delivered efficiently and effectively to facilitate capacity growth and an improved passenger experience
Information Technology - IT strategies and innovations, network development, use and governance of critical information technology infrastructure is an essential part of day to day operations at the airport and enabling the delivery of a next generation experience. This is a core skill and experience within Management, and is supplemented with external experts when necessary
Legal – Legal expertise is essential in the day to day management of risk, insurance, work, health and safety (WHS) and legal procedures, in addition to our engagement with airport tenants, contractors, government and other stakeholders
Retail – Retail experience assists in evaluating progress of the implementation of our retail strategy, to deliver new and unique experiences that enhance the passenger journey. This includes proactively seeking compelling local and international brands that showcase exceptional product offerings unique to the airport, including airport and Australian firsts across food and fashion
Tourism development – A proactive relationship with state and federal tourism bodies, in addition to international tourism bodies and regional governments is central to Sydney Airport's growth and marketing strategies
Leadership – Driving direction, guidance, leading organisational change and strategic planning
Health and safety – Developing proactive strategies and policies to ensure the health, safety and security of airport users
Banking and finance – Detailed knowledge of financial and capital management strategies, treasury, accounting and reporting, corporate finance and internal controls, including assessing the quality of financial controls
Risk management – Assessing appropriateness of risk management framework, building and adapting organisational risk culture, proactive identification of risks, developing effective policy and procedures to manage risks
Governance and compliance – Providing direction on organisation-wide governance and compliance policies, systems and frameworks, training and education, and ensuring compliance
Government relations – Interacting with domestic and international, state and federal governments and regulators
Remuneration – Developing the framework, policies and practices to attract, retain and motivate directors and staff who will create value for security holders
Environment and Sustainability – Developing environment and sustainability strategies and initiatives
Emotional Intelligence – Highly developed communication and social skills

Directors' meetings

The number of meetings of directors (including meetings of board committees) held during the year ended 31 December 2016 and the number of meetings attended by each director were as follows:

Director		Trevor Gerber[3]	Michael Lee[6]	John Roberts[4]	Stephen Ward[5]	Ann Sherry	Grant Fenn	Kerrie Mather
SAL Board	H[1]	6	6	6	6	6	6	6
	A[2]	6	6	5	6	6	6	6
Audit and Risk Committee	H[1]	5	5	5	-	-	-	-
	A[2]	5	5	5	-	-	-	-
Nomination and Remuneration Committee	H[1]	3	3	-	3	3	-	-
	A[2]	3	3	-	3	3	-	-
Safety, Security and Sustainability Committee	H[1]	-	4	-	-	4	-	4
	A[2]	-	4	-	-	4	-	4
Western Sydney Airport Committee (scheduled)	H[1]	5	5	5	5	5	5	5
	A[2]	5	5	4	5	5	5	5
Western Sydney Airport Committee (short notice)	H[1]	3	3	3	3	3	3	3
	A[2]	3	3	3	2	2	3	3

1 Number of meetings to which director was invited to attend
2 Actual attendance
3 Chairman of the SAL Board and Western Sydney Airport Committee
4 Chairman of the Audit and Risk Committee
5 Chairman of the Nomination and Remuneration Committee
6 Chairman of the Safety, Security and Sustainability Committee

Significant changes in state of affairs

Finance Facilities and Bonds

In April 2016, Sydney Airport successfully issued a USD900.0 million ($1,163.4 million) US144A/RegS bond that reinforced our proactive capital management approach. The funds raised were used to repay drawn bank debt facilities.

For a discussion on Western Sydney Airport, please refer to the Western Sydney Airport Update in the Operating and FInancial Review section.

Future developments

For a discussion on Western Sydney Airport, please refer to the Western Sydney Airport Update in the Operating and Financial Review section.

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Our strategy

Sydney Airport is a powerhouse driving productivity, jobs, economic growth and prosperity for Sydney, NSW and Australia. Our strategy is to deliver sustainable growth and value underpinned by a collaborative and integrated approach to meeting passenger, airlines, business partner and community needs.

Partnership and market development

Sydney and NSW are unique, high growth markets. We're well positioned to leverage the growth of Asia, and our airport provides direct access to 70% of the world's population. We're working closely with our tourism and business partners – and government stakeholders – to make the most of these market opportunities to support the growth of aviation and tourism.

2

3

4

5

Optimise efficiencies, operations and capacity

Sydney Airport will continue to serve the aviation needs for the whole of the Sydney Basin until at least 2026. We're working to examine and update policy settings to ensure Sydney and NSW's economic prosperity is not artificially constrained. This will maximise the use of existing infrastructure, so we can continue to enhance our customer offering.

Improve access to the airport

Access to Sydney Airport is vitally important to the passenger experience – and our surrounding communities. Now two years into our five-year ground access plan, we're already delivering improvements to make it easier to access the airport. We're also working with the NSW Government and the aviation industry to advocate for integrated strategies to ease congestion on roads surrounding our airport.

Enhance the passenger experience

We're leveraging technology to improve the customer experience and airline operations. We're using data and technology to empower our people to respond to increasing demand in real-time, and alleviate capacity pinch points across our operations. This is part of our commitment to expand our offering and facilities to meet differentiated customer needs.

Meet demand for aviation infrastructure

We're delivering five-year international airline agreements, improving service standards across our terminals. As we plan for the future, we're considering the long-term growth of our operations and planning new infrastructure to meet new demand. In the long-term, this includes a greater focus on co-location, new terminals and differentiated products.

About our airport

Sydney Airport's vision is to deliver a world-class airport experience and foster the growth of aviation for the benefit of Sydney, NSW and Australia.

NETWORK

44
airlines

27
countries with direct services from Sydney

40%
international passengers to Australia

94
destinations

LOCATION

8km
from Sydney's central business district

10km
from major tourist attractions

ECONOMIC CONTRIBUTION

$30.8bn
contributed in economic activity a year, equivalent to 6.4% of the NSW economy

306,700
jobs generated including 29,000 on-airport, equivalent to 8.9% of NSW employment

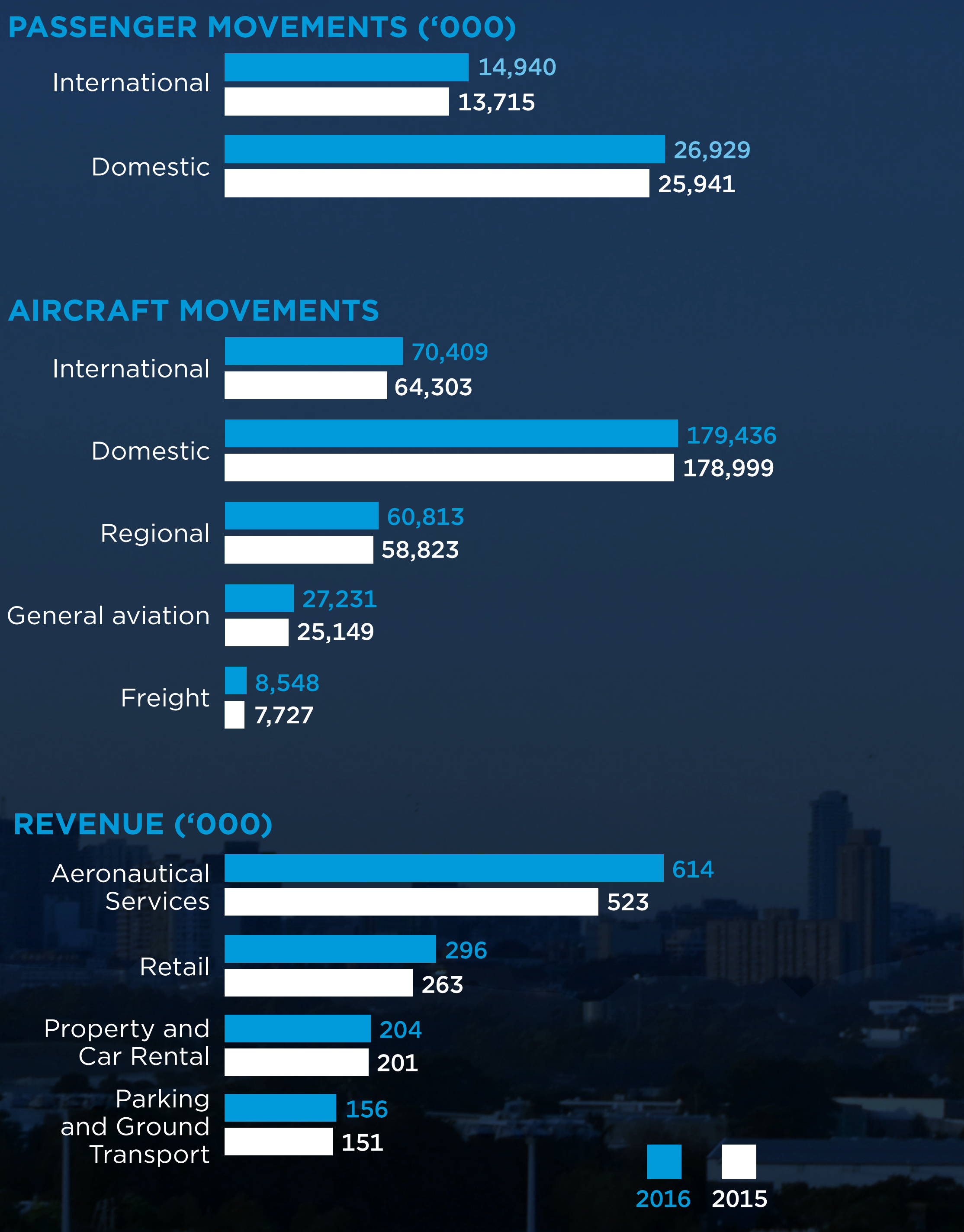
$14.6bn
amount of freight export facilitated

INVESTMENT

Plans to invest
$1.3bn
in services and facilities over the next five years

Invested around
$3.4bn
in airport improvements since 2002

Key facts and highlights



Our priorities

Sydney Airport's strategic priorities and opportunities

Increasing passenger numbers and aircraft movements	• Focusing on attracting airlines from the Asia region, which Sydney Airport believes is an area of growth due to the increasing affluence of large emerging markets, particularly China and India • Broadening relationships with airlines and working with them to encourage increased aircraft size, increased flight frequency on existing routes and adding new routes • Working with tourism authorities and industry groups to develop marketing initiatives to increase the profile of Sydney as an international tourist destination • Working with the Commonwealth Government to increase air rights to priority markets ahead of demand
Improving the customer experience	• Focusing on listening to customers and improving the experience at every stage of the journey through superior customer service, operational efficiency and technological innovation • Working collaboratively with airlines, government, on-airport businesses, staff and the community to invest in services and infrastructure that improve the safety, efficiency and amenity for those visiting or travelling through Sydney Airport
Leveraging the Retail business by enhancing our understanding of customer behaviour and meeting customer needs	• Focusing on providing high quality retail space, maximising passenger dwell time in shopping areas and creating an exciting and vibrant retail environment • Continuing to develop a product and merchandise mix to meet the retail expectations of passengers and to identify appropriate retailers who can meet Sydney Airport's service, operational and financial objectives
Growing the Property business	• 32.8 hectares of development land is allocated for business activities. We seek to optimise the development of available land for commercial activities through the master planning and land use management process
Aligning the Parking and Ground Transport business to customer needs	• Tailoring the range of car parking products to offer customers value and choice, and to meet evolving customer needs • Ensuring multi-modal access to the airport is increased and enhanced over time • Continuing to advocate for more affordable public transport services to the airport precinct
Building additional capacity and effectively using assets	• Focusing on investments in additional capacity to meet demand from future growth • Maximising the utilisation and efficiency of Sydney Airport assets • Balancing activity throughout the airfield, terminals and roads to reduce congestion and improve infrastructure utilisation
Effectively managing the capital structure	• Maintaining an efficient capital structure with financial flexibility • Maintaining a minimum credit rating of BBB/Baa2
Western Sydney Airport	• Considering whether to accept or reject the Notice of Intention (NOI) to develop and operate Western Sydney Airport (WSA)

Significant risks

Sydney Airport is exposed to a range of risks associated with operating Australia's busiest airport. The strategies developed by the SAL Board and management to address these risks are reflected on the previous page and in the following pages that describe our four main revenue streams.

Failure to maintain passenger and aircraft movement volumes	• The business operations and revenues are dependent on the number of passengers that use Sydney Airport, particularly international passengers, which may decline or experience growth constraints due to factors beyond the airport's control • Airline customers may experience adverse financial and operating conditions, which could have a materially adverse impact on aeronautical revenues • Aeronautical activities may be limited by the regulations imposed on Sydney Airport's operations • The business depends on Sydney Airport's ability to maintain the aerodrome certificate and lease over the Sydney Airport site
Third-party dependencies	• The operation of Sydney Airport depends upon third parties over whose performance we have limited ability to influence • The business operations may be adversely affected if restrictions are imposed on the sale of tax and duty free consumer goods in airports
Capital management	• Sydney Airport has significant indebtedness and there is a requirement to refinance portions of this debt on a regular basis
Other	• Business operations could be materially adversely affected by cyber attacks, terrorist attacks and the threat of war • Sydney Airport faces risks and liabilities associated with aircraft accidents • The airport faces competition for new business from other airports and may face increased competition if the Australian Government develops an additional commercial airport, or expands other modes of transport in the Sydney region

Financial performance

Delivering the business model

	Passenger growth →	EBITDA growth →	Cash flow outcomes →	Debt service coverage →	Investor returns
2016	41.9 million passengers	$1,085.7 million EBITDA	$696.0 million[1] net operating receipts	2.7x cash flow cover ratio[2]	$13.5 billion[3] equity value
Growth	+5.6% from prior year	+8.2% from prior year	+20.5%[1] from prior year	+0.2x from prior year	(1.1%) total return[4] +24.2% five year CAGR

1 Excludes WSA project costs expensed.

2 Cash flow cover ratio (CFCR) is calculated using defined terms in the Southern Cross Airports Corporation Holdings Limited (SCACH) group debt documents, summarised by cash flow divided by senior debt interest expense for a rolling 12 month period.

3 As at 31 December 2016.

4 Assuming reinvested distributions.

Key performance measures

Key measures of Sydney Airport's 2016 financial performance are shown in the table below.

		Growth over 2015	
Passengers	41.9 million	5.6%	↑
Revenue	$1,364.6 million	11.0%	↑
Operating expenditure[1]	$257.8 million	14.3%	↑
EBITDA[1]	$1,106.7 million	10.3%	↑
Net operating receipts (NOR)[1]	$696.0 million	20.5%	↑
Distributions per stapled security to investors	31.0c	21.6%	↑

1 Excludes WSA project costs expensed. EBITDA including WSA project costs expensed for the year ended 31 December 2016 is $1,085.7 million with EBITDA growth of 8.2% Net operating receipts including WSA project costs expensed is $675.0 million with growth of 16.9%.

Revenue streams

	Revenue $m	Revenue contribution	Revenue growth
Aeronautical (excl security recovery)	614.2	45%	17.4%
Retail	295.6	22%	12.2%
Property and Car Rental	204.2	15%	1.5%
Parking and Ground Transport	156.1	11%	3.6%

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 infrastructure and, when appropriate, continue to deleverage the business. NOR is derived from both income statement performance and the cash position of SAL and SAT1.

A reconciliation of statutory profit to NOR is shown on the following page.

Reconciliation of NOR

NOR provide a proxy for cash flows available to pay ASX-listed Sydney Airport distributions. The table reconciles the statutory result of ASX-listed Sydney Airport for the year ended 31 December 2016 to its NOR.

Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial reports.

	2016 $m	2015 $m
Profit before income tax expense[1]	320.2	286.1
Add back: depreciation and amortisation[1]	356.5	312.5
Profit before tax, depreciation and amortisation	676.7	598.6
Add/(subtract) non-cash financial expenses		
- Capital indexed bonds capitalised[2]	10.5	15.8
- Amortisation of debt establishment costs[2]	27.4	23.1
- WSA project costs expensed[1]	21.0	-
- Borrowing costs capitalised[2]	(9.6)	(11.0)
- Change in fair value of swaps[2]	(22.0)	(28.3)
Total non-cash financial expenses	27.3	(0.4)
Add/(subtract) other cash movements		
Movement in cash balances with restricted use[3]	12.3	(5.5)
Other	(20.3)	(14.9)
Total other cash movements	(8.0)	(20.4)
Net operating receipts excluding WSA	696.0	577.8
Net operating receipts	675.0	577.8
Average stapled securities on issue (m)[4]	2,237.4	2,221.2
Net operating receipts per stapled security	30.2c	26.0c
Net operating receipts per stapled security excluding WSA	31.1c	n/a
Distributions declared per stapled security	31.0c	25.5c
Ratio of net operating receipts to distributions	97%	102%
Ratio of net operating receipts excluding WSA to distributions	100%	n/a

1 Taken from the Consolidated Statements of Comprehensive Income in the Sydney Airport Financial Report for Year Ended 31 December 2016.
2 Taken from Note 6 in the Sydney Airport Financial Report for Year Ended 31 December 2016.
3 Taken from Note 3 in the Sydney Airport Financial Report for Year Ended 31 December 2016.
4 Taken from Note 8 in the Sydney Airport Financial Report for Year Ended 31 December 2016.

Revenue growth at Sydney Airport

Sydney Airport's revenue growth is driven by four 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 levied per passenger to the airlines for use of the terminal and airfield infrastructure providing a direct linkage to revenue growth. Where charges are levied on maximum take-off weight they provide linkage as larger or more aircraft are required to transport more passengers. The commercial revenues (comprising Retail, Property and Car Rental, and Parking and Ground Transport) are directly and indirectly linked to passenger volumes. Our international passengers have a greater direct and indirect impact on revenues, because they spend more time at the airport and more often move through the entire end-to-end airport process.

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 allow more passengers to use 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 per passenger.

Inflation/fixed escalations: Many of Sydney Airport's commercial contracts and revenues are directly linked to inflation or fixed escalations.

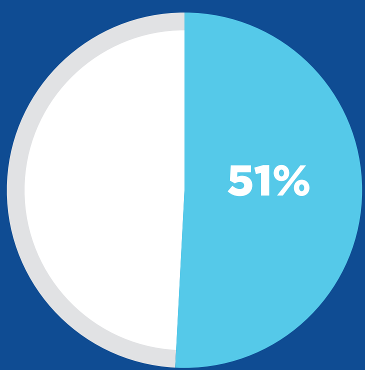
A more detailed analysis of specific growth drivers is provided in the following revenue streams and operating expense sections.

Revenue 2016

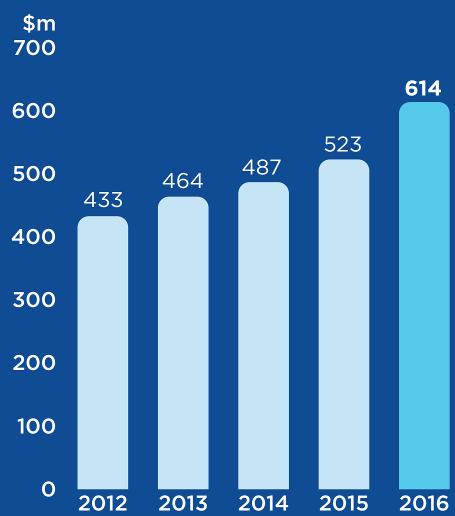
17.4%

$614.2m*

Revenue contribution to the Group



Aeronautical revenue*



*Excludes aeronautical security recovery

Aeronautical Services

As we continue to attract strong passenger growth, we've improved service standards to meet airline and passenger demands and provide an enhanced airport experience.

Fast facts about Aeronautical Services

Sydney Airport provides terminal and airfield infrastructure for use by our airline customers. Revenues are derived from charges for use of this infrastructure, which are mainly charged on a per passenger basis. Increases in passenger numbers and infrastructure investment drive revenue growth. We also provide security services, which are recovered at cost from our airline customers.

The 2016 year saw continued passenger growth, driven largely by high load factors, increased seat capacity as airlines introduced larger aircraft, and new routes from existing and new carriers. Revenue increased as a result of this growth in total passengers, along with an increase in international charges from 1 July 2016 and the impact of the first full year of operations since the T3 transaction.

Our investment program across the airport precinct has supported the growth of our aeronautical charges, allowing Sydney Airport to better meet increasing passenger demand.

We've continued to deliver growth and resilience through the economic cycle, as we benefit from our proximity to Asia and the growing Asia Pacific market.

Working with our partners to deliver a safer airport

The safety and security of all aspects of our operations is Sydney Airport's highest priority.

In October, Sydney Airport won the Australian Airports Association Project – Major Airport Award for its incident and emergency management strategy. This strategy has significantly enhanced safety at the airport through new tools and technology. It has also driven new initiatives such as improved communications systems, better weather tracking and forecasts, and greater collaboration with airport stakeholders.

We expect to see enhanced safety and security outcomes resulting from the establishment of our new Integrated Operations Centre (IOC), incorporating our Emergency

Infrastructure

Sydney Airport has three runways

MAIN NORTH-SOUTH RUNWAY **(4.0 KM)**

PARALLEL NORTH-SOUTH RUNWAY **(2.4 KM)**

EAST-WEST RUNWAY **(2.5 KM)**

346,437 AIRCRAFT MOVEMENTS

14.9 MILLION INTERNATIONAL PASSENGERS ↑ 8.9%

A geographically diverse international market

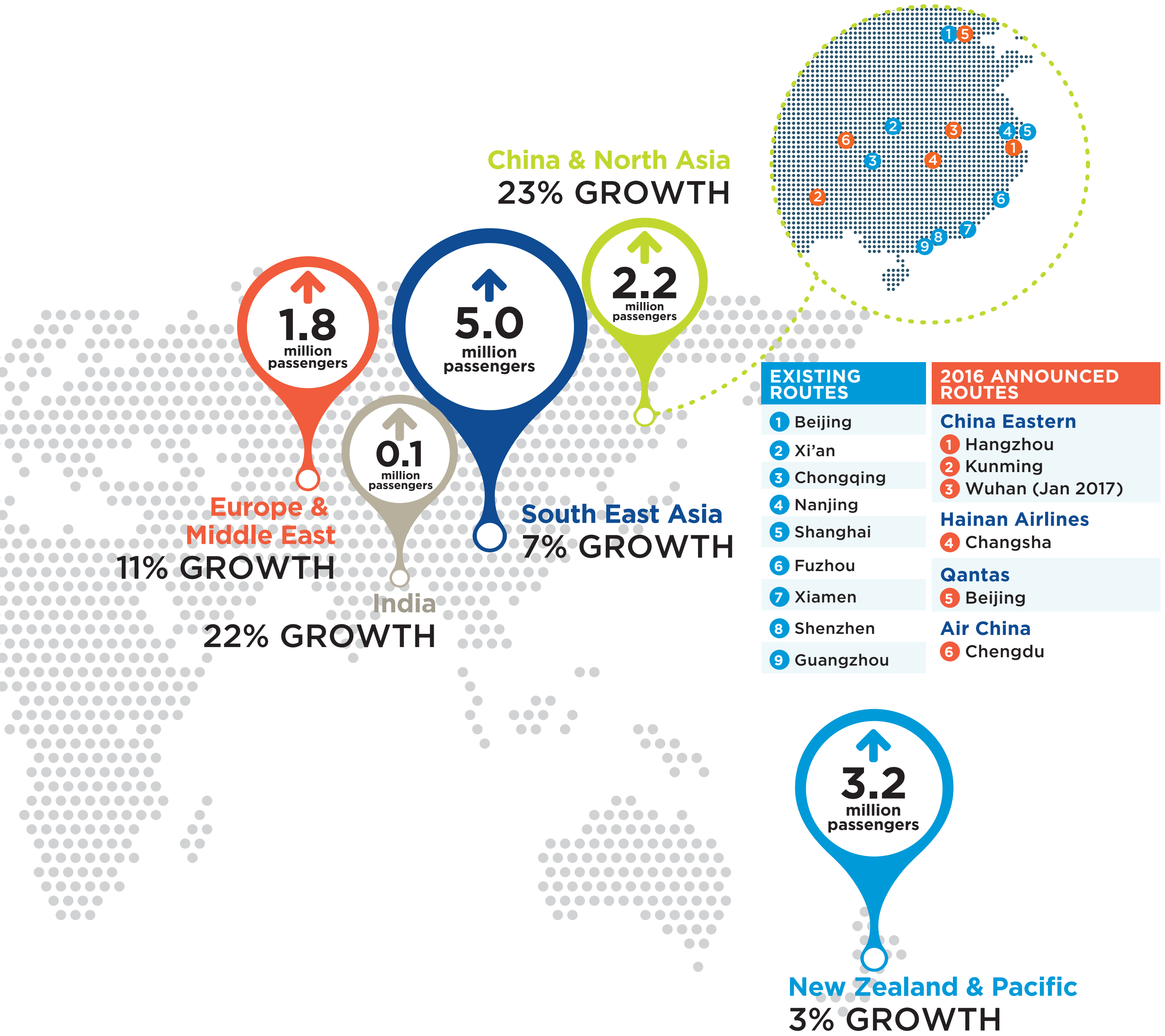
Passenger numbers by geography

Operations Centre, which opened in November. The new, world-class IOC brings together the latest technology and innovation to improve operational resilience, flexibility, scalability and collaboration with our key stakeholders.

Increasing seat capacity to support a diverse passenger base

International passenger growth was its strongest in 12 years, with an additional two million international seats entering the Sydney market in 2016. We experienced double digit passenger growth across many of our major markets, including China, the United States, India, Korea, Japan and Indonesia. This strong growth across several regions has delivered a diverse passenger base, building resilience throughout the economic cycle.

Sydney Airport confirmed several upgauges, and increased service frequencies on existing routes, as airlines looked to maximise passenger demand to key locations. This reflected the importance of working with existing airline business partners to drive growth at Sydney



Note: Data based on passengers flown on direct services between Sydney and the respective country/region.

Airport, and saw increased seat capacity across our diverse range of markets. In November, Sydney Airport confirmed its position as the world's fourth busiest airport for A380 international arrivals, with A380 scheduled services representing 17% of international capacity by year end. The increasing use of A380 services to and from Sydney Airport has supported overall passenger growth, with eight airlines operating the A380 to Sydney during the holiday peak in December 2016.

Leveraging our advantages – growth in China

Sydney Airport is the world's leading airport for Chinese long haul routes, with seven airlines flying to 14 Chinese cities by January 2017. The year saw the announcement of six new routes to Chinese cities, reflecting continued, strong passenger demand from China.

This significant growth reflected our proven approach to working with airline business partners to establish new routes and attract new services to Sydney. We leveraged our geographical advantage and built on our position of leadership in the Chinese long haul market to attract a wider range of Chinese services. Chinese residents are now Sydney Airport's largest foreign inbound passenger market.

In recognition of this, we continued to provide a range of China ready initiatives to welcome Chinese passengers, including Mandarin speaking Airport Ambassadors, information in simplified Chinese, support of events such as Lunar New Year, and tailored retail, food and beverage offerings.

3 TERMINALS

T1 International
with **25 contact gates**
including **6 A380 capable gates**

T2 Domestic
with **21 contact gates**

T3 Domestic
with **15 contact gates**

Freight Facilities
for **8 international**
and **3 domestic freight operators**

"International passenger growth was its strongest in 12 years, with an additional two million international seats entering the Sydney market."

The growth of the China market received a further boost in December, with the signing of an historic new China-Australia air services agreement. The agreement immediately removed all capacity restrictions on airlines flying to and from Chinese cities and is expected to support further growth of this important market in 2017 and beyond.

While the year saw strong growth from this market, China represents less than 10% of overall international passenger numbers. China is an important part of our diverse passenger base, as we look to deliver growth across all our major markets.

Driving operational efficiency through collaboration

The international airline agreements signed in 2015 saw a step change in our collaboration with our airline partners and a concerted focus on delivering outcomes. We have committed to improving terminal presentation standards at T1 International from Silver to Gold level. This has seen the implementation of a wide range of terminal improvements during the year as we've delivered on this commitment.

We also worked together with our airline partners to drive performance and improve efficiencies across the key areas of baggage, passenger facilitation, peak planning, resource allocation and bussing.

An example of the close collaboration with our stakeholders during the year was the establishment of our ground handlers' forum. The forum saw Sydney Airport work closely with airlines and their ground handlers to implement check-in and baggage management enhancements, leading to improved baggage outcomes. Supported by streamlined check-in processes for our customers and passengers, Sydney Airport's missed bag rate has reduced, and now outperforms the global industry average.

Overall, these engagement activities supported our shared focus on improving the On Time Performance (OTP) of our airlines, by realising new efficiencies across every aspect of the airport process.

2017 outlook

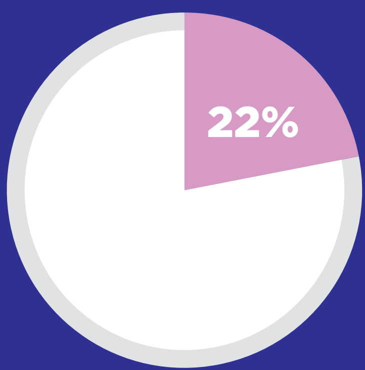
Sydney Airport will continue to seek new growth opportunities in 2017. The recent China-Australia air services agreement is expected to generate a new wave of Chinese growth, with increases in service frequency expected from our extensive network in China. Further demand from the Middle East, New Zealand and other Asian markets is also expected, providing opportunities to work with our airline business partners to identify new routes and additional seat capacity.

Revenue 2016

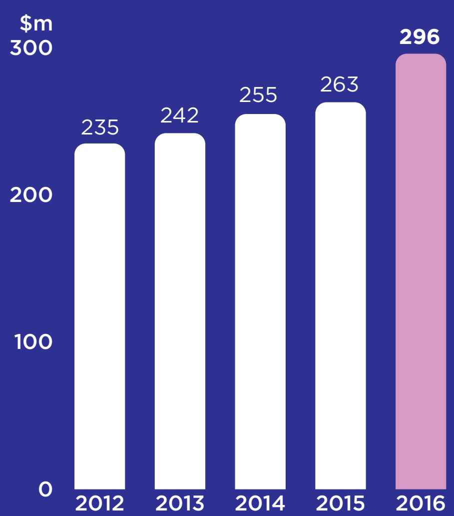
12.2%

$295.6m

Revenue contribution to the Group



Retail revenue



Retail

Our retail offerings were transformed in 2016 to provide enhanced choice and value as part of the overall airport experience.

Fast facts about Retail

Sydney Airport leases 236 retail outlets, and licenses advertising rights in and around our terminals. Retail tenant activities include the sale of duty free products, food and beverage, news and gifts, fashion and currency exchange services. Sydney Airport has an extensive network of digital and static advertising sites in terminals, beside access roads and at car parks, leased to advertising agencies under a single contract. Income is supported by a strong level of minimum guaranteed rent, which accounted for over 94% of revenue from retail activities in 2016.

Sydney Airport has repositioned its retail, food and dining offering during the year, with a focus on harnessing the best of global and local brands, as well as enhanced store design principles. Its first to Australia and first to airport brands are already delivering improved outcomes, with 12.1% revenue growth to $295.6 million in 2016.

Best of global and local brands

The year has seen the transformation of 68 stores at Sydney Airport, providing a more tailored mix of retail offers for passengers and visitors.

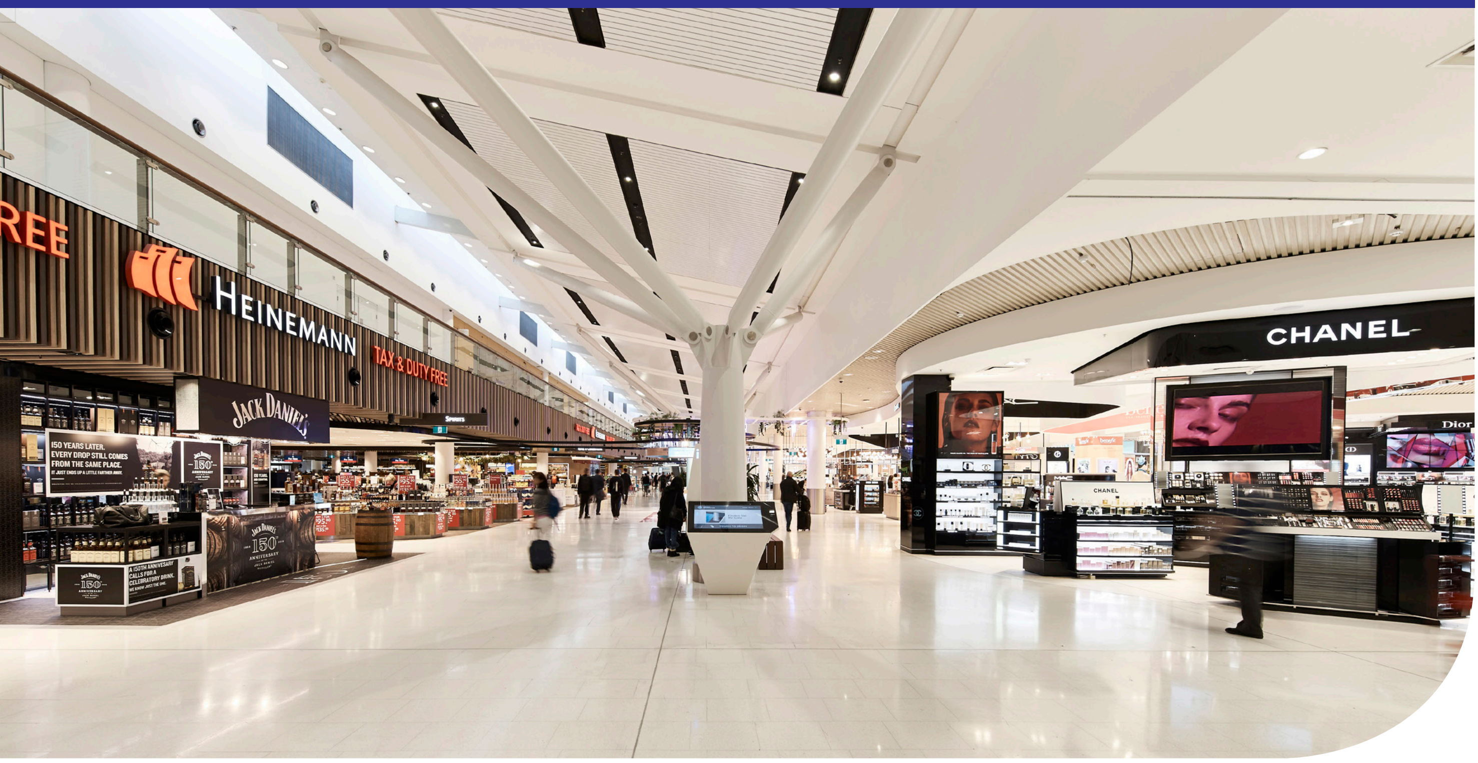
At T1 International, our City View premium dining precinct opened in September. Sydney Airport welcomed The Bistro by Wolfgang Puck, alongside Australia's first flagship Heineken House as part of the precinct. These premium dining options are reshaping the passengers' airport dining experience.

Our new T1 dining options have complemented retail offerings by Gebr Heinemann Tax & Duty Free, introduced in 2015. The Sydney Airport store was awarded gold in the Interior Design – Retail category at the Sydney Design Awards and Summit 2016, reflecting our leadership position in the design of the T1 retail precinct, and the improved offering now available to passengers.

A dedicated fashion precinct was also launched at T1, introducing a range of luxury brands including Tiffany & Co. and Burberry, with Gucci to open in the first quarter of 2017. The fashion precinct has redefined the product offering to increase passenger spend.

12
first to Australia brands

33
first to Australian airport brands



68
Store transformations

Retail area
20,253M² T1
5,297M² T2
4,496M² T3

Average dwell time
120 MINS T1
45 MINS T2/T3

120 STORES T1
62 STORES T2
54 STORES T3

T2 Domestic transformation

Our revitalised T2 casual dining precinct was also revealed in 2016, providing new first to Australia and first to airport brands for our domestic travellers. The upgrade featured the introduction of healthy dining options for passengers and visitors, increased seating capacity, and improved amenities and connectivity.

Foreign exchange

Global Exchange was named as Sydney Airport's new foreign exchange provider in October, with 21 bureaux located across our International terminal. Sydney Airport was the first Asia Pacific airport to partner with Global Exchange, which provides passengers with the option to order their currency online, before they arrive at the airport.

Global Exchange's customer focus supports Sydney Airport's strategy to enhance the passenger experience, and provide a more tailored service offering to our passengers.

Advertising

Our technology strategy saw the introduction of new, innovative digital advertising screens in 2016 as part of our advertising contract with APN Outdoor. The modern and bright high resolution digital screens supported our terminal improvements, while enhancing the advertising offering across our terminals. This included new digital screens at the T1 Marketplace, T1 airside arrivals and T2 arrivals.

The new screens form part of a strategy to reduce signage and clutter, and position advertising in more appropriate locations to maximise advertising returns. This led to a reduction in the amount of advertising by 95 signs, while increasing advertising revenue and enhancing the airport experience.

Extending our marketing reach

Our retail marketing focus extended beyond the airport this year, with strong pre-engagement with the passenger on our new retail offering. Our marketing strategy is helping visitors to better plan their time at the airport to maximise dwell time in the retail precinct.

In particular, we established a stronger marketing presence in China to target this growing market. In 2016 we became the only Australian airport to establish a dedicated website hosted in Shanghai to outline key facts and useful information about Sydney Airport. The site, supported by a search engine optimisation strategy focused on leveraging searches related to Sydney, is driving local traffic to our page to help Chinese passengers plan their journey. This was complemented by a dedicated WeChat page, and extends the reach of our China ready strategy to the very start of the passenger journey.

2017 outlook

In 2017, we'll continue to deliver an integrated strategy to drive growth across our terminals. New outlets launched in 2016 will transition to regular trading patterns, providing consistent rental returns for the retail business. In 2017, we'll build on the significant works already completed at T1 as we introduce new specialty retail stores at Pier C. It's expected these works will be completed by mid-2017.

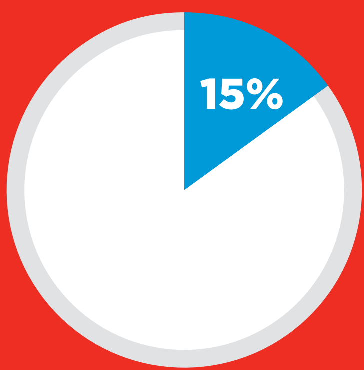
We'll also work to further develop our T2 retail precincts, including the refurbishment and expansion of T2's Pier B.

Revenue 2016

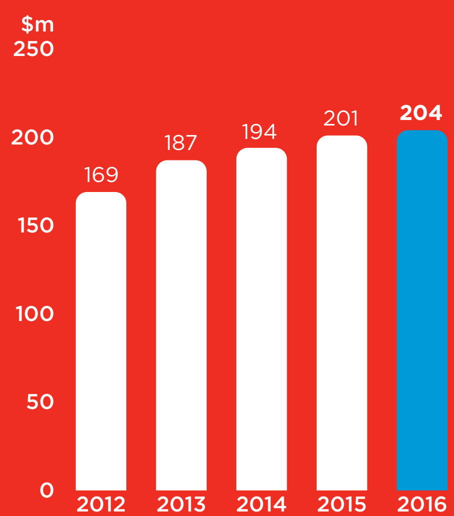
1.5%

$204.2m

Revenue contribution to the Group



Property and Car Rental revenue



Property and Car Rental

We invested in our terminals and airport precinct throughout 2016, to target new business opportunities for our property business.

Fast facts about Property and Car Rental

Our Property and Car Rental business leases sites, buildings and other facilities around the airport. Leases include airline lounges, airline offices, freight facilities, hotel sites, aircraft hangars, sites on the airport perimeter, buildings such as Customs House and car rental areas. Property tenants require proximity to Sydney Airport's terminal, airfield, key infrastructure assets and operational areas to conduct their businesses which provides a unique market to support the property portfolio.

Our investment in property saw extensive works across our terminals and airport precinct to expand capacity and improve the customer experience. This was supported by a strong revenue contribution from car rental operators, and new projects such as the new hotel to provide additional revenue streams for the future.

In 2016, Property and Car Rental revenue grew 1.5% to $204.2 million. While revenue was relatively stable for the year, the result reflected changes in lease arrangements as a result of the T3 transaction in 2015. While T3 had contributed to Property and Car Rental revenues as a lease arrangement prior to the transaction, these lease revenues were replaced by incremental Aeronautical and Retail revenues in 2016.

Delivering consistent revenue streams

Sydney Airport managed more than 332 leases during the year, with 300 rent reviews conducted across our operations in 2016. Lease arrangements provided consistent revenues for the business as we continued to work closely with our tenants. Strong occupancy rates of 98.9% reflected the high demand for on-airport facilities. We continued our focus on aviation support infrastructure opportunities such as freight, catering and office accommodation, to deliver growth in our property business.

A total of 23 new airline and other administration office refurbishments were also completed, as part of our commitment to improving the airport experience for our business partners and stakeholders.

Honouring our aviation history

Sydney Airport officially opened a new bridge linking to the Northern Airport Precinct in August as we worked to improve the airport road network. The bridge provides access to a vehicle storage area in the Northern Lands Logistic Precinct and was named after the founder of Sydney Airport, Sir Nigel Love. The naming of the bridge provides a clear link to Sydney Airport's rich heritage in the lead up to our centenary year in 2019.

Car rental revenue growth

Following the confirmation of new contract arrangements in 2015, car rental transactions grew 3.8% in 2016.

To support the growth in demand for car rental services, quick turnaround areas for car rental operators were expanded during the year, leading to increased utilisation of these dedicated spaces. Car rental operators also benefited from changes to our car parking arrangements, to make it easier for passengers to collect rental cars.

Developing our hotel strategy for the future

Construction of Sydney Airport's first owned hotel development started during the year at the T2/T3 precinct. The new hotel forms a key part of our hotel strategy and will deliver a modern offering tailored to meet the needs of our passengers. Mantra will manage the hotel once operational, with the development due to be completed in mid-2017.

The new hotel will complement existing on-airport hotels, Rydges at T1 International and Ibis Budget adjacent to the T2/T3 Domestic precinct. Both existing hotels performed strongly in 2016 as we continued to see high demand for convenient, on-airport accommodation.

2017 outlook

Sydney Airport continues to work with our customers and stakeholders to identify further opportunities for our property business in 2017 and beyond. Future opportunities will focus on the development of commercial facilities in underutilised sectors of the airport.

The opening of the Mantra operated hotel in 2017 will also leverage increasing hotel demand in Sydney. The hotel's modern fit-out and close proximity to the airport are expected to meet the growing demand for accommodation for business travellers beyond the CBD.

Parking and Ground Transport

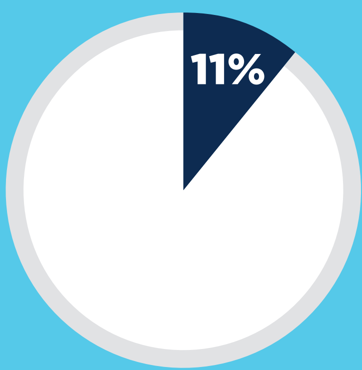
Now two years into our five-year ground access improvement plan, we're investing in the future to make access to and from Sydney Airport easier for all airport users.

Revenue 2016

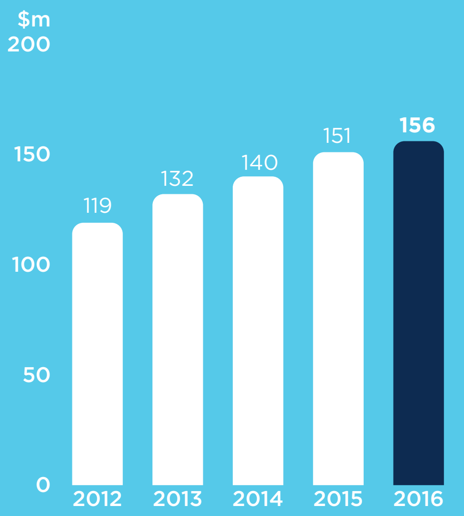
3.6%

$156.1m

Revenue contribution to the Group



Parking and Ground Transport revenue



Fast facts about Parking and Ground Transport

Sydney Airport provides a broad range of car parking products designed to meet passenger and airport user needs, as well as providing services and facilities close to the terminals for taxis, coaches, limousines and rideshare vehicles to access passenger collection. We actively encourage online car parking bookings, which offers users enhanced choice. Online bookings are now 38% of revenues and growing each year. Overall, the domestic precinct represents 60% – and the international precinct 40% – of total Parking and Ground Transport service revenues.

Sydney Airport's priority is to make it easier for everyone to travel to and from the airport, whether by car, taxi, public or active transport.

Increased parking capacity, the continued growth of online bookings, and the implementation of improved customer choice led to the business achieving 3.6% revenue growth to $156.1 million in 2016.

In 2016, we continued to work closely with the NSW Government and its transport agencies to deliver roadworks in and around the airport precinct. Now two years into our five-year program of improvements, the year saw the implementation of key changes to the road and transport network throughout the airport precinct. When the program is complete, these changes will deliver a better performing on-airport road network, reducing congestion and providing enhanced ground transport facilities and easier access for all airport users.

We've worked closely with the NSW Government throughout the year to phase our works with their complementary upgrades to the road network around the airport.

Delivering ground access improvements

In 2016, we invested $43.5 million in road improvements in and around the airport.

At T1 International, construction started on the new entry from Marsh Street on to Centre Road, with completion anticipated by mid-2017. This new exit will allow direct access into the car park precinct for traffic approaching T1 from the south and west, making it easier and quicker for traffic to access the Departures Road drop off zone. Work also got underway on other T1 projects designed to ease congestion and improve access.

In December, Sir Reginald Ansett Drive was widened from two lanes to five to provide increased capacity for traffic entering the Domestic precinct. This has eased traffic flows at the intersection of Ross Smith Avenue and Sir Reginald Ansett Drive, and complements the one-way exit from the Domestic precinct which opened in the previous year.

Using technology to improve responsiveness and the customer experience

Our Landside Operations Centre (LOC) moved to Sydney Airport's new IOC during the year, bringing together the latest technology and real-time monitoring to improve responsiveness. The new LOC enables Traffic Management Centre and NSW Police personnel to co-locate with Sydney Airport during peak periods, sharing data and coordinating responses. This has provided greater visibility of potential issues, further building on our already strong safety focus. Our teams now have increased visibility of congestion ahead of time, and can manage potential issues or traffic incidents more quickly and effectively.

Travel Time Display was also introduced to improve the experience for customers using our car parks. This technology provides on-screen, up-to-the-minute travel times by road between Sydney Airport and key destinations around Greater Sydney.

Building parking capacity

We continued to expand parking capacity, investing $28 million in our car parking facilities. This brought total car parking bays to 17,237, up from 16,520 in 2015.

Work also began at T1 to add four new levels to the P6 (northern multi-storey) car park, scheduled for completion in the second half of 2017.

These additions will help to ensure capacity demands are met as Sydney Airport continues to experience passenger growth.

Adapting to shifts in transport mode share

As customer preferences for different forms of transport to and from the airport continue to change, Sydney Airport has adapted to meet these needs. The legalisation of commercial ridesharing in December 2015 led to a rapid surge in demand for services such as Uber and GoCatch. In response, we introduced new pick-up arrangements at T2/T3 to offer more choice for our customers. These included the introduction of a Priority pick-up zone for use by limousines, pre-booked taxis, ridesharing services and the public.

A new, enlarged Express pick-up zone was also introduced at P3, providing 15 minutes of free, undercover parking.

This compared with 10 minutes of free open air parking under the previous pick-up arrangements. The expansion of the Express zone saw many motorists park for free at our terminals. In fact, 38.7% of people driving to the T1 International terminal parked for free, and 43% of people driving to the T2/T3 Domestic precinct.

2017 outlook

In 2017, the implementation of our ground access improvements will continue.

At T1, projects scheduled to open in 2017 include a new elevated pedestrian and cycle shared path to provide seamless, safe access for active transport users from the Alexandra Canal pedestrian/cycle path to the P7 car park. A new dedicated exit road for Departures Road and Arrivals Court traffic to Airport Drive will also be completed during the year, with further works scheduled to continue until 2018.

At T2/T3, Sydney Airport will commence the widening of Qantas Drive between O'Riordan Street and Robey Street, as well as continuing to work with the NSW Government as it progresses its works to upgrade the road network to the east and north of the precinct as part of the overall ground transport strategy.

VALUE AND CHOICE

Online discounts for car park users

MORE FREE parking options across our terminals

Making it easier to travel to and from Sydney Airport – no matter what mode of transport you choose

TRAINS

Two train stations, with services every six minutes in peak times

TAXIS AND RIDE SHARING

New pick-up zones to cater for a wider range of transport options

ACTIVE TRANSPORT

New pedestrian and cycle paths to access our terminals

BUSES

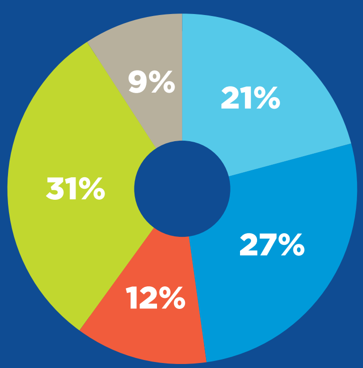
Planned ground access improvements to cater for more buses

MORE PARKING

More car parking spaces across eight car parks

17,237
CAR PARKING BAYS

Underlying operating expense by category



Operating expense by category[1]

	2016 $m	2015 $m	Change %
Employee benefits expense	54.5	47.2	15.6%
Services and utilities expense	68.9	56.4	22.1%
Property and maintenance expense	30.9	23.9	29.4%
Security recoverable expense	78.9	73.9	6.8%
Other operational costs	24.6	24.0	2.1%
Total operating expenses	257.8	225.4	14.3%

1 Excluding WSA project costs expensed.

Operating expenses

We've increased our investment in the passenger experience and stepped up service levels.

2016 review

Our investment in capacity and the passenger experience saw Sydney Airport's operating expenses increase by 14.3% compared to 2015. Our increased investment included additional expenses from the first full year following the T3 transaction, terminal improvements and a step change in service standards under our international aeronautical agreements. Peak demand during the year also significantly increased activity and contributed to increased costs.

Employee benefits expense

Our investment in our people has delivered increased capacity to support our revenue growth, greater in-house capabilities across our operations, and a continuing focus on delivering an improved passenger experience. Our employee benefits expense – including the salaries and benefits of 418 permanent employees and contractors engaged by Sydney Airport – increased 15.6% from the prior year. This was the result of employing more people to support our significant passenger growth and ongoing capital investment program, as well as implementing normal salary and wages increases for existing staff.

Services and utilities expense

Our focus on enhancing the passenger experience and airport operations, along with additional costs from the first full year of T3 control, saw costs rise by 22.1% compared to the prior year. Service and utilities included the cost of electricity, water and gas used by the airport as well as baggage operations, cleaning, car park and kerbside management, and bussing.

Property and maintenance expense

Customer service level enhancements and the expansion of baggage facilities, together with the first full year of T3 control, led to costs increasing 29.4% on the prior year. Our investment continues to facilitate capacity increases and overall revenue growth. Property and maintenance covers the cost of maintaining airfield and airport infrastructure, contracted through eight major service contracts.

Security recoverable expenses

Security recoverable 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 6.8% from the prior year due to significant increases in international passenger volumes, the full year effect of opening three additional security lanes at T1 International and CPI increases.

Other operational costs

Other operational costs include corporate items. In 2016, we increased our marketing of discounted, online car parking booking and the opening of our new Domestic Priority pick-up zone as part of our commitment to offer a wider range of parking options to our airport visitors. This led to costs increasing by 2.1% from the prior year.

2017 outlook

We expect overall operating expenses to increase as we continue to deliver an improved airport experience for our customers and passengers. Likely increases are expected to reflect improved service levels and additional improvements in passenger experience initiatives under international airline agreements, and normal escalations under contractual terms. We also expect additional costs relating to the new hotel, estimated to open mid-2017, and step-ups in electricity contract costs in line with the Australian electricity market.

Capital expenditure

Our investment in capacity and service improvements totalled $384.9 million for the year ended 31 December 2016.

Major projects completed during the year

Category	Project description	Benefits	Completed
Airfield	Runway and taxiway works	• Asset life extension	June 2016
	Taxiway fillet widening	• Airfield works increasing capacity through accommodating larger aircraft	June 2016
Terminal works	Check-in	• Expansion of check-in counter A at T1 International providing extra capacity	March 2016
	Terminals	• Delivered infrastructure allowing dual stair boarding at T3, aiding on-time performance	June 2016
		• Major redevelopment at T1 International including raising the roof to 17 metres at its apex at Pier B, providing more space and light for an improved passenger experience and additional seating	November 2016
	Bussing lounge	• Expansion of the T1 bussing capability increasing capacity and improving the passenger experience with delivery of two new Arrivals bussing lounges	December 2016
Parking and Ground Transport	Nigel Love Bridge	• Completion of bridge access to the Northern Airport Precinct and staff car parking area	February 2016
	Electric buses	• Acquisition of six new electric buses to service transportation between the Blu Emu car park and the Domestic precinct, replacing older diesel buses	August 2016
	Domestic pick-up	• New premium Domestic pick-up area for private cars and rideshare operators as well as expansion in the number of spaces and time allowed for free parking	September 2016
	Additional car parking capacity	• Expansion of the P3 car park at the T2/T3 precinct adding three new levels and 420 spaces	December 2016
	T2/T3 precinct ground access roadworks	• Widening Sir Reginald Ansett Drive from two lanes to five and reconfiguring Shiers Avenue, improving traffic flow to the Domestic precinct	December 2016
Operations	Integrated Operations Centre (IOC)	• Opening of a new state-of-the-art IOC to centralise and integrate the key cross functions for airport operations	November 2016

Major projects underway during the year

Category	Project description	Benefits	Expected completion
Airfield	Apron expansion	• Planning for additional aircraft parking capacity	Ongoing through 2017 for completion in 2018
	Apron upgrades	• Planning for upgrades to existing aprons for fuel, ground power units and airside bussing	Ongoing through 2017 for completion in 2018
Terminal works	Check-in	• Redevelopment of check-in counter C to improve throughput, with further automation to be implemented	December 2017
	Baggage	• Additional make-up loops and loading stations to increase capacity and resilience of the outbound baggage handling system	March 2017
		• Replace and upgrade the T1 International baggage carousels	September 2017
	Terminals	• T1 International terminal expansions allowing for increased and upgraded gate lounge seating and improved facilities	Ongoing through 2017 for completion in 2018
		• Refurbishment and expansion of the T2 Domestic loading dock and associated storage and security area to increase operational efficiency and add capacity	December 2017
		• Staged expansion of speciality retail at T2 Pier B	December 2017
Parking and Ground Transport	T1 and T2/T3 precincts ground access roadworks and car park improvements	• Roadworks to Marsh Street, Cooks River Road and Centre Road to improve access to the International precinct	May 2017
		• New pedestrian and cycleway through the International precinct linking T1 International to the Cooks River pedestrian and cycleway	May 2017
		• New exit road from the International car park precinct under the Giovanni Bridge reducing congestion	August 2017
		• Addition of four new levels on the northern multi-storey car park in the International precinct	Late 2017
Property	Hotel	• Construction started on a new hotel on Ross Smith Avenue providing additional options and capacity for on-airport accommodation	July 2017

Capital management and distributions

Sydney Airport maintains a strong focus on prudent capital management by proactively diversifying the debt portfolio and addressing the refinancing of debt well in advance of its maturity. This strategy further strengthens the capital structure and creates a strong platform for future raisings.

2016 refinance summary

In April 2016, Sydney Airport successfully issued a USD900.0 million (AUD1,163.4 million) US144A/RegS bond that reinforced our proactive capital management approach. The funds raised were used to repay all committed drawn bank debt facilities used to primarily fund refinancing obligations and investment.

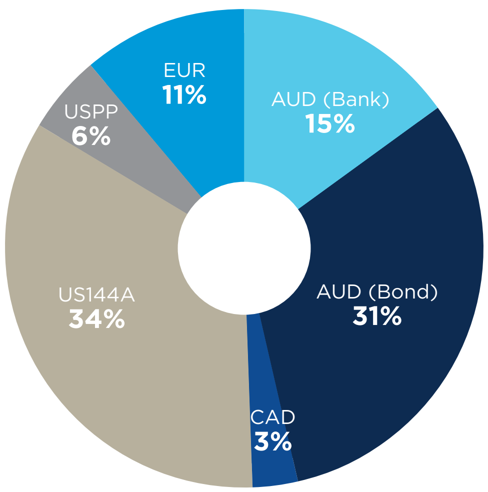
Outcomes of this refinancing that contributed to the key debt metrics were:

- pricing inside the portfolio average with 100% hedging of currency and interest rate exposures;
- maturity profile spread, filling a previous gap in 2026;
- maturity profile lengthened by five months, with average maturity in mid-2023;
- reduction in drawn debt maturities over the next three years by over 75%; and
- next drawn debt maturity is in the first half of 2018; less than 2% of total debt outstanding.

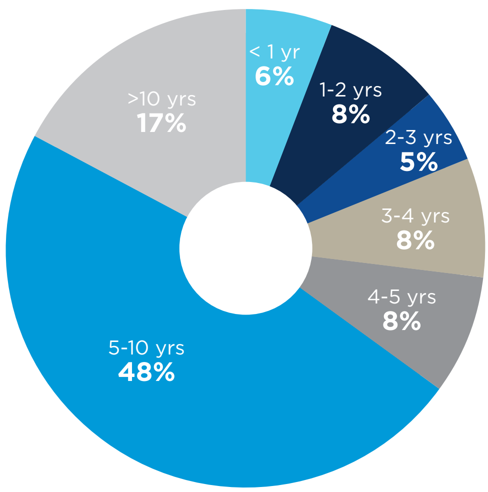
Category	31 December 2016	31 December 2015
Net debt	$7.7 billion	$7.4 billion
Net debt/EBITDA	6.9x[2]	7.4x[1]
Cash flow cover ratio	2.7x[2]	2.5x
Credit rating (S&P/Moody's)	BBB/Baa2	BBB/Baa2
Average maturity	Mid-2023	Early-2023

1 Ratio temporarily impacted by partial debt funding of the T3 transaction without the full EBITDA benefit.
2 EBITDA excludes WSA project costs expensed.

Funding portfolio by category



Debt maturity on drawn and undrawn debt



Distributions

Total distributions paid by ASX-listed Sydney Airport during the year ended 31 December 2016 were $624.2 million or 28.0 cents per stapled security (2015: $543.1 million or 24.5 cents).

A final distribution for the period ending 31 December 2015 of $289.8 million or 13.0 cents per stapled security (2014: $266.0 million or 12.0 cents) was paid on 12 February 2016 by:

- SAL $166.1 million or 7.45 cents; and
- SAT1 $123.7 million or 5.55 cents.

An interim distribution for the period ending 30 June 2016 of $334.4 million or 15.0 cents per stapled security (2015: $277.1 million or 12.5 cents) was paid on 12 August 2016 by:

- SAL $212.9 million or 9.55 cents; and
- SAT1 $121.5 million or 5.45 cents

The final distribution for the period ending 31 December 2016 of $360.0 million or 16.0 cents per stapled security was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents; and
- SAT1 $122.6 million or 5.45 cents.

There are $nil imputation credits (2015: $nil) available to pay franked distributions.

Distribution reinvestment plan (DRP)

The DRP operated in respect of the 30 June 2016 interim distributions. A total of 20.4 million stapled securities were issued and transferred to DRP participants in August 2016 at $6.99 (after a 1.5% discount applied).

There was no DRP in operation for the 31 December 2016 final distribution as the Commonwealth Government had previously indicated its intention to issue Sydney Airport with the NOI prior to 31 December 2016. Depending on the terms contained in the NOI and Sydney Airport's assessment of them, this circumstance had the potential to place Sydney Airport in possession of information which would be material to the price of Sydney Airport's securities and not yet available to the market generally.

Cash flow

Category	31 December 2016 $m	31 December 2015 $m
Net cash flows from operating activities	1,087.4	1,005.2
Net cash flows used in investing activities	(399.5)	(863.2)
Net cash flows used in financing activities	(588.9)	(222.0)
Net increase in cash and cash equivalents held	99.0	(80.0)

Net cash inflows from operating activities have 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 2016 reflected the ongoing capital investment. 2015 includes T3 transactions of $535.0 million.

Net cash flow from financing activities in 2016 reflect funds received from the US144A bond issuance, additional drawn bank debt to fund growth capital expenditure, repayment of bank debt, borrowing costs paid and distributions paid.

Distributions were paid to ASX-listed Sydney Airport security holders during the year amounting to $624.2 million, fully covered by NOR excluding WSA project costs expensed. This is reflected in the Consolidated Statements of Cash Flows in the Sydney Airport Financial Report for Year Ended 31 December 2016.

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. Whilst 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.

Western Sydney Airport

Western Sydney Airport update

On 20 December 2016, Sydney Airport received the Commonwealth Government's Notice of Intention (NOI) setting out the material terms for Sydney Airport to develop and operate Western Sydney Airport (WSA). It is proposed to be operational in 2026 and serve the aviation needs of Western Sydney.

Sydney Airport has participated diligently in the Commonwealth's consultation process since September 2014 and provided the Commonwealth with its views on a range of requested matters including airport design, long-term passenger forecasts and the economic viability of a new airport operating on a standalone basis. The work undertaken during the process also continues to inform planning and development for Sydney Airport over the next two decades and beyond.

However, the risks facing the development of a greenfield airport cannot be underestimated, and Sydney Airport continues to review these as part of its consideration of the NOI. Project risks include procurement and construction risks over the approximately 10-year period before the airport opens, and operational, traffic, financing, interest rate and political risks, which are at their peak in the initial years of the airport lease.

Given the significant challenges the project will face, Sydney Airport has consistently expressed its opinion that the Western Sydney Airport project would require material support from the Commonwealth to make it commercially viable. However, the Commonwealth delivered a NOI that does not feature any material support including previously contemplated procurement protections or Commonwealth funding which makes WSA a challenging investment proposition.

Given the uncertainty at reporting date as to whether Sydney Airport will develop and operate WSA, the carrying value of the project costs of $21 million has been expensed under accounting standard requirements. This accounting treatment does not impact cashflow or distributions. This is reflected in our Financial Report that follows.

Confidential and detailed market soundings are in progress with the contractor market to further inform our view of the construction costs. Any ongoing costs involved in this analysis will likely be expensed during the relevant reporting period as they are incurred.

The Commonwealth has advised that Sydney Airport's response to the NOI is due on 8 May 2017, a four-month consideration period. We remain of the view that Sydney Airport is entitled to a nine-month consideration period but will be endeavouring to meet the Commonwealth's timetable. As soon as we have adequate information to make an informed decision, we will do so.

AUDITED REMUNERATION REPORT

Contents

1. Introduction

The directors present the Remuneration Report for Sydney Airport Limited (SAL) for the period 1 January 2016 to 31 December 2016. The information in this report has been audited in accordance with section 308(3C) of the 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 2016 to 31 December 2016 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
John Roberts	Non-executive director	Appointed 18 October 2013
Stephen Ward	Non-executive director	Appointed 18 October 2013
Ann Sherry	Non-executive director	Appointed 1 May 2014
Grant Fenn	Non-executive director	Appointed 1 October 2015
Kerrie Mather	Executive director	Appointed 18 October 2013

1.2. Key Management Personnel

The following individuals were determined to be KMP by the directors for the year ended 31 December 2016. While there were no changes to key management personnel during the year, Shelley Roberts left the business on 31 December 2016 and has been replaced by Hugh Wehby.

Key Executive	Title
Kerrie Mather	Managing Director and Chief Executive Officer (CEO)
Hugh Wehby	Chief Financial Officer
Shelley Roberts	Executive Director Aviation Services

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 2016 the Nomination and Remuneration Committee comprised of four NEDs:

- Stephen Ward (chairman)
- Trevor Gerber
- Michael Lee
- Ann Sherry

AUDITED REMUNERATION REPORT (CONT.)

2.1. Remuneration Consultant

During 2016 no "remuneration recommendation" (as defined by Part 2D.8 of the Corporations Act) was made. Benchmarking data was obtained from Alan Jackson, Aon Hewitt, to assist the NRC when assessing remuneration changes for executive positions. The fees paid to Alan Jackson were $5,500.

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 ASX50 entity with an enterprise value of approximately $21.4 billion at 31 December 2016. Sydney Airport is one of the most significant transport infrastructure facilities 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 direct reports (Executives) 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 nearly $3.4 billion in capital works. 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, Executive's salaries are benchmarked against comparable market participants based on data from remuneration consultants.

3.2. Remuneration structure for Executives (including KMP) at 31 December 2016

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. From 2015 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.

While the LTI plan was introduced in 2015 for the CEO and other Executives, the first series (2015 – 2017) is not due to vest until 31 December 2017 and the second series (2016 – 2018) is not due to vest until 31 December 2018. As such, no rights have yet been issued under the LTI plan. 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.

The performance conditions 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.
- 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 or greater than 8%.
- One third of the rights are based on Board discretion and include metrics and performance conditions specific to each individual, taking into account such elements as operational aspects of performance, people and leadership, customer satisfaction and delivery of financial outcomes (Other tranche).

AUDITED REMUNERATION REPORT (CONT.)

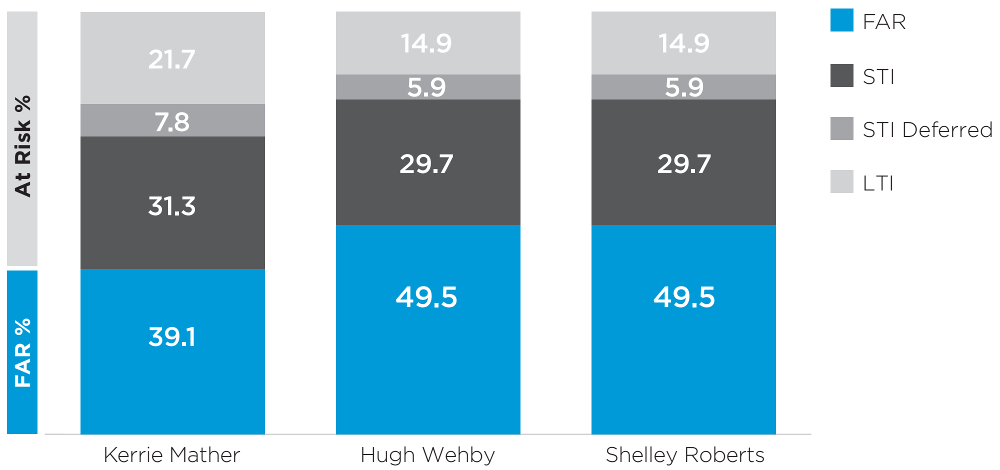
The measurements for the performance condition outcomes for the LTI are as follows:

- 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.
- The Board will determine what proportion (if any) of the rights will vest in the Other Tranche, having regard to individual and company performance.

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 are entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

The introduction of the LTI has had a significant influence on the remuneration mix, with the move increasing the 'at risk remuneration' (ARR).

The remuneration mix for the KMPs for 2016 is expressed as a percentage of total remuneration and set out in the table below:



3.2.1. At Risk Remuneration

The Board is focused on maximising sustained security holder value by linking business performance with Executives' remuneration outcomes. A significant element of their potential remuneration is at risk and linked to corporate performance.

A number of performance measures are used in determining an Executive's STI. They are financial performance, business/operational performance, implementation of key strategic projects, customer and stakeholder engagement and leadership and culture.

AUDITED REMUNERATION REPORT (CONT.)

3.2.2. Performance setting

Individual key performance targets are approved by the NRC at the beginning of each performance year. Key performance targets are selected for their relevance to the short and long term objectives and priorities for the business. The targets set are deliberately of a stretching nature consistent with our high performance culture.

An Executive's performance outcome is used as the basis to determine their STI award. The STI award is determined after the preparation of the financial results each year and the completion of the annual performance review process. The STI award is generally granted to Executives in March, with the cash component paid at that time. KMP data on the specific STI potential maximum percentage of FAR and the actual awards is described at 3.3. and the full remuneration details are set out in 4.2.

3.2.3. CEO STI deferral

To promote CEO retention, 20.0% of any STI award up to 100.0% of FAR is deferred for two years from the date of the award. The deferred cash amount earns a market rate of interest over the two year period and is payable to the CEO upon vesting, subject to continuous service throughout the period.

3.2.4. KMP STI deferral

To promote retention, other KMP also have a component (16.67%) of their STI award delivered in the form of a deferred cash award. Any cash award subject to deferral made under this plan is subject to a two year deferral from the date of the award. The deferred cash amount earns a market rate of interest over the two-year period and is payable to the Executive upon vesting, subject to continuous service throughout the period.

3.3. Link between remuneration and performance

History of corporate performance

Measure	2016	2015	2014	2013	2012
Security price at year end	$5.99	$6.35	$4.71	$3.80	$3.38
Ordinary distribution paid per security	$0.31	$0.255	$0.235	$0.225	$0.21
Earnings before interest, tax, depreciation and amortisation[1] (EBITDA) ($ million)	$1,085.7	$1,003.6	$948.3	$910.3	$848.0

1 2014, 2015 and 2016 are taken from the Consolidated Income Statements of Comprehensive Income in the Sydney Airport Financial Report for Year Ended 31 December 2016 and 2015. 2012 and 2013 numbers are taken from the Consolidated Income Statements in the Southern Cross Airports Corporation Holdings Limited (SCACH) Audited General Purpose Financial Report.

2016 Security Price Performance

Sydney Airport's listed security price performed strongly up until the fourth quarter in 2016, following which there were external market factors which resulted in a decline impacting the infrastructure sector. Total investor return over the year was -1% (assuming reinvested distributions), including a 31.0 cents per stapled security distribution.
The distribution represented growth of 21.6% compared to the 2015 distribution.

Due to the external market factors influencing the security price during 2016, a more meaningful measure is Sydney Airport's five-year total shareholder return of 24% p.a. (assuming reinvested distributions) which compares to the ASX100 performance of 12%[2] p.a. over the same period. That means if $10,000 was invested in Sydney Airport securities on 31 December 2011, the value of that investment including reinvested distributions would be approximately $30,000 at 31 December 2016. The equivalent investment in the ASX100 would be worth approximately $18,000.

2 Source: Bloomberg.

Drivers of the strong performance in 2016 include:

- Record passenger numbers travelling through Sydney Airport driven by airline marketing and tourism partnerships: 41.9 million in 2016 up from 39.7 million in 2015 representing 5.6% total growth, 8.9% international growth and 3.8% domestic (including regional) growth;
- Full year financial and operational performance of Terminal 3;
- The Group's EBITDA growth of 8.2% to $1,085.7 million, driven by the T3 transaction, growth initiatives across the business and prudent operating expense control;
- Delivery of significant capacity expansions and passenger experience improvements through investing $384.9 million on facilities and infrastructure; and
- Successful issuance of USD900.0 million ($1.2 billion) in US144A/RegS bonds extending the average maturity of the debt portfolio into mid-2023.

AUDITED REMUNERATION REPORT (CONT.)

Performance of Executives

There are two components used to determine an Executive's STI:

- Group objectives are used to determine 50.0%; and
- Individual targets that are unique to the Executive's area of accountability and expertise are used to determine the remaining 50%.

The objectives are both qualitative and quantitative in nature and measurement. They have been assessed as being central to business performance, efficiency, and sustainability.

In 2016, these objectives included:

- Financial performance
- Business/operational performance
- Strategic projects
- Customer and stakeholder engagement
- People and culture

The following table sets out the group performance factors used in determining the Executives' STI outcomes for 2016:

Objective	Performance Outcome
Financial performance	Revenue growth of 11.0% to $1,364.6 million
	EBITDA growth of 8.2% to $1,085.7 million (EBITDA growth of 10.3% to $1,106.7 million excluding WSA project costs expensed)
	Security holder distribution growth of 21.6% to 31.0 cents per stapled security
	Successful issuance of USD900.0 million (AUD 1,163 million) in US144A/RegS bonds at an all in rate of 4.9% with fully hedged interest rate and currency exposures for the full 10 years Outcomes exceeding all treasury objectives.
	A strong year, impacted by the one-off financial impact of the WSA project costs expensed
Business/Operational performance	Traffic growth of 5.6% (8.9% international and 3.8% domestic)
	Aeronautical revenue growth of 15.6%
	Retail revenue growth of 12.2%
	Property and car rental revenue growth of 1.5%
	Parking and ground transport revenue growth of 3.6%
Strategic projects	Introduction of six new Chinese mainland destinations
	Sydney Airport is now the fourth busiest airport worldwide for Airbus A380 international arrivals
	Completion of Duty Free reconfiguration
	Delivery of 'Market Place' precinct
	Commenced construction of new Mantra branded hotel
	Construction of an additional 10% incremental car parking capacity set to be delivered in the domestic and international precincts
	Delivery of approximately $400 million growth capital expenditure projects, focused on expanding airfield and terminal capacity and improving the efficiency of the airport and facilities for airport users
	Step up in service levels
	Successful first 12 months of T3 operations

AUDITED REMUNERATION REPORT (CONT.)

Objective	Performance Outcome
WSA	Sydney Airport participated diligently in the 2.5 year Commonwealth WSA consultation process WSA faces many risks over its development and operational phases The WSA NOI was issued in December 2016 that does not feature any material support including previously contemplated procurement protections or Commonwealth funding Work undertaken during the consultation process has and will inform planning and development of Sydney (Kingsford Smith) Airport over the next two decades
Customer and stakeholder engagement	Opening of new customer care centre which assists more than 22,000 customers per month Opening of a new world first Integrated Operations Centre, where we are co-located with our stakeholders to collaboratively manage landside, terminal and airside operations Continued engagement with airport stakeholder groups to ensure high standards of service delivery. Consultation with airport stakeholders through various forums including the newly created Ground Handler Forum and Bussing Forum, where we work collaboratively to improve performance Establishment of service level framework and key performance indicators on which to measure our performance across the key areas of baggage, passenger facilitation, peak planning/resource allocation and bussing Achieved Airport Carbon Accreditation Level 3 Continued delivery of our digital strategy which improves operational efficiency and enhances the passenger experience. Initiatives delivered during the year include the introduction of multilingual wayfinding kiosks, new multilingual flight information displays, and the introduction of technology to monitor and display queue times at security We will continue to work with our customers, stakeholders and community to resolve issues related to ground transport congestion and enhance our customer experience

AUDITED REMUNERATION REPORT (CONT.)

Objective	Performance Outcome
People and culture	**Culture** Introduction of a new Performance Management System, including tracking of employee performance against core values Introduction of a new intranet 'Airportal' that promotes information sharing and collaboration across our business Introduction of an employee recognition scheme to recognise employees that demonstrate our values Delivery of an end-user computing strategy providing employees with new computer hardware that promotes responsiveness and flexibility Refreshed Code of Conduct setting out expectations for how we do business and how our employees, executive management and the Board conduct themselves Lifting capability of our employees through 4,797 hours of training, which has seen 39% of all job opportunities (45% of permanent opportunities) being filled internally Recognition as an employer of choice by The Australian Business Awards **Diversity** New diversity policy which includes a broader definition of diversity Commitment to the Australian Institute of Company Directors "30% Club" for both Board and Management roles. At 31 December, the proportion of women on the Board is 28.6%, total executives is 33.3% and total women in management of 36.8% During the year the total proportion of women employed at Sydney Airport increased by 8.7% from 33.5% to 36.4% Increased focus on supporting indigenous Australians, including establishment of a partnership with CareerTrackers and commencement of first intern, support of the Clontarf Foundation and membership of Supply Nation Establishment of a policy to support employees who may be experiencing domestic and family violence by providing them with access to additional leave **Safety** Continued focus on building a strong safety culture and meeting our airside safety requirements. Key initiatives delivered for the year: • Launch of a new safety and security awareness campaign • Refreshed WHS and security induction modules, launched through our learning management system as a requirement for all employees to complete • Continued delivery of our project compliance program ensuring on-site contractors are meeting safety, security, environmental and quality requirements. Approximately 9,000 site inspections completed during the year • Provision of access to local weather information to airport business partners to improve ramp safety • Implementation of a health and injury prevention program for the airport's baggage handling team, to improve health and wellbeing • Development of an airside driving awareness e-learning course • Employee lost time injury frequency rate 3.3

AUDITED REMUNERATION REPORT (CONT.)

Performance pay outcomes for 2016

The Board and NRC review the overall performance outcome for an individual based on the agreed performance objectives (as outlined in the table above) but retains overriding discretion when determining the value of any STI award to a KMP. The following table shows the 2016 STI outcomes for KMP.

KMP	Potential maximum of FAR	STI outcome % of maximum	Actual STI awarded Cash award $	STI deferred $	STI forfeited %
Kerrie Mather	100%	55%	800,000	200,000	45%
Hugh Wehby	72%	85%	276,695	55,340	15%
Shelley Roberts[1]	72%	80%	286,819	-	33%

1 The deferred component of the STI was forfeited as a result of S Roberts resignation effective 31 December 2016.

STI deferrals from previous period

Key Executives	Award date	Deferred $	Vesting date
Kerrie Mather	15 Mar 2016	360,000	15 Mar 2018
	15 Mar 2015	340,780	15 Mar 2017
Hugh Wehby	15 Mar 2016	64,667	15 Mar 2018
	15 Mar 2015	-	n/a
Shelley Roberts	15 Mar 2016	-	n/a
	15 Mar 2015	101,468	31 Dec 2016[1]

1 The 2015 deferred amount was paid in accordance with S Roberts employment contract.

Details of LTI rights granted to KMP

Name	Series	Rights Granted	Grant date	Grant Valuation[1] $	Grant Value $	Rights vested at year end (%)
Kerrie Mather	2015 - 2017[2]	191,403	23 April 2015			
	TSR tranche	63,801		2.69	171,625	-
	CPS tranche	63,801		4.60	293,485	-
	Other tranche	63,801		5.09	324,747	-
	2016 - 2018[3]	166,816	31 May 2016			
	TSR tranche	55,606		3.75	208,523	-
	CPS tranche	55,605		6.27	348,643	-
	Other tranche	55,605		5.19	288,590	-
Hugh Wehby	2015 - 2017[2]	30,433	29 April 2015			
	TSR tranche	10,145		2.69	27,290	-
	CPS tranche	10,144		4.60	46,662	-
	Other tranche	10,144		5.09	51,633	-
	2016 - 2018[3]	25,255	31 May 2016			
	TSR tranche	8,419		3.75	31,571	-
	CPS tranche	8,418		6.27	52,781	-
	Other tranche	8,418		5.19	43,689	-
Shelley Roberts[4]	2015 - 2017[2]	33,592	29 April 2015			
	TSR tranche	11,198		2.69	30,123	-
	CPS tranche	11,197		4.60	51,506	-
	Other tranche	11,197		5.09	56,993	-
	2016 - 2018[3]	27,803	31 May 2016			
	TSR tranche	9,267		3.75	34,751	-
	CPS tranche	9,268		6.27	58,110	-
	Other tranche	9,268		5.19	48,101	-

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.

2 The LTI has a three year performance period. No rights will vest until 31 December 2017.

3 The LTI has a three year performance period. No rights will vest until 31 December 2018.

4 S Robert forfeited her LTI as a result of her resignation effective 31 December 2016.

AUDITED REMUNERATION REPORT (CONT.)

4. KMP Remuneration Arrangements for Year Ended 31 December 2016

4.1. Service agreements

KMP	Length of contract	Notice period	Max STI opportunity (as a % of FAR)	Termination period	Termination payment
Kerrie Mather	Permanent	6 months	100.0%	12 months	12 months
Hugh Wehby	Permanent	6 months	72.0%	6 months	6 months
Shelley Roberts	Permanent	6 months	72.0%	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

The CEO receives fixed remuneration of $1,800,000 per annum. In the event that the CEO was to be terminated without cause, Ms Mather's contract allows for the payment of 12 months FAR and the discretionary bonus for the whole of the current financial year. 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.

4.2. Statutory remuneration table

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

	Short-term benefits		STI	Post employment benefits	Long-term benefits			
Name	Salary $	STI $	STI Deferred $	Superannuation $	Long service leave $	Share based payments (LTI)[1] $	Total $	At Risk %[2]
Kerrie Mather								
2016	**1,780,538**	**800,000**	**200,000**	**19,462**	**44,510**	**481,124**	**3,325,634**	**44.5**
2015	1,780,954	1,440,000	360,000	19,046	44,517	208,168	3,852,685	52.1
Hugh Wehby								
2016	**520,365**	**276,695**	**55,340**	**22,135**	**13,135**	**75,035**	**962,705**	**42.3**
2015	494,441	323,334	64,667	30,559	12,500	33,099	958,600	43.9
Shelley Roberts[3]								
2016	**572,500**	**286,819**	**(67,103)**	**25,000**	**(74,323)**	**(36,534)**	**706,359**	**25.9**
2015	548,530	335,515	67,103	25,000	14,000	36,534	1,026,682	42.8
Total KMP								
2016	**2,873,403**	**1,363,514**	**188,237**	**66,597**	**(16,678)**	**519,625**	**4,994,698**	
2015	2,823,925	2,098,849	491,770	74,605	71,017	277,801	5,837,967	

1 This is LTI expensed. No actual benefits have been received by the KMP in 2016 and 2015. The first LTI vesting (2015-2017 series) will not occur until after the performance period ends on 31 December 2017 and will be conditional upon achieving the required performance measures.
2 At Risk % has been calculated based on actual remuneration. The 2015 comparative has been amended for consistency of calculation.
3 S Roberts resigned effective 31 December 2016:
* The negative STI deferred is a forfeiture of two deferred STI periods
* The negative long service leave is a reversal of the long service leave accrued
* The negative LTI is a reversal of LTI accrued

AUDITED REMUNERATION REPORT (CONT.)

5. Non-Executive Directors' Remuneration

5.1. Non-Executive Directors' remuneration policy

The Board sets NEDs' fees. Director's remuneration is set with reference to external benchmarking undertaken by consultants engaged by the Board. 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 $2,000,000.

Role	Annual fee $
SAL Board	
Chair	481,250
Member	175,000
SAL Audit and Risk Committee	
Chair	40,000
Member	16,000
SAL Nomination & Remuneration Committee	
Chair	40,000
Member	16,000
SAL Safety, Security, and Sustainability Committee	
Chair	30,000
Member	16,000
SAL Western Sydney Airport Committee	
Chair	24,000
Member	24,000

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 tables below. Any contributions to personal superannuation or pension funds on behalf of NEDs are deducted from their overall fee entitlements.

Ms Mather, CEO, is an executive director and receives no additional remuneration in her role as a director over and above her executive remuneration detailed in Section 4.

AUDITED REMUNERATION REPORT (CONT.)

SAL	Short term employee benefits	Post employment benefits	
Name	Directors' fees $	Superannuation $	Total $
Trevor Gerber (Chairman)			
2016	**485,788**	**19,462**	**505,250**
2015	387,786	18,694	406,480
Michael Lee			
2016	**241,538**	**19,462**	**261,000**
2015	241,948	19,052	261,000
John Roberts			
2016	**239,000**	**-**	**239,000**
2015	230,097	-	230,097
Stephen Ward			
2016	**219,538**	**19,462**	**239,000**
2015	220,881	18,119	239,000
Ann Sherry			
2016	**211,538**	**19,462**	**231,000**
2015	207,268	17,797	225,065
Grant Fenn			
2016	**181,735**	**17,265**	**199,000**
2015[1]	45,434	4,316	49,750
Max Moore-Wilton			
2015[2]	165,068	9,287	174,355
Total NEDs			
2016	**1,579,137**	**95,113**	**1,674,250**
2015	1,498,482	87,265	1,585,747

1 Mr Fenn was appointed director on 1 October 2015
2 Mr Moore-Wilton retired as director and chairman on 14 May 2015

Security Holdings in ASX-listed Sydney Airport

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

Name	Balance at 1 Jan 2016	Movement	Balance at 31 Dec 2016	Changes prior to signing	Balance at signing date
Trevor Gerber	228,063	-	228,063	-	228,063
Michael Lee	8,247	355	8,602	-	8,602
John Roberts	172,825	-	172,825	-	172,825
Stephen Ward	21,818	-	21,818	-	21,818
Ann Sherry	17,500	-	17,500	-	17,500
Grant Fenn	-	-	-	-	-
Kerrie Mather	3,800,508	-	3,800,508	-	3,800,508
Hugh Wehby	4,801	-	4,801	-	4,801
Shelley Roberts	18,177	-	18,177	-	n/a

Events occurring after balance sheet date

The final distribution of $360.0 million or 16.0 cents per stapled security (2015: $289.8 million or 13.0 cents) was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents (2015: $166.1 million or 7.45 cents); and
- SAT1 $122.6 million or 5.45 cents (2015: $123.7 million or 5.55 cents).

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 2016.

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 secretaries 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 and Regional Development. These office holders are known as Airport Environment Officers (AEOs).

Sydney Airport's Environment Strategy 2013 - 2018 (the Strategy) now forms part of the Sydney Airport Master Plan and was approved by the Australian Government on 17 February 2014. The Strategy was developed following an extensive community and stakeholder consultation process and outlines the plans and actions of Sydney Airport to measure, monitor, enhance and report on environmental performance over the five year period from 2013 to 2018. Sydney Airport's aims, reflected in the Strategy, are to continually improve environmental performance and minimise the impact of Sydney Airport's operations on the environment. The Strategy supports initiatives in environmental management beyond regulatory requirements. The Strategy is available for download from Sydney Airport's website www.sydneyairport.com.au.

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

Sydney Airport provides an annual environment report to the Commonwealth Government outlining its performance in achieving the policies and targets of the Strategy and compliance with the relevant environmental legislation.

Non-audit services

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

The directors 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 general 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 18 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:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Groups, acting as advocate for the Groups or jointly sharing economic risks and rewards.

Lead auditor's independence declaration

A copy of the lead auditor's independence declarations, as required under Section 307C of the Corporations Act 2001 is set out on page 56 and forms part of the Directors' Report for year ended 31 December 2016.

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 Instrument 2016/191 (Rounding in Financial/ Directors' Reports) 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 Instrument Corporations (Stapled Group Reports) Instrument 2015/838 (which supersedes ASIC Class Order 05/642).

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

Trevor Gerber
Sydney
15 February 2017

John Roberts
Sydney
15 February 2017

DIRECTORS' REPORT FOR THE TRUST COMPANY (SYDNEY AIRPORT) LIMITED

For year ended 31 December 2016, 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 period.

Director profiles

The following persons are current directors of TTCSAL:

RUSSELL BALDING AO, DIP TECH (COM), B BUS, FCPA, MAICD	Mr Balding was appointed as a TTCSAL director in October 2013. He is Chairman of Racing NSW, Deputy Chairman of Destination NSW, a Director Racing Australia Limited and a Director of CityFleet Networks Pty Ltd (UK). He was previously Chairman of Cabcharge Australia Pty Limited and a Director of ComfortDelgro Cabcharge Pty Ltd. Mr Balding was formally the Chief Executive Officer of Southern Cross Airports Corporation Holdings Limited (SCACH) and the Managing Director of the Australian Broadcasting Corporation.
PATRICK GOURLEY B EC (HONS), M EC	Mr Gourley was appointed as a TTCSAL director in October 2013. Previously, he was a director of SCACH. 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.
GILLIAN LARKINS B COM, GRAD DIP (ACC & FIN), MBA, CA, GA/CD	Ms Larkins was appointed as a TTCSAL director in April 2016. Ms Gillian Larkins joined Perpetual as Group Executive Transformation Office in October 2012, and assumed the role of Chief Financial Officer in January 2013. Ms Larkins has approximately 20 years of experience in finance, strategy and management roles across a number of industries. Most recently, she was Chief Financial Officer, Managing Director of Westpac Institutional Bank, responsible for Finance and Strategy, and prior to that, Chief Financial Officer Australia & New Zealand of Citigroup. Ms Larkins has also served on the board of Hastings Fund Management as a non-executive director from 2009 to 2011. As a member of the Executive Leadership Team reporting to the CEO, Ms Larkins heads Perpetual's Finance, IT, and Risk functions, which include Audit, Legal and Company Secretariat. Ms Larkins holds a Master of Business Administration from the Macquarie Graduate School of Management, as well as a Graduate Diploma in Accounting & Finance and a Bachelor's Degree of Commerce, majoring in Economics, both from the University of Otago, New Zealand. She is a member of the NZ Chartered Accountant's Society and a Graduate of the Australian Institute of Company Directors.
CHRISTOPHER GREEN B COMM, LLB, MBA	Mr Green joined Perpetual (which acquired the Trust Company in December 2013) from JP Morgan where he spent ten years with the Institutional Trust Services business first in Europe covering the European, Middle Eastern and African markets then as head of its Australian business. His career began as a solicitor for Corrs Chambers Westgarth. Mr Green is Deputy Chairman of Australian Securitisation Forum and a member of the Australian Institute of Company Directors. He is currently completing a BA in Philosophy through the University of London. Mr Green was a TTCSAL director from March 2014 until April 2016. He was appointed as alternate director for Ms Larkins in April 2016.

Company secretary profiles

JAMIE MOTUM B EC, LLB	Mr Balding was appointed as a TTCSAL director in October 2013. He is Chairman of Racing NSW, Deputy Chairman of Destination NSW, a Director Racing Australia Limited and a Director of CityFleet Networks Pty Ltd (UK). He was previously Chairman of Cabcharge Australia Pty Limited and a Director of ComfortDelgro Cabcharge Pty Ltd. Mr Balding was formally the Chief Executive Officer of Southern Cross Airports Corporation Holdings Limited (SCACH) and the Managing Director of the Australian Broadcasting Corporation.
GLENDA CHARLES GRAD DIP GOV, ASX LISTED ENTITIES, GIA (CERT)	Ms Charles was appointed as co-Company Secretary of TTCSAL on 17 December 2015. She joined Perpetual in 1994 and was appointed Assistant Company Secretary of Perpetual in 1999 and Deputy Company Secretary in 2009. Ms Charles has over 20 years' experience in company secretariat practice and administration and has worked in the financial services industry for over 30 years.
SYLVIE DIMARCO LLB, GIA (CERT), MAICD	Ms Dimarco was appointed as co-Company Secretary of TTCSAL on 17 December 2015. She joined Perpetual in March 2014 as an Assistant Company Secretary. She is a qualified solicitor and has over seven years' experience in company secretariat practice and administration and is currently Assistant Company Secretary of Corporate Services with the Perpetual Risk Group.

Directors' meetings

TTCSAL board met four times in 2016. All four meetings were attended by Russell Balding and Patrick Gourley. Christopher Green attended the first meeting held in Feburary 2016. Gillian Larkins attended the last three meetings held during May, August and December 2016.

Security holdings in ASX-listed Sydney Airport

The TTCSAL directors do 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 17.

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

Distributions

The total distributions paid by ASX-listed Sydney Airport during the year ended 31 December 2016 were $624.2 million or 28.0 cents per stapled security (2015: $543.1 millon or 24.5 cents).

A final distribution for the period ending 31 December 2015 of $289.8 million or 13.0 cents per stapled security (2014: $266.0 million or 12.0 cents) was paid on 12 February 2016 by:

- SAL $166.1 million or 7.45 cents; and
- SAT1 $123.7 million or 5.55 cents.

An interim distribution for the period ending 30 June 2016 of $334.4 million or 15.0 cents per stapled security (2015: $277.1 million or 12.5 cents) was paid on 12 August 2016 by:

- SAL $212.9 million or 9.55 cents; and
- SAT1 $121.5 million or 5.45 cents.

The final distribution for the period ending 31 December 2016 of $360.0 million or 16.0 cents per stapled security was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents; and
- SAT1 $122.6 million or 5.45 cents.

There are $nil imputation credits (2015: $nil) available to pay franked distributions.

Events occurring after balance sheet date

The final distribution for the period ending 31 December 2016 of $360.0 million or 16.0 cents per stapled security (2015: $289.8 million or 13.0 cents) was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents; and
- SAT1 $122.6 million or 5.45 cents.

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 2016.

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 declarations, as required under Section 307C of the Corporations Act 2001 is set out on page 63 and forms part of the Directors' Report for year ended 31 December 2016.

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 Instrument 2016/191 (Rounding in Financial/ Directors' Reports) 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 SAT1 Group and the SAL Group are jointly presented in one report as permitted by ASIC Instrument Corporations (Stapled Group Reports) Instrument 2015/838 (which supersedes ASIC Class Order 05/642).

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

Patrick Gourley
Sydney
15 February 2017

Gillian Larkins
Sydney
15 February 2017

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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 for the financial year ended 31 December 2016 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.

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Eileen Hoggett

Eileen Hoggett
Partner

Sydney

15 February 2017

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Independent Auditor's Report

To the shareholders of Sydney Airport Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Sydney Airport Limited (the Company).

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

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 31 December 2016;
- 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; and
- Directors' Declaration.

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

Basis for opinion

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

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

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (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;
- Carrying value of intangible assets; and
- Hedging and valuation of derivatives.

Key Audit Matters are those matters that, in our professional judgment, 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 ($1,364.6m)

Refer to Note 7 to the financial report

The key audit matter	How the matter was addressed in our audit
Revenue recognition was identified as a key audit matter due to the complexity of numerous different underlying contracts which we considered in determining when revenue is recognised. Varying recognition and measurement principles exist across all significant revenue streams. Assessing revenue recognition and measurement required significant audit effort.	Our procedures included: • Evaluating management's processes and key controls regarding the Group's revenues. We tested controls for the authorisation of a sample of new or amended contracts, and checked that the contract terms agreed to the financial systems; • Applying data analytic techniques to each significant individual revenue stream, we compared revenue recognised against budget, prior year, and assessed the correlation to movements in passenger numbers (where relevant). We selected a sample of contracts from the data analytic results and tested the revenue recognised by comparing to relevant underlying contract terms, Group accounting policies and the criteria in accounting standards; • Requesting and obtaining confirmations from relevant airlines for a sample of passenger numbers; • Reviewing and recalculating a sample of management's rental income straight-lining calculations for accuracy and conformity with underlying contracts.

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<table>
<tr><th colspan="2">Carrying value of intangible assets ($7,473.9m)</th></tr>
<tr><td colspan="2">Refer to Note 11 to the financial report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Carrying value of intangible assets was a key audit matter due to the significant level of judgment involved in forecasting and discounting future cash flows, particularly for the significant length of time relevant to an airport operation, which form the basis for assessing whether intangible assets are impaired.

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.

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.

Management engage an external expert at least annually to perform a valuation of the Group's enterprise value (including intangibles). The forecast discounted cash flows performed by management form the basis of the external valuation.</td><td>Our procedures included:

• Understanding the Group's cash forecasting process by testing the key approval controls 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 appropriateness of the future assumptions incorporated into the forecasts for alignment to the Sydney Airport Master Plan, inquiries with management and our industry knowledge;

• Evaluating management's determination of a single CGU based on our understanding of the industry in which the Group operates, our knowledge of the business and the accounting standard requirements;

• Involving our specialists we evaluated the externally prepared valuation. This included:

    • Assessing the reasonableness of the valuation approach and methodology against market and industry practices and accounting standards;

    • Comparing market related assumptions, in particular those relating to growth and discount rates, to external data such as the Inflation Target as published by the Reserve Bank of Australia;</td></tr>
</table>

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Carrying value of intangible assets ($7,473.9m) (cont.)	
	• Performing a sensitivity analysis on key assumptions, in particular the discount rate to assess the risk of bias or inconsistency in application; • Assessing the competence, experience and skills of the external expert.

Hedging and valuation of derivatives (net: $534.9m)	
Refer to Note 5 to the financial report	
The key audit matter	**How the matter was addressed in our audit**

The valuation of derivatives and associated hedge accounting was a key audit matter due to the complexities arising from the application of multiple derivatives to hedge each underlying financial instrument.
 	
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.
 	
As such, senior audit team effort and specialist involvement was required.
	Our procedures included:
	• Understanding management's processes and key controls for the approval of new derivative contracts;
	• Obtaining hedge documentation relating to new hedge relationships and assessing it against the accounting standard requirements;
	• For a sample of derivatives and hedge relationships, we agreed the inputs of each sample to confirmations we obtained from counterparties;
	• Involving our specialists we assessed the valuation of a sample of derivatives. This included:
	  ◦ Re-performing a valuation and comparing this to the Group's valuation;
	  ◦ Challenging management's assumptions and inputs adopted in the valuation such as yield curves and credit value adjustments by comparing these key assumptions to external market data e.g. Bloomberg.

Other Information

Other Information is financial and non-financial information in Sydney Airport Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Investor Results Presentation. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

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 this 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_files/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Sydney Airport Limited for the year ended 31 December 2016, complies with *Section 300A* of the *Corporations Act 2001*.

Director's responsibilities

The Directors of the Company 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 the Director's report for the year ended 31 December 2016.

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

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett
Partner

Sydney

15 February 2017

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 for the financial year ended 31 December 2016 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

Eileen Hoggett
Partner

Sydney

15 February 2017

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Independent Auditor's Report

To the unitholders of Sydney Airport Trust 1

Opinion

We have audited the ***Financial Report*** of Sydney Airport Trust 1 (the Trust).

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 ***Group***'s financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 31 December 2016;
- 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; and
- Directors' Declaration.

The ***Group*** consists of the Trust 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* (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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Other Information

Other Information is financial and non-financial information in Sydney Airport Trust 1's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors of The Trust Company (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; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this 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_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Eileen Hoggett

Eileen Hoggett
Partner

Sydney

15 February 2017

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		SAL Group		SAT1 Group	
	Note	2016 $m	2015 $m	2016 $m	2015 $m
Revenue					
Aeronautical revenue		614.2	523.4	-	-
Aeronautical security recovery		87.3	83.3	-	-
Retail revenue		295.6	263.5	-	-
Property and car rental revenue		204.2	201.2	-	-
Parking and ground transport revenue		156.1	150.6	-	-
Other revenue		7.2	6.9	-	-
Total revenue		1,364.6	1,228.9	-	-
Other income					
Gain on disposal of non-current assets		-	0.1	-	-
Total revenue and other income		1,364.6	1,229.0	-	-
Operating expenses					
Employee benefits expense		(54.5)	(47.2)	-	-
Services and utilities expense		(68.9)	(56.4)	-	-
Property and maintenance expense		(30.9)	(23.9)	-	-
Security recoverable expense		(78.9)	(73.9)	-	-
Other operational costs		(24.6)	(24.0)	(1.7)	(2.3)
Total operating expenses		(257.8)	(225.4)	(1.7)	(2.3)
Other expenses					
Western Sydney Airport project costs expensed		(21.0)	-	-	-
Loss on disposal of non-current assets		(0.1)	-	-	-
Total other expenses		(21.1)	-	-	-
Total expenses before depreciation, amortisation, net finance costs and income tax		(278.9)	(225.4)	(1.7)	(2.3)
Profit/(loss) before depreciation, amortisation, net finance costs and income tax (EBITDA)		1,085.7	1,003.6	(1.7)	(2.3)
Depreciation	10	(271.0)	(226.7)	-	-
Amortisation	11	(85.5)	(85.8)	-	-
Profit/(loss) before net finance costs and income tax (EBIT)		729.2	691.1	(1.7)	(2.3)
Finance income	6	8.3	10.4	246.5	245.5
Finance costs	6	(439.3)	(443.7)	-	-
Change in fair value of swaps	6	22.0	28.3	-	-
Net finance costs		(409.0)	(405.0)	246.5	245.5
Profit before income tax expense		320.2	286.1	244.8	243.2
Income tax expense	12	(0.6)	(5.0)	-	-
Profit after income tax expense		319.6	281.1	244.8	243.2
Profit after income tax expense attributable to:					
Security holders		320.9	283.0	244.8	243.2
Non-controlling interest		(1.3)	(1.9)	-	-
		319.6	281.1	244.8	243.2

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONT.)

	Note	SAL Group 2016 $m	SAL Group 2015 $m	SAT1 Group 2016 $m	SAT1 Group 2015 $m
Items that may subsequently be reclassified to profit or loss					
Changes in fair value of cash flow hedges		5.6	15.4	-	-
Tax on items that may be reclassified to profit or loss		(1.7)	(4.6)	-	-
Total items that may subsequently be reclassified to profit or loss		3.9	10.8	-	-
Items that will never be reclassified to profit or loss					
Remeasurement (loss)/gain on defined benefit plans		(0.5)	3.3	-	-
Tax on items that will never be reclassified to profit or loss		0.2	(1.0)	-	-
Total items that will never be reclassified to profit or loss		(0.3)	2.3	-	-
Other comprehensive income, net of tax		3.6	13.1	-	-
Total comprehensive income		323.2	294.2	244.8	243.2
Total comprehensive income attributable to:					
Security holders		324.5	296.1	244.8	243.2
Non-controlling interest		(1.3)	(1.9)	-	-
Total comprehensive income		323.2	294.2	244.8	243.2
Earnings per share/unit from profit after income tax	8	14.34c	12.74c	10.94c	10.95c

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	SAL Group 2016 $m	SAL Group 2015 $m	SAT1 Group 2016 $m	SAT1 Group 2015 $m
Current assets					
Cash and cash equivalents	3	465.8	366.8	36.6	15.9
Receivables	9	158.7	138.1	3.2	3.4
Derivative financial instruments	5	0.5	-	-	-
Other assets		0.7	0.5	-	-
Total current assets		625.7	505.4	39.8	19.3
Non-current assets					
Receivables	9	65.6	48.2	1,886.5	1,886.5
Property, plant and equipment	10	3,381.7	3,262.0	-	-
Intangible assets	11	7,473.9	7,559.4	-	-
Derivative financial instruments	5	770.3	668.7	-	-
Other assets		8.7	7.3	-	-
Total non-current assets		11,700.2	11,545.6	1,886.5	1,886.5
Total assets		12,325.9	12,051.0	1,926.3	1,905.8
Current liabilities					
Distribution payable	1	360.0	289.8	122.6	123.7
Payables and deferred income		237.1	215.4	4.2	4.4
Derivative financial instruments	5	96.8	109.5	-	-
Provisions for employee benefits		12.3	11.1	-	-
Total current liabilities		706.2	625.8	126.8	128.1
Non-current liabilities					
Interest bearing liabilities	2	8,625.9	8,181.1	-	-
Derivative financial instruments	5	139.1	163.4	-	-
Deferred tax liabilities	12	1,765.9	1,763.8	-	-
Provisions for employee benefits		2.0	1.9	-	-
Total non-current liabilities		10,532.9	10,110.2	-	-
Total liabilities		11,239.1	10,736.0	126.8	128.1
Net assets		1,086.8	1,315.0	1,799.5	1,777.7
Equity					
Security holders' interests					
Contributed equity	1	5,470.9	5,328.6	2,449.7	2,428.6
Retained earnings		(1,055.5)	(681.7)	404.5	403.8
Reserves		(3,322.9)	(3,327.5)	(1,054.7)	(1,054.7)
Total security holders' interests		1,092.5	1,319.4	1,799.5	1,777.7
Non-controlling interest in controlled entities		(5.7)	(4.4)	-	-
Total equity		1,086.8	1,315.0	1,799.5	1,777.7

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

SAL Group	Note	Contributed equity $m	Retained earnings[1] $m	Cash flow hedge reserve $m	Other reserve[2] $m	Total equity[1] $m
Total equity at 1 January 2016		5,328.6	(686.1)	(166.3)	(3,161.2)	1,315.0
Comprehensive income						
Profit after tax		-	319.6	-	-	319.6
Cash flow hedges, net of tax		-	-	3.9	-	3.9
Remeasurement loss, net of tax		-	(0.3)	-	-	(0.3)
Total comprehensive income		-	319.3	3.9	-	323.2
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		142.3	-	-	-	142.3
Distributions provided for or paid	1	-	(694.4)	-	-	(694.4)
Equity-settled shares		-	-	-	0.7	0.7
Total transactions with owners of the company		142.3	(694.4)	-	0.7	(551.4)
Total equity at 31 December 2016		5,470.9	(1,061.2)	(162.4)	(3,160.5)	1,086.8
Total equity at 1 January 2015		5,256.2	(402.6)	(177.1)	(3,161.6)	1,514.9
Comprehensive income						
Profit after tax		-	281.1	-	-	281.1
Cash flow hedges, net of tax		-	-	10.8	-	10.8
Remeasurement gain, net of tax		-	2.3	-	-	2.3
Total comprehensive income		-	283.4	10.8	-	294.2
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		72.4	-	-	-	72.4
Distributions provided for or paid	1	-	(566.9)	-	-	(566.9)
Equity-settled shares		-	-	-	0.4	0.4
Total transactions with owners of the company		72.4	(566.9)	-	0.4	(494.1)
Total equity at 31 December 2015		5,328.6	(686.1)	(166.3)	(3,161.2)	1,315.0

1 Retained earnings and total equity are presented after deducting non-controlling interest in controlled entities of $5.7 million (2015: $4.4 million). Refer note 16 to the financial statements for details.
2 The Other reserve represents transactions between equity holders and movements in other reserves resulting from 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 (CONT.)

SAT1 Group	Note	Contributed equity $m	Retained earnings $m	Capital reserve[1] $m	Other reserve $m	Total equity $m
Total equity at 1 January 2016		2,428.6	403.8	(967.6)	(87.1)	1,777.7
Comprehensive income						
Profit after tax		-	244.8	-	-	244.8
Total comprehensive income		-	244.8	-	-	244.8
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		21.1	-	-	-	21.1
Distributions provided for or paid	1	-	(244.1)	-	-	(244.1)
Total transactions with owners of the company		21.1	(244.1)	-	-	(223.0)
Total equity at 31 December 2016		2,449.7	404.5	(967.6)	(87.1)	1,799.5
Total equity at 1 January 2015		2,416.0	404.0	(967.6)	(87.1)	1,765.3
Comprehensive income						
Profit after tax		-	243.2	-	-	243.2
Total comprehensive income		-	243.2	-	-	243.2
Transactions with owners of the company						
Issue of securities through distribution reinvestment plan		12.6	-	-	-	12.6
Distributions provided for or paid	1	-	(243.4)	-	-	(243.4)
Total transactions with owners of the company		12.6	(243.4)	-	-	(230.8)
Total equity at 31 December 2015		2,428.6	403.8	(967.6)	(87.1)	1,777.7

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

	Note	SAL Group 2016 $m	SAL Group 2015 $m	SAT1 Group 2016 $m	SAT1 Group 2015 $m
Cash flow from operating activities					
Interest received		7.9	10.9	0.6	0.2
Related party loan interest received	17	-	-	245.9	242.9
Receipts from customers		1,482.1	1,355.0	-	-
Payments to suppliers and employees		(402.6)	(360.7)	(1.7)	(1.7)
Net cash flow from operating activities	3	1,087.4	1,005.2	244.8	241.4
Cash flow from investing activities					
Short term financial assets		-	35.0	-	-
Proceeds from disposal of fixed assets		-	0.1	-	-
Acquisition of property, plant and equipment		(390.2)	(887.6)[1]	-	-
Capitalised borrowing costs		(9.6)	(11.0)	-	-
Receipt for escrow deposit		0.3	0.3	-	-
Net cash flow used in investing activities		(399.5)	(863.2)	-	-
Cash flow from financing activities					
Airport borrowing costs paid		(298.9)	(300.1)	-	-
Corporate borrowings costs paid		(0.1)	(0.1)	-	-
Repayment of borrowings		(1,240.0)	(1,053.7)	-	-
Proceeds received from borrowings		1,540.4	1,730.0	-	-
Interest rate swap payments		(108.5)	(127.4)	-	-
Related party loan principal received	17	-	-	-	0.9
Proceeds received from distribution reinvestment plan		142.4	72.4	21.1	12.6
Distributions paid to security holders		(624.2)	(543.1)	(245.2)	(240.5)
Net cash flow used in financing activities		(588.9)	(222.0)	(224.1)	(227.0)
Net increase/(decrease) in cash and cash equivalents		99.0	(80.0)	20.7	14.4
Cash and cash equivalents at beginning of the period		366.8	446.8	15.9	1.5
Cash and cash equivalents at the end of the period	3	465.8	366.8	36.6	15.9

1 Includes T3 transaction of $535.0 million.

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

GENERAL

Basis of preparation and statement of compliance

This is the financial report for 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 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 ASIC Corporations (Stapled Group Reports) Instrument 2015/838 (which supersedes ASIC Class Order 05/642);
- 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 Instrument 2016/191 dated 1 April 2016.

The financial report was authorised for issue by the directors of SAL and TTCSAL on 15 February 2017. The directors of SAL and TTCSAL have the power to amend and reissue the financial report.

Net current liability position

The SAL Group is in a net current liability position of $80.5 million at 31 December 2016 which is fully covered by undrawn committed bank facilities.

The SAT1 Group's net current liability position of $87.0 million (2015: $108.8 million) at 31 December 2016 is attributable to distribution payable to SAT1 unit holders of $122.6 million (2015: $123.7 million), which was paid on 14 February 2017. 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.

Net tangible asset backing per security

Net tangible assets (NTA) exclude non-controlling interests and are solely attributable to security holders. The NTA backing per security was -$2.84 at 31 December 2016 (2015: -$2.80). This represents a decrease of $0.04 or 1.4% (2015: decrease of $0.03 or 1.2%).

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 and 4).

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 years ended 31 December 2016 and 31 December 2015; and
- SAT1 has been identified as the parent of the SAT1 Group for years ended 31 December 2016 and 31 December 2015.

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.

There were no material changes to the controlled entities structure during the year.

Controlled entities

The SAT1 Group's net result after tax for years ended 31 December 2016 and 31 December 2015 and its contributed equity, reserves and retained earnings at 31 December 2016 and 31 December 2015 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 to 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).

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).

New standards and interpretations not yet adopted

The Groups have adopted new and revised Standards and Interpretations issued by the AASB that are relevant to operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations have not had a material impact on the Groups for the year ended 31 December 2016.

The following Standards, amendments to Standards and Interpretations effective for annual reporting periods commencing after 1 January 2017 have not been applied by the Groups in this Financial Report:

Accounting Standard	Requirement	Impact on Financial Statements
AASB 9: *Financial Instruments*	AASB 9 addresses the classification, measurement and derecognition of financial assets and liabilities, and may impact hedge accounting. The standard becomes mandatory for the December 2018 financial year and will be applied prospectively.	Potential change of classification and measurement of financial assets and liabilities and impact on hedge accounting. The extent of the impact has not been determined.
AASB 15: *Revenue from Contracts with Customers*	AASB 15 replaces existing revenue recognition guidance and provides a comprehensive new framework for determining whether, how much and when revenue is recognised. The standard becomes mandatory for the December 2018 financial year and will be applied prospectively.	No material impact is expected.
AASB 16: *Leases*	AASB 16 provides a new model for accounting for leases. Early adoption is permitted under certain circumstances. The standard becomes mandatory for the December 2019 financial year and will be applied prospectively.	The extent of the impact has not been determined.

CAPITAL MANAGEMENT

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 2016, the Group's 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 up share and (if relevant) a proportionate sum is paid on each partly paid up 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.

The Groups' distributions are currently 100% unfranked and there are no available imputation credits. Distributions paid and proposed during the year are shown in the table below:

	SAL Group 2016	SAL Group 2015	SAT1 Group 2016	SAT1 Group 2015
Distributions were paid/payable as follows:				
$m				
Final distribution[1]	360.0	289.8	122.6	123.7
Interim distribution[2]	334.4	277.1	121.5	119.7
	694.4	566.9	244.1	243.4
Cents per stapled security				
Final distribution	16.00	13.00	5.45	5.55
Interim distribution	15.00	12.50	5.45	5.40
	31.00	25.50	10.90	10.95

1 Recognised as a payable at year end, paid on 14 February 2017 (2015: 12 February 2016).
2 Paid on 12 August 2016 (2015: 14 August 2015).

1 DISTRIBUTIONS PAID AND PROPOSED (CONT.)

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 2016 interim and 31 December 2015 final distributions.

There was no DRP in operation for the 31 December 2016 final distribution as the Commonwealth Government had previously indicated its intention to issue Sydney Airport with the NOI prior to 31 December 2016. Depending on the terms contained in the NOI and Sydney Airport's assessment of them, this circumstance had the potential to place Sydney Airport in possession of information which would be material to the price of Sydney Airport's securities and not yet available to the market generally.

In respect of the interim distribution, 20.4 million stapled securities were issued and transferred to DRP participants in August 2016 at $6.99 (after a 1.5% discount applied).

In respect of the final distribution for the year ended 31 December 2015, 9.3 million securities were acquired on-market for a total of $56.8 million. To satisfy the DRP take up, these were transferred to DRP participants in January 2016 at $6.15 with no discount applied. No new securities were issued.

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	
	2016	**2015**	**2016**	**2015**
$m				
Opening balance	5,328.6	5,256.2	2,428.6	2,416.0
Issued pursuant to the DRP	142.3	72.4	21.1	12.6
Closing balance	5,470.9	5,328.6	2,449.7	2,428.6
Shares/units on issue (m)				
Opening balance	2,229.5	2,216.2	2,229.5	2,216.2
Issued pursuant to the DRP	20.4	13.3	20.4	13.3
Closing balance	2,249.9	2,229.5	2,249.9	2,229.5

2 INTEREST BEARING LIABILITIES

The Group's debt comprises the following:

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

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

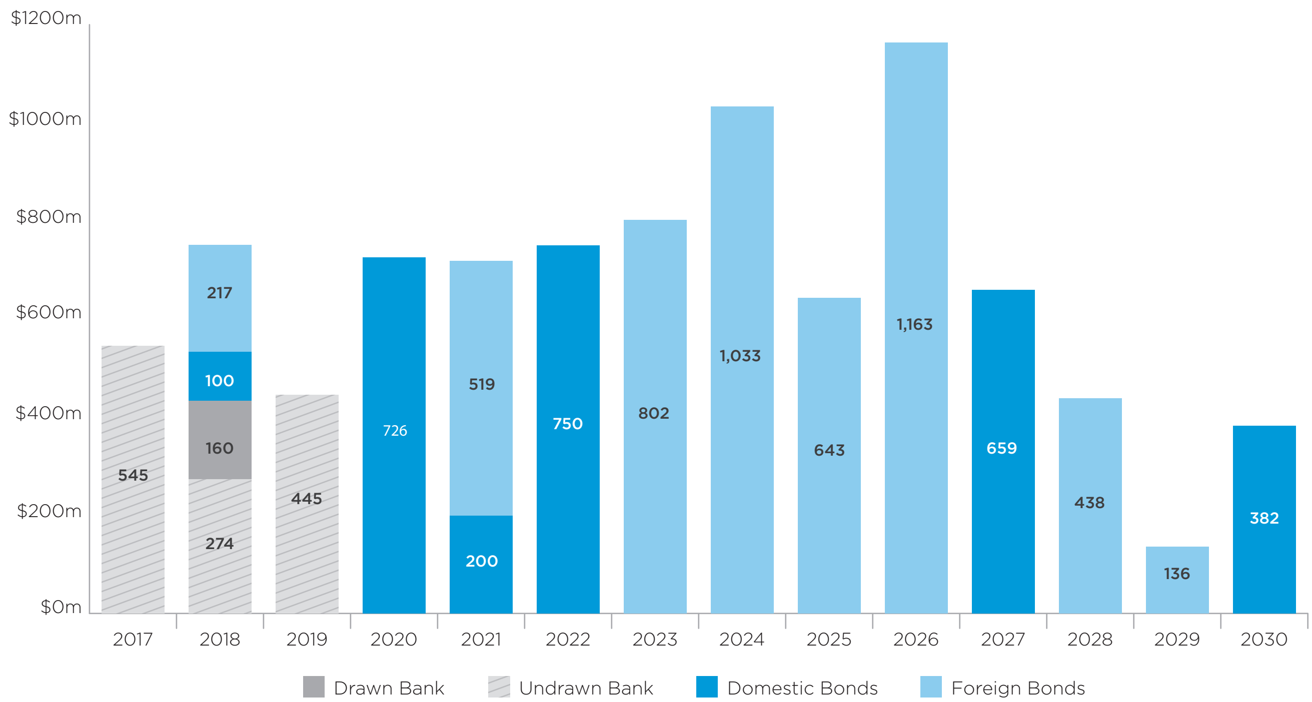
2 INTEREST BEARING LIABILITIES (CONT.)

Type	Maturity	Carrying amount		Fair value		Principal amount drawn In AUD		Principal amount drawn In original currency		Issue Currency	Interest rate
		2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m		
Syndicated facility	April 2017	-	344.1	-	344.1	-	345.0	-	345.0	AUD	Floating[3]
Syndicated facility	April 2018	158.5	416.4	158.5	416.4	160.0	419.0	160.0	419.0	AUD	Floating[3]
Syndicated facility	April 2019	-	56.2	-	56.2	-	59.0	-	59.0	AUD	Floating[3]
Bilateral facility	April 2017	-	99.7	-	99.7	-	100.0	-	100.0	AUD	Floating[3]
Bilateral facility	April 2017	-	99.7	-	99.7	-	100.0	-	100.0	AUD	Floating[3]
Wrapped domestic bond[1]	November 2021	198.7	198.5	198.7	198.5	200.0	200.0	200.0	200.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2022	741.4	740.0	741.4	740.0	750.0	750.0	750.0	750.0	AUD	Floating[4]
Wrapped domestic bond[1]	October 2027	648.4	647.6	648.4	647.6	659.0	659.0	659.0	659.0	AUD	Floating[4]
Unwrapped domestic bond	July 2018	99.7	99.4	108.6	113.5	100.0	100.0	100.0	100.0	AUD	7.75%[5]
USPP bond	August 2028	99.3	99.3	99.3	99.3	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	99.3	99.3	99.3	99.3	100.0	100.0	100.0	100.0	AUD	Floating[4]
USPP bond	November 2028	178.9	178.7	235.9	235.5	180.0	180.0	180.0	180.0	AUD	6.04%[5]
USPP bond	November 2028	57.6	57.6	73.5	73.5	58.0	58.0	58.0	58.0	AUD	5.60%[5]
USPP bond	November 2029	135.1	135.0	175.4	174.4	136.0	136.0	136.0	136.0	AUD	5.70%[5]
Canadian Maple bond	July 2018	231.6	221.3	244.9	244.1	217.4	217.4	225.0	225.0	CAD	4.60%[5]
Euro bond	April 2024	1,121.1	1,109.3	1,201.3	1,209.3	1,033.4	1,033.4	700.0	700.0	EUR	2.75%[5]
US144A/RegS bond	February 2021	686.2	692.7	783.9	800.8	518.7	518.7	500.0	500.0	USD	5.13%[5]
US144A/RegS bond	March 2023	1,147.8	1,136.3	1,265.8	1,280.8	802.4	802.4	825.0	825.0	USD	3.90%[5]
US144A/RegS bond	April 2025	693.5	689.7	753.6	758.8	643.0	643.0	500.0	500.0	USD	3.38%[5]
US144A/RegS bond	April 2026	1,239.7	-	1,388.2	-	1,163.4	-	900.0	-	USD	3.63%[5]
CIB[2]	November 2020	722.5	704.2	738.3	739.7	726.4	719.5	726.4	719.5	AUD	3.76%[5]
CIB[2]	November 2030	366.6	356.1	366.7	379.0	382.1	378.5	382.1	378.5	AUD	3.12%[5]
Total external interest bearing liabilities		8,625.9	8,181.1	9,281.7	8,810.2	7,929.8	7,618.9	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 reflective of coupons in respective currencies/markets.

2 INTEREST BEARING LIABILITIES (CONT.)

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



Assets pledged as security

All interest bearing liabilities of SCACH, a wholly owned SAL subsidiary, are of equal rank with respect to all its assets (excluding deferred tax and goodwill) pledged as security. The security consists of fixed and floating charges over the assets of the Group 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 2016 and 2015, the fair values of all fixed interest rate bonds were determined based on observable market inputs, categorised as Level 2.

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

CIBs explained

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

Effective interest rate method explained

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

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and short-term deposits held with financial institutions.

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

	SAL Group		SAT1 Group	
	2016 $m	2015 $m	2016 $m	2015 $m
Cash on hand	76.7	126.0	0.9	0.9
Deposits	389.1	240.8	35.7	15.0
Total cash and cash equivalents[1]	465.8	366.8	36.6	15.9
Cash flow information				
Reconciliation of profit after tax to net cash flows from operating activities				
Profit for year	319.6	281.1	244.8	243.2
Expenses relating to investing activities	-	0.1	-	-
Expenses relating to financing activities	439.3	443.7	-	-
Loss/(gain) on derivative instruments	(22.0)	(28.3)	-	-
WSA project costs expensed	21.0	-	-	-
Depreciation and amortisation	356.5	312.5	-	-
Gain on disposal of non-current assets	0.1	(0.1)	-	-
Decrease/(increase) in receivables and other assets	(39.7)	(26.4)	0.2	(0.1)
Increase/(decrease) in payables	12.0	17.6	(0.2)	(1.7)
Increase in tax liabilities	0.6	5.0	-	-
Net cash flow from operating activities	1,087.4	1,005.2	244.8	241.4

1 Included in the SAL Group's consolidated deposit balance is $23.4 million (2015: $35.7 million) held by SACL, which is restricted for maintenance.

Non-cash financing and investing activities

During the year ended 31 December 2016 and 31 December 2015, the Group's non-cash financing and investing activities relate to the acquisition of securities under the DRP (for details refer note 1).

Recognition and measurement

Cash and cash equivalents are recognised on balance sheet 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 balance date and foreign exchange gains or losses resulting from translation are recognised in the statements of comprehensive income.

TREASURY AND FINANCIAL RISK MANAGEMENT

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. Group Treasury, under policies approved by the SAL Board, manages the Group's exposures to market risk (including foreign currency risk, inflation risk and interest rate risk), credit risk and liquidity risk.

Group Treasury 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

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, EUR and CAD). At 31 December 2016 and 2015, 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:

	2016				2015			
	CADm	EURm	USDm	Equivalent total AUDm	CADm	EURm	USDm	Equivalent total AUDm
Senior secured bonds	(225.0)	(700.0)	(2,725.0)	(4,378.3)	(225.0)	(700.0)	(1,825.0)	(3,214.9)
Cross currency swaps	225.0	700.0	2,725.0	4,378.3	225.0	700.0	1,825.0	3,214.9
Exposure	-	-	-	-	-	-	-	-

4 FINANCIAL RISK MANAGEMENT (CONT.)

4.2 Interest rate risk

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

The Group uses interest rate swap (IRS) contracts to mitigate interest rate risk. The Group's policy is to maintain a minimum average hedge position of 55% for a five year average look forward basis. 70-95% of interest rate exposures are hedged in year one.

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	
	2016 %	2015 %	2016 $m	2015 $m	2016 $m	2015 $m
1 year or less	-	5.50%	-	1,829.3	-	(36.9)
1 to 2 years	4.65%	-	200.0	-	(6.2)	-
2 to 5 years	3.75%	3.56%	1,998.5	1,439.1	(104.6)	(60.2)
5 years or more	3.38%	3.80%	1,798.6	2,300.8	(80.3)	(131.3)
	n/a	n/a	3,997.1	5,569.2	(191.1)	(228.4)

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 5.3% for year ended 31 December 2016 (2015: 5.7%). SAT1 Group's interest bearing liabilities are at fixed interest rates.

At 31 December 2016, 87.8% (2015: 77.6%) of senior drawn borrowings were either fixed or hedged through IRS.

The Group uses IRS contracts to manage interest rate hedging levels to the following bands:

- Year 1 70%-95%
- Year 2-3 50%-75%
- Year 4-5 40%-65%

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	2016 $m	2015 $m
Increase in interest rate +150bp		
Profit after tax	(10.2)	(17.9)
Equity	61.3	63.5
Decrease in interest rate -150bp		
Profit after tax	10.2	17.9
Equity	(62.2)	(64.6)

4 FINANCIAL RISK MANAGEMENT (CONT.)

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.

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

Credit risks on receivables relate to aeronautical, retail and property trade receivables at the Airport asset level. These corporate counterparties have a range of credit ratings. At the date of signing the accounts, the overdue trade receivables balances were less than 5.0% (2015: less than 5.0%). Key aeronautical customers including the Qantas and Virgin Groups accounted for 40.0% to 50.0% of aeronautical revenue for year ended 31 December 2016 (2015: 40.0% to 50.0%).

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 17).

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, Group Treasury works to achieve flexibility in funding by maintaining levels of undrawn committed bank facilities available for working capital and capital investment, and a capital expenditure reserve.

The table below 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.

	Carrying value $m	Contractual cash flows $m	1 year or less $m	1 to 5 years $m	5 years or more $m
2016					
Bank facilities	158.5	166.2	4.7	161.5	-
Domestic bonds	1,688.2	1,976.0	40.7	435.6	1,499.7
USPP bonds	570.2	932.9	29.5	118.1	785.3
Other foreign bonds	5,119.9	5,720.6	194.7	1,435.9	4,090.0
Capital indexed bonds	1,089.1	1,447.0	38.3	159.8	1,248.9
Derivatives	235.9	207.5	68.8	136.6	2.1
Distribution payable	360.0	360.0	360.0	-	-
Trade and other payables	197.2	197.2	197.2	-	-
	9,419.0	11,007.4	933.9	2,447.5	7,626.0
2015					
Bank facilities	1,016.1	1,099.0	40.8	1,058.2	-
Domestic bonds	1,685.5	2,093.4	52.1	277.5	1,763.8
USPP bonds	569.9	971.3	30.3	120.8	820.2
Other foreign bonds	3,849.3	3,526.8	150.5	694.4	2,681.9
Capital indexed bonds	1,060.3	1,447.0	38.3	159.8	1,248.9
Derivatives	272.9	264.8	85.6	167.5	11.7
Distribution payable	289.9	289.8	289.8	-	-
Trade and other payables	180.5	180.5	180.5	-	-
	8,924.4	9,872.6	867.9	2,478.2	6,526.5

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:

	2016			2015		
$m	**Cross currency swaps**	**Interest rate swaps**	**Total**	**Cross currency swaps**	**Interest rate swaps**	**Total**
Current assets	0.5	-	0.5	-	-	-
Non-current assets	764.2	6.1	770.3	663.6	5.1	668.7
Current liabilities	(38.7)	(58.1)	(96.8)	(39.4)	(70.1)	(109.5)
Non-current liabilities	-	(139.1)	(139.1)	-	(163.4)	(163.4)
Net derivative position	726.0	(191.1)	534.9	624.2	(228.4)	395.8

Recognition and measurement

Hedge accounting

On initial designation of a derivative as the 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. The Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting changes in fair value or cash flows of the hedged items, and whether the actual results of each hedge are in a range of 80 to 125 percent.

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.

Cash flow hedges

The Group's IRS 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 gain or loss, are recognised in profit or loss. The carrying value of the hedged items are adjusted for the hedging gain or loss, with the adjustment being recognised in profit or loss.

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.

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 2016 and 2015, all derivative financial instruments were determined based on observable market inputs, categorised as Level 2.

6 NET FINANCE COSTS

	Note	SAL Group 2016 $m	SAL Group 2015 $m	SAT1 Group 2016 $m	SAT1 Group 2015 $m
Finance income					
Interest income from other corporations		8.3	10.4	0.6	0.2
Interest income from related parties	17	-	-	245.9	245.3
Total finance income		8.3	10.4	246.5	245.5
Finance costs					
Senior debt interest expense		(298.7)	(285.8)	-	-
Net swap interest expense		(105.7)	(123.0)	-	-
Capital indexed bonds capitalised		(10.5)	(15.8)	-	-
Amortisation of debt establishment costs		(27.4)	(23.1)	-	-
Recurring borrowing costs		(6.5)	(6.9)	-	-
Borrowing costs – corporate debt		(0.1)	(0.1)	-	-
Borrowing costs capitalised		9.6	11.0	-	-
Total finance costs		(439.3)	(443.7)	-	-
Change in fair value of swaps		22.0	28.3	-	-
Net finance costs		(409.0)	(405.0)	246.5	245.5

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.

FINANCIAL RESULTS AND FINANCIAL POSITION

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

7 SEGMENT REPORTING

The Chief Executive Officer (CEO) monitors and manages the SAL Group from the perspective of its 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.

The Group's revenue, which is equal to that of the operating segment, is measured at the fair value of the consideration received or receivable and recognised on the basis of the following criteria:

Revenue stream	Nature	Recognition
Aeronautical	Passenger, take-off, parking charges and exclusive first right use of infrastructure.	Fixed revenue is recognised when the related services are provided.
Aeronautical security recovery	Passenger and checked bag screening, counter terrorist first response and other additional security measures.	
Retail	Rental from tenants whose sales activities include duty free, food and beverage, financial and advertising services.	Fixed revenue is recognised on a straight-line basis over the lease term.
Property	Rental for airport property including terminals, buildings and other leased areas.	Contingent revenue is recognised when the contingent event occurs.
Car rental	Concession charges from car rental companies.	
Parking and ground transport	Time based charges from the operation of car parking services. Tiered charges on ground transport services.	Revenue is recognised when the related services are provided.

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 years ended 31 December 2016 and 2015 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	
	2016	2015	2016	2015
Profit after tax attributable to security holders ($m)	320.9	283.0	244.8	243.2
Weighted average number of shares/units (m)	2,237.4	2,221.2	2,237.4	2,221.2
Earnings per share	14.34c	12.74c	10.94c	10.95c

9 RECEIVABLES

		SAL Group		SAT1 Group	
		2016	2015	2016	2015
	Note	$m	$m	$m	$m
Current					
Trade receivables		85.2	67.2	-	-
Provision for doubtful debts		(0.2)	-	-	-
Total trade receivables		85.0	67.2	-	-
Accrued revenue		58.7	54.6	-	-
Other receivables		15.0	16.3	3.2	3.4
Total current receivables		158.7	138.1	3.2	3.4
Non-current					
Loans to related parties	17	-	-	1,886.5	1,886.5
Accrued revenue		10.2	11.1	-	-
Other receivables		55.4	37.1	-	-
Total non-current receivables		65.6	48.2	1,886.5	1,886.5

Trade receivables are generally collected within 30 days of invoice date.

Recognition and measurement

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

10 PROPERTY, PLANT AND EQUIPMENT

SAL Group ($m)	Freehold land	Buildings	Runways, taxis 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		
2016								
Cost								
Opening balance	11.4	2,353.3	908.7	974.8	472.7	279.7	179.0	5,179.6
Additions[1,2]	-	-	-	-	-	-	390.8	390.8
Transfers	-	154.3	26.7	85.5	18.8	37.8	(323.2)	(0.1)
Disposals	-	(0.2)	(1.8)	(2.4)	-	(0.5)	-	(4.9)
Closing balance	11.4	2,507.4	933.6	1,057.9	491.5	317.0	246.6	5,565.4
Accumulated depreciation								
Opening balance	(1.1)	(817.1)	(272.1)	(333.9)	(275.8)	(217.6)	-	(1,917.6)
Depreciation	(0.1)	(132.8)	(35.4)	(55.1)	(22.0)	(25.6)	-	(271.0)
Disposals	-	0.2	1.8	2.4	-	0.5	-	4.9
Closing balance	(1.2)	(949.7)	(305.7)	(386.6)	(297.8)	(242.7)	-	(2,183.7)
Total carrying amount	10.2	1,557.7	627.9	671.3	193.7	74.3	246.6	3,381.7
2015								
Cost								
Opening balance	11.4	1,776.8	865.9	848.2	362.7	234.9	176.9	4,276.8
Additions[1,3]	-	436.4	-	42.8	77.7	-	344.8	901.7
Transfers	-	140.7	42.8	83.8	32.3	45.4	(342.7)	2.3
Disposals	-	(0.6)	-	-	-	(0.6)	-	(1.2)
Closing balance	11.4	2,353.3	908.7	974.8	472.7	279.7	179.0	5,179.6
Accumulated depreciation								
Opening balance	(1.0)	(708.3)	(242.6)	(285.7)	(257.7)	(196.8)	-	(1,692.1)
Depreciation	(0.1)	(109.4)	(29.5)	(48.2)	(18.1)	(21.4)	-	(226.7)
Disposals	-	0.6	-	-	-	0.6	-	1.2
Closing balance	(1.1)	(817.1)	(272.1)	(333.9)	(275.8)	(217.6)	-	(1,917.6)
Total carrying amount	10.3	1,536.2	636.6	640.9	196.9	62.1	179.0	3,262.0

1 Includes capitalised borrowing costs of $9.6 million (2015: $11.0 million).
2 Additions in 2016 are net of $21.0 million WSA project costs expensed.
3 Additions in 2015 included the T3 transaction of $535.0 million.

Capital expenditure commitments

At reporting date, the Group has capital expenditure commitments of $103.4 million (2015: $101.8 million).

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 estimated 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	
2016					
Cost					
Opening balance	669.7	162.3	5,607.8	2,038.1	8,477.9
Closing balance	669.7	162.3	5,607.8	2,038.1	8,477.9
Accumulated amortisation					
Opening balance	-	(158.2)	(557.7)	(202.6)	(918.5)
Amortisation	-	(1.0)	(62.0)	(22.5)	(85.5)
Closing balance	-	(159.2)	(619.7)	(225.1)	(1,004.0)
Total carrying amount	669.7	3.1	4,988.1	1,813.0	7,473.9
2015					
Cost					
Opening balance	669.7	169.8	5,607.8	2,038.1	8,485.4
Transfer to tangible assets	-	(7.5)	-	-	(7.5)
Closing balance	669.7	162.3	5,607.8	2,038.1	8,477.9
Accumulated amortisation					
Opening balance	-	(162.1)	(495.7)	(180.1)	(837.9)
Amortisation	-	(1.3)	(62.0)	(22.5)	(85.8)
Transfer to tangible assets	-	5.2	-	-	5.2
Closing balance	-	(158.2)	(557.7)	(202.6)	(918.5)
Total carrying amount	669.7	4.1	5,050.1	1,835.5	7,559.4

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 assets' 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.

11 INTANGIBLE ASSETS (CONT.)

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

For year ended 31 December 2016 no intangible assets were impaired (2015: nil).

Critical estimates and assumptions - impairment test for goodwill

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

Goodwill has been allocated to the Group's CGU, identified as being the investment in Sydney Airport. Discounted cash flow methodology has been adopted to value the Group's investment. Under this methodology, estimated 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;
- Long-term cash flows to equity after year five are extrapolated consistent with an average growth rate that is consistent with the forecast Australian Gross Domestic Product; and
- Terminal value is calculated as a multiple of EBITDA in the twentieth year.

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 risk premium (a component of the discount rate) would not result in an impairment of goodwill.

Other key assumptions used in the fair value less costs to sell calculation include international and domestic passenger numbers and inflation. Total passenger numbers were 41.9 million for year ended 31 December 2016 (2015: 39.7 million) and experienced growth of 5.6% during 2016 (2015: 3.0%). Average long-term inflation rates are assumed to be within the Reserve Bank of Australia (RBA) target range.

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 2016 $m	SAL Group 2015 $m	SAT1 Group 2016 $m	SAT1 Group 2015 $m
Profit before income tax	320.2	286.1	244.8	243.2
Income tax expense calculated at 30%	*(96.1)*	*(85.8)*	*(73.4)*	*(73.0)*
Expenses that are not deductible	0.9	5.3	-	-
Deferred expenses	0.5	0.8	-	-
Adjustments recognised in the current year that relate to the prior year[1]	20.9	-	-	-
Tax effect of operating results of Australian trusts	73.2	74.7	73.4	73.0
Income tax expense	(0.6)	(5.0)	-	-

1 The net adjustments relate to amendments made during the income year to the tax calculations prepared when SCACH group joined the SAL tax consolidated group.

Deferred taxes

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

SAL Group	Balance 1 January 2015 $m	Temporary movements recognised $m	Balance 31 December 2015 $m	Temporary movements recognised $m	Balance 31 December 2016 $m
Deferred tax assets/(liabilities):					
Property, plant and equipment	(249.9)	1.5	(248.4)	24.3	(224.1)
Intangibles	(2,013.8)	26.4	(1,987.4)	25.3	(1,962.1)
Interest bearing liabilities	(4.4)	0.6	(3.8)	0.6	(3.2)
Deferred debt establishment costs	(11.4)	3.9	(7.5)	5.0	(2.5)
Accrued revenue and prepayments	(8.7)	(3.5)	(12.2)	(5.5)	(17.7)
Defined benefits plan[1]	(1.1)	(0.8)	(1.9)	0.2	(1.7)
Deferred income	0.2	(0.1)	0.1	-	0.1
Deferred costs	1.2	(0.3)	0.9	(0.4)	0.5
Other payables	9.7	3.3	13.0	2.6	15.6
Cash flow hedges[2]	57.3	3.7	61.0	(3.3)	57.7
Tax losses	467.7	(45.3)	422.4	(50.9)	371.5
Total	(1,753.2)	(10.6)	(1,763.8)	(2.1)	(1,765.9)

1 $0.2 million (2015: $1.0 million) was charged to equity
2 $1.7 million (2015: $4.6 million) was charged to equity.

The SAT1 Group has no deferred tax transactions or balances.

12 TAXATION (CONT.)

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 tax losses of $1,238.5 million at 31 December 2016 (2015: $1,408.1 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.

Stapled Securities Listed on ASX

Sydney Airport Limited (SAL)
(Head entity of the SAL TCG)

- As a company, SAL's taxable income or loss is subject to the Australian company tax rate of 30%.
- SAL will pay income tax once its tax losses are utilised.

Sydney Airport Trust 1 (SAT1)

- As a trust, SAT1 is not liable for income tax provided its taxable income and any assessable realised capital gains are fully distributed to unitholders each tax year.
- Income of SAT1 is taxed in the hands of its unitholders through semi-annual distributions.

Sydney Airport's inaugural 2016 Tax Governance Statement is located on our website at www.sydneyairport.com.au/investors.

EMPLOYEE BENEFITS

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.

13 KEY MANAGEMENT PERSONNEL

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

	SAL Group		SAT1 Group	
	2016 $	2015 $	2016 $	2015 $
Short term employee benefits - salary and fees[1]	4,435,862	4,393,424	91,533	91,533
Short term employee benefits - bonus	1,551,751	2,590,619	-	-
Post employment benefits - superannuation	161,710	161,870	8,696	8,696
Share based payments (LTI)	519,625	277,801	-	-
Total KMP compensation	6,668,948	7,423,714	100,229	100,229

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

14 LONG TERM INCENTIVE PLAN

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

- 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 granted is at the Board's discretion including metrics and performance conditions specific to each individual taking into account such elements as operational aspects of performance, people and leadership, customer satisfaction and delivery of financial outcomes (Other tranche).

Fair value calculations

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 are entitled to a pro-rata number of their unvested rights or it may be cash settled at the Board's discretion.

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

Recognition and measurement

Equity-settled share-based transactions are measured at fair value at the date of grant. The cost of these transactions are recognised in the profit or loss and credited to equity over the vesting period. At each balance sheet 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
- 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.

14 LONG TERM INCENTIVE PLAN (CONT.)

The Board granted the following rights in May 2016:

LTI Series 2016 - 2018 Condition	Number of rights	Weighted average fair value	Vesting date
TSR tranche	97,236	$3.75	31 December 2018
CPS tranche	97,236	$6.27	31 December 2018
Other tranche	97,236	$5.19	31 December 2018

The Board granted the following rights in April 2015:

LTI Series 2015 - 2017 Condition	Number of rights	Weighted average fair value	Vesting date
TSR tranche	112,961	$2.69	31 December 2017
CPS tranche	112,961	$4.60	31 December 2017
Other tranche	112,961	$5.09	31 December 2017

15 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 2016 amounted to $4.2 million (2015: $3.7 million).

The following table discloses details pertaining to the defined benefit plan.

	2016 $m	2015 $m
Amounts recognised in Consolidated Statements of Comprehensive Income in respect of defined benefit plans:		
Current service costs	(1.6)	(1.8)
Interest income	0.2	0.1
Total included in employee benefit expense	(1.4)	(1.7)
Remeasurement gains/(losses) recognised in other comprehensive income	(0.5)	3.3
The amounts included in the Consolidated Balance Sheets arising from the Groups' obligations in respect of its defined benefit plans were:		
Present value of defined benefit obligations	(23.3)	(21.3)
Fair value plan assets[1]	29.0	27.8
Net asset arising from defined benefit obligations	5.7	6.5

1 Plan assets include investments in unquoted securities of $17.4 million (2015: $15.6 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 period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset.

15 SUPERANNUATION PLAN (CONT.)

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.

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

	SAL Group 2016	SAL Group 2015
Discount rate	3.9%	4.0%
Future salary increases	3.5%	3.5%

	0.5% increase	0.5% decrease
Discount rate ($m)	(1.0)	1.1
Future salary increases ($m)	0.8	(0.8)

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.

OTHER DISCLOSURES

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

16 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. There was no change to the significant subsidiaries ownership interest during the year.

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 2016. 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 year ended 31 December 2016 (2015: 100.0%) and recognises associated non-controlling interest.

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. Income from this investment constitutes changes in its fair value.

	SAL		SAT1	
	2016 $m	2015 $m	2016 $m	2015 $m
Result of the parent entity				
Profit after income tax expense	1,010.5	2,179.5	244.8	243.2
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	1,010.5	2,179.5	244.8	243.2
Financial position of parent entity				
Current assets	202.5	166.5	36.7	16.0
Total assets	13,037.2	12,284.0	1,927.1	1,906.4
Current liabilities	237.5	166.6	127.3	128.4
Total liabilities	2,124.0	2,053.0	127.3	128.4
Total equity of the parent entity comprising of:				
Contributed equity	5,790.7	5,669.4	2,765.5	2,744.5
Retained profits	5,122.5	4,561.5	1.9	1.1
Reserves	-	-	(967.6)	(967.6)
Total equity	10,913.2	10,230.9	1,799.8	1,778.0

16 GROUP STRUCTURE AND PARENT ENTITY (CONT.)

Parent entity guarantees, commitments and contingencies

At 31 December 2016 the parent entities:

- Have no contingent assets or liabilities which are material either individually or as a class other than disclosed in Note 19 (2015: Note 19);
- Have not made any capital expenditure commitments (2015: $nil); and
- Have not guaranteed debts of their subsidiaries (2015: $nil).

SAL is the head company of the SAL Tax Consolidated Group (SAL TCG) (refer to note 12). At 31 December 2016 no current tax liabilities exist within the SAL TCG (2015: $nil).

17 RELATED PARTY DISCLOSURES

SAT1 Responsible Entity

i) Responsible Entity fee

TTCSAL was appointed Responsible Entity of SAT1 (SAT1 RE) on 22 November 2013. TTCSAL agreed to act as SAT1 RE on the basis that if TTCSAL was removed within three years of its appointment, in the absence of negligence, fraud or breach of trust by TTCSAL, the SAL Group would pay an amount equal to the Responsible Entity fee (RE fee) for three years less any RE fees already paid to TTCSAL. The payment would not be made from the assets of SAT1, but from $800,000 deposited in escrow by SAL. As per the escrow deed, $250,000 plus interest was returned to SAL on the anniversary of TTCSAL's appointment as SAT1 RE. (2015: $250,000 plus interest).

ii) 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 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 2016:

- $97,910 fees were charged by SACL to TTCSAL (2015: $82,447) with $20,005 remaining unpaid at 31 December 2016 (2015: $15,443); and
- $255,450 was charged by TTCSAL to SAT1 as a RE fees (2015: $246,236) and $64,784 remains unpaid at 31 December 2016 (2015: $62,500).

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:

	2016 $	2015 $
Loan principal		
Opening balance	1,886,467,057	1,887,317,057
Paid during the year	-	(850,000)
Closing balance	1,886,467,057	1,886,467,057
Interest		
Opening balance	-	(2,361,850)
Interest accrued	245,912,610	245,253,735
Paid during the year	(245,912,610)	(242,891,885)
Closing balance payable/(prepaid)	-	-

17 RELATED PARTY DISCLOSURES (CONT.)

Custodian fees

TTCL was a related entity of SAT1 for years ended 31 December 2016 and 31 December 2015. During this period custodian fees of $104,984 were charged by TTCL (2015: $104,639) and $26,302 remains unpaid at 31 December 2016 (2015: $52,399).

Transactions with other related parties

SACL entered into a contract with Downer EDI Works Pty Ltd (a wholly owned subsidiary of Downer EDI Ltd) during the year for the provision of airfield resheet works. The contract was made following a competitive tender process and at arm's length.

KMP	Entity	Contract Value $	Amounts paid during the financial year ended 31 December 2016 $
Grant Fenn ((NED) of Sydney Airport Limited and (CEO) of Downer Group)	Downer EDI Works Pty Ltd	5,434,638	4,233,065

18 REMUNERATION OF AUDITORS

	SAL Group		SAT1 Group	
	2016 $	2015 $	2016 $	2015 $
Amounts paid or payable to auditors (KPMG) for:				
Audit and review of financial statements	516,200	489,500	53,100	51,300
Other services				
- Trust compliance services	9,500	9,200	9,500	9,200
- Advisory services	333,023	1,920,473	-	-
- Other assurance services	494,573	383,192	-	-
Total amount paid or payable to auditors	1,353,296	2,802,365	62,600	60,500

Advisory services relate mainly to advice provided in relation to WSA during the Notice to Consult phase.

Other assurance services in 2016 and 2015 included amounts charged for work relating to the refinancing of senior debt and the provision of accounting assistance.

19 CONTINGENT ASSETS AND LIABILITIES

Contingent assets

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:

SAL Group	2016 $m	2015 $m
Receivable within one year	353.9	331.8
Receivable later than one year but no later than five years	1,219.3	1,032.2
Receivable after five years	279.3	356.9
	1,852.5	1,720.9

19 CONTINGENT ASSETS AND LIABILITIES (CONT.)

Contingent liabilities

Map Airports International Pty Limited (MAIL), a subsidiary within the SAT1 Group provided a comprehensive set of representations and warranties in respect of its 2011 sale of both Copenhagen Airports and Brussels Airport to Ontario Teachers' Pension Plan Board (OTPP). In 2013, SAT1 replaced MAIL as the party liable for any breaches of representations and warranties.

The Danish tax authority (SKAT) has issued assessments to Copenhagen Airports Denmark Holdings (CADH) in respect of certain withholding tax amounts. The matter is currently being contested in the Danish High Court with resolution unlikely to be before 2021. OTPP is indemnified by SAT1 for its share of any liabilities of CADH.

At the date of signing, SAT1 is aware that SKAT could reverse its administrative policy position which currently allows the postponement of payment for disputed tax liabilities until resolution before the Danish High Court. SAT1 has been advised that:

- any change in administrative policy, and payment of the disputed liability while litigation continues, will not have an impact on the likelihood of success in the litigation; and
- any amount paid will be refunded upon a successful outcome to the litigation.

As at 31 December 2016, SAT1's estimate of its current exposure is approximately DKK 518 million (A$101.8 million) reflecting both the primary interest withholding tax pertaining to the years 2006-10 and the associated interest. Sufficient funds are available to finance this potential indemnity payment through cash and undrawn bank debt facilities.

There is inherent uncertainty as to the final outcome of matters before the Danish High Court which has the potential to materially change management's current estimate of the exposure. However, SAT1 remains confident of its position.

20 EVENTS OCCURRING AFTER BALANCE SHEET DATE

The final distribution for the period ending 31 December 2016 of $360.0 million or 16.0 cents per stapled security (2015: $289.8 million or 13.0 cents) was paid on 14 February 2017 by:

- SAL $237.4 million or 10.55 cents (2015: $166.1 million or 7.45 cents); and
- SAT1 $122.6 million or 5.45 cents (2015: $123.7 million or 5.55 cents).

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 2016.

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 67 to 99 and the Remuneration Report in the Directors' Report (set out on pages 40 to 50), 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 2016 and of its performance for the financial period 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 2016.

The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 73.

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

Trevor Gerber
Sydney
15 February 2017

John Roberts
Sydney
15 February 2017

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 67 to 99, 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 2016 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 2016.

The Directors draw attention to the statement of compliance with International Financial Reporting Standards set out on page 73.

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

Patrick Gourley
Sydney
15 February 2017

Gillian Larkins
Sydney
15 February 2017