Sydney Airport

ASX RELEASE

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Strong half year performance, positioned for future growth

- Significant investment program driving customer service and experience improvements, and strong business performance
- Upgraded 2017 distribution guidance to 34.5 cents per stapled security, up 11.3% on the pcp, subject to external shocks to the aviation industry and material changes to forecast assumptions
- Earnings before interest tax depreciation and amortisation (EBITDA) of $577.6m, up 7.7%[1], on the prior corresponding period (pcp)
- Net Operating Receipts up 14.8% on the pcp
- Significant balance sheet and capital management flexibility with over $1.0 billion in cash and undrawn facilities following refinance of $1.4bn in bank debt facilities

Sydney Airport, Managing Director and Chief Executive Officer, Kerrie Mather said Sydney Airport has delivered another strong result for the half year.

"We continue to deliver on our strategy of investing in a significant improvement in customer experience and capacity to support our airline partners' growth. Our capex program over the last 12 months has delivered nearly $400 million in improved facilities for passengers and airlines, with over $250 million more to be delivered in the second half of 2017.

"EBITDA grew 7.7% on passenger growth of 3.6%. Key drivers of the result were international passenger growth of 7.7%, returns on capital investment in aviation infrastructure, and a strong contribution from retail due to solid trading and new shop openings in T1 and T2. Major milestones over the half included the announcement from new airline Beijing Capital, serving Qingdao, in addition to four new destinations commenced or announced, the opening of the new Mantra hotel, the acquisition of Ibis airport hotel, pleasing progress on access road widenings and significant new retail offerings across T1 and T2.

"The inbound tourism market has seen strong growth of nearly 10% for the half and the rolling 12 months, with excellent performance from a diverse range of major Asian markets, including China, India, Philippines, Indonesia, Japan and Vietnam. This record growth reflects our competitiveness, successful airline marketing and tourism partnerships with DNSW and Tourism Australia.

"As a result of the most significant investment program since privatisation, passengers are enjoying a vastly improved customer experience, with additional seating closer to gate, new terminal wayfinding, increased natural light and enhanced retail offerings. We're delighted that this is being reflected in improved airline service ratings and customer service scores. We've commenced consultation with our airline partners and stakeholders on the next phase of international capacity expansion, including additional aerobridge gates, more baggage system capacity and aircraft aprons.

"The combined impact of strong business performance and excellent capital management outcomes, coupled with a positive outlook for the second half of 2017, is reflected in today's upgraded 2017 distribution guidance from 33.5 cents to 34.5 cents per stapled security, an increase of 11.3% on the pcp," Ms Mather said.

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[1] EBITDA excluding WSA project costs expensed

Financial results

Total revenue grew by 7.9%, primarily driven by international passengers, growth across all businesses, yield improvements in passenger related business segments of aero and retail, in addition to continued capital investment:

- Aeronautical revenues increased due to 7.7% international passenger growth and agreed international charge increases reflecting significant capital investment in aeronautical facilities
- The retail business delivered 14.3% revenue growth following the completion of Heinemann Duty Free stores in mid-2016, and the opening of new specialty and food and beverage offerings in the first half of 2017 in both T1 and T2
- Property and car rental produced moderate growth, and this will be enhanced in the second half by hotel revenues from the newly opened Mantra hotel and the Ibis airport hotel acquired in July
- Car parking revenue growth was impacted by modal shift to train, increased ride sharing and limousine services, and lower domestic and Australian international outbound growth. This was partly reflected in better Ground Transport performance

Operating expenses increased by $11.4 million (9.0%), primarily due to higher electricity prices, the step up from "silver" to "gold" levels of service in cleaning and maintenance standards as part of our 2015 international airline agreement, and WSA costs.

Investment in business expansion

Capital expenditure was $161.4 million for the first half of 2017. Sydney Airport is reaffirming its five-year guidance of $1.3 billion for the 2017-2021 period, with approximately $450 million (including the Ibis airport hotel acquisition) for 2017. The 2017 capex program is linked to an agreed 4.3% aeronautical price increase from 1 July 2017.

The focus of the capex program over the half:

- **Aeronautical capacity**: upgauging aircraft parking bays, increasing bussing facilities and replacing and refurbishing our baggage facilities
- **Airport access:** new access road and pedestrian/cycle bridge in the international precinct
- **Customer experience:** upgrading bathrooms, community facilities, increased and upgraded gate lounge seating, significantly expanded self-serve check in and bag drop facilities, arrivals concourse development, departures/emigration upgrades and further retail and food and beverage rollouts
- **Business expansion:** hotel development and acquisition

Sydney Airport continues to consult airlines and stakeholders on a number of projects including T1 Pier A, aircraft apron and baggage expansion works. Depending on the scope of these projects, the capex within the 2017-2021 period is estimated to be ~$500 million, and has been excluded from the capex guidance. A decision will be made on these projects based on stakeholder consultation and the satisfaction of internal business cases.

Balance sheet

Balance sheet and credit metrics continue to strengthen. Interest cover has improved with the ratio increasing to 2.9x from 2.6x compared to the pcp, its strongest level since privatisation.

In April 2017, Sydney Airport successfully refinanced all $1.4 billion of bank debt facilities at lower margins reducing interest costs and extending average debt maturity by approximately six months to early 2024, further demonstrating proactive capital management. The strong liquidity position has been maintained with over $1.0 billion in cash and undrawn facilities. The next drawn debt maturity is in July 2018 ($317 million in total).

Sydney Airport's spot interest rate hedge position at 30 June 2017 is 86%. Currency exposures on offshore debt remain 100% hedged.

Sustainability

Sydney Airport continues to be an industry leader in sustainability. Sydney Airport has again achieved a 'leading' rating by the Australian Council of Superannuation Investors for our sustainability reporting. Along with our Dow Jones Sustainability Index listing and inclusion in Robecom's 2017 Yearbook as a sustainability leader, we have now been included on the FTSE4Good Index, demonstrating our strong environment, social and governance (ESG) practices. Our sustainability strategy is delivering excellent outcomes for Sydney Airport's business and our stakeholders.

Community Investment and Contribution

Sydney Airport has continued to strengthen its commitment and contribution to the local and Sydney communities in 2017. This has ranged from supporting and funding local schools, indigenous, environmental and charitable institutions, to major partnerships with Sydney Community Foundation and Cure Cancer Australia. We are committed to developing women in sport with a sponsorship of women's rugby, women's AFL, in addition to the Sydney Swans. Our partnerships with Sydney Symphony Orchestra, Museum of Contemporary Art and Vivid Sydney complement our strong connection to Sydney's vibrant visual and performing Arts culture. As an adjunct to our leadership driving our visitor economy, Sydney Airport is a sponsor of major festivals and events such as Sydney Festival, Fringe Festival, Parramasala, Chinese New Year and Vivid Sydney.

Outlook

Management remains focused on achieving Sydney Airport's strategic, operational and financial objectives, to deliver world class facilities and operations for airlines and excellent customer service and experience.

Sydney Airport has upgraded its distribution guidance to 34.5 cents[2] per stapled security for 2017, reflecting a 11.3% increase on the pcp, reflecting strong year-to-date performance and increased confidence in the business outlook.

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[2] Guidance subject to aviation industry shocks and material forecast changes.

CONTACT FOR FURTHER INFORMATION

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SYDNEY AIRPORT FINANCIAL HIGHLIGHTS	6 months to 30 Jun 2017 $m	6 months to 30 Jun 2016 $m	Change %
Passengers (millions)			
International (including domestic-on-carriage)[1]	7.7	7.2	7.7%
Domestic (including regional)	13.2	13.0	1.3%
Total passengers	**21.0**	**20.2**	**3.6%**
Revenue			
Aeronautical revenue	320.6	294.1	9.0%
Aeronautical security recovery	43.6	43.2	0.8%
Retail revenue	162.6	142.3	14.3%
Property and car rental revenue	106.6	103.2	3.3%
Parking and ground transport revenue	77.1	75.4	2.2%
Other	3.7	3.7	-2.0%
Total revenue	**714.2**	**661.9**	**7.9%**
Operating expenses			
Employee benefits expense	28.1	27.1	3.8%
Services and utilities expense	40.1	32.9	22.1%
Property and maintenance expense	15.3	14.6	4.8%
Security recoverable expenses	39.7	39.0	1.8%
Other operational costs	13.4	12.1	9.7%
Total operating expenses	**136.6**	**125.7**	**8.7%**
Other expenses			
Western Sydney Airport project costs expensed (WSA)	0.6	-	n/a
Loss on disposal of non-current assets	-	0.1	n/a
Total expenses	**137.2**	**125.8**	**9.0%**
EBITDA	**577.0**	**536.1**	**7.6%**
EBITDA excluding WSA	***577.6***	***536.1***	***7.7%***
Net external cash finance costs	(192.5)	(200.9)	-4.2%
Movement in cash reserved for specific purposes and other items	(2.3)	(2.3)	0.1%
Net operating receipts[2]	**382.2**	**332.9**	**14.8%**
Net operating receipts excluding WSA [2]	***382.8***	***332.9***	***15.0%***
Average stapled securities on issue (millions)	2,249.9	2,229.5	0.9%
Net operating receipts per stapled security[2]	**17.0c**	**14.9c**	**13.8%**
Net operating receipts excluding WSA [2] per stapled security	**17.0c**	**14.9c**	**14.0%**
Distributions per stapled security	**16.5c**	**15.0c**	**10.0%**
Ratio of net operating receipts to distributions	**103%**	**100%**	
Ratio of net operating receipts excluding WSA to distributions	***103%***	***100%***	
Capital expenditure	**161.4**	**174.8**	
Per passenger measures ($)			
Revenue	34.1	32.7	4.2%
EBITDA	27.5	26.5	3.9%

Note: Calculations may be affected by roundings.

[1] Due to data availability, all international passenger numbers (including pcp comparisons) are based on Confirmed Airline Passenger (CAP) data.

[2] Refer to the Directors' Report of the Sydney Airport Financial Reports for a reconciliation of statutory profit before tax to net operating receipts.