

21 August 2014

## Strong performance for half year ended 30 June 2014

Sydney Airport today announced its results for the half year to 30 June 2014.

“The first half of 2014 saw continued growth and momentum across all of Sydney Airport’s businesses, delivering an improved customer experience and strong returns for investors.

EBITDA grew by 6.1% on passenger growth of 2.3%. Key drivers of this result were international passenger growth of 4.7%, primarily from Asia, the UK and USA, capital investment in aviation capacity and facility improvements, commercial business initiatives and continued cost control.

“We are pleased to reaffirm distribution guidance of 23.5 cents per stapled security for FY14 fully covered by Net Operating Receipts, with our interim distribution of 11.5 cents paid on 15 August. This guidance is underpinned by our continued growth in operational performance and distributable cash. It is subject to external shocks to the aviation industry and material changes to forecast assumptions.

“For the first half Sydney Airport delivered a 14% total investor return inclusive of an 11.5 cent cash distribution, strongly outperforming the ASX200 accumulation index by more than 11%” Sydney Airport Chief Executive Officer, Kerrie Mather, said.

### 1. HY 2014 financial highlights

- Strong revenue growth across all businesses;
- Total investor return<sup>i</sup> of 14.0%;
- Passenger growth of 2.3%, EBITDA growth of 6.1%; and
- Half year distribution of 11.5 cents per stapled security, 100% covered by Net Operating Receipts.

Sydney Airport Financial Performance	HY 2014
Statutory Net Profit Attributable to Security Holders <sup>ii</sup> (\$m)	53.9
Net Operating Receipts per Stapled Security (cents)	11.5
Distribution per Stapled Security (cents)	11.5
Coverage	100%

## 2. Performance and Operations

EBITDA growth of 6.1% for HY14 was driven by strong international passenger growth, yield improvement across all businesses and investment in a broad range of aviation capacity expansion projects, infrastructure upgrades and passenger facilitation initiatives. Costs continue to be tightly managed further contributing to our solid EBITDA performance.

## 3. Revenue

Total revenue increased 5.7% over the pcp to \$568.4 million, based on strong performance across all businesses.

Aeronautical revenue grew 5.7% over the half. This was driven primarily by strong international passenger growth and investment in aviation capacity and aeronautical facilities. Prior period aeronautical investments, which have had the largest impact on revenue growth during the period, include an additional A380 gate, and new and reconfigured apron works in addition to terminal and baggage improvements.

International passenger growth of 4.7% continued to benefit from robust performance during the Chinese New Year and Easter periods, in addition to a number of successful business, sporting and cultural events hosted by Sydney, for example the Rotary Conference, Ashes and Vivid. International seat growth for the half of 2.9% was a key driver of the above trend passenger growth, demonstrating that travel demand significantly outperformed market capacity growth.

The half year again saw strong growth in Asian nationality markets, with Malaysia (+22.5%), Hong Kong (+17.0%), China (+15.8%), India (+15.4%) and Singapore (+9.3%) being the strongest contributors. Sydney Airport also achieved consistent growth from a variety of more traditionally mature markets including Australian outbound, UK, USA and France.

A number of airlines announced upgauges or new frequencies. Cebu Pacific Air (Cebu) announced the commencement of services from Sydney to Manila four times weekly, starting in September, with 226,700 seats on an annual basis. Cebu is a new airline for Sydney and the fourth long haul low cost carrier. In response, Philippine Airlines announced increased frequency on their Manila – Sydney service from four weekly services to daily from October, resulting in a 25% seat increase or 38,000 seats annually. Earlier in the year, Qantas announced their upgauge from a B747 to an A380 on the Sydney-Dallas route in addition to the route now being a

dedicated Sydney route. Air Canada announced their upgauge to the B777 on their daily service to Vancouver/Toronto from October delivering an extra 24,000 seats per annum, while Delta has upgauged their B777 by reconfiguring it to accommodate more passengers. Lastly, Cathay Pacific will upgauge one of its A330s on the Hong Kong - Sydney service to a B777 from December 2014. Annually this upgauge will deliver an increase of 72,000 seats. In addition there are a number of seasonal increases from China Airlines.

Capital investment in aviation capacity and facilities represented approximately two thirds of the \$95.5 million total capex (consistent with our long term spend) and is in line with market guidance of \$1.2 billion over the next 5 years. Key projects commenced or delivered over the half included:

- New expanded baggage reclaims belt, facilitating additional capacity with the ability to more efficiently process larger aircraft such as the A380;
- An expanded and upgraded early bag store and sorting facility;
- Widening and improving of taxiways around T2;
- Apron works, enhanced apron capabilities and improved terminal facilities; and
- More High Intensity Approach Lighting.

The domestic market in the near term is likely to continue seeing load factor improvement as previous capacity growth is absorbed. Within the market we expect to see a continuation of the LCC growth trend based on the full year effect of route announcements to date from Tiger and Jetstar, benefitting T2 passenger growth.

Retail revenue grew 7.4% during the first half. This strong performance reflects increased passenger penetration and the complete cycling of tobacco law changes. We are delighted that new duty free initiatives implemented in late 2013 have translated into a 13% increase in passenger spend rates compared to the pcp, and in advance of the duty free retender. Significant work has progressed over the period with a range of our retailers developing new brands and products for the constantly evolving passenger mix. This collaborative approach continues to ensure our terminals are providing an offering which represents choice and value. Terminal 2 concessions introduced in 2013 such as MoVida, Coopers Alehouse, Marcs, Oxford and Studio T2 are trading well and have transformed the dining and shopping experience in Terminal 2. In Terminal 1, our new stores such as National Geographic, Cerrone, A Little Something and La Perla have benefitted from continued Asian and specifically Chinese nationality growth.

Property and Car Rental revenue grew strongly, up 6.8% for the half driven by contracted escalations and new tenancies. The demand for on-airport space continues to be strong with occupancy at 98%. Management's strategy remains to pursue selective development opportunities in response to demand.

Car Parking and Ground Transport revenues were 5.7% higher than the pcp, a strong performance relative to 1.2% growth in domestic traffic. Online bookings now contribute approximately 28% of car parking revenues and online offers continue to be refined to ensure that they target off-peak periods. The new offers for 2014 have been focused around the 'meeter greeter' market. Sydney Airport's tailored products demonstrate a clear value proposition for our customers and have resulted in higher occupancy for all car parks.

In addition to the online product expansion, car parking revenues benefited from a capacity expansion of 965 spaces in the domestic precinct (taking total on airport spaces to 16,000) and increased patronage driven by advertising campaigns targeting specific demographics and locations.

#### **4. Operating Expenses**

Operating expenses were up \$3.9 million or 3.7% (exclusive of specific expenses) over the first half, primarily driven by an increase in other operational costs as well as services and utilities. Other operational costs have increased as a result of registry costs due to the Macquarie in specie distribution (tripling the number of investors on the register). Services and utilities increased \$1.4m, due to a contracted step up in our cleaning contract, an increase in car parking costs related to volume increases and regular CPI increases on outsourced contracts. A reduction in security costs was delivered during the period, due to the discontinuance of one off costs relating to the installation of government mandated body scanners. This is EBITDA neutral. Operational expenditure continues to be tightly controlled, without compromising our focus on improving service quality and passenger facilitation.

#### **5. Capital Expenditure**

Capital expenditure was \$95.5 million for the first half of 2014 (six months of Sydney Airport's \$1.2 billion investment guidance over the five years from 2014 to 2018). The investment program over the next five years assumes the continued incremental delivery of capacity to support peak growth. Investment will be made in line with demand and remains flexible to meet the changing

needs of airlines and operating conditions. Short term capex includes projects such as T1 improvements, apron expansion, a new T1 baggage system and roadworks. Medium term capex includes incremental terminal expansion, airfield upgrades, ground transport works and a range of commercial initiatives all consistent with the Master Plan. Significant undrawn facilities are available to fund this business expansion into 2017.

## **6. Capital Management and Balance Sheet strength**

Net debt as at 30 June was \$6.5 billion, increasing primarily by our first half 2014 capital expenditure of \$95.5 million. Debt metrics continued to improve as EBITDA grew faster than drawn debt. The cash flow cover ratio increased to 2.3x and Net Debt to EBITDA has reduced to 6.9x. Currency exposure is 100% hedged and our interest rate exposure at 30 June was hedged at 91%. Our balance sheet metrics remain strong, with undrawn facilities and cash of approximately \$1.2 billion available to provide financial flexibility and fund growth capex into 2017.

In May 2014, Sydney Airport successfully delivered a \$2.5 billion refinancing, establishing new facilities of €700 million (A\$1.0 billion) and A\$1.5 billion in the European bond and Australian bank debt markets respectively. The refinancing proactively capitalised on the strong investor appetite for exposure to Sydney Airport's stable and growing cash flow profile, and favourable conditions in global credit markets. Both issuances were significantly oversubscribed. The European bond represents a new international debt market for Sydney Airport following previous issuances in the USA and Canada. Accessing this new and deep credit market has created further funding flexibility for future debt raisings. The maturity profile has been de-risked further by refinancing all existing bank debt facilities, which were due to mature over the period 2014-2017. The refinancings also extended the average maturity by more than a year to late 2022<sup>iii</sup>.

## **7. Key Initiatives**

### **Ground Transport**

Ground transport is a major focus area for Sydney Airport, our airline partners, passengers and staff. As a result, the NSW Government and Sydney Airport jointly announced a combined investment of almost \$500 million to improve traffic flow in and around Sydney Airport, as part of a suite of ground transport solutions and airport facility upgrades.

The Government will be responsible for the investment in roads surrounding the airport and Sydney Airport will carry out the upgrades within the airport precinct. Our proposed investment contemplates initiatives that include transformative road works at T1 and T2/T3, a ground transport interchange and multimodal storage and car park facility.

Sydney Airport's forecast capital expenditure for ground access improvements to 2018 is included in the five year \$1.2 billion capex guidance. These ground transport investments are expected to be recovered through the standard aeronautical and commercial mechanisms. A number of improvements have already been completed at T1 including widening of the kerbside lane on Departures Road, a reconfigured entry at Link Road and extending the drop off area on Departures Road. The next stage of improvements at T1 has commenced and is targeted for delivery in December 2014. Commencement of works at T2/T3 is awaiting the approval of our major development plan (expected at the end of 2014), however initial planning and preparation has already commenced.

These works will dramatically improve traffic flow around the airport, with traffic models indicating intersections clearing within most traffic light cycles and improvements in travel times.

### **Duty Free Retender**

The Duty Free contract is one of our most important on airport, accounting for nearly 13% of our total revenue. The current contract expires in February 2015. The retender process began with an expression of interest request in February 2014 which resulted in unprecedented interest from the world's best and largest operators. A number of these operators then progressed to the request for proposal process which commenced in May 2014. The process is now at the shortlist stage with three operators.

The quality of operators and their submissions has been extremely high. A decision on the winning duty free partner or partners will be made before the end of the calendar year.

### **Western Sydney Airport**

In April 2014, the federal government announced Badgerys Creek as the location for Sydney's second airport. And earlier this week Sydney Airport received from the Australian Government a Notice to Consult (NTC) inviting participation in the formal consultation process for the

development and operation of the Western Sydney airport. The invitation was accepted and formal consultation is due to start on 30 September 2014.

The announcement was made as part of a broader infrastructure package, targeting economic growth and jobs for Western Sydney. The package comprised \$3.5 billion in government investment over the next 10 years on the road infrastructure surrounding the new airport and more broadly around Western Sydney.

The Government outlined its expectation that the airport (with a single runway and terminal) could be ready to commence operations from the mid-2020s, to serve new demand for the growing population catchment in Western Sydney.

Under the 2002 Sydney (Kingsford-Smith) Airport Sale Agreement, Sydney Airport has a Right of First Refusal to develop and operate a second Sydney airport. The Right of First Refusal has a number of phases, including a consultative phase and a subsequent contractual phase. These are expected to take up to two years to complete.

Preliminary discussions have been underway with the Department of Infrastructure and Regional Development to map the considerable work that needs to be addressed during the consultation period. With the consultation period starting formally on September 30 the work program will focus on detailed examination of the business case including, but not limited to, passenger forecasting, demographics, airport design and operation, planning and commercial development, environmental analysis, and funding and financial modelling.

The opportunity will be subject to a full and detailed evaluation.

## **8. Distributions**

Sydney Airport declared an interim distribution of 11.5 cents per stapled security. This represents a payout ratio of 100% of Net Operating Receipts for the half year.

The Distribution Reinvestment Plan (DRP) remained available for the interim distribution paid on 15 August 2014, but resulted in no dilution for investors as securities were acquired on-market. The investor response to the DRP has been exceptional with a 17% take-up, demonstrating strong demand for Sydney Airport's predictable and growing earnings as well as solid yield.

Distribution guidance of 23.5 cents has been reaffirmed for the full year 2014, representing an underlying growth of over 8% and a headline growth of over 4%. Sydney Airport is committed to growing investors' distributions over the long term.

## 9. Outlook

A strong first half performance underpinned the 11.5cps distribution paid this month. The Board has reconfirmed distribution guidance of 23.5cps for the full year, reflecting its confidence in the continuing growth in free cash flow.

All major management initiatives including the duty free retender and ground transport programme are on track and progressing well.

The refinance completed in May provided Sydney Airport with increased financial flexibility, liquidity and significant undrawn credit facilities to fund future capex, providing a superior platform for growth. The consistently improving credit metrics reflect the stability of our cash flows and the strength of the natural de-gearing within the business.

Sydney Airport is well positioned to capture future traffic growth and commercial opportunities, combining our disciplined investment evaluation with a strong balance sheet and continued innovation.

### CONTACT FOR FURTHER INFORMATION

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<sup>i</sup> Total investor return is calculated as capital gain/(loss) plus distributions, calculated from 1 January to 30 June 2014

<sup>ii</sup> Taken from the Sydney Airport audited Interim Financial Report for Half Year Ended 30 June 2014

<sup>iii</sup> As at 30 June 2014 adjusted for redemption of \$700m Nov-14 bond maturity using committed sources of undrawn bank and capital market debt



# SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	ASX-listed Sydney Airport 6 months to 30 Jun 2014 \$m	ASX-listed Sydney Airport 6 months to 30 Jun 2013 \$m	% change
<b>Revenue</b>			
Aeronautical	236.3	223.6	5.7%
Aeronautical security recovery	41.3	42.0	-1.6%
Retail revenue	125.0	116.4	7.4%
Property and car rental revenue	96.4	90.3	6.8%
Car parking and ground transport revenue	66.4	62.9	5.7%
Other	3.0	2.7	11.1%
<b>Total revenue before specific revenue</b>	<b>568.4</b>	<b>537.9</b>	<b>5.7%</b>
<b>Specific revenue:</b>			
Profit on disposal of non-current assets	-	0.1	n/a
Profit on disposal of interest in Newcastle Airport	-	9.7	n/a
<b>Expenses</b>			
Employee benefits expense	24.1	23.8	1.1%
Services and utilities	27.0	25.6	5.5%
Other operational costs	11.6	9.9	17.3%
Property and maintenance	9.9	9.0	9.9%
Security recoverable expenses	36.3	36.7	-1.1%
<b>Total expenses before specific expenses</b>	<b>108.9</b>	<b>105.0</b>	<b>3.7%</b>
<b>Specific expenses:</b>			
Minority acquisitions and ATO resolution	0.4	4.1	n/a
Restructuring and redundancy	0.1	-	n/a
<b>EBITDA before specific revenue and expenses</b>	<b>459.5</b>	<b>432.9</b>	<b>6.1%</b>
<b>EBITDA</b>	<b>459.0</b>	<b>438.6</b>	<b>4.7%</b>
Net external cash finance (costs) / income	(204.7)	(201.0)	1.8%
Movement in cash reserved for specific purposes	1.0	(0.6)	n/a
Other	(0.1)	4.9	n/a
Cash flows available for minority interests <sup>1</sup>	-	(35.7)	n/a
<b>Net operating receipts available to SYD security holders</b>	<b>255.2</b> <sup>2</sup>	<b>206.1</b> <sup>3</sup>	<b>n/a</b>
Stapled securities on issue (millions)	2,216	1,861	n/a
<b>Net operating receipts per stapled security</b>	<b>11.5c</b>	<b>11.1c</b>	<b>4.0%</b>
<b>Distributions per stapled security</b>	<b>11.5c</b>	<b>11.0c</b>	<b>4.5%</b>
<b>Capital expenditure</b>	<b>95.5</b>	<b>99.5</b>	<b>-4.0%</b>
<b>Passengers (millions)</b>			
International (including DOC)	6.4	6.1	4.5%
Domestic (including Regional)	12.2	12.0	1.2%
<b>Total passengers</b>	<b>18.6</b>	<b>18.2</b>	<b>2.3%</b>
<b>Per passenger measures (\$)</b>			
Revenue before specific revenue	30.5	29.6	3.3%
EBITDA before specific revenue and expenses	24.7	23.8	3.8%

<sup>1</sup> Cash flows available for minority interests represents cash flows available to direct and indirect minority interests in Southern Cross Airports Corporation Holdings Limited (30 June 2014: nil, 30 June 2013: 15.2%).

<sup>2</sup> Refer to the Directors' Report on page 4 of the Sydney Airport Interim Financial Report for Half Year Ended 30 June 2014 for a reconciliation of Net operating receipts to statutory profit before tax.

<sup>3</sup> Immaterial difference to 2013 Directors' Report as a result of increased disclosure levels and associated rounding