Sydney Airport

ASX RELEASE

18 August 2015

Results for half year ended 30 June 2015

- Strong growth across all businesses with group revenue increasing 4.6%
- EBITDA growth of 6.4%
- 12.5 cents per stapled security distribution paid and full year guidance upgraded to 25.5 cents[1] per stapled security
- Landmark Terminal 3 agreement reached with Qantas, providing operational and financial upside
- International aeronautical agreements have been signed by airlines which represent more than 98% of passengers
- Total investor return[2] of 24% strongly outperforming the ASX200 accumulation index by 24 percentage points

"Sydney Airport today announced another strong result due to the continued growth of international passengers, in addition to investment driving yield expansion across all businesses. We have achieved a number of our strategic objectives during the period, including concluding international aeronautical agreements, the landmark transaction with Qantas to take control of Terminal 3, and on time and on budget delivery of the $128.2m capital investment program," Sydney Airport managing director and chief executive officer Kerrie Mather said.

"EBITDA grew by 6.4%. The key drivers of this result were international passenger growth of 2.8% and returns on additional capital investment in aviation infrastructure, commercial business initiatives and operational efficiencies. Underpinning our pleasing international result was strong demand from China, Australia, India, Philippines and USA.

"Distributions over the period rose substantially. The Boards declared and paid 12.5 cents per security half year distribution, up 8.7% on the prior corresponding period (pcp).

"We are pleased today to upgrade over the full year 2015 guidance by 0.5[3] cents per stapled security to 25.5 cents for the full year subject to external shocks to the aviation industry and material changes to forecast assumptions. This upgrade reflects our confidence in the continuing growth in free cash flow."

1. 1H15 Financial Highlights

Sydney Airport Financial Performance	1H15
Revenue	$594.7m
EBITDA	$488.3m
Profit After Income Tax Attributable to Security Holders[4]	$134.6m
Net Operating Receipts per Stapled Security[4]	12.6c
Distribution per Stapled Security[5]	12.5c

[1] Subject to external shocks to the aviation industry and material changes to forecast assumptions
[2] Total investor return is calculated as the increase in security price plus distributions, calculated from 31 December 2014 to 30 June 2015
[3] Guidance upgrade relates to Sydney Airport Limited's portion of the distribution
[4] Reconciled on page 4 of interim Financial Report for the half year ended 30 June 2015
[5] Taken from the audited interim Financial Report for half year ended 30 June 2015

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2. Key Initiatives

Terminal 3 Transaction

Sydney Airport announced today that it has reached a landmark agreement with Qantas to take control of Terminal 3 almost four years ahead of lease expiry, with a payment to Qantas of $535 million. This transaction is the result of a long-term engagement with Qantas focused on achieving a 'win-win' outcome for both parties. T3 will continue to be utilised for Qantas' domestic operations, and will move to common use in 2019. The transaction is expected to be completed on 1 September 2015.

The fixed property rental previously received will cease and new variable aeronautical, retail and property revenue streams will commence on transition. The high quality terminal boasts 17 gates, over 51 commercial outlets, three lounges, 120 valet car parking spaces and 24,000 square metres of office space, providing Sydney Airport with multiple revenue streams.

The purchase will be funded with a mixture of debt and cash: $369 million of bank debt, $60 million from the first half distribution reinvestment plan and $106 million of cash reserves.

This is a positive outcome for Sydney Airport investors, as the transaction is EBITDA and cash flow accretive immediately.

International Aeronautical Agreements

International aeronautical agreements have been signed by airlines which represent more than 98% of passengers.

The new five year international agreements commenced 1 July 2015. The new agreements respond directly to the airlines' desired outcomes such as, improved customer experience, terminal presentation standards, implementation of a service level framework and a new forum for ongoing airline consultation. The agreement also provides a five year investment strategy which will deliver further world-class passenger experience improvements, additional capacity to meet new demand and more efficient operations and reflects the capex guidance provided to the market.

Charges follow an agreed price path with the commencing charge of $24.00, broadly the same as our previous charge and will increase by an average of 3.8% per annum over the subsequent years of the agreement to reflect capital investment. The agreements deliver an appropriate return on the significant investment Sydney Airport is making in aeronautical infrastructure and provides five year pricing certainty for both Airlines and Sydney Airport.

The airlines have specifically requested investment in terminal presentation standards resulting in an additional operational expenditure of approximately $8m on a full year basis.

Western Sydney Airport

The formal nine month consultation period with government has finished and involved a very successful exchange of ideas and information during more than 70 meetings on differing aspects of the project. Sydney Airport and the Australian Government continue to participate in ongoing informal discussions.

The government has indicated following a period of consideration, they expect to deliver the confidential Notice of Intention setting out the material terms for the development and operation of the Airport, as early as the end of the year. Sydney Airport will then have either four or nine months to respond. The Government has indicated that their draft environmental impact statement is still in the process of being finalised for public consultation and that is also expected to be released towards the end of the year.

Sydney Airport believes the design, development and operation of a full service new airport is a unique and exciting opportunity to build an airport that meets the evolving needs of airlines and passengers. It needs to be an airport that is flexible and scalable and able to grow in line with demand over time.

As the government has indicated this is an airport that will be appropriately sized on opening to attract international, domestic and freight airlines to service Western Sydney's rapidly growing population. It is also worth remembering that Western Sydney is one of the fastest growing economies in Australia. The number of people living in Western Sydney is expected to rise from around 2 million to 2.9 million in 2031.

In addition, the NSW Government is developing the biggest employment zone in the state right next to the airport. More people and more businesses will create the need for critical infrastructure such as roads and utilities. Accordingly, the NSW and Australian Governments have announced $3.6 billion in funding over the next 10 years to improve roads in Western Sydney near Badgerys Creek. Work is already well underway on improving transport links to and within Western Sydney.

Operating Sydney Airport and WSA in a system means both airports would be well placed to service the markets in which they operate. Globally it's very common for gateway airports to operate in a system. In fact two thirds of the world's busiest airports share their catchment with another airport and of those 77% share common ownership and operation. Importantly, where international airports operate as a system, they demonstrate a capacity to encourage and support traffic growth at the new airport, by offering attractive incentives to airlines.

Sydney Airport continues to work actively to understand all stakeholder impacts and expectations, including those for our 90,000 direct investors, and the millions of Australians that own Sydney Airport indirectly through their super funds.

Operational Performance

EBITDA growth of 6.4% for 1H15 was driven by international passenger growth, investment in aviation capacity and facility improvements, and yield improvement from new initiatives in commercial businesses. Management continues to demonstrate a disciplined approach to controllable costs, which also contributed to the strong EBITDA growth.

Traffic

Total traffic growth for the period was 2.1% on the pcp. International passenger growth of 2.8% relative to the pcp, was driven by load factors which improved 3.5 percentage points and strong passenger demand from China, Australia, India, Philippines and USA.

Chinese nationals were again Sydney's fastest growing market, up 16.8% year to date. Growth in Chinese travellers through Sydney Airport accounted for 60% of foreign nationality growth. Australian nationality travellers, the largest market at approximately half of all international travellers, grew by a robust 2.1%.

Sydney Airport welcomed Solomon Airlines for the first time in 1H15 with a new route to Honiara. In addition, carriers American Airlines, ANA, Xiamen Airlines and Indonesia AirAsia X have announced they will commence services later in the year. Qantas, China Southern, Air China, Korean Air, Philippine Airlines, Cathay Pacific and LAN all announced upgauges commencing in the second half of 2015.

Etihad Airways commenced operating its flagship A380 in June, on the Sydney to Abu Dhabi route. Etihad's aircraft upgauge on both of its daily services has added 38% capacity to the route or 137,000 seats annually.

The domestic market grew 1.7% during the half supported by a one percentage point load factor improvement. Within the domestic market, low cost carriers have grown strongly and contributed to declining real airfares, providing affordable travel to more passengers and opening new leisure markets.

Revenue

Total revenue increased 4.6% in 1H15 to $594.7 million, with growth across all businesses.

Aeronautical revenue grew 4.6% to $247.1 million in 1H15. International passenger growth and investment in aviation capacity and facilities underpinned this strong aeronautical performance. International passengers grew 2.8%, while domestic grew 1.7%. Investments with the largest impact on revenue growth included new baggage handling system upgrades in Terminal 1, taxiway re-sheets and T1 ground access improvements.

Retail revenue increased 3.9% to $129.9 million in 1H15. Heinemann is trading well during its transition phase and the construction is progressing on time and budget. The final Heinemann stores are scheduled to open progressively until mid-2016.

Property and car rental revenue grew 4.8% to $101.0 million in 1H15. Contracted escalations, new tenancies, rent reviews and robust occupancy at 97% drove growth in revenues. Thirty additional leases were signed over the period, more than 200 rental reviews conducted and the new car rental contracted revenues commenced.

Car parking and ground transport revenues grew by 8.7% to $72.2 million in 1H15. Growth continues to be driven by the take up of online products and improved off peak utilisation. Online bookings now make up 32% of car parking revenue, up from 27% in the pcp. Online offers continue to be refined to ensure they target off-peak periods and long-stay customer segments. Sydney Airport's online products provide customers with more choice and a clear value proposition which in turn has resulted in higher occupancy of all car parks.

Operating Expenses

Operating expenses decreased 2.7% to $106.5 million in 1H15. The three key drivers of the decline were lower electricity costs due to the repeal of the carbon tax, normalisation of listed costs (no material transaction in this period) and lower employee benefit expenses.

Long term drivers for operating costs are inflation, government mandated security costs and service levels. Investors should expect costs over the long term to increase in line with CPI plus a small margin. Short term, as part of the new aeronautical agreement, and to support a significant improvement in service levels and the passenger experience, there will be an increase in operational expenditure of around $8 million per annum. All investment is in line with current capex guidance.

Capital Expenditure

Capital expenditure was $128.2 million over the period.

Key projects commenced or delivered in 1H15 included:

- Aircraft parking capacity increase;
- Taxiway resheets;
- Automated early bag store and sorting facility;
- Northern lands bridge;
- Expansion of gate lounges 8, 9 and 10 to cater for Code F operations; and
- Ground access improvement road works.

Sydney Airport reaffirms capital expenditure guidance of $1.2 billion 2015-2019. Sydney Airport's approach to capital investment is to examine each stage of the passenger journey and enhance the passenger experience, improve efficiency of operating and increase capacity in line with demand. The investment program remains flexible to meet the changing needs of airlines and operating conditions. Significant undrawn bank facilities are available to fund the forecast capital investment program into 2017.

3. Capital Management and Balance Sheet Strength

Net debt as at 30 June 2015 was $6.8 billion, increasing primarily by 1H15 capital expenditure of $128.2 million. Debt metrics continued to improve as EBITDA grew faster than drawn debt. The cash flow cover ratio increased to 2.4x and Net Debt/EBITDA was stable at 6.9x. Currency exposure is 100% hedged and interest rate exposure at 30 June was 96% hedged or fixed. Sydney Airport has undrawn facilities and cash of approximately $660 million available to provide financial flexibility and fund growth capital expenditure into 2017 after the funding of Terminal 3.

During first half 2015, Sydney Airport successfully issued $643 million (US$500 million) of senior secured notes in the US144A bond market. There was significant demand for exposure to Sydney Airport's stable and growing cash flow profile, with the issue being multiple times oversubscribed. The 10 year issuance lengthened the average maturity profile by seven months and priced well inside the current portfolio average, setting a well-priced benchmark for the future.

As a result of the refinancing, the weighted average debt maturity is now early-2023. The next drawn debt refinancing task is in the first half of 2017 and represents only 4% of total debt outstanding.

4. Distributions

Sydney Airport has today upgraded distribution guidance from 25.0 cents to 25.5 cents per stapled security for the full year.

During 1H15 Sydney Airport paid an interim distribution of 12.5 cents per stapled security. The distribution represented an 8.7% growth on the prior period and was more than 100% covered by net operating receipts.

Sydney Airport remains committed to delivering continued strong growth in distributions over the long term.

5. Outlook

Management remains focused on growing passengers and providing world-class facilities with the flexibility to grow in line with forecast demand. The new aeronautical agreements provide for an airport wide focus on the provision of improved facilities for airlines and passengers. The delivery of these outcomes will be a key priority over the next five years. Other key focus areas include the transition of T3, continued roll out of the ground access road improvement plan, redevelopment of Terminal 1, evaluation of the Western Sydney Airport opportunity, and consistent on time and on budget delivery of our $1.2 billion capex program.

Sydney Airport's balance sheet strength supports financial flexibility, with substantial liquidity and undrawn credit facilities available to fund future capital expenditure into 2017. This provides Sydney Airport with a platform from which it can invest and grow. The consistently improving credit metrics reflect the stability of cash flows and the strength of the natural de-gearing within the business.

Upgraded distribution guidance of 25.5 cents per stapled security for 2015 reflects management's confidence in the continuing growth in free cash flow.

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SYDNEY AIRPORT FINANCIAL HIGHLIGHTS	6 months to 30 Jun 2015 $m	6 months to 30 Jun 2014 $m	Change[1] %
Passengers (millions)			
International (including domestic-on-carriage)	6.6	6.4	2.8%
Domestic (including regional)	12.4	12.2	1.7%
Total passengers	**19.0**	**18.6**	**2.1%**
Revenue			
Aeronautical	247.1	236.3	4.6%
Aeronautical security recovery	41.2	41.3	-0.2%
Retail revenue	129.9	125.0	3.9%
Property and car rental revenue	101.0	96.4	4.8%
Car parking and ground transport revenue	72.2	66.4	8.7%
Other	3.3	3.0	7.9%
Total revenue before other income	**594.7**	**568.4**	**4.6%**
Other income			
Profit on disposal of non-current assets	0.1	-	n/a
Total revenue and other income	**594.8**	**568.4**	**4.6%**
Expenses			
Employee benefits expense	23.4	24.1	-2.8%
Services and utilities	25.9	27.0	-4.3%
Property and maintenance	9.8	9.9	-1.2%
Security recoverable expenses	36.5	36.3	0.6%
Other operational costs	10.9	11.7	-6.3%
Expense before investment transaction expenses	**106.5**	**109.0**	**-2.3%**
Other expenses			
Investment transaction expenses	-	0.4	n/a
Total Expenses	**106.5**	**109.4**	**-2.7%**
EBITDA before other income and other expenses	**488.2**	**459.4**	**6.2%**
EBITDA	**488.3**	**459.0**	**6.4%**
Net external cash finance (costs)/income	(206.6)	(204.7)	1.0%
Movement in cash reserved for specific purposes and other items	(2.3)	1.0	n/a
Cash flow timing differences	-	(0.1)	n/a
Net operating receipts available to SYD security holders[2]	**279.4**	**255.2**	**9.4%**
Stapled securities on issue (millions)	2,216	2,216	0.0%
Net operating receipts per stapled security[2]	**12.6c**	**11.5c**	**9.4%**
Distributions per stapled security	**12.5c**	**11.5c**	**8.7%**
Capital expenditure	**128.2**	**95.5**	**34.2%**
Per passenger measures ($)			
Revenue before other income	31.3	30.5	2.5%
EBITDA before other income and other expenses	25.7	24.7	4.1%

1 Percentage change based on non-rounded figures.
2 Refer to the Directors' Report of the Sydney Airport Financial Reports for a reconciliation of statutory profit before tax to net operating receipts.