Sydney Airport

ASX RELEASE

18 August 2016

Excellent result delivers 20% distribution growth

- Full year 2016 distribution guidance upgraded from 30 cents to 31 cents[1] per stapled security, growth of 21.6%. First half distribution of 15 cents per stapled security paid, growth of 20% on the prior corresponding period (pcp)
- Total of 20.3 million passengers in first half 2016, up 6.7% on the pcp; international and domestic passengers grew a strong 9.3% and 5.3% respectively
- Total revenue growth of 11.3%, with excellent performance across all businesses
- Operating margin remains broadly unchanged at 81%, despite step up in costs associated with the increase in service standards and Terminal 3 (T3)
- Average cash cost of debt reduced to 5.3%, due to the maturity of interest rate swaps and successful 10 year US144A/RegS transaction
- Total investor return[2] of 11.5%, strongly outperforming the ASX100 accumulation index by 11.0 percentage points

"It has now been twelve months since we entered into our new, outcome focused five year Aeronautical Services Agreement and we are really pleased with what has been achieved. We have delivered a significant uplift in the presentation of the terminal, increased capacity and passenger experience improvements from our investment program. Pleasingly, passengers are recognising these changes through improved customer satisfaction scores.

The T3 transaction continues to be a success with the terminal running smoothly, passenger numbers growing and the financials outperforming our expectations. In addition, we successfully raised a 10 year $1.2 billion debt facility to refinance all our drawn bank debt in April. Investors have benefited from these initiatives and our operational performance through significant cash flow growth and 20% growth in distributions. In addition, I am delighted to announce our upgraded distribution guidance of 31 cents for 2016, growth of 21.6% on the pcp, subject to aviation industry shocks and material forecast changes," Sydney Airport Managing Director and Chief Executive Officer Kerrie Mather said.

"International passenger growth, up 9.3% for the half year, continues to be a key business driver. Underpinning our international passenger result was significant additional capacity from new and existing carriers, improving load factors and strong demand from a diverse range of markets including Australia, China, USA, Korea and Japan. The domestic market also performed well this half, growing 5.3%, primarily underpinned by strong load factors across both full service and low cost carriers.

"Currently we have more than 200 business expansion projects underway and are on track to deliver our 2016 capital investment program on time and budget. The program continues to focus on the passenger experience through expansion of terminal and airfield capacity, in addition to improving the efficiency of the airport and facilities for airlines and airport users. A number of our large projects will have material benefits for passengers and their airport experience including: ground access improvements, making it quicker and easier to get to and from the airport; T1 redevelopment,

[1] Guidance subject to aviation industry shocks and material forecast changes
[2] Total investor return is calculated as the increase in security price plus distributions reinvested, calculated from 31 December 2015 to 30 June 2016

providing direct paths, more seating and better wayfinding; and the baggage system expansion, providing a more streamlined and reliable baggage processing and collection experience."

Financial results

Total revenue grew by 11.3%, driven by international passenger growth, efficient investment, strong retail performance and the incremental T3 contribution. All businesses performed well. Aeronautical revenues benefited from strong international passenger growth and T3 contribution, retail performance reflects the duty free completion and ongoing store rollout, property growth was underpinned by new leasing transactions (offsetting the reduction in T3 property revenues), and car parking revenues were driven by the significant growth in online bookings.

Operating expenses increased by approximately $19 million as flagged in February, primarily as a result of the step up in service standards agreed in the new international airline agreement, and six months of incremental T3 expenses. The EBITDA margin remained broadly unchanged, at 81% (versus 82% in the pcp). Underlying opex growth was driven by inflation and passenger linked expenses.

EBITDA grew a strong 9.5% on the pcp. The second half of 2016 will benefit from a 4.8% aeronautical price increase to reflect the higher service standards and investment.

Investment in business expansion

Capital expenditure was $175 million for the half year, in line with the expected investment of approximately $400 million for full year 2016. Our five year guidance of $1.3 billion for the 2016-2020 period has been reaffirmed. The higher 2016 capital investment level is linked to the 4.8% aeronautical price increase which applied from 1 July 2016, reflecting an appropriate return on the capital invested.

Western Sydney Airport

The Western Sydney Airport Right of First Refusal consultation process and evaluation is ongoing. The government has indicated publicly that a Notice of Intention could be issued to Sydney Airport by the federal government this year. Sydney Airport would then have either four or nine months to exercise the option to develop and operate the new airport. The opportunity continues to be evaluated with the impact on all stakeholders front of mind. The key principles which form the basis for evaluation are hurdle rates of return, cash flow and yield, growth potential and downside protections.

Balance sheet

Balance sheet and credit metrics continue to strengthen and we maintain our strong BBB/Baa2 credit rating. Ongoing deleveraging has seen our interest coverage increase to 2.6x from 2.4x. The next drawn debt maturity is $317 million in 2018, with no further drawn debt maturities until 2020.

In April, Sydney Airport successfully issued a USD900 million (AUD1.2 billion) 10 year US144A/RegS bond at an all-in rate of 4.9%. Currency and interest rate exposures are fully hedged for the entire term of the bond. This hedging, in addition to the commencement of other interest rate swaps during the half has resulted in a spot interest rate hedge position at 30 June 2016 of 91%. Sydney Airport continues to assess debt issuance and hedging opportunities to deliver superior capital management outcomes and further strengthen the financial position.

Outlook

"It's been a very successful half year, and we are making excellent progress in delivering on our key strategic, operational and financial targets," Ms Mather said.

"We remain focused on improving the passenger experience though investment in innovation and technology, enhancing capacity, and providing quality facilities with the flexibility to grow in line with forecast demand.

"Sydney Airport maintains a strong balance sheet, with the consistent improvement in our credit metrics continuing. We also have access to significant liquidity, which supports financial flexibility and positions Sydney Airport well for future growth and investment.

"We are pleased to announce upgraded distribution guidance of 31 cents[3] per stapled security for 2016 representing growth of 21.6%. The upgrade reflects our confidence in continued operational and financial performance and growth in free cash flow.

"Sydney Airport continues to offer the DRP to eligible security holders. During the first half, it was announced that the DRP would not be neutralised and securities would be issued to satisfy demand. We were delighted to see a 43% take up resulting in approximately $120 million of cash available to partly finance our investment program. This strong take up demonstrates the demand for Sydney Airport securities and investor confidence in our future strategy."

CONTACT FOR FURTHER INFORMATION

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

SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	6 months to 30 Jun 2016 $m	6 months to 30 Jun 2015 $m	Change %
Passengers (millions)			
International (including domestic-on-carriage)	7.2	6.6	9.3%
Domestic (including regional)	13.0	12.4	5.3%
Total passengers	**20.3**	**19.0**	**6.7%**
Revenue			
Aeronautical	294.1	247.1	19.0%
Aeronautical security recovery	43.2	41.2	4.8%
Retail revenue	142.3	129.9	9.5%
Property and car rental revenue	103.2	101.0	2.2%
Parking and ground transport revenue	75.4	72.2	4.4%
Other	3.7	3.3	13.3%
Total revenue before other income	**661.9**	**594.7**	**11.3%**
Other income			
Profit on disposal of non-current assets	-	0.1	n/a
Total revenue and other income	**661.9**	**594.8**	**11.3%**
Operating expenses			
Employee benefits expense	27.1	23.4	15.8%
Services and utilities	32.9	25.9	26.9%
Property and maintenance	14.6	9.8	49.5%
Security recoverable expenses	39.0	36.5	6.8%
Other operational costs	12.1	10.9	10.9%
Total operating expenses	**125.7**	**106.5**	**18.0%**
Other expenses			
Loss on disposal of non-current assets	0.1	-	n/a
Total expenses	**125.8**	**106.5**	**18.1%**
EBITDA before other income and other expenses	**536.2**	**488.2**	**9.8%**
EBITDA	**536.1**	**488.3**	**9.8%**
Net external cash finance (costs)/income	(200.9)	(206.6)	-2.8%
Movement in cash reserved for specific purposes and other items	(2.3)	(2.3)	n/a
Net operating receipts available to SYD security holders[1]	**332.9**	**279.4**	**19.2%**
Average stapled securities on issue (millions)	2,229.5	2,216	0.6%
Net operating receipts per stapled security[1]	**14.9c**	**12.6c**	**18.5%**
Distributions per stapled security	**15.0c**	**12.5c**	**20.0%**
Capital expenditure	**174.8**	**128.2**	**n/a**
Per passenger measures ($)			
Revenue before other income	32.7	31.3	4.3%
EBITDA before other income and other expenses	26.5	25.7	2.9%

Numbers presented may not calculate correctly due to roundings.

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