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Sydney Airport

# HALF YEAR RESULTS 2016

18 AUGUST 2016

# Disclaimer

## General securities warning

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Sydney Airport advises that on 3 August 2016 foreign ownership was 29.9%.

# Agenda

Sydney Airport

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2 Highlights
3 Distribution

4 Operational growth
5 Financials
6 Balance sheet metrics

7 Aviation macro environment
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9 Investment

10 Commercial business growth
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12 Outlook

# Excellent performance for 1H16

## Key metrics

6.7%

**20.3m**

Total passengers

| | | |
|---|---|---|
| International | ↑ | 9.3% |
| Domestic | ↑ | 5.3% |

9.8%

**$536.1m**

EBITDA

20.0%

**15.0c**

1H16 distribution

Net operating receipts ↑ 19.2%

# 1H16 highlights

Sydney Airport

## Continued momentum in first half 2016

**1** **Superior traffic and business performance**

- ✓ Full year distribution guidance upgraded to 31 cents per stapled security, growth of 21.6%
- ✓ Total of 20.3 million passengers in first half 2016, up 6.7%. International passenger growth well ahead of long run average
- ✓ Total revenue growth of 11.5%, strong growth across all businesses
- ✓ Operating margins broadly unchanged, despite T3 costs and step up in service standards

**2** **Successful business step changes**

- ✓ Successful T3 transaction, terminal running smoothly, passengers growing and financials outperforming our expectations
- ✓ Significant international aeronautical agreement achievements, including significant step change in service levels
- ✓ Strong duty free revenue contribution, five of six stores complete and open in T1
- ✓ Online car parking continues to grow, driving higher asset utilisation
- ✓ Issued a $1.2 billion 10 year US144A/RegS bond at an all-in rate of 4.9%

**3** **Sustainability strategy**

- ✓ Development of a new strategy to position Sydney Airport as an industry leader in sustainability
- ✓ Awarded “Leading” rating by ACSI for sustainability reporting
- ✓ Membership of the Green Building Council of Australia
- ✓ Launch of a supplier diversity program, with an initial focus on supporting Indigenous businesses through our membership of Supply Nation

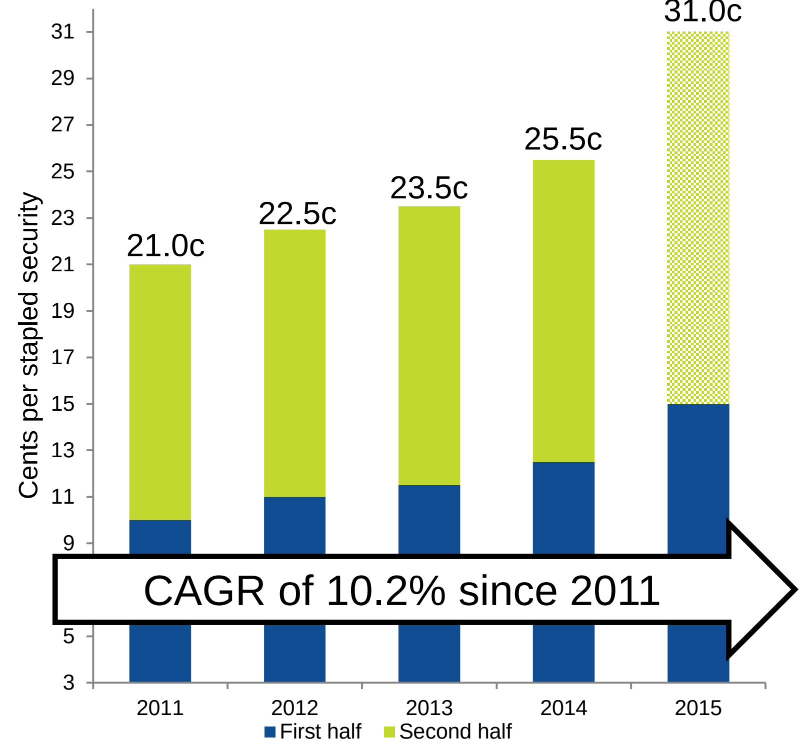
# Distribution guidance upgrade

**2016 full year distribution guidance upgraded to 31 cents; 21.6% growth on 2015 distribution**

## Distributions

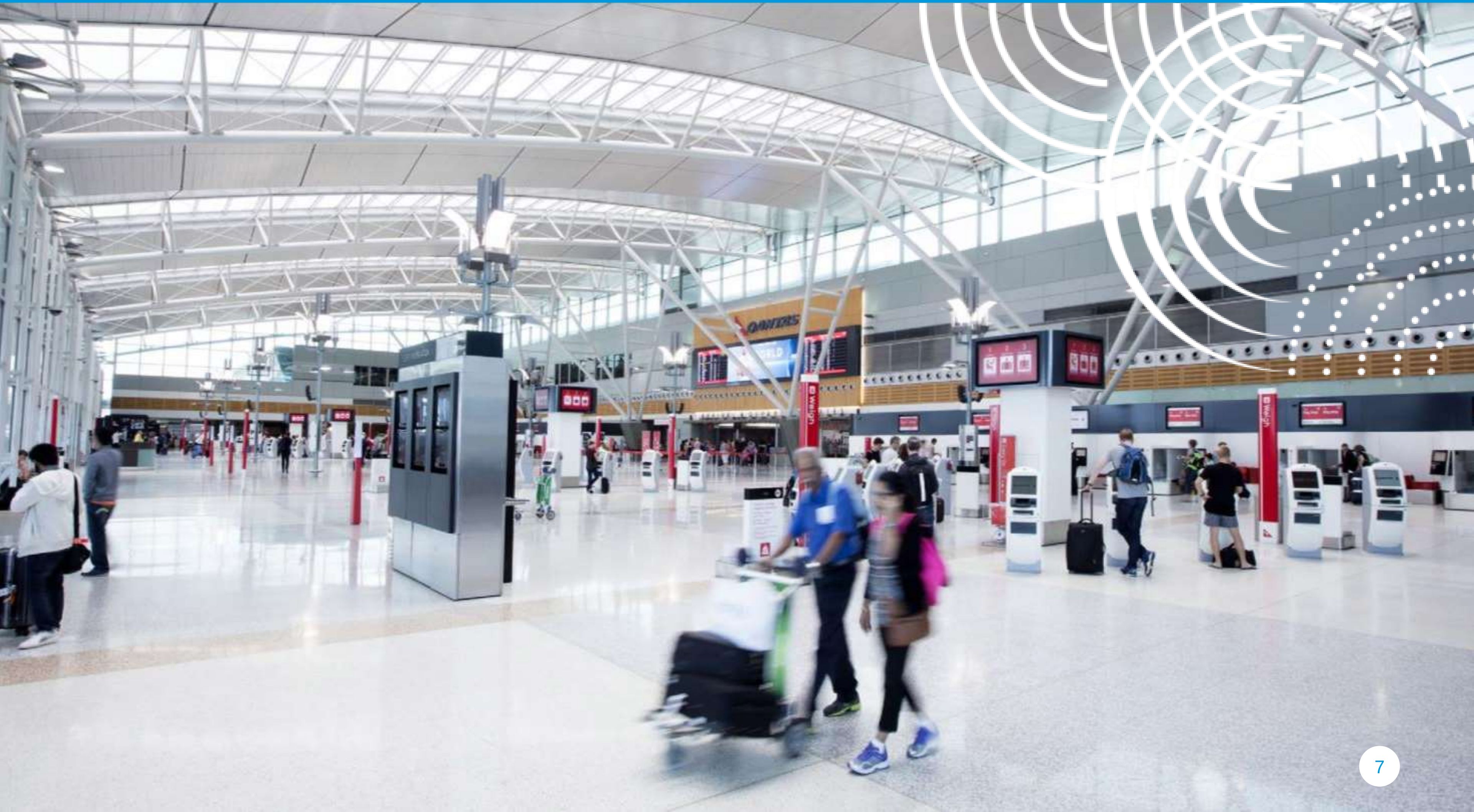
- **2016 guidance upgraded to 31 cents per stapled security (cps)**
  - Up 21.6% on 2015 distribution
  - Expected to be fully covered by net operating receipts
  - Guidance subject to aviation industry shocks and material forecast changes
- **2016 interim distribution 15.0 cps**
  - Up 20.0% on 2015 interim distribution
  - Paid 12 August 2016
  - Distribution reinvestment plan operated with 1.5% discount
  - Investor take up 43% with cash raised to fund investment and provide future financial flexibility

## Five years of strong distributions



# Financial results

Sydney Airport



# Operational growth

**Growth across all businesses, with exceptional performance from aeronautical and retail**

| Business | 1H16 highlights | Revenue $m | Revenue contribution | Revenue growth |
|---|---|---|---|---|
| Aeronautical services | • 9.3% international and 6.7% total passenger growth<br>• Strong capacity growth and load factors maintained<br>• Capital investment program supporting passenger experience, airline operating efficiencies and capacity expansion to meet demand | 337.3* | 51% | 17.0% |
| Retail | • Five of six duty free stores complete and open in T1, with the remaining store scheduled to open 2H16<br>• Eight of 13 outlets in the new fashion precinct now open, with the remainder scheduled to be open 1Q17<br>• New Marketplace dining precinct scheduled to open progressively from mid-October, including seven new dining concepts | 142.3 | 21% | 9.5% |
| Property and car rental | • ~220 leasing transactions complete, 98.6% occupancy rate<br>• Northern lands bridge opened, at grade car parking utilised for staff<br>• Domestic hotel construction commenced, expected opening mid 2017 | 103.2 | 16% | 2.2% |
| Parking and ground transport | • Online parking take up continues to drive higher asset utilisation<br>• Free pick-up expanded and more pick up options for ridesharing services announced at T2/T3 precinct<br>• Next phase of five year ground access plan delivered | 75.4 | 11% | 4.4% |

* Includes aeronautical security recovery

# Statutory income statement

## Statutory income growth driven by EBITDA growth and finance cost savings

| $ MILLION | 1H16 | 1H15 |
|---|---|---|
| Total revenue | 661.9 | 594.8 |
| Total expenses | (125.8) | (106.5) |
| Profit before depreciation, amortisation, finance cost and income tax (EBITDA) | 536.1 | 488.3 |
| Depreciation and amortisation | (182.8) | (141.1) |
| Profit/(loss) before net finance costs and income tax (EBIT) | 353.3 | 347.2 |
| Net finance costs | (201.8) | (213.1) |
| Profit before income tax benefit/(expense) | 151.5 | 134.1 |
| Income tax (expense)/benefit | 0.8 | (0.2) |
| Profit after income tax benefit/(expense) | 152.3 | 133.9 |
| Profit attributable to non controlling interests | 0.4 | 0.7 |
| Net profit attributable to security holders | **152.7** | **134.6** |

# Profit to net operating receipts reconciliation

Sydney Airport

**20% distribution growth for the half year; full year distribution expected to be covered by net operating receipts**

| $ MILLIONS | | 1H16 | 1H15 |
|---|---|---|---|
| Profit before income tax (expense)/benefit | | 151.5 | 134.1 |
| Add back: depreciation and amortisation | | 182.8 | 141.1 |
| Profit before tax, depreciation and amortisation | | 334.3 | 275.2 |
| Add/(subtract) non-cash financial expenses | - Capital index bonds capitalised | 8.5 | 7.3 |
| | - Amortisation of debt establishment costs | 10.6 | 11.9 |
| | - Borrowing costs capitalised | (4.6) | (4.5) |
| | - Fair value adjustment to swaps | (13.6) | (8.2) |
| Total non-cash financial expenses | | **0.9** | **6.5** |
| Add/(subtract) other cash movements | - Movement in cash balance with restricted use | 10.8 | 6.1 |
| | - Other | (13.1) | (8.4) |
| Total other cash movements | | **(2.3)** | **(2.3)** |
| Net operating receipts | | **332.9** | **279.4** |
| Average stapled securities on issue (m) | | **2,229.5** | **2,216.2** |
| Net operating receipts per stapled security | | **14.9c** | **12.6c** |
| **Distributions declared per stapled security** | | **15.0c** | **12.5c** |

# Operating margins maintained while increasing service standards

**Cost growth attributable to significant increase in service standards and T3 transaction**

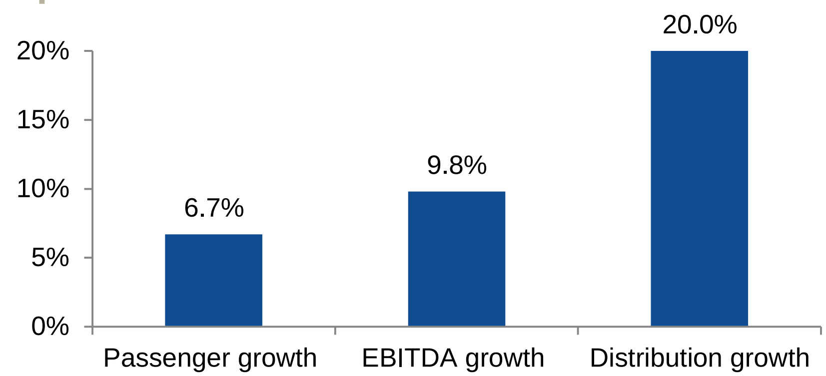
### Operating margin performance

- Operating margin remains broadly unchanged at 81% for the half (82% in pcp) despite the step up in costs associated with the increase in service standards and T3 transaction
- Operating leverage further enhanced in second half reflecting the step up of international aeronautical prices by 4.8%

### Costs prudently managed

- Underlying costs increased 5.9%, growing with CPI plus a small margin and passengers
- As flagged in February, one off cost of $15 million for full year 2016, associated with T3 and the step up in terminal service standards

### Business leverage



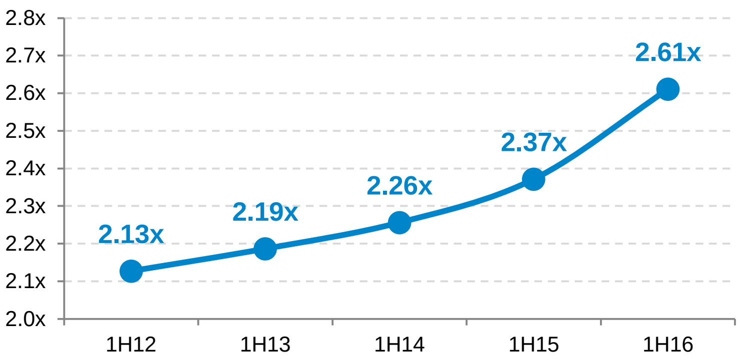

### Underlying opex

| Expenses | $ millions |
|---|---|
| Total expenses | 125.8 |
| FY16 opex step up of $15m due to improved terminal standards as part of IAA and T3 - $13m in 1H16 | 13.0 |
| Total expenses normalised for one off step ups | 112.8 |
| Normalised cost growth, growing with CPI and passengers | 5.9% |

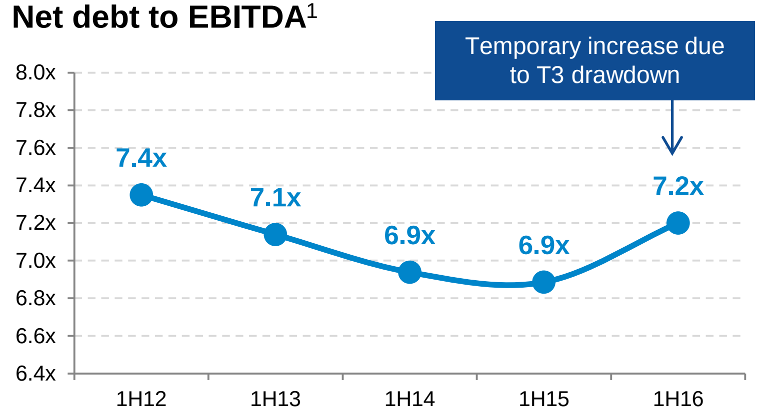
# Continued de-risking of balance sheet

**Strong interest coverage improvement**
**Continued diversification in offshore bond markets**

## Interest coverage (CFCR)



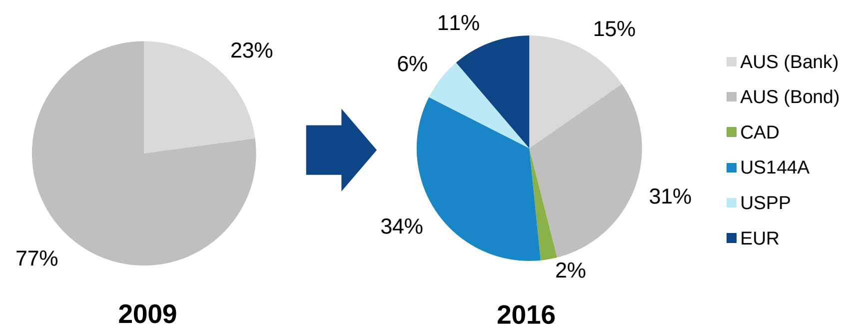

## Net debt to EBITDA[1]




## 30 June 2016 metrics

| | |
|---|---|
| Net debt | $7.6bn |
| Net debt \ EBITDA[1] | 7.2x |
| CFCR | 2.6x |
| Credit rating | BBB/Baa2 |
| Next drawn maturity | 2H 2018[2] |
| Average maturity | 2023 |
| Average cash interest rate[3] | 5.3% |
| Spot interest rate hedge position | 91% |

## Debt portfolio diversification




Debt metrics calculated for SCACH:
1. Ratio temporarily impacted by partial debt funding of T3 transaction in September 2015 without full annual EBITDA benefit; is expected to normalise following one year of operation
2. $87 million maturing in 2017 was repaid on 15 August with the proceeds of the DRP
3. Excludes capitalised interest, fair value of swaps and amortisation of debt establishment and other costs

# Successful US144A/RegS bond issuance

## Significant liquidity unlocked with funding objectives exceeded

### Optimised pricing

- ✓ Pricing inside current portfolio average
- ✓ 100% hedged currency and interest rate exposures

### Spread and lengthened maturity profile

- ✓ Average maturity lengthened by five months
- ✓ Profile spread and lengthened with gap filled in 2026

### Diversified funding sources

- ✓ Significant allocation to new investors
- ✓ Increased presence in deep offshore bond markets

### Maintained capacity for future raisings

- ✓ Significant oversubscription
- ✓ Successful return to US144A market sets a well priced benchmark for future issuance

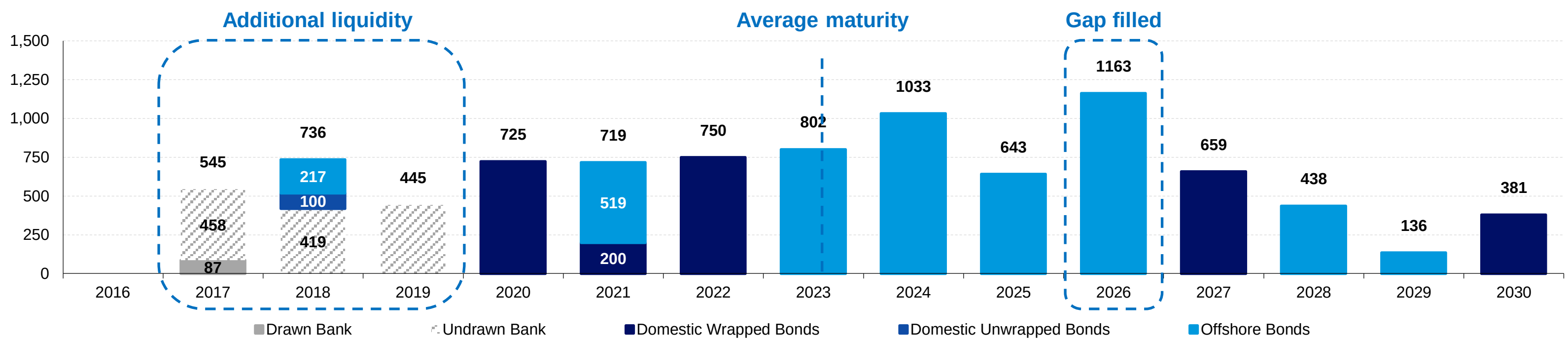
### Minimised execution risk

- ✓ Proactive approach reduces drawn debt maturities over the next four years by over 75%

### Maintained BBB/Baa2 credit rating

- ✓ BBB/Baa2 credit rating maintained

### De-risked debt maturity profile



# Investing in capacity and customer service improvements

**200 major capital projects currently underway, to expand capacity to improve the passenger experience**

### Terminal 1

- International terminal redevelopment and expansion, providing improved passenger experience, seating, greater retail offerings and new Marketplace dining area
- Redeveloping gate lounges to streamline boarding processes

### Ground transport

- Expansion of Domestic multi-storey car park, 480 new spaces
- Commenced reconfiguration of Domestic departures road, five lanes, improving traffic flow
- International precinct new Marsh St entry construction commenced
- New Domestic pick up strategy developed and due to commence in September

### Baggage

- Additional baggage make up loops to increase capacity of the outbound baggage handling system
- Upgrade of baggage reclaims hall to improve reliability of passenger experience
- Enhancement of check-in counter B East, with additional baggage handling facilities

### Bussing

- Expansion of the International terminal bussing capability, two new arrivals bussing lounges and an expended departures lounge increasing capacity

### Airfield

- Taxiway widening and airfield resheet, increasing capacity and accommodating larger, next generation aircraft
- Ongoing renewal of the airport security perimeter fence to improve airside security

### Check-in

- Expansion of check-in counter A and pier B east in International departures to provide 6 additional check-in counters

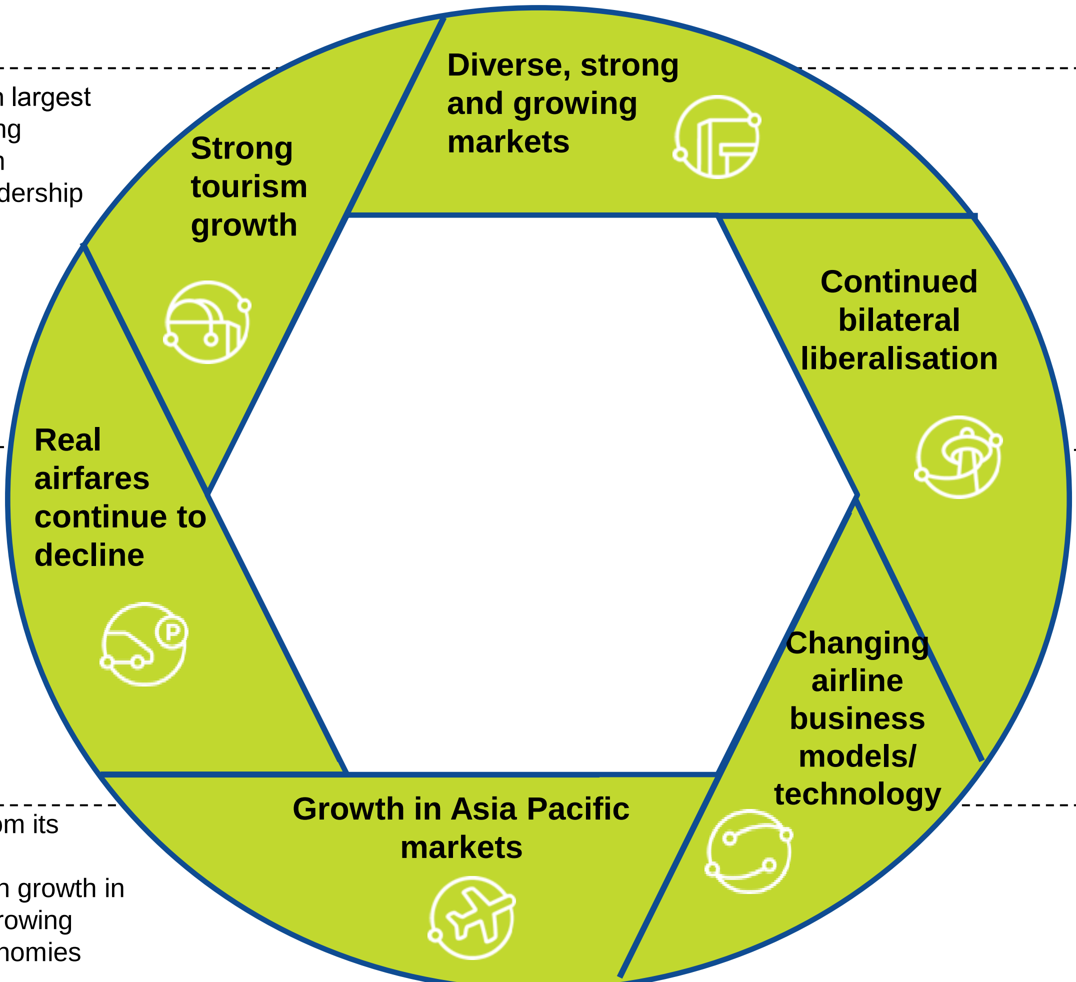
# Aviation business trends

# Aviation macro environment supporting strong growth

## Attractive macro economic conditions supporting strong passenger growth

- Tourism - Australia's fifth largest export and fastest growing
- Sydney is benefiting from collaborative tourism leadership

- Sydney Airport serves 28 countries and 95 destinations
- No single foreign nationality makes up more than 7% of international passengers




- Competition and technology - more competition and new aircraft technologies are changing the economics for airlines and lowering airfares

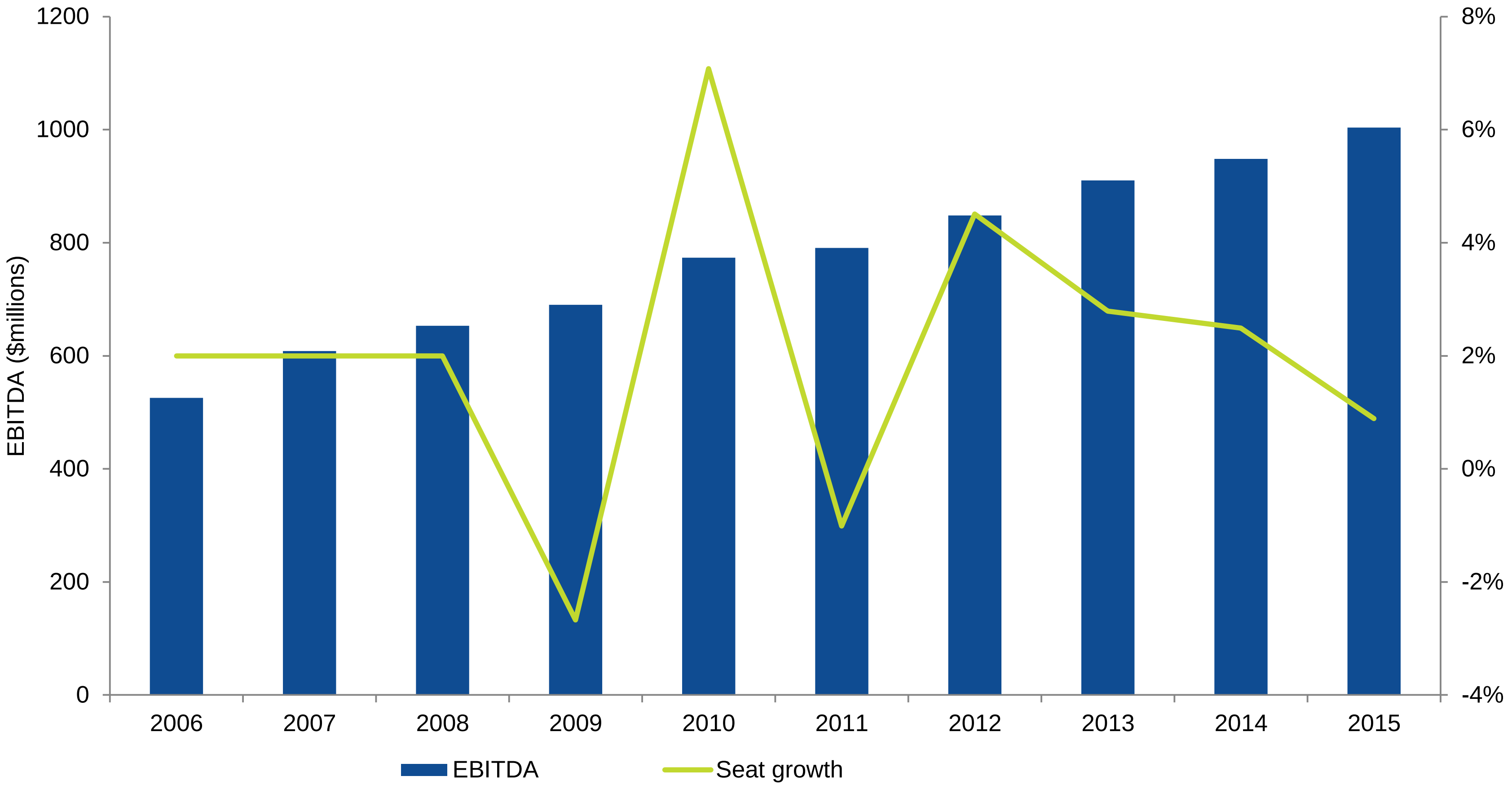
- 1.5 million new seats expected to be flown in 2016
- Load factors maintained through a period of strong capacity growth

- Low cost carriers providing lower fares, more aircraft seats efficient infrastructure usage
- Next generation aircraft are opening up new direct destinations that were previously unviable

- Australia is benefiting from its proximity to Asia
- Economic and population growth in the region is feeding a growing demand to travel as economies become more affluent

# Delivering growth through resilience in all economic cycles

**Sydney Airport has a long track record of delivering solid EBITDA growth, even in periods of lower seat growth**



# First half 2016 passenger growth

**Capacity increases and strong load factors from new and existing airlines drove 1H16 passenger growth**

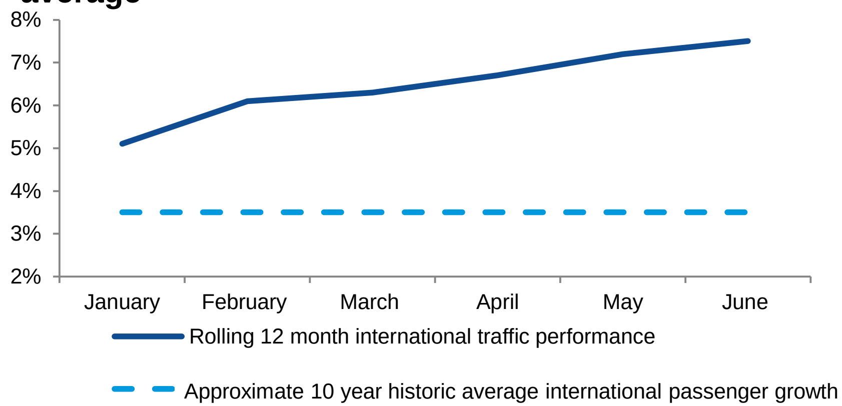
## Drivers of growth in 1H16

- Strong international growth driven by capacity increases and stable or growing load factors
- Performance again driven by strong Australian outbound demand, broad base of Asian nationalities and more traditional markets
- New seat capacity announcements during the half
  - Air Vanuatu - 5,000
  - China Airlines - 18,540
  - Hainan -156,000
  - Qantas - 149,000
  - Qatar - 133,000
  - Xiamen- 20,500

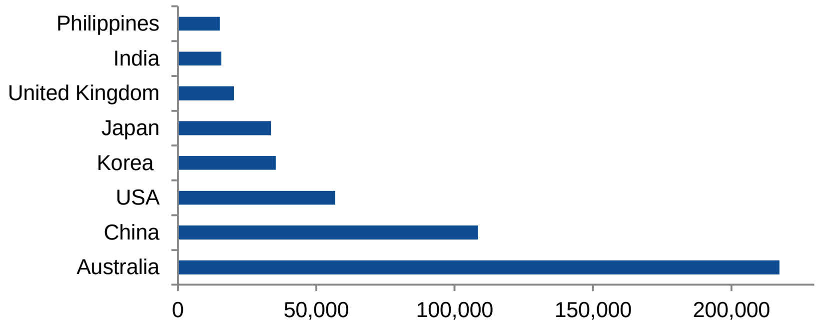
## Fastest growing nationalities in 1H16

| NATIONALITIES | GROWTH |
|---|---|
| Japan | +25.7% |
| Philippines | +23.7% |
| Korea | +21.1% |
| China | +19.6% |
| Vietnam | +19.5% |
| USA | +16.2% |
| Thailand | +12.7% |

## International passenger rolling 12 month performance now 7.5%, significantly above historic average



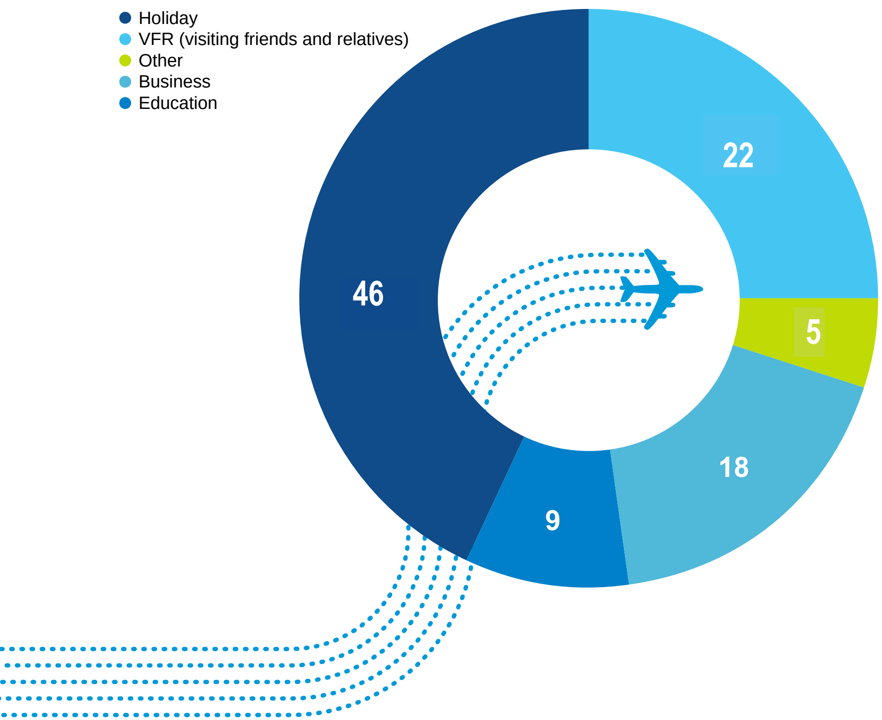

## Largest market growth in 1H16 by absolute passenger numbers



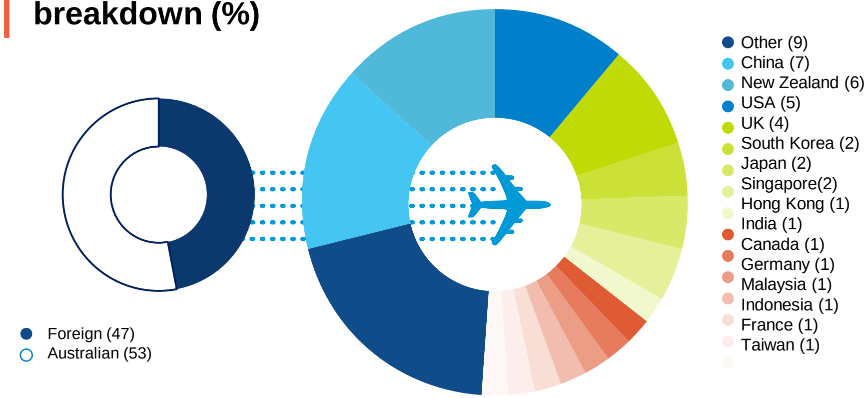
# Highly diversified passenger and destination mix

## Significant diversity in passenger nationalities and destinations served by Sydney Airport

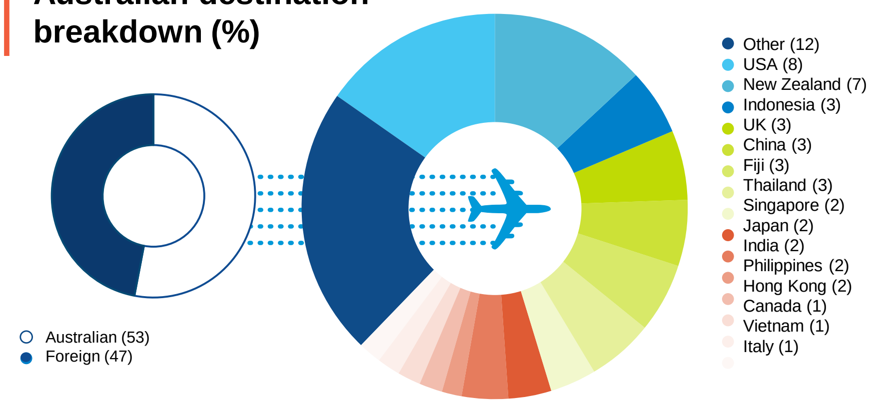
### Diverse purpose of travel of Sydney Airport's international visitors (%)




### Foreign nationality breakdown (%)




### Australian destination breakdown (%)




Source: DIAC, data recorded by residency and final destination

# Driving business growth

# Specialty and food and beverage expansion

**Passengers embracing new repositioned retail product; with positive sentiment and revenue growth**

### Key revenue contributors

- Strong duty free revenue contribution; five of six duty free stores complete and open in T1, with the remaining store scheduled to open 2H16
- Eight of 13 outlets now open in the new T1 fashion precinct, with the remainder scheduled to open progressively by 1H17
- Newly refurbished seven stores in T2 food court deliver 50% uplift in revenue

### Future growth opportunities

- New T1 Marketplace precinct is leased with seven new food and beverage outlets to commence trading 4Q16
- Seven new contemporary eateries in Pier C, including first to airport and Australia offerings, scheduled opening end of 2016
- Completion of further T2 food court refurbishment and additional leasing


# Property targeting new business opportunities

**Property delivers a strong underlying growth of 5.7%, following T3 transaction**

## Key revenue contributors

- Over 200 leasing transactions completed with 98.6% occupancy airport-wide
- Strong revenue contribution from car rental operators
- Construction commenced on the new hotel in the T2/T3 precinct to be managed by Mantra, completion expected mid 2017

## Future growth opportunities

- Hotel strategy expanded, with further opportunities in both T1 and T2/T3 precincts contemplated
- Exploring opportunities for development of aviation support and commercial facilities in under utilised sectors of the airport

# Car parking delivering growth through online booking and capacity expansion

**Continued strong growth in online products driving more efficient asset utilisation**

### Key revenue contributors

- Strong online penetration with 23% growth on pcp; online bookings now make up 38% of car parking revenue
- Strong international demand broadly in line with passenger growth
- Domestic demand impacted by space closures during construction, ground access changes and expansion of modal alternatives
- Demand management system optimising pre-booked pricing to efficiently manage demand


### Future growth opportunities

- Exploring future product and capacity expansion plans, to be delivered in line with demand
- 10% incremental capacity to be delivered in domestic and international precincts in 2017

# Investment in better access to and from the airport

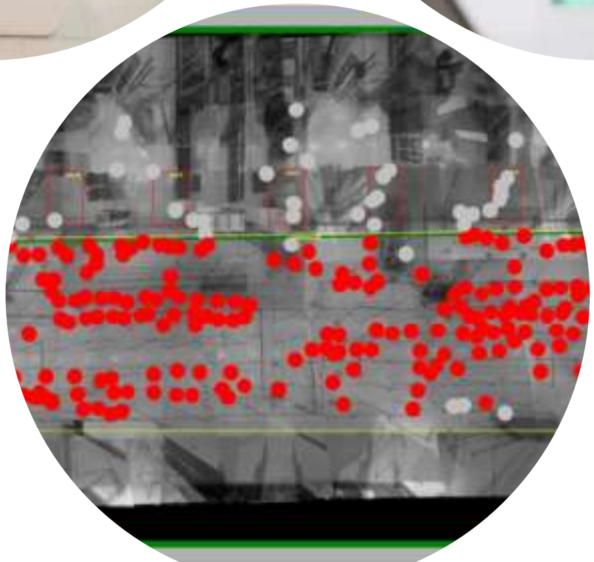
**Access improvements commencing, more peak throughput inbound and outbound, significantly more to come**


# Innovation delivering superior customer experience and improved airline operations

## Capacity pinch points being alleviated by technology








# Outlook

# Western Sydney Airport update

Sydney Airport

WSA

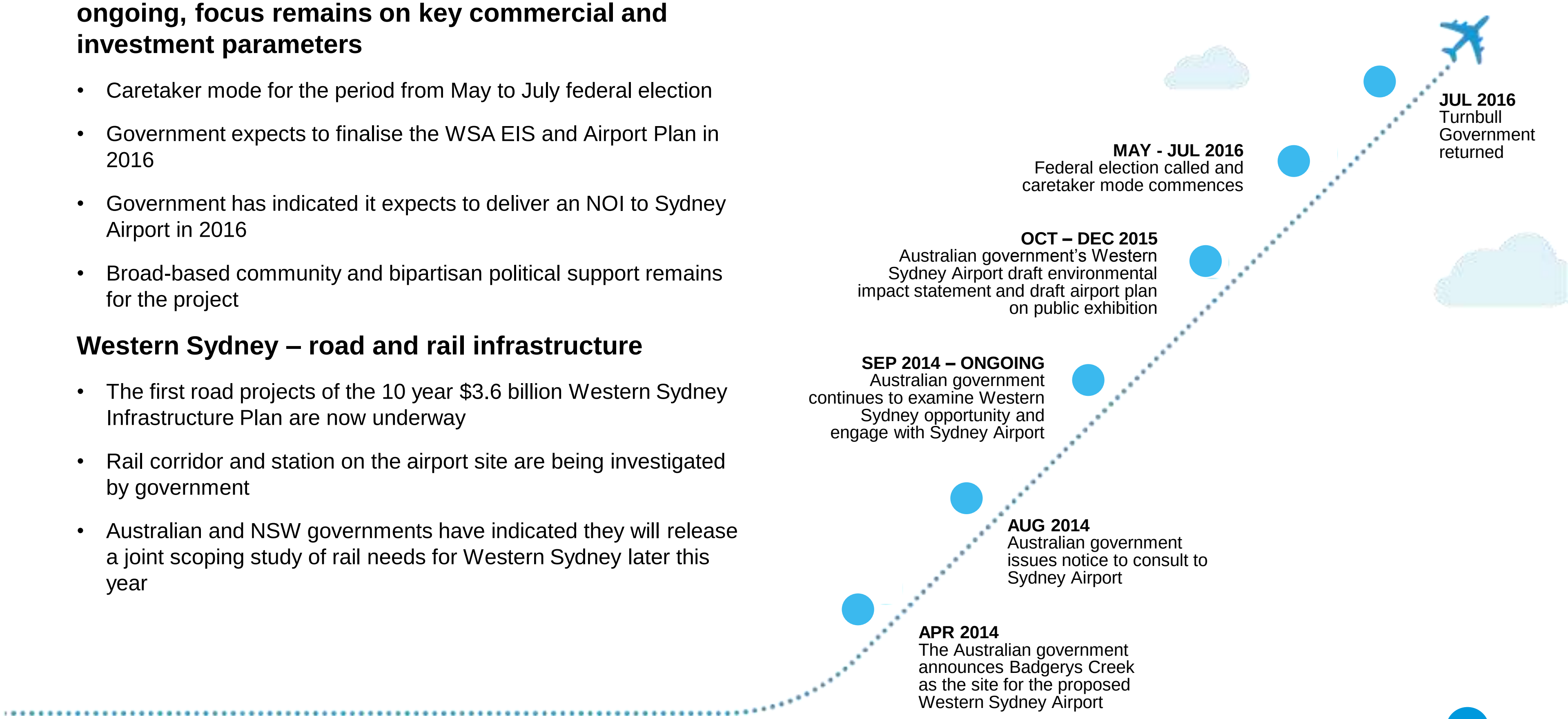
## Sydney Airport continues to examine the opportunity to develop and operate the Western Sydney Airport (WSA)

### Internal evaluation of the WSA opportunity is ongoing, focus remains on key commercial and investment parameters

- Caretaker mode for the period from May to July federal election
- Government expects to finalise the WSA EIS and Airport Plan in 2016
- Government has indicated it expects to deliver an NOI to Sydney Airport in 2016
- Broad-based community and bipartisan political support remains for the project

### Western Sydney – road and rail infrastructure

- The first road projects of the 10 year $3.6 billion Western Sydney Infrastructure Plan are now underway
- Rail corridor and station on the airport site are being investigated by government
- Australian and NSW governments have indicated they will release a joint scoping study of rail needs for Western Sydney later this year



# Outlook

**Positioned well to deliver future operational and distribution growth; distribution upgraded to 31 cps, growth of 21.6%**

## Macro environment

- ✓ Supportive macro environment
- ✓ Strong Australian and Sydney tourism market
- ✓ Benefiting from proximity to Asia and growing Asia Pacific markets
- ✓ Growing Sydney population

## Strategic initiatives

- ✓ Successful airline marketing strategy has delivered sustainable capacity from wide range of markets
- ✓ Successful implementation of investment program linked to increased aeronautical pricing of 4.8%
- ✓ Successful T3 transaction and integration
- ✓ Strong operational growth across all businesses
- ✓ Lowered cost of debt

## Long term opportunities

- ✓ Investment program to accommodate demand and earn appropriate returns
- ✓ Growth initiatives across all businesses targeting long term yield expansion
- ✓ Western Sydney Airport first right of refusal opportunity

# APPENDIX

# Investment merits

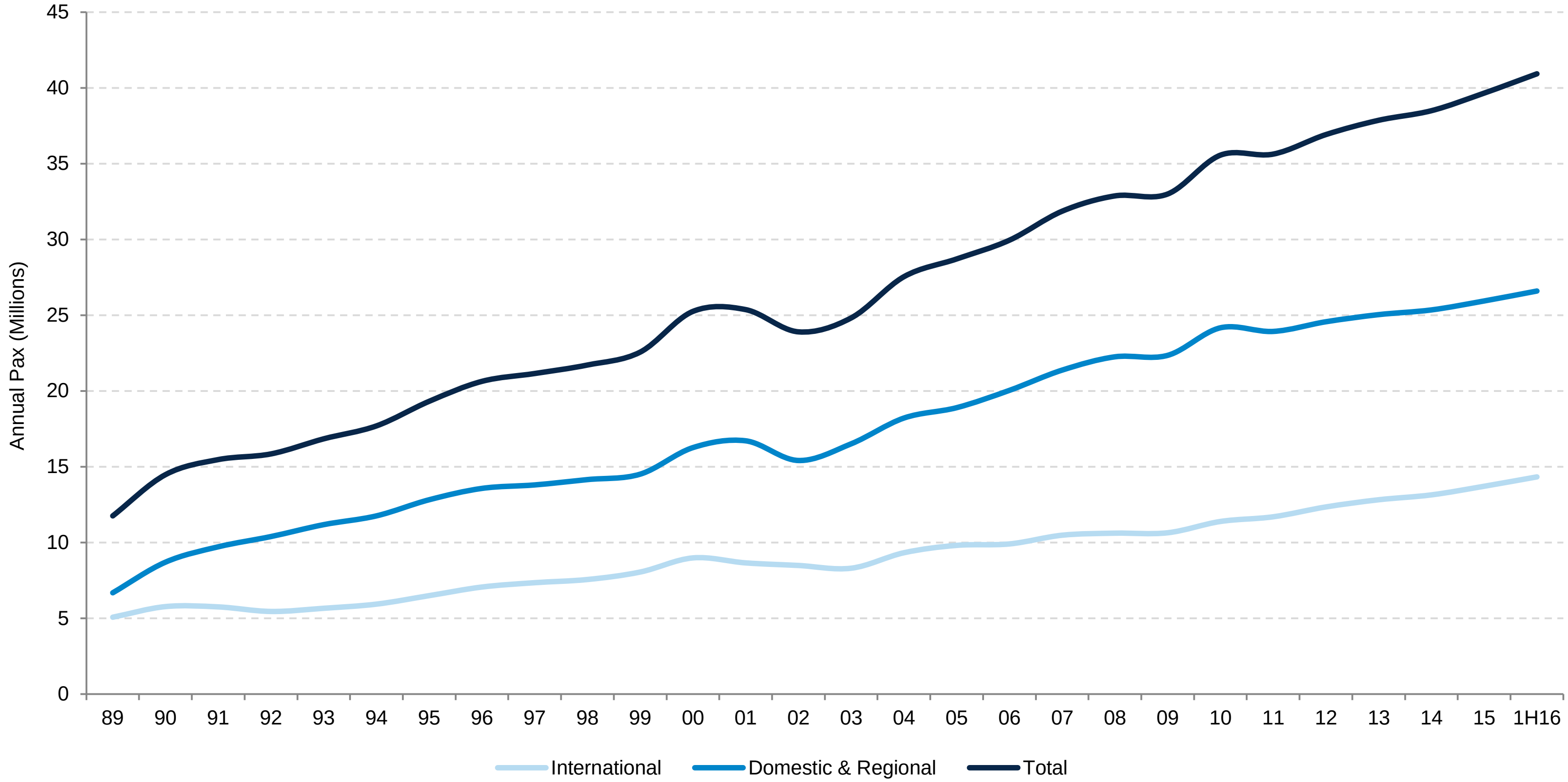
Sydney Airport

## Sydney Airport is one of the world's leading infrastructure assets

| | |
|---|---|
| **99 year leasehold** | • Lease until 2097 |
| **Catchment area** | • Core catchment area of 5m people, 7.5m people in NSW |
| **Strong passenger growth profile** | • Sydney is both a business and tourism hub, in a growing NSW economy<br>• Strong Asian connections – increasing urbanisation |
| **International passengers** | • Account for ~70% of passenger driven revenues but only 13% of available slots<br>• Significantly more valuable than domestic passengers |
| **Commercial opportunities** | • Downside protections via minimum guarantee mechanism<br>• Investment required to meet strict hurdle rates of return |
| **Light handed regulatory framework** | • Direct agreements with airlines include contractually agreed charges increases<br>• Dual till principle enshrined in regulatory framework |
| **Outsourced model** | • Controllable operating costs contracted and traffic relatively inelastic |
| **Consistent growth and downside protections** | • Long term contracts with airlines and tenants<br>• CPI or higher escalation in retail and car parking revenues. CPI or market rent reviews for property<br>• Growth initiatives across all businesses |

# Long term traffic growth

## Resilient passenger growth across all economic cycles

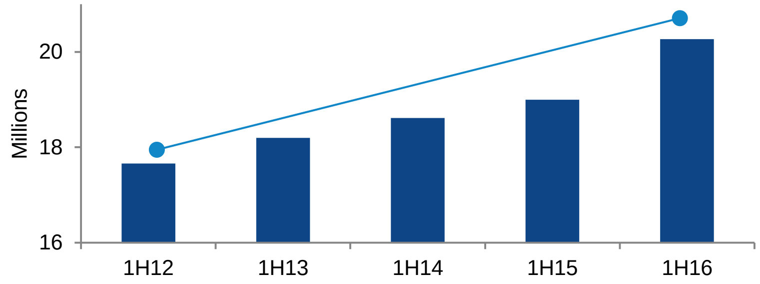


# Consistent track record of growth

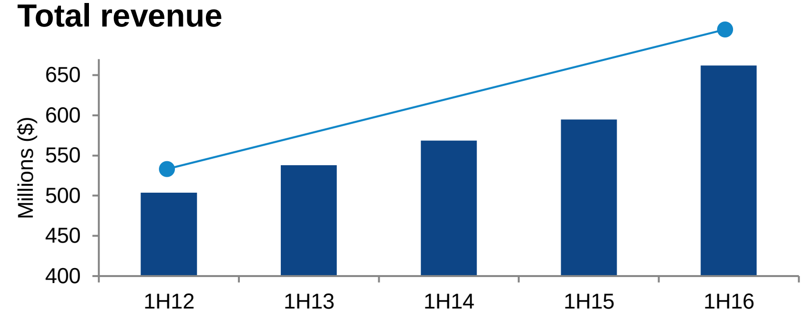
Sydney Airport

**Passenger growth** → **EBITDA growth** → **Cash flow outcomes** → **Investor returns**

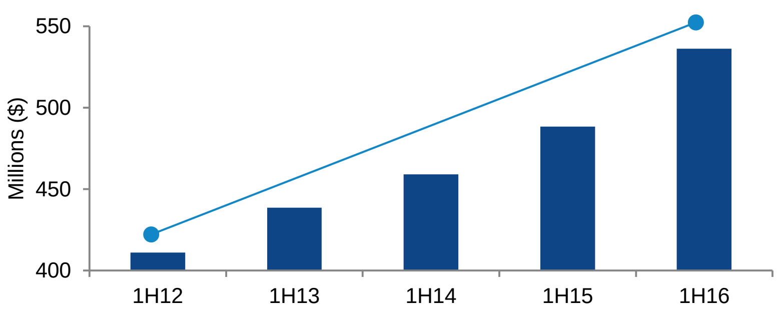
## Total passengers



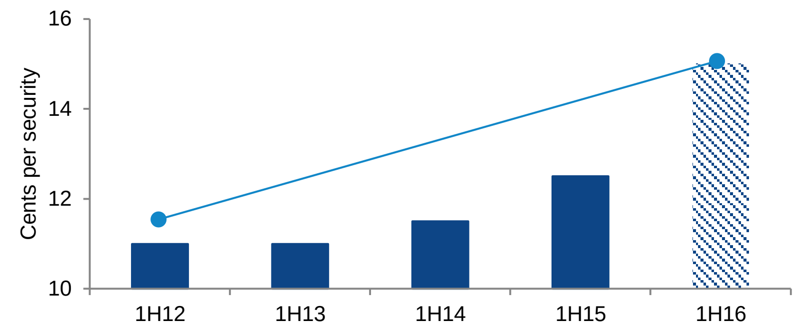

## Total revenue




## EBITDA




## Distributions



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# for your attention