Sydney Airport

ASX RELEASE

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Results for full year ended 31 December 2014

- Strong revenue growth across all businesses with group revenue increasing 4.3%
- EBITDA growth of 6.1% on passenger growth of 1.7%
- 23.5 cents per stapled security distributions fully covered by net operating receipts
- Total investor return[1] of 30.5% strongly outperforming the ASX200 accumulation index by 17.9 percentage points
- 2015 distribution guidance of 25.0 cents per stapled security, subject to external shocks to the aviation industry and material changes to forecast assumptions

"2014 continued the growth and momentum across all of Sydney Airport's businesses as we continue to successfully deliver our strategy that focuses on growing distributions for investors. In 2014 Sydney Airport paid distributions of 23.5 cents per stapled security, a 5.5% yield on the average security price.

"EBITDA grew by 6.1% on passenger growth of 1.7%. Key drivers of this result were international passenger growth of 2.8%[2] particularly from China, Australia, USA, India and Malaysia, returns on capital investment in aviation infrastructure, commercial business initiatives which drove yield improvement and continued cost control.

"Key achievements in 2014 included a successful retender of the duty free contract, commencement of works on a ground transport plan in collaboration with the NSW government, refinancing $3.1 billion of debt, growth in all commercial businesses and on time and on budget delivery of the $241.5m capital investment program.

"Today we announce distribution guidance of 25.0 cents per stapled security for 2015, fully covered by net operating receipts and representing growth of 6.4% over 2014. Our continued growth in operations and distributable cash underpins this increase. Guidance remains subject to external shocks to the aviation industry and material changes to forecast assumptions. We also provide updated capital expenditure guidance of $1.2 billion for the next five years, 2015-2019." Sydney Airport managing director and chief executive officer, Kerrie Mather, said.

1. 2014 Financial Highlights

Sydney Airport Financial Performance	FY 2014
Revenue	$1,163.5m
EBITDA	$948.3m
Profit After Income Tax Attributable to Security Holders[3]	$59.1m
Net Operating Receipts per Stapled Security	23.7c
Distribution per Stapled Security	23.5c
Coverage	101%

1 Total investor return is calculated as the increase in security price plus distributions, calculated from 1 January to 31 December 2014
2 Excluding domestic on carriage
3 Taken from the Sydney Airport audited Financial Report for Year Ended 31 December 2014

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2. Performance and Operations

EBITDA growth of 6.1% for 2014 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, increasing in line with inflation and further contributing to solid EBITDA performance.

3. Revenue

Total revenue increased 4.3% in 2014 to $1,163.5 million, with strong growth across all businesses.

Aeronautical revenue grew 4.9% to $486.8 million in 2014. Strong international passenger growth and investment in aviation capacity and aeronautical facilities drove growth. Prior period aeronautical investments with the largest impact on revenue growth in 2014 include an additional A380 gate in T1, new and reconfigured aprons, terminal and baggage handling improvements and airfield upgrades for Category II operations.

International passenger growth of 2.8% was driven by load factors which improved 1.6 percentage points in 2014. Higher load factors provide a leading indicator for future airline capacity growth.

International traffic continued to benefit from strong growth in Asian travellers. In particular, Chinese nationals were again Sydney's fastest growing market, up 16.4% in 2014. Growth in Chinese travellers through Sydney Airport accounted for 50% of foreign nationality growth. Australian nationality travellers, the largest market at approximately half of all international travellers, grew by a robust 1.4% in 2014.

Sydney Airport welcomed Cebu Pacific Air for the first time in 2014 as well as a new route from Fiji Airways. In addition, Virgin Australia, China Airlines, Malaysia Airlines, Philippine Airlines, LAN and Singapore Airlines delivered frequency increases and Qantas, Air Canada and Cathay Pacific increased seat capacity by upgauging aircraft. Etihad announced it will deploy its second flagship A380 aircraft on the Sydney route in 2015, adding 38% more capacity between Sydney and Abu Dhabi.

The domestic market saw 1.2% passenger growth in 2014 supported by both load factor improvement and capacity growth. Load factors increased 1.9 percentage points in the second half of 2014. 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.

Retail revenue increased 5.6% to $255.2 million in 2014. During the year, Sydney Airport successfully completed a retender of the duty free contract with the appointment of Gebr. Heinemann. The new contract formally commenced on 17 February 2015 and will run for seven and a half years until 31 August 2022. 2014 also saw the start of the staged re-development of the T1 landside foodcourt which will allow for 15 new tenancy fit outs due to complete in the second quarter of 2015. T2 retail revenues grew strongly, driven by increased passenger numbers and the full year effect of the increased retail offering (completed in late 2013) following the expansion of T2 Pier A. Advertising revenues grew by 13% through an increased level of demand, the addition of new sites and the refurbishment and upgrade of existing sites.

Property and car rental revenue grew 3.6% to $194.0 million in 2014. Contracted escalations, new tenancies, rent reviews and robust occupancy at 98% drove growth in revenues. Four additional airline lounges including the Virgin expansion at T2, Etihad T1, T1 Skyteam and T1

American Express opened in late 2013 and 2014, contributed to the growth in revenue. Looking forward, Sydney Airport received approval to develop a 2/3 star 126 room hotel next to the existing Ibis Budget hotel and commenced the development of the Northern Airport Precinct landside bridge, providing access to additional commercial areas for future development.

New car rental contracts were negotiated in 2014 with all six existing on-airport car rental operators. As part of the new contracts, additional operational parking spaces at domestic and international precincts are being made available to facilitate increased demand from the car rental industry.

Car parking and ground transport revenues grew by 5.7% in 2014 to $139.9 million. Growth of 5.7% is relative to 1.2% growth in domestic passengers, the major parking customers, reflecting a 6% increase in capacity (964 domestic spaces), growth of online products and the improved utilisation of car parking infrastructure. Online bookings now contribute approximately 29% of car parking revenues and 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.

4. Operating Expenses

Operating expenses decreased 7.1% to $215.3 million in 2014. The main driver of the decline was significantly lower investment transaction expenses, which were one-off costs relating to the simplification completed in 2013. Underlying operating costs, excluding investment transaction expenses and security recoverable expenses, rose by 2.2% approximately in-line with inflation. Management continue to tightly control operational expenditure without compromising the focus on improving service quality and passenger facilitation.

Tight management of staff costs, renegotiating utility contract supply prices and the repeal of the carbon tax reduced operating costs and offset increases in property maintenance, registry and communication costs. Property maintenance costs increased with a larger revenue asset base and corporate costs increased due to the materially higher number of listed investors following the Macquarie Group in-specie distribution.

5. Capital Expenditure

Capital expenditure was $241.5 million in 2014. Capital investment in aviation capacity and facilities represented more than two thirds of total capital expenditure (consistent with long term capital expenditure).

Key projects commenced or delivered in 2014 included:

- Two new 90 metre baggage reclaims carousels and new baggage make up area in T1, facilitating additional capacity and ability to efficiently process larger aircraft such as the A380;
- An advanced automated early bag store and sorting facility, that will allow passengers to check in five hours before departure and improve the efficiency of baggage loading;
- Re-sheeting, widening and enhancements to taxiways;
- High intensity approach lighting and new centre line lighting to support Category II operations;
- T1 bathroom upgrades; and
- Ground transport road works.

Guidance of $1.2 billion investment at Sydney Airport over the next five years assumes the continued incremental delivery of capacity to support peak growth. Management will continue to make investment decisions in consultation with airlines and in-line with demand. The investment program remains flexible to meet the changing needs of airlines and operating conditions. Short term capital expenditure includes projects such as T1 improvements providing more seating and clear pathways, continued investment in the early baggage storage system at T1, ground transport works and ongoing airfield upgrades. Medium term capital expenditure includes incremental terminal expansion, airfield upgrades, ground transport works and a range of commercial initiatives all consistent with the Master Plan 2033. Significant undrawn bank facilities are available to fund the forecast capital investment program into 2018.

6. Capital Management and Balance Sheet Strength

Net debt as at 31 December 2014 was $6.4 billion, increasing primarily by 2014 capital expenditure of $241.5 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/EBITDA reduced to 6.9x. Currency exposure is 100% hedged and interest rate exposure at 31 December was 83% hedged. Balance sheet metrics remain strong, with undrawn facilities and cash of approximately $1.0 billion in aggregate available to provide financial flexibility and fund growth capital expenditure into 2018.

In 2014, Sydney Airport 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, successfully delivering $3.1 billion of refinancing. The refinancings comprised a European bond of A$1.0 billion, bank debt facilities of A$1.5 billion, and US Private Placement (USPP) bonds of A$0.6 billion. Bond issuances were significantly oversubscribed. The European bond and the USPP each represent new international debt markets for Sydney Airport. A proven ability to raise capital at attractive rates in a range of credit markets provides greater flexibility for future debt raisings.

As a result of the refinancing the weighted average debt maturity lengthened by over two years to mid-2022. The next debt maturity is in the second half of 2015 and represents only 6% of total debt outstanding.

7. Key Initiatives

Customer Experience

Sydney Airport is focused on listening to customers and improving the experience at every stage of the journey through superior customer service, operational efficiency and technological innovation. Investing in services and infrastructure that improves the safety, efficiency and amenity for those visiting or travelling through Sydney Airport also leads to improved business outcomes in revenue and costs.

In 2014, Sydney Airport continued to work with airlines, government, on-airport businesses, staff and the community to deliver an improved customer experience. Initiatives included consultation on ground transport proposals, increased number of self service check in kiosks and automated bag drop at T1 in partnership with Qantas. In addition, the expansion of the airport ambassador program enhanced Sydney Airport's ability to provide real-time information to customers, particularly through increasing the number of Mandarin speaking ambassadors to over 70. On the airfield, the commissioning of satellite-based navigation technology and upgrade to Category II operations by the Civil Aviation Safety Authority makes Sydney Airport a world leader in satellite landings and has reduced airborne delays.

Ground Transport

Ground transport is a major focus area for Sydney Airport, airlines, passengers, staff and the community. The NSW Government and Sydney Airport jointly announced a combined investment of approximately $500 million (including $40m from the Commonwealth Government) to improve traffic flow in and around Sydney Airport with a suite of ground transport solutions and airport facility upgrades. NSW Government and the Commonwealth will be responsible for the investment in roads surrounding the airport and Sydney Airport will carry out the upgrades within the airport precinct.

The first stage in a series of works at T1 was completed in December 2014. This included a new centre road through the precinct, a purpose-built public pick-up area and relocation of boom gates to improve traffic flow. The works will continue with commencement of construction of the Marsh Street to Centre Road connection in 2015.

Following extensive community consultation, a draft major development plan was lodged with the Minister for Infrastructure and Regional Development in December 2014. The plan includes a one-way road network linking the T2/T3 precinct to Airport Drive and Robey Street, a ground transport interchange with facilities for public transport, an improved pedestrian corridor to the terminals and a 4-5 star hotel. Traffic modelling completed in consultation with Transport for NSW shows the road will improve traffic circulation by eliminating competing traffic movements and providing motorists with more green light time at major intersections.

Sydney Airport's forecast capital expenditure for ground access improvements to 2019 is included in the five year $1.2 billion capital expenditure guidance. These ground transport investments are expected to be recovered through the standard aeronautical and commercial mechanisms.

New Duty Free Partner

Following a global tender process carried out during 2014, Gebr. Heinemann was awarded a seven and a half year contract, commencing on 17 February 2015. The new contract is on improved terms for Sydney Airport and will be important in growing retail revenues. Heinemann will introduce a new and innovative duty free experience tailored to customers progressively throughout 2015 and 2016. Heinemann will incorporate 400 new brands and will offer customers the convenience of online shopping, mobile shopping and a digital loyalty app.

Sydney Airport will be undertaking a range of works in 2015 to transform the retail areas at T1 for Heinemann's new duty free product. Sydney Airport will complete the work in stages to ensure that the terminal will continue to efficiently accommodate passengers throughout the year. The development will also provide an improved food and beverage offering together with a comprehensive range of luxury specialist shops.

Heinemann's new duty free product and Sydney Airport's transformation of T1 will ensure the duty free and retail businesses will continue to grow in the future.

Western Sydney Airport

Under the 2002 Sydney (Kingsford Smith) Airport Sale Agreement, Sydney Airport has a Right of First Refusal, for the opportunity to develop and operate a second major airport within 100 kilometres of Sydney's CBD.

In April 2014 the Australian Government announced that Badgerys Creek would be the site for the Western Sydney airport. The Government has outlined its expectations for the Western Sydney airport:

- Could be operational from the mid-2020s
- Built to serve new demand
- Anticipated 3 million passengers on opening
- Initial stage – single runway on opening
- Expected to be a full service airport

The Australian Government issued, and Sydney Airport accepted, a Notice to Consult on the development and operation of a Western Sydney airport on 18 August 2014. The nine-month consultation period commenced on 30 September 2014.

Sydney Airport is fully committed to the formal consultation process with the Australian Government. Given the size, complexity and importance of this project, it is crucial that the Western Sydney airport is designed, constructed and operated in the most efficient manner.

Sydney Airport has a team of internal and external experts evaluating the project. The work streams include but are not limited to – passenger forecasting, demographics, airport design and operation, planning and commercial development, environmental analysis, funding and financial modelling.

Following the end of the formal consultation and after a period of consideration, the Australian Government may enter a contractual phase which would involve issuing Sydney Airport a Notice of Intention setting out the material terms for the development and operation of the Western Sydney airport. The Australian Government would then allow Sydney Airport either four or nine months to consider the exercise of its option.

Sydney Airport anticipates that the business case analysis and evaluation of the opportunity would continue through both the consultative and subsequent contractual phase; these are expected to take up to 18 months to complete.

8. Distributions

In 2014 Sydney Airport declared full year distributions of 23.5 cents per stapled security. The distribution was more than 100% covered by net operating receipts.

The Distribution Reinvestment Plan (DRP) remained available for both the interim and full year distribution with no dilution for investors, as securities were acquired on-market with no discount. The investor response to the DRP has been exceptional with a 17% and 15% take-up for the interim and full year distributions respectively. This demonstrates the demand for Sydney Airport's predictable and growing earnings as well as solid yield.

Distribution guidance of 25.0 cents is announced for the full year 2015, representing growth of over 6.4%. Sydney Airport is committed to delivering continued strong growth in distributions over the long term.

9. Outlook

Management remain focused on improving the customer experience and in turn driving stronger business outcomes. Key focus areas include T1 transformation and reconfiguration, renewal of international aeronautical charges agreements expiring at the end of June 2015, continued construction of the ground transport works and the Western Sydney Airport consultation.

Sydney Airport's balance sheet strength supports financial flexibility, with substantial liquidity and undrawn credit facilities available to fund future capital expenditure into 2018. 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.

Distribution guidance of 25.0 cents per stapled security for 2015 reflects confidence in the continuing growth in free cash flow. Guidance remains subject to external shocks to the aviation industry and material changes to forecast assumptions.

Sydney Airport is well positioned to capture future traffic growth as a result of its unique global position including proximity to an emerging Asian middle class, a strengthening NSW economy and serving the leading business centre and tourist destination of Sydney. Continued innovation, management initiatives, disciplined investment evaluation and a strong balance sheet positions Sydney Airport for ongoing operational and cash flow growth.

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10. Financial Highlights

	6 months to 31 Dec 2014 $m	6 months to 31 Dec 2013 $m	Change[1] %	12 months to 31 Dec 2014 $m	12 months to 31 Dec 2013 $m	Change[1] %
Revenue						
Aeronautical	250.5	240.6	4.1%	486.8	464.2	4.9%
Aeronautical security recovery	40.2	41.7	-3.6%	81.5	83.7	-2.6%
Retail revenue	130.2	125.2	4.0%	255.2	241.6	5.6%
Property and car rental revenue	97.6	96.9	0.7%	194.0	187.2	3.6%
Car parking and ground transport revenue	73.5	69.4	5.9%	139.9	132.3	5.7%
Other	3.1	3.5	-11.4%	6.1	6.2	-1.6%
Total revenue before other income	**595.1**	**577.3**	**3.1%**	**1,163.5**	**1,115.2**	**4.3%**
Other income						
Profit on disposal of non-current assets	0.1	0.1	n/a	0.1	0.2	n/a
Profit on disposal of interest in Newcastle Airport	-	-	n/a	-	9.7	n/a
Total revenue and other income	**595.2**	**577.4**	**3.1%**	**1,163.6**	**1,125.1**	**3.4%**
Expenses						
Employee benefits expense	22.8	24.3	-6.2%	46.9	48.1	-2.5%
Services and utilities	25.4	26.2	-3.1%	52.4	51.8	1.2%
Property and maintenance	9.8	9.8	0.0%	19.7	18.8	4.8%
Security recoverable expenses	35.2	36.4	-3.3%	71.5	73.1	-2.2%
Other operational costs	11.8	10.5	12.4%	23.4	20.4	14.7%
Restructuring and redundancy	0.1	-	n/a	0.2	-	n/a
Expense before investment transaction expenses	**105.1**	**107.2**	**-2.0%**	**214.1**	**212.2**	**0.9%**
Other expenses						
Investment transaction expenses	0.8	15.2	-94.7%	1.2	19.3	-93.8%
Total Expenses	**105.9**	**122.4**	**-13.5%**	**215.3**	**231.5**	**-7.1%**
EBITDA before other income and investment transaction expenses	**490.0**	**470.1**	**4.2%**	**949.4**	**903.0**	**5.1%**
EBITDA	**489.3**	**455.0**	**7.5%**	**948.3**	**893.6**	**6.1%**
Net external cash finance (costs)/income	(200.6)	(203.7)	-1.5%	(405.3)	(404.7)	0.1%
Movement in cash reserved for specific purposes and other items	(18.9)	(16.4)	n/a	(17.9)	(17.0)	n/a
Cash flow timing differences and net corporate transaction items[2]	0.1	4.0	n/a	-	8.9	n/a
Cash flows available for minority interests[3]	-	(0.3)	n/a	-	(36.0)	n/a
Net operating receipts available to SYD security holders[4]	**269.9**	**238.6**	**13.1%**	**525.1**	**444.8**	**18.1%**
Stapled securities on issue (millions)	2,216	1,861	19.1%	2,216	1,977	12.1%
Net operating receipts per stapled security	**12.2c**	**12.8c**	**-5.0%**	**23.7c**	**22.5c**	**5.3%**
Distributions per stapled security	**12.0c**	**11.5c**	**4.3%**	**23.5c**	**22.5c**	**4.4%**
Capital expenditure	**146.0**	**141.8**	**3.0%**	**241.5**	**241.3**	**0.1%**
Passengers (millions)						
International (including domestic-on-carriage)	6.7	6.7	0.0%	13.1	12.8	2.5%
Domestic (including regional)	13.2	13.0	1.5%	25.4	25.1	1.2%
Total passengers	**19.9**	**19.7**	**1.0%**	**38.5**	**37.9**	**1.7%**
Per passenger measures ($)						
Revenue before specific revenue	29.9	29.3	2.0%	30.2	29.4	2.7%
EBITDA before specific revenue and expenses	24.6	23.9	3.2%	24.7	23.8	3.5%

[1] Percentage change may not tie exactly due to rounding.

[2] From 2014 net corporate transaction items are consolidated in the income statement.

[3] Cash flows available for minority interests represents cash flows available to direct and indirect minority interests in Southern Cross Airports Corporation Holdings Limited (2014: nil, 2013: 7.4%).

[4] Refer to the Directors' Report in the Sydney Airport Financial Report for a reconciliation of statutory profit before tax to Net Operating Receipts.

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