

22 August 2018

Growth and investment delivering strong performance

- Sydney Airport welcomed 21.6 million passengers in 1H18, up 3.3%; international passengers grew 5.2%
- EBITDA \$623.4m, up 8.1% on the prior corresponding period (pcp)
- Growth across all businesses with total revenue increasing 7.9%
- Prudent cost control, total expenses excluding security and normalised for hotels, 2.5%
- Capital investment of \$179.6 million, delivering aviation capacity, service and customer facility improvements, improved airport access and an improved customer experience
- Strong balance sheet with robust BBB+/Baa1 grade credit metrics. Significant balance sheet flexibility with over \$1.4 billion in undrawn facilities as at 30 June
- Full year 2018 distribution guidance reaffirmed at 37.5 cents per stapled security, an increase of 8.7% on the 2017 distribution, subject to external shocks to the aviation industry and material changes to forecast assumptions

Sydney Airport Chief Executive Officer, Geoff Culbert said: “Sydney Airport today announced a strong result for the half year to June 2018, underpinned by continued international passenger growth, a solid performance across our non-aeronautical businesses, efficient capital investment and prudent cost control.

“Over the half, we enhanced Sydney Airport’s connectivity, providing new air services and increased capacity, while investing in new and improved facilities that are delivering efficiency, value and choice for our customers. A key example of our ongoing focus and investment in the customer experience is our world-leading facial recognition trial, which commenced during the half year.

“Total passengers were up by 3.3% to 21.6 million, with international passengers growing 5.2% to 8.1 million. This result reflects our targeted marketing strategy, our partnerships with government and industry, ongoing benefits from the liberalisation of air rights, prudent investment in capacity and favourable global tourism and travel trends.

“EBITDA grew 8.1% with key drivers including international passengers and a strong contribution from Retail and Property. We see both growth and improvement opportunities across our four businesses and have a significant investment program underway that will deliver efficient capacity, an improved customer experience and service excellence for our customers.”

Financial results

Total revenue grew by 7.9%, primarily driven by international passengers, the benefits of capital investment, and growth across the four parts of our business with strong performances from Aeronautical, Retail and Property:

- **Aeronautical:** Up 7.6%¹ reflecting 5.2% international passenger growth, agreed international charge increases and continued targeted capital investment in aeronautical facilities
- **Retail:** Up 8.9% following the completion of lease renewals on superior terms for our travel essentials contract and a number of T3 leases. Duty free continues to trade well and more than 85% of T2 pier B in construction has been leased with the first staged opening expected in December this year, in time for the busy Christmas period

¹ excluding security recoverable revenue



- **Property and car rental:** Up 10.9% due to our new investment in hotels, with both Ibis Budget and Mantra performing well. In addition, car rental has delivered a solid performance with new desks leased to the Avis Budget Group in the domestic precinct. A Heads of Agreement has been signed with new lounge operator for a new lounge space in Terminal 1
- **Car parking and ground transport:** Up 2.1% driven by an improved performance in online bookings, now contributing nearly 45% of revenue, and the domestic and international priority pick up products providing a solid result

Total headline operating expenses increased by \$10.8 million or an increase of 7.9%. When normalised for controllable expenses (ex-security) and new hotel expenses not recorded in the pcp, operating expenditure only increased by 2.5%, reflecting investment in product being offset by cost savings.

Investing in capacity and efficiency for our airline partners and passengers

Customer experience continues to be a key focus for the Airport. We are listening and acting on the feedback from our customers and stakeholders. We have seen pleasing results through an increase in our independent customer satisfaction scores, as customers benefit from more efficient operations, real-time information, an improved retail offer and a more seamless journey.

Not only have our ongoing efforts been reflected in our passenger ratings, which increased from 3.95 to 4.11 over the pcp but Sydney Airport was also voted the top airport in the Australia/Pacific region in the world's largest customer satisfaction survey, Skytrax.

Today, we have reaffirmed our capex guidance of up to \$1.3-\$1.5 billion for the 2018-2021 period inclusive, with approximately \$360-\$400 million expected to be invested for the full year 2018. Capital expenditure was \$179.6 million for the first half of 2018 and included the following major projects:

- **Aeronautical capacity:** Increasing the size of certain aircraft parking bays to further cater for aircraft upgauging, more efficient, expanded gate lounge areas and the delivery of innovative technology initiatives, including the recent introduction of self-service check-in and bag drop in the international terminal and the commencement of Sydney Airport's landmark biometrics processing trial.
- **Terminal works:** Refurbished baggage reclaim areas, upgraded baggage systems, improved arrivals areas and gate lounge finishes and dwell spaces at T1 including additional charging facilities for customers, and new and refurbished bathrooms at both domestic and international.
- **Airport access:** A new fly-over road into the international precinct to further improve traffic flows and reduce congestion, complemented by the continued roll out of state-of-the-art variable message signage across the precincts.
- **Business expansion:** An extension of the Ibis Budget Hotel to meet demand and the conversion and expansion of terminal spaces in our T2 domestic terminal to increase circulation and provide a new, high-quality dwell area to supplement the current gate seating, retail and food court areas.

Balance sheet

We have continued to strengthen our balance sheet and credit metrics, with our cashflow cover ratio increasing to 3.1x, from 2.9x at 1H17, and our net debt to EBITDA ratio reducing to 6.7x from 6.8x at 1H17. Pleasingly, S&P and Moody's both upgraded the airport's credit rating to BBB+/Baa1 respectively during the half year.

We also continued to effectively manage our interest rate risk exposures, with 90% of all debt hedged on a spot basis as at 30 June 2018. \$1.6 billion of forward starting interest rate swaps were executed during the half year with a further \$1.8 billion of forward starting swaps executed since 30 June. Currency exposures on offshore debt remain 100% hedged.

Our proactive capital management approach saw the successful issuance of a EUR500m (AUD796m) 10-year Euro bond in April significantly enhance our liquidity position, with \$1.4 billion of bank debt facilities as at 30 June to fund future debt maturities and investment.

Sustainability

Our sustainability strategy is delivering positive outcomes for our customers, investors and the community in which we operate. To further demonstrate our commitment to sustainability, best practice disclosure and climate action, Sydney Airport has become an early adopter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures Recommendations (TCFD). We publicly support these recommendations and are committed to ensuring our climate disclosures are aligned.

We have also signed a major deal which will contract up to 75% of our electricity load with Grassroots Renewable Energy, a partnership of Partners Group and CWP Renewables with baseload firming provided by Origin Energy. The agreement will provide meaningful cost reduction, while supporting Sydney Airport's transition to renewable energy and its target of 50% reduction in carbon intensity by 2025. The contract will support the construction of Crudine Ridge Wind Farm near Mudgee, which will generate sufficient megawatts to reduce Australia's CO₂ by the equivalent of almost 80,000 vehicles each year.

Our 2039 Master Plan will be on public display from 27 August and has been developed ensuring sustainability principles are integral to our planning processes and has achieved a four star Green Star Communities rating.

Community Investment and Contribution

Sydney Airport is committed to making a meaningful contribution to the communities in which we live and work and helping them thrive. In 2017, we contributed \$4.9 million to these communities and have renewed our commitment in 2018, supporting a range of organisations and initiatives. Our partnership approach is built around three key pillars: Live Local, Leading and Learning and Sydney's airport.

Outlook

Sydney Airport is well-positioned to deliver on its growth strategy, with significant investment in capacity, increasingly efficient operations and customer service initiatives. We will continue to focus our international marketing strategy on emerging and mature regions, capitalising on the growing strength and popularity of global travel. At the same time, we continue to develop our commercial businesses, with new leases, expanded product offerings and our two hotels.

During the first half of 2018, Sydney Airport generated strong international passenger growth, invested in aviation capacity and facilitation in line with our customers' requirements, and delivered positive investor returns. Our balance sheet and financial flexibility is the strongest it has been since privatisation in 2002.

Sydney Airport today reaffirmed the distribution guidance of 37.5 cents¹ per stapled security for 2018, an 8.7% increase on 2017, reflecting successful management initiatives, strong tourism trends and board and management confidence in the business outlook.

¹ Guidance subject to aviation industry shocks and material forecast changes.

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INFORMATION**

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SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	6 months to 30 Jun 2018 \$m	6 months to 30 Jun 2017 \$m	Change %
Passengers (millions)			
International (including domestic-on-carriage) ¹	8.1	7.7	5.2%
Domestic (including regional) ¹	13.5	13.2	2.1%
Total passengers	21.6	21.0	3.3%
Revenue			
Aeronautical revenue	345.0	320.6	7.6%
Aeronautical security recovery	48.2	43.6	10.5%
Retail revenue	177.1	162.6	8.9%
Property and car rental revenue	118.2	106.6	10.9%
Parking and ground transport revenue	78.6	77.1	2.1%
Other	3.7	3.7	2.2%
Total revenue	770.8	714.2	7.9%
Operating expenses			
Employee benefits expense	29.8	28.1	6.2%
Services and utilities expense	42.5	40.1	6.0%
Property and maintenance expense	14.9	15.3	-2.4%
Other operational costs	15.6	13.4	16.2%
Controllable expenses (ex. Security)	102.8	96.9	6.1%
Controllable normalised expenses (ex. Security, normalised for Hotel expenses in 1H17)	99.1	96.7	2.5%
Security recoverable expenses	44.6	39.7	12.2%
Total operating expenses	147.4	136.6	7.9%
Other expenses			
Western Sydney Airport project costs expensed (WSA)	-	0.6	n/a
Total expenses	147.4	137.2	7.4%
EBITDA	623.4	577.0	8.1%
EBITDA excluding WSA	623.4	577.6	8.0%
Net external cash finance (costs)/income	(201.2)	(192.5)	4.5%
Movement in cash reserved for specific purposes and other items	(10.9)	(2.3)	380.4%
Net operating receipts²	411.3	382.2	7.6%
Net operating receipts excluding WSA²	411.3	382.8	7.5%
Average stapled securities on issue (millions)	2,253.0	2,249.9	0.1%
Net operating receipts per stapled security²	18.3c	17.0c	7.5%
Net operating receipts excluding WSA² per stapled security	18.3c	17.0c	7.3%
Distributions per stapled security	18.5c	16.5c	12.1%
Capital expenditure	179.6	161.4	n/a
Per passenger measures (\$)			
Revenue	35.7	34.1	4.6%
EBITDA	28.9	27.5	4.7%

Note: Calculations may be affected by roundings.

¹ Due to data availability, all international passenger numbers (including prior corresponding period comparisons) are based on Confirmed Airline Passenger (CAP) data.

² Refer to the Directors' Report of the Sydney Airport Interim Financial Report for a reconciliation of statutory profit before tax to net operating receipts.