

20 December 2016

Western Sydney Airport Notice of Intention

The Commonwealth Government has today issued Sydney Airport with a Notice of Intention (NOI) which sets out the material terms for Sydney Airport to develop and operate the Western Sydney Airport.

The 2002 Sydney (Kingsford Smith) Airport Sale Agreement provides Sydney Airport with a Right of First Refusal (ROFR) to develop and operate a second major airport within 100 km of Sydney's CBD. Sydney Airport has been engaged in formal consultation with the Commonwealth Government regarding the proposed Western Sydney Airport since September 2014.

Sydney Airport Managing Director and CEO Kerrie Mather said, "A new airport serving the aviation needs of western Sydney is an exciting opportunity for the region and the people of western Sydney. The population in western Sydney is expected to grow from two million to three million by the 2030s. Additional aviation capacity in the Sydney basin over the long term will ensure that NSW will continue to grow and compete both nationally and internationally for the highly valuable business, visitor and tourism economy.

"Sydney Airport has delivered strong growth in aviation for the benefit of Sydney, NSW and Australia and works in partnership with the global and Australian airline and aviation industry to support their growth strategies. Sydney Airport, with this knowledge and expertise, is best placed to deliver a successful Western Sydney Airport in the shortest timeframe.

"However, the challenges facing the development of a greenfield airport cannot be underestimated. Project risks include procurement and construction risks over the approximately 10-year period before the airport opens, and operational, traffic, financing and political risks, which are at their peak in the initial years of the airport lease."

Sydney Airport has participated diligently in the Commonwealth's consultation process and provided the Commonwealth with its views on a range of requested matters including airport design, long term passenger forecasts and the economic viability of a new airport operating on a stand alone basis.

The first 12 months of the consultation process proceeded on the basis that the Commonwealth would support the development of the airport by undertaking and paying for the site preparatory works whilst Sydney Airport undertook and paid for the aviation infrastructure works. The next 12 months of consultation was based on a long-term Commonwealth loan for a significant part of the airport development costs, coupled with a multi-year procurement process at the end of which Sydney Airport would have the right to withdraw from the project if costs were materially greater than anticipated at the date of the NOI.

Given the significant challenges the project will face, Sydney Airport has consistently stated that the project would require material support from the Commonwealth to make it commercially viable. Whilst Sydney Airport accepts that the Commonwealth has ultimately exercised its right to deliver a NOI that does not feature these procurement protections or any Commonwealth funding, the Commonwealth's recent change in approach makes the Western Sydney Airport a challenging investment proposition.

“Our job now, on behalf of our investors, is to evaluate the opportunity taking a rigorous approach and applying our disciplined investment criteria including consideration of rates of return, cash flow, growth potential, downside protections and the impact on Sydney (Kingsford Smith) Airport (KSA). Once that evaluation is complete the Board of Sydney Airport will determine whether it is in the best interests of investors to exercise the option,” Ms Mather said.

“The team at Sydney Airport also remains focused on delivering a world class passenger and airline experience at KSA. Its proximity to Sydney’s central business district, the harbour and major tourist attractions are both valuable and unique. Optimising KSA for the benefit of passengers, airlines, the aviation industry, and the tourism and business economies of NSW will always be vital.”

The Commonwealth has indicated that Sydney Airport will have four months to consider and respond to the NOI. Sydney Airport believes it is entitled to a nine-month consideration period and is continuing to discuss this with the Commonwealth. The length of this period will have no impact on the announced opening date for the airport.

Sydney Airport will undertake confidential and detailed market soundings with the contractor market within the limited time allowed to inform its view of the construction costs of both the site preparatory works and the aviation infrastructure works. That process will be ongoing into 2017.

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INFORMATION**

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