

16 February 2017

Sydney Airport drives strong aviation and tourism growth

Sydney Airport announced its financial results for the full year to 31 December 2016 and guidance for an increase in distribution in 2017.

- Earnings before interest tax depreciation and amortisation (EBITDA) of \$1,106.7m, up 10.3%¹, on the prior corresponding period (pcp)
- Total of 41.9 million passengers in 2016, up 5.6% on the pcp; international and domestic passengers grew a strong 8.9% and 3.8% respectively
- Operating margin maintained during a period of significant investment and increase in service quality
- Average cash cost of debt reduced to 5.3%, due to the maturity of interest rate swaps and successful 10 year US144A/RegS transaction
- 2016 distribution paid of 31.0 cents per stapled security represents growth of 21.6%
- 2017 distribution guidance of 33.5 cents per stapled security, subject to aviation industry shocks and material forecast changes

Sydney Airport Managing Director and CEO Kerrie Mather said she was very pleased with the full year results which reflect strong performance from all businesses and the successful execution of a number of key initiatives.

“Sydney Airport has delivered strong international traffic growth of 8.9%. International passenger growth was the strongest in 12 years, with Sydney Airport welcoming 1.2 million additional passengers. We experienced double digit growth in many of our major markets to deliver a diverse passenger base that provides a high degree of resilience. These included China, the United States, India, Korea, Japan and Indonesia. This reflects successful airline marketing and tourism partnerships,” Ms Mather said.

“Passengers are benefiting from more choice and value, with almost 2.5 million more domestic and international seats being offered on new and existing routes during the past year. The new seats reflect our airline partners’ confidence in the Sydney and New South Wales markets, and will continue to drive future tourism growth. To cater to this higher demand, we have significantly increased our investment in infrastructure and facilities to deliver higher service standards, efficiencies and growth in aeronautical revenues.

“Passengers are enjoying an improved customer experience at T1 International, with better terminal wayfinding for passengers, additional seating closer to departure gates, increased natural light and enhanced retail offerings. In addition, our results included our first full year of Terminal 3, with the financial and operational performance exceeding our business plan.

“We are committed to maintaining a disciplined and focused approach to delivery on our strategy, which is positioning Sydney Airport well for future success. Our confidence in the outlook for the business supports the guidance for a distribution increase in 2017 to 33.5 cents per stapled security announced today.”

¹ EBITDA excluding WSA project costs expensed

Financial results

Total revenue grew by 11.0%, driven by international passenger growth, investment, strong retail performance and the incremental T3 contribution:

- Aeronautical revenues increased due to strong international passenger growth, investment and a related 4.8% increase in international charges from July 2016 and T3 full year contribution
- The retail business delivered revenue growth following the completion of Heinemann stores. Ongoing specialty and food and beverage store rollouts at T1 will be complete by mid-2017
- Property growth was underpinned by new leasing transactions offsetting the reallocation of T3 property to aeronautical revenues
- Car parking revenue driven by international long stay online bookings and passenger growth

Operating expenses increased by approximately \$32 million, primarily due to the step up in cleaning and maintenance standards as part of our 2015 international airline agreement, higher electricity prices and incremental expenses associated with a full year of T3 operation. EBITDA² grew a strong 10.3% on the pcp whilst EBITDA margin was maintained following significant investment in service quality.

Investment in business expansion

Capital expenditure was \$385 million for 2016. Sydney Airport is providing new five-year guidance of \$1.3 billion for the 2017-2021 period, with \$450 million estimated for 2017. The 2017 capex is linked to a 4.3% aeronautical price increase from 1 July 2017, reflecting an appropriate return on capital invested.

Sydney Airport is currently considering major projects including T1 Pier A, apron and baggage expansion works. A decision will be made on these major projects based on stakeholder consultation for additional capacity, as well as satisfying internal business case requirements. The capex for these projects within the 2017-2021 period is ~\$500 million, and has been excluded from the capex guidance.

Balance sheet

Balance sheet and credit metrics continued to strengthen and our strong BBB/Baa2 credit rating position has been placed on positive outlook by Standard and Poor's. Ongoing deleveraging has continued, with our interest coverage increasing to 2.7x from 2.5x. There are no drawn debt maturities until mid-2018 (\$477 million in total).

In April 2016, 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 year has resulted in a spot interest rate hedge position at 31 December 2016 of 88%. Sydney Airport continues to assess debt issuance and hedging opportunities to deliver superior capital management outcomes and further strengthen the financial position.

Sustainability

Sydney Airport continues to be a leader in sustainability and our commitments in this area were widely recognised. Among the sustainability achievements in 2016 were Level Three Airport Carbon Accreditation, a 'leading' rating by the Australian Council of Superannuation Investors for our reporting, a listing on the Dow Jones Sustainability Indices, inclusion in RobecoSAM's 'The Sustainability Yearbook 2017' and achieving an Australian Business Award for Employer of Choice.

² EBITDA excluding WSA project costs expensed

Western Sydney Airport

Sydney Airport continues to evaluate the Western Sydney Airport (WSA) opportunity following the Commonwealth Government's issuance on 20 December 2016 of a Notice of Intention (NOI) setting out the material terms to develop and operate WSA.

Western Sydney Airport, proposed to be operational in late 2026 and serving the aviation needs of Western Sydney, will be an important economic and jobs contributor for the region. 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 sectors of the economy.

Sydney Airport has participated diligently in the Commonwealth's consultation process and provided 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 standalone basis. The work undertaken during the process also continues to inform planning and development for Sydney Airport over the next two decades and beyond.

Given the significant challenges the project will face, Sydney Airport has consistently expressed its opinion that the Western Sydney Airport project would require material support from the Commonwealth to make it commercially viable. However, the Commonwealth delivered a NOI that does not feature any material support including previously contemplated procurement protections or Commonwealth funding which makes WSA a challenging investment proposition.

We are continuing to adopt our rigorous approach to the evaluation process, applying our disciplined investment criteria including consideration of rates of return, cash flow, growth potential, downside protections and the impact on Sydney Airport. Confidential and detailed market soundings with the contractor market are in progress to further inform our view of the construction costs.

The Commonwealth has advised that Sydney Airport's response to the NOI is due on 8 May 2017, a four-month consideration period. We remain of the view that Sydney Airport is entitled to a nine-month consideration period but will be endeavouring to meet the Commonwealth's timetable. As soon as we have adequate information to make an informed decision, we will do so.

Given the uncertainty at reporting date as to whether Sydney Airport will develop and operate WSA, the carrying value of the project costs of \$21 million has been expensed under accounting standard requirements. This accounting treatment does not impact cashflow or distributions.

2017 Distribution Guidance

Sydney Airport has announced distribution guidance of 33.5 cents³ per stapled security for 2017 to be fully covered by net operating receipts, reflecting confidence in the business outlook.

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³ Guidance subject to aviation industry shocks and material forecast changes.

SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	12 months to 31 Dec 2016 \$m	12 months to 31 Dec 2015 \$m	Change %
Passengers (millions)			
International (including domestic-on-carriage)	14.9	13.7	8.9%
Domestic (including regional)	26.9	25.9	3.8%
Total passengers	41.9	39.7	5.6%
Revenue			
Aeronautical revenue	614.2	523.4	17.4%
Aeronautical security recovery	87.3	83.3	4.8%
Retail revenue	295.6	263.5	12.2%
Property and car rental revenue	204.2	201.2	1.5%
Parking and ground transport revenue	156.1	150.6	3.6%
Other	7.2	6.9	3.6%
Total revenue before other income	1,364.6	1,228.9	11.0%
Other income			
Gain on disposal of non-current assets	-	0.1	n/a
Total revenue and other income	1,364.6	1,229.0	11.0%
Operating expenses			
Employee benefits expense	54.5	47.2	15.6%
Services and utilities expense	68.9	56.4	22.1%
Property and maintenance expense	30.9	23.9	29.4%
Security recoverable expense	78.9	73.9	6.8%
Other operational costs	24.6	24.0	2.1%
Total operating expenses	257.8	225.4	14.3%
Other expenses			
Western Sydney Airport project costs expensed (WSA)	21.0	-	n/a
Loss on disposal of non-current assets	0.1	-	n/a
Total expenses	278.9	225.4	23.7%
EBITDA	1,085.7	1,003.6	8.2%
EBITDA excluding WSA	1,106.7	1,003.6	10.3%
Net external cash finance (costs)/income	(402.7)	(405.4)	-0.7%
Movement in cash reserved for specific purposes and other items	(8.0)	(20.4)	n/a
Net operating receipts¹	675.0	577.8	16.9%
Net operating receipts excluding WSA¹	696.0	577.8	20.5%
Average stapled securities on issue (millions)	2,237	2,221	0.7%
Net operating receipts per stapled security¹	30.2c	26.0c	16.0%
Net operating receipts per stapled security excluding WSA¹	31.1c	26.0c	19.6%
Distributions per stapled security	31.0c	25.5c	21.6%
Ratio of net operating receipts to distributions	97%	102%	n/a
Ratio of net operating receipts excluding WSA to distributions	100%	102%	n/a
Capital expenditure	384.9	339.0	n/a
Per passenger measures (\$)			
Revenue before other income	32.6	31.0	5.2%
EBITDA	25.9	25.3	2.5%

Note: Calculations may be affected by 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.