

Sustainalytics' Opinion Sydney Airport Sustainability Linked Loan

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Location of Borrower: Australia

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Introduction

Sydney Airport (the “company” or “borrower”) is the operator of Sydney (Kingsford Smith) Airport, Australia’s largest airport, and one of the top-50 busiest in the world by passenger volume. It served 44.4 million passengers and 344,149 aircraft movements in 2018.

Sydney Airport is negotiating a AUD 1.4 billion Sustainability Linked Loan (SLL) where the interest rate of the loan is tied to an external Sustainability Performance Target (SPT) which is proposed to be Sustainalytics’ ESG Risk Rating.

The company has engaged Sustainalytics to review the SLL and provide an opinion on the alignment of the loan with the Sustainability Linked Loan Principles (SLLP).¹

As part of this engagement, Sustainalytics held conversations with various members of the company’s management team to understand the SLL, and the company’s sustainability strategy. Sustainalytics also reviewed relevant public documents.

This document contains Sustainalytics’ opinion of Sydney Airport’s SLL, reviewed against the SLLP.

Sustainalytics’ Opinion

Alignment with the Sustainability Linked Loan Principles 2019

The four components of the Sustainability Linked Loan Principles are:

1. Relationship to Borrower’s Overall Corporate Social Responsibility (CSR) strategy
2. Target Setting
3. Reporting
4. Review

¹ The Sustainability Linked Loan Principles (SLLP) were launched by the Loan Markets Association in March 2019. They are administered by the LMA, and are available at: https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf.

Sustainalytics is of the opinion that the Sydney Airport SLL aligns to the four core components of the Sustainability Linked Loan Principles 2019.

Section 1: Relationship to Sydney Airport's overall sustainability strategy

The company has demonstrated its commitment to its sustainability strategy through the following efforts, as reported in its 2018 Sustainability Report:

- Identifying three material areas of commitment: responsible business, planning for the future, and supporting communities. The process to define material areas included engagement with key stakeholders, such as employees, community members, local government, and industry associations. Within each of these pillars, specific performance targets have been set.
- Implementing three flagship initiatives which have been determined to be most relevant to advancing sustainability performance across the organization. These initiatives aim to: 1) increase the climate resilience of its assets and operations; 2) achieve the electrification of vehicles and equipment, and 3) increase airspace and airfield efficiency.
- Describing the governance framework which will support the progress towards meeting the sustainability goals and plans described. This structure involves the creation of three working groups or committees focused on the implementation of various aspects of the sustainability strategy; all three bodies report to the Executive Committee and Safety Steering Committee, which in turn reports to the Board Safety, Security and Sustainability Committee.
- Reporting on objectives against their flagship initiatives and on progress towards achieving them. Primarily, the company aims to be Carbon Neutral by 2025. One of the key related objectives is to reduce carbon emissions per passenger by 50% from 2010 baseline levels by 2025 and they had been reduced 30.9% by 2018.
- Ongoing performance benchmarking to further assess progress on ESG issues. These include consideration of independent ESG ratings, inclusion on sustainability indices, and quantitative third-party assessments.

Sustainalytics is of the opinion that Sydney Airport's sustainability strategy and actions demonstrate the importance the company places on achieving positive environmental and social impacts, and that the objectives of Sydney Airport's sustainability strategy are aligned with the SPT (ESG Risk Rating). The sustainability objectives include environmental, social, and governance issues that are classified as material in the ESG Risk Rating. Given Sydney Airport's approach to sustainability, Sustainalytics is of the view that launching a SLL will support the Company's overall sustainability strategy.

Section 2: Target Setting

The Sustainability Linked Loan Principles state that appropriate Sustainability Performance Targets (SPTs) should be negotiated and set between the borrower and lender for each loan transaction. Sydney Airport's SPT is based on the following external metric:

SPT Category	SPT/Metric	Baseline Date
Global ESG Assessment	Sustainalytics ESG Risk Rating ²	April 2019

As outlined in the SLLP, a borrower may elect to tie the interest rate of the loan to improvements in the its ESG rating and/or achievement of a recognised ESG certification. The SLLP sets out some common SPT categories that are recognized as credible, including a "Global ESG Assessment" such as Sustainalytics' ESG

² Please see Appendix for further details on the ESG Risk Rating Methodology.

Risk Rating. On this basis, Sustainalytics is of the opinion that linking Sydney Airport's ESG Risk Rating to its loan is credible and appropriate.

The SLLP recommend that any target increases be based on recent performance levels (i.e. data from the past 6-12 months). As indicated in the table above, Sustainalytics' ESG Risk Rating was last updated in April 2019, using Financial Year 2018 disclosures by Sydney Airport.

The final ESG Risk Rating that Sydney Airport is targeting to achieve would place the borrower in the top 5th percentile³ of the Airports sub-industry. Therefore, Sustainalytics is of the opinion that targeting to achieve a placement in the top 5th percentile of the Airports sub-industry is ambitious, since it would ensure that the borrower is a top performer as compared to its peers.

Section 3: Reporting

The SLLP recommends that borrower's make and keep readily available up-to-date information relating to their SPTs.

Sydney Airport is demonstrating good practice by intending to make their ESG Risk Rating publicly available. Sustainalytics encourages Sydney Airport to disclose additional information on the alignment of its Risk Rating with its sustainability strategy, and its progress towards achieving the top 5th percentile in the Airports sub-industry.

Section 4: Review

Sydney Airport's performance against its SPT will be verified by virtue of the ESG Risk Rating being updated annually by Sustainalytics. In addition, Sydney Airport is demonstrating good practice by intending to make publicly available their ESG Risk Rating.

Conclusion

Sustainalytics is of the opinion that Sydney Airport's SLL will support the company's overall sustainability strategy. In addition, the use of an ESG rating as a basis for target-setting is recognized as credible by the Sustainability Linked Loan Principles, and the borrower has committed to disclosing their ESG Risk Rating on an annual basis. Based on the above considerations, Sustainalytics is of the opinion that Sydney Airport's SLL is aligned with the SLLP.

³ This percentile estimation for the target score is based on Sustainalytics' data for companies in the Airports sub-industry as of May 5th, 2019.

Appendix: About the Sustainalytics ESG Risk Rating

With a clear focus on financial materiality, Sustainalytics' ESG Risk Ratings measure the degree to which a company's enterprise value is exposed to material ESG issues. Specifically, the ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an assessment of unmanaged ESG risk. The ESG Risk Rating for a company is a quantitative score based on a scale from 0-100 and is categorized between five levels of risk: negligible, low, medium, high and severe. The numerical assessments represents units of unmanaged ESG risk, with lower scores representing less unmanaged ESG risk. The risk assessments are absolute meaning a high-risk assessment reflects a comparable degree of unmanaged ESG risk relative to any other company in the research universe.

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Sustainalytics

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