

For the year ended  
31 December 2019

# Corporate Governance Statement



# Corporate Governance Statement

ASX-listed Sydney Airport (SYD) has chosen to become an early adopter of the fourth edition of the Corporate Governance Principles and Recommendations, measuring its governance practices and reporting against the fourth edition for the period ending 31 December 2019 (rather than 31 December 2020). This statement outlines the corporate governance framework and practices of SYD.

SYD is comprised of Sydney Airport Limited (SAL), which is the parent company of Sydney Airport Corporation Limited (Sydney Airport) the operator of Sydney (Kingsford Smith) Airport, and Sydney Airport Trust 1 (SAT1) a registered managed investment scheme, whose responsible entity is The Trust Company (Sydney Airport) Limited (the RE), a wholly owned subsidiary of Perpetual Limited (ASX:PPT) (Perpetual). Each SAL share is stapled to a SAT1 unit, and the stapled securities are quoted on ASX under the ticker "SYD".

SAL and the RE have distinct boards, each of which functions independently of the other. Each has a commitment to high standards of corporate governance and operates in accordance with its own policies and procedures.

The RE is reliant on Perpetual for access to adequate resources including directors, management, staff, functional support (including company secretarial, responsible managers, legal, compliance and risk, finance) and financial resources. Perpetual has at all times made these resources available to the RE.

In operating SAT1, the RE's overarching principle is to always act in good faith and in the best interests of SAT1's unitholders, in accordance with its fiduciary duty. The RE's duties and obligations in relation to SAT1 principally arise from: the constitution of SAT1; the compliance plan for SAT1; the Corporations Act 2001; the ASX Listing Rules; the RE's Australian Financial Services Licence; relevant regulatory guidance, contractual arrangements and other applicable laws and regulations.

An overview of SYD's corporate governance framework is depicted below:



This statement applies to both SAL and the RE. The Responsible Entity addresses each of the Principles that are applicable to externally managed listed entities in relation to the Schemes, including the Trust, as at the date of this Corporate Governance Statement.

It is current as at 19 February 2020, and has been approved by the boards of SAL and the RE. It has been lodged with ASX along with SYD's ASX Appendix 4G and the 2019 Annual Report, each of which is available on the Sydney Airport website ([www.sydneyairport.com.au](http://www.sydneyairport.com.au)).



## Principle 1: Lay solid foundations for management and oversight

A listed entity should clearly delineate the respective roles and responsibilities of its board and management and regularly review their performance.

### Recommendation 1.1

SAL and the RE have separate boards that function independently. They each operate in accordance with their own policies and procedures as described below.

#### SAL Board

The SAL board's roles and responsibilities are formalised in a board charter available on the Sydney Airport website. The charter sets out the extent to which the board has delegated its responsibilities to management and the way in which the board operates to discharge its responsibilities.

To facilitate the effective and efficient discharge of the board's responsibilities, it has delegated the day-to-day exercise of certain powers to management. The powers conferred upon management such as operating and capital expenditure limits and the authority to enter into revenue contracts, leases and licences are clearly documented. Notwithstanding that operating or capital expenditure may be within a delegate's delegation, matters reserved only to the board as outlined in the charter must be raised with the Chief Executive Officer (CEO) and the board.

The chair of the SAL board is Trevor Gerber. The chair is responsible for leading the board, facilitating the proper briefing of directors, facilitating effective discussion of matters considered by the board and managing the board's relationship with management.

The CEO is responsible to the board for implementation of strategies, policies and decisions determined by the board.

#### RE Board

The role of the RE board is generally to set objectives and goals for the operation of the RE and SAT1, to oversee the RE's management, to regularly review performance and to monitor the RE's affairs acting in the best interests of the unitholders of SAT1.

The RE board is accountable to the unitholders of SAT1. The RE board delegates to Perpetual management all matters not reserved to the RE board, including the day-to-day management of the RE and the operation of SAT1. Directors, management and staff are guided by Perpetual's Code of Conduct and Perpetual's Risk Appetite which is designed to assist them in making ethical business decisions.

The RE has appointed other parties ("Service Providers") either under a resources agreement or outsourcing arrangement to provide amongst other services including fund administration and custody functions in relation to SAT1. Prior to appointment, all Service Providers are subject to operational due diligence and assigned an initial operational risk rating. The RE has an effective process in place for monitoring the performance of Service Providers based on a risk rating system that includes informal discussions, periodic reporting and formal service provider reviews which typically occur on an annual basis. The Service Provider risk rating dictates any additional monitoring measures required to be put in place – for example a Service Provider assessed as 'low to medium risk' will be subject to the standard monitoring measures the RE utilises under the Service Provider Monitoring Framework. Service Providers risk rated 'high to very high' may be subject to additional oversight measures.

### Recommendation 1.2

#### SAL Board

Director selection and appointment practices ensure the SAL board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Sydney Airport. Directors with a range of knowledge, skills and experience, diversity and personal attributes are appointed to the board to enable it to effectively discharge its duties and to add value to the board's deliberations. Appropriate checks are conducted prior to appointing a director or senior executive, including criminal and bankruptcy checks.

Security holders are provided with all material information to enable them to make an informed decision on whether or not to elect or re-elect a director at the Annual General Meeting (AGM). Biographies of each of the directors standing for election or re-election are provided in the Notices of Meeting, including a list of qualifications, experience, skills, tenure, independence status and other material directorships.

Profiles for directors of SAL are available on pages 54-55 in the Sydney Airport 2019 Annual Report.

#### RE Board

This recommendation is not applicable to the RE.

### Recommendation 1.3

#### SAL Board

All non-executive directors (NEDs) of SAL have received a letter of appointment addressing the matters recommended by the ASX Principles. They clearly set out the terms of engagement outlining their roles, responsibilities, entitlements and access rights. NEDs are informed of the agreed procedure for the board and committees to obtain independent professional advice at Sydney Airport's expense (as set out in each of the board and committee charters) and are provided with Sydney Airport's key policies. All senior executives have comprehensive written employment agreements.

#### RE Board

This recommendation is not applicable to the RE.

### Recommendation 1.4

#### SAL Board

The SAL Company Secretary has a dual reporting line to the Chief Operating Officer and to the SAL board, through the chair.

The Company Secretary directly communicates to the board, advising on governance matters, facilitating inductions and professional development for directors and ensuring that the directors receive timely, regular and appropriate information to enable them to fulfil their duties. This information is provided as part of directors' board papers and regular reporting on airport performance.

#### RE Board

This recommendation is not applicable to the RE.

### Recommendation 1.5

#### SAL Board

SAL's Diversity Policy is available on the Sydney Airport website. The SAL Nomination and Remuneration Committee assists and advises the SAL board in establishing and monitoring strategies to promote workplace diversity at Sydney Airport. On an annual basis the board reviews statistics and trends on all aspects of diversity, including age, gender, tenure, ethnicity and indigenous background to ensure continuous progress in achieving the goal of having a diverse workforce.

#### Diversity and inclusion strategy

During the reporting period Sydney Airport refreshed its diversity and inclusion strategy. In developing the strategy, a diversity survey was conducted to better understand the workforce. There was strong participation in the process, with employees sharing details in relation to their culture and ancestry, religion, caring responsibilities, disability status, experience with flexibility and LGBTQIA status.

From this survey we learned that Sydney Airport employees were born across 46 countries around the world and speak over 30 languages, with 30 per cent speaking a language other than English at home. 75 per cent of respondents confirmed that they feel comfortable to bring their whole selves to work, and over two thirds of respondents feeling that Sydney Airport is an inclusive place to work.

The updated three-year diversity and inclusion strategy has a renewed focus on building engagement across the business, with a focus on **Talent** (recruitment, promotion, development and partnerships), **Reward** (remuneration, benefits, gender pay) and **Retention** (belonging, flexibility, careers and capability).

In developing the new diversity and inclusion strategy, Sydney Airport reviewed its Diversity Council. The Council is sponsored by Sydney Airport's Chief Commercial Officer and Chief Financial Officer under the direction of the CEO, with reports tabled through to the CEO and leadership team. The Diversity Council is responsible for implementing and driving initiatives to support Sydney Airport's objectives and supports six working groups made of representatives from across the business, who are focussed on driving meaningful action and change around the priorities identified in the diversity survey (LGBTQIA, Women, Men, Carers, Multicultural and Indigenous).

## Targets

Measure	Baseline (2018)	Actual (2019)	Target (2021)
Achieve 10% uplift in female representation in management	35%	37%	39%
Achieve 10% uplift in overall female representation	39%	39%	43%
Achieve 30% female board representation	25%	29%	30%

## Gender Equality

The proportion of women employed in Sydney Airport as at each 31 December is set out in the following table:

	2019	2018	2017	2016	2015
Board	29%	25%	29%	29%	29%
CEO	0%	0%	100%	100%	100%
Key management personnel <sup>1</sup>	33%	30%	27%	33%	40%
Other executive/ General Manager <sup>2</sup>	38%				
Senior Manager	52%	45%	48%	41%	36%
Other Manager	33%	33%	37%	36%	33%
Professional	44%	46%	43%	42%	41%
Technical and trade	9%	3%	8%	8%	6%
Administration and clerical	90%	82%	92%	94%	91%

Sydney Airport's gender diversity performance has improved in a number of ways during the reporting period. The number of female employees across the organisation remained consistent with 2018 at 39 per cent, while the number of women in management roles increased to 37 per cent. Our gender pay ratio continued to improve, up from 93.4 in 2018 to 95.9 in 2019 continuing our three-year upward trend.

Sydney Airport continues to demonstrate its commitment to gender equality each year by reporting to the Australian Gender Equality Agency. The latest report is available on Sydney Airport's website.

### RE Board

This recommendation is not applicable to the RE.

## Recommendation 1.6

### SAL Board

The chair of the SAL board is responsible for evaluating and monitoring the performance of the board and manages this process in accordance with the board charter.

The board undertakes periodic assessments of its performance, the performance of its standing committees and the performance of individual directors against the requirements of the board charter and the relevant committee charters and other agreed goals and objectives.

In planning each assessment, the board considers whether it is appropriate to use external facilitators to assist. Following each assessment, the board will consider the outcomes and how performance can be improved.

A formal evaluation was not conducted during the reporting period, however it is intended that one be undertaken during the next period.

During 2019 the chair of the SAL board reviewed the membership of the board Committees and the board made changes that came into effect on 7 August 2019. David Gonski became a member of the Audit and Risk Committee and the Safety, Security and Sustainability Committee.

### RE Board

This recommendation is not applicable to the RE.

1. These include Chief Financial Officer, Chief Commercial Officer and Chief Operating Officer

2. These include Chief Assets and Infrastructure Officer and Chief Strategy Officer and General Managers

## Recommendation 1.7

### SAL Board

SAL has a robust performance management system which starts with the setting of comprehensive objectives which are supplemented by behavioural requirements that align to the Sydney Airport values. Objectives are reviewed mid-year and a formal appraisal of results are conducted at the end of the year. Remuneration outcomes (Fixed Annual Remuneration (FAR) increases and Short Term Incentives (STI)) are based on the performance outcomes achieved for the objectives. The deferral of a component of the STI ensures focus on both the short and long term success of Sydney Airport.

In 2015, SAL introduced a Long Term Incentive Plan (LTI Plan) to provide senior executives incentives to ensure that Sydney Airport continues its superior performance, by linking potential reward to continued growth in Sydney Airport's long term financial performance and security holder returns. This is subject to performance conditions set by the board and measured over a three year period.

Objectives for the CEO are approved by the SAL board at the commencement of the year. The CEO then cascades the key themes to the senior executives where individual and cross functional objectives are set. During 2019, the performance of the leadership team was reviewed in line with the overall process outlined above.

Further details in relation to the process for evaluating the performance of the CEO and other senior executives and remuneration outcomes can be found in the Remuneration Report in the 2019 Annual Report.

### RE Board

This recommendation is not applicable to the RE.

## Principle 2: Structure the board to be effective and add value

A listed entity should have a board of an appropriate size, composition, skill and commitment to enable it to discharge its duties effectively.

## Recommendation 2.1

### SAL Board

The SAL board has a Nomination and Remuneration Committee which comprises of at least three NEDs, all of whom are independent. The current chair of the committee is different to the chair of the board and is an independent director. The Committee's charter sets out its composition, size, roles and responsibilities. A copy of the charter is on the Sydney Airport website. A table of Board and Committee members and the number of times they met throughout the year can be found on page 57 of the 2019 Annual Report.

### RE Board

This recommendation is not applicable to the RE.

## Recommendation 2.2

### SAL Board

SAL's director selection, appointment practices and annual performance reviews involve thorough processes to ensure that the board has the benefit of directors with diverse and relevant knowledge, skills, experience and personal attributes and that the board continues to be of a size and composition conducive to making appropriate decisions in the best interest of Sydney Airport's investors and stakeholders.

The board also supplements its collective skills and experience when specific issues arise by using external advisors.

## Board skills matrix

Set out in the following table are the collective skills and experience of SAL's directors categorised according to the requirements of the business:

Skills and experience	Number of directors
 <b>Aviation and transport</b> Experience in aviation or transport. Aviation is our core business and an understanding of the complex network of stakeholders is of critical importance	4
 <b>Property and construction</b> Experience in all aspects of major property infrastructure and delivery of large construction programs	3
 <b>Technology</b> Knowledge and experience in implementing and adopting new technologies within large organisations. With an understanding of digital disruptions, data, cyber security and technology related innovation	3
 <b>Retail</b> Retail industry experience, with deep understanding of product delivery and customer strategy	4
 <b>Banking and finance</b> Experience in financial and capital management strategies, treasury, accounting and reporting, corporate finance and internal controls, including assessing the quality of financial controls	6
 <b>Strategic and commercial acumen</b> Using commercial judgement and experience in assessing, monitoring and where necessary questioning and challenging strategic objectives and delivery	7
 <b>Risk management</b> Knowledge and experience in assessing and monitoring appropriateness of risk management frameworks, building and adapting organisational risk culture, proactive identification of financial and non financial risks, developing effective policy and procedures to manage risks	7
 <b>Leadership</b> CEO or senior position in listed companies or large organisation with experience in driving direction, guidance, leading organisational change and strategic planning	7
 <b>Governance and compliance</b> Experience in implementing and providing direction on organisation-wide governance and compliance policies, systems and frameworks, training and education, and ensuring compliance	7
 <b>Health, safety and environment</b> Experience in developing health, safety and environment policy, strategies and initiatives	5
 <b>Government relations</b> Having worked with or experience in interacting with domestic and international, state and federal governments and regulators	5
 <b>People, culture and remuneration</b> Experience in developing and implementing people, culture and remuneration frameworks, policies and practices to attract, retain and motivate employees, succession planning and talent management programs, driving and monitoring a culture of compliance and integrity across the organisation.	7

## RE Board

This recommendation is not applicable to the RE.

## Recommendation 2.3

### SAL Board

The SAL board considers that a director is independent if the director is free of any interest, position or relationship that might influence, or reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the board and to act in the best interest of Sydney Airport as a whole rather than in the interest of an individual shareholder or other party. SAL has no set tenure limits for directors.

Each director's independence is regularly assessed. Each director is responsible for informing the board if there is any change in their interests, position or relationship that could be relevant to an assessment of their independence. The board then reassesses that director's independence based on all matters that are in SAL's opinion relevant including those factors outlined in the board charter.

The board makes its assessment of independence on a case by case basis, based on the materiality of any relevant interest, position or relationship and where such factors exist will disclose the reason for making its determination.

The names of the current Sydney Airport directors that are considered to be independent and the year in which they were appointed are listed below:

Trevor Gerber (Chair)	2002
John Roberts	2009
Stephen Ward	2011
Ann Sherry	2014
Grant Fenn	2015
Abigail Cleland	2018
David Gonski	2018

Trevor Gerber and John Roberts have each been Sydney Airport directors for 10 years or more. The board considers that each of them have clearly demonstrated their independence from management through their decision making and general performance as directors.

Grant Fenn is the Managing Director and Chief Executive Officer of Downer EDI Limited, the parent company of Downer EDI Works Pty Ltd and Downer Engineering Power Pty Ltd, which has entered into contracts with Sydney Airport, as described on page 127 of the Annual Report. The contracts were made following competitive tender processes and Grant Fenn was not involved in any board decision regarding the contracts. In considering Grant Fenn's independence, the board has concluded that these contracts do not impact on his capacity to act in the best interest of Sydney Airport or on his ability to act with independent judgement.

### RE Board

The names of the RE directors that are considered to be independent and the year in which they were appointed are listed below:

Russell Balding	2013
Patrick Gourley	2013

Anne Rozenauers who was appointed as a director on 27 September 2019 is not considered to be independent as she is an employee of Perpetual, the parent company of the RE.

## Recommendation 2.4

It is SAL's policy that a majority of directors must be independent. All SAL NEDs are independent.

It is the RE's policy that a majority of directors must be independent. A majority of RE directors are independent.

The boards of both SAL and the RE regularly consider the independence of each of their directors.

SAL NEDs regularly meet in the absence of management.

The RE board also ensures that it maintains independent judgement in board decisions. The RE board meets as required to consider matters in relation to SAT1.



The RE adds value in terms of the best interests of SAT1's unitholders through being independent of SAL. This independent structure avoids any conflicts of interest between the RE and SAL whenever discretionary decisions are required of either entity in their respective capacities.

Each member of each board is subject to re-election on a rolling three year basis at the SYD AGM.

Additionally, the RE board has a Compliance Committee for SAT1 that does not contain any board members. The Compliance Committee has a majority of independent members and is chaired by an independent member who is not the chair of the RE board.

### Recommendation 2.5

#### SAL Board

The SAL board charter requires the chair of the board to be an independent NED. The chair may not hold the office of the CEO.

The market will be notified in a timely way of any change to a director's status as an independent director.

#### RE Board

This recommendation is not applicable to the RE.

### Recommendation 2.6

#### SAL Board

All new directors and executives are required to participate in an induction and training program about Sydney Airport and their roles and responsibilities. All directors are invited to participate in training sessions, conferences and airport tours organised by management.

During 2019 directors participated in environment, safety and security briefings and tours around various sites of the airport to further understand the management and history of the areas as part of their continuing development and training to role model safety and security values.

A training session on Sydney Airport's new Whistleblowing Policy and procedures was provided to directors, outlining their responsibilities under the law and the protocol of handling any reports they may receive as eligible recipients.

#### RE Board

This recommendation is not applicable to the RE.

## Principle 3: Instil a culture of acting lawfully, ethically and responsibly

A listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly.

### Recommendation 3.1

#### SAL Board

Sydney Airport's values of **integrity and openness, safety and security, excellence, teamwork, sustainability, creativity and flexibility** set the standards and behaviours expected from directors, senior executives and employees is set out on the Sydney Airport website.

The board is responsible for approving the values and have charged the senior executive team with the responsibility of embedding these values across the business, ensuring employees are appropriately trained. The board monitors progress through employee engagement survey results and set performance objectives. It is the responsibility of all employees to live the values when conducting business. Assessment against the values form part of the employee performance review process.

#### RE Board

The RE's culture is underpinned by Perpetual's three core values: **Excellence** – delivering exceptional outcomes; **Integrity** – doing what's right; and **Partnership** – succeeding together, and can be found on Perpetual's website ([www.perpetual.com.au](http://www.perpetual.com.au)).

The RE relies on a variety of mechanisms to monitor and maintain appropriate workplace culture:

- policies and procedures: Code of Conduct and cyclical mandatory training and a Whistleblowing Policy (further details noted below);
- the "Way We Work" behaviour framework, and risk ratings that are intertwined into its annual performance, remuneration and hiring processes; and
- employee engagement surveys and action planning conducted annually to address any gaps or concerns in culture.

Perpetual's Code of Conduct, Way We Work, and Core Values supports all aspects of the way the RE conducts its business and is embedded into Perpetual's performance management process.

## Recommendation 3.2

### SAL Board

Sydney Airport's Code of Conduct applies to all directors, employees, contracted staff and consultants. The document sets out the way that Sydney Airport and its people must carry on business and engage with stakeholders. The Audit and Risk Committee oversees and reviews any material incidents or breaches of the Code of Conduct.

All directors, senior executives and staff receive training in relation to their obligations under the Code of Conduct, the training program includes mandatory induction training (online and face to face), annual declaration, general awareness and is continually reinforced throughout the year.

Sydney Airport prohibits directors and staff participating in activities that involve a material conflict between their duties and responsibilities or which are prejudicial to Sydney Airport's business. Directors and staff must not put themselves in a position which would prejudice the best interests of investors or which unfairly puts the interests of one investor above another's.

SYD's Securities Dealing Policy applies to directors as well as employees of both SAL and the RE and sets out the parameters for trading in SYD securities. Trading in SYD securities is not permitted during blackout periods. The blackout periods operate from 1 January until the day after full-year financial results are released to the ASX, and from 1 July until the day after half-year financial results are released to ASX. A blackout period also operates during the four weeks prior to the AGM until the day after the AGM. Additional blackout periods may also operate when Sydney Airport is considering market-sensitive transactions. Directors and staff are required to obtain prior approval for any trade from the company secretary in accordance with the Securities Dealing Policy which is available on the Sydney Airport website.

SAL's Human Rights Policy outlines Sydney Airport's commitment to respecting and supporting human rights, consideration of human rights performance of existing and potential suppliers and setting expectations. Sydney Airport seeks to partner with suppliers, vendors, contractors and consultants who share in our commitment to demonstrate responsible business practices. These expectations form part of our procurement process and are set out in our Supplier Code of Conduct.

The Code of Conduct and the policies outlined above can all be found in the Corporate Governance section of the Sydney Airport website.

### RE Board

Perpetual's Code of Conduct draws from and expands on Perpetual's Core Values of Integrity, Partnership and Excellence. The Code of Conduct underpins Perpetual's culture. The RE Board and the Compliance Committee are informed of material breaches of the Code of Conduct which impact SAT1 and the RE entity.

Additional policies deal with a range of issues such as the obligation to maintain client confidentiality and to protect confidential information, the need to make full and timely disclosure of any price sensitive information and to provide a safe workplace for employees, which is free from discrimination. Compliance with Perpetual's Code of Conduct is mandatory for all employees. A breach is considered to be a serious matter that may impact an employee's performance and reward outcomes and may result in disciplinary action, including dismissal.

A full copy of the Code of Conduct is available on Perpetual's website.

## Recommendation 3.3

### SAL Board

In 2019 the SAL board adopted a new Whistleblower Policy and procedures to support Sydney Airport's focus on compliance by encouraging those who have concerns about a known or suspected unlawful, unethical or irresponsible behaviour within the Sydney Airport Group to speak up, as well as providing a reporting and investigation system that is safe, confidential, reliable and transparent. Material incidents reported under this policy are reported to the Audit and Risk Committee. A copy of the policy is available on the Sydney Airport website.

Training and awareness across the business has commenced to ensure employees are aware of their rights and obligations under the policy. People leaders are expected to champion the Sydney Airport values and encourage employees to speak up on behaviours that are unlawful, unethical or contrary to the values or code of conduct. This message is reinforced by the CEO and other senior executives regularly.



### **RE Board**

Perpetual also has a Whistleblowing Policy to protect directors, executives, employees, contractors and suppliers who report misconduct, including:

- conduct that breaches any law, regulation, regulatory licence or code that applies to Perpetual;
- fraud, corrupt practices or unethical behaviour;
- bribery;
- unethical behaviour which breaches Perpetual's Code of Conduct or policies;
- inappropriate accounting, control or audit activity; including the irregular use of Perpetual or client monies; and
- any other conduct which could cause loss to, or be detrimental to the interests or reputation of, Perpetual or its clients.

As part of Perpetual's Whistleblowing Policy, a third party has been engaged to provide an independent and confidential hotline for Perpetual employees who prefer to raise their concern with an external organisation. The RE Board and the Compliance Committee are informed of material breaches of the Whistleblowing Policy which impact the SAT1 and the RE entity.

A full copy of the Whistleblowing Policy is available on Perpetual's website ([www.perpetual.com.au](http://www.perpetual.com.au)).

### **Recommendation 3.4**

#### **SAL Board**

Sydney Airport's fraud and corruption policy is embedded within the Code of Conduct and sets out the expectations and responsibilities of directors, senior executives and employees to ensure that all business relationships are conducted with the highest professional integrity and meets legal requirements. The policy outlines the process for accepting, declining or giving of gifts, entertainment or other benefits as well as sets out the parameters around political donations. Breaches of this policy are reported to, overseen and reviewed by the Audit and Risk Committee.

#### **RE Board**

Perpetual is committed to conducting its business in accordance with the highest ethical and legal standards. Corrupt practices will not be tolerated by Perpetual under any circumstances. Perpetual has an internal Gifts, Bribery and Corrupt Practices policy which states that gifts should only be accepted by employees in circumstances that do not compromise, and are not perceived to compromise, the integrity of Perpetual or its employee's decision-making processes. Employees are prohibited from accepting gifts that may be perceived as creating an obligation to or a potential conflict of interest with the provider of the gift or, a potential conflict of interest with the RE's ability to act in the best interests of investors. Perpetual sets out expectations on gifts in the Code of Conduct.

Mechanisms are in place to ensure the RE Board and the Compliance Committee are informed of material breaches which impact the SAT1 and the RE entity which would include material breaches of the Code of Conduct; and Gifts, Bribery and Corruption Practices policy.

## Principle 4: Safeguard the integrity of corporate reports

A listed entity should have appropriate processes to verify the integrity of its corporate reports.

### Recommendation 4.1

#### SAL Board

The SAL Audit and Risk Committee comprises at least three NEDs, all of whom are independent. The chair of the committee is an independent director and is not the chair of the board.

The SAL Audit and Risk Committee charter is available on the Sydney Airport website and it sets out the committee's role, responsibilities, and composition. The Audit and Risk Committee and the Safety, Security and Sustainability Committee are each responsible for overseeing each of their respective responsibilities the structure and management systems that ensure the integrity of SAL's corporate reporting (financial and non-financial). For financial reporting, the Audit and Risk Committee reviews and assesses the adequacy and integrity of the annual and half-yearly financial statements, including the directors report and considering whether they are consistent with information known to the committee and provide a true and fair view of Sydney Airport's financial position and performance. The relevant qualifications and experience of the members of the SAL Audit and Risk Committee are set out in the biographies of directors on pages 54-55 of the 2019 Annual Report. A table of board and committee members and the number of times they met throughout the year can be found on page 57 of the 2019 Annual Report.

#### RE Board

The functions of an audit committee are all undertaken by the full board of the RE with assistance from the RE's management. The RE has policies and procedures designed to ensure that the Trust's financial reports are true and fair and meet high standards of disclosure and audit integrity. This includes policies relating to the preparation, review and sign off process required for the Trust's financial reports and the engagement of the Trust independent auditors.

The RE receives confirmations from personnel involved in the financial reporting and management of SAT1. The RE board receives periodic reports from the external auditors in relation to financial reporting and the compliance plan for SAT1. In conjunction with SAL, the RE manages the engagement, monitoring and rotation of independent external auditors.

The relevant qualifications and experience of the RE board are set out in the biographies of directors on pages 74-75 of the 2019 Annual Report.

### Recommendation 4.2

Declarations under Section 295A of the Corporations Act 2001 ('CEO and CFO declarations') provide formal statements to the SAL board and to the RE board in relation to SAT1. The declarations confirm the matters required by the Corporations Act 2001 in connection with financial reporting. The RE also receives confirmations from the service providers involved in financial reporting and management of SAT1, including relevant Sydney Airport staff.

### Recommendation 4.3

SAL and the RE undertake a thorough process to validate its annual and other corporate reports to ensure they are accurate, factual and balanced. Prior to releasing information to the market, reports are subject to comprehensive internal vetting and are underpinned by the processes set out in SYD's Continuous Disclosure and Communications Policy which applies to both SAL and SAT1.

It is the responsibility of all staff to ensure that all material communicated to the SAL company secretary is accurate and meets the criteria outlined in the policy to provide timely, open and accurate information to investors and stakeholders, ensuring the information released does not omit any material information and is expressed in a clear and open manner. The policy also states that any communications will be factual or where an opinion is expressed about the outlook of the business there must be a reasonable basis for providing such advice and all such advice can only be general advice. The SAL company secretary has responsibility for overseeing and coordinating the process of disclosure. Annual, half yearly and other corporate reports are vetted in detail by Sydney Airport's and the RE management to ensure every statement made is balanced and accurate and any forecast of future event is made on a reasonable basis. A record is kept of this review process. The SAL and RE boards review and approve reports separately that relate to matters within the reserved powers of the boards prior to their release to the market.



## Principle 5: Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

### Recommendation 5.1

SYD's Continuous Disclosure and Communications Policy is available on the Sydney Airport website. SAL and the RE provide timely, open and accurate information to its investors, regulators and other stakeholders to ensure that all investors have equal and timely access to material information concerning Sydney Airport and facilitate trading on an informed basis. The policy applies to both SAL and SAT1.

The Continuous Disclosure and Communications Policy facilitates compliance with ASX Listing Rules because it includes procedures for identifying potentially price-sensitive information, a process for escalation to the CEO and general counsel for determination as to disclosure required, and a management sign-off process to ensure that ASX releases are accurate and complete. The SAL and RE boards approve announcements that relate to matters within the reserved powers of the boards and which have not been delegated to management or which are of particular significance to SYD. The ASX liaison person is the SAL company secretary.

Sydney Airport has updated its announcement template to comply with the recent changes to the ASX Listing Rules.

### Recommendation 5.2

The SAL and RE boards approve disclosures to the market that relate to matters reserved only to the board or which are of particular significance to Sydney Airport and SAT1. To ensure the board has visibility of all disclosures, including those delegated to management, the boards receive all material market disclosures to ensure visibility of the nature, quality and frequency of information being disclosed to the market.

### Recommendation 5.3

To ensure all investors have equal and timely access to material information concerning SYD, market presentation materials provided to new, substantive investors or analysts are disclosed to the market ahead of the presentation and are available in the Investor section of the website.

## Principle 6: Respect the rights of investors

A listed entity should provide its security holders with appropriate information and facilities to allow them to exercise their rights as security holders effectively.

### Recommendation 6.1

SYD is committed to ensuring timely and accurate information about the airport, SAT1 and all relevant corporate governance information is available to security holders via our website. The website has a "Corporate Governance" section under the "About" tab that stores all the governance-related documents, the names, photographs and biographies of directors and senior executives and Sydney Airport's values. All ASX announcements are promptly posted on the website under the "Investors" tab. The annual and half year results presentations, financial statements, media releases, key dates, traffic announcements, webcasts and other communication materials are also published in the Investors section of the website.

### Recommendation 6.2

Sydney Airport has a comprehensive security holder engagement program which includes annual reports, emails, briefings, presentations and events, including investor days and retail roadshows. The program includes periodic and ad-hoc briefings with institutional and private investors, analysts and the financial media. Sydney Airport aims to arrange time for questions at appropriate opportunities during briefing events providing a forum for two-way communication. Sydney Airport also provides the mechanism for investors to sign up for personalised notification of ASX and media releases as well as an "investors" email address through which everyone can communicate with the Head of Investor Relations.

The RE is a member of the Australian Financial Complaints Authority, an independent dispute resolution organisation, which is available to investors in the event that any complaints cannot be satisfactorily resolved by the RE in line with the Continuous Disclosure and Communications Policy, which can be found on the Sydney Airport website.

### Recommendation 6.3

SYD regards the AGM as an important opportunity to communicate with security holders. It is also a major forum for security holders to ask questions about the performance of Sydney Airport, and to provide feedback about information they have received.

Investors are encouraged to attend the AGM, which is generally held in May each year. The full text of notices of meeting and explanatory material is published on the website. AGMs are webcast live and later archived for the benefit of security holders who are unable to attend in person. Investors who are unable to attend in person can also vote using proxy forms by post, fax or via the internet.

### Recommendation 6.4

It is SYD's policy that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands. This ensures greater accuracy to identify the true will of security holders whether they attend in person or by proxy.

### Recommendation 6.5

Security holders are able to, and encouraged to elect to, receive all company information in electronic format including communications from the security registry in line with SYD's commitment to sustainability.

## Principle 7: Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

### Recommendation 7.1

#### SAL Board

The SAL Audit and Risk Committee assists the board to monitor Sydney Airport's Enterprise Risk Management Framework as set out in the Audit and Risk Committee Charter. The SAL board has established a policy governing Sydney Airport's approach to risk and internal control systems to minimise different categories of risks. The SAL risk management policy is available on the Sydney Airport website, and it addresses a wide range of risks (financial and non-financial) including:

- financial risks (e.g. liquidity, interest rate and credit);
- legal risks (e.g. the enforceability of important contracts, litigation);
- compliance risks;
- operational risks (e.g. processes, information technology, outsourcing of services);
- environmental and social risks;
- WHS risks;
- strategic risks;
- climate change risks;
- reputation risks; and
- cyber security risks.

The board requires management to design and implement the risk management and internal control systems, including undertaking a risk assessment of SAL and its business and operations. Management reports to the board on whether those risks are being managed effectively. The Audit and Risk Committee and the Safety, Security and Sustainability Committee each oversee and monitor the risk profile in relation to each of their responsibilities and the effectiveness of the controls implemented by management, recommending to the board any changes that should be made to the risk management framework or the risk appetite set by the board. The board is responsible for setting the appetite within which the board expects management to operate and ensure it is satisfied that appropriate frameworks are in place to identify and manage significant financial and non-financial risks. The board also monitors compliance with laws and regulations including those relating to health and safety, transport, safety and the environment. All SAL directors are also members of the board of Sydney Airport Corporation Limited, the company which operates Sydney (Kingsford Smith) Airport. This provides directors with direct visibility of matters considered and reported on by management.

#### RE Board

The RE values the importance of robust risk management systems and maintains a current risk register as part of its formal risk management program. SAT1 has a Compliance Committee, comprised of Sam Mosse, Johanna Turner and Virginia Malley. Michelene Collopy retired as Chairman and Member of the Committee, effective 10 November 2019, Johanna Turner was appointed as Chairman and Member of the Committee effective 11 November 2019. Michael Vainaukas resigned as Member of the Committee, effective 27 September 2019. Sam Mosse was appointed as a Member of the Committee, effective 27 September 2019.



The Compliance Committee meets at least quarterly. In 2019 there were five meetings held. Michelene Collopy and Virginia Malley attended all five meetings, Michael Vainauskas attended three meetings and Sam Mosse one meeting. The Compliance Committee Charter which can be found on the Sydney Airport website sets out its role and responsibilities. The Compliance Committee is responsible for compliance matters regarding the RE's compliance plan and constitution and the Corporations Act.

Perpetual's Audit, Risk and Compliance Committee is responsible for oversight of Perpetual's risk management and internal control systems. The Audit, Risk and Compliance Committee is comprised of Ian Hammond (Chair), Gregory Cooper, Nancy Fox and Craig Ueland. In 2019 there were six meetings held which were attended by all members (note Gregory Cooper was appointed 11 September 2019 and attended one meeting).

The Audit, Risk and Compliance Committee terms of reference sets out its role and responsibilities. This can be obtained on the Perpetual website. The majority of the Compliance Committee and the Audit, Risk and Compliance Committee members are independent. They are chaired by independent members.

The RE manages the engagement and monitoring of independent external auditors for SAT1. The RE board receives periodic reports in relation to financial reporting and the compliance plan audit outcomes for SAT1.

## **Recommendation 7.2**

### **SAL Board**

In the reporting period the board reviewed the Enterprise Risk Management Framework to ensure it remains sound and reviewed the risk appetite as part of that process. As part of the review the board approved a new risk matrix.

During 2019, management reported to the SAL Audit and Risk Committee and the board the risk profile and the effectiveness of the controls. In addition, the board received assurance from the CEO and CFO that their declaration under Section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Additional detail of Sydney Airport's material risk and the controls are contained on pages 46-50 of the 2019 Annual Report.

### **RE Board**

The RE values the importance of robust risk and compliance management systems and maintains a current risk register as part of its formal risk management program. The systems supporting the business have been designed to ensure the risks are managed within the boundaries of the Perpetual Risk Appetite Statement and consistent with its core values. Perpetual has a risk management framework in place which is reviewed annually. The Risk Management Framework was reviewed, updated and approved by the Audit, Risk and Compliance Committee during the 2019 financial year. The Framework consists of programs and policies which are designed to address specific risk categories - strategic, financial, operational, outsourcing, investment, reputation, people and compliance, legal and conduct risk. Programs supporting the Framework are regularly reviewed to confirm their appropriateness.

The declarations under section 295A of the Act provide assurance regarding a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The RE also receives appropriate declarations from the service providers involved in financial reporting.

## **Recommendation 7.3**

### **SAL Board**

SAL has an established internal audit function and framework which is regularly monitored and reviewed by the Audit and Risk Committee. Internal audits, testing system controls and processes are undertaken by the internal auditor throughout the year. This function is currently outsourced, however Sydney Airport is in the process of establishing an in-house internal audit function. The first step in this process, which is now complete, was to appoint the Head of Internal Audit and Risk. The Audit and Risk Committee approved the appointment and the position has a direct reporting line to the Committee.

### **RE Board**

Internal audit is an integral part of Perpetual's governance and risk management culture and aims to protect Perpetual's earnings, reputation and customers. Perpetual's Internal Audit (IA) function reports to the Chief Risk Officer and the Head of IA functionally reports directly to the Chairman of the Perpetual Board Audit Risk & Compliance Committee (ARCC). IA provides independent and objective assurance, a disciplined approach to the assessment and improvement of risk management and monitoring and reporting on audit findings and recommendations. The internal audit plan is approved annually by ARCC with results of audit activity reported quarterly.

## Recommendation 7.4

Sydney Airport is committed to responsible growth that delivers positive outcomes for customers, investors and the community in which it operates. The sustainability strategy forms an integral part of Sydney Airport's broader business strategy. It seeks to respond to the changing world, and the emerging challenges and opportunities that are shaping businesses. As a sustainable business Sydney Airport is committed to:

- operating fairly and responsibly, ensuring risks are identified and appropriately managed;
- integrating social and environmental considerations into our decision-making processes; and
- working in collaboration with our customers, the airport community and other stakeholders to deliver mutually beneficial outcomes.

The sustainability strategy focuses on three key areas:

- Responsible business – being ethical, responsible and transparent in how we do business;
- Planning for the future – delivering operational excellence through innovative, technology based solutions and supporting customers' needs now and into the future; and
- Supporting our community – working with our communities to create shared value.

Each year, a review of a range of current and emerging issues that may impact stakeholders and the business is conducted and in 2019, Sydney Airport updated its list of material issues in the context of global trends, the United Nations Sustainable Development Goals and our business strategy. Sydney Airport's annual sustainability report is prepared in alignment with the 'Core' option of Global Reporting Initiative (GRI) Standards. The 2019 Sustainability Report is available on Sydney Airport's website. The report sets out Sydney Airport's commitments, identifies those issues considered material to its stakeholders and the business, and outlines how it is managing relevant risks.

In 2019, SAL reassessed potential impacts and consequences of climate change on Sydney Airport in its updated Climate Risk and Adaptation Plan, which enables Sydney Airport to prioritise and better respond to climate risks. Both physical and transition risks were assessed based on climate scenarios informed by the climate projections of the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathways (RCPs). Further detail on Sydney Airport's climate resilience approach in line with the Taskforce on Climate-related Financial Disclosures (TCFD) can be found in the 2019 Annual Report and 2019 Sustainability Report.

## Principle 8: Remunerate fairly and responsibly

A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders and with the entity's values and risk appetite.

### Recommendation 8.1

#### SAL Board

The SAL board has a Nomination and Remuneration Committee and a copy of its charter is on the Sydney Airport website. The role of the Nomination and Remuneration Committee is to assist and advise the board on director selection and appointment practices, director performance evaluation processes and criteria, board composition and succession planning for the board and senior executives, diversity within the organisation, overall culture and engagement, the executive remuneration framework and remuneration reporting (including by gender). The committee is chaired by an independent director and comprises at least three directors, all of whom are independent. A table of committee members, the number of times they met throughout the year and each Committee member's attendance record can be found on page 57 of the 2019 Annual Report.

#### RE Board

The RE does not have a Remuneration Committee. The fees and expenses which the RE is permitted to pay out of the assets of SAT1 are set out in the constitution, and the only remuneration paid directly is the fees for the independent directors. The RE's non-independent director and staff involved in the day to day operations of the RE are remunerated by Perpetual and not by SAT1.



## Recommendation 8.2

### SAL Board

The Remuneration Report sets out Sydney Airport's policy and practices for remunerating SAL directors and Sydney Airport staff.

The remuneration of staff is determined by the SAL board on the recommendation of the Nomination and Remuneration Committee in respect of the CEO and other senior executives. Salaries are benchmarked against comparable market participants based on advice from remuneration consultants. An incentive policy has been developed to align staff performance with Sydney Airport's objectives. Policies are in place to ensure that no senior executive is directly involved in deciding their own remuneration.

The remuneration of SAL NEDs, the CEO and other senior executives has been disclosed to investors and is described in the Remuneration Report on pages 58-71 of the 2019 Annual Report. NEDs' remuneration is determined with reference to external benchmarking undertaken by consultants engaged by the board. None of the NEDs are entitled to options, securities, bonuses or retirement benefits as part of their remuneration package from Sydney Airport.

The Nomination and Remuneration Committee develops and reviews the process for selection, appointment and re-election of NEDs as well as developing and implementing a process for evaluating the performance of the SAL board, board committees and directors individually.

NEDs are subject to election by investors at the first AGM after their initial appointment by the board. In addition, each NED must stand for re-election by security holders on a rolling three yearly basis.

Letters of appointment for the NEDs, which are contracts for service but not contracts of employment, have been put in place. These letters confirm that the NEDs have no right to compensation on the termination of their appointment for any reason, other than for unpaid fees and expenses for the period actually served.

### RE Board

This recommendation is not applicable to the RE.

## Recommendation 8.3

### SAL Board

Sydney Airport introduced a Long Term Incentive Plan (LTI Plan) in 2015. The LTI Plan prohibits participants entering into transactions which limits the economic risk of participating in the plan. Details of the LTI Plan are set out in the Appendix to the 2015 Notices of Meeting which can be found at <https://www.sydneyairport.com.au/investor/investors-centre/reports>.

### RE Board

This recommendation is not applicable to the RE.

## Principle 9: Additional recommendations that apply only in certain cases

### Recommendation 9.3

SYD's external auditor attends its AGM and is available to answer questions from unitholders relevant to the audit.

SYD