



# **Chairman's and Chief Executive Officer's Addresses to the Sydney Airport Limited and Sydney Airport Trust 1 2020 Annual General Meetings**

## **Chairman's Address**

Good morning. Welcome to the Annual General Meeting of Sydney Airport. My name is Trevor Gerber. I'm the Chairman of Sydney Airport Limited and I've also been appointed to chair the meeting of Sydney Airport Trust 1.

The Company Secretary has informed me that a quorum is present for each entity and I therefore declare the meetings of the members of Sydney Airport Limited and Sydney Airport Trust 1 open.

Before we begin today, I would like to acknowledge the Aboriginal people of coastal Sydney, who are the Traditional Custodians of the land on which today's airport sits. We pay our respects to them, their cultures and to their Elders past, present and emerging.

I want to acknowledge that today's meeting format is clearly a little different to what we are used to.

On behalf of the Board, I thank securityholders for their understanding of the changes we have made to the meeting format in response to the COVID-19 pandemic.

Today's meeting is being held on an online platform which allows securityholders, proxies and guests to attend the meeting virtually. Securityholders or their proxy will also be able to ask questions and submit votes.

All resolutions will be voted by poll. Once I declare the polls open a voting icon will appear.

The voting icon looks like a bar graph, once you click this you will see your voting options. You can change your vote at any time throughout the meeting until I declare that the polls are closed. I will give you a clear prompt later in the meeting to let you know when the polls will close.

We have received a number of questions prior to the meeting and we will cover these either during the formal addresses, or when we get to the designated question time towards the end of the meeting.

## **Sydney Airport**

You can submit questions at any time during the meeting today by pressing the speech bubble icon on your screen, typing your question, and pressing the arrow symbol to send it.

If you're asking a question about a particular resolution, please start your question by identifying which resolution it relates to.

Following voting and questions, I will declare the meetings closed.

Barry Azzopardi from Computershare has been appointed as the returning officer. Following confirmation from Computershare, final proxy and voting results will be announced to the ASX later today.

The Notice of Meeting has been sent to securityholders and is available on the Sydney Airport website.

I will now take the notice of meeting as having been read, move all resolutions, and declare the polls open. As I said a moment ago, now that polls are open you can use the online platform to cast your vote.

Given our focus on safety the first item on the agenda for every important meeting we have, both internal and external, is to provide a short update on a specific safety issue or initiative by way of a 'Safety Share.'

So today I'll invite our CEO, Geoff Culbert, to do our safety share – thank you Geoff.

### **Safety Share**

*Thank you Trevor, and good morning everyone.*

*For today's Safety Share I thought it would be relevant to provide a quick update on the steps we have taken to keep our people safe in response to COVID-19 while at the same time keeping the airport operational.*

*From the outset we worked in lock-step with the State and Federal Health authorities.*

*Our early response included increasing the frequency of cleaning, switching to hospital-grade disinfectants, and rolling out hand sanitising stations across the terminals.*

*We also put significant effort into communicating the Government's public health messaging about good hygiene and social distancing, both in terms of digital and physical signage, and through our social media channels.*

*In order to keep the airport operational, we split our operating teams into separate shifts to prevent any crossover or contact between them.*

*We also instituted a system of contactless handovers - previously these were done face-to-face.*

*The purpose of doing this was to make sure if there was an outbreak in one team, it was completely isolated from the other operational teams.*

*I am pleased to say our approach has worked, and to date not a single Sydney Airport employee has contracted COVID-19.*

*In fact, across the entire airport, out of the 33,000 workers who are based here, we have only had 12 confirmed cases of COVID-19.*

*It's a pretty remarkable statistic when you consider that workers at the airport are at the front line, and I think it also reinforces the fact that airports are relatively safe places, which will be important as we start to talk about the recovery and give travellers the confidence that it is safe to fly.*

*I'll discuss our COVID-19 response in more detail later in my presentation, but for the moment I'll hand back to our Chairman.*

Thank you Geoff.

I'd like to welcome fellow Non-executive Directors joining us on the webcast today - Grant Fenn, Ann Sherry, John Roberts, Stephen Ward, Abi Cleland and David Gonski.

I am also joined online by the Directors of The Trust Company (Sydney Airport) Limited, the responsible entity for Sydney Airport Trust 1 - Russell Balding, Anne Rozenauers and Patrick Gourley.

Also on the webcast today is Sydney Airport's audit partner, Nigel Virgo from KPMG; and Karen Tompkins, Sydney Airport General Counsel and Company Secretary.

Finally, I would like to welcome all of you, our securityholders, proxies and guests and thank you for your understanding and patience as we proceed in this unusual format which reflects the extraordinary circumstances we find ourselves in!

I'll start today with an overview of the 2019 results and how Sydney Airport has responded to the COVID-19 pandemic. After my remarks, I will hand over to Geoff for his address, before we move on to the formal part of the meeting and the resolutions.

Again, I would just like to remind you that you can submit a question at any time using the online platform, and we will address it either during the meeting or at question time. Polls are also open.

2019 was an important year for Sydney Airport.

We celebrated both our Centenary and the arrival of our billionth passenger.

However, it was also a challenging year, with passenger traffic largely static, growing by 0.1 of a percent on 2018 - to 44.4 million passengers.

Despite the flat traffic, prudent operational and commercial management allowed us to deliver strong revenue growth and the first full-year decline in operating expenses for more than a decade.

Importantly for investors, we achieved a 5.2% increase in Net Operating Receipts and distributed 39 cents per security, a 4.0% increase on the prior year.

One highlight which we are immensely proud of is that we refinanced \$1.4 billion of debt using a Sustainability Linked Loan, which ties our cost of capital to our sustainability performance.

This two-way linked loan is the first of its kind in Australia, the largest in the region and the largest of all airports globally.

I want to make it clear that we are really leading the way in developing these sustainability-linked instruments.

We also made sustainability a feature of the bonds we issued in the United States private placement market earlier this year.

To summarise our 2019 performance, to grow revenue and operating receipts off flat passenger traffic, and deliver market-leading sustainability initiatives, is something we are immensely proud of.

We now move to 2020, and the impact of COVID-19.

In the last 100 years we have been impacted by global and regional conflict, economic shocks, airline collapses and past pandemics.

We have been resilient in the face of all of these, and each time demand for air travel has bounced back to previous levels.

The impact of the COVID-19 crisis is genuinely without precedent, and in terms of scale and severity similar to two or three of these historical shocks rolled into one.

The Board and management team have responded swiftly to position the business strongly and prepare it for the recovery as it emerges.

As the pandemic was unfolding we quickly focused our attention on reviewing our capital structure, applying significant downside scenarios.

While not strictly necessary, we ultimately made the call to raise an additional \$850m of bank debt.

Since this crisis has emerged we have been encouraged by the support we have received from our banks in relation to raising new debt.

I emphasise that, at this point in time, we do not foresee the need to raise equity. We will however continue to reflect on our capital structure and test our assumptions as we work through the recovery phase.

We have received a number of questions in relation to our debt covenants. We expect to remain compliant with our covenant requirements.

This expectation is based on our assumptions and stems from the extensive analysis we have done in relation to these covenants, and the ongoing positive engagement we have with our debt providers.

The Board appreciates the desire for further information, however, in the best interest of securityholders, we have resolved to continue our policy of confidentiality around covenants at the current time.

We have also reviewed our cash flow management to ensure we are maintaining prudent levels of liquidity, given the uncertain operating environment.

Acknowledging the financial impact that COVID-19 has had on all stakeholders in the travel and aviation industry, we have reduced our Board and CEO remuneration until 30 June 2020. The Board will review the appropriateness of extending these remuneration reductions in the second half and, if necessary, will back-date any announcement to make it effective 1 July 2020.

The steps we have taken provide us with a current liquidity position of \$2.7bn. This is made up of cash, undrawn bank facilities, and the \$600 million US private placement bond market issuance which will settle next month.

If you look at our debt maturities, you can see that we have \$1.5 billion of debt maturing across 2020 and 2021. The \$2.7 billion in liquidity I mentioned will comfortably cover these maturities if necessary.

As always we will continue to closely manage our maturity profile and review the need to enter the debt market as the maturities come due.

Assuming that we repay the \$1.5 billion of debt maturities and based on our assumptions, the remaining liquidity of \$1.2 billion is more than enough to sustain operations for an extended period, even if the current operating environment were to persist for some time.

At a time when liquidity is crucial, the Board have resolved not to declare an interim distribution.

In coming to this decision we considered the current and near-term trading outlook, and accounted for the uncertainty associated with the path to a recovery.

With this at the forefront of our minds, we took the position that it would be better for the company to retain cash at this point in time.

It is important to note that this money is not lost to securityholders, it is being held by the Group and retained to strengthen our liquidity position.

The Board understands the importance of distributions to our securityholders and did not reach this decision lightly.

However, we balanced the needs of all the airport's stakeholders and took the approach we believe is in the best long-term interests of all securityholders.

We will continue to assess our position on distributions. An important factor in declaring a distribution will be getting clarity on the path to recovery and ensuring we have adequate liquidity through this recovery.

I will now hand over to our CEO, Geoff Culbert.

## **Chief Executive Officer's Address**

Thank you Trevor.

What I would like to do in my presentation is provide a bit more detail on the performance of the business throughout 2019, and then walk through some other elements of our response to the COVID-19 pandemic.

It seems strange to say it now, but the 2019 year represented some of the toughest trading conditions since the GFC.

2019 was marked by uncertainty around things like Brexit, the US-China trade war, and a slowing domestic economy, all of which impacted travel.

Clearly, with the benefit of hindsight we would gladly swap 2019's challenges for what we are seeing in 2020, but I raise it because it puts into context the strong performance of the business last year.

We were able to grow revenue across all but one of our businesses in a year where passenger traffic was flat. This speaks to the hard work of the entire Sydney Airport team, and I want to thank them for their efforts throughout 2019 to deliver this result.

Aeronautical revenue was up 2.4%, underpinned by 1.1% growth in international passengers, and an increase in international charges of 2.7% from July last year.

We had a strong result across our non-aeronautical business, and revenue across our retail and property portfolios grew by 5.0% and 5.5% respectively.

Parking and ground transport were flat, which largely reflected a subdued domestic market, but overall we were pleased with the performance of our commercial businesses which accounted for more than half of our total revenues.

2019 was also a strong year for Sustainability.

Trevor spoke earlier about our sustainability-linked loan and bond program, so I won't go over that again – other than to say that they are both important components of our ongoing safety, sustainability and environment strategy, and are connected to the outcomes shown on this page.

From a safety perspective, we have made good progress over the past 12 months.

We had decreases in injuries across all categories and continued our record of no class one injuries since well before privatisation.

When it comes to safety the only number that is truly satisfactory is 'zero', but our improvement in these scores says to me that our efforts to maintain and enhance a strong safety culture are working.

From an environment perspective, we remain committed to continually improving our environmental performance and achieving our target of being carbon neutral by 2025.

We were pleased to improve our Sustainalytics ranking. We are now ranked 2nd globally within the aviation industry and we are ranked 1st globally in our peer group for airports with market capitalisations between \$7.2 and \$20.9 billion, and the actions shown on this page contribute to that outcome.

Finally, an area we are really proud of is the continued increase in our customer satisfaction scores, which reached record highs in 2019.

Throughout 2019 we continued to invest in the hard infrastructure that we know improves customer satisfaction – things like more comfortable seats in gate lounges, refreshed bathrooms, and better arrivals and departures experiences.

We also made progress on the ‘soft infrastructure,’ which is about shifting the organisational culture to be more customer focused.

We changed the purpose of the company to reflect that. Our new purpose is ‘to make Sydney proud every day’ and we also refreshed our organisational values to give them real meaning. We have seen great traction around these initiatives and it’s flowing through, not only to our customer satisfaction metrics, but our safety and sustainability metrics as well.

Overall, we were pleased with our performance in 2019, but that seems a long time ago, so I’ll draw a line under last year and shift to provide some further detail on 2020 and our response to the COVID-19 pandemic.

International traffic is down 38.9% year to date and is down 97.9% May month to date. Domestic traffic is down 37.4% year to date and 97.4% so far for the month of May.

When we announced our full year results in February, the only proxy we had for COVID-19 was the SARS outbreak in 2002, and we estimated that if COVID-19 followed SARS we would see a 25% decrease in total passenger traffic over a four month period, and then a quick recovery after that.

I think what COVID-19 has shown, and why the word ‘unprecedented’ is used so much, is that this crisis has gone deeper and will persist for longer than anyone thought.

Clearly there is not a single organisation or business within the Australian aviation industry that isn’t hurting right now, and the approach we have taken with all our partners reflects the fact that we want everyone to have the best chance possible of getting through to the other side.

What this means in practice is that we have taken an individual approach to every partner we have at the airport – from the family businesses operating cafes in the terminals right through to the sophisticated international retail partners and international airlines.

We think this is important because the aviation industry is very much an ecosystem, and all of the businesses that are part of that ecosystem should be there when the recovery arrives - we don’t want to miss a single day of flying when the restrictions on travel are eased.



The Board and management team are firmly of the view that equitably sharing the pain and ensuring everyone makes it to the other side will deliver the best long-term outcome for securityholders.

In that regard, we are supporting our airline partners by operating all three terminals for essential travel and freight.

We have closed the East-West runway to make room for additional aircraft parking, and we are ensuring that we are ready to scale up operations as soon as travel restrictions are lifted. We are also in discussion with our airline partners about rolling over the airline agreements that have expired, or are due to expire on 30 June, for a short period of time until conditions stabilise.

In relation to our non-aero partners, we have offered temporary relief to retail and property partners in the form of rental deferrals or rental holidays. For our smaller operators we have been guided by the National Cabinet's Code of Conduct.

The process of review and negotiation with tenants is well underway. We are working through these conversations on a case-by-case basis but they will take some time to conclude.

We have had a number of pre-submitted questions about the specifics of these negotiations, but I do need to note that they are commercial-in-confidence, and it would not be appropriate to comment on them in detail.

What I can say is that we are taking a position that any outcome on measures affecting rent should be temporary and reflective of the overall impact on the individual tenant.

We also remain in constructive and positive negotiations with the luxury retailers who are poised to take up leases on the newly returned retail space in the international terminal. They share our optimistic view about the future success of retail at Sydney Airport.

The last few months haven't been easy. The impact of COVID-19 and the travel bans has been decimating for the aviation industry, but we have taken a fair and constructive approach with our airline and commercial partners to give everyone in the industry the best chance to get through this.

It is important to note that we have also had to respond to the impact that the pandemic has had on our people and operations.

As I said at our full-year results briefing in February, our approach to this crisis has been 'people first.'

In addition to the measures to protect the physical health and safety of our people that I outlined earlier, our response also acknowledges the risks to mental health, as our people deal with a highly uncertain and rapidly changing environment.

On this front we accelerated the deployment of a mental health training program for both leaders and frontline employees and tailored it specifically to the unique challenges we are all facing with COVID-19.



We also committed to guaranteeing the jobs of the approximately 500 people directly employed by Sydney Airport through to the end of September. Personally, this was the right thing to do. There is a human cost to this pandemic, and it's not just measured in the number of people who are infected or sadly die from the virus. The impact on people's lives from loss of employment can't be understated.

We have, however, had to make some tough decisions from a people perspective, including reducing our contractor workforce by just over 50% as a result of the re-prioritisation of our capital expenditure program.

As Trevor mentioned in his address, prior to COVID-19 we were 18 months into a renewed focus on operating expenses.

We took a lot of action on cost last year and reduced opex year on year for the first time in over a decade. Coming into COVID-19 we had a lean workforce of around 500 direct employees. Those employees will be crucial to speed the recovery when the travel bans are lifted, starting with domestic travel which is on the horizon.

On the operations side, we have 'right-sized' the activity within our terminals to reflect the current environment and significantly minimised costs. As Trevor mentioned, we are planning to reduce operating costs by close to 35% on an annualised basis. We are reducing capex by 50% over the same period.

Importantly, we also believe we will be able to effectively manage the costs associated with protocols necessary to manage COVID-19.

We have shown we can move quickly, and flexibly to scale up and down when we need to.

This includes our infrastructure investment. As I mentioned, we have reduced our capital expenditure guidance by more than 50% and are now forecasting a range of between \$150 and \$200 million on an annualised basis.

We have divided our entire capital project pipeline into three categories – critical projects, deferrable projects, and opportunistic projects.

The main priority are the critical projects and these make up the bulk of the projects within the new capex envelope - these are essential projects targeting things like safety and asset resilience, and include the projects shown on this page. Things like:

- Re-sheeting of the runways;
- Enabling and design works for the Southern Bag Room;
- Tunnelling and fuel works for the Northern Ponds aircraft parking;
- Design and preparatory works associated with the state government's Sydney Gateway project;
- And a series of other projects related to security and resilience.

Examples of projects that we will be deferring for the time being include:

- The Terminal 2 Pier A retail development;
- The third domestic hotel;

- The Terminal 1 Pier B bussing expansion;
- As well as a number of digital projects that will be re-timed.

Projects that fall into the opportunistic category are those that can take advantage of the fact that the terminals, runways and airfield are largely dormant. A good example of this is the upgrade of some of the ageing baggage infrastructure within the terminals.

The long-term benefit of bringing these projects forward in terms of safety, capacity, and minimising disruption outweighs the immediate capex costs and so we are proceeding with some of these projects on a select basis within the \$150-200 million capex range.

Having said that, as we have reiterated across the last few years, our capex program is modular. We'll constantly review it, and we'll ensure it's appropriate given the evolving market conditions.

Before I close out and hand back to Trevor, I want to spend a minute talking about the recovery.

In March and early April our primary focus was on responding to the crisis, protecting our balance sheet and protecting our people. Now that we have that under control, our focus has increasingly turned to preparing for, and hastening, the recovery.

Unfortunately, we don't have a crystal ball that can tell you when domestic or international travel will start up.

But what we are doing is working very constructively with the Government and other stakeholders across the industry to jointly tackle this crisis and develop safe and scalable protocols to get people back in the air.

We are an active contributor to the work that is being done to restore both domestic and Trans-Tasman travel in the short to medium term, and our aim is to leverage this experience to create a template for the eventual full restoration of international travel.

Our view is that the Trans-Tasman bubble must act as a template for how we begin connecting city by city, country by country, back to our worldwide network of 48 international airlines and 110 destinations.

Tourism Australia statistics show that international travellers spent close to \$50bn in Australia last year. So long as international borders remain shut it costs the tourism industry, and the economy, close to \$1 billion dollars a week. It's also critical to us, as international travel accounts for 70% of our passenger-generated revenues. So, in that regard our interests are clearly aligned to the broader economic interests of the country.

We need to create a safe and sustainable pathway to the full restoration of both domestic and international travel and that's something we are working hard on at the moment.

I'm personally chairing the Business Council of Australia's tourism, transport, freight and logistics taskforce and sitting on the Federal Government's Customs Advisory Board.

We are also heavily involved in the Australia-New Zealand Leadership Forum which is leading the Trans-Tasman bubble project.

Everything we are doing through these forums is aimed at tackling the challenge of safely and sustainably getting the Australian travel industry moving again. It's about creating protocols that give everyone the confidence that it's safe to fly, and the economic benefit of doing that is enormous

In closing, I'd like to express our optimism about the future.

We are an incredibly resilient asset and we have a track record of recovering strongly from external shocks.

Sydney Airport's long-term investment fundamentals remain sound.

We have close to 80 years left on the lease, ample liquidity to ride out the storm, and the natural advantage of Sydney being the most important hub in Australia's domestic and international aviation network.

Once the restrictions are lifted, we will be ready to go and every member of the Sydney Airport team is working hard to make sure we don't miss a single days' flying.

And finally, I'd like to thank you, our securityholders. These are tough times for all of us and I appreciate your ongoing support.

-End-