Sydney Airport

ASX RELEASE

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Sydney Airport delivers another year of strong performance and is well positioned for growth

- Growth across all businesses with total revenue increasing 8.7%
- Record passenger numbers of 43.3 million, up 3.6%; international passengers grew 7.2%
- Significant investment program driving customer service and experience improvements and business performance
- Earnings before interest, tax, depreciation and amortisation (EBITDA) of $1,198.9m1, up 8.3% on the prior corresponding period (pcp)
- Net Operating Receipts up 13.5%[1] on the pcp
- Significant interest rate and currency hedging in place with 93% of interest exposures hedged on a spot basis
- Significant balance sheet flexibility with over $1.3 billion in cash and undrawn facilities
- 2018 distribution guidance of 37.5 cents per stapled security[2], up 8.7% on the pcp, subject to external shocks to the aviation industry and material changes to forecast assumptions

Sydney Airport Chief Executive Officer, Geoff Culbert said "Sydney Airport today announced strong results for the full year 2017, underpinned by record passenger numbers and excellent international passenger growth. We actively developed new airline routes and new services and supported our airline partners as they delivered significant capacity increases and robust load factors.

"Over the year, international passenger numbers increased by over 1 million, up 7.2% on the 2016 year. This result reflects management initiatives, investment, positive macro tailwinds from increasing global tourism and travel, our proximity to Asia, larger and more fuel-efficient aircraft and the continued liberalisation of air rights.

"The inbound travel market has grown 8.0% year on year, with excellent performance from a diverse range of major Asian markets, including China, India, South Korea and Vietnam, in addition to a solid performance from the United States and the United Kingdom. Australian outbound travel remained robust, growing nearly 6% over the year.

"EBITDA grew 8.3%[1] on total passenger growth of 3.6%. Key drivers of the result were international passenger growth of 7.2%, returns on capital investment in aviation infrastructure, and a strong contribution from retail and property with the full complement of shops now open in newly refurbished T1 and T2 and our two new hotels trading ahead of expectations.

"We see exciting opportunities across our four businesses and have a significant investment program underway that will deliver both efficient infrastructure capacity, an improved customer experience and service excellence for our customers.

"It is innovations like our smart gates on arrivals and departures, the digital wayfinding, queue wait-time displays, and soon the first phase of our biometrics testing that will position Sydney Airport as a leader in airport technology and provide a superior and streamlined experience.

"Sydney Airport's robust passenger growth and diversity of businesses, revenues, airlines, passengers and destinations served supports our distribution guidance of 37.5 cents per stapled security[2] for 2018, an increase of 8.7% on the pcp."

Financial results

Total revenue grew by 8.7%, primarily driven by international passengers, capital investment, growth across all businesses and in particular standout performances from Aeronautical, Retail and Property:

- **Aeronautical**: Up 9.2% reflecting 7.2% international passenger growth and agreed international charge increases supporting significant capital investment in aeronautical facilities
- **Retail**: Up 12.7% following the completion of new fashion, specialty and food and beverage offerings through 2016 and 2017 in T1 and casual dining precinct in T2
- **Property and car rental**: Up 8.4% due to the investment in hotels, with both Ibis Budget and Mantra trading ahead of expectation since opening, contributing 5 ½ months of revenue in the second half of 2017. In addition, tenancy refurbishments and the opening of the Mercedes AMG Performance Centre have contributed to this strong growth
- **Car parking and ground transport**: Up 2.2%, ahead of domestic passenger growth

Operating expenses increased by $26.7 million (10.4%), primarily due to hotel expenses associated with the additional revenues from the new business, higher electricity prices and higher recoverable security expenses.

Customer focused investment in business expansion

Our investment is focused on delivering efficient infrastructure to improve the customer experience. The infrastructure we are delivering today is smart and connected. Through our award-winning land and airside operation centres, we are collecting real-time data to enable our staff to monitor, learn and respond using real-time information.

In 2017, capital expenditure was $428.5 million (including the acquisition of Ibis Budget hotel) and included:

- **Aeronautical capacity**: upgauging aircraft parking bays, new airfield lighting and purchase of five new airfield passenger buses
- **Terminal works:** eight new/refurbished baggage carousels, completion of T1 specialty retail precinct and bathroom upgrades
- **Airport access:** new exit from M5 into international precinct, new exit lanes from international departures and arrivals, new elevated cycle/pedestrian path and bike storage facilities, new one-way five lane entry to domestic precinct, widening of Qantas Drive at domestic, all further improving traffic flows and reducing congestion
- **Business expansion:** four new levels on the international multistorey car park, new Mantra Hotel development, Ibis Budget hotel acquisition and development of new Mercedes AGM performance centre

Four-year capex guidance of $1.3 - $1.5 billion has been provided for the 2018-2021 period. This guidance now incorporates the additional $500 million previously foreshadowed for additional international aviation capacity. 2018 capex is expected to be in the range of $380 - $420 million.

Balance sheet

Our balance sheet and credit metrics continue to strengthen, interest cover has improved with the ratio increasing to 3.0x from 2.7x at FY16, while Net Debt to EBITDA has reduced to 6.7x. As a result of the continued strengthening of Sydney Airport's credit metrics, Moody's recently upgraded our credit rating to Baa1.

In the current environment, we have taken a proactive view of interest rate exposure and have significant hedging in place with 93% of all debt hedged on a spot basis as at 31 December 2017. Currency exposures on offshore debt remain 100% hedged. We continue to assess debt issuance across global capital markets and hedging opportunities to further strengthen our financial position.

Our significant balance sheet and capital management flexibility continues with over $1.3 billion in cash and undrawn facilities.

Sustainability

Sustainability is at the core of how Sydney Airport conducts business. Our sustainability strategy is delivering excellent outcomes for Sydney Airport's business and our stakeholders and our commitments have been widely recognised. Sydney Airport has again achieved a 'leading' rating by the Australian Council of Superannuation Investors for our sustainability reporting, we have been included in the FTSE4Good and now rank 10th on the Dow Jones Sustainability Index within the infrastructure sector, all demonstrating our strong environment, social and governance (ESG) practices.

Sydney Airport is also working collaboratively with our customers to develop infrastructure which encourages sustainable practices. All our incremental international passenger growth in 2017 was on next generation aircraft and Sydney Airport aims to be an airport of choice for quieter and low emission next generation aircraft. Our satellite navigation systems, infrastructure to support next generation aircraft, strong technology solutions in addition to our position at the end of the route, makes Sydney Airport a natural choice for our airline partners' new aircraft and is why we see such a modern fleet using the airport.

Community Investment and Contribution

Sydney Airport is committed to making a meaningful contribution to the communities in which we live and work. We strive to deliver outcomes that help our local communities thrive, support our leaders of tomorrow and embrace and showcase Sydney's best. We achieve this through partnering with, volunteering and supporting our communities and our employees. Our partnership approach supports a wide-ranging number of organisations within three key pillars, Live Local, Leading and Learning and Sydney's Airport.

We are particularly proud of two of our major initiatives during the year. We partnered with the Museum of Contemporary Art (MCA) to commission a Kamilaroi artist, Archie Moore, to create a bespoke contemporary work for the T1 International Terminal. The artwork called 'United Neytions' is a highly significant work that will reflect the diversity of Aboriginal cultures in Australia. The 28 large flags with their distinctive design will hang from the 17-metre high ceiling of the Marketplace.

We strengthened our 17-year partnership with Surf Life Saving Sydney, increasing our investment in this community organisation to help deliver important training, education, skills building and support programs to over 6,000 young Nippers and around 4,000 Surf Life Savers in Sydney. The growth of our partnership reflects our commitment to Surf Life Saving Sydney and the community, ensuring our Patrolling Surf Life Savers receive the training and development they require to keep beachgoers visiting 15 beaches down Sydney's east coast safe.

Outlook

During 2017 Sydney Airport generated strong international passenger growth, invested in aviation capacity and facilitation, and delivered positive investor returns. Our financial position is the strongest it has been since privatisation.

Together with our airline and airport business partners, we will continue to develop new and underserved routes and markets and support the growth of aviation in Sydney, NSW and Australia. Our focus for 2018 remains optimising the efficient use of our airport and investing efficient infrastructure to support the delivery of world-class facilities, operations and passenger experience.

Sydney Airport has today provided distribution guidance of 37.5 cents[2] per stapled security for 2018, an 8.7% increase on 2017, reflecting solid tailwinds, strong competitive position and board and management confidence in the business outlook.

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[1] Excluding WSA project costs expensed and business acquisition costs.

[2] Guidance subject to aviation industry shocks and material forecast changes.

Disclaimer: The forward-looking statements, estimates and projections contained in this release are not representations as to future performance and nothing in this release should be relied upon as guarantees or representations of future performance.

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SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	12 months to 31 Dec 2017 $m	12 months to 31 Dec 2016 $m	Change %
Passengers (millions)			
International (including domestic-on-carriage)[1]	16.0	14.9	7.2%
Domestic (including regional)[1]	27.4	26.9	1.6%
Total passengers	**43.3**	**41.9**	**3.6%**
Revenue			
Aeronautical revenue	670.6	614.2	9.2%
Aeronautical security recovery	91.3	87.3	4.6%
Retail revenue	333.1	295.6	12.7%
Property and car rental revenue	221.4	204.2	8.4%
Parking and ground transport revenue	159.5	156.1	2.2%
Other	7.4	7.2	2.5%
Total revenue	**1,483.3**	**1,364.6**	**8.7%**
Other income			
Profit on disposal of non-current assets	0.1	-	n/a
Total revenue and other income	**1,483.4**	**1,364.6**	**8.7%**
Operating expenses			
Employee benefits expense	57.5	54.5	5.5%
Services and utilities expense	84.2	68.9	22.3%
Property and maintenance expense	31.4	30.9	1.4%
Security recoverable expenses	83.6	78.9	6.0%
Other operational costs	27.8	24.6	12.9%
Total operating expenses	**284.5**	**257.8**	**10.4%**
Other expenses			
Business acquisition costs	1.9	-	n/a
Western Sydney Airport project costs expensed (WSA)	0.6	21.0	n/a
Loss on disposal of non-current assets	-	0.1	n/a
Investment transaction expenses	-		#DIV/0!
Total expenses	**287.0**	**278.9**	**2.9%**
EBITDA	**1,196.4**	**1,085.7**	**10.2%**
EBITDA excluding WSA and business acquisition costs	***1,198.9***	***1,106.7***	***8.3%***
Net external cash finance (costs)/income	(390.7)	(402.7)	-3.0%
Movement in cash reserved for specific purposes and other items	(18.4)	(8.0)	130.5%
Net operating receipts[2]	**787.3**	**675.0**	**16.6%**
Net operating receipts excluding WSA and business acquisition costs[2]	***789.8***	***696.0***	***13.5%***
Average stapled securities on issue (millions)	2,250.5	2,237.4	0.6%
Net operating receipts per stapled security[2]	**35.0c**	**30.2c**	**16.0%**
Net operating receipts excluding WSA and business acquisition costs[2] per stapled security	**35.1c**	**31.1c**	**12.8%**
Distributions per stapled security	**34.5c**	**31.0c**	**11.3%**
Ratio of net operating receipts to distributions	**101%**	**97%**	**n/a**
Ratio of net operating receipts excluding WSA and business acquisition costs to distributions	***102%***	***100%***	***n/a***
Capital expenditure[3]	**428.5**	**384.9**	**n/a**

Note: Calculations may be affected by rounding.

1 Due to data availability, all international passenger numbers (including prior corresponding period comparisons) are based on Confirmed Airline Passenger (CAP) data.
2 Refer to the Directors' Report of the Sydney Airport Financial Reports for a reconciliation of statutory profit before tax to net operating receipts.
3 Includes the acquisition of SA(F1) Pty Limited (owner of the Ibis Budget hotel) for $34.5 million.