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Sydney Airport 2019 Interim Results

- Sydney Airport welcomed 21.6 million passengers for the half year
- International passengers grew 1.9%, while overall passengers were down 0.2% due to a 1.5% decrease in domestic passengers on the prior corresponding period (pcp)
- Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding other expenses[1]) of $649.2 million, up 4.1% on the pcp
- Net operating receipts (NOR) of $431.2 million, up 4.8% on the pcp; 1H19 distribution paid today of 19.5 cents per stapled security
- Profit after income tax expense of $17.3 million for the half year
- Cost initiatives reduced operating expenses[2] by 1.4% versus pcp
- Capital investment of $116.1 million invested in increasing aviation capacity and enhancing customer experience
- Strong balance sheet with robust BBB+/Baa1 grade credit metrics and significant flexibility with over $1.1 billion in undrawn facilities to cover future debt maturities and fund ongoing investment
- 2019 distribution guidance reaffirmed at 39.0 cents per stapled security, expected to be more than fully covered by Net Operating Receipts (NOR)[3]

Sydney Airport Chief Executive Officer, Geoff Culbert said, "Today we announce a solid result for the first half of the year, reflecting continued international passenger growth, robust retail performance, and a deliberate and disciplined approach to cost control.

"International passengers grew 1.9% to 8.3 million, with strong passenger flows from the US, India, Vietnam and Japan. The diversity of our passenger base reinforces the resilience of this business. There were continued domestic headwinds with a decline in passengers attributable to capacity reductions and subdued demand.

"EBITDA grew 4.1%[1] underpinned by international passenger growth of 1.9% and a solid contribution from our non-aero businesses. Duty free and speciality store performance was strong with a lift in advertising revenues reflecting our investment in new digital advertising.

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[1] Other expenses are Restructuring and redundancy expenses of $2.4 million and Indemnity expenses of $181.7 million, taken from the Consolidated Statements of Comprehensive Income in the Sydney Airport Interim Financial Report for the Half Year Ended 30 June 3019 (30 June 2018: nil).
[2] Excluding security recoverable expense.
[3] Guidance subject to aviation industry shocks and material forecast changes.

"Sydney Airport is a business that continues to perform well across the cycle and this half was no exception. We see ongoing opportunities for growth in our aeronautical and non-aeronautical businesses and our investment program will continue to deliver capacity and great experiences for our customers.

"Sydney Airport's diversity of revenue streams together with disciplined cost control gives us confidence in reaffirming our full year distribution guidance of 39.0 cents per stapled security for 2019, an increase of 4.0% on last year. As always this is subject to aviation industry shocks and material forecast changes."

Financial results
Total revenue increased 3.4% compared to the pcp, driven by international passenger growth and a solid performance from the retail business.

- **Aeronautical revenue**: up 4.7%[4] reflecting 1.9% international passenger growth, agreed international charge increases and continued capital investment in aeronautical facilities and the passenger experience
- **Retail revenue**: up 4.0% delivered by duty free performance, the renegotiated advertising contract and 14 new Terminal 2 (T2) specialty stores delivered late last year
- **Property and car rental revenue**: up 1.8% reflecting rent reviews, new leases and robust hotel occupancy rates
- **Car parking and ground transport revenue**: down 1.4%, in line with domestic passenger growth

Disciplined cost control resulted in operating expenses (excluding security recoverable expenses) decreasing by 1.4% versus the pcp.

Investment in capacity growth and customer experience
Capital expenditure for the half year was $116.1 million, with investment focused on increasing aeronautical capacity and prioritising projects which customers have consistently told us will improve their experience, like faster baggage processing and arrivals facilities. We are seeing the impact of this investment through improved customer satisfaction metrics across overall satisfaction, airport ambience, wayfinding and cleanliness, with the international terminal overall satisfaction score increasing from 4.1 to 4.2 out of 5.

Today we reaffirm our three-year capex guidance of between $0.9-$1.1 billion for the 2019-2021 period. In 2019 we now expect to invest between $300-$350 million. This is less than we had planned earlier in the year, reflecting prudent management of the capital investment program.

We will continue to enhance our infrastructure and invest for capacity growth in 2019 and beyond. This will include future investment in the following:

- **Aeronautical Capacity:** development of aircraft parking facilities, including upgrades to a number of active bays and construction of several new layover bays and associated taxiways
- **Terminal works**: Terminal 1 (T1) to include increased baggage handling capacity and automation for the airline community; development of four new T1 gates;

[4] Excluding security recoverable revenue.

redevelopment of the international departures entry point to double passenger throughput; T1 and T2 bathroom upgrades; and expansion of T2 check-in for automation, enhanced security and improved passenger throughput

- **Commercial Capacity:** staged expansion of T2 and T3 speciality retail offerings; an enhanced arrivals experience through the development of a T1 landside arrivals lounge and hotel including a variety of rooms and sleeping pods and new commercial facilities within T3

Simplified Organisation

During the half we undertook a further management and organisational restructure with the aim of delivering a simpler, more collaborative and effective organisation.

Late last year we consolidated four business units into two, with the three former non-aeronautical businesses (retail, parking and property) grouped together in a single entity under Chief Commercial Officer, Vanessa Orth.

In June this year the number of direct reports to the CEO was reduced from ten to five and complementary corporate functions have been grouped together, under the Chief Operational Officer, Hugh Wehby, to enhance collaboration and service delivery.

Aside from realising cost savings, the restructure has also created capacity to rethink our business and further invest in these new teams.

Danish tax indemnity expense

Sydney Airport Limited (SAL) and Sydney Airport Trust 1 (SAT1) announced on 24 May 2019 that recent decisions made by the Court of Justice of the European Union (ECJ decisions) prompted reconsideration of the status of the indemnities provided by SAT1 in relation to the 2011 sale of Copenhagen Airport. The ECJ decisions were not in relation to Copenhagen Airport Denmark Holdings' (CADH) interest and dividend withholding tax disputes being contested in the Danish High Court.

As announced on 9 August 2019, SAT1 has determined that based on a conservative view:

- the $119.1 million non-current receivable in the 31 December 2018 Financial Report relating to the interest withholding tax indemnity should be expensed in full; and
- a $62.6 million[5] non-current provision should be raised for a possible call on the indemnity in respect of the dividend withholding tax matter. This provision reflects management's estimate of a final indemnity call which would be payable if an unfavourable resolution of the dispute had occurred as at 30 June 2019, including primary tax and additional interest accrued to that date. This amount is expected to increase by approximately $6.5 million per annum while the matter remains unresolved in the Danish High Court.

Notwithstanding the recent ECJ decisions and consideration of the status of the indemnities, CADH (in agreement with SAT1) continues to vigorously contest these matters in the Danish High Court. There remains uncertainty as to the outcome of the litigation which has the potential to change SAT1's current position, however we can confirm that other than

[5] Previously estimated as at 24 May as $61 million. Updated number reflects change in AUD/DKK exchange rate (4.60 as at 30 June 2019)

exchange rate variation and interest accrual, there are no further liability claims on these matters.

The matters in dispute have not yet been finally considered by the Danish High Court and a determination may be several years away.

Balance sheet

We continued to strengthen our balance sheet and credit metrics, with our cashflow cover ratio increasing to 3.2x compared to 3.1x for the pcp, and our net debt to EBITDA ratio reducing to 6.6x compared to 6.7x for the pcp.

We also continued to effectively manage our interest rate risk exposures, with 96% of all debt hedged on a spot basis as at 30 June 2019. Foreign currency exposures on offshore debt remain 100% hedged for the life of all facilities.

Our proactive capital management approach saw the successful refinance of bank debt facilities by way of a $1.4 billion market-leading sustainability linked loan. The loan establishes a direct link between our sustainability performance and funding cost. The debt facilities were all refinanced at lower margins and extended the weighted average debt maturity to mid-2025. This refinance maintains our strong liquidity position, with over $1.1 billion of undrawn facilities available as at 30 June 2019 to fund future debt maturities and investment.

Sustainability

Sydney Airport has maintained its strong commitment to sustainability over the half year. We have made significant progress on our three flagship initiatives: climate resilience, fleet electrification and the optimisation of our airfield and airspace.

In February we announced our most ambitious carbon reduction and waste targets. Over the half we have been looking at a number of projects to reach these targets, things like increased renewable generation, organic waste composting, increased recycling, reducing waste to landfill and further electrification. In addition, our airfield efficiency objectives are being progressed through the construction of additional gates, aprons and baggage and freight facilities.

Our focus and dedication have been recognised with Sydney Airport now ranked third globally by Sustainalytics in the airports subindustry group, seventh globally in the transport infrastructure sector on the Dow Jones Sustainability index and rated ‘AAA’ by MSCI.

Outlook

Sydney Airport is a resilient business which has a proven history of performance and growth across all economic cycles. This gives us confidence in reaffirming our distribution guidance of 39.0 cents per stapled security for 2019, which is expected to be more than fully covered by NOR, subject to aviation industry shocks and material forecast changes.

Contacts for further information

Chantal Travers
Head of Investor Relations
T +61 2 9667 9271
M +61 428 822 375
E chantal.travers@syd.com.au

Josh Clements
Head of Media and Communications
T +61 2 9667 9590
M +61 401 406 305
E josh.clements@syd.com.au

SYDNEY AIRPORT FINANCIAL HIGHLIGHTS

	6 months to 30 June 2019 $m	6 months to 30 June 2018 $m	Change %
Passengers (millions)			
International (including domestic-on-carriage)1	8.3	8.1	1.9%
Domestic (including regional)1	13.3	13.5	(1.5%)
Total passengers	**21.6**	**21.6**	(0.2%)
Revenue			
Aeronautical revenue	361.3	345.0	4.7%
Aeronautical security recovery	50.1	48.2	4.0%
Retail revenue	184.2	177.1	4.0%
Property and car rental revenue	120.3	118.2	1.8%
Parking and ground transport revenue	77.6	78.6	(1.4%)
Other	3.6	3.7	(3.1%)
Total revenue	**797.1**	**770.8**	**3.4%**
Operating expenses			
Employee benefits expense	29.8	29.8	0.0%
Services and utilities expense	40.3	42.5	(5.2%)
Property and maintenance expense	15.3	14.9	2.7%
Security recoverable expenses	46.7	44.6	4.7%
Other operational costs	15.8	15.6	1.3%
Total operating expenses	**147.9**	**147.4**	**0.4%**
Other expenses			
Restructuring and redundancy expense	2.4	-	n/a
Indemnity expense	181.7	-	n/a
Total expenses	**332.0**	**147.4**	**125.3%**
EBITDA	**465.1**	**623.4**	**(25.4%)**
EBITDA excluding other expenses	**649.2**	**623.4**	**4.1%**
Indemnity expense	181.7	-	n/a
Net external cash finance (costs)/income	(203.5)	(201.2)	1.2%
Movement in cash reserved for specific purposes and other items	(12.0)	(10.9)	10.3%
Net operating receipts[2]	**431.2**	**411.3**	**4.8%**
Average stapled securities on issue (millions)	2,256.6	2,253.0	0.2%
Net operating receipts per stapled security[2]	**19.1c**	**18.3c**	**4.6%**
Distributions per stapled security	**19.5c**	**18.5c**	**5.4%**
Ratio of net operating receipts to distributions	**98%**	**99%**	**n/a**
Capital expenditure	**116.1**	**179.6**	**n/a**

Note: Calculations may be affected by roundings.

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 Interim Financial Report for a reconciliation of statutory profit before tax to net operating receipts.