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Presentation

OPERATOR: Ladies and gentlemen, thank you for standing by and welcome to the 2014 half year results conference call. At this time all participants are in a listen only mode. There will be a presentation, followed by a question and answer session. (Operator instructions).

**TD**

I must advise you that this conference is being recorded today, August 21 2014. I would now like to hand the conference over to your speaker today, CEO Kerrie Mather . Thank you and please go ahead.

KERRIE MATHER , CEO, SYDNEY AIRPORT HOLDINGS LIMITED: Good morning and welcome to Sydney Airport's 2014 interim results. Thank you to everyone for dialling in or listening on our webcast. Today I'm joined by our CFO Stephen Mentzines .

Slide 3 has the agenda for our presentation today. Firstly I'd like to take you through our half year results, our performance and our track record, and then Stephen will take you through the financials and capital management.

I'll then discuss passenger growth and capacity developments, provide an update on our **commercial** businesses, the second Sydney airport, and the outlook for the remainder of 2014, and at the end we'll have time for questions from investors and analysts.

The first half of 2014 saw continued growth and momentum across all our businesses, delivering yield expansion and revenue growth. EBITDA grew 6.1% on total passenger growth of 2.3% and international growth of 4.7%.

AUD95 **million** of capital was invested over the half, continuing the incremental delivery of capacity to support demand. International traffic performance has been strong and slightly above the long-term trend, primarily driven by 2.9% seat growth and strong demand from Asian markets.

This half, Sydney Airport made a number of significant announcements, including a joint announcement with the New South Wales government to improve our roads and ground transport in and around the airport, the completion of a landmark refinancing, entering new debt markets and extending our average maturity, and also making good progress towards the finalisation of our duty free retender.

We'll look at all of these in more detail in the presentation.

Slide 5 is a quick snapshot of the first half highlights. As you can see, a very consistent story, with revenue and EBITDA growth growing in excess of traffic and driving a high distribution. This has positioned us very well for the remainder of the year.

A distribution guidance of AUD0.235 for 2014 represents headline growth of 4.4% and underlying growth of 8.1%, factoring in one-off revenue from last year.

The 2014 guidance reflects our confidence in robust earnings and distributable cash growth, and demonstrates our commitment to growing distribution.

Over the last 12 months, Sydney Airport has delivered a total shareholder return of 14%, or longer term, a five year compound annual return of 28%, an outperformance of 17% against the ASX 200 accumulated index.

Slide 7 provides a brief operational overview. So far in 2014 we've delivered 5.7% revenue growth on 2.3% passenger growth. Good aero performance reflects a strong international passenger growth and investment in a broad range of aviation capacity expansion projects.

A strong performance in retail is the result of 12 new stores across T1 and T2, the new contemporary feel in the duty free areas and surrounds, along with significant brand, product, and value proposition improvements. We're particularly pleased that the new initiatives that we implemented in late 2013 to address the tobacco changes have translated into a 12.7% increase in the passenger spend rate. This is an excellent result, and it's helpful to our duty free tender.

We delivered a very good performance from car parking and ground transport as we continue to execute on our well-defined strategy. The creation of new online offers, addressing our off peak periods and new markets, supported by our focused marketing program, is improving our car **park** utilisation and the overall customer experience. **Property**, again, has performed strongly through contract escalations and the establishment of new tenancies.

On slide 8, our strong, stable growth and earnings track record continues the long-term trend. The consistent delivery is driven by passenger growth, particularly international through our active management approach; secondly improving yield per passenger through space and capacity development in each business; third, controlling cost to maintain and improve margins; and finally an efficient financing structure to ensure we continue to deliver a large proportion of EBITDA to our investors in the form of distributions.

The foundation of our return to investors is therefore not only a high level of distribution but consistent distribution growth.

I'll now hand over to Stephen to take you through our financials.

STEPHEN MENTZINES , CFO, SYDNEY AIRPORT HOLDINGS LIMITED: Thanks, Kerrie. I'd also like to add my welcome to all our **equity** and debt investors and analysts who are listening to the briefing today.

On slide 10, we've presented our income statement with EBITDA reconciled to statutory profit. You can see the simplification benefits of our restructure last year, with our results now being condensed into two slides rather than the previous five or six slides that we used to take to present our financial results.

This half year is very much a continuation of our performance over recent years and is consistent with our strategy, namely passenger growth and other management initiatives translating into solid EBITDA growth. As Kerrie mentioned, all businesses have performed strongly, leading to total revenue growth of 5.7% on the prior corresponding period.

Expenses pre-specific items increased by AUD3.9 **million** or 3.7%, primarily due to our other operational costs increasing, again relating to higher registry costs resulting from the Macquarie in-specie distribution and the associated increase in the number of our registered security holders, which went from 35,000 people to 105,000 people. In addition, we had a small cost for maintaining our responsible entity structure for the staple trust [stat one].

Our services and utility cost increased by AUD1.4 **million** due to a contracted step up in our cleaning contract, an increase in car parking cost related to volume increases, and regular CPI increases on our outsourced contracts. We were able to deliver a reduction in security costs over the period, due to the discontinuance of one-off costs relating to the installation of our body scanners in the previous period. Again, note that security costs remain EBITDA neutral.

Specifics are effectively non-recurring items over the period. There's been a significant decrease in specifics this period due to the restructure last year, the settlement with the Australian Tax Office , and minority **acquisition** costs incurred in that period as a result of the simplification and restructure we undertook.

Again, pleasingly, EBITDA, which is the best measure of our operational performance, increased by 6.1%, broadly in line with the long term business trend we've been experiencing.

Moving now to our operating cash flows and the distribution reconciliation on slide 11. Now that the airport is 100% owned by us, there is greater transparency to our distributions, as shown on this slide. Since we moved to a sole focus on Sydney Airport in 2011, our distribution is fully covered by net operating receipts.

On this slide, the key items to note are -- most of these are reconciling items -- are our normal non-cash items. There's one large one there for AUD51 **million**, which is the fair value adjustment related to increase in our -- related to our swaps, and you can see that on the previous slide, so the finance costs on the previous slide, on slide 10, have gone up by about AUD50 **million**, that being the fair value adjustment.

The real external finance costs remain well controlled with an increase of only 1.8% on the first half of last year, while the quantum of our debt increased by nearly 4% as a result of the ongoing debt funding of our CapEx program.

Additionally, our stapled securities on issue have increased over the period due to the **acquisition** of the minorities in the second half of 2013, moving us to 100% ownership of the airport, and overall we've achieved full coverage of our distribution plus cash flow growth despite the issuance of those new securities. As Kerrie has already covered, the 4.5% growth in distributions for the half culminates in a 14% total return for investors.

Turning now to our capital management and our refinancing. On slide 12, where we look at our debt capital structure. We continue to tightly manage our capital and debt metrics. Net debt as at June 30 was AUD6.5 **billion**, increasing predominantly by our first half of this year capital expenditure of AUD95.5 **million**.

Our debt metrics continue to improve as EBITDA grows more than two times faster than the growth in our drawn debt. Pleasingly, then, net debt to EBITDA has fallen to 6.9 times, and our cash flow cover ratio has increased to 2.3 times, reflecting the continuous deleveraging of our business.

The other point to note here about our average maturity is that we have relatively low to modest refinancing needs for maturing debt through to 2018. That is, we've got AUD320 **million** in November of this year, AUD475 **million** in 2015, AUD86 **million** in 2016, and AUD545 **million** in 2017. Relative to the refinancings that we've been able to undertake in the last few periods, they're very modest numbers indeed.

We continue to be highly hedged, with 100% of our currency risk and 91% of our interest rate exposure hedged as at June 30. We continue to actively monitor markets and manage our hedging levels as part of our ongoing program.

The average cash interest cost has fallen to 6.2%, primarily as a result of the refinancings we undertook in 2013 and in May of this year, which were all at lower margins, inclusive of currency hedging.

Now, let's look at the refinancing in a little bit more detail in the next slide, on slide 13.

Sydney Airport successfully delivered a landmark AUD2.9 **billion** refinancing, leading all of our six capital management objectives, which are well set out and consistent through all of our presentations and related material. The AUD2.9 **billion** comprises our initial European bond issuance, EMTN, of AUD1 **billion**, the bank debt facilities of AUD1.5 **billion**, and the recently negotiated US private placement of AUD380 **million**.

All of those deals priced inside of our current average interest rate. The average maturity has been lengthened by nearly two years, and the profile, as you can see on the previous slide, has been spread further.

We've diversified our funding sources by issuing into the European and USPP markets. Both the bank and the bond deals were oversubscribed and the issue into the European market provides future issuances into that market.

All of our 2014 maturities were addressed well in advance of the maturity dates, and most importantly, our BBB rating has been maintained. Overall, our refinancings have further strengthened our capital structure and created a strong platform for future raisings.

Lastly in the financial section here, on slide 14, we're reaffirming our five year CapEx guidance of AUD1.2 **billion**, of which AUD95.5 **million** was invested in the first half of this year. In terms of some of the projects we've outlined there, these are the key ones. We commenced the first stage of a two year project to expand the baggage reclaims belt to facilitate additional capacity and ensuring straight through processing of all luggage with minimal human intervention.

We widened the taxiway around Terminal Two, providing improved facilities for airlines and increased manoeuvrability for larger wide body aircraft. We undertook improvements to gates and aprons at Terminal One PSD, providing dual aerobridges for faster boarding, more efficient US destination screening, and additional gate lounge seating.

Finally, we added more high intensity approach lighting on the northern runway as part of a much broader overall project to comply with category two regulations and to provide pilots with greater visibility when landing in poor conditions.

Our CapEx program is progressing well. It's on track and on budget, and with all projects continuously and obviously being subjected to our capital investment discipline prior to implementation.

 

With that, I'll hand back to Kerrie.

KERRIE MATHER : Thanks, Stephen. Let's take a look at our traffic performance and the trends driving our aeronautical business on slide 16.

The diversity of our airline customers, nationality markets, and destinations underpins the quality and strength of our business. We have 38 airlines serving 94 destinations, providing revenue diversification and reduced risk.

Our airline mix has changed over time. The majority of European airlines which serviced Sydney 15 years ago have been more than replaced, predominantly by Asian and Middle Eastern carriers, and yet now we're serving double the one stop destinations in Europe compared to 10 years ago.

This is illustrated on the top right, which shows the incremental growth during the period from our top 10 markets.

In addition to the Middle Eastern/Asian growth, low cost carriers have opened up new markets. The pie chart shows the top 15 nationalities for this half. Australian outbound makes up 46%, and there's a wide spread of nationalities making up the remainder.

On slide 17, passenger growth over the half has been strong, particularly international growth of 4.7%. International passenger growth and aero investment has driven 5.7% aero revenue growth. Of the AUD95 **million** invested during the half, more than two thirds has been in aviation capacity.

We continue to benefit from Asian nationality market growth, particularly greater **China**, Malaysia, and India. In addition we've seen significant recent capacity announcements, and highlights include Cebu Pacific Air, adding 227,000 seats annually, and Cathay Pacific , with 72,000 seats annually, as well as **China** Airlines adding 54,000 seats over the peak season. A number of these up-gauged services will begin in the second half.

Domestic growth has been more subdued, however we expect in the near term to continue to see load factor improvement as previous capacity growth is absorbed. We also expect to see a continuation of low cost carrier growth based on the full year effect of route announcements from Tiger Air and Jetstar, which of course will benefit T2.

Today we released our July traffic numbers, which reflected the cycling of the British Lions rugby tour in June and July last year. Normalising for the Lions impact, international traffic has grown 4.1% year to date.

Looking forward, we expect to see the same tail winds to continue, globalisation driving more demand for air travel, economic growth feeding growing Asian demand, and air fares reducing due to continually increasingly efficient aircraft and more low cost carriers.

Low cost carriers have been a great story, if we turn to slide 18. Sydney Airport is now Australia's largest international low cost carrier airport, having been the fourth largest just two years ago. Prior to the launch of AirAsia X and Scoot in 2012, Jetstar was the only low cost carrier operating international flights from Sydney. Currently, low cost long haul carriers have 96 wide body aircraft on order. 93% of these have been ordered by Asia Pacific carriers.

This provides an insight into future growth opportunities, and we're well positioned to capture growth from Asian market expansion. We were delighted that Cebu Pacific announced in June that Sydney will be their first Australian destination, flying four times weekly from September and increasing to five by November.

Cebu Pacific is Philippines' largest airline, serving a network of 34 domestic and 26 international destinations. The service will provide an additional 226,800 seats a year on the Sydney-Manila route.

In response, Philippine Airlines has announced increased frequency on their Manila-Sydney service, from four weekly services to daily -- to five from October. The seats will be operated on A340 aircraft, resulting in a 25% seat increase, or 38,000 additional seats per annum. This is another great example, along with Singapore and Malaysia, of low cost carriers stimulating capacity, and in turn market growth for both low cost and full service carriers.

Let me update you on our **commercial** activity on slide 20. Revenues are evenly spread between aeronautical and **commercial** activities as you can see on the top right, and on the bottom left our **commercial** revenues are underpinned by a diverse mix of businesses, leases, and tenants. **Commercial** activities are wide ranging from retail and **property** through to car parking. Within these **commercial** businesses, we have around 500 leases to a wide variety of tenants.

 

In addition, the airport has over 16,000 car spaces through the domestic and international precincts. They serve both business and leisure passengers, long stay and short stay, and the meeter/greeter market.

Our diverse portfolio generates balanced revenues and natural hedges, providing downside protection, and in addition, the majority of our contracts include annual escalations.

On slide 21, Retail revenue grew 7.4% during the first half. This strong performance reflects increased passenger penetration and the complete cycling of tobacco law changes. And as I mentioned, we're very pleased that new duty free initiatives implemented late last year have driven a significant increase in spend rates ahead of the duty free retender.

Significant work on new opportunities is underway. We'll be opening three new tenancies in Terminal One at the end of the year, introducing Nando's and Toby's **Estate**.

Secondly, the advertising contracts for T1, T2 and externals are up for retender next year, and this is a significant contract for the airport.

Lastly, we'll commence a review and repositioning of the T1 and T2 food and beverage offerings.

Now to an update on our duty free retender on slide 22. The duty free contract is one of our most important at airport accounting for nearly 13% of total revenue. It's also an important amenity for passengers.

The offering currently comprises six duty free outlets at T1, occupying 7600 square metres of retail space, plus a domestic tax paid shop at T2. The current contract expires in February 2015.

The requested proposal was launched in April, which saw a number of the bidders taken through from the expression of interest stage to the next round of the process, and now we've shortlisted three operators.

The bid structure allows for one or more operators to trade at the airport, which has stimulated strong interest in the tender. We have received an unprecedented level of interest, and the calibre of submissions has been extremely high.

We expect to be in a position to announce the winning operator or operators before the end of the calendar year.

Moving to car parking and ground transport on slide 23. Revenues were 5.7% higher than PCP, a strong performance relative to 1.2% domestic passenger growth. Domestic traffic drives over 60% of our car parking revenues.

Online bookings now contribute around 28% of car parking revenues, a phenomenal growth in three years from a standing start. In this period, online revenue grew over 41%.

Growth has been driven by three new markets. Domestic leisure, particularly weekends. International long stay by both business and leisure, and the online quick trip product, targeting the meeter/greeter.

We expect continued online growth as more passengers become aware of the cost savings and convenience. Car parking revenues also benefitted from the new P3 car **park** with 965 spaces in domestic, taking total on airport spaces to around 16,000.

Another catalyst in this business will of course be the investment we're making in ground transport, which I'll cover shortly.

**Property** and car rental revenue, on slide 24, grew strongly, up 6.8% for the half, driven by contracted escalations and new tenancies. The demand for on airport space continues to be strong, with occupancy at around 98%.

We continue to manage over 300 leases from a diverse range of tenants in freight, offices, airline lounges, car rental, airline facilities, and other uses. In this period alone, 278 rental reviews were completed, resulting in a rental returns uplift of 4.2%.

Pleasingly, new leases accounted for almost half of our **property** revenue growth.

Our strategy remains to focus on pursuing selected development opportunities in response to demand. We are progressing a number of new opportunities, including firstly the potential for two new hotels on airport following the success of the opening of Rydges last year.

Secondly, the retender of the car rental contract, and lastly the construction of the Alexandra Canal Bridge, which will join our northern lands to the main airport, allowing development of up to 30 hectares for future aero and **commercial** opportunities.

 

There is a significant amount of activity underway in all our commercial businesses to capitalise on opportunities. We've committed to consistent improvement in our facilities and the customer experience.

Let me run through our key priorities for 2014.

On slide 26, ground transport is a major focus for us, airlines, passengers and staff. As a result, we jointly announced with New South Wales Government a combined investment of almost AUD500 million to improve traffic flow in and around Sydney Airport as part of a suite of ground transport solutions and airport facility upgrades.

The government will be responsible for the investment in roads surrounding the airport, and Sydney Airport will carry out the upgrades within the airport precinct.

Our proposed investment contemplates initiatives that include transformative roadworks at T1 and T2/T3, a ground transport interchange, and multimodal storage and car parking facility.

Sydney Airport's forecast CapEx for ground access improvements for 2018 is included in the five year CapEx guidance that Stephen went through before. These investments are expected to be recovered through the normal aero and commercial mechanisms.

On slide 27, a number of improvements have already been completed at T1, including widening the curbside lane on Departures Road, a reconfigured entry at Link Road, and extending the drop off area on Departures Road. The changes have already improved T1 traffic circulation.

The next stage of improvements at T1 has commenced, involving a new road, a new city exit, traffic lights, and expanded taxi and limo areas. Works are targeted for delivery in December.

Commencement of works at T2/T3 is awaiting approval of our major development plan, expected at the end of this year, however planning and preparation have commenced. These works will dramatically improve traffic flow, intersection, and travel times to Sydney Airport.

On slide 28, technology is critical to improving the passenger experience, airline products, and importantly, lowering their operating costs. In collaboration with our airline partners and relevant government bodies, we've introduced additional technology in International Arrivals, now with 33 kiosks (sic - see slide 28, "28") and 22 smart gates.

This enables eligible passport holders to use ePassport data and facial recognition to perform the customs and immigrations checks rather than customs officers. The technology establishes identity in 38 seconds, significantly speeding up the immigration process.

Initially rolled out for Australians and now six of our major nationality groups, there will be further rollout to more nationalities in the near term.

We've completed our international self-service check in trials. These were well received by airlines and passengers and the initiative is now being rolled out to six airlines, with more to come.

Airline collaborations and our continued technology roll out will achieve faster passenger processing and more efficient capacity, reduced airline operating costs and space required for passenger processing, and importantly, an improved customer experience.

Turning now to an update on the second Sydney airport and our outlook.

Following the announcement in April that Badgerys Creek will be the site for the new airport, the Australian Government has established the Western Sydney Unit within the Department of Infrastructure and Regional Development to implement this decision.

The Western Sydney Unit will also be responsible for undertaking consultation with local councils, the community, and other stakeholders, including the aviation industry.

Recently the government announced it had appointed Clayton Utz as their legal advisors, and Ernst and Young, together with LEK, GHD, and Landrum and Brown to be their business advisors.

This team will provide specialist, legal, aviation, design, and commercial expertise to support the government on the airport development. And the New South Wales Government has also established the Western Sydney Infrastructure Plan to develop and deliver critical road infrastructure in advance of the airport.

AUD3.5 billion of investment in infrastructure upgrades will be jointly funded by the Australian and New South Wales governments. You can see the significant planned works on this slide.

 

The Badgerys Creek site sits in the middle of major road upgrades for Bringelly Road and the Northern Road and the construction of the proposed east-west airport motorway linking the M7 and the Northern Road. In addition, the New South Wales Government is progressing with consultation on the south-west rail link extension and the preservation of a rail corridor. This rail line is expected to service the Western Sydney Airport in the future.

And what does all this mean for Sydney Airport? Well I'm sure many of you are aware, under the 2002 Sydney Airport sale agreement, we acquired a right of first refusal to develop and operate a second airport within 100km of Sydney CBD. The right of first refusal sets out a number of phases, including a consultative phase and a subsequent contractual phase -- a process which the government expects to take up to two years.

This week, the Australian Government formally invited Sydney Airport to participate in the consultation process on the development and operation of the Western Sydney Airport. We accepted the invitation and the nine month consultation period starts on September 30. The development of the second airport is a major, complex and long term infrastructure project which is expected to be operational in the mid-2020s. So since April, we've been engaged in preliminary discussions with the department and we've begun to map the considerable work that needs to be addressed during the consultation period.

In addition, to supplement the extensive and global experience we have internally, we've selected a team of experts to assist us to evaluate the opportunity. The work program through the consultation period to support the business case development will include passenger forecasts, demographics, airport design and operation, planning and commercial development, environmental analysis and funding and financial modelling. This work is being done so we can fully evaluate the opportunity and prepare ourselves for the next phase of the process.

Following the end of the formal consultation, the Australian Government will formulate a full proposal after which it may enter a contractual phase which would involve issuing Sydney Airport a notice of intention, setting out the material terms for the development and operation of the Western Sydney Airport. The government would then allow Sydney Airport between four and nine months to consider the option. If we do not exercise the option, other potential operators may be offered the proposal on the same terms.

Finally, our outlook on slide 35 (sic - see slide "32"). Well 2014 has started strongly. Through 2014 and 2015 we will continue to focus on traffic development targeting underserved markets, while constantly improving the passenger experience. We're excited by the amount of activity and upcoming opportunity currently being executed in all of our businesses.

The focus of each initiative is not only to drive yield improvement but to invest in airport facilities to meet future demand and deliver business expansion. All major activities currently underway, including the duty-free retender and ground transport program are on track and progressing well. So the guidance of AUD1.2 billion of airport investment to 2018 is reaffirmed.

We have a strong balance sheet and our successful recent refinance, demonstrates a significant demand for Sydney Airport debt. Our consistently improving credit metrics reflect the stability of our cash flows and the natural de-gearing within the business. Sydney Airport is well positioned to capture future traffic growth potential and commercial opportunities and our confidence has today allowed us to reaffirm our distribution guidance of AUD0.235 for the year.

That concludes our presentation. So I thank you, to those who are leaving now, for joining us today, but otherwise we'd be happy to take some questions.

Questions and Answers

OPERATOR: (Operator instructions) Your first question comes from a line of Simon Mitchell of UBS . Simon, please ask your question.

SIMON MITCHELL, ANALYST, UBS : Good morning. A question Kerrie on the second airport if I could. You mentioned that you've established a team of internal and external experts and I imagine there's quite a lot of work to do. Can you touch on the likely costs of this whole process and how we should be thinking about any impact on distributions?

KERRIE MATHER : Well it's very early days in terms of the process. We've only just accepted the invitation to consult with the government so we're very much in a consultation phase at the moment. We have, as you'll appreciate, a very experienced internal team who have a significant amount of global experience around airports.

 

So apart from our internal resources that we've applied to the project, we have also commissioned small pieces of work from external experts. And in the same manner that we normally do with any major projects, those costs will be capitalized to the project, so no material impact on distribution.

SIMON MITCHELL: Okay, and just on the international airlines, can you touch on the discussions there? And given your cost of funding continues to fall, how that is likely to be reflected in the charges going forward?

KERRIE MATHER : Well aero charges are, as you know, determined by **commercial** agreements with the airlines under our light handed regulatory regime. The current agreement that we have with the international airlines doesn't expire until the very end of June 2015 so over the next half we will commence discussions with the airlines.

So in terms of your question around our cost of debt, while we've seen some marginal improvement actually in our cost of debt, at the end of the day, only 15% of our debt actually matures in any one year. So there hasn't been a material change in our cost of debt.

And that is of course just one input into any charges agreement. The other things that we'll have to consider will be future traffic growth, the associated operating costs that the volume growth implies, capital investments. So all of this will be determined in consultation with the airlines.

SIMON MITCHELL: Alright, thank you.

OPERATOR: Your next question comes from the line of Scott Kelly from Morgan Stanley . Scott, please ask your question

SCOTT KELLY, ANALYST, MORGAN STANLEY : Good morning Kerrie and good morning Steve. Just a question on the passenger spend rate increase. You mentioned that was primarily due to the duty free changes that you implemented six to 12 months ago, is that correct?

KERRIE MATHER : Yes, that's right.

SCOTT KELLY: So there's nothing else driving that, it was primarily the duty free changes?

KERRIE MATHER : As you recall, when we -- following the tobacco law changes that actually occurred in the previous year, in consultation with the duty free operator, we sat down to actually look at a package of changes that would focus on addressing the gap that that tobacco actually created before the contract actually matured.

So what we've seen there is as a result of changes in layout, some new products, some remerchandising, repositioning. It's just there's no big bang in there, it's just been a large series of small changes that have actually made a significant difference actually in the passenger spend rate. So we've seen the combination of increased patronage if you like. So, increased passenger penetration but also an increase in **transaction** value.

SCOTT KELLY: Okay. And also just going back to -- you put a chart, a couple of years ago you put a chart in your investor day that showed Australia outbound as about 48% of the total and the chart in today's presentation says 46%, so sort of a small swing. Is that primarily being driven by the growth out of Asia?

KERRIE MATHER : Yes, largely Asia and the Middle East. It does move around a little bit from time to time, depending on when capacity editions come through and holidays. But it's roughly half half so it hasn't materially changed. We have a -- we've always had roughly a similar rate of inbound outbound.

SCOTT KELLY: Yes. Okay, my last question, just to Steve if I can. I was just wondering if you could run me through your decision to leave Sydney Airport please.

STEPHEN MENTZINES : Yes sure, thanks Scott. Look, I've really enjoyed the role here immensely. We've had a phenomenal year and a half or so, or two years since I joined around the restructure, the **acquisition** of minorities really setting our capital structure up very well. And just looking purely to do something a bit broader and leverage my experience a bit more. It's as simple as that. It's a great role and I'll be looking for something else basically.

KERRIE MATHER : Steve's going to be around for a little bit longer.

STEPHEN MENTZINES : Yes, I'**m** here until the end of the year.

KERRIE MATHER : But we certainly wish him well for his future.

SCOTT KELLY: Okay, thank you very much.

 

OPERATOR: Your next question comes from the line of Matt Spence from Merrill Lynch . Matt, please ask your question.

MATTHEW SPENCE, ANALYST, BOA MERRILL LYNCH : Hi guys, hi Kerrie. Kerrie, thanks for the stats on some of those seat additions into Sydney. Can you tell us what's happening on the net basis because obviously we've had Sing take some capacity out, Virgin Atlantic , **China** Southern. What's happening on a net basis, seats in say second half 2014?

KERRIE MATHER : It's difficult to actually distil it down to a growth rate just because of the timing of when some of these uplifts actually come through. But I think, having come through a period of very significant capacity growth really over the last 12 months, in the near term we'd expect to see load factor improvement but there are a number of capacity additions coming through. So I tried to give a sense of the timing of some of those and there are a large number of them, progressively actually coming through from September through to mid-next year.

MATTHEW SPENCE: But is it net positive or net negative do you think at the moment?

KERRIE MATHER : Look, we're pretty positive about the outlook but it's very difficult to actually distil it down to a particular rate at the moment just because of the timing of when this capacity actually comes through.

MATTHEW SPENCE: Okay. Just on your dividend policy, so you've got this number our there as AUD0.235 and saying that it will be backed by net operating receipts. Can I just ask, what overrides the other -- if net operating receipts are better and hit AUD0.24 does the dividends automatically go to AUD0.24 or what overrides the other?

KERRIE MATHER : Well we haven't actually provided any guidance beyond the AUD0.235. Our policy remains that we distribute our net operating receipts.

MATTHEW SPENCE: Yes I know, but those two statements conflict with each other. Because if you do distribute all of your net operating receipts, then the AUD0.235 doesn't stand. If you get better, those two statements can be not consistent with each other.

KERRIE MATHER : Well I think look, if you had material outperformance then that would obviously translate into an improved distribution outcome, but we haven't guided beyond the AUD0.235.

MATTHEW SPENCE: Okay.

STEPHEN MENTZINES : It would have to be really significant to occur in the last few months of the year as well that they could be different to our distributable cash flow as well Matt.

MATTHEW SPENCE: Yes, fair point. Okay, thank you.

OPERATOR: Your next question comes from the line of Paul Mason from RBC. Paul, please ask your question.

PAUL MASON, ANALYST, RBC: Hi guys, I just have two questions on the **property** business. Just want to get a feel for the timing on the potential two new **hotel** developments that you've mentioned. I know they're in the master plan, but if you've got any idea -- like is that next year or toward the end of a five year period?

KERRIE MATHER : Well they're more 2015 opportunities, so we'll be going out for expressions of interest on the smaller one of the two. So the two to three star **hotel** towards the end of the year and in relation to the four to five star **hotel**, that's captured in the major development plan that's actually out on public display at the moment. So that will be hopefully approved at the end of this year and then you go through a planning beyond that.

PAUL MASON: Okay, and then the other question I had is just on the -- once the construction of the bridge over the Alexandra Canal is built, can you give us a bit of an idea of what specifically you're looking to develop there? Is it just, kind of, office space or are you actually looking at building some kind of aeronautical assets there as well?

KERRIE MATHER : Look, potential logistics in, you know, airport services, there could be catering. So in the long term, catering facilities, logistics facilities, other potential **commercial** opportunities.

STEPHEN MENTZINES : Storage.

KERRIE MATHER : Yes, there could be rental car storage, that sort of thing.

STEPHEN MENTZINES : Yes.

 

PAUL MASON: Okay, all right. That's it from me, thanks.

OPERATOR: Your next question comes from the line of Cameron McDonald from Deutsche Bank . Cameron, please ask your question.

CAMERON MCDONALD , ANALYST, DEUTSCHE BANK : Good morning Kerrie, good morning Stephen. Just a quick question on just the outlook around -- probably following on a little bit from one of the previous questions. We've seen some of the traditional mainline carriers if you like trying to pull back capacity, both domestically and internationally, but are you seeing that as an opportunity to then provide further slot capacity to some of these emerging Asian based in particular, I suppose, low cost carriers and Middle Eastern carriers that are wanting access to the market? So therefore you're not necessarily seeing that capacity, sort of, contraction come through your numbers. Then on top of that, you end up with a better revenue mix, given that the low cost carriers tend to spend more per passenger through things like duty free?

KERRIE MATHER : Look, I think there's a couple of themes that you've actually touched on there. Firstly in relation to our capacity, we've got plenty of capacity. We've -- our current movement cap implies 500,000 movements available a year. We're using 327,000 and actually that's broadly -- it hasn't -- it's only changed by about 5% really over the last 10 to 12 years.

In relation to the mix of our traffic, I think that's a really interesting opportunity for us because what we are seeing is a significant growth in the number of passengers per movement and a combination of larger aircraft and the low cost carriers are actually driving that utilisation and therefore a more efficient utilisation of our overall asset.

Low cost carriers have actually now grown from two years ago about 5% of our market to now up to 10%. So we've -- so with Cebu Pacific coming in we'll really have the top four Asia, Asia Pacific low cost carriers but there are many more that are establishing themselves in Asia and who have indicated an interest in actually coming to Australia.

So I think they are an opportunity and as you say, they tend to actually focus on off peak periods and they've certainly used our infrastructure very efficiently because of the way they focus on getting the productivity out of their aircraft and ensuring they're in the -- you know, spend most of the time in the air rather than on the ground.

So yes, I think a number of trends in there that are very positive for both our asset utilisation and in terms of our yield going forward.

CAMERON MCDONALD : Just a second question, to the extent that you can comment, there's obviously speculation around the Qantas terminal which seems to be an annual event. They're clearly -- Qantas has already transacted in Brisbane. Are we right to think that we're incrementally closer to a **transaction** here?

KERRIE MATHER : Look I think it's difficult to say. We're certainly every half year incrementally closer to 2019 when the lease actually reverts, but we are in ongoing discussions with Qantas around that, but there's really no material update.

CAMERON MCDONALD : Okay, thanks Kerrie.

OPERATOR: Your next question comes from the line of Scott Ryall of CLSA. Scott, please ask your question.

SCOTT RYALL, ANALYST, CLSA: Thank you. Most of mine have been done, but I was just wondering if you could give an update -- apologies if you mentioned it at the start, Kerrie -- on the aeronautical negotiations please.

KERRIE MATHER : Well the international agreements don't expire until the end of June next year.

SCOTT RYALL: Yes.

KERRIE MATHER : So the plan is to actually commence discussions with the airlines actually during the next half. You know, we'd be looking for something that not only incentivises volume growth from the airlines but also delivers an appropriate return on investment to -- for the infrastructure and service priorities that the airlines will actually have -- that we will be looking to capture as part of that agreement.

SCOTT RYALL: Okay, so you haven't done anything active on that front at the moment?

KERRIE MATHER : No.

 

SCOTT RYALL: Just to Cam's question just now, is it fair or otherwise to assume that the Qantas negotiations, given they tend to take a leadership role in the aeronautical side negotiations, will they be an important factor as part of their overall negotiations with respect to their own terminal and jet base?

KERRIE MATHER : No, they're completely separate. So we've got 38 international airlines here, (inaudible) in relation to those negotiations on behalf of the airlines. As our home base carrier here, Qantas , we do have a very good working relationship with them but those are separate.

SCOTT RYALL: Okay, great. How -- as you start this half year, as we expecting finalisation this calendar year or is that, kind of, early next year as well?

KERRIE MATHER : Well it doesn't expire until the end of June to start on July 1, so it will be closer to then.

SCOTT RYALL: Closer to that expiry. Okay good, thank you. That's all I had, thanks.

OPERATOR: Your next question comes from the line of Ian Myles from Macquarie. Ian, please ask your question.

IAN MYLES, ANALYST, MACQUARIE: Just a quick one or a couple of questions. Just a quick one following on from Scott's one there, what happens if you don't get agreement by expiry? What's the default outcome? In terms of your aeronautical negotiation.

KERRIE MATHER : Sorry?

STEPHEN MENTZINES : Ian's question was, what's the default position if we don't reach agreement by June 30, 2015.

KERRIE MATHER : Yes, it defaults to the conditions of use.

IAN MYLES: Which would mean no price rise or you still have ability to put price rise through on necessary new investment?

KERRIE MATHER : Well as you -- yes, that's right. So a continuing price adjustment associated with any new investment actually through the period.

IAN MYLES: Okay. Pardon my ignorance, how much does the bridge over a canal cost?

KERRIE MATHER : It's about AUD12 **million**.

IAN MYLES: Okay, and that's non-aeronautical -- is that non-aeronautical?

STEPHEN MENTZINES : No.

KERRIE MATHER : No, it's **commercial**.

IAN MYLES: Okay, it's **commercial**. In terms of the development in the second airport, I think you said at the beginning in the questions that you would capitalise the sort of the investments there. How significant are those costs going to be? Because there would seem to be a lot of consultants which are going to be required to bring this to a point of making a **firm**, sort of a **firm** offer to you and I was just sort of wondering, what quantum of capitalised amounts are going to be there?

KERRIE MATHER : Look, it's just too early to say, and remember the government's actually taking the **lead** on this. So they've employed a large number of consultants and I ran through who they were. So --

IAN MYLES: So are you employing any consultants or are you just providing your senior management and your management skill?

KERRIE MATHER : No, we have. We've employed some specialist consultants actually, some demographic traffic consultants and planning consultants and so on. But they're -- it's not significant numbers actually involved in all of that.

IAN MYLES: Okay. Can they actually -- they can't actually put through into aeronautical pricing at any point down the path? In a similar way that Brisbane does with its runway.

KERRIE MATHER : Yes that's right. Yes.

IAN MYLES: So --

KERRIE MATHER : For any element that's actually related to the master planning.

 

IAN MYLES: Okay. Look, finally just on the duty free, you did a -- you had a great performance this period. How much closer are you to the actual moving into a performance payment? I don't expect you to necessarily get there, but how close have you actually got to that hurdle, given the improvements this half?

KERRIE MATHER : It's not appropriate to comment while we're actually in discussions actually with the tenderers.

Just back to your question actually on the bridge, so just -- because there's a -- it is largely **commercial**, but there -- the uses haven't actually been determined at this stage, so it's possible there will be an aeronautical component in there as well.

IAN MYLES: Okay. Thanks Kerrie.

OPERATOR: Your next question comes from the line of Nathan **Lead** from Morgans. Nathan, please ask your question.

NATHAN **LEAD**, ANALYST, MORGANS: Sorry, I just wanted to ask a question just on your hedge book, just on the maturity profile of it. Last I sort of saw, I thought it was due to sort of have quite a bit of a run down over the next couple years and I suppose therefore provide you with a bit more exposure there to the low interest rates at the moment. So just wonder whether you can give an update on that front.

STEPHEN MENTZINES : Yes I'**m** not sure our hedge book is actually publicised anywhere, but typically -- we've got a hedging policy and typically what we are is very heavily hedged in the near term obviously to protect the distributions in the next one or two periods, and then that sort of progressively falls off.

But the thing that I would say is we're constantly looking at the markets and obviously at the moment, markets are very favourable because base rates are sort of at very low levels. So we're sort of -- always reviewing those opportunities and when the right time to execute is, is what I would say.

NATHAN **LEAD**: Thanks.

KERRIE MATHER : (Technical difficulty).

OPERATOR: Your next question comes from the line of Carolyn Hellman (sic) - from JP Morgan . Carolyn, please ask your question.

CAROLYN HOLMES, ANALYST, JP MORGAN : Thanks very much. Hi Kerrie, hi Stephen. Just a couple of questions in terms of the CapEx profile going forward. The AUD1.2 **billion**, I think the majority of us try and smooth over the period. Is it fair to say, is it going to be quite lumpy or is the smoothed approach appropriate given that you only spent the AUD96 **million** in the first half?

KERRIE MATHER : We haven't -- we've said that if you averaged it, it'll be AUD240 **million** a year, but there will be some years where it's actually probably closer to AUD200 **million** and then others where it might be closer to AUD300 **million**. We do expect that we're still on track it's just a timing issue in relation to the project. So we would expect to be in line with our expectation for this year.

CAROLYN HOLMES: Okay.

KERRIE MATHER : It does depend on planning approvals and things like that. So sometimes there can just be a bit sort of a timing slippage, but --

CAROLYN HOLMES: Yes.

KERRIE MATHER : But you know the projects, there's no change actually in the anticipation of the projects that will be included in there.

STEPHEN MENTZINES : Another two points, Carolyn, is that we said this in February as well, that obviously it's relatively smooth over the five years, but as Kerrie said, you know, there's kind of no AUD100 **million** year, there's no AUD400 **million** year. It's in that range of AUD200 **million** and AUD300 **million**. The other thing is there's no big lumpy projects in excess of AUD50 **million** or well in excess of AUD50 **million** in that AUD1.2 **billion**, that sort of makeup. It's a range of things including the things that we foreshadowed at the December release or announcement in February this year and also that Kerrie's outlined here today in terms of what we're planning and doing over that full half, the remaining full half year.

CAROLYN HOLMES: Yes. As a rule of thumb, should we still continue to use about two thirds of the CapEx being for aeronautical capacity type of initiatives?

KERRIE MATHER : Yes.

 

CAROLYN HOLMES: Yes? Then in -- if I go back a few years, I think as a rule of thumb again, we used to use that cash flow available for distribution incorporated a maintenance CapEx provision and I think we were all told around and about, about 10% of CapEx. Is that still -- should we still be assuming that in the -- how you get to your cash flow available includes some kind of maintenance CapEx provision?

STEPHEN MENTZINES : It's not 10% of CapEx but it's around AUD15 **million** per annum, Carolyn.

CAROLYN HOLMES: Okay, so that was -- that's still happening. So we should still allow for that.

STEPHEN MENTZINES : It's around the same. It's around the same. It hasn't changed.

CAROLYN HOLMES: Cool. All right, and my last question, just an update in terms of your thoughts on the timing of the integrated terminal, how far into the future are we still looking for that now?

KERRIE MATHER : Well, (inaudible) these things are always difficult to determine. It depends on demand. If -- it can't happen before Terminal Three. So it really depends on demand. But as you can see, from the AUD1.5 **billion** -- AUD1.2 **billion** guidance that we've actually given and as Stephen said, there's no really large projects in there --

CAROLYN HOLMES: Right, so it's not in the next five years.

KERRIE MATHER : Yes, that's right.

CAROLYN HOLMES: So it's still somewhere out there. It's still -- that is your ultimate strategy, to have an integrated terminal and irrespective of what's happened with Badgerys Creek, you're still set that longer term, you'd like to see that eventuate.

KERRIE MATHER : Yes that's right. I mean this is after extensive consultation with the airlines, but also it's the most efficient utilisation of the facilities here. It provides actually more infrastructure than we would have had actually under previous plans, and it will deliver a much better passenger experience.

CAROLYN HOLMES: Yes. My last question, in terms of just the non-aeronautical side and the **commercial** land and the opportunity to actually have more non-aeronautical facilities, can you give us an idea in terms of the land size that you're dealing with? What is the potential, because obviously, we all look at Auckland Airport and we look at their potential to become an airport city, as such. You know, how do we compare that when we look at actually Sydney? So what is the unused available land that you can actually then redevelop into **commercial** use?

KERRIE MATHER : Well there's actually -- unlike other airports that might actually have a whole precinct that's available --

CAROLYN HOLMES: Yes.

KERRIE MATHER : Constrained (inaudible).

CAROLYN HOLMES: A little, yes.

KERRIE MATHER : We have -- there are pockets of land actually available across the airport. So we just talked about the northern lands which is -- actually it's bigger than 30 hectares but we're assuming 30 hectares would be accessible from the northern land bridge. You know, you've got the area around the jet base as well. There are pockets across the airport.

But given our proximity to the CBD, eight kilometres from the CBD, it's just -- it is extremely valuable land. So our approach, relative to many other airports, is rather than actually having that more campus style development, it's going to be a more vertical development.

CAROLYN HOLMES: Yes.

KERRIE MATHER : So rather than looking at it in hectares, we tend to sort of think about it in terms of the square metres that we could actually develop. It will depend on the demand for the -- whether it's office space or logistics or whatever it is.

CAROLYN HOLMES: Yes. Okay, thank you.

OPERATOR: Your next question comes from the line of Michael Newbold from CIMB. Michael, please ask your question.

MICHAEL NEWBOLD, ANALYST, CIMB: Thanks. Morning guys. Just quickly two questions. Firstly on duty free, you were asking to bid on the -- you're taking three parties through, you asked them to bid on three, I think, options and then there were two other optional bids. Can you may be talk to just whether that's still a part of the bid structure and potentially how you're seeing things in terms of the flexibility or -- of the footprint of how they're approaching the actual bids? Sorry, that was a bit rambly.

The second question was just around the aeronautical revenue. It was a 5.7% growth on 4.7% I think traffic growth. Normally see a bit more sort of leverage there. Can you may be talk to why that didn't come through quite as strongly?

KERRIE MATHER : Well in terms of the first question, I suppose this is a very significant contract and it occupies a significant part of the terminal. So it has been an opportunity to look at how the terminal operates to understand the passenger experience. So we've spent quite a bit of time with the airlines as part of that process to understand how we could actually improve the operation of the terminal and the facilitation within it.

So in terms of the options available, that's what we've been evaluating as part of the process and so it's too early to actually articulate where we are in that process. But I can assure you, to the extent that we're making any changes, they will -- any investment that we're making would have to satisfy our very strict investment criteria and to ensure that it actually meets the airline requirements.

On -- in terms of the aero, we've got the same domestic dilution, if you want to call it that. So roughly the same composition, and because we had a relatively sort of moderate period of investment, that's what's reflected actually in that growth rate.

MICHAEL NEWBOLD: I thought the aeronautical investment contributed about 3.3% of that revenue growth. So I thought that that was reasonably significant in the scheme of things.

KERRIE MATHER : That's roughly about right, but that's just for international. So you know, yes you're right, I think the NNI increase was about just over AUD0.60, AUD0.64 for the period. But international's just part of the pie, if you like.

MICHAEL NEWBOLD: Right, but it's the major part of the aeronautical revenue and there's a real driver for that line item, isn't it?

STEPHEN MENTZINES : Yes.

KERRIE MATHER : Yes. Yes it is.

MICHAEL NEWBOLD: So if it was running at 4.7% when domestic was relatively flat, I mean we've seen domestic being relatively flat for the last couple of periods. I just would have thought that that would be stronger, given where international growth has been.

KERRIE MATHER : Yes. Well there's a small amount of incentive in there for new airlines that have actually established service, but these are relatively small incentives and they're only for a very short period. But other than that, you're seeing that just the combination of the mix between domestic and international and the impact of NNI for the period.

MICHAEL NEWBOLD: So those incentives will roll off over the next six months, (inaudible) incentives --

KERRIE MATHER : (Inaudible) over time.

MICHAEL NEWBOLD: Right. Okay. Okay thanks for that.

KERRIE MATHER : Okay --

OPERATOR: There are no further questions at this time. Please continue.

KERRIE MATHER : Okay, so that concludes our presentation today. Thank you for joining us.

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