



# Heathrow (SP) Limited

## Results for six months ended 30 June 2017

27 July 2017

**Heathrow**  
Making every journey better



## 2017 half year highlights

# Strong first half of 2017

1

## Operational highlights

- Record passenger service levels and operational performance
- Record 37.1 million passengers, up 3.9%, drove recent upgraded outlook for 2017
- Cargo volumes accelerate 9.1%

2

## Financial performance

- Revenue of £1,374 million, up 4.1% and Adjusted EBITDA of £835 million, up 6.9%
- Strong cost control and better value
- Over £1.0 billion in debt financing completed while simplifying capital structure

3

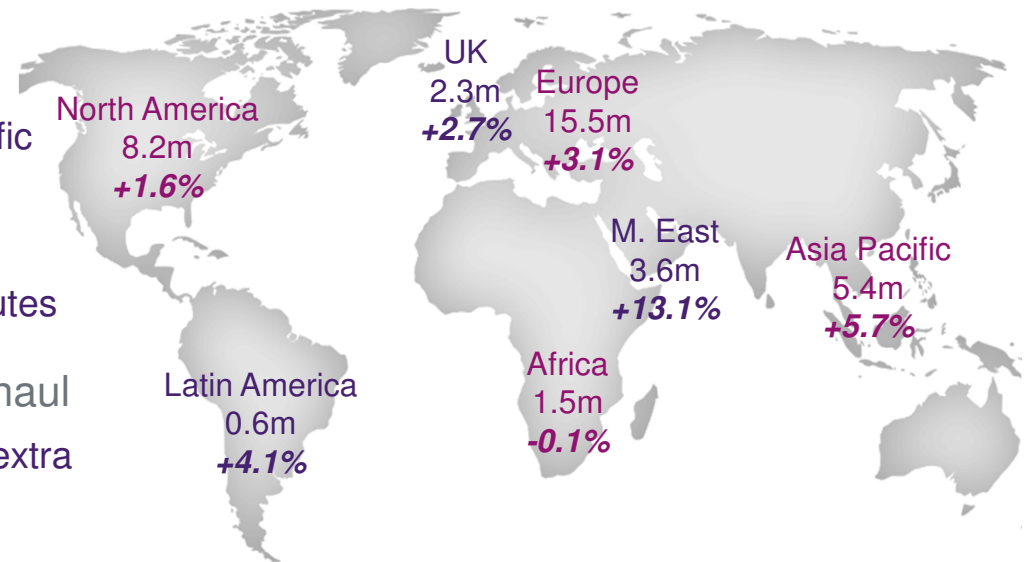
## Strategic aims

- Raising service standards and operational resilience
- Focusing on further cost efficiencies and incremental revenue
- Expansion programme remains on track; good progress toward delivering expansion at close to current prices

# Strongest traffic growth for several years

- Record traffic continues in 2017
  - growth primarily from higher load factors
- Long haul traffic key growth driver
  - up 4.7% driven by Middle East and Asia Pacific
  - Middle East up 13.1% due to A380s/new services
  - Asia Pacific up 5.7% on growth in existing routes
- Increased momentum also seen in short haul
  - notable continental Europe increases due to extra flights and larger planes
  - domestic up with new Flybe Scottish services
- Cargo up 9.1%, mainly due to North America
- 76.7m forecast for 2017
  - up 1.4% on 2016 driven by higher load factors

**Passenger traffic by market**  
H1 2017 versus H1 2016

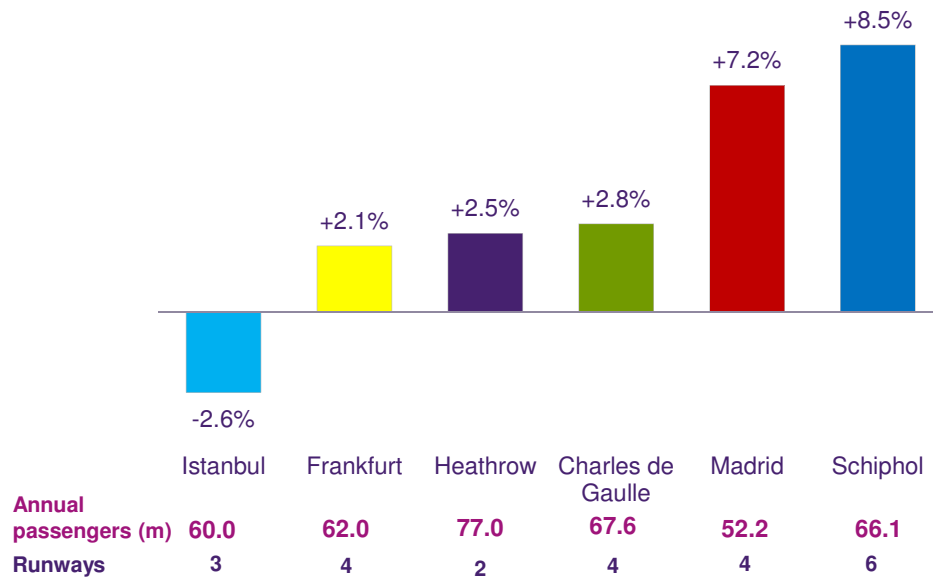


**37.1 million passengers**  
**+3.9%**

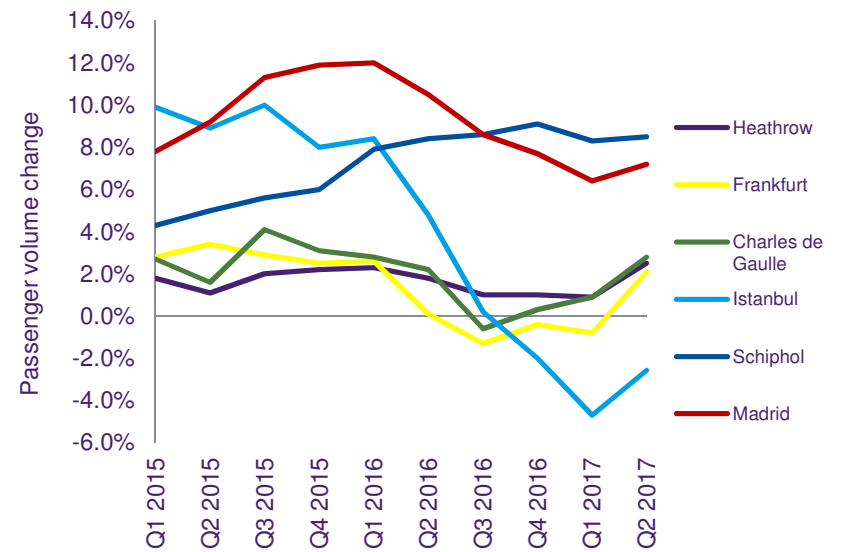
# Heathrow's resilience re-emerges in an uncertain environment

## Passenger traffic at European hubs

Year on year growth in traffic for 12 months to 30 June 2017

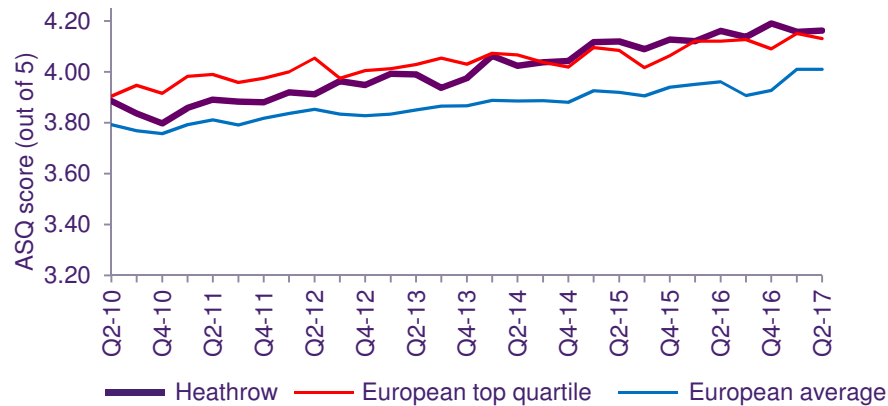


Recent evolution of change in rolling 12 month traffic



# Record service standards complemented by robust operations

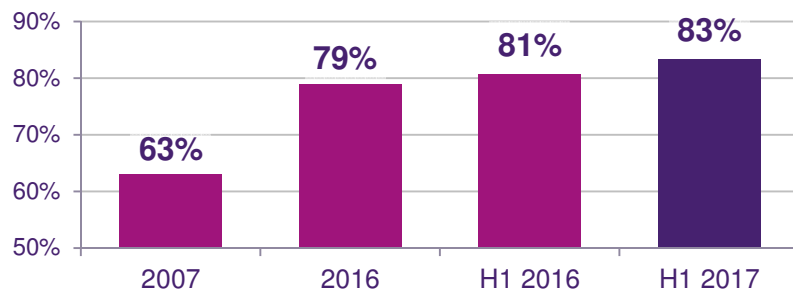
**Quarterly passenger satisfaction**  
Q2 2010 – Q2 2017



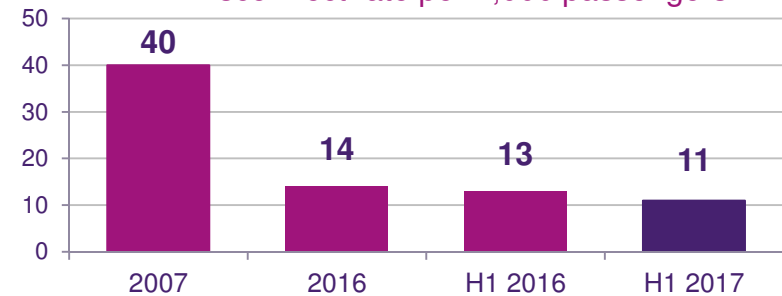
**Passenger satisfaction European ranking**  
Q2 2017



**Departures**  
within 15 minutes of schedule



**Baggage performance**  
misconnect rate per 1,000 passengers



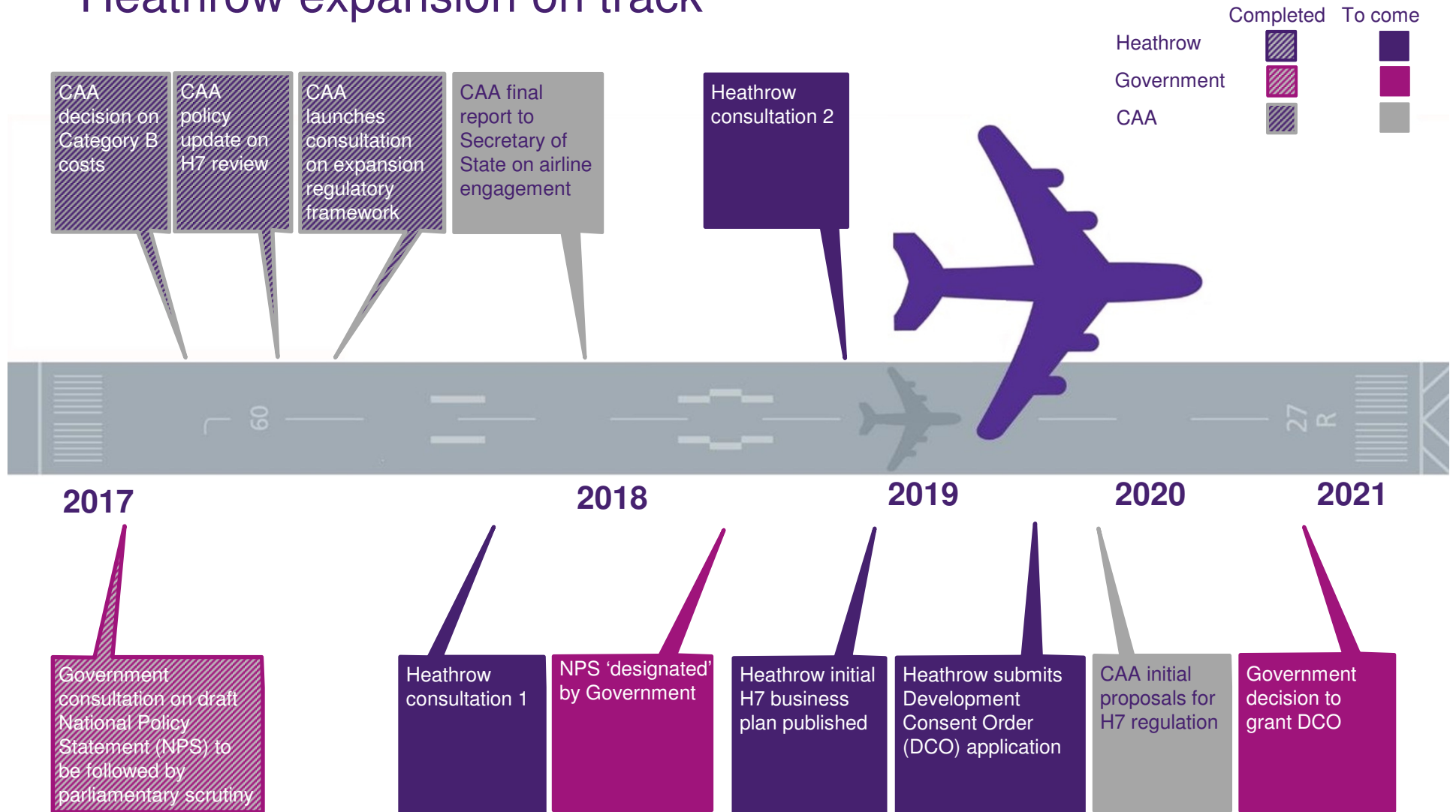
**2016 Europe's Best Airport**  
(over 40 million passengers)



**Best Airport in Western Europe**  
**World's Best Airport Shopping**  
**World's Best Independent Airport Lounge**



# Heathrow expansion on track



# Heathrow expansion on track

- Government renews support for expansion post general election
  - broad cross party support
- NPS process moves forward
  - transport select committee and chairman appointed
  - parliamentary scrutiny post summer recess
  - vote expected in H1 2018
- Good progress towards delivering expansion at close to current prices
  - good engagement with airlines
  - options to improve passenger experience at lower cost
- Heathrow is committed to deliver a sustainable expansion
- Heathrow's initial planning consultation later this year
  - details on scope and design for various options

## Heathrow's initial planning consultation to release scope and design options





# CAA progresses expansion regulatory framework

- Q6 extended to at least 31 December 2020
  - intended to align H7 with expansion timetable
- Financeability and affordability at heart of expansion regulatory construct
- Other key points of focus
  - RAB-based regulation and single till approach to continue
  - cost of debt indexation
  - largely or fully retaining RPI-based regulation until at least 2025
- What's next?
  - responses due by 22 September 2017
  - Q4 2017 consultation on WACC ranges, Q6+2 price and Category C costs
  - Heathrow's H7 initial business plan expected in December 2018

## CAA extends Q6 and progresses H7 regulatory framework

Consumers and Markets Group



Consultation on core elements of the regulatory framework to support capacity expansion at Heathrow

CAP 1541



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## Financial review

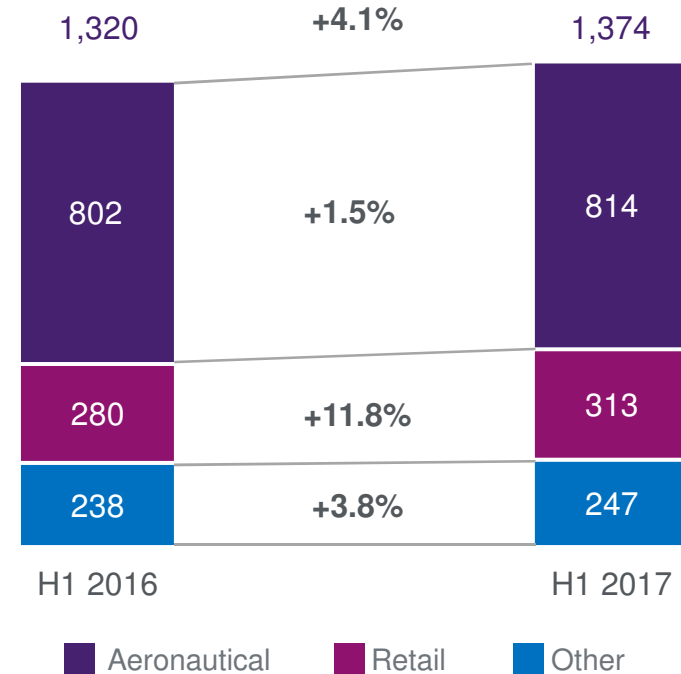
# Financial highlights

(£ million)	H1 2017	H1 2016	Versus H1 2016
Revenue	1,374	1,320	+4.1%
Operating costs	539	539	-
Adjusted EBITDA	835	781	+6.9%
Capital expenditure	318	303	+5.0%
	June 2017	Dec 2016	Change from 30 Dec 16
Consolidated nominal net debt			
Heathrow (SP)	12,454	11,908	+4.6%
Heathrow Finance	13,132	13,005	+1.0%
RAB	15,485	15,237	+1.6%

# Strong traffic and renewed retail momentum boost revenues

- Record traffic boosts aeronautical revenue
  - +ve: traffic growth
  - -ve: lower tariff (RPI-1.5% formula); yield dilution
- Renewed retail momentum
  - retail revenue per passenger: Q1: +6.4%; Q2: +8.7%
  - surging traffic and sterling depreciation boosted revenue, particularly duty and tax-free and airside specialist shops
  - catering income growth spikes on Terminal 5 food outlet redevelopment and increased passenger participation before boarding
  - Terminal 4 luxury retail redevelopment started contributing to growth

Analysis of revenue (£m)



Per passenger (£)	H1 2016	H1 2017	Change
Aeronautical revenue	22.44	<b>21.92</b>	-2.3%
Retail revenue	7.84	<b>8.43</b>	+7.6%

# Outstanding cost performance

- Pro forma costs down 1.3% or 5.0% on a per passenger basis
  - adjusted for 2016 £14 million one-off utilities benefit and 2017 £7 million capitalisation of expansion costs
  - achieved whilst welcoming 1.4 million extra passengers and maintaining world class service
  - cost reductions mainly in operational costs – new NATS contract, other third party supplies and lower insurance costs
- On track to deliver £600 million Q6 efficiencies
  - further organisational change being implemented to drive towards final target
  - energy demand management and recurrent savings from renegotiated contracts to deliver further savings

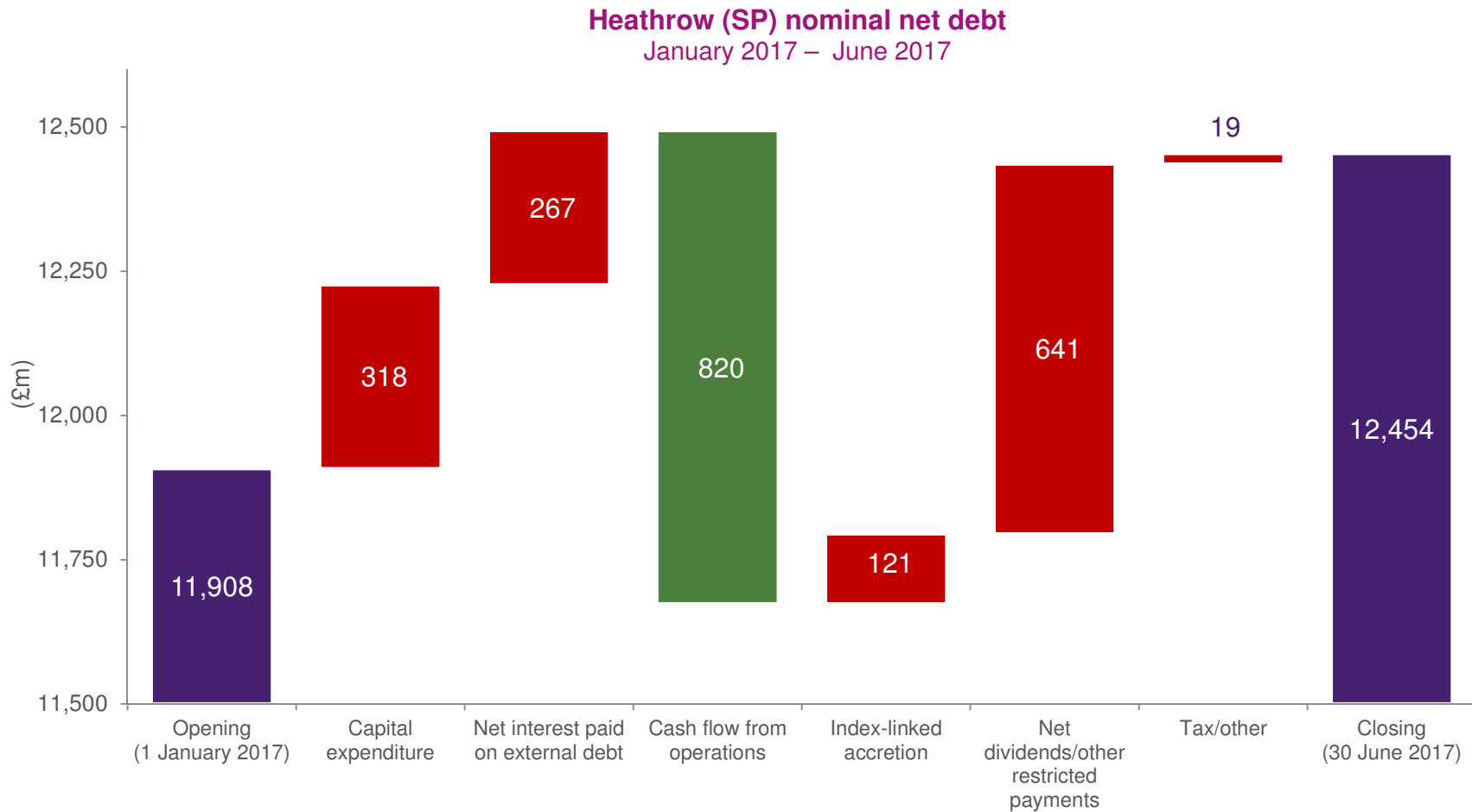
## Analysis of operating costs (£m)

539	-	539
178	+1.1%	180
131	-6.9%	122
86	-3.5%	83
63	+1.6%	64
81	+11.1%	90
H1 2016		H1 2017

■ Employment    ■ Operational    ■ Maintenance  
■ Business rates    ■ Utilities & Other

Per passenger (£)	H1 2016	H1 2017	Change
Operating costs	15.08	<b>14.52</b>	-3.7%
Pro forma operating costs	15.47	<b>14.71</b>	-5.0%

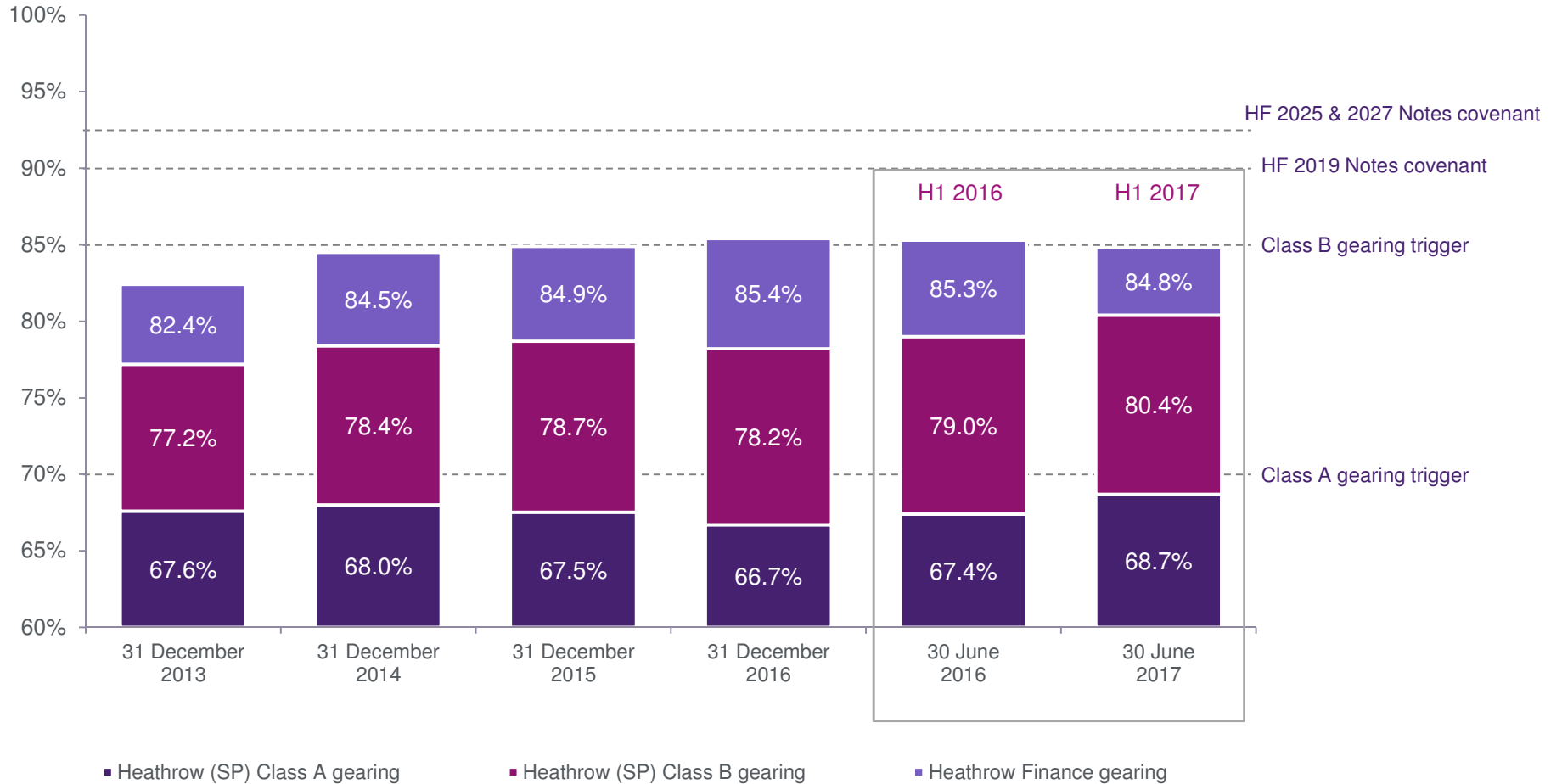
# Operating cash flow significantly exceeds capital expenditure and interest payments





# Substantial gearing headroom retained

Evolution of gearing ratios



# Continued success in raising over £1.0 billion globally and simplifying Heathrow's debt financing structure

- Over £700 million of Class A debt financing raised globally in 2017
  - €500 million 15 year bond strengthening position in Euro market
  - £100 million 16 and 20 year private placement further expands non-UK sources of sterling funding
  - 2016's £350 million 3.75 year Class A term loan increased to £418 million with 2 new banks
  - £100 million 7 year term loan expected to be drawn in July 2018
- Clear route to simplify Heathrow's debt financing from 4 to 3 layers by raising £350 million at Heathrow Finance and ADIF2
  - highly successful £275 million 10 year Heathrow Finance bond
- Liquidity horizon currently extends to September 2019
- Average life of debt of 11.7 years
- Financing needs likely to remain modest until commencement of expansion construction programme

# Outlook

- EBITDA forecast for 2017 upgraded in June 2017 to £1,735 million driven by continued traffic and retail momentum
- Successful progress on funding plans and strong liquidity position



Strategic update

# Giving passengers the best airport service in the world

		<u>Delivered</u>	<u>To come</u>
1	Mojo	<ul style="list-style-type: none"> <li>✓ New intranet and digital workplace, Hub+</li> <li>✓ Front line manager development 'Earn your Wings' sessions</li> <li>✓ Midnight Marathon raised &gt; £50,000 for charities</li> </ul>	<ul style="list-style-type: none"> <li>➤ Green car salary sacrifice scheme</li> <li>➤ Disability &amp; LGBT networks launched</li> <li>➤ Hi5! for Terminal 5 security officers</li> </ul>
2	Transform customer service	<ul style="list-style-type: none"> <li>✓ Terminal 5 First Wing</li> <li>✓ Self bag drop in Terminal 5 installed</li> <li>✓ Terminal 5 Flight Connections Centre</li> <li>✓ Heathrow Express off-peak pricing</li> <li>✓ Agreement on Crossrail to Terminal 5</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mr Adventure smartphone app</li> <li>➤ Terminal 2 wellbeing gym 'Flyfit'</li> <li>➤ 3 new Chinese destinations</li> </ul>
3	Beat the plan	<ul style="list-style-type: none"> <li>✓ New summer campaign – leisure travellers</li> <li>✓ New Flybe Aberdeen and Edinburgh services</li> <li>✓ Kids go free – travel, eat, fly</li> <li>✓ Food and beverage 'Take on Board'</li> </ul>	<ul style="list-style-type: none"> <li>➤ Terminal 3 Aerotel, Louis Vuitton store and Qantas lounge</li> <li>➤ Heathrow gin festival</li> <li>➤ 'Simpler Heathrow' to streamline processes</li> </ul>
4	Sustainable growth	<ul style="list-style-type: none"> <li>✓ Government consultation on NPS concluded</li> <li>✓ Fly quiet and clean league table launched</li> <li>✓ BREEAM certification of Terminal 2</li> <li>✓ CAA launches consultation on expansion regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>➤ Planning for Heathrow consultation</li> <li>➤ Regional logistics hubs shortlisting</li> <li>➤ Sustainable Leadership Programme for senior managers</li> <li>➤ Response to CAA consultation</li> </ul>

Questions?





Appendices

# Heathrow nominal net debt at 30 June 2017

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
€750m 4.6%	510	510	2018
C\$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	203	203	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
£200m 7.075%	200	200	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	80	80	2032
€50m Zero Coupon	42	42	2032
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	54	54	2039
£460m RPI +3.334%	577	577	2039
£100m RPI +1.238%	105	105	2040
£750m 5.875%	750	750	2041
£750m 4.625%	750	750	2046
£75m RPI +1.372%	80	80	2049
£400m 2.75%	400	400	2049
<b>Total senior bonds</b>	<b>9,374</b>	<b>9,374</b>	
Term debt	937	937	Various
Index-linked derivative accretion	268	268	Various
Revolving/working capital facilities	285	900	2021
<b>Total other senior debt</b>	<b>1,490</b>	<b>2,105</b>	
<b>Total senior debt</b>	<b>10,864</b>	<b>11,479</b>	
Heathrow (SP) Limited cash	(228)		
<b>Senior net debt</b>	<b>10,636</b>		

Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£400m 6.25%	400	400	2018
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£180m RPI +1.061%	188	188	2036
<b>Total junior bonds</b>	<b>1,743</b>	<b>1,743</b>	
Junior revolving credit facilities	75	250	2021
<b>Total junior debt</b>	<b>1,818</b>	<b>1,993</b>	
<b>Heathrow (SP) Limited group net debt</b>	<b>12,454</b>		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£275m 5.375%	263	263	2019
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
<b>Total bonds</b>	<b>788</b>	<b>788</b>	
£75m	0	75	2020
£50m	0	50	2022
£75m	50	75	2024
£125m	50	125	2025
£50m	0	50	2026
£150m	150	150	2028
<b>Total loans</b>	<b>250</b>	<b>525</b>	
<b>Total Heathrow Finance plc debt</b>	<b>1,038</b>	<b>1,313</b>	
Heathrow Finance plc cash	(360)		
<b>Heathrow Finance plc net debt</b>	<b>678</b>		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	10,864	11,479
Heathrow (SP) Limited junior debt	1,818	1,993
Heathrow Finance plc debt	1,038	1,313
<b>Heathrow Finance plc group debt</b>	<b>13,720</b>	<b>14,785</b>
Heathrow Finance plc group cash	(588)	
<b>Heathrow Finance plc group net debt</b>	<b>13,132</b>	

# Notes, sources and defined terms

Page 3

- Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items

Page 5

- Sources: airport websites

Page 6

- Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 0 up to 5

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- Adjusted operating costs exclude depreciation, amortisation and exceptional items
- Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
- Consolidated net debt at Heathrow (SP) Limited and Heathrow Finance plc is calculated on a nominal basis excluding intra-group loans and including index-linked accretion
- RAB: Regulatory Asset Base

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- Operating costs refer to Adjusted operating costs which exclude depreciation, amortisation and exceptional items

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- Opening and closing nominal net debt includes index-linked accretion
- The financing arrangements of the Group and Heathrow Finance restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital, any redemptions or repurchases of share capital, and payments of fees, interest or principal on any intercompany loans involving entities outside the Group or Heathrow Finance, as appropriate
- Net dividends/other restricted payments include dividends and interest payments and net principal repayments on the debenture between Heathrow (SP) and Heathrow Finance
- Flows included in 'Tax/other' include external tax payments and fees paid in relation to financing transactions

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- Gearing ratio: external nominal net debt (including index-linked accretion) to RAB (regulatory asset base)
- The more restrictive 90% Group RAR covenant in relation to the Heathrow Finance 2019 Notes applies as long as these notes remain outstanding

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- Average life of debt for Heathrow SP on pro forma basis, adjusted for €500 million bond issue closed after period end.

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- Net debt is calculated on a nominal basis excluding intra-group loans and including index-linked accretion and includes non-sterling debt at exchange rate of hedges entered into at inception of relevant financing
- Maturity is defined as the Scheduled Redemption Date

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# Heathrow

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