



Heathrow (SP) Limited

Results for year ended 31 December 2017

22 February 2018

Heathrow
Making every journey better



2017 highlights

Heathrow
Making every journey better

2017 – A record year for Heathrow

1

Operational highlights

- Excellent service standards complement strong operational performance
- Skytrax best Airport in Western Europe
- 78.0 million passengers, seventh successive record year

2

Financial performance

- Revenue of £2,884 million, up 2.7% and Adjusted EBITDA of £1,760 million, up 4.6%
- Strong cost control and better value
- Over £1.0 billion in debt financing completed while simplifying capital structure

3

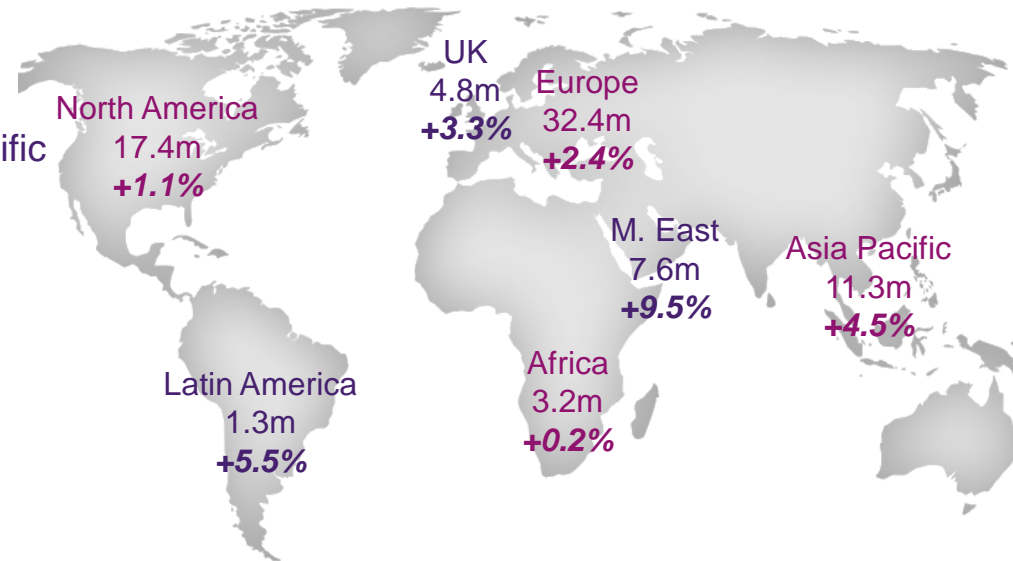
Strategic aims

- Raising service standards and operational resilience
- Focusing on further cost efficiency and revenue development
- Good momentum in progressing expansion delivery

Another record year for Heathrow

- 2017: another year of record traffic
 - growth driven by stronger load factors, up 2.0ppt to 78.0%
- Long haul traffic key growth driver
 - up 3.6% driven by Middle East and Asia Pacific
 - Middle East up 9.5% due to A380s/new services
 - Asia Pacific up 4.5% on growth in existing markets
- Strong growth in short haul
 - notable continental Europe increases due to fuller, larger planes
 - domestic traffic growth with Flybe services to Scotland
 - increased domestic discount from January 2018
- Cargo volume increased 10.2%, to 1.7 million tonnes, mainly due to North America and Middle East

Passenger traffic by market 2017 versus 2016

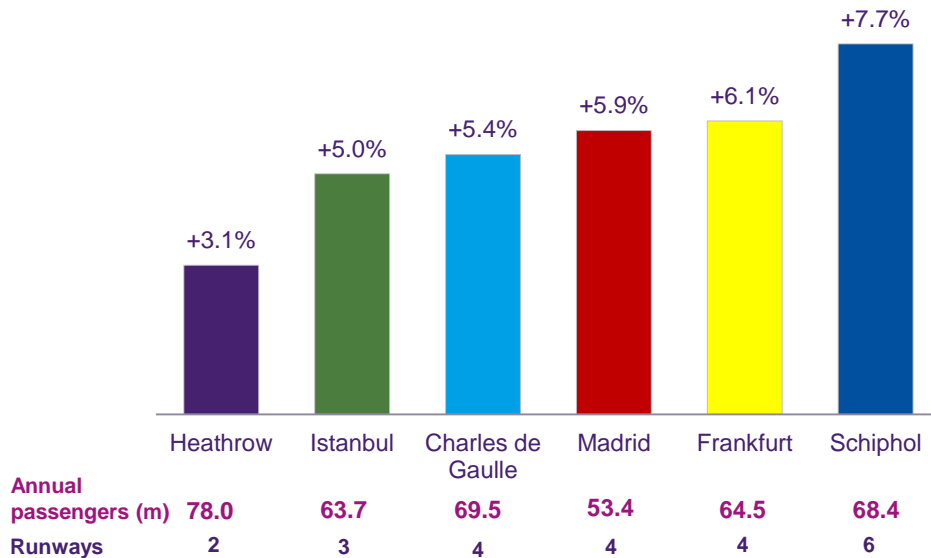


78.0 million passengers
+3.1%

Heathrow resilient whilst at capacity

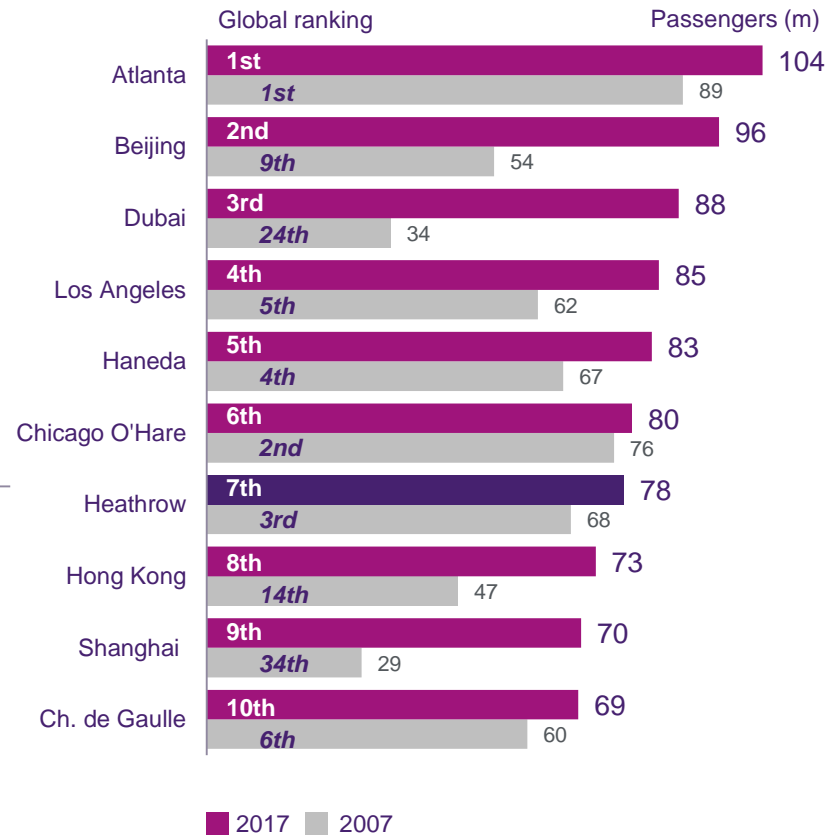
Passenger traffic at European hubs

Year on year growth in traffic for 12 months to 31 December 2017



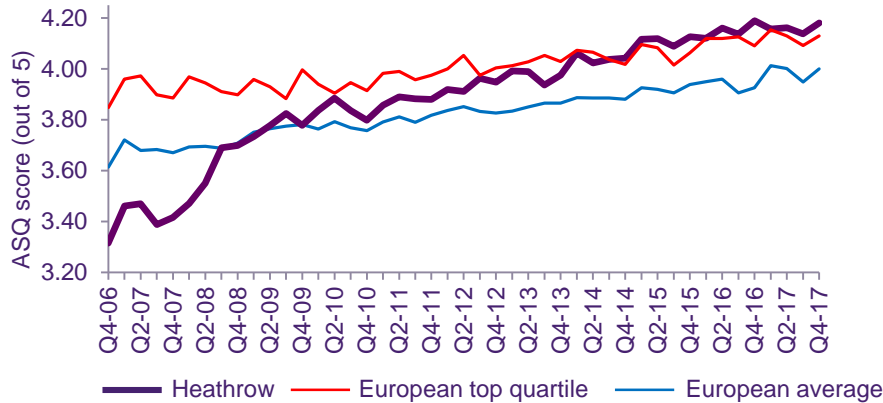
Top 10 busiest global airports

2017 versus 2007

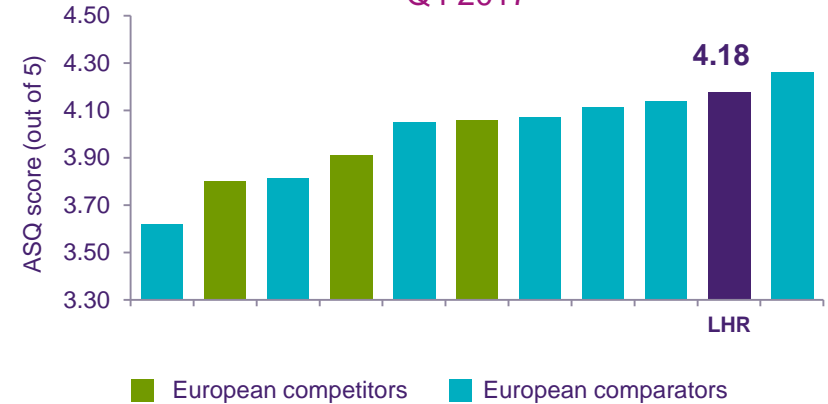


Record service standards complemented by robust operations

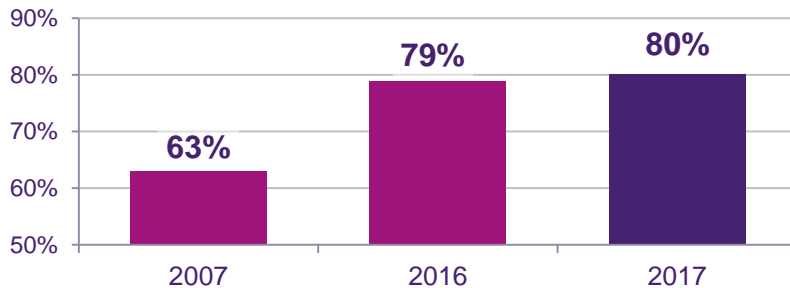
Quarterly passenger satisfaction
Q4 2006 – Q4 2017



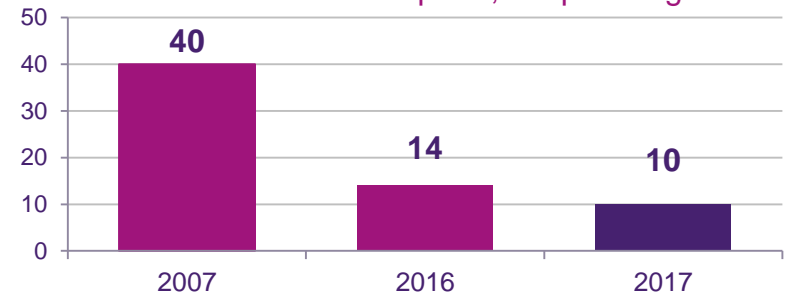
Passenger satisfaction European ranking
Q4 2017



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
Terminal 5 – World's Best Airport Terminal
World's Best Independent Airport Lounge

Heathrow 2.0 flagship goals

A GREAT PLACE TO WORK



- 1 Safe and Well
- 2 Careers, Not Just Jobs
- 3 Culture of Sustainability

A GREAT PLACE TO LIVE



- 4 Respite for Residents
- 5 Quality Air, Locally
- 6 Sustainable Communities

A THRIVING SUSTAINABLE ECONOMY



- 7 Connecting the UK
- 8 The Next Economy
- 9 Sustainable Supply Chain

A WORLD WORTH TRAVELLING



- 10 Zero Carbon Airport
- 11 Accelerating the Era of Sustainable Flight
- 12 A Responsible Gateway

Heathrow expansion on track - update

Completed To come



- CAA consultation on expansion regulatory framework (Jun 2017)
- CAA policy update and consultation on expansion regulatory framework (Dec 2017)

Heathrow consultation 1 launched

CAA final report to Secretary of State on airline engagement



2017

2018

2019

2020

2021

- Government consultation on draft National Policy Statement ('NPS') (Feb 2017)
- NPS consultation 2 (Oct 2017)
- Parliamentary scrutiny commences (Oct 2017)

NPS 'designated' by Government

Heathrow consultation 2

CAA initial proposals for H7 regulation

Heathrow submits Development Consent Order (DCO) application

Government decision to grant DCO

Good momentum in progressing expansion delivery

- CAA encouraged by progress made in Heathrow and airline engagement on affordability while retaining financeability at its heart
 - improved scheme options through airline engagement
 - emerging £14 billion option, £2.5 billion below scheme presented to Airports Commission
 - maintains local commitments & passenger experience
- Heathrow's first planning consultation unveils options for feedback
 - infrastructure design options e.g. phasing new terminal capacity construction, different runway lengths
 - airspace design principles
 - aligned with environmental commitments
 - launched 17 January 2018; closes 28 March 2018
- Government confirms support for expansion as 'strategically important for Britain'
 - national policy statement (NPS) consultation concluded
 - transport select committee scrutiny of NPS ongoing
 - parliamentary vote on NPS expected in H1 2018
 - broad cross party support (>70% of MPs) maintained

Expansion hits new milestone with Heathrow's first consultation launched in January 2018



CAA progresses expansion regulatory framework

- Appropriate balance of financeability and affordability are fundamental to expansion regulatory construct
- Q6 extended at least a further year to end of 2020
 - extension beyond 2020 may be considered to better align with expansion process
 - RPI-0% price path favoured by CAA while various options are considered to reflect Q6 outperformance
- Other focus areas of the CAA's December consultation being considered by Heathrow
 - PwC's preliminary expansion WACC range
 - cost of debt indexation for new debt only
 - core inflation index to remain RPI until at least 2025
 - early category C costs information requirements
- Expected next steps
 - responses by 2 March 2018; next update in April 2018
 - CAA's initial proposals for H7 regulation in late 2019

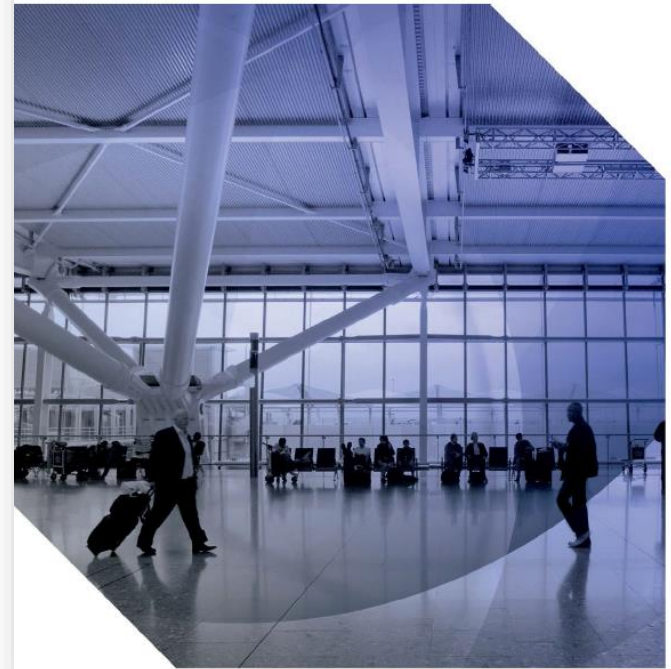
CAA extends Q6 and progresses H7 regulatory framework

Consumers and Markets Group



Economic regulation of capacity expansion at Heathrow: policy update and consultation

CAP 1610



Heathrow

Making every journey better



Financial review

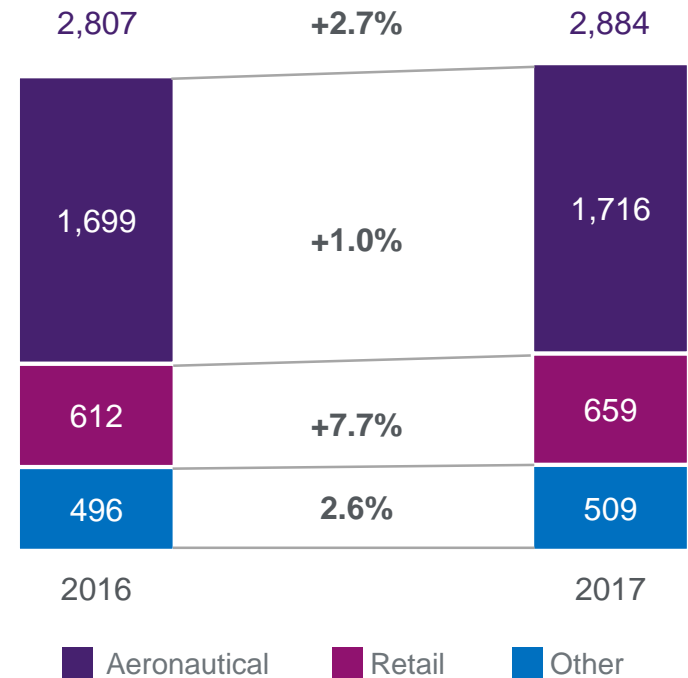
Financial highlights

(£ million)	2017	2016	Versus 2016
Revenue	2,884	2,807	+2.7%
Operating costs	1,124	1,125	-0.1%
Adjusted EBITDA	1,760	1,682	+4.6%
Capital expenditure	687	674	+1.9%
	Dec 2017	Dec 2016	Change from 31 Dec 16
Consolidated nominal net debt			
Heathrow (SP)	12,372	11,908	+3.9%
Heathrow Finance	13,674	13,005	+5.1%
RAB	15,786	15,237	+3.6%

Strong traffic and retail momentum boost revenues

- Record traffic boosts aeronautical revenue while delivering better value for passengers
 - up: traffic growth
 - down: lower tariff (RPI-1.5% formula); yield dilution
- Strong momentum in retail income growth
 - increased airside participation and greater spend per participating passenger
 - surging traffic and sterling depreciation boosted revenue, particularly duty and tax-free and airside specialist shops
 - catering income growth driven by Terminal 5 food outlet redevelopment and increased passenger participation before boarding
 - Terminal 4 luxury retail redevelopment started contributing to growth
 - Heathrow Express' strong performance driven by higher traffic numbers and enhanced pricing strategy

Analysis of revenue (£m)

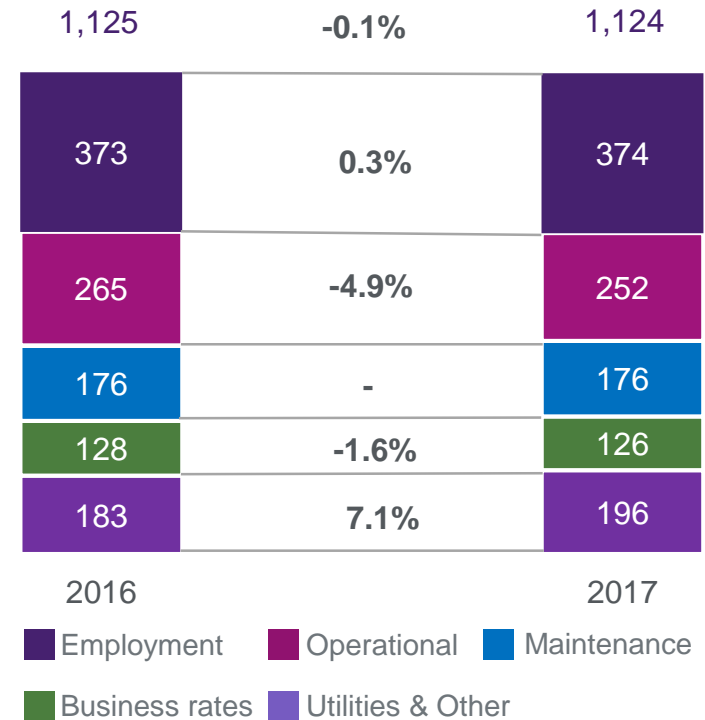


Per passenger (£)	2016	2017	Change
Aeronautical revenue	22.45	22.00	-2.0%
Retail revenue	8.09	8.45	4.5%

Robust cost performance

- Operating costs 3.1% lower on a per passenger basis
 - achieved whilst welcoming 2.3 million extra passengers and maintaining world class service
 - cost reductions mainly in operational costs – new NATS contract, other third party suppliers and lower insurance claims
 - people cost marginally higher due to higher traffic, pay rise and initiatives enabling future efficiencies
 - higher utility costs driven by non-recurrent one-off credit in 2016
- On track to deliver £600 million Q6 efficiencies
 - energy demand management, recurrent savings from renegotiated contracts and organisational change

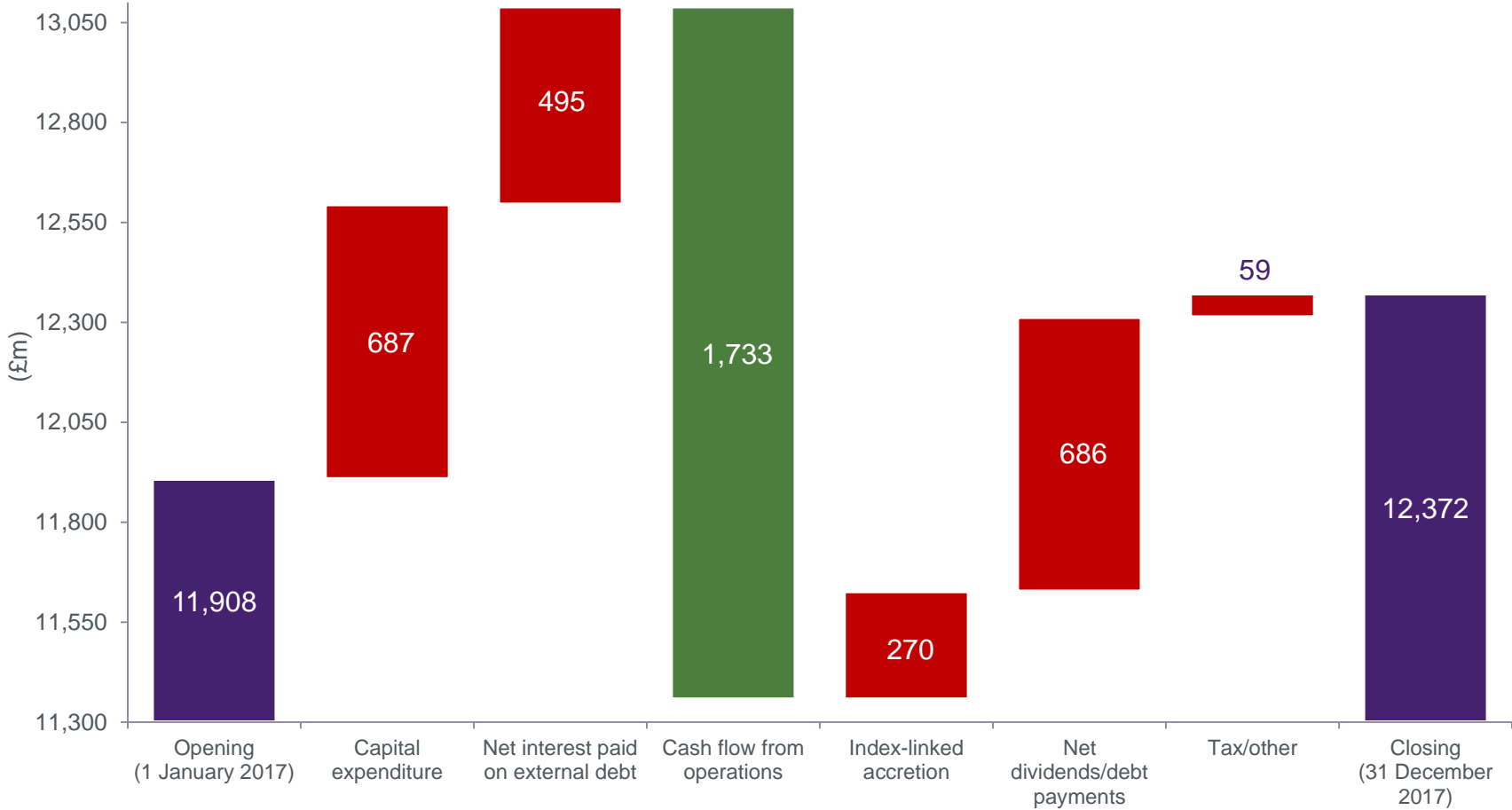
Analysis of operating costs (£m)



Per passenger (£)	2016	2017	Change
Operating costs	14.87	14.41	-3.1%

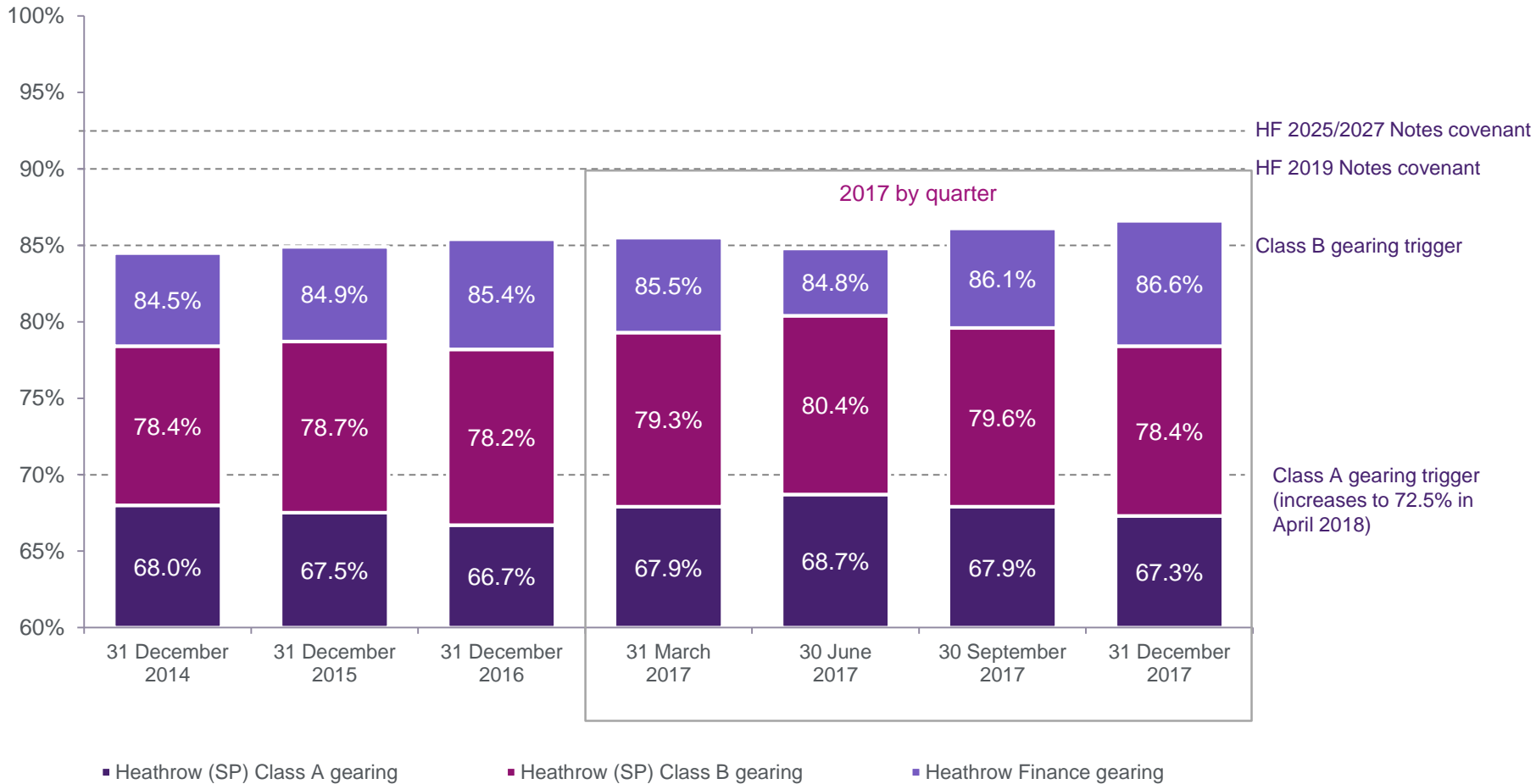
Operating cash flow significantly exceeds capital expenditure and interest payments

Heathrow (SP) nominal net debt
January 2017 – December 2017



Substantial gearing headroom retained

Evolution of gearing ratios



All key 2017 debt financing targets achieved

- Over £1.0 billion raised globally and capital structure simplified
- Over £700 million of Class A debt financing raised
 - €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 11.4 years
- Financing needs likely to remain modest until expansion construction programme begins
- 2018 debt financing target likely to be similar in scale to 2017

Outlook

- Traffic in early weeks of 2018 consistent with expectations
- Forecast Adjusted EBITDA remains consistent with December 2017 investor report's guidance at £1,830 million



Strategic update

Giving passengers the best airport service in the world

1

Mojo

Delivered

- ✓ Living Wage accreditation
- ✓ Buzz App rollout
- ✓ Team Heathrow 5-A-Side DofE challenge

To come

- Building Together plan
- Agile working
- Terminal 5's 10th anniversary

2

Transform
customer service

- ✓ New Passenger with Reduced Mobility service levels
- ✓ Heathrow 'Service Signatures' developed
- ✓ Half-term 'Discover Dinosaurs' event

- Service signatures rollout begins
- Terminal 3 airbridge - 9 stands & 12 bridges returned to operation
- Terminal 2 Rest & Relax opens

3

Beat the plan

- ✓ Additional discount on domestic routes
- ✓ Terminal 3 personal shopping lounge
- ✓ Japan Airways new Tokyo service

- Terminal 3 departure lounge extension
- New multi-language HEx ticketing & contactless
- New Qantas direct service to Perth
- Terminal 3 Aerotel opens

4

Sustainable
growth

- ✓ Heathrow Careers Fair
- ✓ Heathrow Consultation 1
- ✓ Airspace consultation
- ✓ Freight blueprint launch
- ✓ Transport Select Committee hearings

- Logistics hubs shortlist
- Preferred masterplan options
- New sustainable waste contract
- Launch of Business Summit programme
- Parliamentary vote on Heathrow expansion

Questions?



Appendices

Heathrow nominal net debt at 31 December 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%	206	206	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%	82	82	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	55	55	2039
£460m RPI +3.334%	588	588	2039
£100m RPI +1.238%	108	108	2040
£750m 5.875%	750	750	2041
£750m 4.625%	750	750	2046
£75m RPI +1.372%	82	82	2049
£400m 2.75%	400	400	2049
Total senior bonds	9,839	9,839	
Term debt	920	1,020	Various
Index-linked derivative accretion	391	391	Various
Revolving/working capital facilities	0	900	2021
Total other senior debt	1,311	2,311	
Total senior debt	11,150	12,150	
Heathrow (SP) Limited cash	(525)		
Senior net debt	10,625		

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%	192	192	2036
Total junior bonds	1,747	1,747	
Junior revolving credit facilities	0	250	2021
Total junior debt	1,747	1,997	
Heathrow (SP) Limited group net debt	12,372		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£275m 5.375%	262	262	2019
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
Total bonds	787	787	
£75m	75	75	2020
£50m	50	50	2022
£75m	75	75	2024
£125m	125	125	2025
£50m	50	50	2026
£150m	150	150	2028
Total loans	525	525	
Total Heathrow Finance plc debt	1,312	1,312	
Heathrow Finance plc cash	(10)		
Heathrow Finance plc net debt	1,302		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	11,150	12,150
Heathrow (SP) Limited junior debt	1,747	1,997
Heathrow Finance plc debt	1,312	1,312
Heathrow Finance plc group debt	14,209	15,459
Heathrow Finance plc group cash	(535)	
Heathrow Finance plc group net debt	13,674	

Notes, sources and defined terms

Page 3

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

Page 5

- Sources: airport websites, December 2007 ACI report and December 2017 ACI report

Page 6

- Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5

Page 12

- 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

Page 14

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

Page 15

- 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

Page 16

- 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

Page 23

- 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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