



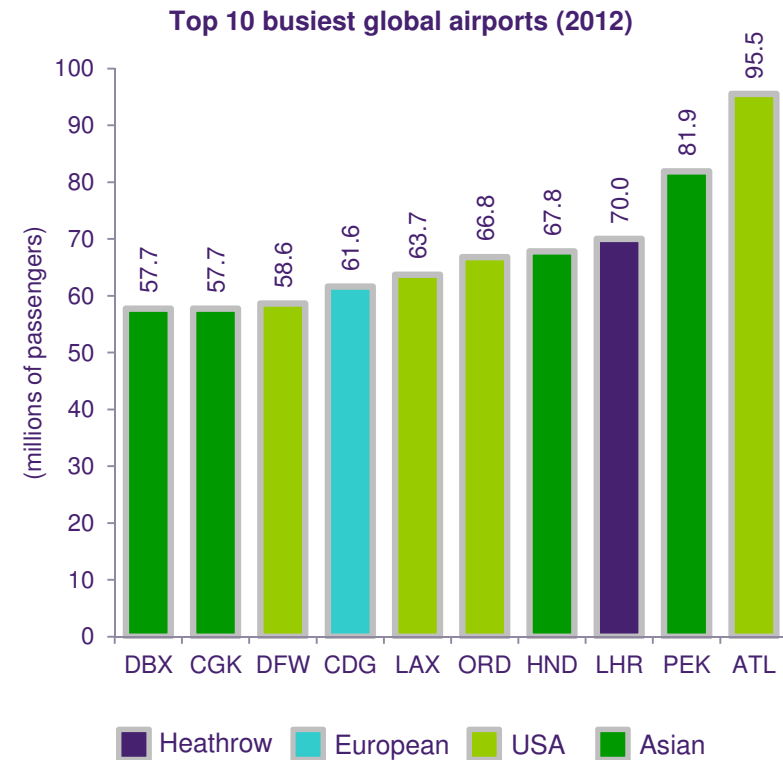
Heathrow  
Holding company debt  
Barclays European High Yield and Leveraged Finance Conference

12 September 2013

**Heathrow**  
Making every journey better

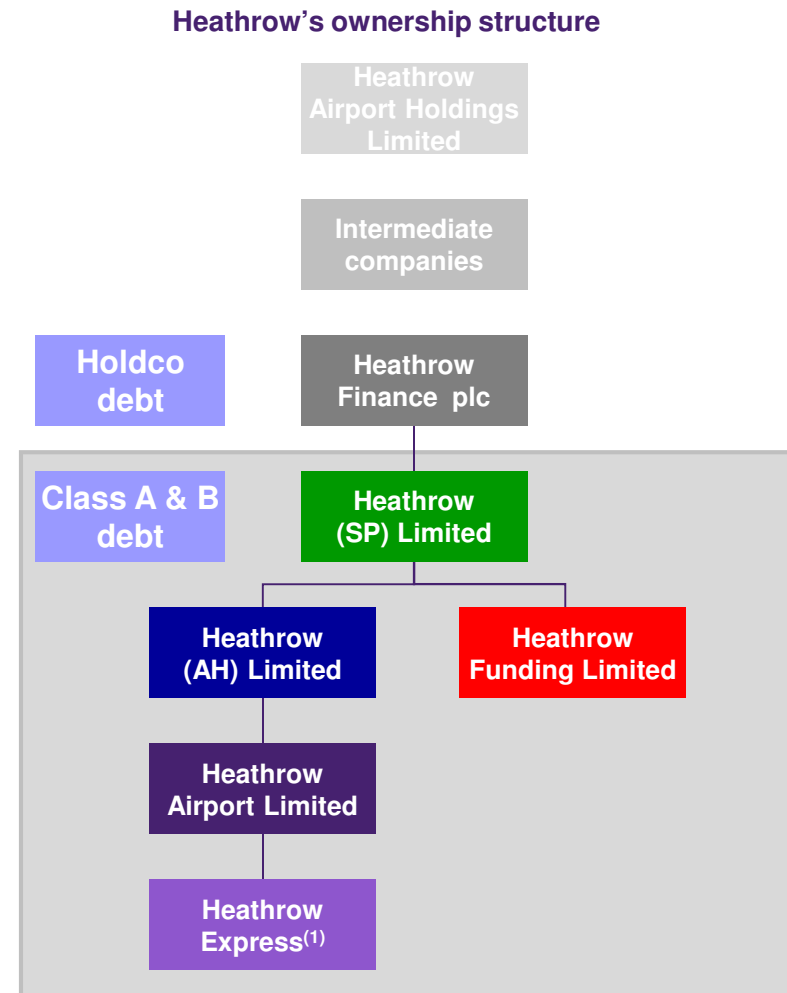
# Heathrow – critical infrastructure for the global aviation industry

- Heathrow is London's and the UK's only hub airport
- World's third busiest airport and busiest airport globally for international traffic
- Heathrow has 7 of the global top 10 intercontinental long haul routes
- 80% of UK's scheduled long haul traffic and British Airways' worldwide hub
- Reflecting its market position, Heathrow is independently regulated by the Civil Aviation Authority



# Heathrow's ownership and financing structure

- Heathrow is indirectly wholly-owned by entities controlled or managed by
  - Ferrovial: 33.65%
  - Qatar Holding: 20.00%
  - Caisse de dépôt et placement du Québec: 13.29%
  - Government of Singapore Investment Corporation: 11.88%
  - Alinda Capital Partners: 11.18%
  - China Investment Corporation: 10.00%
- Heathrow is ring-fenced from rest of group and financed with 3 classes of debt
  - strong security package for creditors
  - Heathrow Funding Limited issues Class A/B debt rated A-/BBB
  - Heathrow Finance issues holding company debt rated BB+/Ba3

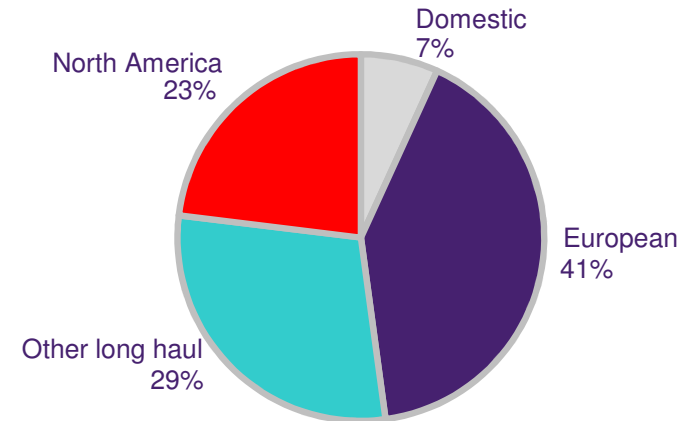


Notes  
 (1) Heathrow Express Operating Company Limited

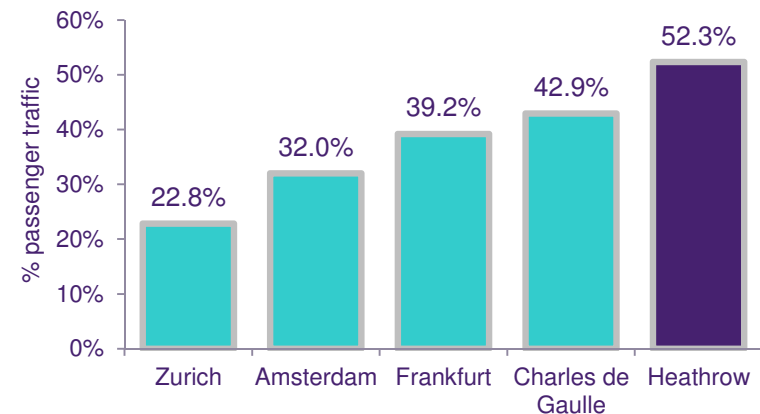
# Heathrow's resilience and diversity

- Unique traffic resilience
  - operating close to full capacity
  - strength in high growth long haul
  - countercyclical transfer traffic
- Key global hub benefiting from strength of London catchment area
- Passenger diversity
  - balanced business and leisure traffic
  - >50% non-UK resident passengers
- Less reliant on single airline or alliance
  - Heathrow: ~55% **oneworld** (including bmi)
  - Charles de Gaulle: 66% SkyTeam
  - Frankfurt: 78% Star Alliance
  - Schiphol: 65% SkyTeam
  - Zurich: 69% Star Alliance

Heathrow passenger traffic by origin/destination (2012)



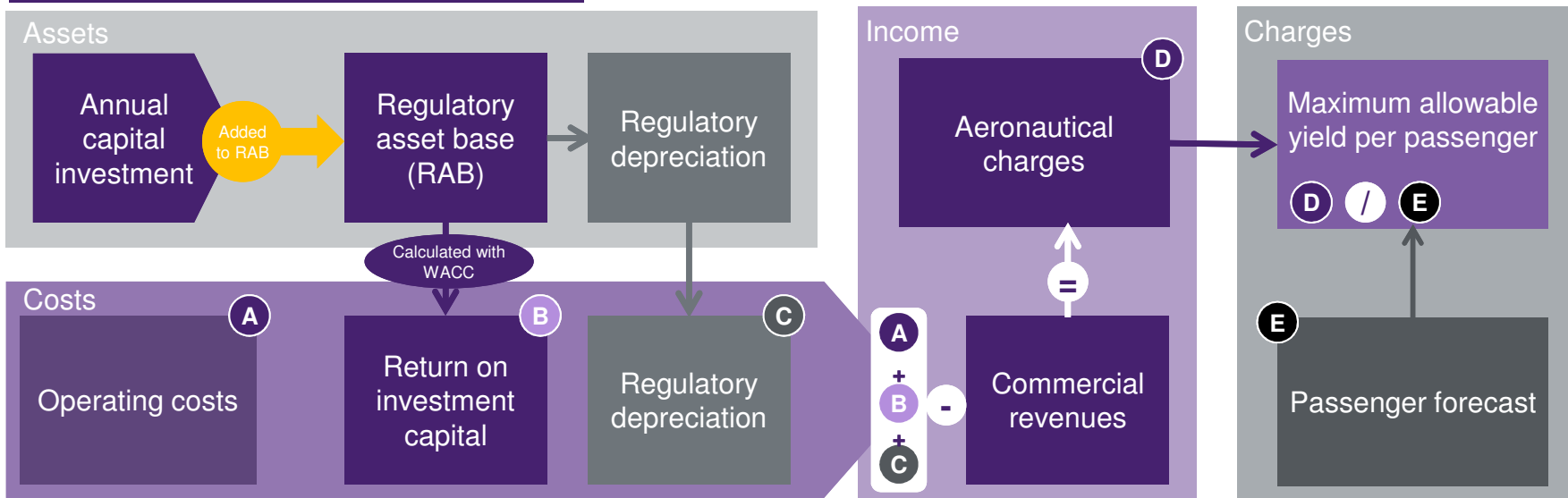
Proportion of long haul traffic (2012)



# Stable regulatory framework provides cash flow predictability

- Tariff allows recovery of cost of capital, operating costs and capital investment, net of commercial revenue under the ‘single till’ principle
- Tariff usually set every five years, providing cost and revenue predictability
  - tariff for next regulatory period starting April 2014 (‘Q6’) under consultation
- Independent regulator (Civil Aviation Authority) with role defined by UK law
- ‘RAB based’ price regulation similar to other UK regulated utilities

## Method for calculation of Heathrow tariff



# Heathrow's approach to Q6 is founded on passenger experience

## Heathrow vision

The UK's direct connection to the world and Europe's hub of choice by *making every journey better*

## Q6 business plan priorities

Deliver a noticeably better, 'hub of choice' **passenger experience**

Deliver **improved resilience** and sufficient **hub capacity**

Ensure a **competitive total cost of operation**

- CAA Initial Proposals fail to recognise risk profile of an airport and fail to incentivise right behaviours in terms of investment and quality of service
- Essentially same cost of capital as National Grid's recent RIIO settlement
- Heathrow aspires to deliver £3 billion capital plan with appropriate settlement

## Recap on evolution of Q6 proposals

(£m unless stated) (5 year aggregate) (11/12 prices)	Heathrow Full Business Plan (Jan 2013) CAGR	CAA Initial Proposal (April 2013) CAGR	Heathrow Revised Business Plan (Jun 2013) CAGR	Heathrow Alternative Business Plan (Jul 2013) CAGR
Passengers	355.2m 0.4%	358.4m 0.5%	357.8m 0.5%	<b>357.8m 0.5%</b>
Aeronautical income	8,735 6.1%	7,138 -0.9%	7,801 2.3%	<b>8,478 4.9%</b>
Non aeronautical income	4,753 1.6%	4,838 2.1%	4,583 0.8%	<b>4,618 0.9%</b>
Operating costs	5,234 -0.2%	5,017 -1.8%	5,122 -0.8%	<b>5,120 -0.8%</b>
<b>EBITDA</b>	<b>8,254 7.7%</b>	<b>6,959 1.9%</b>	<b>7,308 3.6%</b>	<b>7,977 6.4%</b>
Capital investment (£bn)	3.0 -	3.0 -	<b>2.0</b> -	<b>3.0 -</b>
Price cap per passenger p.a.	<b>RPI +5.9%</b> -	<b>RPI -1.3%</b> -	<b>RPI +2.0%</b> -	<b>RPI +4.6%</b> -
WACC (pre-tax real)	<b>7.1%</b> -	<b>5.35%</b> -	<b>6.2%</b> -	<b>6.7%</b> -

## Q6 initial proposals – financing considerations

- Heathrow mounted robust response to CAA's WACC proposals
  - cost of equity: beta and asymmetry
  - cost of debt: errors or misjudgements in determining cost of existing and new debt and cost of maintaining debt financing platform
- Concerns with CAA's 'financeability' study
  - effectively demands achieving A-/BBB+ cost of debt with BBB+/BBB ratios
  - familiarity with ratings methodologies
- CAA Initial Proposals are consultative
  - responded to CAA in June/July
  - CAA issue Final Proposal for consultation in early October 2013
  - price determination January 2014



# Heathrow hub expansion options submitted

- Heathrow is best placed for passengers, taxpayers and business
- Three options to deliver a third runway between 2025 and 2029
- Capacity up to 130m passengers and 740,000 flights per year
- £14–18 billion phased investment over c.15 years
- UK economic benefit: £100 billion present value
- Each three runway option can be expanded to add a fourth runway



# Strategy is to consolidate and develop Heathrow's leading position in the global aviation market

- Focused on developing Heathrow's position as
  - world's busiest international airport
  - Europe's hub airport of choice
  - the UK's gateway to the world
- Support and develop Heathrow's role as a global hub by
  - investing in further capacity
  - lowering airline operating costs
  - improving passenger experience and service standards
  - upgrading rail links
  - enhancing operational flexibility and resilience

# Heathrow transformation continues

- £11 billion private sector investment since 2003
- Terminal 2 remains centrepiece of current investment programme
  - £2.5 billion investment
  - 26 airlines and home for Star Alliance at Heathrow
  - significant progress: terminal and satellite weather-tight; systems fit-out underway; aircraft stands under construction
  - construction completes 19 November 2013; operations begin 4 June 2014
- Full Business Plan proposed £3 billion of investment in Heathrow in Q6
  - Terminal 2: airline moves, extra stands, phase 2
  - Terminal 3 Integrated Baggage System
  - runway and taxiway works



Roof of main Terminal 2 building

# Focus on service improvements has driven Heathrow passenger satisfaction towards top of European peer group

- Consistently improving passenger satisfaction in external surveys
  - Heathrow now close to top quartile of major European airports for overall passenger satisfaction
  - highest ever ratings in Q1 and Q2 2013
- Terminal 5 ranked best terminal in the world for last two years
- 2012 departure punctuality (78%) repeated strong 2011 (79%) performance
- Consistent baggage performance
  - Heathrow 2012 baggage misconnect rate of 15 per 1,000 passengers (2011: 15)



# Heathrow continues to see record traffic

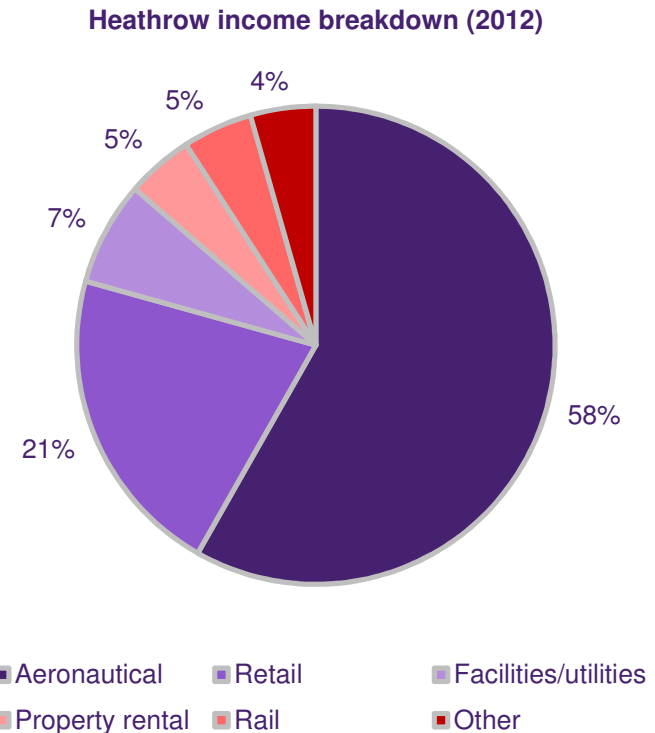
- Two consecutive years of record traffic at Heathrow
  - 69.4 million passengers in 2011 and 70.0 million passengers in 2012
- 2013 growth driven by three factors
  - larger aircraft
  - higher load factors
  - impact of Olympics in summer 2012
- British Airways acquisition of bmi driving increased European traffic
- Intercontinental traffic strong in all regions apart from Africa

## Passenger traffic performance

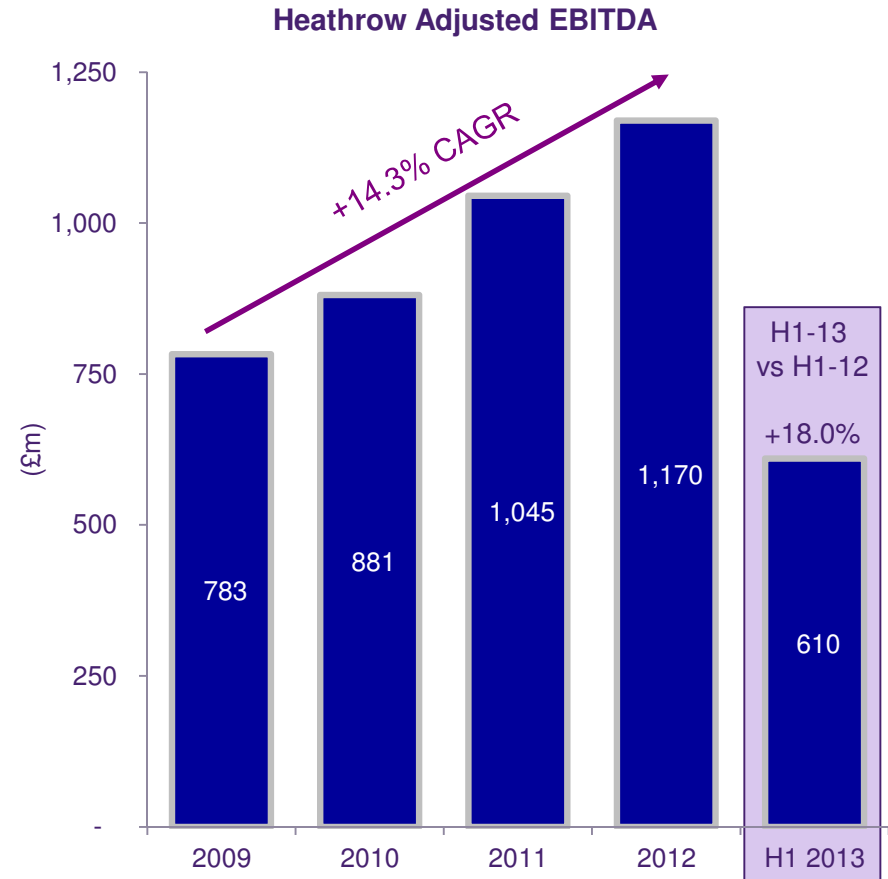
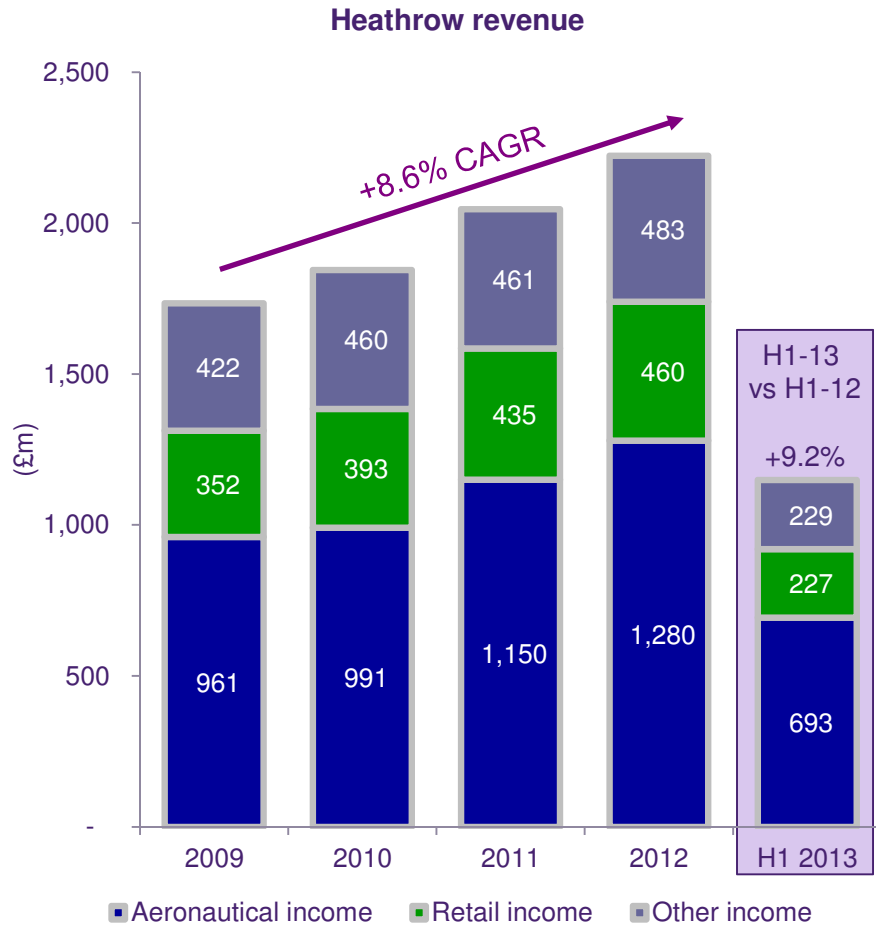
<i>Passengers (m)</i>	<b>8 months to 31 August</b>		
	<i>Market</i>	<b>2012</b>	<b>2013</b>
UK	3.1	<b>3.3</b>	+ 3.6%
Europe	19.0	<b>20.1</b>	+ 6.0%
North America	10.9	<b>11.1</b>	+ 1.6%
Asia Pacific	6.5	<b>6.9</b>	+ 5.4%
Middle East	3.7	<b>3.9</b>	+ 4.8%
Latin America and Africa	3.3	<b>3.0</b>	- 8.3%
<b>TOTAL</b>	46.6	<b>48.3</b>	<b>+ 3.6%</b>

# Diverse and growing revenue streams

- Aeronautical income charged to airlines
  - mix of departing passenger, landing and parking charges
- Retail income mainly from concessions
  - key revenue streams: duty and tax-free, airside specialist shops and car parking
  - long term success lowers tariffs
  - retail income per passenger up nearly 35% between 2008 and 2012
- Other revenues include
  - operational facilities and utilities charged to airlines and other airport users
  - property rental for use of airport premises
  - rail income from Heathrow Express (up nearly 35% between 2008 and 2012)

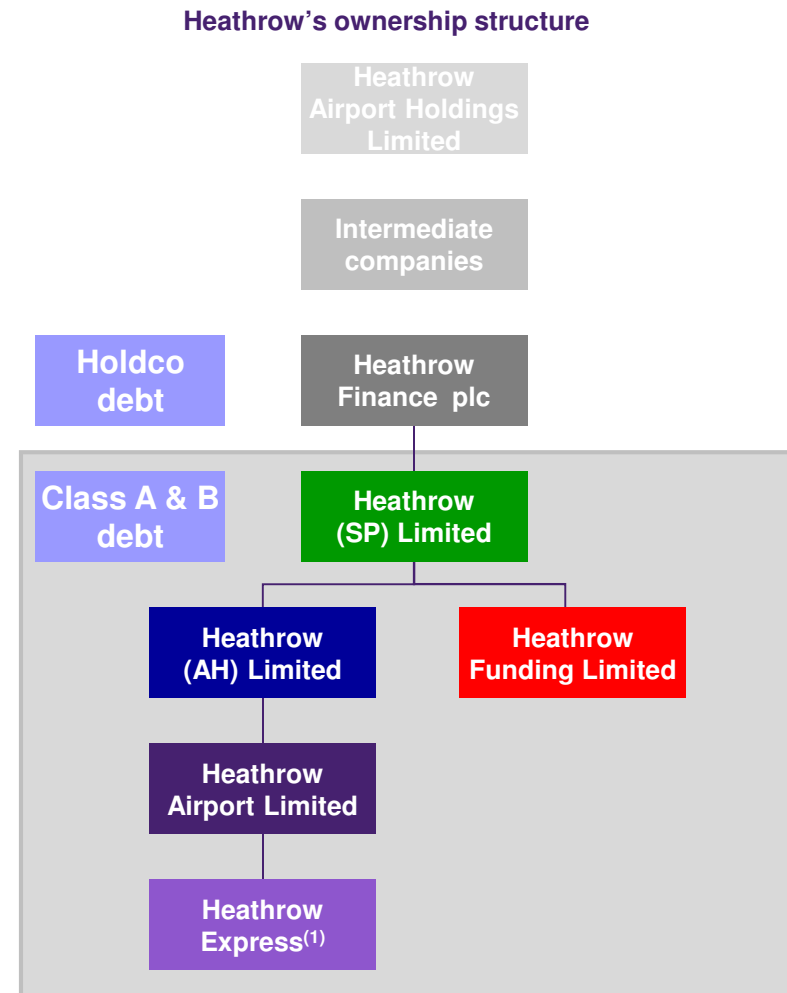


# Consistent strong revenue and Adjusted EBITDA growth



# Strong protections for Heathrow's creditors

- First ranking security
  - mortgage over Heathrow Airport freehold land, runways, terminals and other fixed assets
  - share pledge over Group companies and charge over receivables
  - bonds and loans rank pari-passu at each level of capital structure
- Operational and financial covenants and triggers (distribution lock-ups)
  - leverage and interest cover
  - minimum BBB+ rating for Class A debt
  - minimum 12 months liquidity
  - restrictions on business activities, acquisitions and disposals
- Significant additional liquidity support
- Minimum hedging requirement



Notes  
 (1) Heathrow Express Operating Company Limited



# Transformation in financing position

	December 2010		June 2013	Change
Average life of debt	7.8 years	→	9.5 years	+1.7 years
Debt due within 3 years	£3.8 billion	→	£2.1 billion	-£1.7bn
Bond proportion of total debt	64%	→	95%	+31pp
Liquidity horizon	12 months	→	23 months	+92%
Bond issue currencies	2	→	5	+3
Foreign currency bonds	£2.1bn (32%)	→	£3.6bn (35%)	+£1.5bn

## Robust and improved financial ratios

Gearing ratios (RAR)					
	Trigger / covenant levels	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Heathrow (SP) Senior RAR	70.0%	68.8%	68.0%	66.2%	<b>67.5%</b>
Heathrow (SP) Junior RAR	85.0%	77.7%	75.4%	76.7%	<b>77.7%</b>
<b>Heathrow Finance RAR</b>	<b>90.0%</b>	81.4%	79.4%	81.6%	<b>82.9%</b>

Gearing ratios (Net debt/Adjusted EBITDA)					
		31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Heathrow (SP) Senior gearing		9.1x	8.3x	7.8x	<b>7.5x</b>
Heathrow (SP) Junior gearing		10.3x	9.2x	9.0x	<b>8.6x</b>
<b>Heathrow Finance gearing</b>		10.8x	9.7x	9.6x	<b>9.2x</b>

Interest Cover Ratios (ICR)					
	Trigger / covenant levels	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Heathrow (SP) Senior ICR	1.40x	2.08x	2.76x	2.62x	<b>2.82x</b>
Heathrow (SP) Junior ICR	1.20x	1.85x	2.34x	2.30x	<b>2.22x</b>
<b>Heathrow Finance ICR</b>	<b>1.00x</b>	1.55x	2.17x	2.08x	<b>2.03x</b>

# Key future financing themes

- Average annual financing requirement declining to less than £1.5 billion
  - completed refinancing of loan facilities
  - expected reduction in capital programme
  - expected continued growth in operating cash flows
- Liquidity until mid-2015
  - supported by receipt of Stansted sale proceeds and recently refinanced revolving credit facilities
  - sufficient to fund capital investment, debt maturities, interest and distributions
- Optimise use of established long term financing platform
  - continue to consider issuance in different currency markets
  - continue to issue across different levels in the capital structure

## A closer look at Heathrow Finance's debt financing

- Heathrow Finance's financing platform currently supports >£750 million in bonds (£600 million) and loans (£163 million)
- Continue raising bond and loan financing at Heathrow Finance over time
- Debt service funded from Heathrow (SP) distributions
- Heathrow (SP) prevented from agreeing tighter distribution restrictions
- Pledge over Heathrow (SP) shares
- Cross-acceleration with Heathrow (SP) debt
- Benefit of extensive suite of Heathrow (SP) covenants
- £400 million 'liquidity buffer' through differential Class B leverage triggers at Heathrow (SP) and Heathrow Finance
- Heathrow Finance's previous £1.6 billion debt comfortably serviced through worst downturn since advent of civil aviation industry

# Investment highlights

- Stability and resilience of world's leading international hub airport
  - 7 of top 10 intercontinental long haul routes
  - number 1 airport globally for international passengers
- Resilient and growing cash flow post debt service underpinned by stable independent regulatory environment
  - regular tariff resets protect against revenue and cost volatility
- Strong security package for creditors
- Continued improvement in operational performance
- Capital investment to enhance competitive position

# Questions?

# Notes and defined terms

- Page 2
  - Source: Airports Council International : 2012 World Airport Traffic and Rankings (March 2013)
  - Top 10 intercontinental routes involving Heathrow sourced from OAG based available seats on non stop flights over 2,800 nautical miles for week commencing 25 June 2012
  - Proportion of UK scheduled long haul traffic derived from CAA data for year ended 31 December 2011
- Page 4
  - Alliance proportions measured in Air Transport Movements (ATMs) sourced from OAG. **oneworld** data annualised to reflect IAG acquisition of bmi in April 2012.
  - Proportion of long haul traffic, source: company websites
- Page 7
  - Financial data in all scenarios in 2011/12 prices in line with regulatory submissions
  - CAGR in Full Business Plan and CAA Initial Proposals based on 2013/14 forecasts at January 2013. CAGR in Revised Business Plan and Alternative Business Plan based on 2013/14 forecasts at June 2013
  - Weighted average cost of capital is pre-tax and real
  - Revised Business Plan modelled on Q5 WACC of 6.2% as prescribed by CAA
- Page 12
  - Source of data in chart: Quarterly Airport Service Quality surveys by Airports Council International. Survey scores can range between 0 and 5 with 5 the best possible score
  - Terminal 5 voted best airport terminal in the world in 2012 and 2013 SKYTRAX World Airport Awards
- Page 13
  - Totals and percentage change calculated using un-rounded passenger numbers
- Page 14
  - 2012 revenue: Heathrow only, excludes Stansted
- Page 15
  - Historical revenue and adjusted EBITDA: Heathrow only, excludes Gatwick and Stansted
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
- Page 17
  - Figures are in respect of Heathrow Finance plc external nominal debt
  - Bond proportion of total debt is proportion of gross debt excluding index-linked derivative accretion
  - Proportion of foreign currency bonds is as a proportion of total bond nominal debt
- Page 18
  - Gearing ratio or RAR is the ratio of nominal net debt (including index-linked accretion) to RAB. Net debt at 31 December 2009 excludes £143 million restricted cash from the Gatwick disposal held to meet potential pension payments
  - Interest cover ratio or ICR is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid
  - Forecast figures for 2013 taken from investor report issued on 27 June 2013

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# Heathrow

*Making every journey better*