



Heathrow (SP) Limited

Results for year ended 31 December 2016

24 February 2017

Heathrow
Making every journey better



2016 highlights

2016 – A milestone year for Heathrow

1

Operational highlights

- Record service standards complement strong operational performance
- Once again Skytrax best Airport in Western Europe
- 75.7 million passengers, sixth successive record year

2

Financial performance

- Revenue of £2,807 million, up 1.5% and Adjusted EBITDA of £1,682 million, up 4.8%
- Strong cost control and better value
- £1.6 billion raised globally in 2016

3

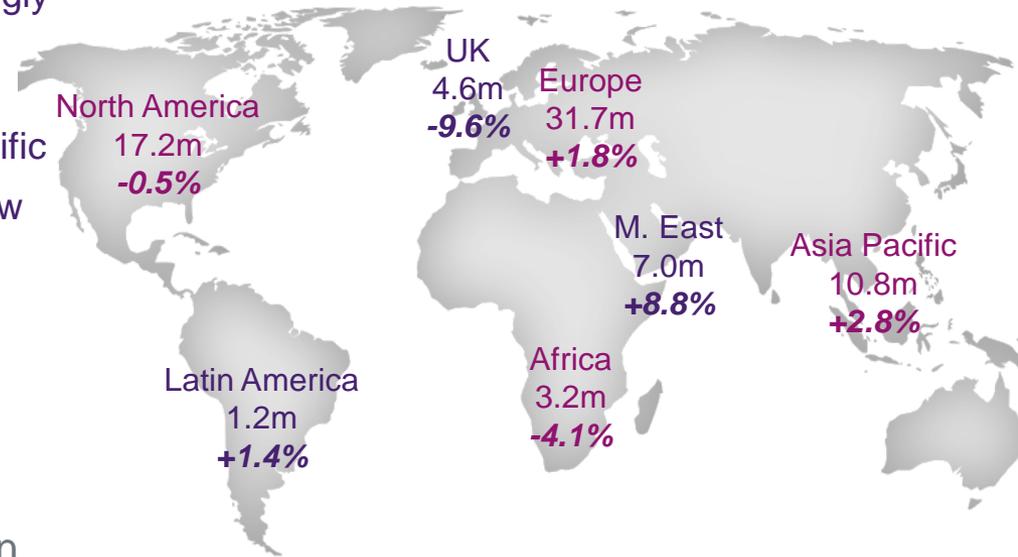
Strategic aims

- Raising service standards and operational resilience
- Focusing on further cost efficiency and revenue development
- Secured government support for expansion

Demand to use Heathrow continues to grow

- 2016: another year of record traffic
 - traffic increased early in year, softened either side of EU referendum and ended year strongly
- Long haul traffic key growth driver
 - up 1.7% driven by Middle East and Asia Pacific
 - Middle East up 8.8% on more A380s and new services
 - Asia Pacific up 2.8% on growth in existing markets and new Indonesian services
 - North American demand reflects geopolitical and macro-economic factors
- Short haul marginally up with increases in continental Europe offset by lower domestic traffic as Virgin Little Red services ended
- Cargo volume increased 3.0%, mainly due to Hong Kong, China and Vietnam

Passenger traffic by market
2016 versus 2015

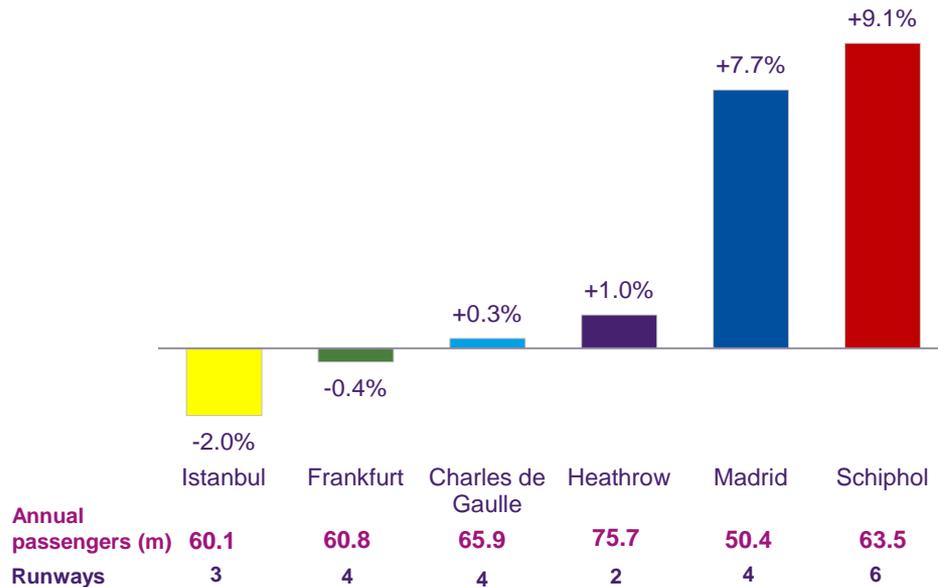


75.7 million passengers
+1.0%

Heathrow's resilience re-emerges in an uncertain environment

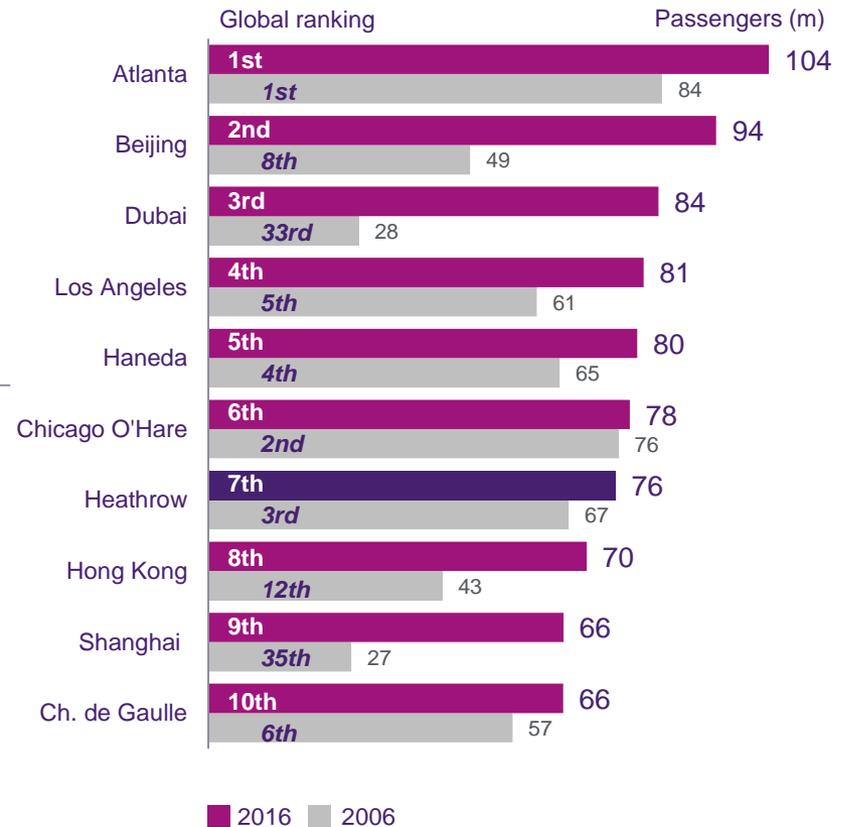
Passenger traffic at European hubs

Year on year growth in traffic for 12 months to 31 December 2016



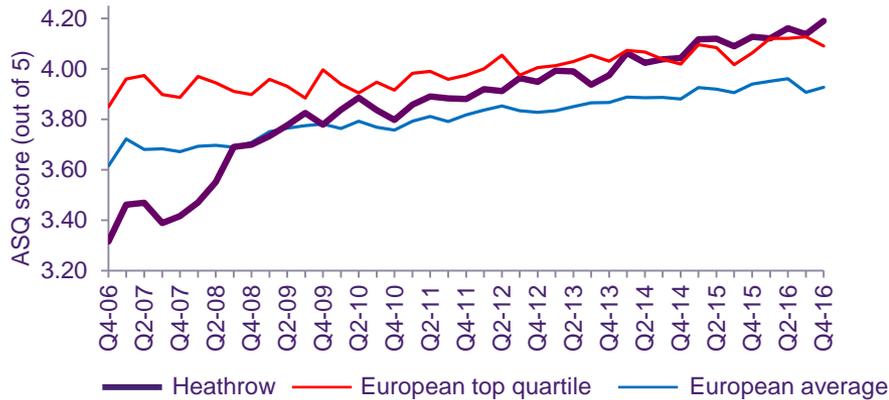
Top 10 busiest global airports

2016 versus 2006



Record service standards complemented by robust operations

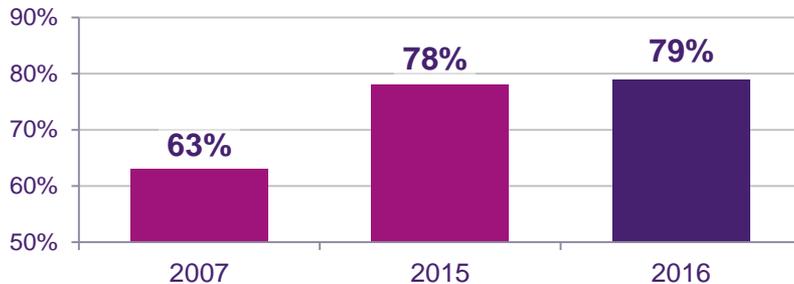
Quarterly passenger satisfaction
Q4 2006 – Q4 2016



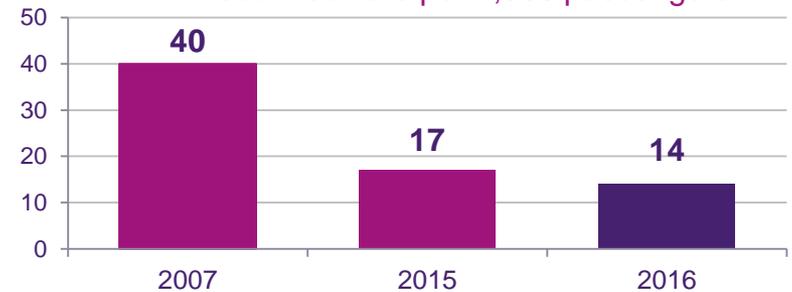
Passenger satisfaction European ranking
Q4 2016



Departures
within 15 minutes of schedule



Baggage performance
misconnect rate per 1,000 passengers



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



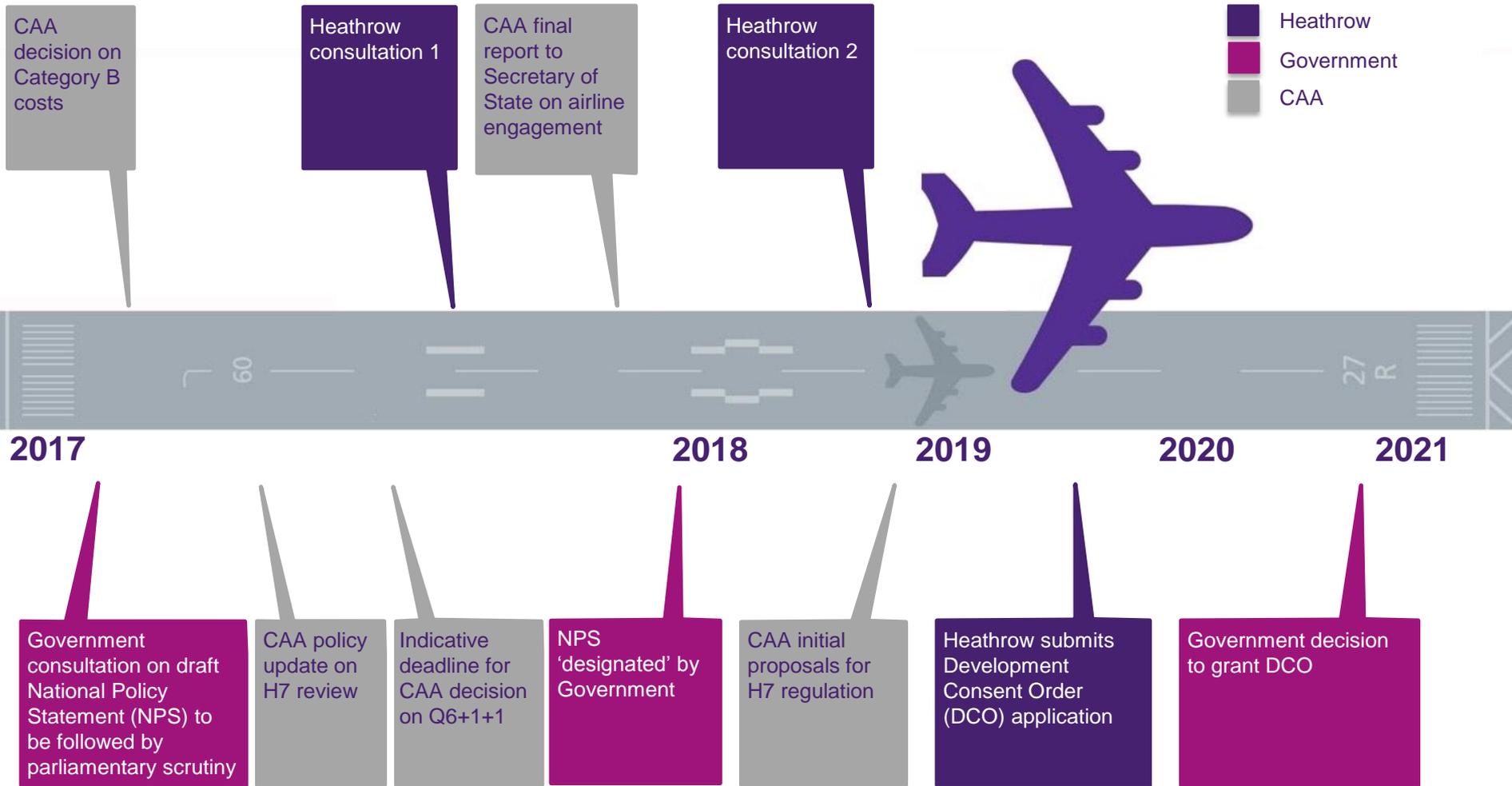
Best Airport in Western Europe
World's Best Airport Shopping
Terminal 5 – World's Best Airport Terminal
World's Best Independent Airport Lounge

Heathrow expansion

- Government support confirmed in October 2016
- Expansion programme moves into delivery mode
 - draft National Policy Statement aligned with Heathrow and Airports Commission proposals
 - engagement stepped up with airlines/local communities
 - Skills Taskforce and supply chain mobilisation
 - scope to increase capacity and reduce noise from 2021
- Affordability and financeability at heart of scheme
 - transformational for passengers, airlines and Heathrow
 - obtaining planning consent estimated to cost £250-300m
- Confident of delivering for the UK
 - overwhelming support of multiple stakeholders
 - track record of major project delivery (e.g. Terminal 5)
 - high quality, committed shareholder base
 - very strong global access to debt capital



Heathrow expansion – indicative next steps





Financial review

Financial highlights

| (£ million) | 2016 | 2015 | Versus 2015 |
|-------------------------------|---------------|----------|-----------------------|
| Revenue | 2,807 | 2,765 | +1.5% |
| Operating costs ¹ | 1,125 | 1,160 | -3.0% |
| Adjusted EBITDA ¹ | 1,682 | 1,605 | +4.8% |
| Capital expenditure | 674 | 627 | +7.5% |
| | Dec 2016 | Dec 2015 | Change from 31 Dec 15 |
| Consolidated nominal net debt | | | |
| Heathrow (SP) | 11,908 | 11,745 | +1.4% |
| Heathrow Finance | 13,005 | 12,670 | +2.6% |
| RAB | 15,237 | 14,921 | +2.1% |

Revenues driven by continued strong retail growth

- Flat aeronautical revenue
 - +ve: traffic growth; revenue concentration
 - -ve: lower tariff (RPI-1.5% formula); non-recurrence of K factor boost in 2015; lower capital expenditure
- Acceleration in retail income growth
 - strongest growth in recent years
 - sterling depreciation boosted H2, particularly duty and tax-free and airside specialist shops
 - T5 luxury retail redevelopment continues to deliver growth; similar initiative just completed in T4
 - car parking continues to grow
 - delivered over £200 million of £300 million Q6 incremental revenue target

Analysis of revenue (£m)

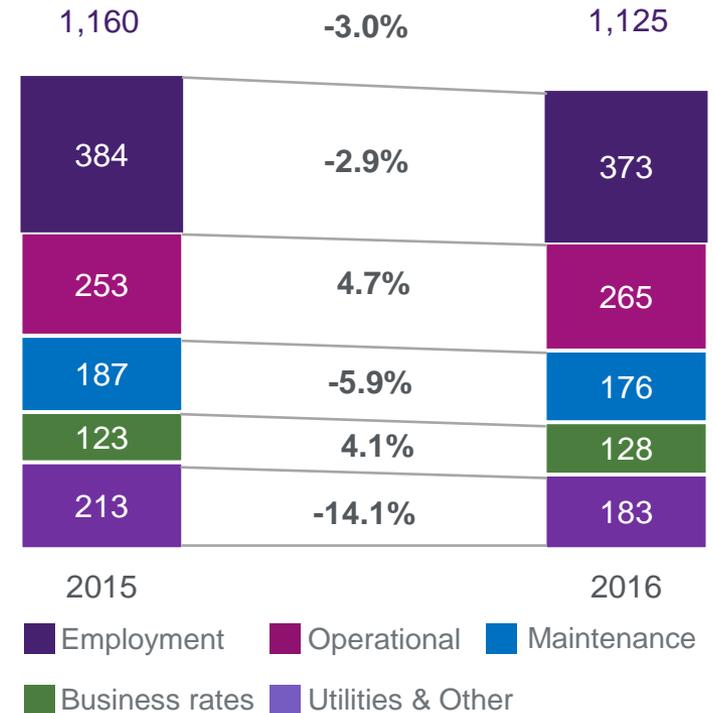


| Per passenger (£) | 2015 | 2016 | Change |
|----------------------|-------|--------------|--------|
| Aeronautical revenue | 22.67 | 22.45 | -1.0% |
| Retail revenue | 7.58 | 8.09 | 6.7% |

Benefits of cost efficiencies continue to flow through

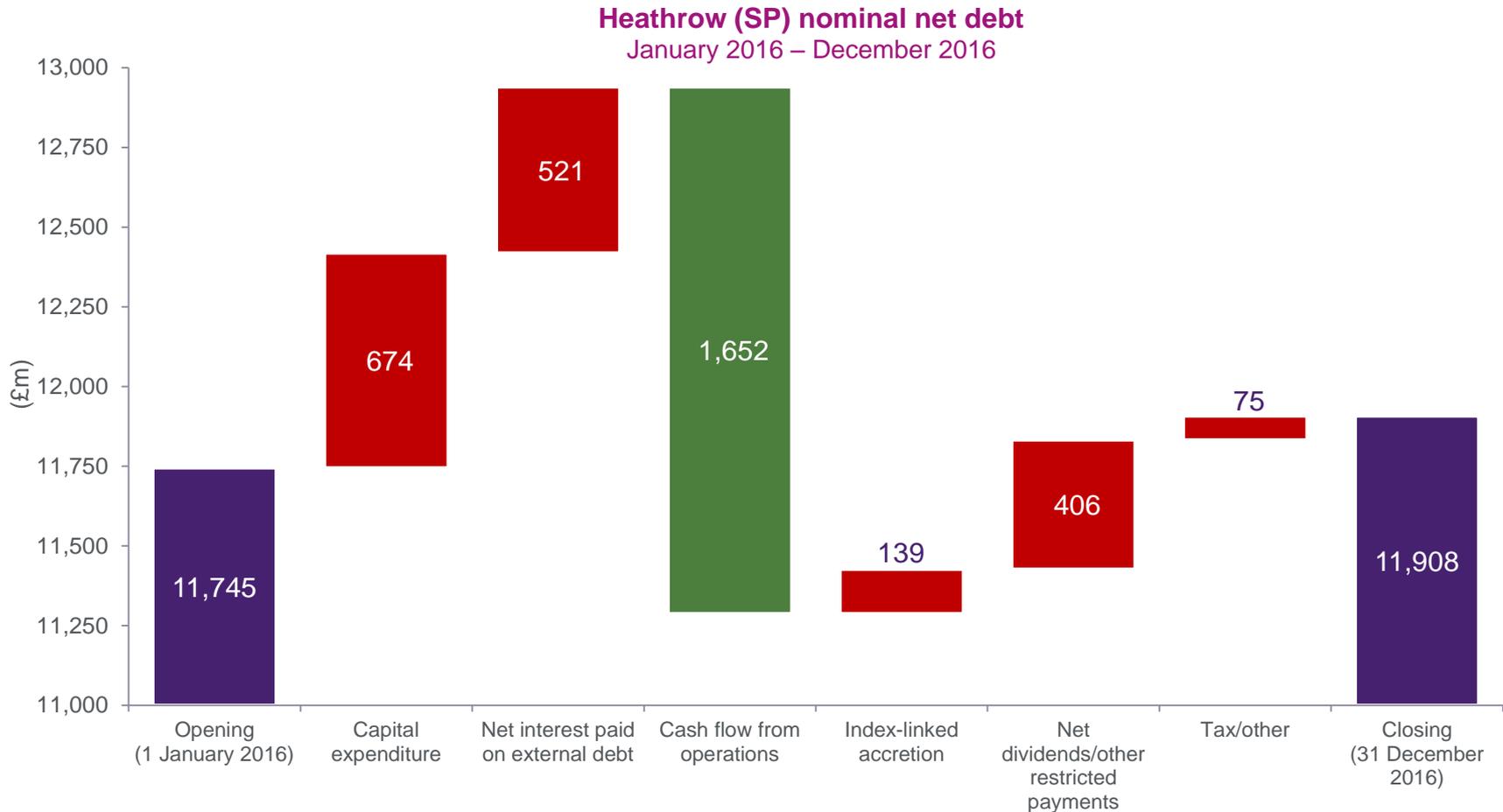
- ~4% lower operating cost per passenger
 - benefits from lower headcount and increased productivity
 - defined benefit pension scheme changes
 - utilities saving from re-negotiated contract and energy demand management
 - other re-negotiated contracts
- Increased investment in resilience and training driving lower service quality rebates
- On track to deliver £600 million Q6 efficiency target
 - further organisational change being implemented to drive towards final target

Analysis of operating costs (£m)



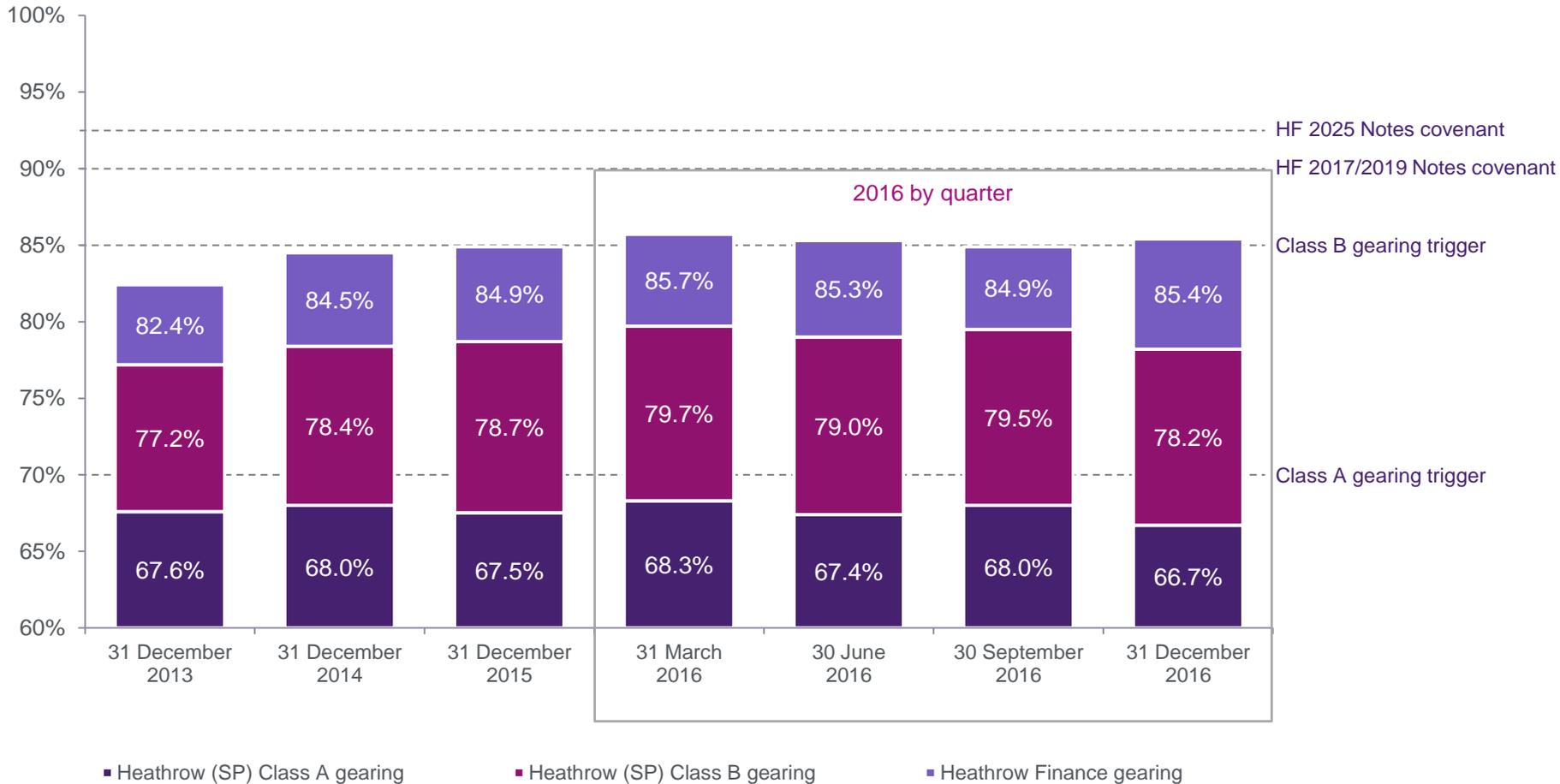
| Per passenger (£) | 2015 | 2016 | Change |
|-------------------|-------|--------------|--------|
| Operating costs | 15.48 | 14.87 | -3.9% |

Operating cash flow significantly exceeds capital expenditure and interest payments



Substantial gearing headroom retained

Evolution of gearing ratios



Continued success in raising debt on attractive terms from diverse sources

- Approximately £1.6 billion of debt financing raised globally in 2016
 - over £650 million raised in public markets; ~£180 million in private placement markets
 - first corporate issuer in £ bond market following EU referendum
 - £350 million Heathrow Finance 7-12 year loan facilities agreed with £200 million to be drawn in 2017
 - £350 million 3.75 year Class A term loan agreed with 5 banks with flexibility to draw until March 2017
 - successfully pre-financed £1.1 billion of maturities falling in Q1 2017
- Cancelled nearly £400 million in facilities to improve financing efficiency
- Liquidity horizon extended from June 2017 to December 2018
- Average life of debt standing at 12.2 years at the end of 2016
- Currently expecting to raise no more than £750 million in class A debt in 2017

Outlook

- Early weeks of 2017 characterised by stronger than expected traffic volumes
- Forecast Adjusted EBITDA remains consistent with December 2016 investor report's guidance at £1,660 million



Strategic update

Giving passengers the best airport service in the world

1

Mojo

Delivered

- ✓ 78% of colleagues say Heathrow is a great place to work
- ✓ Diversity strategy and 5 networks launched
- ✓ 327 colleagues internally promoted in 2016

To come

- Sunday Times Best Companies - top 30 major company
- Heathrow Careers Fair
- Midnight Marathon
- Front line manager development

2

Transform customer service

- ✓ Record 4.19 ASQ score, retaining position as top European Hub Airport
- ✓ 1st Hong Kong airport exchange

- Heathrow service proposition
- New, 'high care' passenger service
- Autism and dementia – customer focus guide and training
- Terminal 5 first class lounge access

3

Beat the plan

- ✓ Current regulatory period extended 1 year
- ✓ First 2 months: >3k Go-Heathrow bookings
- ✓ >100m people viewed Christmas advert
- ✓ New Harry Potter store - ~50% higher footfall than comparable Terminal 5 shops

- Savings from new business model
- Food and beverage pre-order App
- Domestic and US seat sale campaigns
- Retail fit-out of Terminal 3 transfer facility

4

Sustainable growth

- ✓ Government says 'yes' to expansion
- ✓ 74% MPs support expansion
- ✓ Programme team established
- ✓ Skills Task Force sits, setting strategy and plans
- ✓ 204,000 people engaged via Guardian sustainability business partnership

- Government consultation on draft NPS
- Airline first phase consultation
- Environmental audits continue
- Sustainable Strategy launch

Questions?



Appendices

Heathrow nominal net debt at 31 December 2016

| Heathrow (SP) Limited | Amount | Available | Maturity |
|--------------------------------------|---------------|---------------|----------|
| Senior debt | (£m) | (£m) | |
| €700m 4.375% | 584 | 584 | 2017 |
| CHF400m 2.5% | 272 | 272 | 2017 |
| €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% | 199 | 199 | 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% | 79 | 79 | 2032 |
| €50m Zero Coupon | 42 | 42 | 2032 |
| £50m 4.171% | 50 | 50 | 2034 |
| €50m Zero Coupon | 40 | 40 | 2034 |
| £50m RPI +1.382% | 53 | 53 | 2039 |
| £460m RPI +3.334% | 566 | 566 | 2039 |
| £100m RPI +1.238% | 104 | 104 | 2040 |
| £750m 5.875% | 750 | 750 | 2041 |
| £750m 4.625% | 750 | 750 | 2046 |
| £75m RPI +1.372% | 79 | 79 | 2049 |
| £400m 2.75% | 400 | 400 | 2049 |
| Total senior bonds | 10,211 | 10,211 | |
| Term debt | 438 | 788 | Various |
| Index-linked derivative accretion | 179 | 179 | Various |
| Revolving/working capital facilities | 0 | 900 | 2021 |
| Total other senior debt | 617 | 1,867 | |
| Total senior debt | 10,828 | 12,078 | |
| Heathrow (SP) Limited cash | (660) | | |
| Senior net debt | 10,168 | | |

| 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% | 185 | 185 | 2036 |
| Total junior bonds | 1,740 | 1,740 | |
| Junior revolving credit facilities | 0 | 250 | 2021 |
| Total junior debt | 1,740 | 1,990 | |
| Heathrow (SP) Limited group net debt | 11,908 | | |

| Heathrow Finance plc | Amount | Available | Maturity |
|--|--------------|--------------|----------|
| | (£m) | (£m) | |
| £325m 7.125% | 265 | 265 | 2017 |
| £275m 5.375% | 263 | 263 | 2019 |
| £250m 5.75% | 250 | 250 | 2025 |
| Total bonds | 778 | 778 | |
| £75m | 75 | 75 | 2020 |
| £50m | 50 | 50 | 2022 |
| £50m | 50 | 50 | 2025 |
| £150m | 150 | 150 | 2028 |
| Total loans | 325 | 325 | |
| Total Heathrow Finance plc debt | 1,103 | 1,103 | |
| Heathrow Finance plc cash | (6) | | |
| Heathrow Finance plc net debt | 1,097 | | |

| Heathrow Finance plc group | Amount | Available |
|--|---------------|---------------|
| | (£m) | (£m) |
| Heathrow (SP) Limited senior debt | 10,828 | 12,078 |
| Heathrow (SP) Limited junior debt | 1,740 | 1,990 |
| Heathrow Finance plc debt | 1,103 | 1,103 |
| Heathrow Finance plc group debt | 13,671 | 15,171 |
| Heathrow Finance plc group cash | (666) | |
| Heathrow Finance plc group net debt | 13,005 | |

Notes, sources and defined terms

Page 3

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

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- Sources: airport websites and ACI annual traffic data

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
- For the year ended 31 December 2015, £11 million of costs previously included under 'Other' have been re-classified into 'Operational' to be consistent with current year disclosure

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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
- Net dividends/other restricted payments include dividends and interest payments on the debenture between Heathrow (SP) and Heathrow Finance offset by any cash injections from Heathrow Finance into Heathrow (SP)
- Flows included in 'Tax/other' include group relief receipts, external tax payments, fees paid in relation to bond issues, discounts on bonds issued, proceeds from swap restructuring and movements in group deposits

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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 2017 Notes and 2019 Notes applies as long as these notes remain outstanding

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- Average life of debt across Heathrow (SP) Limited group pro forma for inclusion of delayed drawdowns and Q1 2017 bond maturities

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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

Making every journey better