



# Heathrow (SP) Limited

## Results for six months ended 30 June 2018

24 July 2018

**Heathrow**  
Making every journey better



# H1 2018 highlights

# Strong start to 2018

## 1 Operational highlights

1

- Strong service standards while welcoming record passengers numbers
- Skytrax best airport in Western Europe for 4th consecutive year
- Record 38.1 million passengers, up 2.5%

## 2 Financial performance

2

- Revenue up 2.3% to £1,405 million; Adjusted EBITDA up 1.6% to £848 million
- Cost control and better value for passengers
- Close to £1 billion raised globally bringing on board new investors

## 3 Strategic priorities

3

- Raising service standards and operational resilience
- Focusing on further cost efficiencies and incremental revenue
- Overwhelming parliamentary support clears path for delivery of expansion



## Business highlights

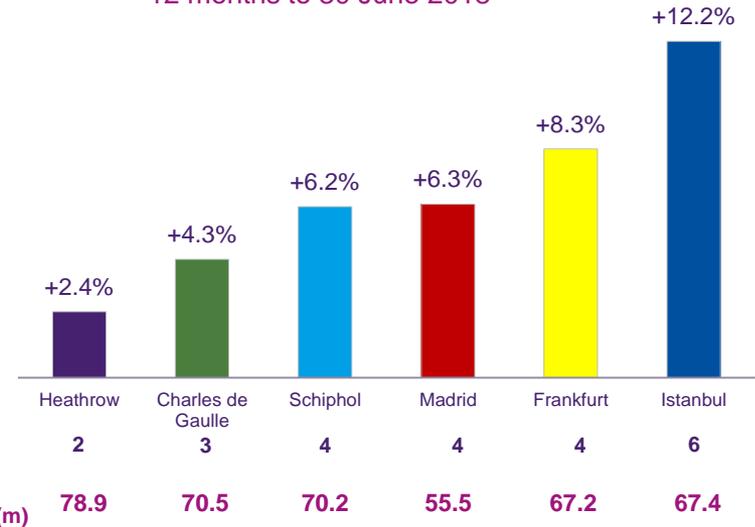
# Record 38.1 million passengers

## Passenger traffic by market – 2018 vs. 2017



## Passenger traffic at European hubs

Year on year growth in traffic for 12 months to 30 June 2018



	H1 2017	H1 2018
Passengers ATM	230,983	<b>232,203</b>
Seats per ATM	212.1	<b>213.3</b>
Load factors (%)	75.8	<b>76.9</b>
Cargo tonnage ('000)	823	<b>841</b>

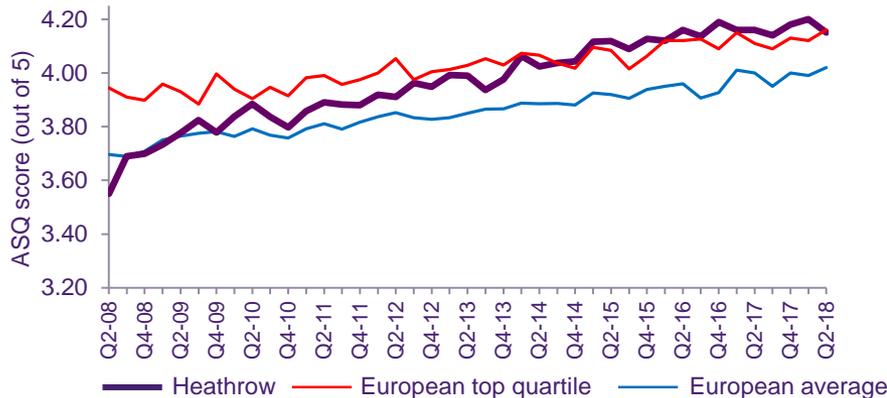
	H1 2017	H1 2018
Long-haul traffic growth	4.7%	<b>2.5%</b>
Short-haul traffic growth	3.0%	<b>2.6%</b>

- New routes
-  Qantas: direct flight to Perth
  -  Hainan: services to Changsha
  -  China Southern: services to Sanya
  -  Tianjin: services to Xi'an

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Making every journey better

# Strong service standards complemented by robust operations

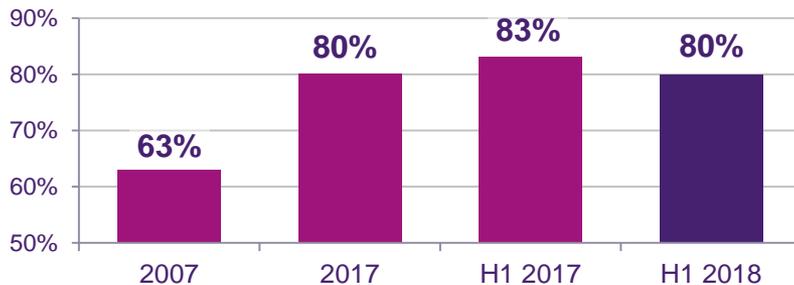
**Quarterly passenger satisfaction**  
Q2 2008 – Q2 2018



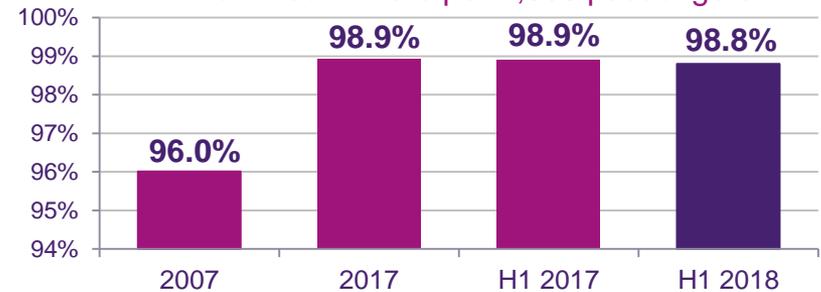
**Passenger satisfaction European ranking**  
Q2 2018



**Departures**  
within 15 minutes of schedule



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



**Terminal 2 - World's Best Airport Terminal**  
**Best Airport in Western Europe**  
**World's Best Airport Shopping**

**Heathrow**

Making every journey better

# Additional investment to create global top service experience

## Terminal 3 - Regus Express Business Lounge



## Automation across passenger journey



## Contactless payment rail facilities



## New Terminal 3 Flight Connections Centre



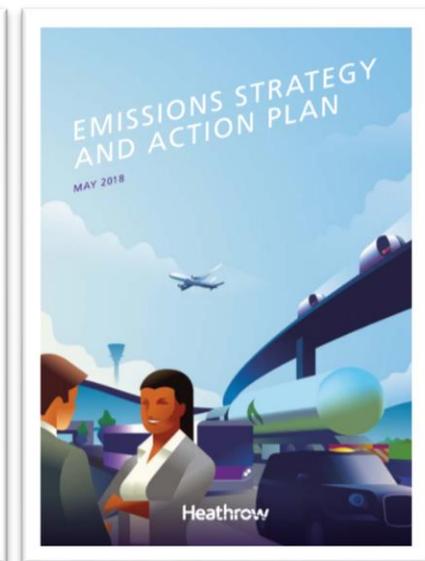
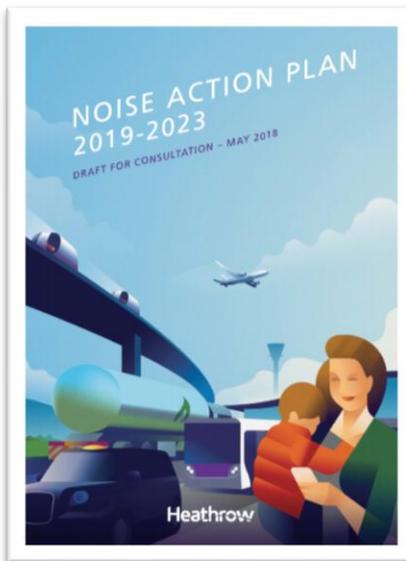
# Progressing on all Heathrow 2.0 flagship goals

A GREAT  
PLACE  
TO WORK

A GREAT  
PLACE  
TO LIVE

A THRIVING  
SUSTAINABLE  
ECONOMY

A WORLD  
WORTH  
TRAVELLING



# Heathrow expansion on track

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

Heathrow consultation 1 launched

CAA consultation and final report to Secretary of State on airline engagement

Completed To come

Heathrow		
Government		
CAA		



2017

2018

2019

2020

2021

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

NPS 'designated' by Government

Heathrow Innovation Partners short list

Heathrow consultation 2

Heathrow Initial Business Plan ('IBP')

Heathrow submits Development Consent Order (DCO) application

Government decision to grant DCO

# Delivering a sustainable, affordable & financeable expanded Heathrow

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## SUSTAINABLE

- Carbon neutral growth
- Incentives for cleaner, quieter aircraft; 6.5 hour ban on scheduled night flights
- Pioneering offsite manufacturing with Logistics Hubs
- No additional airport related traffic
- Skills Taskforce

## AFFORDABLE

- Charges to remain close to October 2016 levels in real terms
- £2.5bn of cost reduction identified
- Over 100 expressions of interest from Innovation Partners
- Preferred masterplan consultation set for 2019

## FINANCEABLE

- Entirely privately funded through mix of debt and equity
- Commitment to maintain current investment grade credit ratings
- ~ £1bn raised in 2018 providing strong foundations for expansion
- Stable regulatory environment; opportunity for alternative commercial arrangements with airlines



## Financial review

# Financial highlights

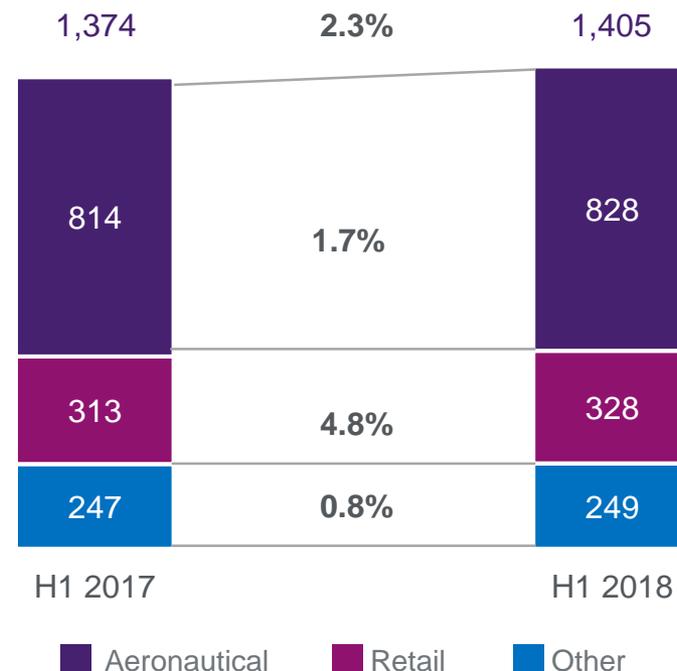
(£ million)	H1 2017	H1 2018	Versus H1 2017
Revenue	1,374	<b>1,405</b>	<b>2.3</b>
Operating costs	539	<b>557</b>	<b>3.3</b>
Adjusted EBITDA	835	<b>848</b>	<b>1.6</b>
Capital expenditure	318	<b>354</b>	<b>11.3</b>

	Dec 2017	Jun 2018	Change from 31 Dec 17
Consolidated nominal net debt			
Heathrow (SP)	12,372	<b>12,453</b>	<b>0.7</b>
Heathrow Finance	13,674	<b>13,749</b>	<b>0.5</b>
RAB	15,786	<b>15,952</b>	<b>1.1</b>

# Record traffic and continued retail growth drive revenue up

- Aeronautical: delivering better value to passengers
  - up: strong traffic growth
  - down: recoverable yield dilution
- Retail: continued momentum despite sterling appreciation
  - digital initiatives and luxury proposition drive retail concessions performance
  - catering upside from outlets redevelopment
  - advertising income drive other retail up
- Modest growth in other revenue
  - higher utility consumption drive ORCs up
  - Heathrow Express passenger volume softens with arrival of TfL trains

## Analysis of revenue (£m)

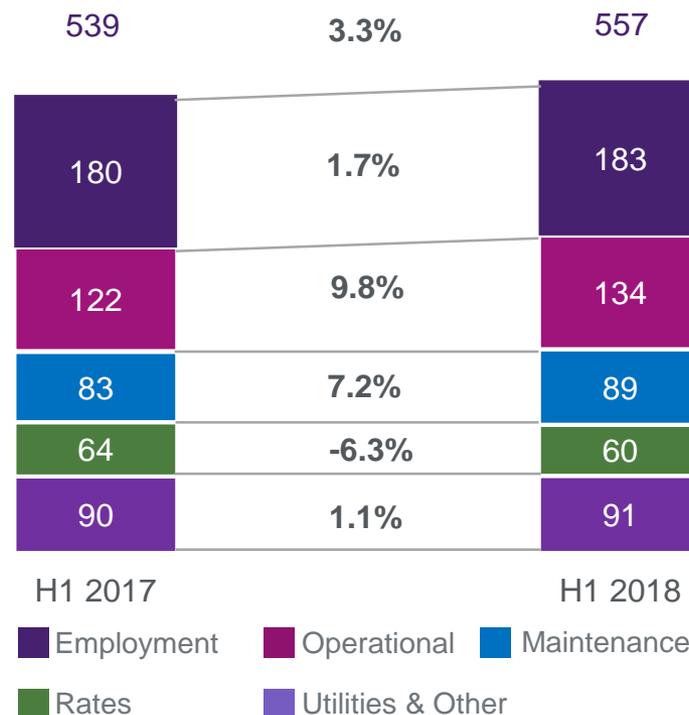


Per passenger (£)	H1 2017	H1 2018	Change
Aeronautical revenue	21.92	<b>21.75</b>	-0.8%
Retail revenue	8.43	<b>8.62</b>	2.2%

# Strong cost control without compromising passenger experience

- Increased investment in resilience, security, passenger experience and expansion
  - people costs up 1.7% on higher resilience costs and pension charges
  - higher expansion, security and accessibility costs drive operational up 9.8%
  - over £5m winter resilience costs impact maintenance and other costs
  - business rates lower after rates review
  - utilities up due to wintry weather
- Efficiencies broadly offset by additional pressure from record traffic and inflation
- Operating costs per passenger continue declining in real terms

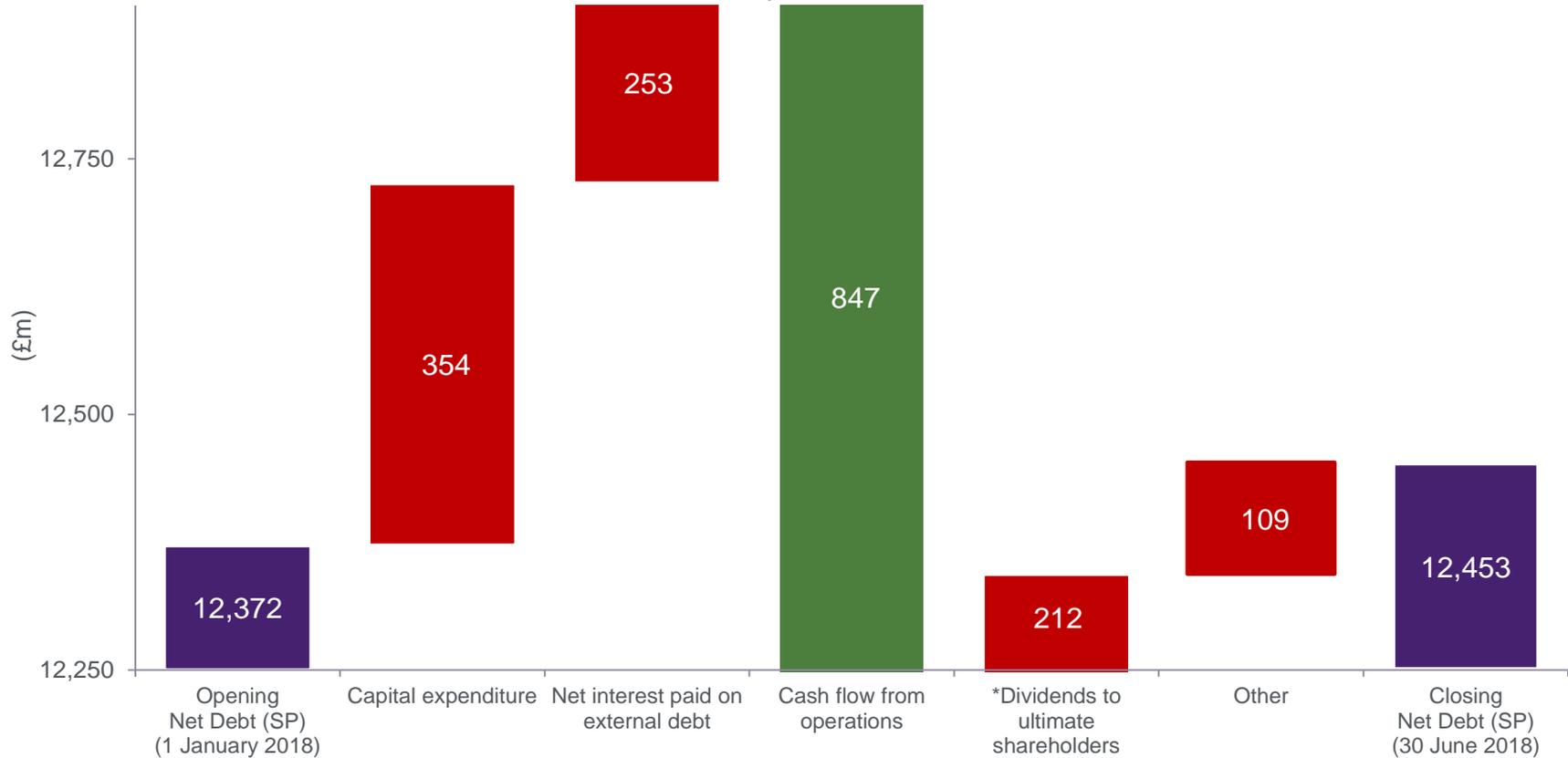
Analysis of operating costs (£m)



Per passenger (£)	H1 2017	H1 2018	Change
Operating costs	14.52	<b>14.63</b>	0.8%

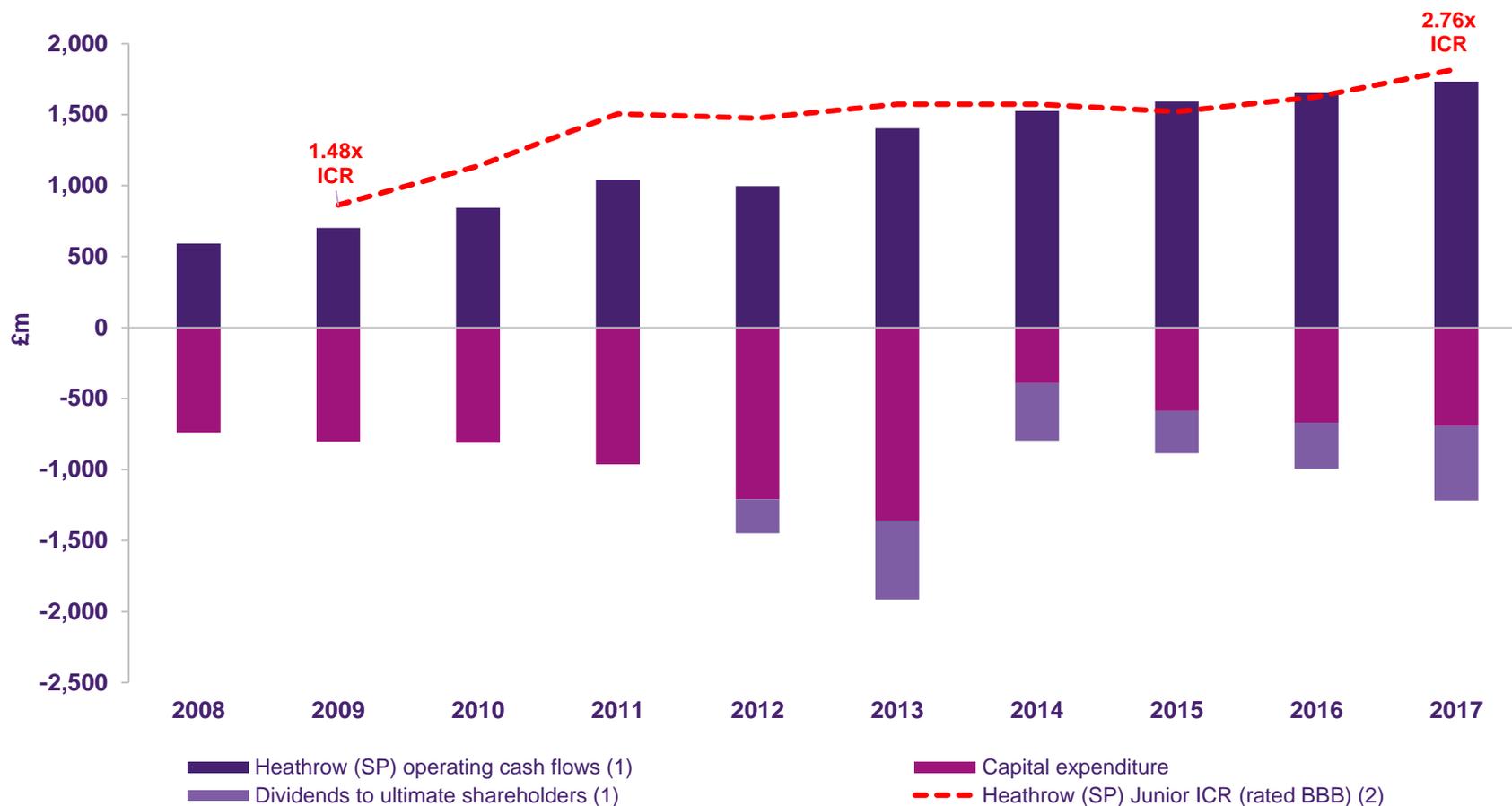
# Strong operating cash flow exceeds capital expenditure and interest payments

**Heathrow (SP) nominal net debt**  
January 2018 – June 2018



\*Funded majority of £228 million to ultimate shareholders

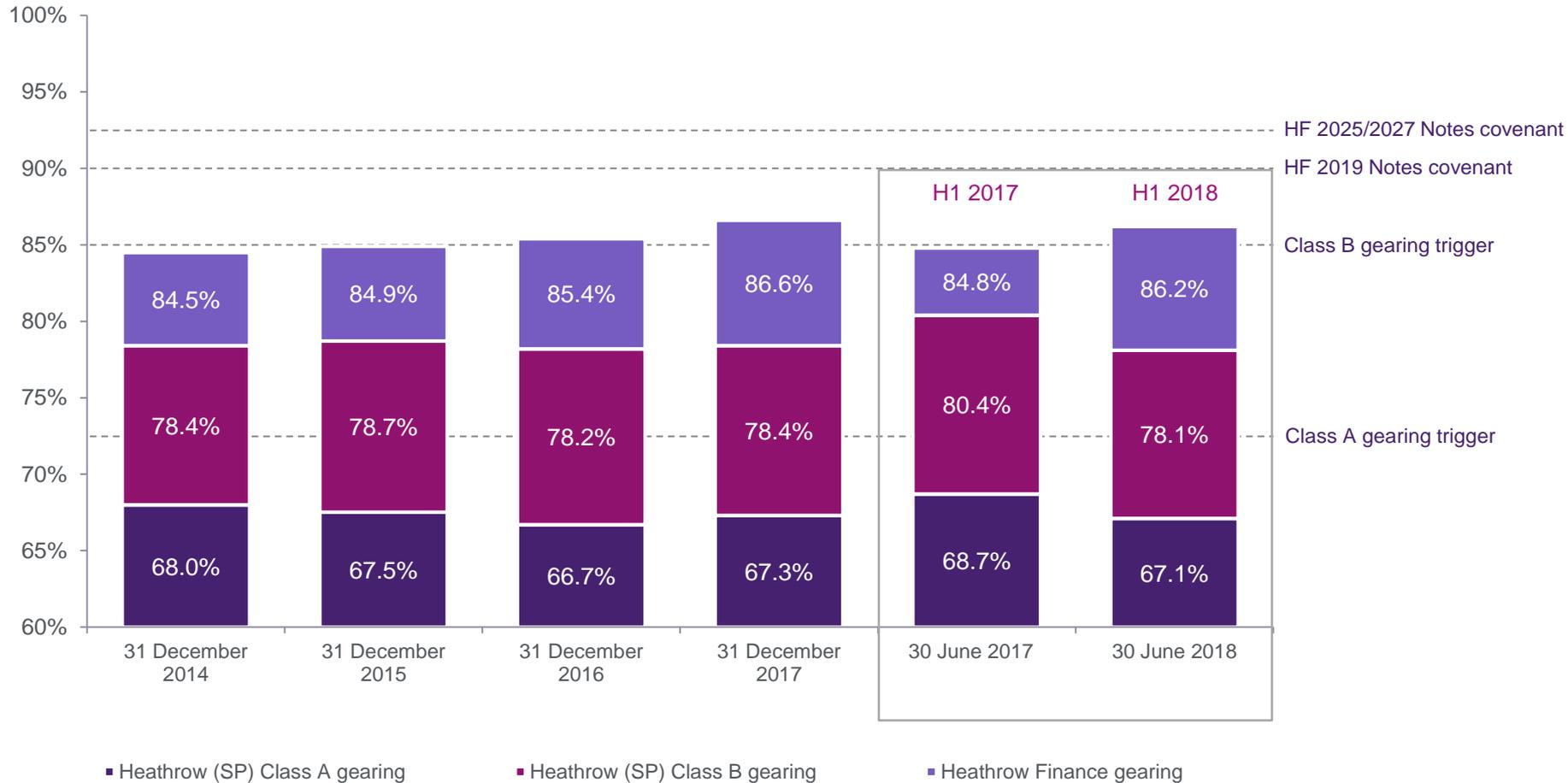
# 90% of operating cash flows re-invested in transforming Heathrow



(1) Heathrow (SP) operating cash flows and dividends relate to Heathrow Airport only  
 (2) Heathrow (SP) 's ICR started being reported in 2009

# Substantial gearing headroom retained

## Evolution of gearing ratios



# 2018 funding plan of similar scale to 2017's

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## LIQUIDITY

- nearly £1.0bn raised globally
- liquidity horizon extended to March 2020
- £1.9bn in undrawn facilities & cash resources

## DIVERSIFICATION

- £381m Class B funding in March 2020
- non-sterling investors providing funding in £

## DURATION

- 20-year average life of debt for the £1.0bn raised
- innovative £160m 40 year Class A RPI-CPI bond
- 12-year average life of debt overall

# Brexit update

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- Heathrow encouraged by UK Government approach to aviation in negotiations
  - continued access to European single aviation market
  - no material concern
- Advocating to maintain efficient flows of people and goods
  - efficient immigration and cargo processing, access to skills
- Financial resilience in place
  - liquidity horizon extends to March 2020
  - headroom to financial covenant in excess of 20% of revenue

# Outlook

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- 2018 forecast remains in line with June investor report:
  - expected traffic : 79 million passengers
  - expected Adjusted EBITDA: £1,816 million
  - projected headroom to covenant remains significant



Strategic priorities

# To give passengers the best airport service in the world

## We delivered...

## ...and we will do more



Mojo

- ✓ Renewed partnership with Duke of Edinburgh Award
- ✓ Heathrow – Britain’s Busiest Airport TV series
- ✓ Free healthcare app for colleagues

- Safe and unsafe acts campaign
- Pension salary sacrifice scheme
- Best Companies Survey



Transform customer service

- ✓ Terminal 3 Flight Connection Centre opens
- ✓ PRM service following recent “Good” rating from CAA
- ✓ Retail redevelopment work in Terminal 5

- Service signatures rollout
- New hotel openings
- Further improvements to PRM services



Beat the plan

- ✓ New advertising contract
- ✓ New routes to Xi’an and Wuhan
- ✓ Data Protection Office for GDPR compliance
- ✓ Pensions de-risk with L&G

- Operational radio infrastructure modernisation
- Multi-language Heathrow Express ticketing
- New services to China, South Africa and Morocco



Sustainable growth

- ✓ MPs vote in favour of third runway
- ✓ Crossrail replaces Heathrow Connect
- ✓ Heathrow 2.0 sustainability progress summary report
- ✓ Colleague sustainable innovation prize

- Masterplan options
- Shortlisting of the logistics hubs and innovation partners
- Prevent modern slavery e-learning module

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# Questions?



## Appendices

# Heathrow nominal net debt at 30 June 2018

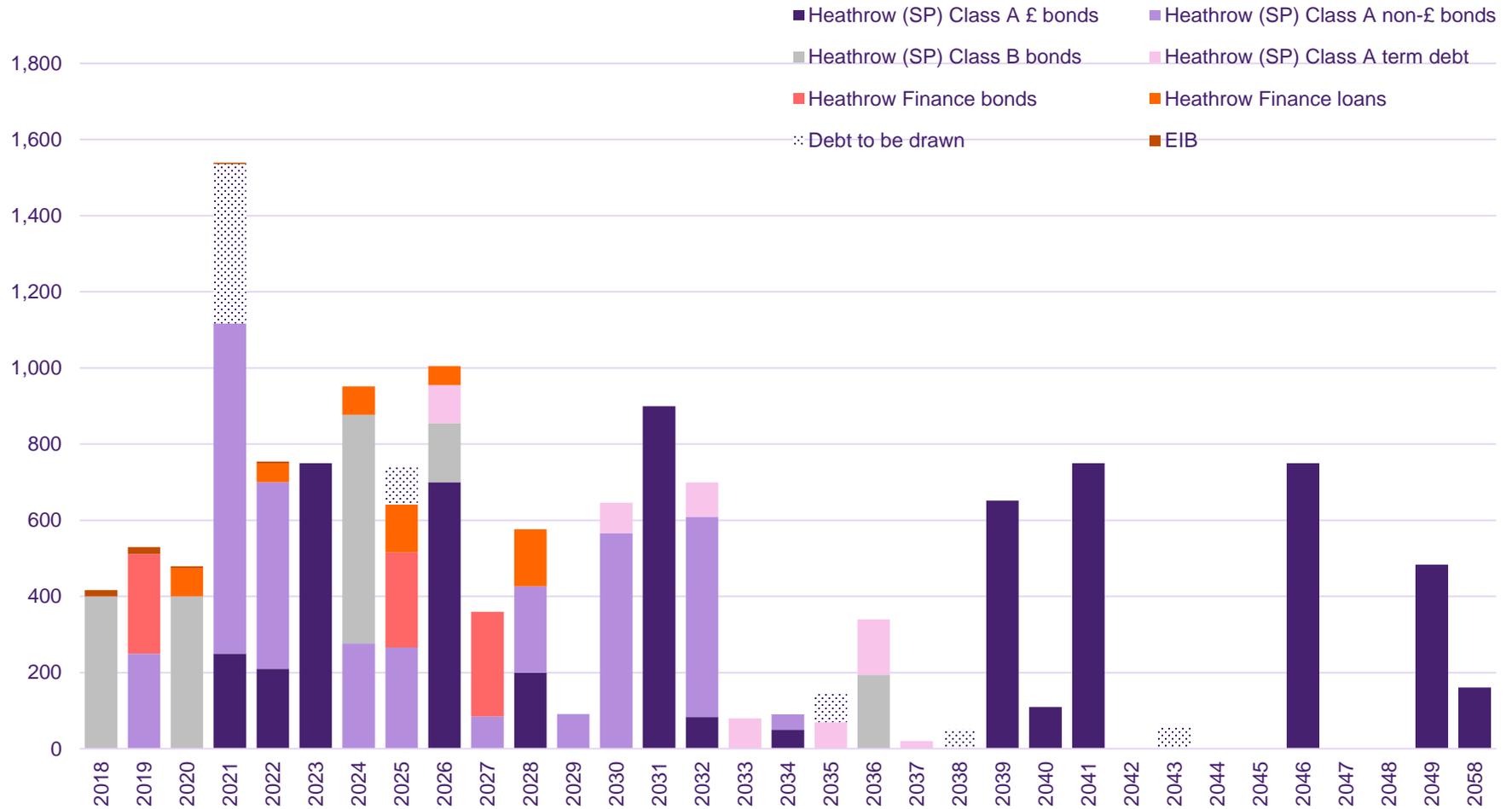
Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
C\$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	210	210	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
C\$400m 3.4%	226	226	2028
£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%	83	83	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%	596	596	2039
£100m RPI +1.238%	109	109	2040
£750m 5.875%	750	750	2041
£55m 2.926%	0	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	83	83	2049
£400m 2.75%	400	400	2049
£160m RPI + 1.57%	161	161	2058
<b>Total senior bonds</b>	<b>9,731</b>	<b>9,786</b>	
Term debt	631	1,149	Various
Index-linked derivative accretion	387	387	Various
Revolving/working capital facilities	0	900	2021
<b>Total other senior debt</b>	<b>1,018</b>	<b>2,436</b>	
<b>Total senior debt</b>	<b>10,749</b>	<b>12,222</b>	
<b>Heathrow (SP) Limited cash</b>	<b>(45)</b>		
<b>Senior net debt</b>	<b>10,704</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%	194	194	2036
£75m RPI + 0.347%	0	75	2035
£51m RPI + 0.419%	0	51	2038
<b>Total junior bonds</b>	<b>1,749</b>	<b>1,875</b>	
Junior revolving credit facilities	0	250	2021
<b>Total junior debt</b>	<b>1,749</b>	<b>2,125</b>	
<b>Heathrow (SP) Limited group net debt</b>	<b>12,453</b>		

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
<b>Total bonds</b>	<b>787</b>	<b>787</b>	
£75m	75	75	2020
£50m	50	50	2022
£75m	75	75	2024
£125m	125	125	2025
£50m	50	50	2026
£150m	150	150	2028
<b>Total loans</b>	<b>525</b>	<b>525</b>	
<b>Total Heathrow Finance plc debt</b>	<b>1,312</b>	<b>1,312</b>	
<b>Heathrow Finance plc cash</b>	<b>(16)</b>		
<b>Heathrow Finance plc net debt</b>	<b>1,296</b>		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
<b>Heathrow (SP) Limited senior debt</b>	<b>10,749</b>	<b>12,222</b>
<b>Heathrow (SP) Limited junior debt</b>	<b>1,749</b>	<b>2,125</b>
<b>Heathrow Finance plc debt</b>	<b>1,312</b>	<b>1,312</b>
<b>Heathrow Finance plc group debt</b>	<b>13,810</b>	<b>15,659</b>
<b>Heathrow Finance plc group cash</b>	<b>(61)</b>	
<b>Heathrow Finance plc group net debt</b>	<b>13,749</b>	

# Debt maturity profile at 30 June 2018



# Notes, sources and defined terms

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## Page 3

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

## 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

- Operating costs refer to Adjusted operating costs which exclude depreciation, amortisation and exceptional items
- Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
- Capital expenditure excludes capital creditors
- 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
- Other comprises index-linked accretion, other restricted payments, external tax payments and fees paid in relation to financing transactions
- 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

## Page 17

- 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 20

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

## Page 25 and 26

- 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 for Class A bonds

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# Heathrow

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