Heathrow Airport

Bank of America Merrill Lynch
High Yield and Loan Conference

June 2013

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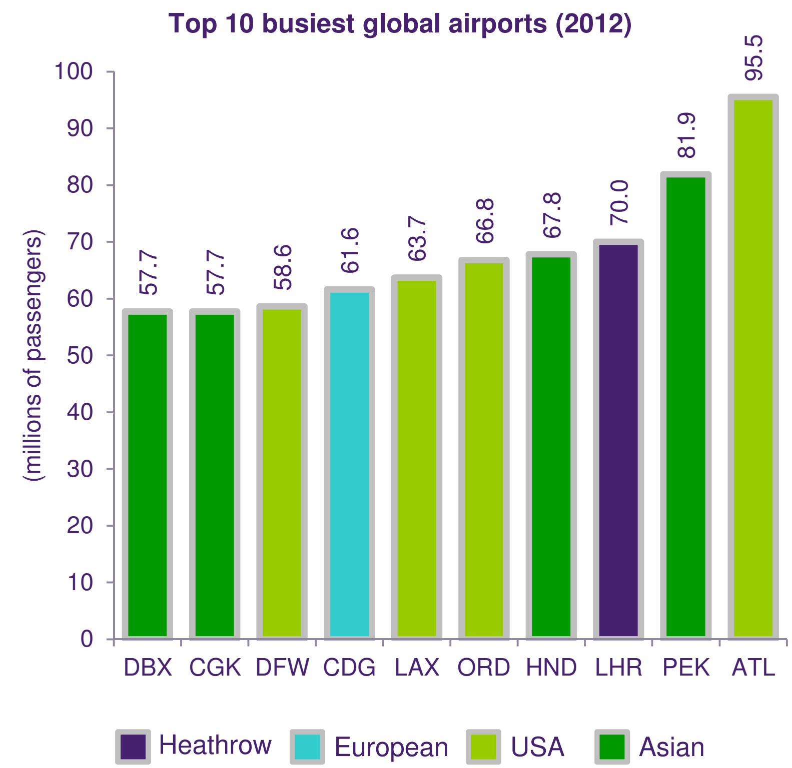
Heathrow – critical infrastructure for the global aviation industry

- 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



See page 21 for notes, sources and defined terms

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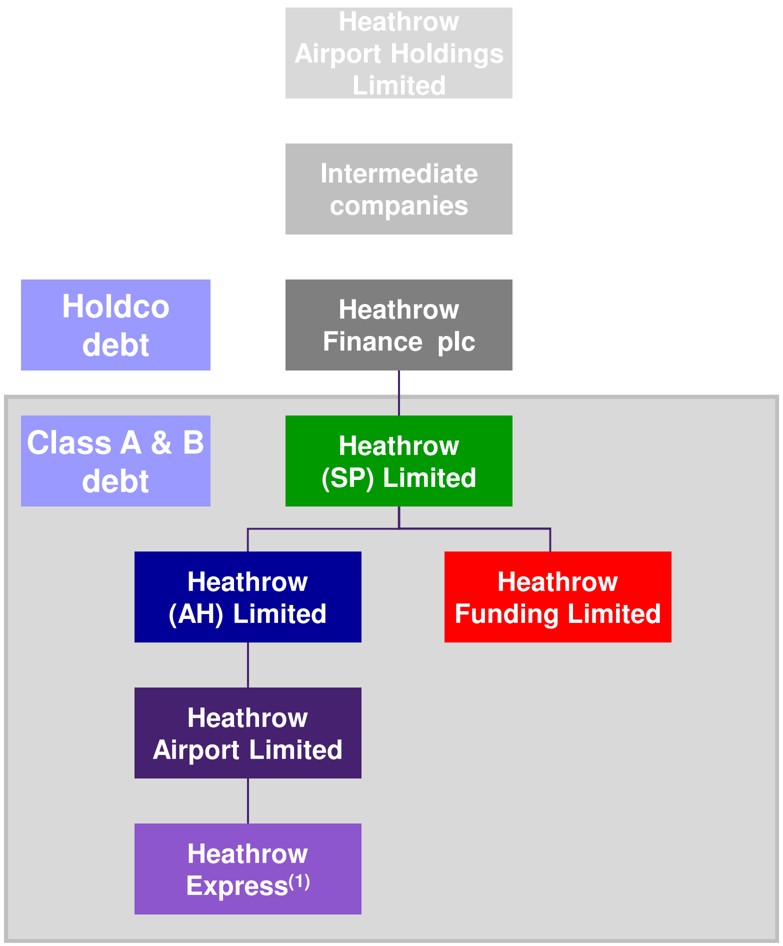
Heathrow's ownership and financing structure

- 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

Heathrow's Ownership Structure



Notes
(1) Heathrow Express Operating Company Limited

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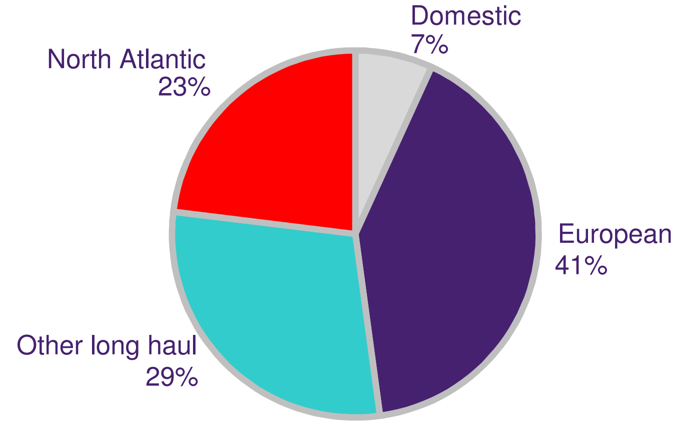
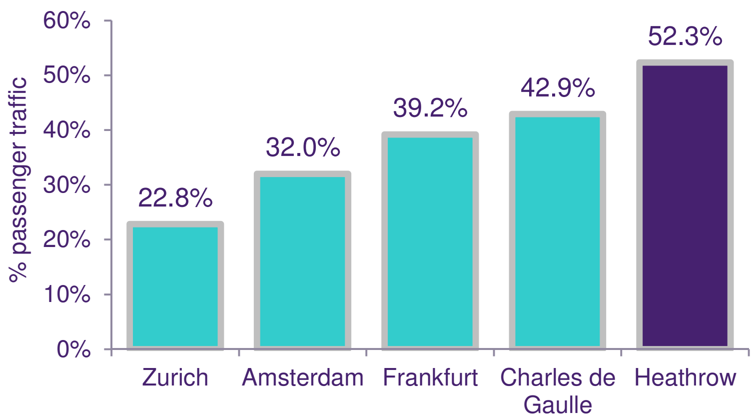
Heathrow's resilience and diversity

- 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% **one**world (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)



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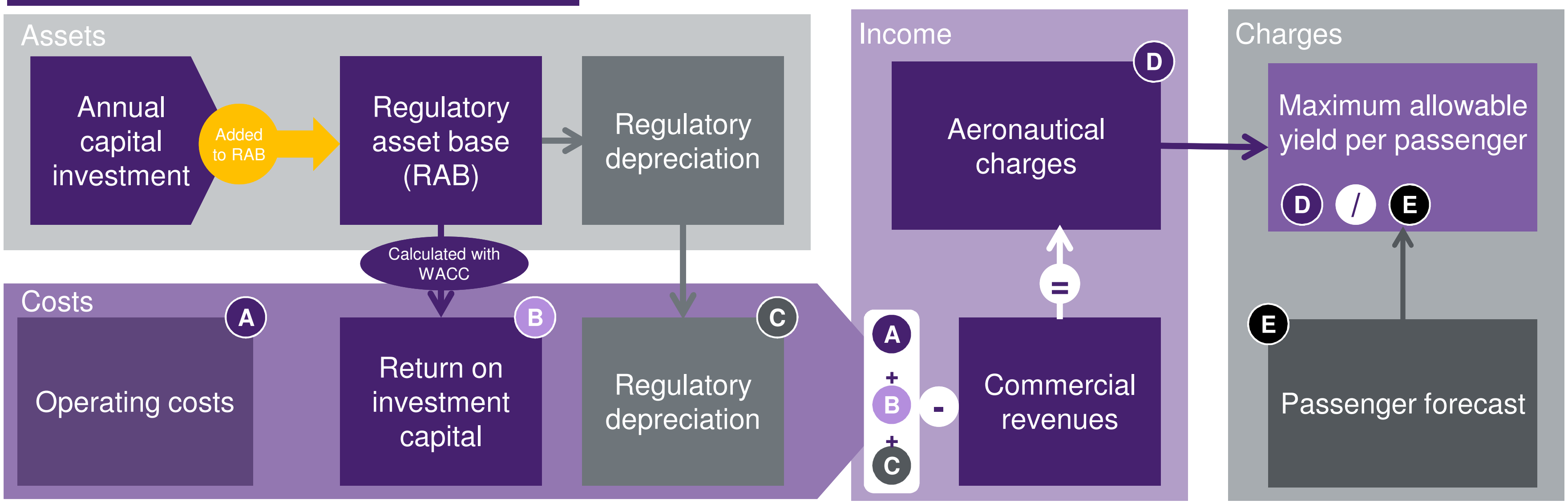
Stable regulatory framework provides cash flow predictability

- 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



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Q6: Heathrow Full Business Plan compared with CAA Initial Proposals

- Q6 currently in consultation
  - Heathrow Full Business Plan proposed January 2013
  - CAA Initial Proposals released 30 April
- Key differences between FBP and proposal
  - cost of capital equivalent to National Grid
  - materially higher operating cost reduction
- Other impacts:
  - higher traffic forecasts
  - higher commercial revenue
  - reduction of RAB

(£m unless stated)	Heathrow FBP	CAGR[1]	CAA IP	CAGR[1]
Price cap per passenger	**RPI +5.9%**	-	**RPI -1.3%**	-
Passengers	355.2m	*0.4%*	358.4m	*0.5%*
Aeronautical income	10,212	*6.1%*	8,615	*-0.9%*
Non aeronautical income	4,753	*1.6%*	4,838	*2.1%*
Average net retail income per passenger	*£6.54*	*1.8%*	*£6.67*	*2.4%*
Operating costs	5,234	*-0.2%*	5,017	*-1.8%*
Capital investment	3,005	-	3,005	-
Average RAB	13,749	-	13,688	-
WACC	**7.1%**	-	**5.35%**	-

[1] CAGR: compound annual growth rate over Q6, against 2013/14(E). **All figures in 2011/12 prices**

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Q6 initial proposals – financing considerations

- 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 mounting robust response to CAA's WACC proposals
  - cost of equity: beta and asymmetry
  - cost of debt: errors in determining cost of existing debt; errors and misjudgements in determining cost of new debt
  - cost of maintaining debt financing platform: errors or ignoring real costs; draft licence condition on adequacy of resources exacerbates position
- CAA's 'financeability' study appears inconsistent
  - effectively demands achieving A-/BBB+ cost of debt with BBB+/BBB ratios
  - concerns about familiarity with ratings methodologies
- CAA Initial Proposals are consultative
  - consultation responses to CAA due 25 June
  - CAA issue Final Proposal for consultation, early October
  - price determination late December / early January

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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 late 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

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

- Consistently improving passenger satisfaction in external surveys
  - Heathrow has move towards Top Quartile of European airports for overall passenger satisfaction
  - highest ever rating in Q1 2013
- Terminal 5 ranked best terminal in the world for last two years
- 2012 departure punctuality repeated strong 2011 performance (78% (2011: 79%))
- Consistent baggage performance
  - Heathrow 2012 baggage misconnect rate of 15 per 1,000 passengers (2011: 15)

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Heathrow builds on record traffic

- Two consecutive years of record traffic at Heathrow
  - 69.4 million passengers in 2011 and 70.0 million passengers in 2012
- Growth driven by improved utilisation of slots: increased load factors and larger aircraft
- North America drove Heathrow's 2012 performance
- Strong start to 2013 with European traffic driving current improvements

Passenger traffic performance

	5 months to 31 May		
Passengers (m) by market served	2012	2013	Change
UK	1.9	**1.9**	*-1.1%*
Europe	11.1	**11.6**	*+ 4.5%*
North America	6.1	**6.1**	*+ 1.0%*
Asia Pacific	4.0	**4.1**	*+ 1.3%*
Middle East	2.2	**2.3**	*+ 4.1%*
Latin America and Africa	2.0	**1.9**	*-8.0%*
TOTAL	27.3	**27.9**	***+1.9%***

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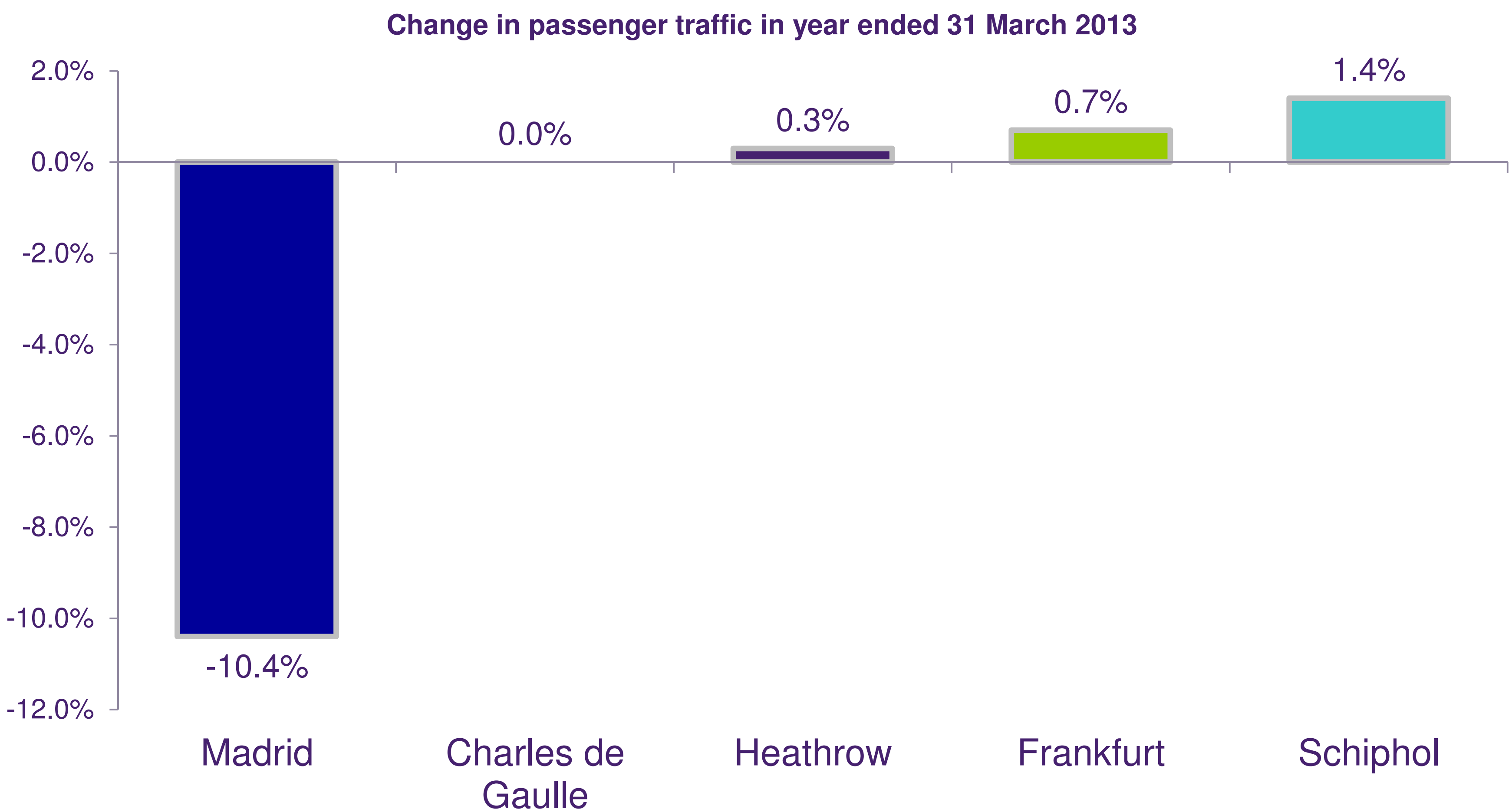
Heathrow's traffic performance remains robust versus other major European hub airports, outperforming in last 6 months



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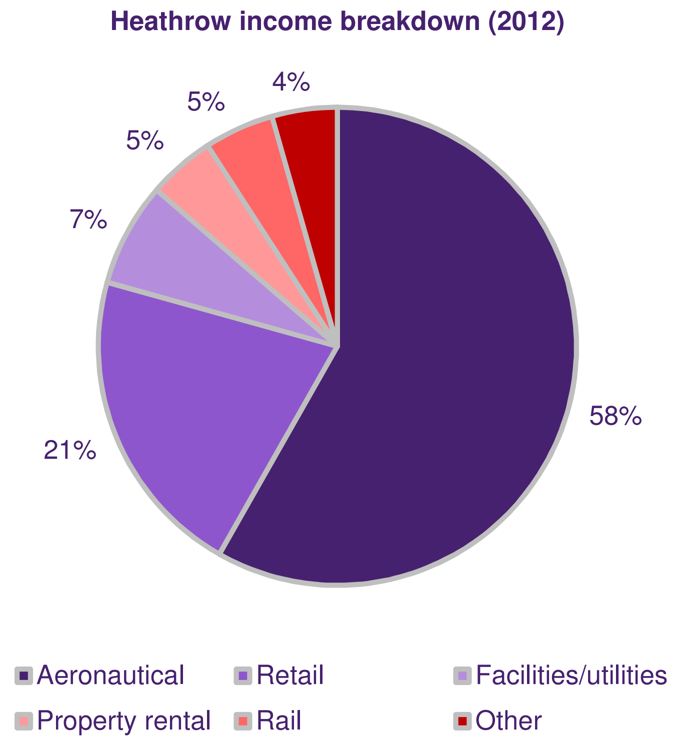
Diverse and growing revenue streams

- Aeronautical income charged to airlines
  - mix of departing passenger, landing and parking charges
  - Heathrow tariffs increasing annually by RPI+7.5%
- Retail income mainly from concessions
  - key revenue streams: duty and tax-free, airside specialist shops and car parking
  - long term success lowers tariffs
  - Heathrow 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)



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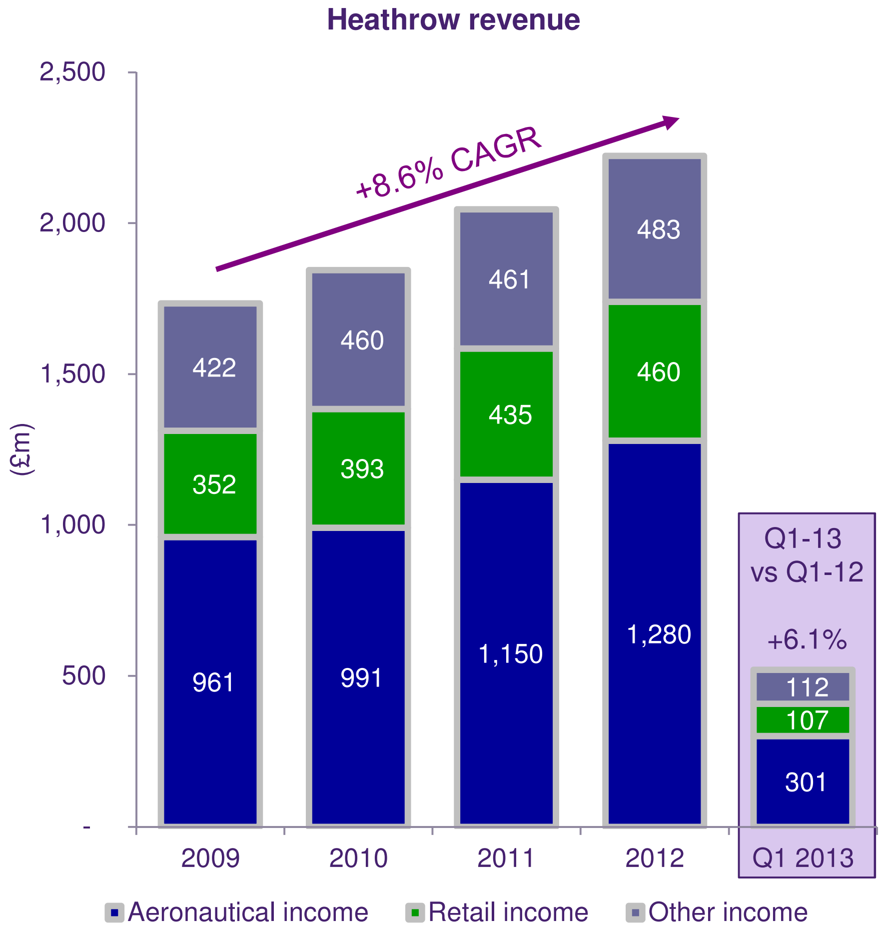
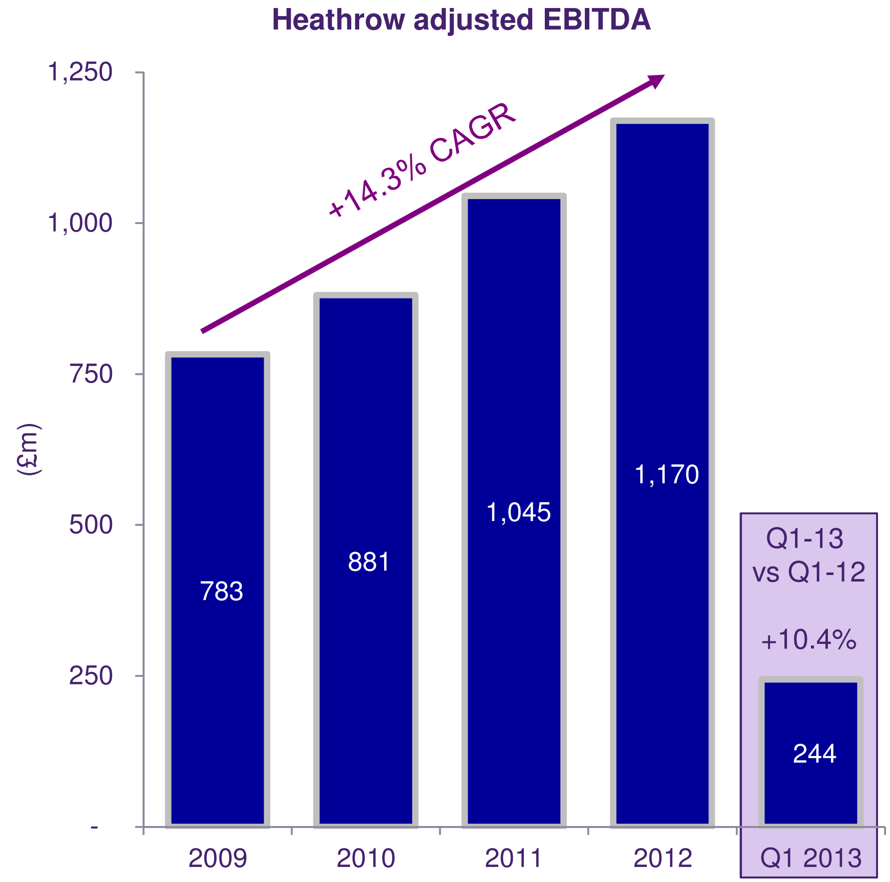
Consistent strong revenue and Adjusted EBITDA growth





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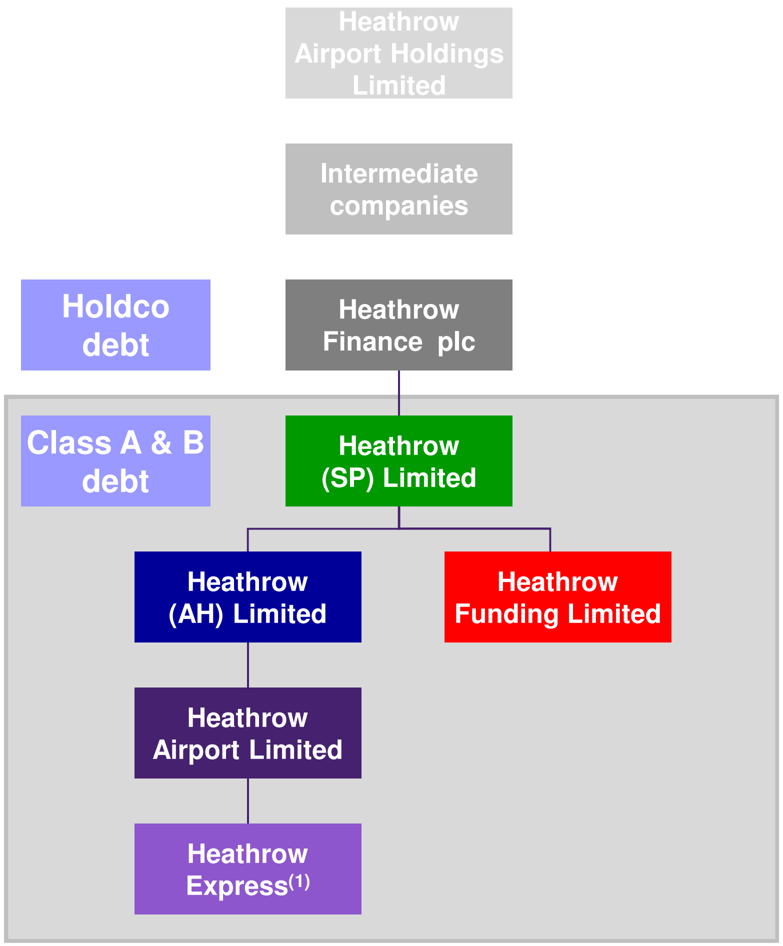
Strong protections for Heathrow's creditors

- 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

Heathrow's Ownership Structure



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Transformation in financing position

	December 2010	March 2013	Change
Average life of debt	7.7 years	9.7 years	+2.0 years
Debt due within 3 years	£3.9 billion	£2.2 billion	-£1.7bn
Bond proportion of total debt	64%	96%	+32pp
Liquidity horizon	12 months	27 months	+125%
Bond issue currencies	2	5	+3
Foreign currency bonds	£2.1bn (32%)	£3.6bn (35%)	+£1.5bn

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Robust and improved financial ratios

Gearing ratios (RAR)					
	Trigger / covenant levels	31 Dec 2009	31 Dec 2010	31 Dec 2011	**31 Dec 2012**
Heathrow (SP) Senior RAR	70.0%	67.5%	68.8%	68.0%	**66.2%**
Heathrow (SP) Junior RAR	85.0%	73.1%	77.7%	75.4%	**76.7%**
Heathrow Finance RAR	**90.0%**	86.5%	81.4%	79.4%	**81.6%**

Gearing ratios (Net debt/Adjusted EBITDA)				
	31 Dec 2009	31 Dec 2010	31 Dec 2011	**31 Dec 2012**
Heathrow (SP) Senior gearing	8.9x	9.1x	8.3x	**7.8x**
Heathrow (SP) Junior gearing	9.7x	10.3x	9.2x	**9.0x**
Heathrow Finance gearing	11.5x	10.8x	9.7x	**9.6x**

Interest Cover Ratios (ICR)					
	Trigger / covenant levels	31 Dec 2009	31 Dec 2010	31 Dec 2011	**31 Dec 2012**
Heathrow (SP) Senior ICR	1.40x	1.62x	2.08x	2.76x	**2.62x**
Heathrow (SP) Junior ICR	1.20x	1.48x	1.85x	2.34x	**2.30x**
Heathrow Finance ICR	**1.00x**	1.15x	1.55x	2.17x	**2.08x**

See page 21 for notes, sources and defined terms

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

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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 available to senior 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. **one**world data annualised to reflect IAG acquisition of bmi in April 2012.
  - Proportion of long haul traffic, source: company websites
- Page 10
  - 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 11
  - Totals and percentage change calculated using un-rounded passenger numbers
- Page 13
  - 2012 revenue: Heathrow only, excludes Stansted
- Page 14
  - Historical revenue and adjusted EBITDA: Heathrow only, excludes Gatwick and Stansted
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items
- Page 16
  - Figures are in respect of Heathrow Finance plc external nominal debt
  - Bond proportion of total debt is proportion of gross debt excluding index-linked accretion
  - Proportion of foreign currency bonds is as a proportion of total bond debt
- Page 17
  - 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

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