

A photograph of a woman with short grey hair and glasses hugging a man from behind. She is smiling broadly, showing her teeth. She is wearing a gold ring on her left hand and a gold bracelet on her right wrist. The man is wearing a dark suit jacket and a light-colored shirt. The background is blurred, suggesting an indoor setting with large windows.

Heathrow Investor Update

February 2019

Heathrow

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Key credit strengths

Foundations of Heathrow Credit

1

Strength and resilience
of the asset

2

Cash flow predictability
from stable regulatory
framework

3

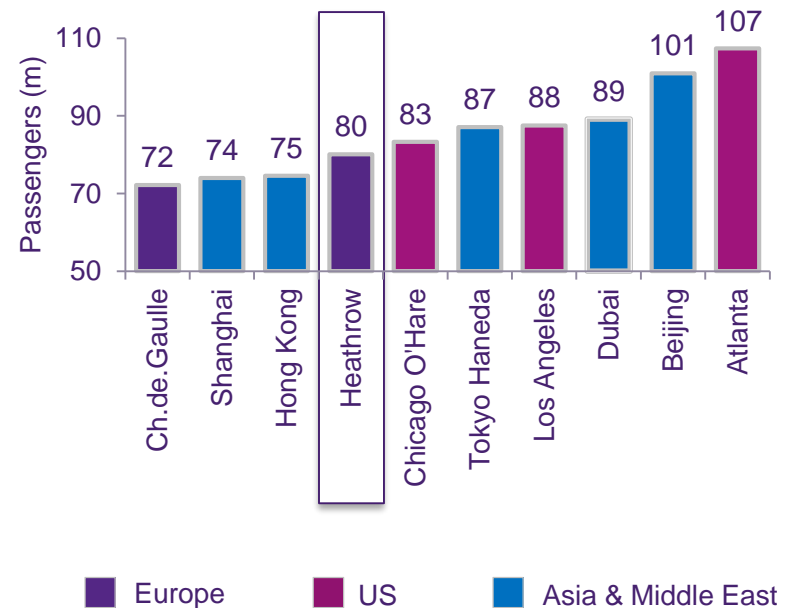
Strong set of creditor
protections



Heathrow is the primary airport in the world's largest aviation market

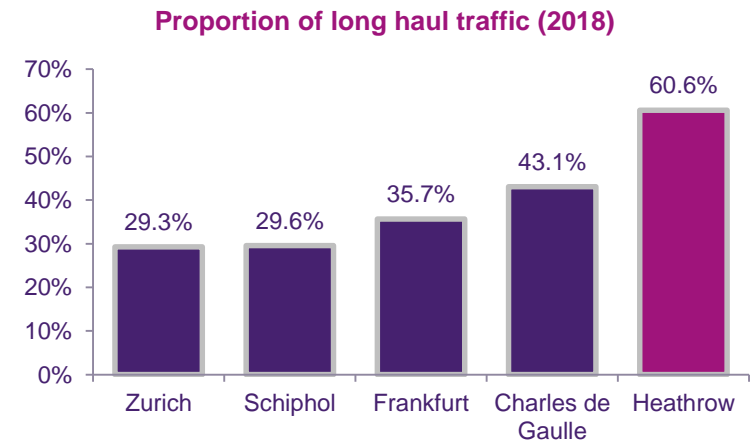
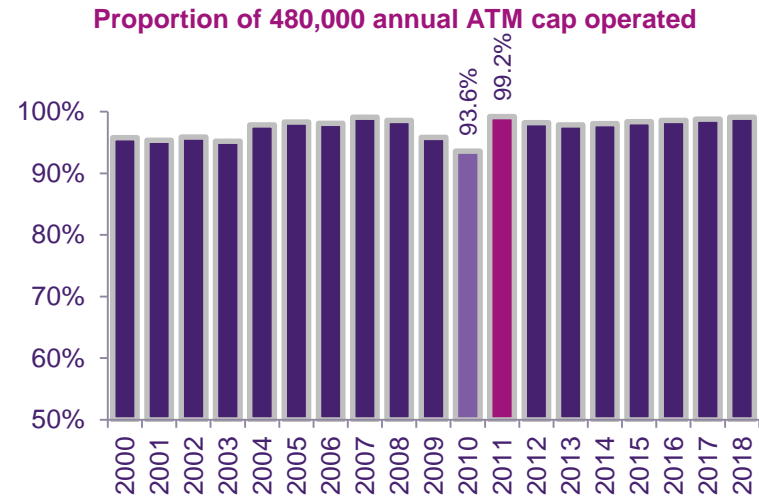
- Demand to fly to and from London is 30% higher than the next largest market
 - Heathrow is the busiest airport by passenger numbers in Europe and seventh busiest airport in the world
 - Nearly 50% of passenger traffic across London airport system
- Heathrow enjoys strong industry position
 - 70% of UK long haul scheduled seats
 - >100 long haul routes, one of only 4 airports globally with >100 long haul routes
 - 5 of global top 10 intercontinental long haul routes operate at Heathrow
 - UK's only hub airport and BA's global hub
 - handles >30% by value of all UK's non-EU exports
- Over 80 airlines operate at Heathrow, over two thirds operating long haul services

Top 10 busiest global airports
12 months to 31 December 2018



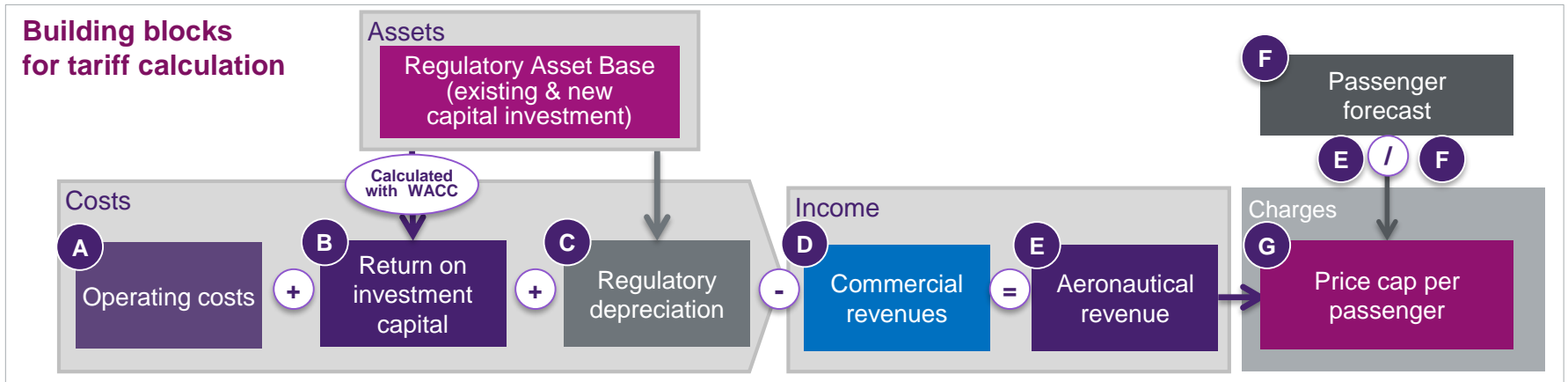
Heathrow's strength and resilience driven by traffic profile

- Catchment area and hub characteristics provide enviable demand resilience
- Heathrow has been operating at close to its permitted capacity for many years
 - unfulfilled demand reduces traffic volatility
- Significantly greater exposure than peers to intercontinental long haul traffic
 - long term emerging market growth driving increased propensity to fly
- Countercyclical transfer traffic
 - traffic has tended to concentrate towards hub airports in economic downturns
- London's profile as a major global city
 - balanced outbound and inbound demand



Cash flow predictability from a stable regulatory framework

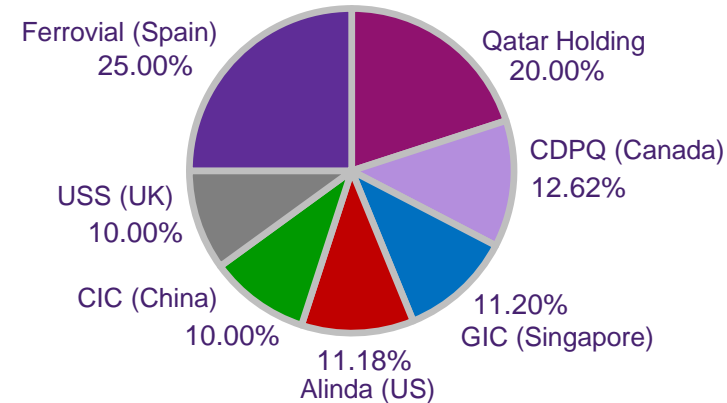
- Heathrow is regulated by UK Civil Aviation Authority, with role defined by English law
- Re-set of tariff every five years provides strong visibility of cost recovery
 - tariff set using ‘building block’ principle, allowing recovery of capital investment, operating costs and cost of capital
- £16.2 billion Regulatory Asset Base (‘RAB’) as at 31 December 2018 includes virtually all assets in the business
- ‘RAB based’ price regulation similar to other UK regulated utilities
- CAA has duty to ensure Heathrow can finance its activities
- Current ‘Q6’ regulatory period extended until at least end of 2021. The 2 year extension is known as iH7



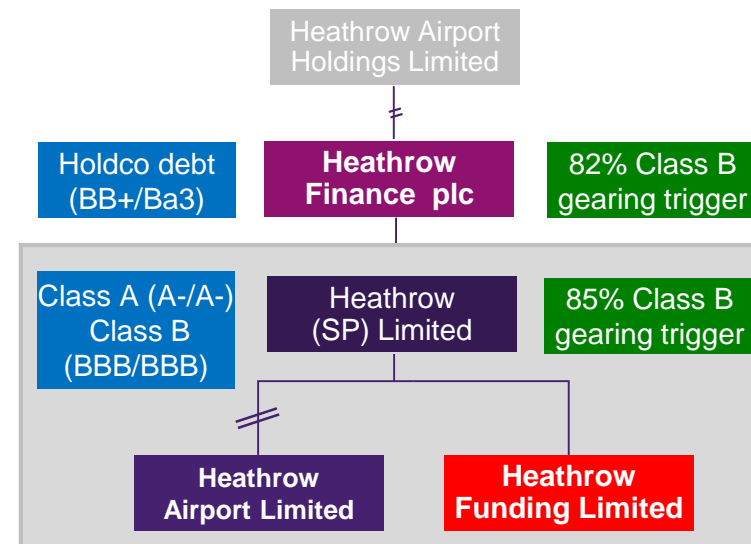
Overview of Heathrow financing

- Largest wholly-privately financed airport globally, owned by seven international investors
- Established debt financing platform – similar to major UK regulated utilities – with issuance in 7 currencies
- Debt issued predominantly in senior (Class A), junior (Class B) and Heathrow Finance formats
- Common terms agreement governs all Class A and Class B debt
- All debt across capital structure benefits from covenants, limitations on distributions and security over assets
- Net debt at 31 December 2018
 - **Class A: £11,054 million**
 - Class B: £1,353 million
 - Heathrow Finance: £1,573 million

Heathrow ownership



Summary Heathrow financing structure



Heathrow provides a strong suite of creditor protections

- Class A creditors have 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 distribution lock-ups provide creditor protections
- Information covenants including semi-annual investor report with financial forecasts
- Substantial public disclosures in addition to documented information covenants
- Restrictions on business activities, acquisitions and disposals

Summary operational and financial covenants and lock-ups

Regulatory Asset Ratio (Net Debt/RAB)

Class A trigger	72.5%
Class B trigger	82.0%/85.0%
Heathrow Finance covenant	90.0%/92.5%

Interest Cover Ratios (ICR)

Class A trigger	1.40x
Class B trigger	1.20x
Heathrow Finance covenant	1.00x

Other protections at Heathrow (SP)

Minimum liquidity	>12 months
Minimum Class A credit rating	BBB+
Currency risk on non-£ debt	100% swap to £

Debt maturities:

- in any two year period	<30% RAB
- in any Five Year Period	<50% RAB

Minimum interest rate hedging:

- current regulatory period	>75% debt
- next regulatory period	>50% debt

Key debt financing themes

Leverage levels

- Buffers to leverage trigger event and covenant levels at each level in capital structure

Diversification

- Target ~10% maximum maturities in any calendar year
- Access to 7 currencies and multiple debt formats across capital structure
- Track record of repeat issuance in new markets

Liquidity

- Minimum 12 months liquidity and spread of debt maturities
- Liquidity horizon currently extends to March 2021

Distribution

- Consistent with maintaining leverage targets

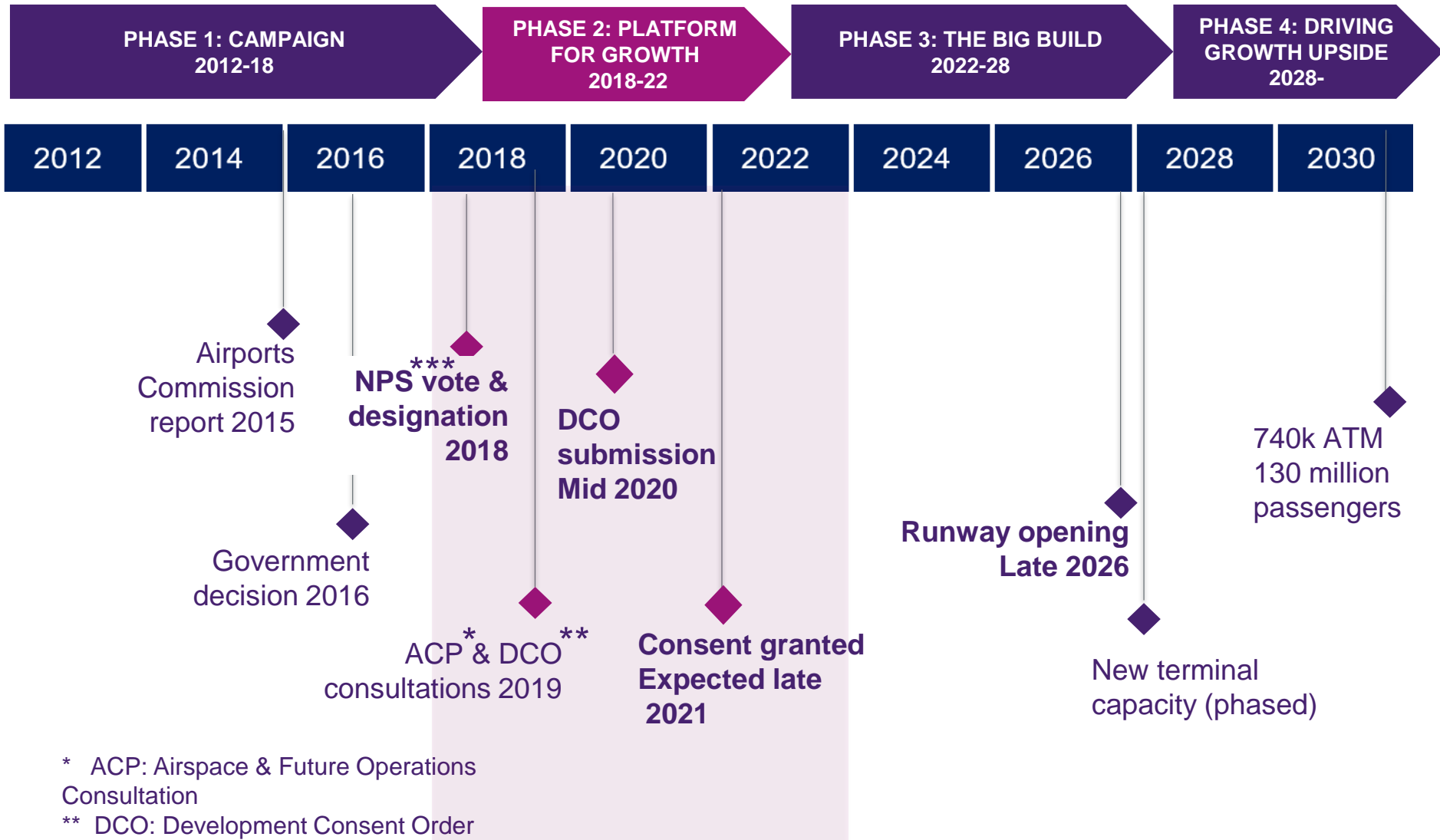
Expansion

- Target existing investment grade credit ratings
- Existing debt financing platform demonstrably scalable



Strategic developments

Expansion – Heathrow’s proposal



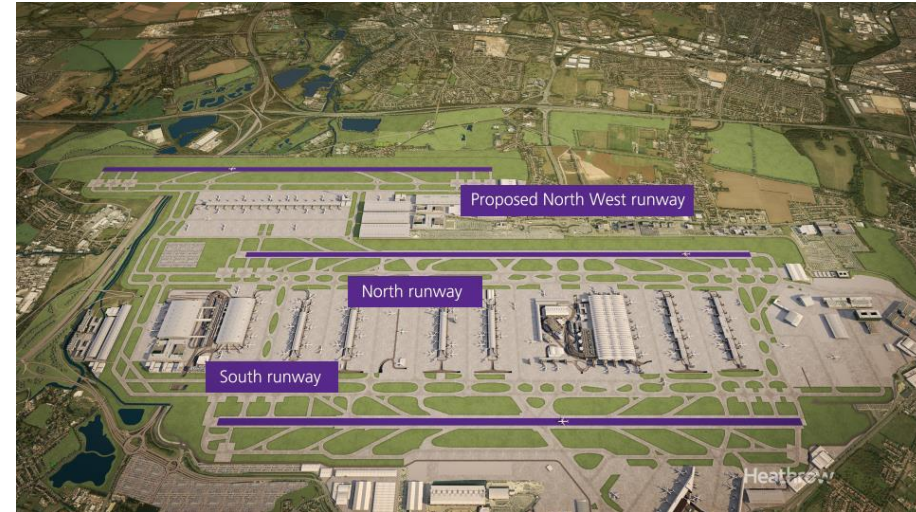
* ACP: Airspace & Future Operations Consultation

** DCO: Development Consent Order

*** NPS: National Policy Statement

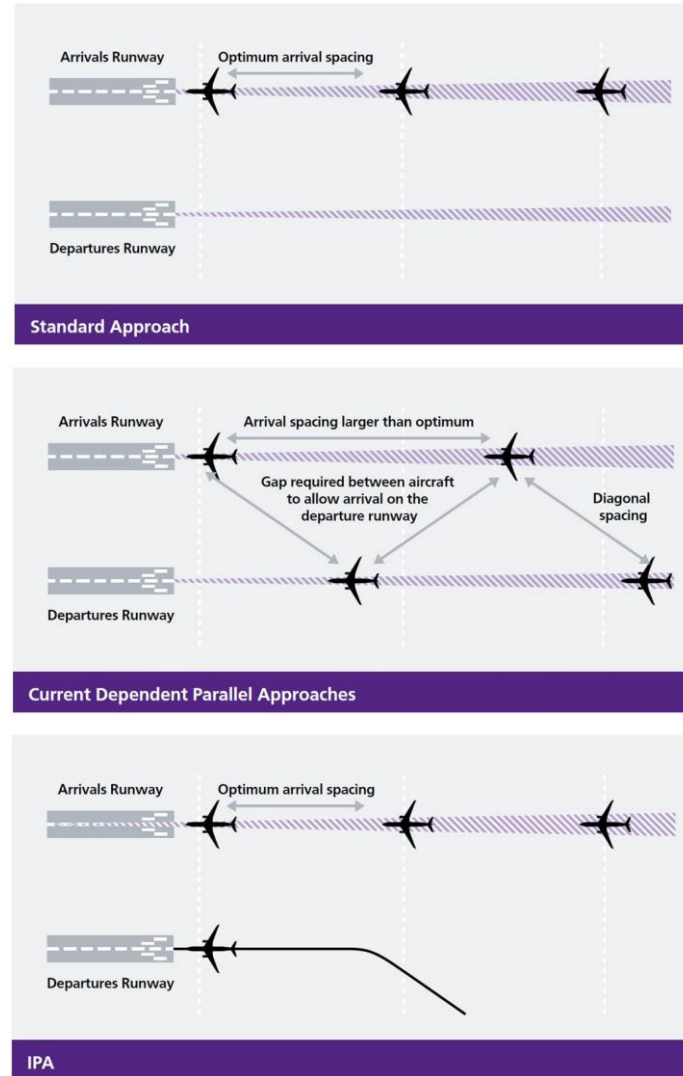
Expansion – Heathrow’s proposal

- New full length runway to the north-west expected to open in 2026
- At least 260,000 extra flight movements per annum
- Increase to approximately 130 million passengers per annum
- Up to 180,000 new jobs and approximately £187 billion in economic benefits across the country
- Delivery with average aeronautical charges close to 2016 levels supported by accelerated traffic growth



Expansion – Airspace & Future Operations Consultation

- Consultation launched on 8 January 2019
- Seeking feedback on
 - Local factors impacting the design of future flight paths;
 - Airspace change using Independent Parallel Approaches (IPA) to make better use of our existing two runways; and
 - How we will operate our three runways in the future
- This will lead to further benefits including:
 - Enabling the airport to prevent and recover from arrival delays more quickly;
 - Improving punctuality; and
 - Could also be used to facilitate additional capacity in advance of the third runway being brought into operation



Delivering a sustainable, affordable & financeable expanded Heathrow

SUSTAINABLE

- Carbon neutral airport by 2020
- 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

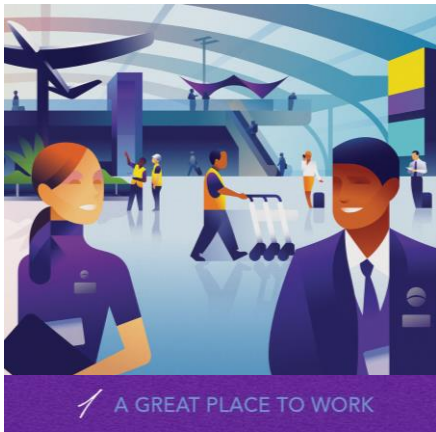
AFFORDABLE

- SOS challenge to maintain charges close to 2016 levels in real terms'
- 37 companies shortlisted for the Innovation Partners programme from over 150 expressions of interest
- Preferred masterplan consultation set for June 2019

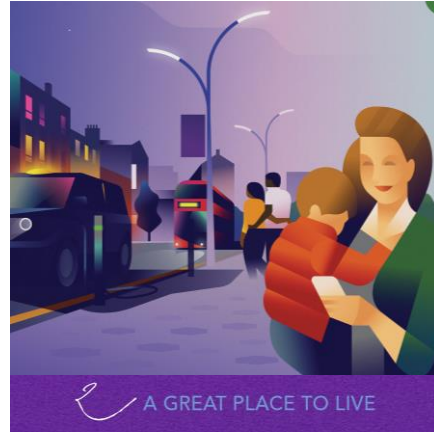
FINANCEABLE

- Entirely privately funded through mix of debt and equity
- Commitment to maintain current investment grade credit ratings
- Stable regulatory environment; opportunity for alternative commercial arrangements with airlines

Progressing on all Heathrow 2.0 flagship goals



- 10,000 apprenticeships by 2030
- Reflect local diversity at every level by 2025



- We will seek to at least halve the number of late running flights on non-disrupted days
- Airside ultra-low emissions zone by 2025
- 50% airport passenger journeys made by public and sustainable transport by 2030



- Largest 100 towns and cities in the UK connected to Heathrow by 2033
- Direct supply chain colleagues working at Heathrow will be transitioned to be paid the London Living Wage by the end of 2020



- An aspiration to make growth from our new runway carbon neutral
- Establishing the Heathrow Centre of Excellence
- Carbon neutral airport by 2020 supported by tangible actions

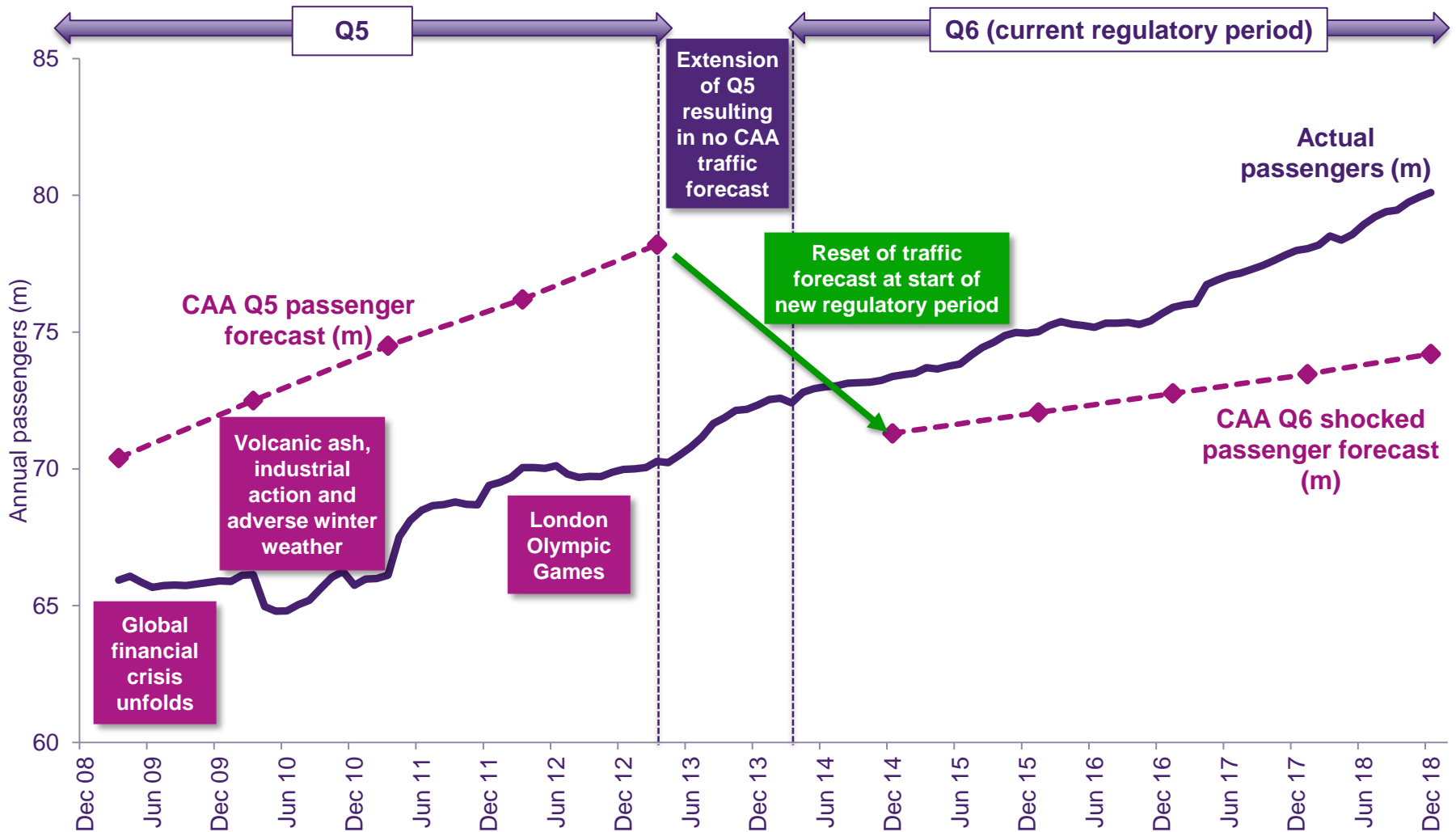
Brexit update

- Heathrow encouraged by governments listening to the needs of the business
Aviation Contingency Plan safeguards air connectivity and access for 2019 (subject to EC Ministers approval)
 - new Airline Service Agreements being agreed
- Advocating to maintain efficient flows of people and goods
 - efficient immigration and cargo processing, access to skills
- Heathrow remains in an extremely strong position notwithstanding the outcome of the negotiations
 - proven track record managing operational change
 - financial resilience in place; liquidity horizon extends to March 2021
- £114 million EBITDA contingency incorporated in our 2019 forecast to allow for robust operations in all circumstances
 - prudent approach given uncertainty



Recent trading and performance update

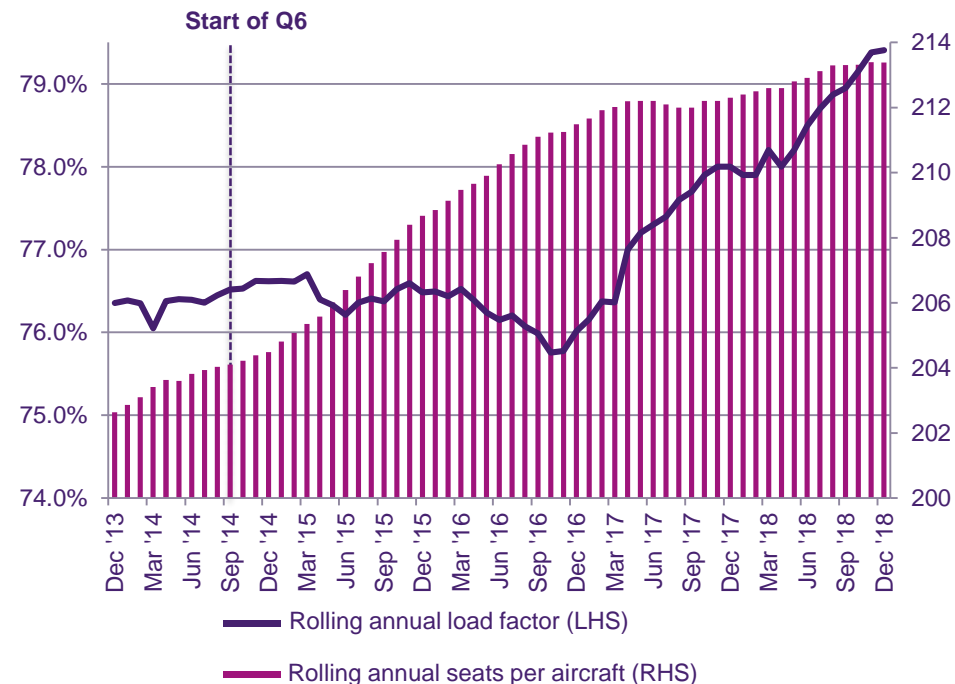
Traffic outperforming in current regulatory period



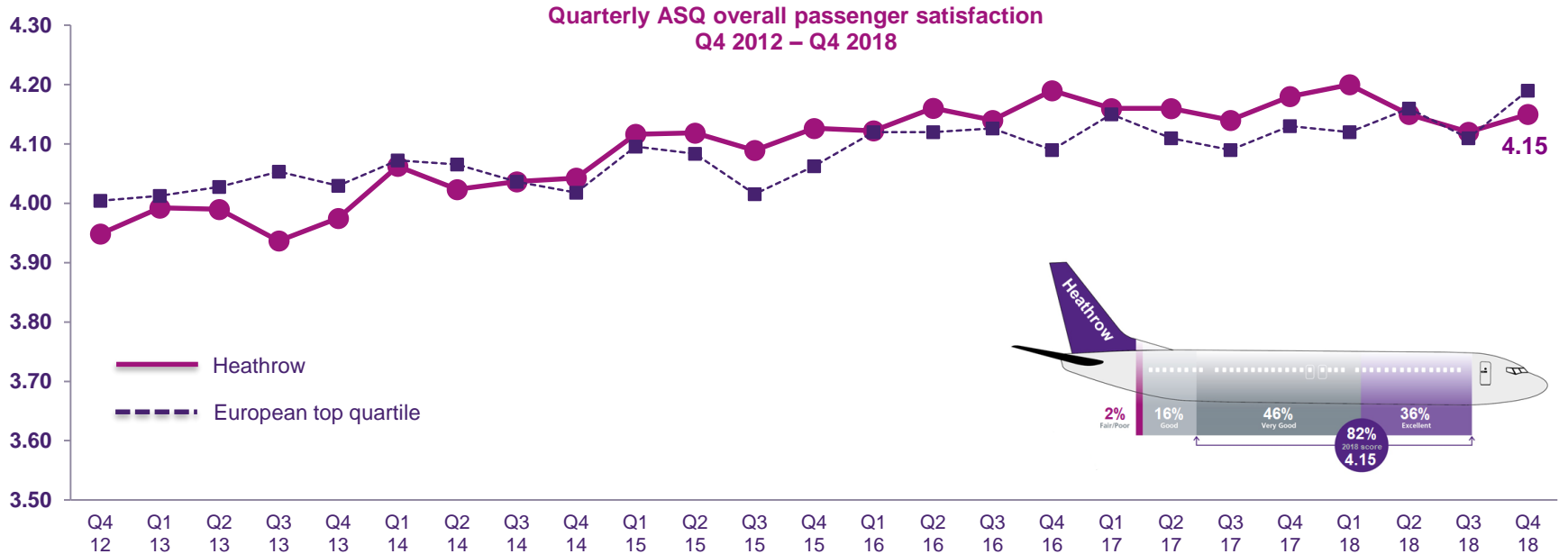
No shocks, benign macro environment, increasing seat capacity and recent boost from rising load factors in Q6

- Seat capacity increases based on larger aircraft (e.g. A380) and British Airways short haul fleet seat densification
- Load factors remained stable until decline in H1 2016 followed by rapid recovery to recent record levels
 - geopolitical events and macro-economic uncertainty between late 2015 and late 2016
 - benefit from sterling depreciation
- Buoyant traffic in 2017 driven by record load factors
 - driven by UK inbound demand, particularly intercontinental in Middle East and Asia Pacific
 - further capacity increases possible, e.g. British Airways' planned long haul seat densification
- Record traffic continues as 2018 exceeds 80 million passengers
 - additional flights and strong load factors

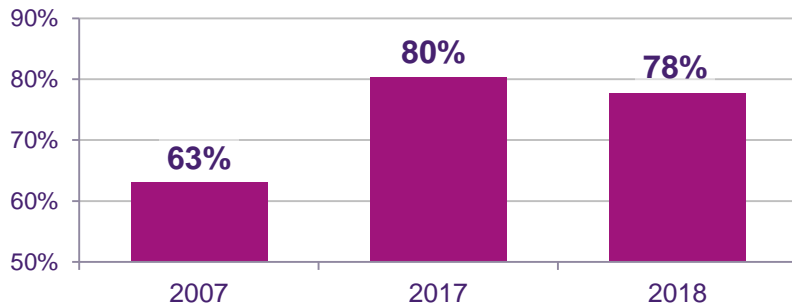
Heathrow load factor/aircraft size trends (2013-2018)



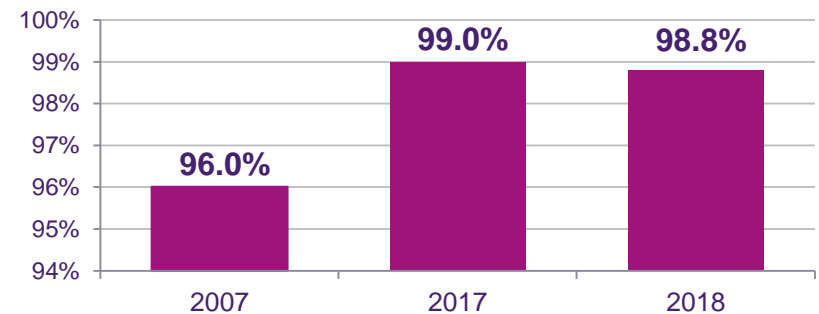
Record service standards complementing record traffic



Departures
within 15 minutes of schedule



Baggage performance
connection rate per 1,000 passengers

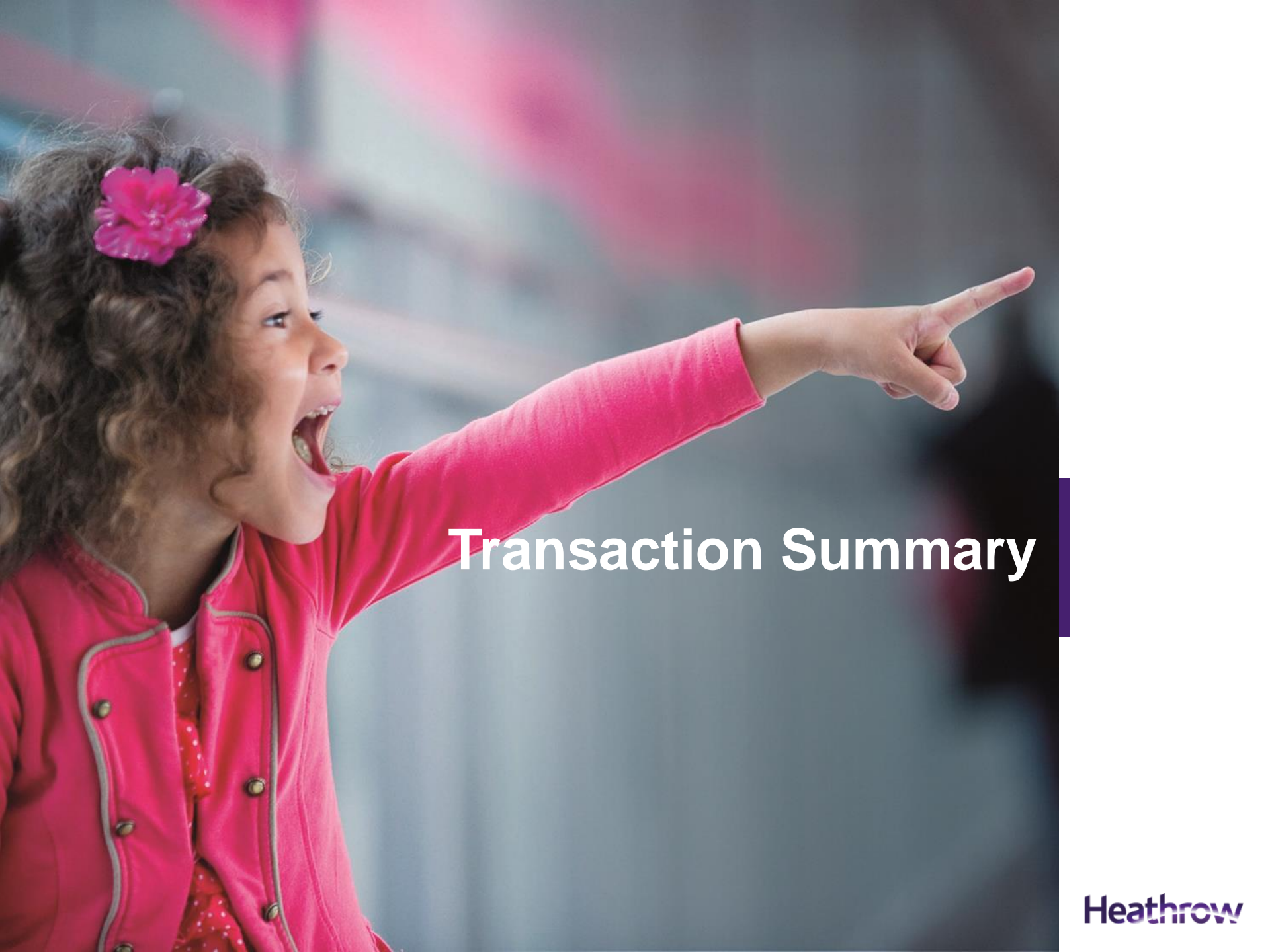


Strong performance in 2018

(£ million)	FY 2017	FY 2018	Versus FY 2017
Revenue	2,884	2,970	+3.0%
Operating costs	1,124	1,133	+0.8%
Adjusted EBITDA	1,760	1,837	+4.4%
Capital expenditure	687	793	+15.4%

	Dec 2017	Dec 2018	Change from 31 Dec 17
Consolidated nominal net debt			
Heathrow (SP)	12,372	12,407	+3.0%
Heathrow Finance	13,674	13,980	+1.1%
RAB	15,786	16,200	+2.6%

- Strong service standards while handling record traffic
- Record traffic driven by higher load factors and more flights
- Retail income per passenger up 5.8%
- Driving down operating costs per passenger
- Liquidity horizon extended to March 2021
- Overwhelming parliamentary support clears path to deliver expansion



Transaction Summary

Summary of terms and conditions

Issuer	Heathrow Funding Limited
Issue	Class A Senior secured notes
Amount	Benchmark
Currency	EUR
Scheduled redemption	[15] years
Legal final maturity	[17] years
Expected issue rating	A- (Negative) by S&P / A- (Stable) by Fitch
Use of proceeds	General corporate purposes
Ranking	Pari passu with all existing Class A debt
Offering type	RegS
Governing law	English law

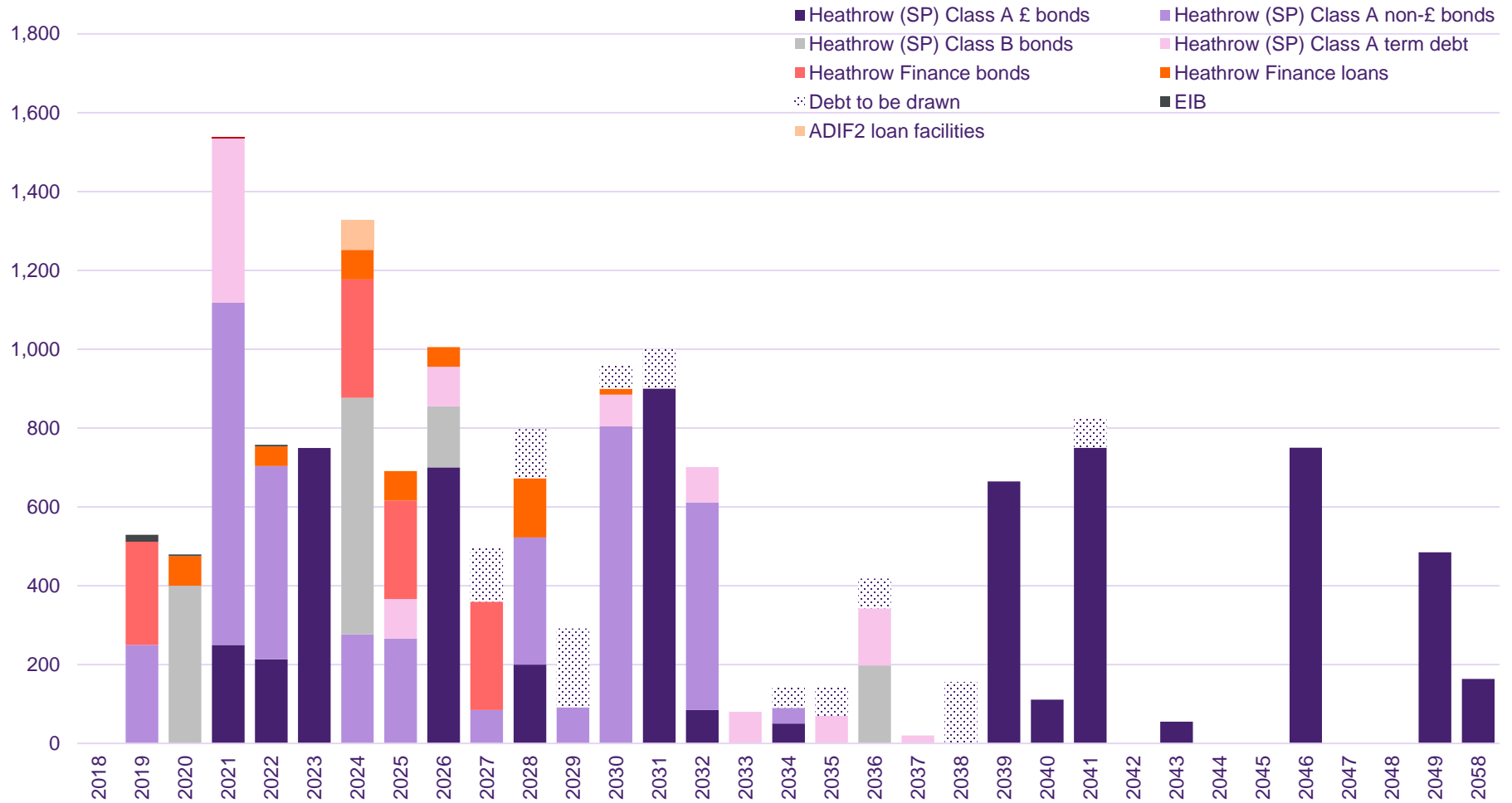


Appendix

Robust stable financial ratios

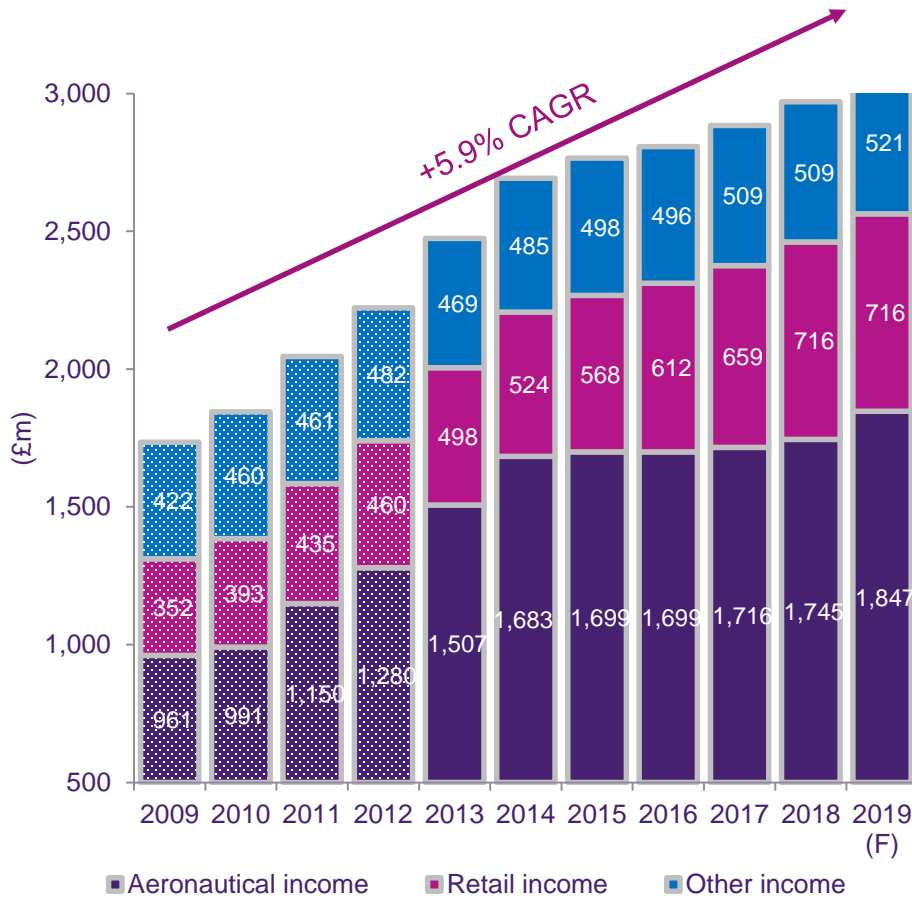
As at or for year ended 31 December	Trigger / covenant	2012 (actual)	2013 (actual)	2014 (actual)	2015 (actual)	2016 (actual)	2017 (actual)	2018 (actual)	2019 (f'cast)
RAR: Regulatory Asset Ratio (Net debt/RAB)									
Heathrow (SP) Class A RAR	70.0%/72.5%	66.2%	67.6%	68.0%	67.5%	66.7%	67.3%	68.2%	64.2%
Heathrow (SP) Class B RAR	82.0%/85.0%	76.7%	77.2%	78.4%	78.7%	78.2%	78.4%	76.6%	72.1%
Heathrow Finance RAR	90.0%/92.5%	81.6%	82.4%	84.5%	84.9%	85.4%	86.6%	86.3%	85.7%
Gearing ratios (Net debt/Adjusted EBITDA)									
Heathrow (SP) Class A gearing		7.8x	6.9x	6.4x	6.3x	6.0x	6.0x	6.0x	6.3x
Heathrow (SP) Class B gearing		9.0x	7.9x	7.4x	7.3x	7.1x	7.0x	6.8x	7.1x
Heathrow Finance gearing		9.6x	8.5x	8.0x	7.9x	7.7x	7.8x	7.6x	8.3x
ICR: Interest Cover Ratio									
Heathrow (SP) Class A ICR	1.40x	2.62x	3.08x	2.98x	2.90x	3.12x	3.47x	3.72x	3.49x
Heathrow (SP) Class B ICR	1.20x	2.30x	2.43x	2.43x	2.36x	2.50x	2.76x	2.94x	2.92x
Heathrow Finance ICR	1.00x	2.08x	2.22x	2.23x	2.12x	2.25x	2.48x	2.62x	2.46x

Debt maturity profile at 31 December 2018

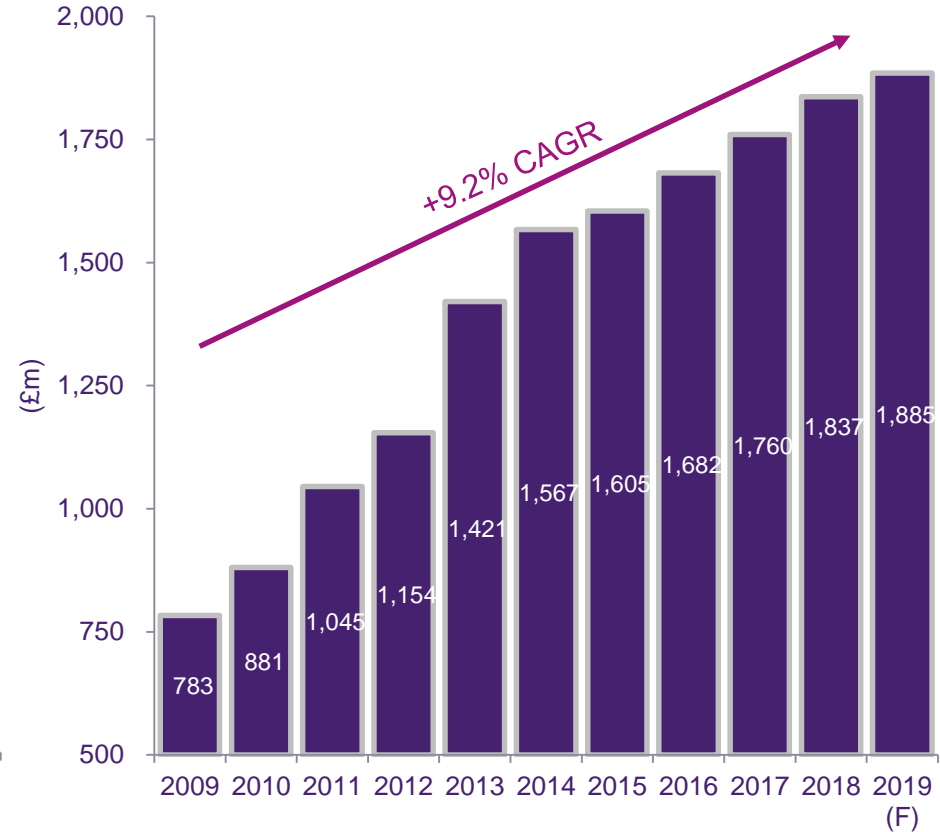


Long term financial track record and resilience of a critical global transport infrastructure business

Heathrow revenue



Heathrow EBITDA



*2019 forecast figures exclude the Brexit contingency of £114m

See page 30 for notes, sources and defined terms

Notes, sources and defined terms

- Page 6
 - Source of market size: Airport IS data December 2017. Source of airport rankings: ACI report, December 2018
 - Number of top 10 intercontinental routes involving Heathrow is sourced from OAG and based on available seats on non stop flights over 2,200 nautical miles for 2018
- Page 7
 - ATM: air transport movement
 - Low capacity utilisation in 2010 reflects primarily closure of air space due to ash from Icelandic volcano (April 2010) and disruption from severe winter weather (December 2010)
 - Proportion of long haul traffic as at 31 December 2018 sourced from companies websites
- Page 9
 - Heathrow Airport Limited has a wholly-owned subsidiary, Heathrow Express Operating Company Limited that sits within the ring-fenced financing structure
- Page 10
 - Regulatory asset ratio (RAR) is nominal net debt (including index-linked accretion) to RAB (regulatory asset base). Interest cover ratio (ICR) is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid
 - RAR is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%
 - ICR is trigger event at Class A and Class B and financial covenant at Heathrow Finance
 - Five Year Period is each consecutive five year period from 1 April 2008
- Page 18
 - Liquidity horizon takes into account payment of forecast capital investment, debt maturities, interest and distributions
- Page 22
 - Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI); survey scores range from 1 up to 5
- Page 23
 - Operating costs refer to Adjusted operating costs which exclude depreciation, amortisation and exceptional items
 - Adjusted EBITDA: earnings before interest, tax, depreciation, amortisation, certain re-measurements 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 27
 - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation, certain re-measurements and exceptional items
 - See notes to page 10 above regarding definitions and notes on RAR and ICR
 - 2018 forecast consistent with guidance published in Heathrow (SP) Investor Report released on released on 20 December 2018
- Page 29
 - EBITDA: Heathrow only (i.e. excludes Gatwick and Stansted) earnings before interest, tax, depreciation and amortisation, certain re-measurements and exceptional items
 - Other income: income from operational facilities and provision of utilities; rail income and property rental
 - Revenue figures prior to 2013 in different shading to reflect different categorisation of revenue between aeronautical, retail and other income; this does not impact total revenues
 - 2019 forecast figures exclude the Brexit contingency of £114m

Heathrow