



# Heathrow (SP) Limited

## Results for three months ended 31 March 2014

28 April 2014

**Heathrow**  
Making every journey better

# Strong operational and financial performance at the outset of the new regulatory period

- Highest ever passenger satisfaction levels reflecting steady operational improvement
- Financial performance provides strong position to start new regulatory period
- Transformation continues: Terminal 2 to start operations 4 June 2014 on time and on budget
- Refined proposal on third runway to be submitted to Airports Commission following public consultation

## Q1 2014 highlights

### Traffic and retail performance

Heathrow passenger traffic	+0.5%
NRI per passenger	+0.5%

### Key financial highlights

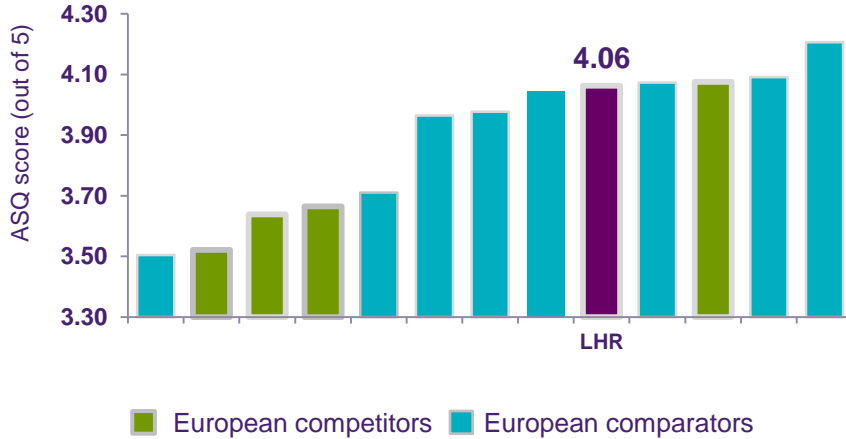
Revenue	+10.8%
Adjusted EBITDA	+31.8%

### Investment and financing

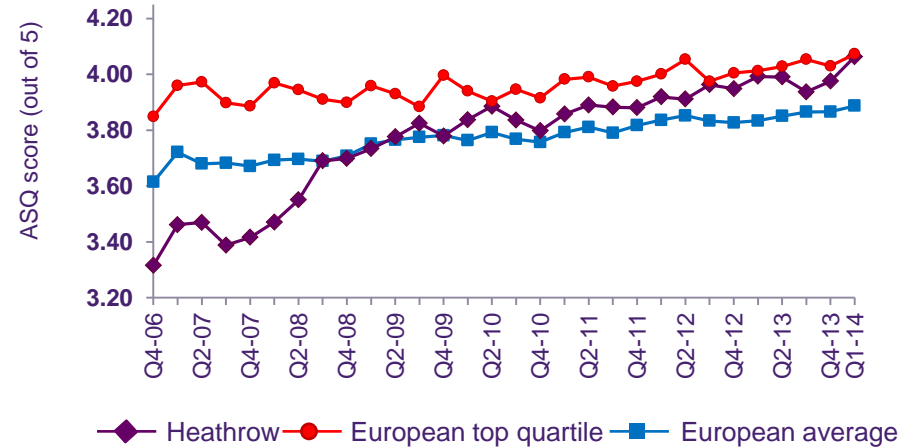
	£m
Capital expenditure	271
Net debt (senior and junior)	11,529
RAB	14,853

# A record 80% of passengers rating Heathrow experience as 'Excellent' or 'Very Good'

**Passenger satisfaction European ranking**  
Q1 2014



**Quarterly passenger satisfaction**  
Q4 2006 – Q1 2014



**Terminal 5 - World's Best Airport Terminal**  
....awarded to Heathrow 3 times in 3 years

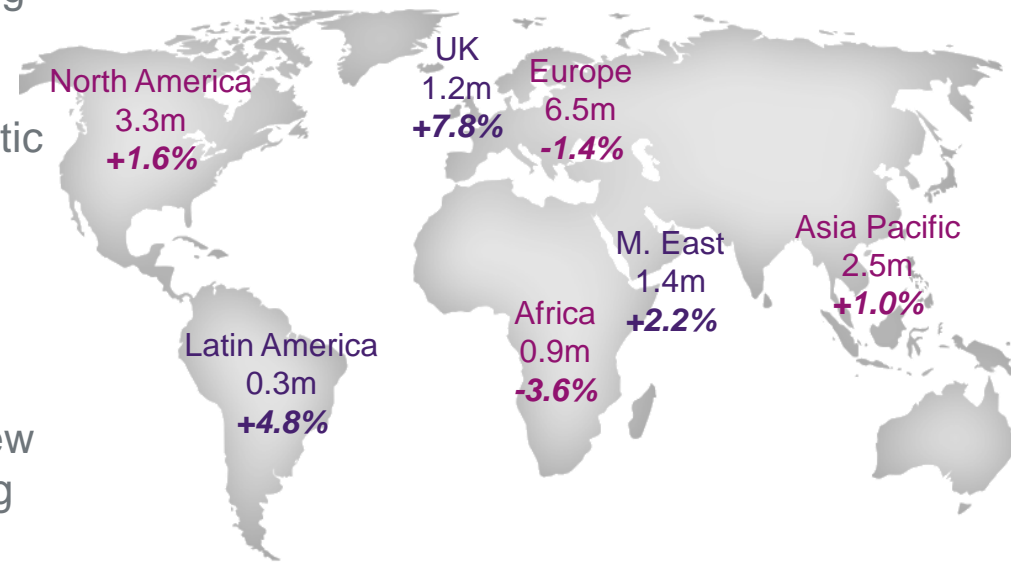


**Heathrow – World's Best Airport Shopping**  
....awarded to Heathrow 5 times in 5 years

# Traffic growth in line with expectations

- Traffic up 0.5% to 16.0 million passengers
- Around 2% underlying growth accounting for later 2014 Easter holiday
- Rise in domestic traffic from Virgin Atlantic Little Red services
- European traffic reduction from shift to intercontinental movements
- Growth in intercontinental traffic from new routes and additional frequencies driving air traffic movements up 0.6%

## Passenger traffic by market Q1 2014 versus Q1 2013



### Total Heathrow passengers

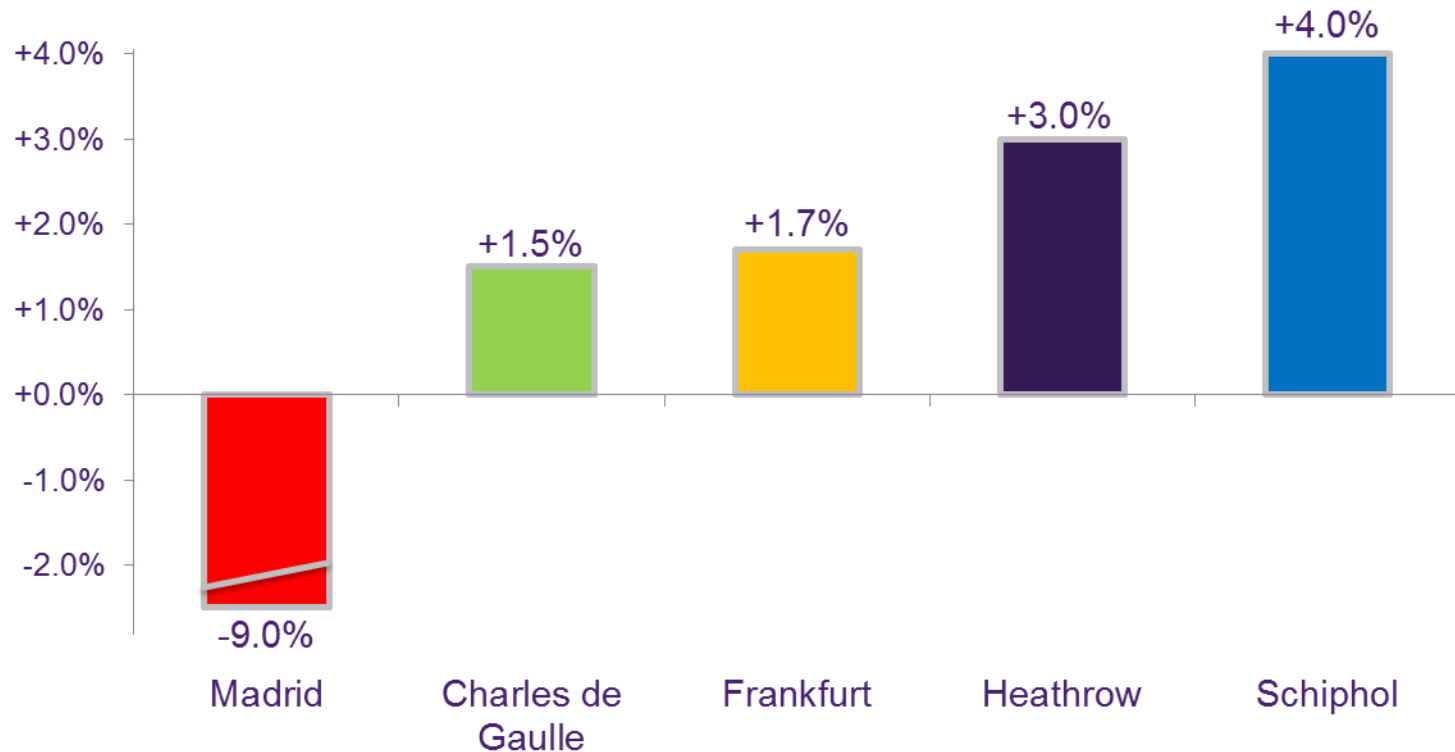
**16.0 million +0.5%**

*underlying excluding Easter impact*

*~+2.0%*

# Traffic growth at most major European hubs

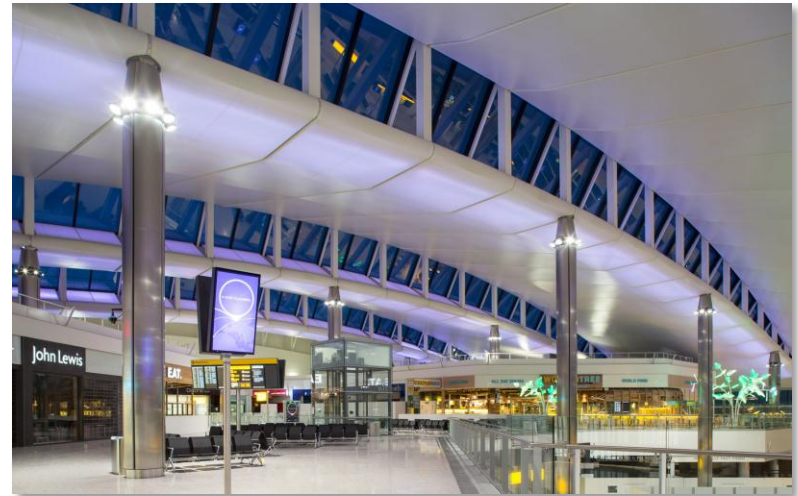
Change in passenger traffic at European hubs  
for 12 months to 31 March 2014





# Transforming Heathrow's infrastructure

- Terminal 2 – The Queen's Terminal
  - 26 airlines and home to Star Alliance at Heathrow
  - on track to start operations from 4 June with United Airlines
- Planning to meet challenges of opening
  - most new terminal openings worldwide have challenges on opening
  - extensive trials and familiarisation underway
  - phased transition from 17 daily departures on day one to 176 daily departures by October



# New regulatory period: 'Q6' started on 1 April 2014

- CAA headline tariff change RPI minus 1.5%
- Aims of Heathrow Q6 business plan
  - improve service and resilience
  - deliver operating efficiencies
  - grow revenue streams
- Heathrow business plan updated to reflect final settlement
- Change programmes underway to deliver operating efficiencies and revenue targets



# Heathrow refining shortlisted north west runway proposal

- Airports Commission interim findings
  - clear case for one net new runway in South East of England
  - Heathrow's north west proposal shortlisted
- Public consultations held in February and March
- Refined proposal to be submitted May 2014
- Heathrow is best placed for passengers, taxpayers and business
- Airports Commission final recommendation due in summer 2015



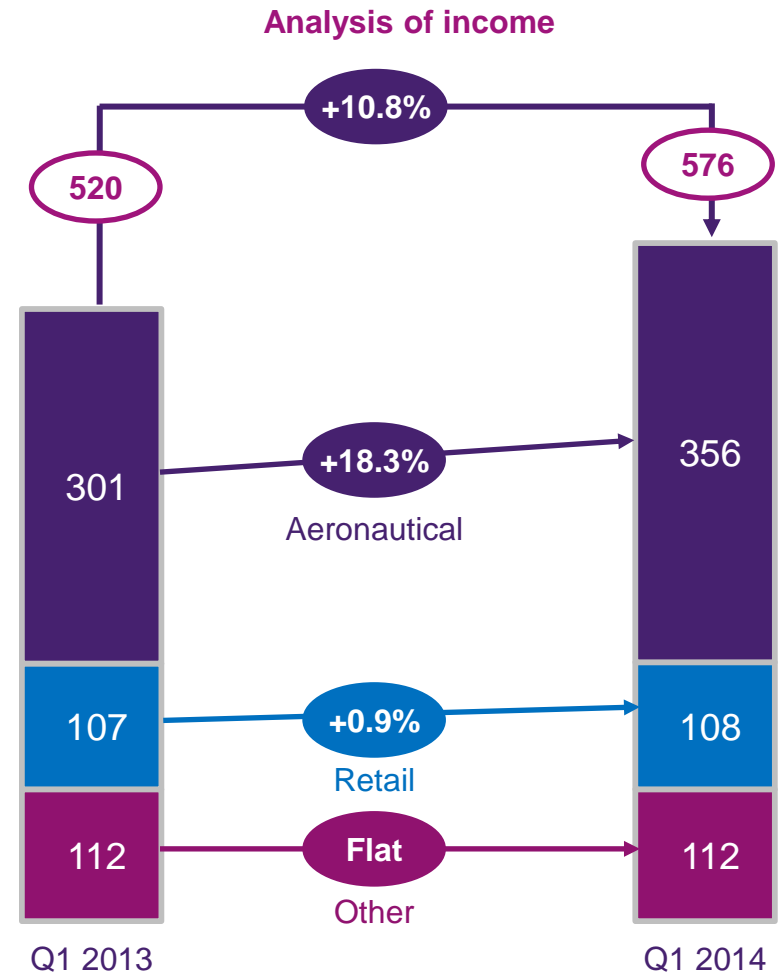


# Strong financial performance in the first quarter

(£m)	Q1 2013	Q1 2014	
Revenue	520	<b>576</b>	 +10.8%
Adjusted operating costs	278	<b>257</b>	 -7.6%
Adjusted EBITDA	242	<b>319</b>	 +31.8%
	Dec 2013	Mar 2014	
Consolidated Heathrow (SP) net debt	11,264	<b>11,529</b>	 +2.4%
Consolidated Heathrow Finance net debt	12,025	<b>12,288</b>	 +2.2%
RAB (Regulatory Asset Base)	14,585	<b>14,853</b>	 +1.8%

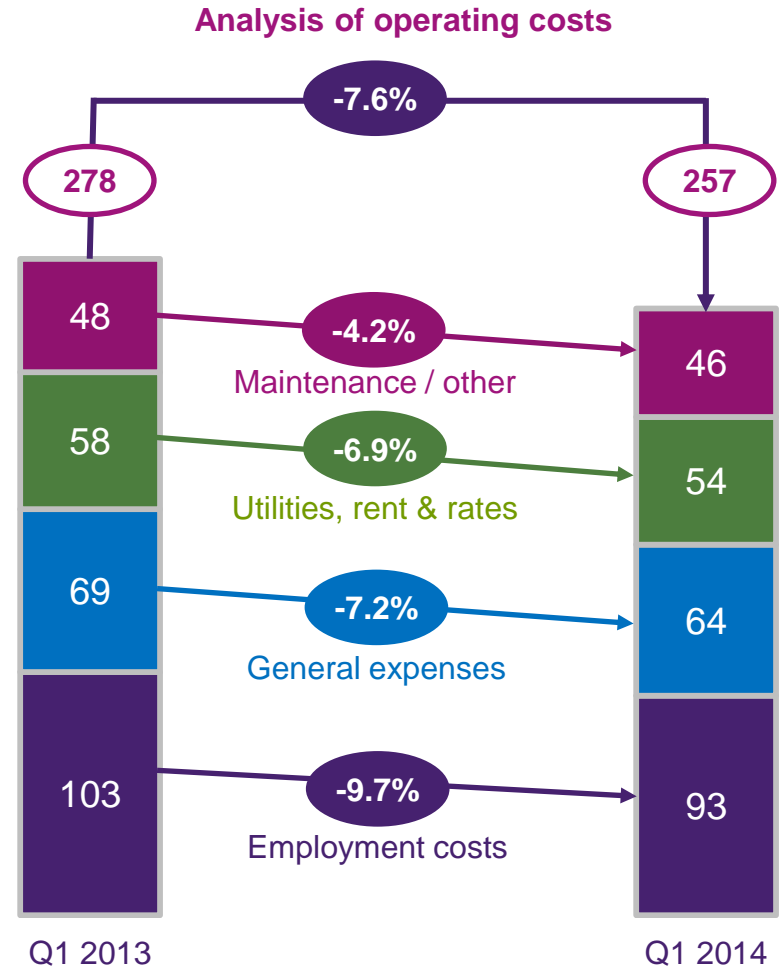
# Substantial growth in aeronautical revenue

- Aeronautical revenue drives overall growth
  - 10.4% headline tariff increase main driver
  - plus non recurrence of 2013 yield dilution, 2014 concentration plus 'K' factor recovery
- Net retail income per passenger up 0.5% to £6.36
  - car parking and car rental yielding benefits
  - sterling strength and refurbishment of luxury retail outlets moderating retail growth
  - impact of bureaux de change supplier transition arrangements

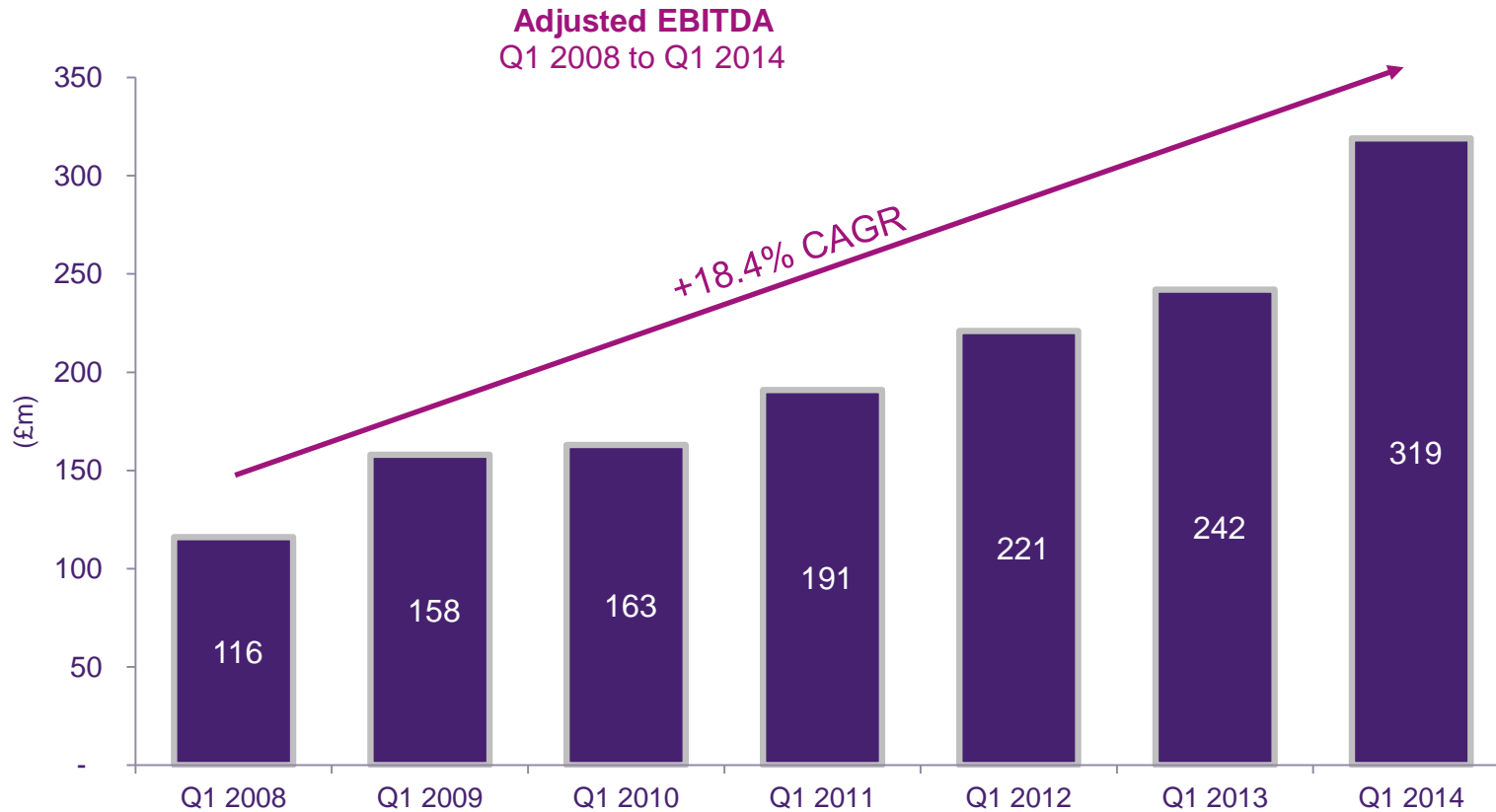


# Good cost performance

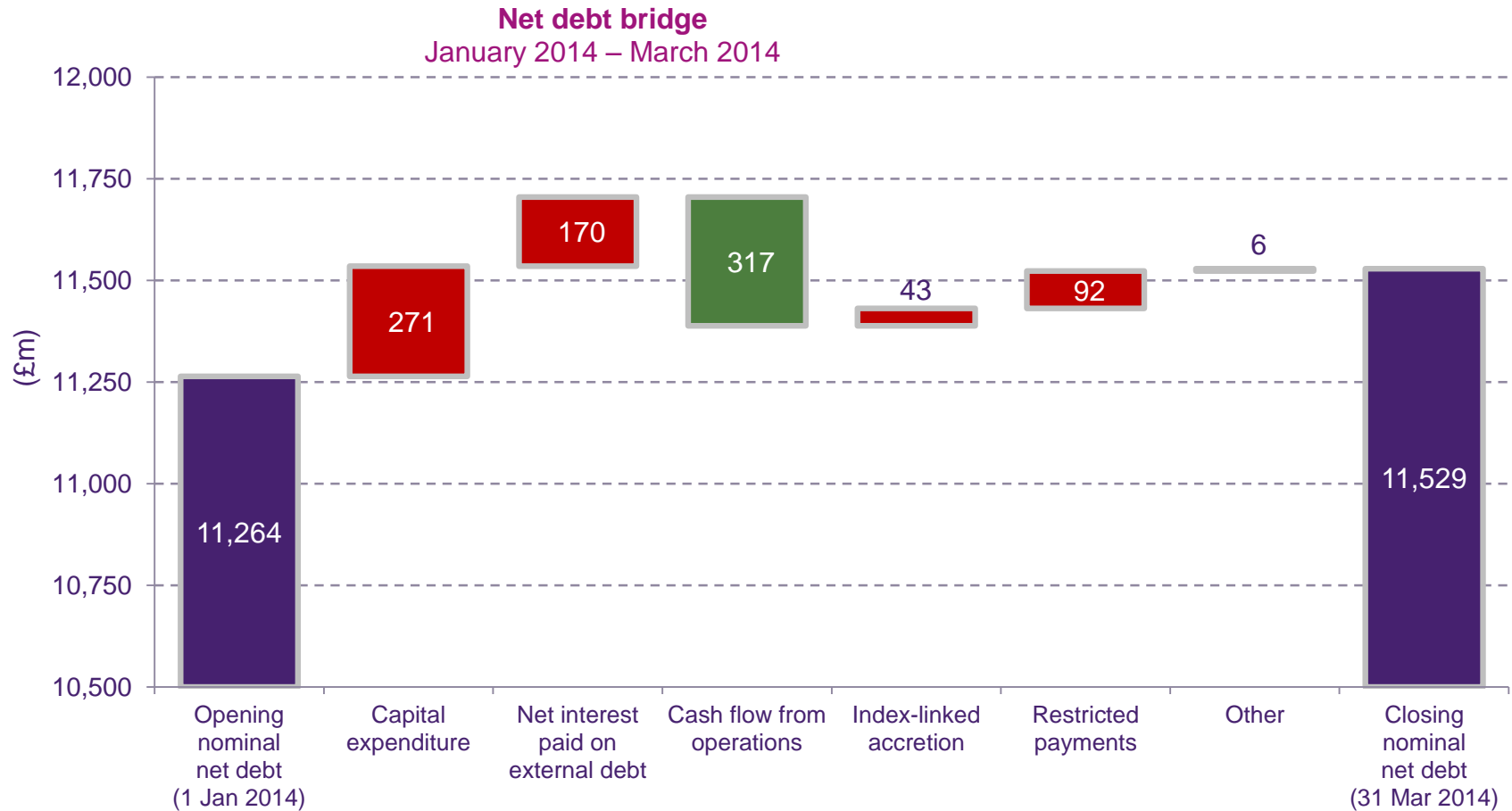
- Underlying costs reduced by around 3.7%
  - 2013 includes weather impact in general expenses and one-off employment costs
- Progress being made on costs to start new regulatory period
  - employment costs remain key focus: corporate centre restructure largely complete
  - major baggage contract change delivering benefits



# Double digit Adjusted EBITDA growth to support investment



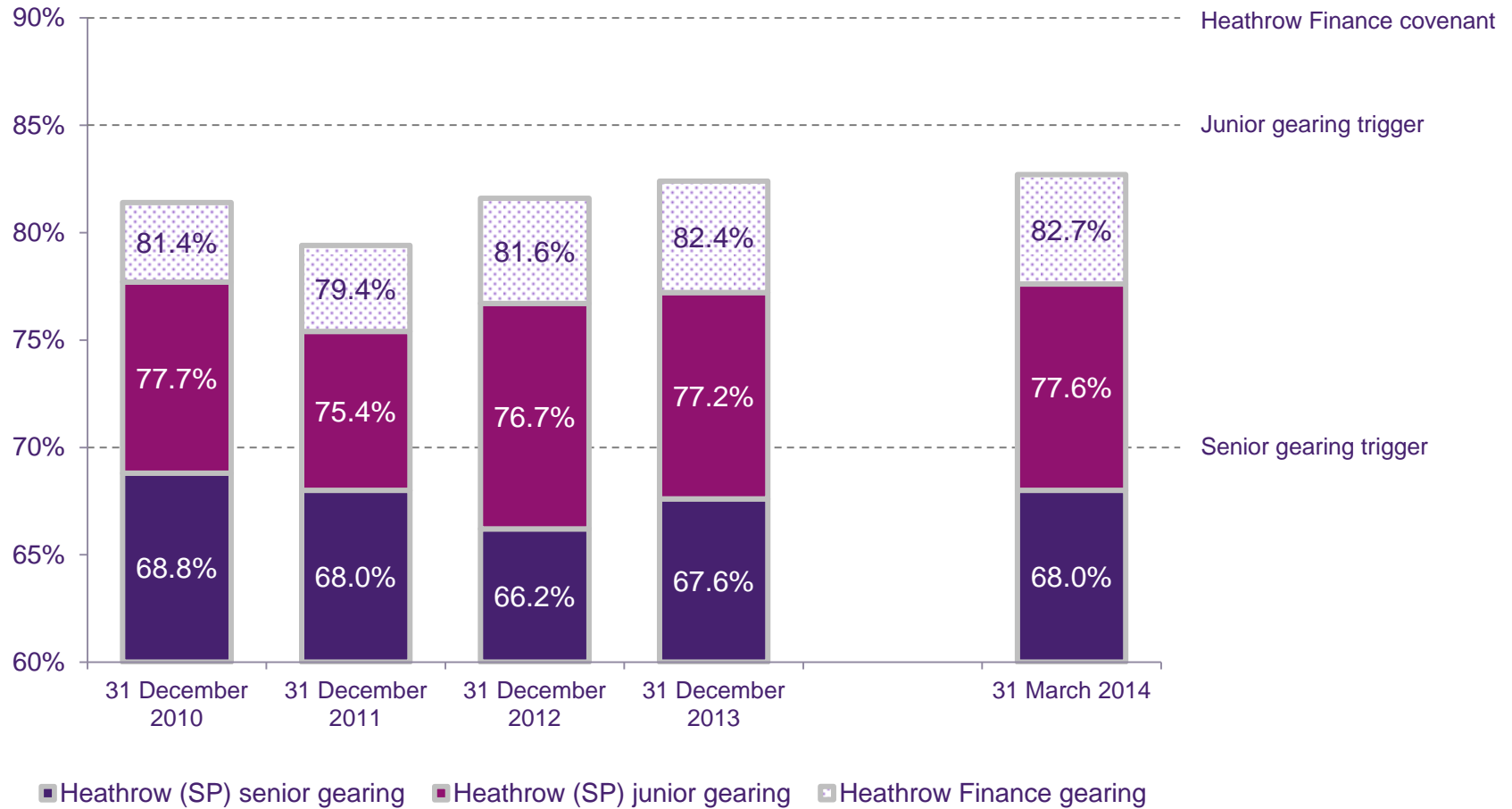
# Cash from operations after interest covered over 50% of capital expenditure





# Gearing headroom remains substantial

Evolution of gearing ratios



# Modest funding requirements for 2014

- £300 million already raised in 2014 building on almost £1 billion debt raised in 2013
- Q6 financing requirement declines to average less than £1.5 billion mainly refinancing existing debt maturities
- Funding target for remainder of 2014 in the region of £850 million
- Financing themes:
  - considering issuance in different currency markets
  - combine public issuance with private placements
  - liquidity horizon extends to early 2016

# 2014 outlook

- Adjusted EBITDA for 2014 expected to be above £1.5 billion
  - slightly higher than figure in December 2013 investor report of £1,513 million on a like-for-like basis (after reclassifying forecast Terminal 2 operational readiness costs as exceptional items)
- Outlook refined since CAA final decision to reflect trading in early months of the year, change in regulatory year-end and revised plans to meet the regulatory settlement
- Quarterly Adjusted EBITDA growth through 2014 expected to differ from normal pattern
  - tariff change deferred from April to July given proximity of final decision to start of Q6 and shortening of first regulatory year will concentrate revised tariff collection into second half
  - Terminal 2 opening drives increased operating costs from June
- Substantial proportion of 2014's increase in Adjusted EBITDA versus 2013 delivered in the first quarter with remainder expected to fall largely in the second half of 2014

# Conclusion

- Highest ever passenger satisfaction levels reflecting steady operational improvement
- Financial performance provides strong position to start new regulatory period
- Transformation continues: Terminal 2 to start operations on 4 June 2014 on time and on budget
- Refined proposal on third runway to be submitted to Airports Commission following public consultation
- Adjusted EBITDA for 2014 now expected to be above £1.5 billion, slightly ahead of previous expectations

# Appendix



# Heathrow (SP)'s consolidated net debt at 31 March 2014

		Amount		Amount and features of individual financings			
		(£m)		Local currency	S&P/Fitch rating	Maturity	
Senior (Class A)				(m)	(£m)		
Bonds		513		750	513	A-/A-	2014/16
		300		300	300	A-/A-	2015/17
		319		500	319	A-/A-	2015/17
		300		300	300	A-/A-	2016/18
		434		500	434	A-/A-	2016/18
		584		700	584	A-/A-	2017/19
		272		400	272	A-/A-	2017/19
		510		750	510	A-/A-	2018/20
		250		400	250	A-/A-	2019/21
		250		250	250	A-/A-	2021/23
		621		1,000	621	A-/A-	2021/23
		190		190	190	A-/A-	2022/24
		750		750	750	A-/A-	2023/25
		700		700	700	A-/A-	2026/28
		200		200	200	A-/A-	2028/30
		900		900	900	A-/A-	2031/33
		42		50	42	A-/A-	2032/34
		42		50	42	A-/A-	2032/34
		201		201	201	A-/A-	2032-49/34-51
		541		541	541	A-/A-	2039/41
		750		750	750	A-/A-	2041/43
		750		750	750	A-/A-	2046/48
<b>Total bonds</b>		<b>9,419</b>			<b>9,419</b>		
Loans	EIB Facilities	207		207	207	n/a	2014/22
	Revolving/Working Capital Facilities	0		1,625	1,625	n/a	2015/17
<b>Total loans</b>		<b>207</b>			<b>1,832</b>		
<b>Total senior debt</b>		<b>9,626</b>			<b>11,251</b>		
<b>Junior (Class B)</b>							
Bonds		400		400	400	BBB/BBB	2018
		400		400	400	BBB/BBB	2020
		600		600	600	BBB/BBB	2024
Loans		25		450	450	n/a	2017/18
<b>Total junior debt</b>		<b>1,425</b>			<b>1,850</b>		
<b>Gross debt</b>		<b>11,051</b>			<b>13,101</b>		
<b>Cash</b>		<b>-7</b>					
<b>Index-linked derivative accretion</b>		<b>485</b>					
<b>Net debt</b>		<b>11,529</b>					

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

# Notes, sources and defined terms

- Page 2
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items; NRI: net retail income; RAB: Regulatory Asset Base
  - Net debt is consolidated Heathrow (SP) Limited figure calculated on a nominal basis excluding intra-group loans and including index-linked accretion
- Page 3
  - Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 0 up to 5
  - SKYTRAX World Airport Awards : global awards for the World's Best Airports, voted by travellers from over 160 countries in the largest airport Customer Satisfaction survey
- Page 5
  - Sources: airport websites
- Page 9
  - Revenue, adjusted operating cost and Adjusted EBITDA are in respect of continuing operations only
  - 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
- Page 11
  - Adjusted operating costs exclude depreciation, amortisation and exceptional items
- Page 12
  - Adjusted EBITDA: Heathrow only (i.e. excludes Gatwick and Stansted) earnings before interest, tax, depreciation and amortisation and exceptional items
- Page 14
  - Gearing ratio: external nominal net debt (including index-linked accretion) to RAB (regulatory asset base)

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