

Heathrow

HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED
31st DECEMBER 2020



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2020 PERFORMANCE

OPERATIONAL AND FINANCIAL PERFORMANCE

FY2020 passengers

22.1m

-72.7%

Revenue

£1,175m

-61.7%

Operating costs

£905m

-21.2%

Adjusted EBITDA

£270m

-85.9%

Liquidity

£3.9bn

+148%

RAB

£16.5bn

-0.6%

Our response to COVID-19

- Decisive management actions delivered £108m revenue / £394m gross operating costs
- £700m cancellation or deferral of capital expenditure
- £2.5bn additional liquidity including £600m capital injection into regulated Group



STRATEGIC PRIORITIES

- Greater resilience, better service, lower cost
- Plan for recovery of international travel, based on Common International Standards
- Timely enforcement of existing regulation to correctly balance risk and reward
- Net zero-carbon aviation
- Sustainable, affordable, financeable and deliverable expanded Heathrow



BUSINESS UPDATE

PROTECT THE BUSINESS – FLY SAFE



QUICK AND DECISIVE RESPONSE TO COVID-19

Actions completed by Q2-20

2020 outlook: 29.2m passengers
2021 outlook: 62.8m passengers

- Organisational transformation
- Consolidation of operations
- Renegotiation of all suppliers' contracts
- Furlough scheme
- All committed facilities drawn
- Waiver secured from creditors

£100m cost savings realised
£2.7bn liquidity

Actions completed by Q4-20

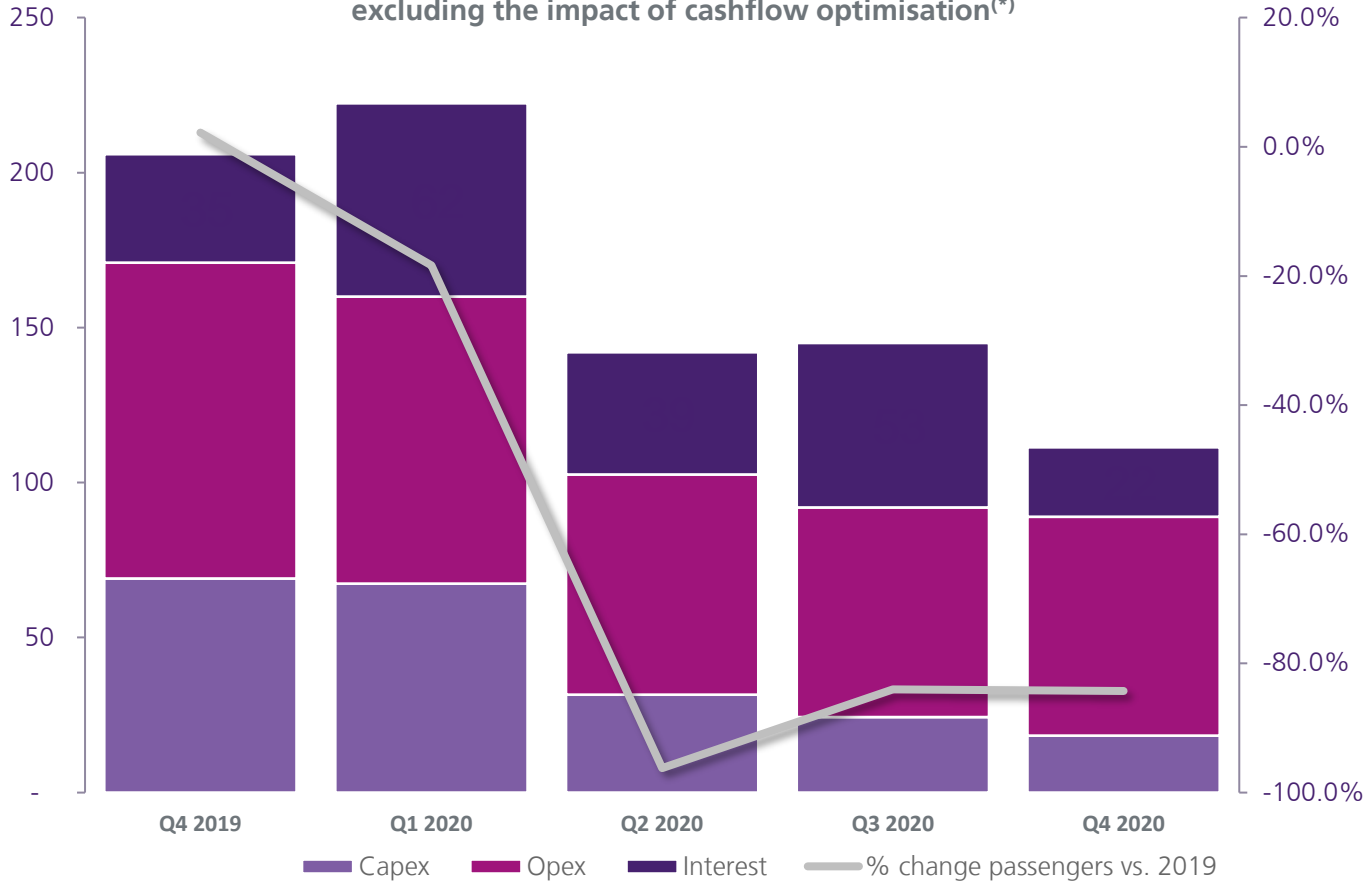
2020 outlook: 22.3m passengers
2021 outlook: 37.1m passengers

- 100% frontline colleagues agree to new terms aligned with market and above living wage
- Legacy allowances removed across all colleagues' terms
- Management roles reduced further
- £600m capital injection in regulated group
- Enhanced liquidity

c.£400m gross cost savings realised
£3.9bn liquidity

PROTECTING OUR BUSINESS – REDUCING CASH BURN

Average monthly cash burn levels (£m) excluding the impact of cashflow optimisation(*)



(*) Operating costs and swaps reprofiling completed in Q4 2020



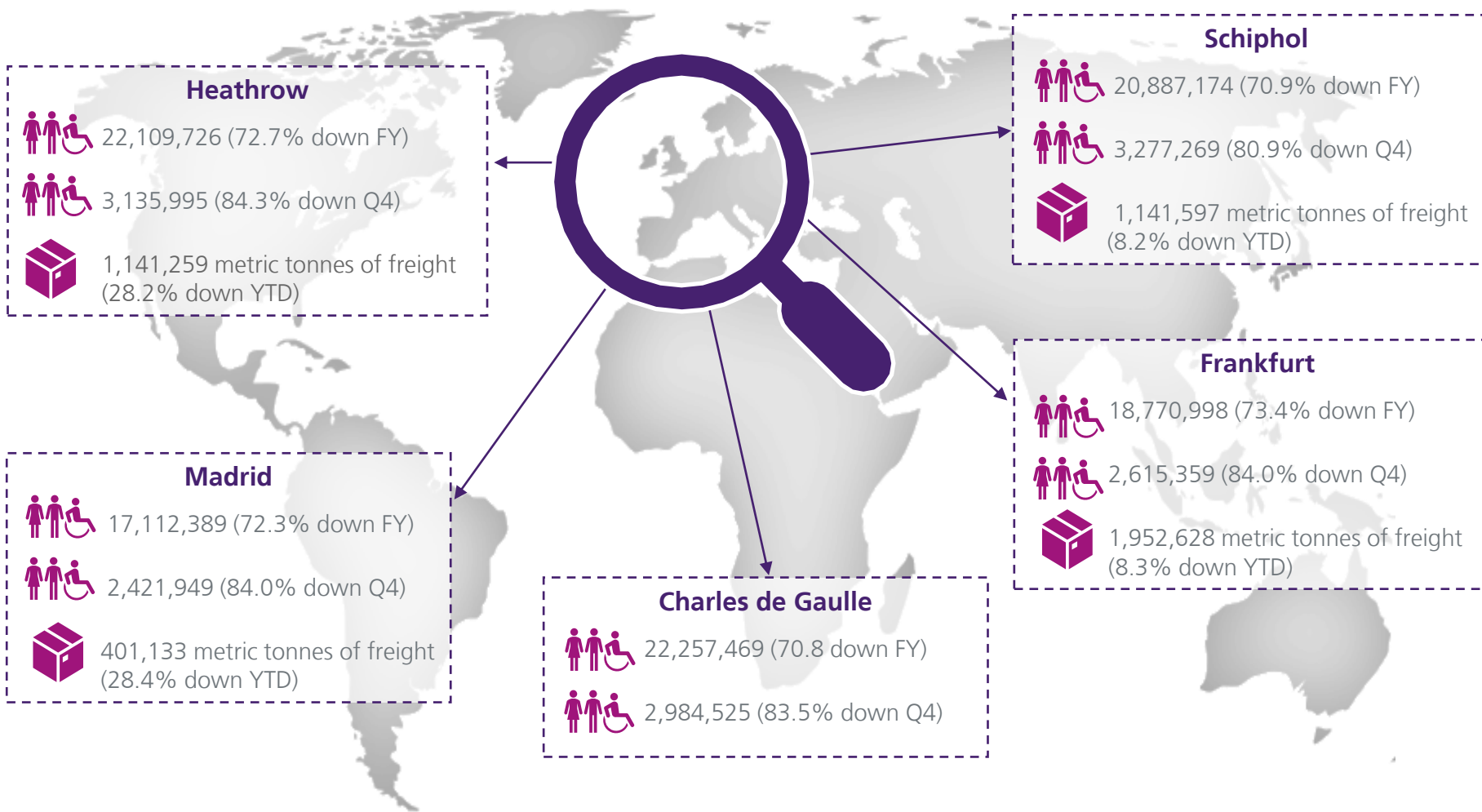
WINNING THE RECOVERY

Revenue protection initiatives

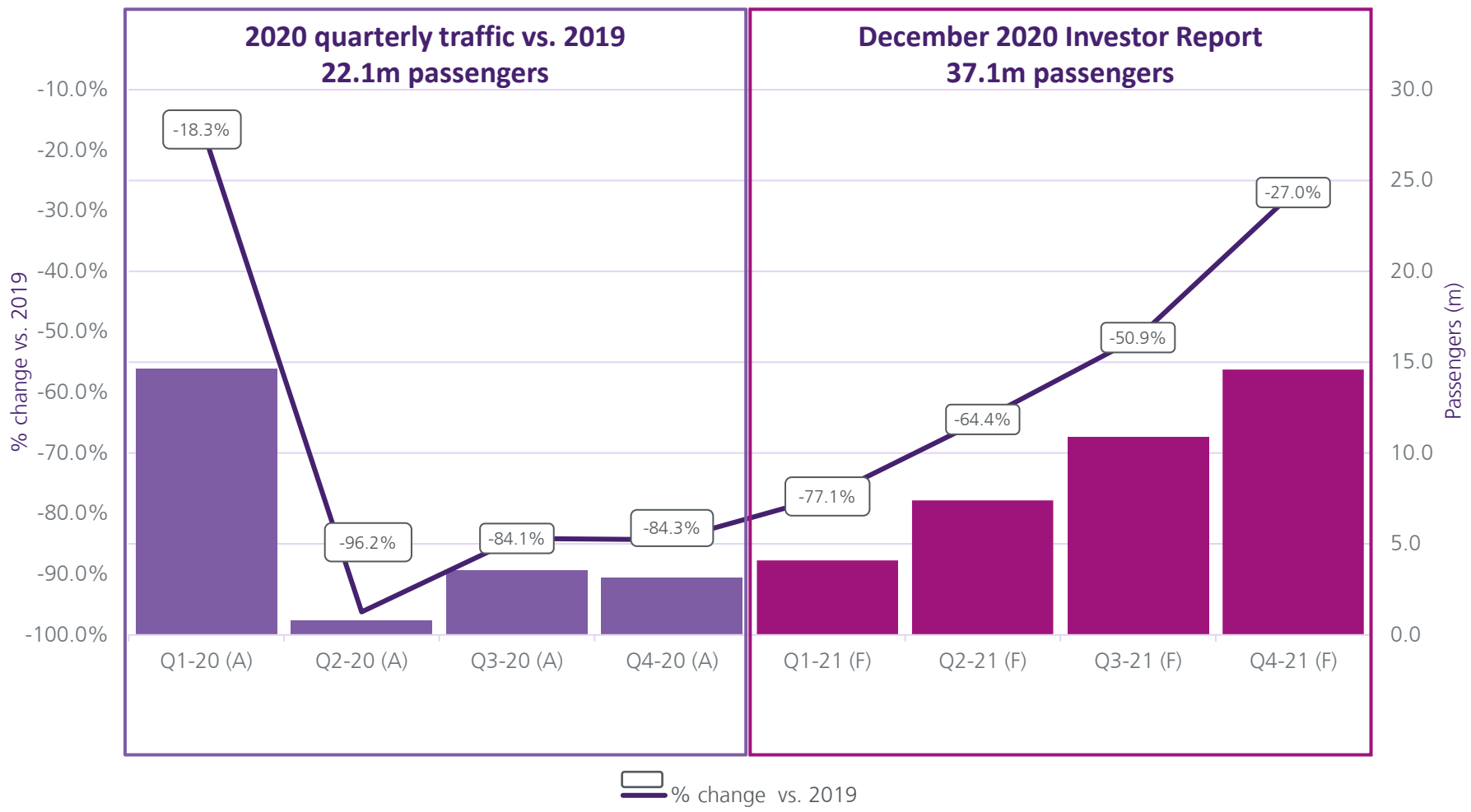
- Over 80% incumbent airline build-back
- Airline consolidation of London operations
- Eight new entrants
- 8x cargo growth – cargo-only movements and 'freighters' increase
- Optimising property and retail revenue

	2019	2020	Versus 2019 (%)
Passengers (m)	80.9	22.1	(72.7)
Long-haul traffic growth/(decline) %	2.2	(74.8)	N/A
Short-haul traffic growth/(decline) %	(0.3)	(70.3)	N/A
Passengers ATM	473,233	177,285	(69.7)
Cargo ATM	2,639	23,667	797
Load factors (%)	80.0	57.7	(27.9)
Seats per ATM	213.7	216.2	1.2
Cargo tonnage ('000)	1,587	1,141	(28.1)

FY2020 COMPARISON TO EUROPEAN HUBS



2021 TRAFFIC OUTLOOK





OUR PROPOSED PLAN FOR RECOVERY

- Ultimate goal of frictionless travel
- Risk based approach for next few years – flexible to adapt to changes in transmission levels
- Common International Standards for what is required and how it is validated electronically
- Opportunity for UK government to show leadership

BUILDING BACK BETTER

Regulation:

Execution of existing regulatory protections is needed in 2021

- CAA recognises that no intervention is not an option and presents 4 options to deal with exceptional shock
- Regulatory slow action or inaction could have expensive consequences for consumers

H7 framework also needs to rebalance risk and return

- Heathrow's Revised Business Plan submitted in December 2020
- Plan outlines base case traffic forecast, resulting operational and investment choices and financeability principles
- CAA to publish Initial Proposals in summer 2021

Sustainability:



Net zero-carbon by 2050



Heathrow 2.0 aligned with the UN's sustainable development goals



Transition to 'full maturity of disclosure'

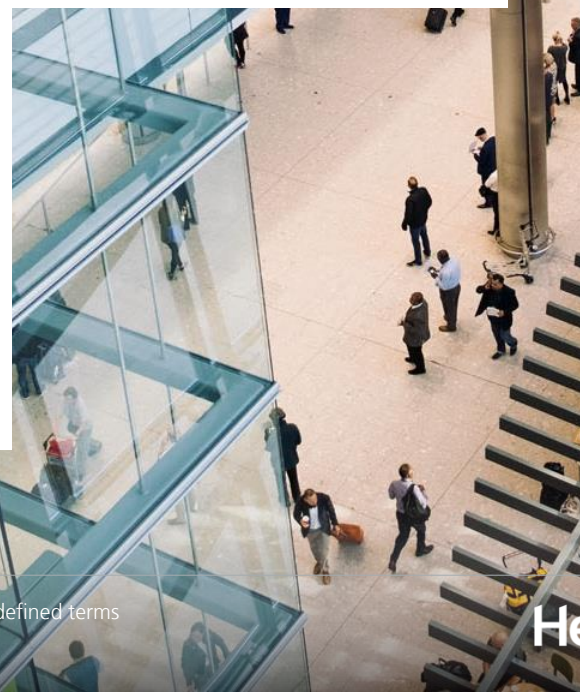
FINANCIAL REVIEW

FINANCIAL REVIEW



(£ million)	FY 2019	FY 2020	Versus 2019 %	Q4 2019	Q4 2020	Versus 2019 %
Revenue	3,070	1,175	(61.7)	768	224	(70.8)
Adjusted operating costs	1,149	905	(21.2)	306	213	(30.4)
Adjusted EBITDA	1,921	270	(85.9)	462	11	(97.6)
Profit/(loss) before tax	546	(2,012)	--	622	(495)	--
Cash generated from operations	1,942	(95)	--	479	(310)	--
Cash capital expenditure	856	521	(39.1)	207	151	(27.1)

(£ million)	Dec 2019	Dec 2020	Versus 2019 %
Consolidated nominal net debt			
Heathrow (SP)	12,412	13,131	5.8
Heathrow Finance	14,361	15,120	5.3
Regulatory Asset Base	16,598	16,492	(0.6)
Consolidated cash at Heathrow Finance	1,570	3,891	148



REVENUE IMPACTED BY REDUCED TRAFFIC

Multiple lockdowns hit aeronautical and retail revenue hardest

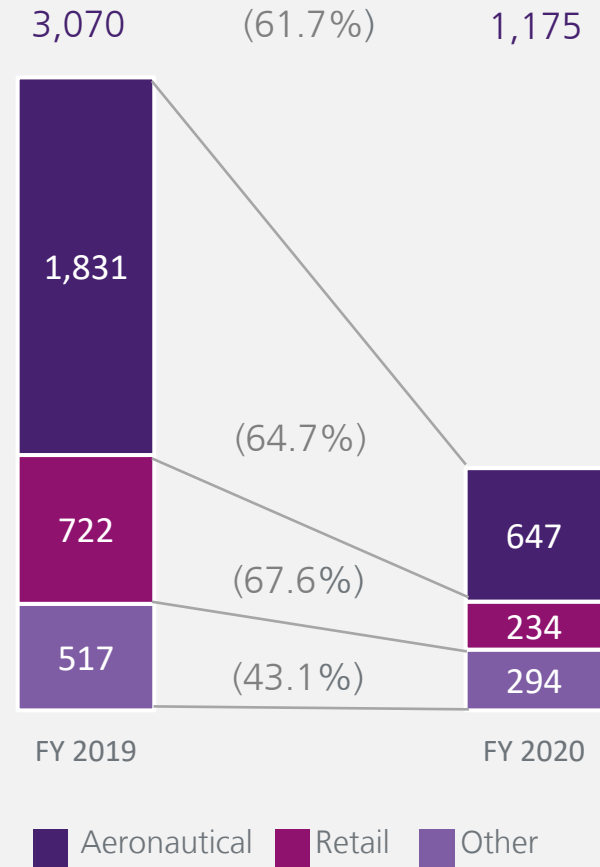
- passenger numbers remain low
- lower aircraft movements
- consolidation of retail outlets

Management initiatives mitigated revenue reduction

- cargo performance
- retail underlying resilience
- rent protection
- car parking yield management

Government decision on VAT/duty free poses significant risks in 2021 and c.15% charge increase to consumers from 2022

Analysis of revenue (£m)



ADAPTING OUR COST BASE: c.£400M GROSS SAVINGS DELIVERED IN 9 MONTHS

Gross cost savings amount to £394m, net £303m

- bad debt and people cost capitalisation

Quick and decisive action to cut costs

- Majority of cost savings implemented in April-May 2020
- £100m net savings realised every 3 months since March

Net cost savings target exceeded in 9 months

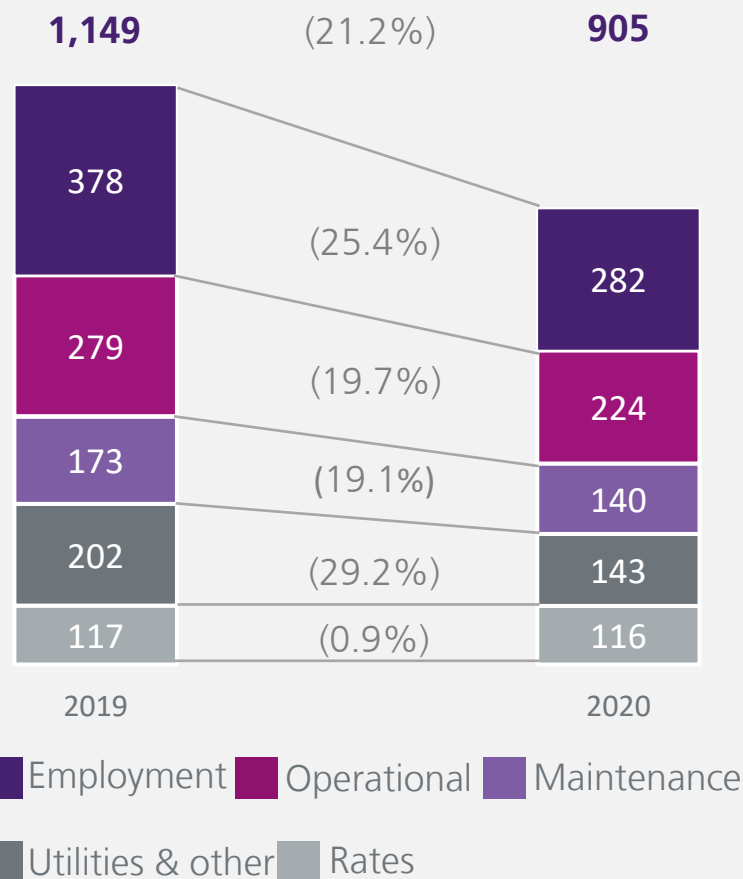
- c.£100m from people costs savings
- c.£100m from contract renegotiation
- c.£100m from lower volume, consolidation and other

Embedding some 2020 savings into permanent cost reductions from 2021

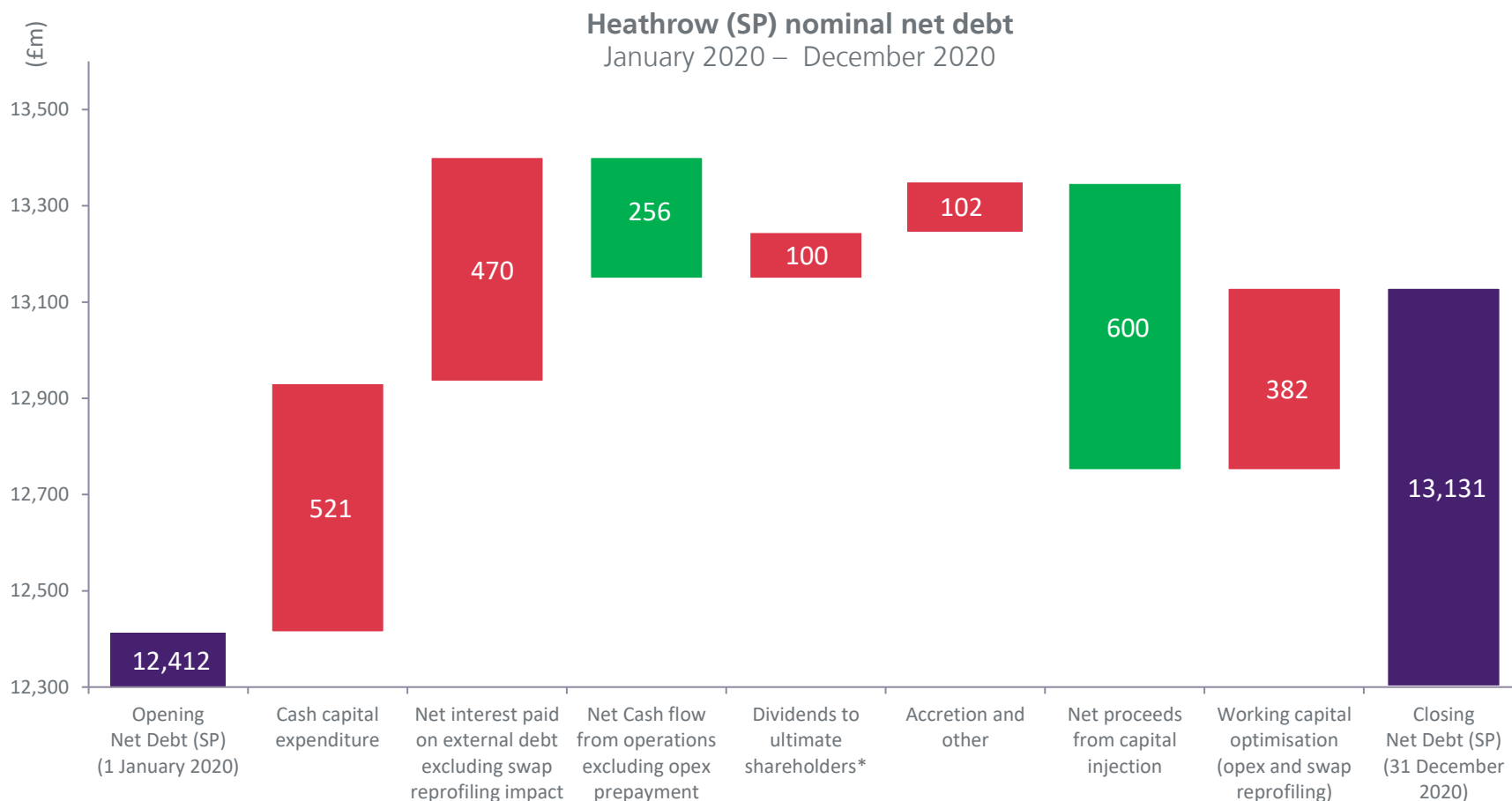
Government support remains muted besides furlough scheme ending in April

- business rates

Analysis of adjusted operating costs (£m)



WORKING CAPITAL OPTIMISED WITH PROCEEDS FROM CAPITAL INJECTION



(*) Dividend payment was made in February 2020 reflecting the cumulative outperformance of the business in 2019

FINANCIAL RESILIENCE

Protecting the business

Cashflow management

- Management actions secured £502m EBITDA
- £700m capex deferred or cancelled
- Focus on revenue protection in more resilient streams
- Additional savings identified given uncertain traffic recovery

Balance sheet management

- £2.5bn additional liquidity
- £600m capital injection into Heathrow SP
- Swap portfolio restructured to save interests over next few years
- No covenant breach forecast in 2021

Winning the recovery

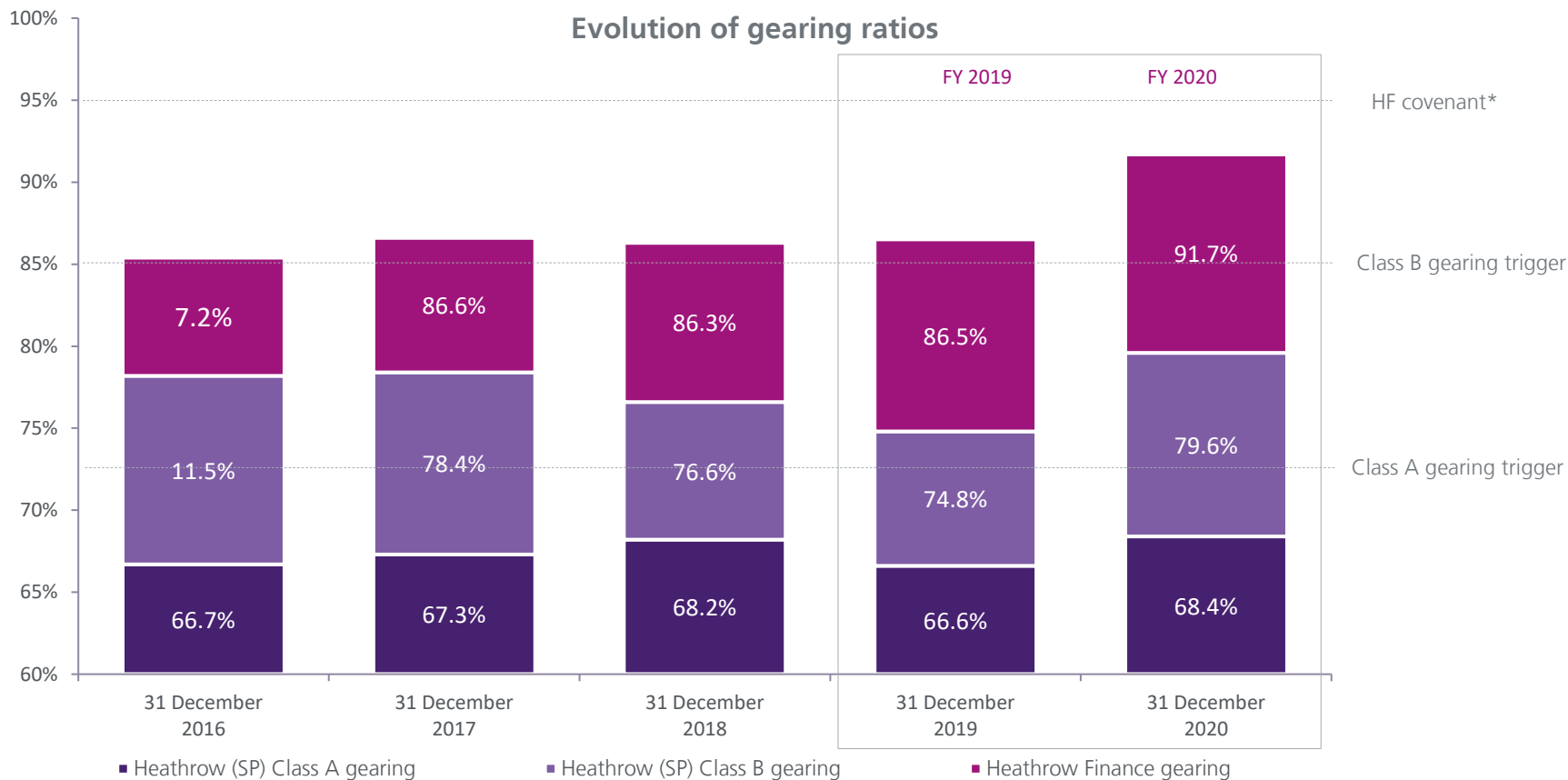
- Restoring credit rating metrics in the medium term

Building back better

- ESG financing



SUFFICIENT HEADROOM ON GEARING WITH ADDITIONAL BUFFER PROVIDED BY FURTHER CAPITAL INJECTION



(*) As a result of the waiver secured on 8 July 2020, Heathrow Finance's RAR covenant increased to 95.0% for the testing date occurring on 31 December 2020, and 93.5% for the testing date occurring on 31 December 2021.

OUTLOOK

2021 outlook remains consistent with December-2020 investor report

- 2021 traffic guidance: 37.1 million passengers
- No covenant breach forecast in 2021

Material uncertainty remains on traffic recovery

- Under sensitivity scenario with 27 million passengers, sufficient mitigations available to avoid covenant breach
- Additional cost savings initiatives being completed or already identified

Governmental and regulatory actions required to support recovery



STRATEGIC UPDATE

TO GIVE PASSENGERS THE BEST AIRPORT SERVICE IN THE WORLD



QUESTIONS?



APPENDICES

COMPARISON AGAINST EUROPEAN HUBS

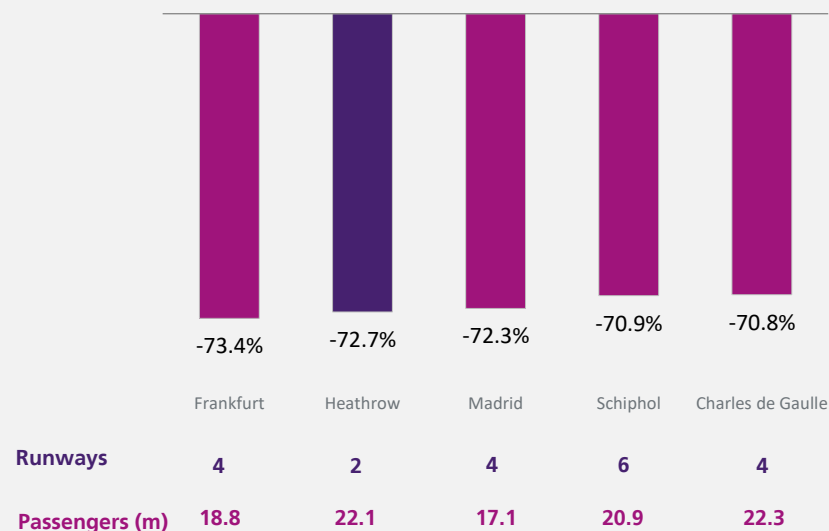
	2019	2020
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Long-haul traffic growth/(decline) (%)	2.2	(74.8)
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Passengers ATM	473,233	177,285
Cargo ATM	2,639	23,667
Load factors (%)	80.0	57.7
Seats per ATM	213.7	216.2
Cargo tonnage ('000)	1,587	1,141

	2019	2020
ASQ	4.19	4.24
Baggage connection	99.0%	99.2%
Departure punctuality	78.5%	85.7%

For the year ended 31 December except ASQ presented for the 3 months ended 31 December

Passenger traffic at European hubs

Year on year growth in traffic for
12 months to 31 December 2020



BUILDING BACK BETTER – EXPANSION

Heathrow will require additional capacity in the long term

- Supreme Court unanimously ruled the ANPS as lawful and legal Government policy
- Decarbonising aviation a central part the Government's green growth agenda
- We will consult with investors, Government, airline customers and regulators on our next steps.



HEATHROW NOMINAL NET DEBT AT 31 DECEMBER 2020

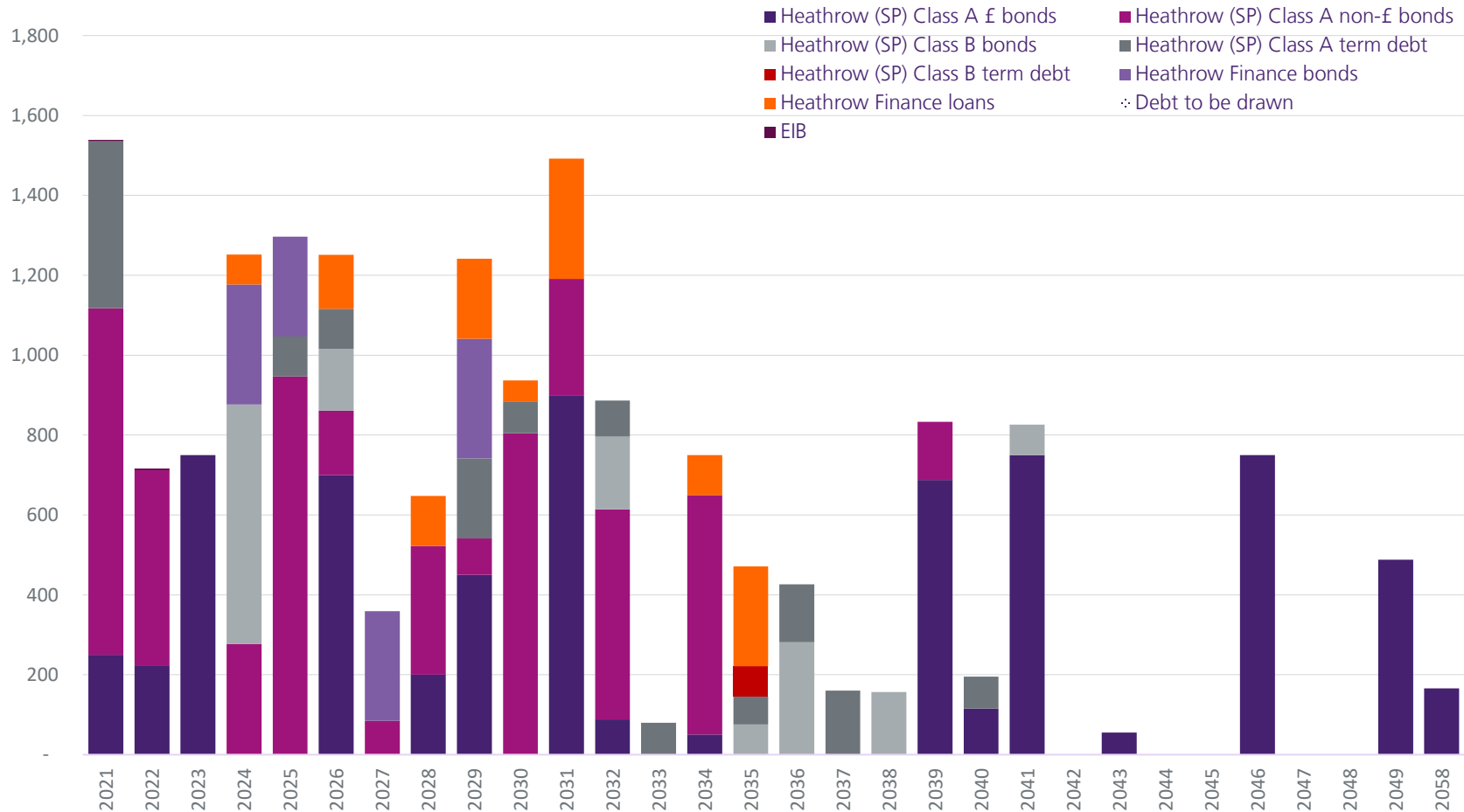
Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
Senior debt			
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	222	222	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
€750m 1.50%	681	681	2025
CHF210m 0.45%	161	161	2026
£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
A\$175m 4.150%	96	96	2028
£450m 2.75%	450	450	2029
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C\$400m 3.872%	238	238	2030
C\$500m 3.661%	291	291	2031
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	88	88	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	59	59	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	629	629	2039
¥10,000m 0.8%	71	71	2039
£100m RPI +1.238%	115	115	2040
£750m 5.875%	750	750	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	89	89	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	166	166	2058
Total senior bonds	12,229	12,229	
Term debt	1,531	1,531	Various
Index-linked derivative accretion	133	133	Various
Revolving/working capital facilities	900	900	2021
Operating lease liability	3	3	2021
Total other senior debt	2,567	2,567	
Total senior debt	14,796	14,796	
Heathrow (SP) Limited cash	(3,516)		
Senior net debt	11,280		

Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
Junior debt			
£600m 7.125%	600	600	2024
£115m 4.221%	155	155	2026
£182 0.101%	182	182	2032
£75m RPI + 0.347%	76	76	2035
£75m RPI + 0.337%	76	76	2036
£180m RPI +1.061%	205	205	2036
£51m RPI + 0.419%	52	52	2038
£105m 3.460%	105	105	2038
£75m RPI + 0.362%	76	76	2041
Total junior bonds	1,526	1,526	
Term debt	75	75	2035
Junior revolving credit facilities	250	250	2021
Total junior debt	1,851	1,851	
Heathrow (SP) Limited group net debt	13,131		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£300m 4.75%	300	300	2024
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
£300m 4.125%	300	300	2029
Total bonds	1,125	1,125	
£75m	75	75	2024
£135m	135	135	2026
£125m	125	125	2028
£150m	200	200	2029
£52m	53	53	2030
£301m	301	301	2031
£52m	100	100	2034
£300m	250	250	2035
Total loans	1,239	1,239	
Total Heathrow Finance plc debt	2,364	2,364	
Heathrow Finance plc cash	(375)		
Heathrow Finance plc net debt	1,989		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	14,796	14,796
Heathrow (SP) Limited junior debt	1,851	1,851
Heathrow Finance plc debt	2,364	2,364
Heathrow Finance plc group debt	19,011	19,011
Heathrow Finance plc group cash	(3,891)	
Heathrow Finance plc group net debt	15,120	

£1.5 BILLION MATURITIES IN 2021 ARE ALREADY PREFUNDED



NOTES, SOURCES AND DEFINED TERMS

Page 4-5

Adjusted EBITDA: is profit before interest, taxation, depreciation, amortization and fair value adjustments on investment properties and exceptional items.

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Capital expenditure includes capital creditors.

Page 11

Passenger and cargo numbers as at 31 December 2020 sourced from companies websites.

Page 16

Operating costs exclude depreciation, amortization and fair value adjustments on investment properties and exceptional items.

Adjusted EBITDA: is profit before interest, taxation, depreciation, amortization and fair value adjustments on investment properties and exceptional items.

Capital expenditure includes 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 18

Operating costs exclude depreciation, amortisation and fair value adjustments on investment properties and exceptional items.

Page 19

Opening and closing nominal net debt includes index-linked accretion.

Cash capital expenditure for the period.

Other comprises index-linked accretion, external tax payments and fees paid in relation to financing transactions.

Page 21

Gearing ratio: external nominal net debt (including index-linked accretion and additional lease liabilities) to RAB (regulatory asset base).

Page 27

Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5.

Passenger numbers as at 31 December 2020 sourced from companies websites.

Page 29-30

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

