Heathrow Finance plc

Roadshow presentation

May 2017

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Foundations of Heathrow credit

1	Strength and resilience of the business
2	Cash flow predictability from stable regulatory framework
3	Strong set of creditor protections

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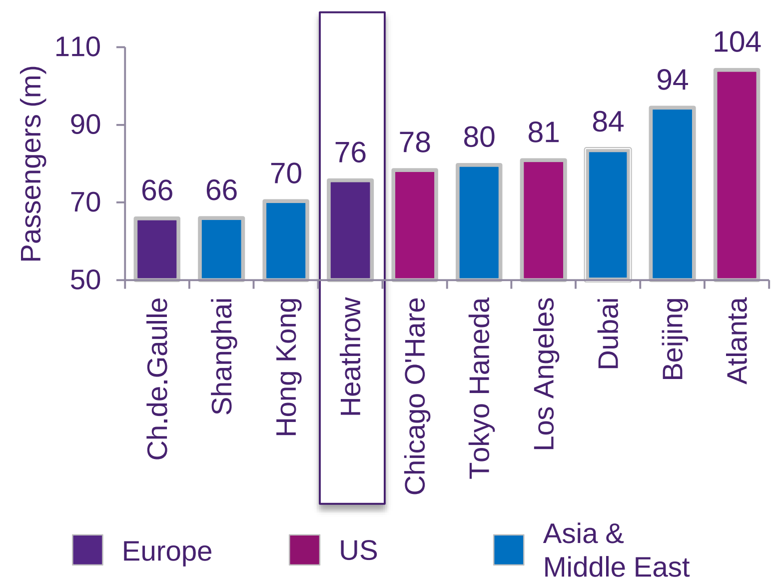
Heathrow is the primary airport in the world's largest aviation market

- Demand to fly to and from London is 15% higher than the next largest market
  - Heathrow is busiest airport in Europe and seventh busiest airport in the world
  - ~50% of traffic across London airport system
- Heathrow enjoys strong industry position
  - ~75% of UK long haul scheduled traffic
  - >90 long haul routes, one of only 5 airports globally with >50 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 2016



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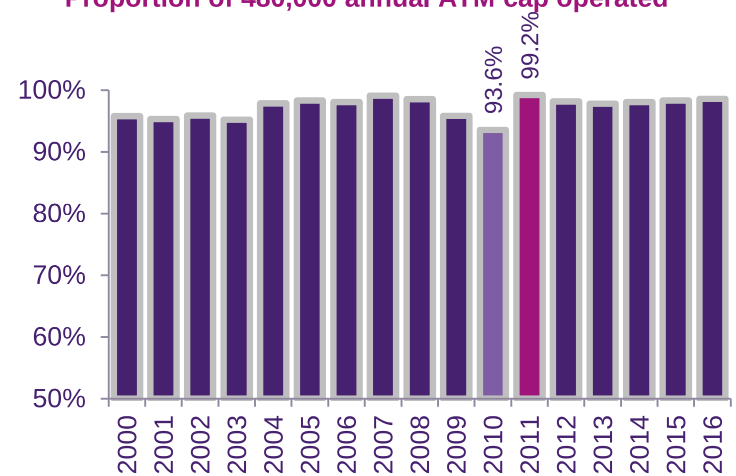
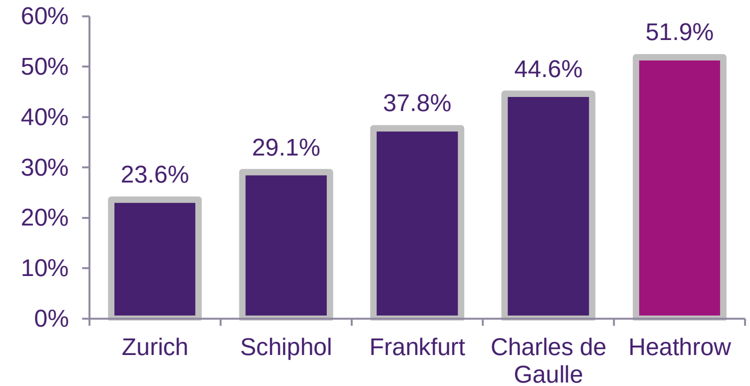
Heathrow's strength and resilience driven by traffic profile

- 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





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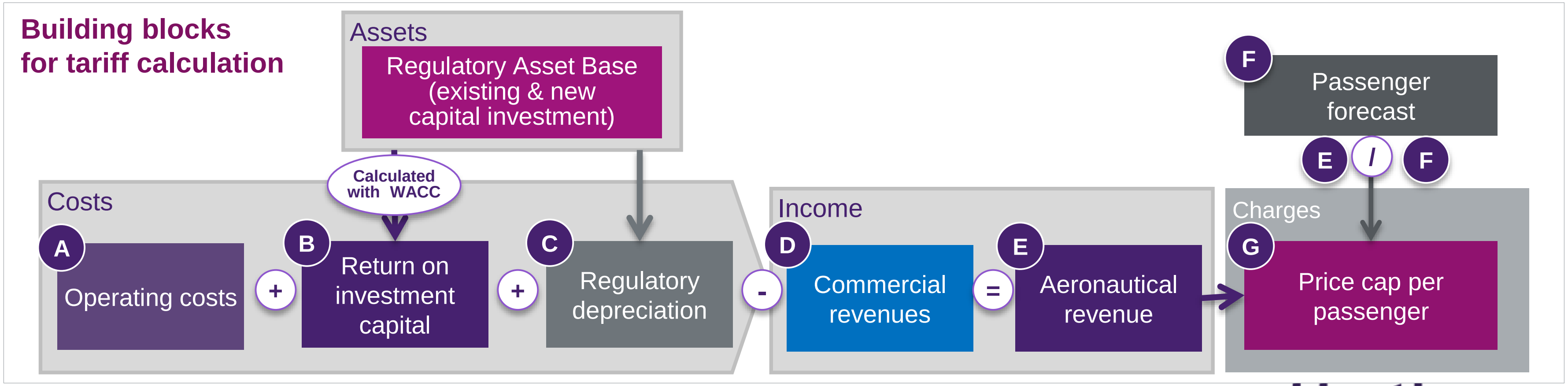
Cash flow predictability from a stable regulatory framework

- 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
- £15.3 billion Regulatory Asset Base (‘RAB’) includes virtually all assets in business
- ‘RAB based’ price regulation similar to other UK regulated utilities
- Current ‘Q6’ regulatory period provides visibility to end 2019 following recent extension
- CAA has duty to ensure Heathrow can finance its activities



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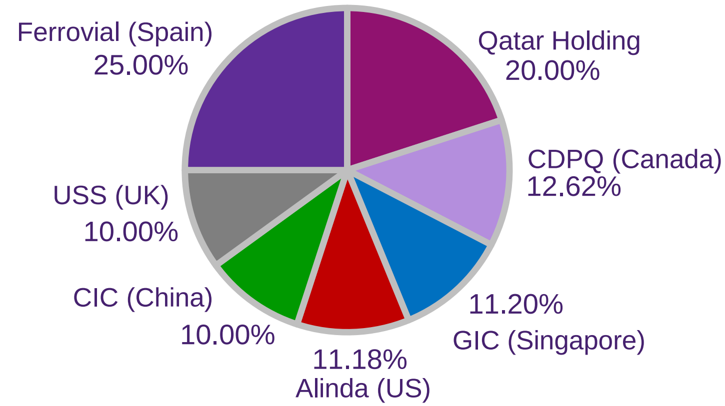
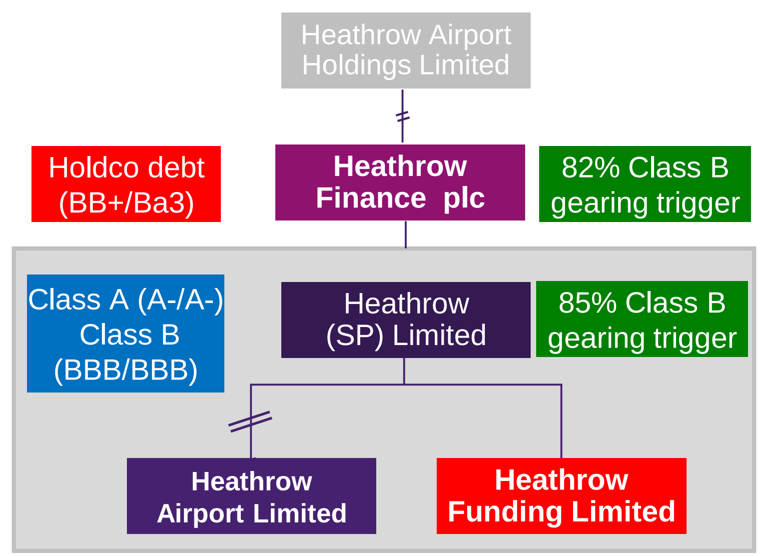
Overview of Heathrow financing

- Largest wholly-privately financed airport globally, owned by seven international investors
- Established debt financing platform – similar to major UK regulated utilities – with issuance in 6 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 March 2017
  - **Heathrow Finance: £950 million**
  - Class B: £1,740 million
  - Class A: £10,407 million

Heathrow ownership



Summary Heathrow financing structure



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Structural features of Heathrow Finance financing

- Senior security Heathrow (SP) Limited shares
- Heathrow Finance debt serviced by distributions from Heathrow (SP) Limited
  - £57 million in 2016 in Heathrow Finance debt service
  - significant debt service cover given £325 million in dividends to ultimate shareholders and nearly £30 million in debt service costs at ADIF2 in 2016
  - over £450 million liquidity buffer provided by differential Class B trigger events between Heathrow Finance (82.0%) and Heathrow (SP) (85.0%)
- Indirect benefit from Heathrow (SP) operational and financial covenants and distribution lock-ups
- Information covenants including semi-annual investor report with financial forecasts
- Cross-acceleration of Heathrow Finance debt with Heathrow (SP) debt

Summary operational/financial covenants and lock-ups across debt capital structure	
Regulatory Asset Ratio (Net Debt/RAB)	
Heathrow Finance covenant	**90.0%/92.5%**
Class B trigger	82.0%/85.0%
Class A trigger	70.0%/72.5%
Interest Cover Ratios (ICR)	
Heathrow Finance covenant	**1.00x**
Class B trigger	1.20x
Class A trigger	1.40x
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

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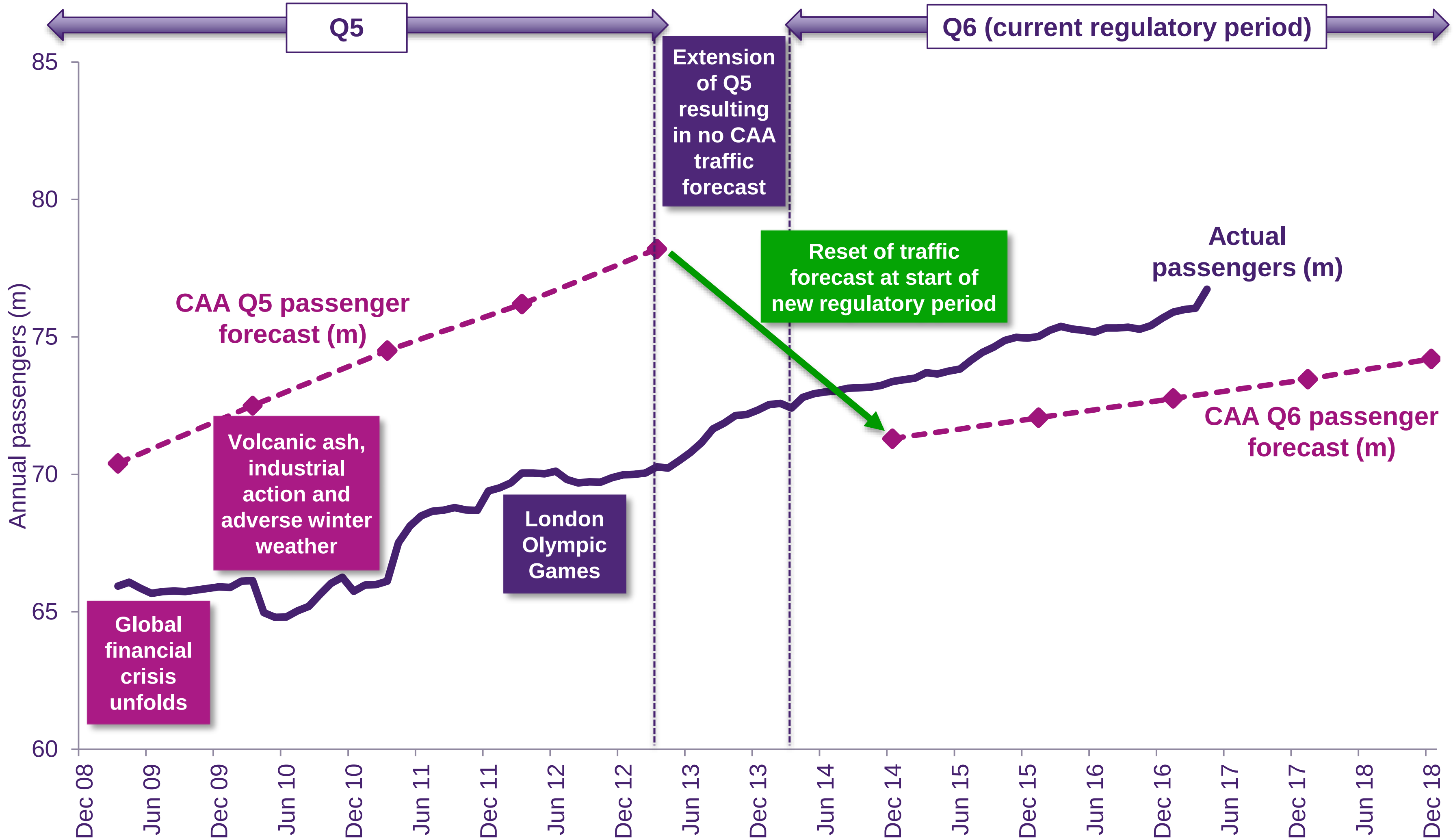
Delivering an ambitious growth plan

- CAA's Q6 settlement set challenging incremental revenue and cost efficiency targets
- Heathrow's business plan for current regulatory period targets delivery of close to £1 billion of incremental EBITDA growth over the period to the end of 2018
  - £300 million in incremental commercial revenue and £600 million in cost efficiencies
- Over £200m of revenue improvements have been secured to date
  - luxury retail redevelopments in Terminals 4 and 5
  - World Duty Free (WDF) 6.5 year contract extension (to 2026)
  - enhanced WDF stores in Terminals 4 and 5
  - car park revenue management (wider product range, yield and demand management)
- On track to deliver £600m cost efficiency target
  - supplier contract improvements (baggage, electricity infrastructure, air navigation services, energy)
  - multi-year pay deal, new terms and conditions and restructuring of corporate centre functions
  - defined benefit pension scheme changes
  - energy demand management
  - early closure of Terminal 1
  - further organisational change being implemented to drive towards final target

In addition to delivering revenue and cost improvements, traffic outperforming in current regulatory period



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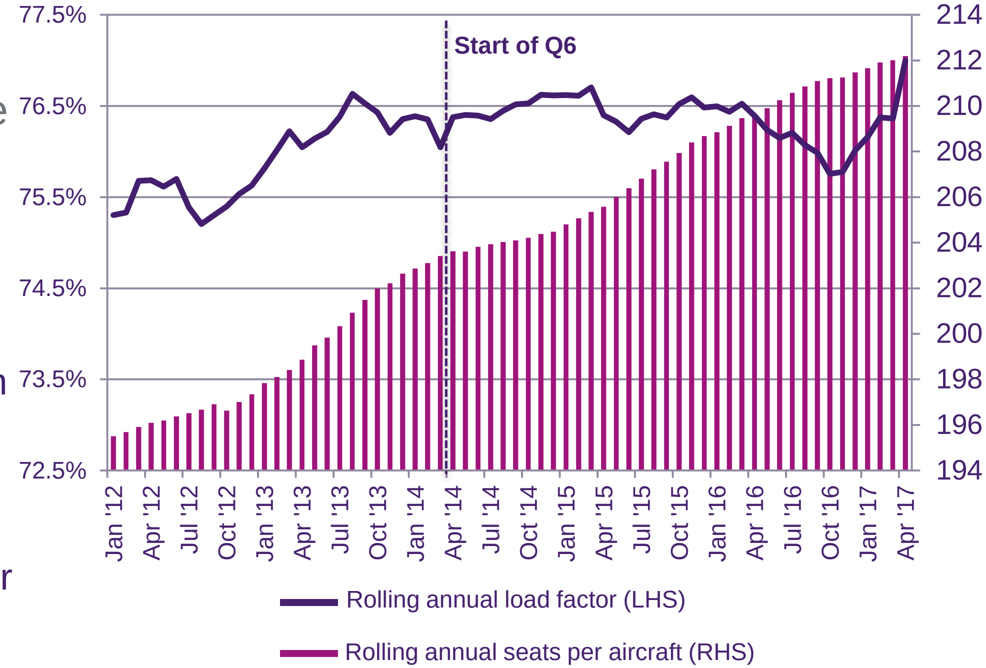
Q6 traffic reflects no shocks, increasing seat capacity and recent boost from rising load factors

- 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
  - more recent benefit from sterling depreciation
- Buoyant traffic at end of 2016 continued into first half of 2017
  - traffic up 4.6% as at April 2017 year to date or 5.5% adjusting for 2016's leap year
  - 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

Heathrow load factor/aircraft size trends (2012-2017)



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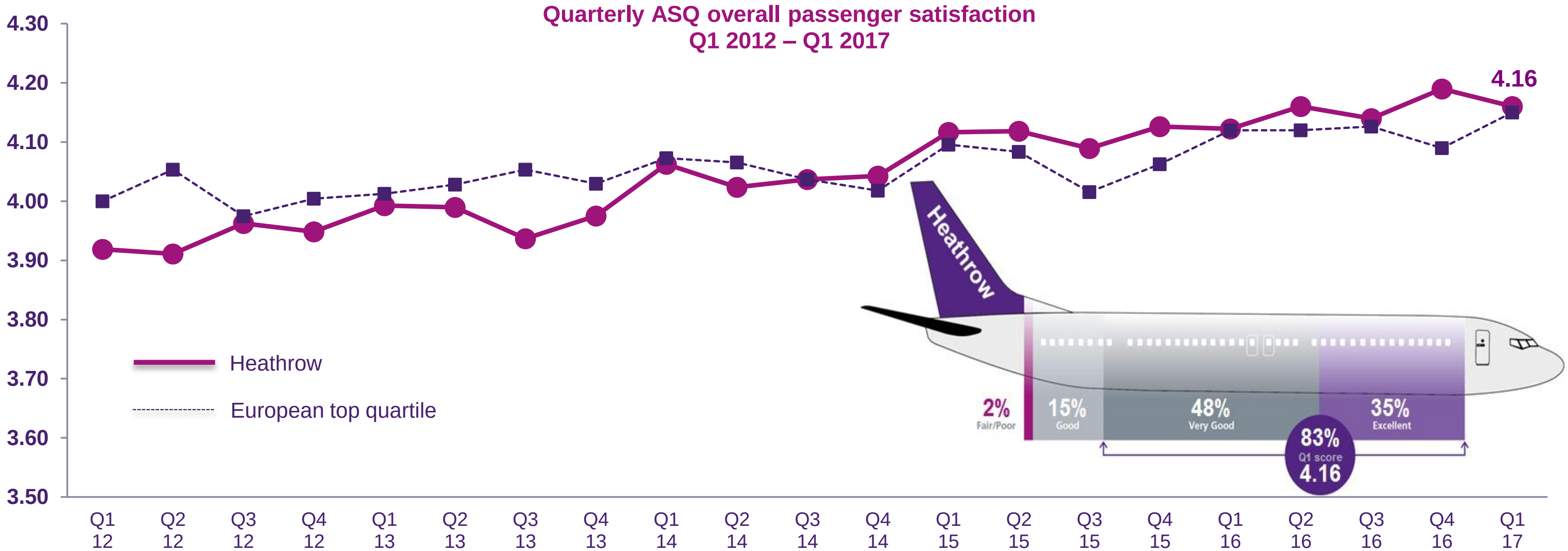
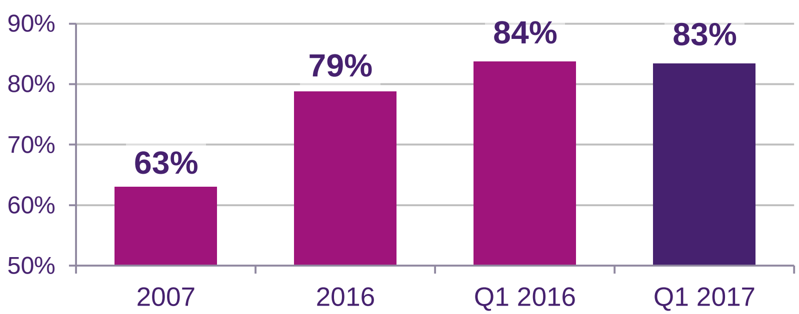
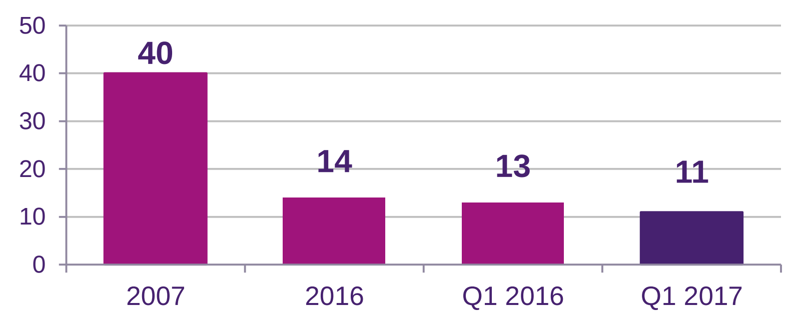
Record service standards complementing record traffic



Departures
within 15 minutes of schedule



Baggage performance
misconnect rate per 1,000 passengers



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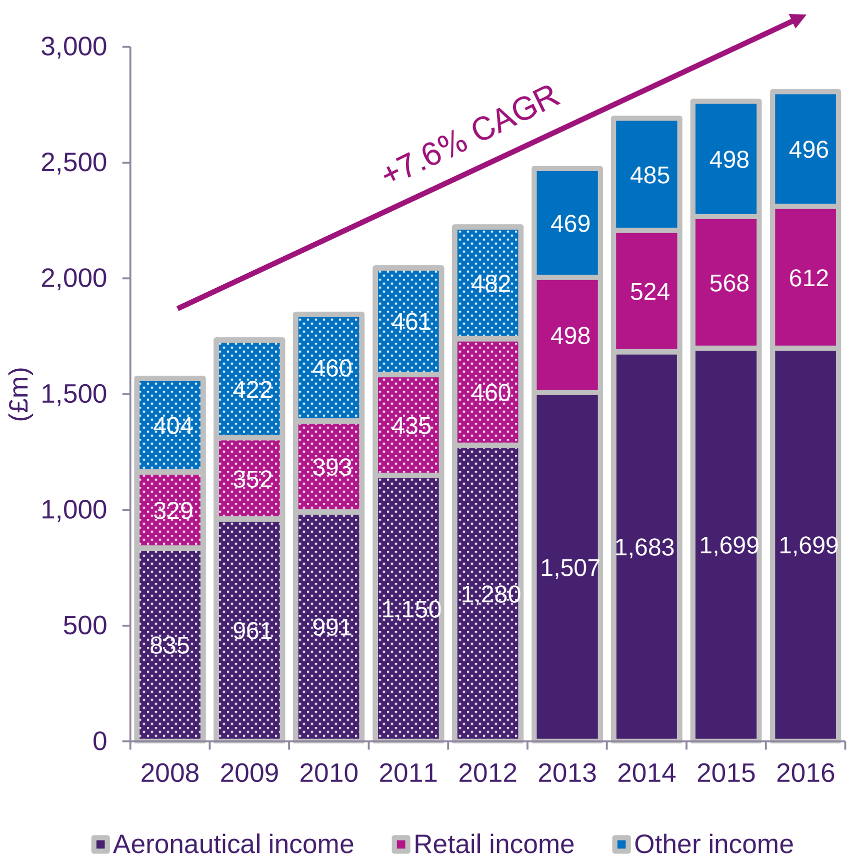
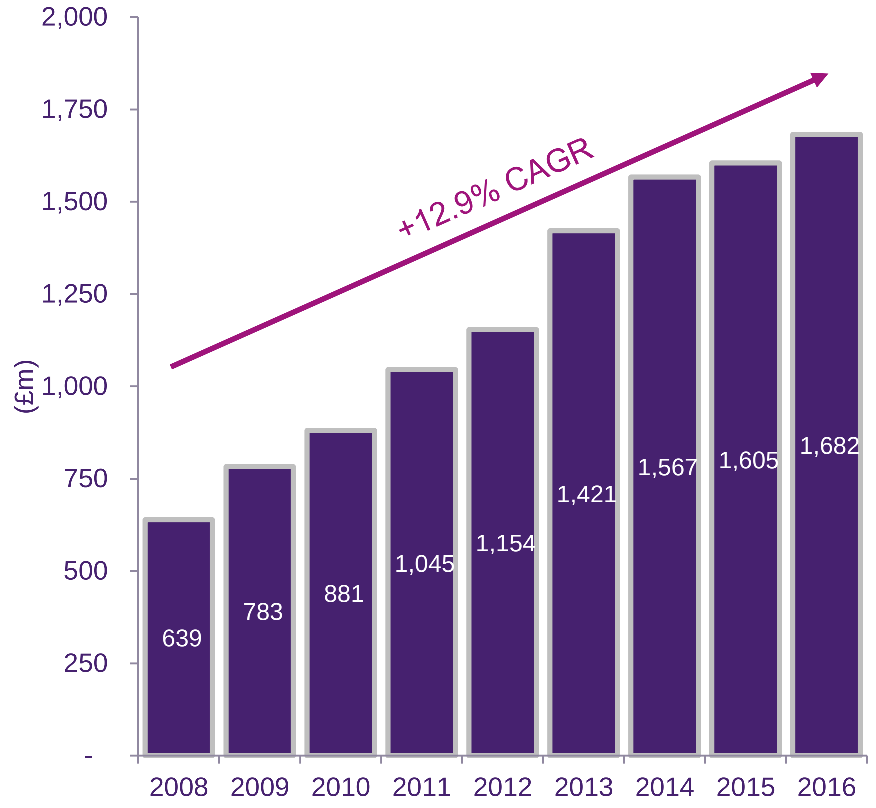
Long term financial track record and resilience of a critical global transport infrastructure business

Heathrow revenue



Heathrow EBITDA



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Strong start to 2017

(£ million)	**Q1 2017**	Q1 2016	Versus Q1 2016
Revenue	**655**	642	+2.0%
Operating costs	**273**	275	-0.7%
Adjusted EBITDA	**382**	367	+4.1%
Capital expenditure	**160**	144	+11.1%

	Mar 2017	Dec 2016	Change from 31 Dec 16
Consolidated nominal net debt			
Heathrow (SP)	**12,147**	11,908	+2.0%
Heathrow Finance	**13,097**	13,005	+0.7%
RAB	**15,323**	15,237	+0.6%

- Record service standards complement strong operational performance
- Record traffic driven by intercontinental
- Retail income per passenger up 6.4% whilst operating cost per passenger down 2.9%
- Nearly £170 million debt financing raised globally so far in 2017
- Expansion moves into delivery mode
- Full year traffic and financial outlook likely to be upgraded

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Key debt financing themes

Leverage levels	▪ Buffers to leverage trigger event and covenant levels at each level in capital structure ▪ Further liquidity buffer from differential in Class B trigger event levels between Heathrow Finance (82%) and Heathrow (SP) (85%)
Diversification	▪ Operating company financing requires spread of debt maturities ▪ Target maximum 10% of total term debt maturing in any calendar year ▪ Access to 6 currencies and multiple debt formats across capital structure
Liquidity	▪ Operating company financing requires minimum 12 months liquidity and spread of debt maturities ▪ Liquidity horizon currently extends to end 2018
Distribution	▪ Distributions considered consistent with maintaining target leverage levels
Expansion	▪ Target existing investment grade credit ratings ▪ Existing debt financing platform demonstrably scalable

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Expansion – Heathrow's proposal

- **New runway to the north-west**
- **3,500m long** – enough for any aircraft type to use
- **+260,000** annual flight capacity
- **130 million** total annual passenger capacity
- **Revised** following consultation to reduce noise effects and avoid M4/M25 junction

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Heathrow expansion

- Government support confirmed in October 2016
- Expansion programme moves into delivery mode
  - draft National Policy Statement aligned with Heathrow and Airports Commission proposals
  - engagement stepped up with airlines/local communities
  - Skills Taskforce and supply chain mobilisation
  - scope to increase capacity and reduce noise from 2021
- Affordability and financeability at heart of scheme
  - transformational for passengers, airlines and Heathrow
  - cost to obtain planning consent estimated at £250-300m
- Confident of delivering for the UK
  - overwhelming support of multiple stakeholders
  - track record of major project delivery (e.g. Terminal 5)
  - high quality, committed shareholder base
  - very strong global access to debt capital

What an expanded Heathrow could look like

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Heathrow expansion moves into delivery mode

Heathrow
Government
CAA

CAA decision on Category B costs (complete)

Heathrow consultation 1

CAA final report to Secretary of State on airline engagement

Heathrow consultation 2

2017

2018

2019

2020

2021

Consultation on draft National Policy Statement (NPS) (ends 25 May) to be followed by parliamentary scrutiny

CAA policy update on H7 review

Indicative deadline for CAA decision on Q6+1+1

NPS ‘designated’ by Government

CAA initial proposals for H7 regulation

Heathrow submits Development Consent Order (DCO) application

Government decision to grant DCO

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Summary of terms and conditions

Issuer	Heathrow Finance plc
Issue	Senior secured notes
Amount	[250]m
Currency	GBP
Maturity	[9.75] years
Call structure	NCL
Issue rating	BB+ / Ba3
Use of proceeds	Repay existing indebtedness of the Group and/or its holding companies, in particular, when combined with new term loans of up to £100 million raised at ADI Finance 2 Limited (‘ADIF2’), a holding company of the Group, to repay £310 million in existing term loans at ADIF2
Covenants	Group net indebtedness / RAB ratio (‘RAR’): ≤92.5% (benefit from 90.0% RAR under 2019 Notes) Group ICR: ≥1.0x
Ranking	The Notes will be general obligations of the Issuer and will be senior obligations of the Issuer, rank *pari passu* with the 2019 Notes, the 2025 Notes and the Issuer Facilities and will be structurally subordinated to all existing and future indebtedness of the Senior Borrower Group
Offering type	RegS
Governing law	English law

See page 30 for notes, sources and defined terms

Indicative sources and uses and pro forma capitalisation

Sources (£m)	
New senior secured notes	[250]
Total Sources	**[250]**

Uses (£m)	
Repayment of ADI Finance 2 facility	[247]
Cash retained for general corporate purposes	[-]
Transaction fees	[3]
Total Uses	**[250]**

Pro forma capitalisation as at 31 March 2017 (£m)	Accounting value	Accounting value pro forma
Current borrowings – Issuer	3	3
Current borrowings – Security Parent and subsidiaries	836	836
Total current borrowings	**839**	**839**
Non-current borrowings – Issuer		
Bonds	510	757
Loans	448	448
Total non-current borrowings – Issuer	**958**	**1,205**
Non-current borrowings – Security Parent and subsidiaries		
Bonds	10,817	10,817
Loans	1,115	1,115
Total non-current borrowings – Security Parent and subsidiaries	**11,932**	**11,932**
Total debt	**13,729**	**13,976**
Cash and cash equivalents	(330)	(330)
Total net debt	**13,399**	**13,646**

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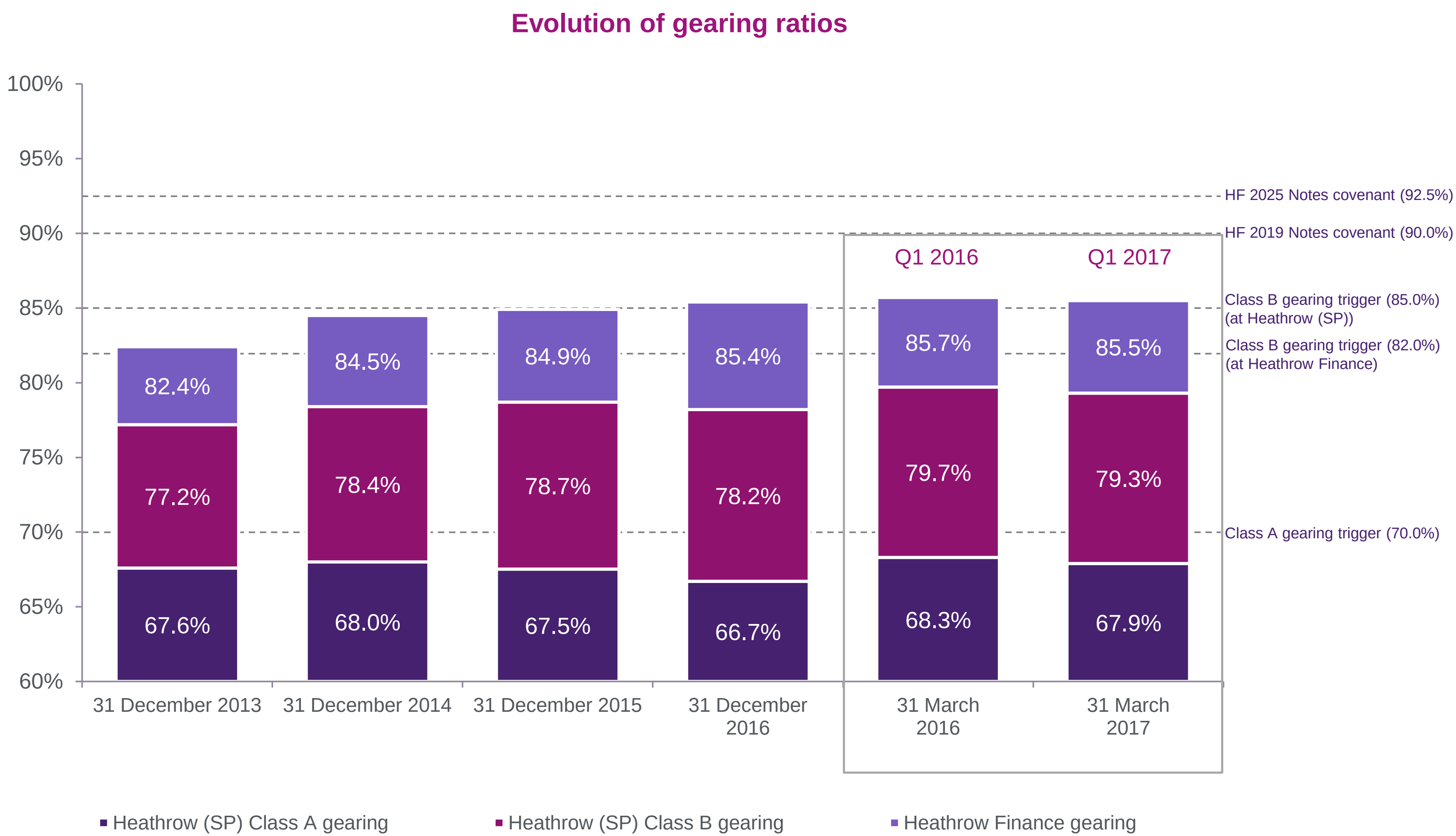
Substantial gearing headroom retained



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Robust stable financial ratios

As at or for year ended 31 December	Trigger / covenant	2010 (actual)	2011 (actual)	2012 (actual)	2013 (actual)	2014 (actual)	2015 (actual)	2016 (actual)
RAR: Regulatory Asset Ratio (Net debt/RAB)								
Heathrow (SP) Class A RAR	70.0%/72.5%	68.8%	68.0%	66.2%	67.6%	68.0%	67.5%	66.7%
Heathrow (SP) Class B RAR	82.0%/85.0%	77.7%	75.4%	76.7%	77.2%	78.4%	78.7%	78.2%
Heathrow Finance RAR	**90.0%/92.5%**	**81.4%**	**79.4%**	**81.6%**	**82.4%**	**84.5%**	**84.9%**	**85.4%**
Gearing ratios (Net debt/Adjusted EBITDA)								
Heathrow (SP) Class A gearing		9.1x	8.3x	7.8x	6.9x	6.4x	6.3x	6.0x
Heathrow (SP) Class B gearing		10.3x	9.2x	9.0x	7.9x	7.4x	7.3x	7.1x
Heathrow Finance gearing		**10.8x**	**9.7x**	**9.6x**	**8.5x**	**8.0x**	**7.9x**	**7.7x**
ICR: Interest Cover Ratio								
Heathrow (SP) Class A ICR	1.40x	2.08x	2.76x	2.62x	3.08x	2.98x	2.90x	3.12x
Heathrow (SP) Class B ICR	1.20x	1.85x	2.34x	2.30x	2.43x	2.43x	2.36x	2.50x
Heathrow Finance ICR	**1.00x**	**1.55x**	**2.17x**	**2.08x**	**2.22x**	**2.23x**	**2.12x**	**2.25x**

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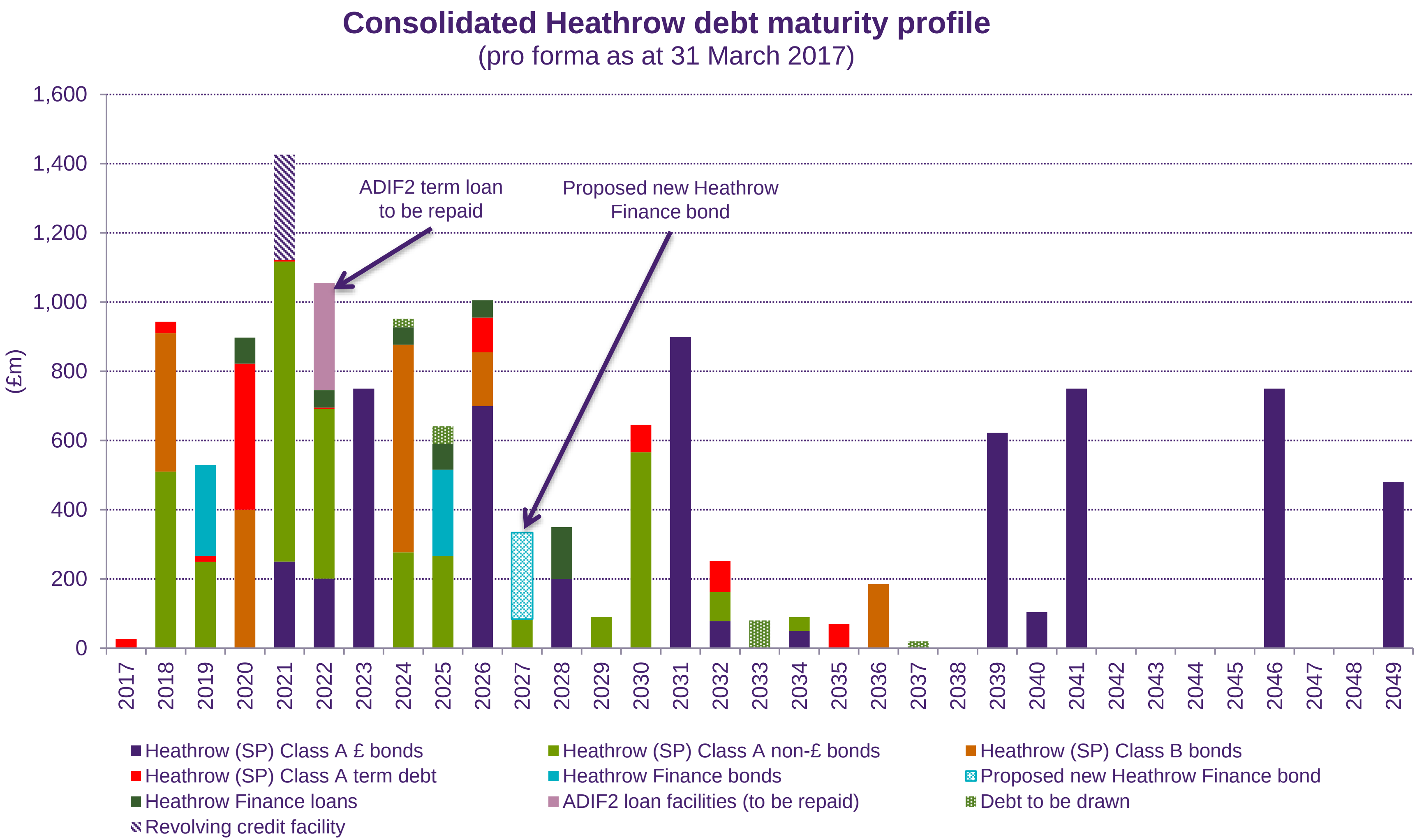
Heathrow's diversified debt maturity profile



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Notes, sources and defined terms

- Page 5
  - Source of market size: Airports Commission Interim Report, PwC and Sabre. Source of airport rankings: airport websites
  - Number of top 10 intercontinental routes involving Heathrow sourced from OAG based available seats on non stop flights over 2,200 nautical miles for 2016
  - Proportion of long haul traffic from respective company websites
- Page 6
  - 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)
- Page 8
  - BB+ rating at Heathrow Finance is by Fitch
  - Heathrow Airport Limited has a wholly-owned subsidiary, Heathrow Express Operating Company Limited that sits within the ringfence financing structure
- Page 9
  - 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 increases to 72.5% from 1 April 2018; 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 14
  - Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI); survey scores range from 0 up to 5
- Page 15
  - 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
- Page 17
  - Liquidity horizon takes into account payment of forecast capital investment, debt maturities, interest and distributions
- Page 23
  - Expected issue ratings of BB+ by Fitch and Ba3 from Moody's
  - The more restrictive 90.0% RAR covenant applies until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level
- Page 24
  - The borrowings of the Security Parent and its subsidiaries exclude the debenture between the Issuer and the Security Parent and its associated interest accruals, which are eliminated on consolidation
- Page 25
  - See notes to page 9 above regarding definitions and notes on RAR
- Page 28
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortization, certain re-measurements and exceptional items
  - See notes to page 9 above regarding definitions and notes on RAR and ICR
- Page 29
  - Debt pro forma for £100m Class A term debt and £75m Heathrow Finance loans to be drawn after 31 March 2017; excludes index-linked derivative accretion

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