

A photograph of a woman with short grey hair and glasses hugging a man from behind. She is smiling broadly, showing her teeth. The man is wearing a dark suit jacket. The background is blurred, suggesting an indoor setting with large windows.

# Heathrow (SP) Limited

Results for the 3 months ended 31 March 2019

**Heathrow**



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# Q1 2019 Highlights

# A strong start to 2019

## Operational highlights

1

- Record 17.9 million passengers, up 1.4%
- World's best airport in Western Europe for 5<sup>th</sup> year running
- New domestic and international routes

## Financial performance

2

- Adjusted EBITDA up 1% to £406 million
- Strong cost control to maximize efficiency of existing operations ahead of growth
- Global investors' appetite to invest in Heathrow with just over £1 billion raised

## Strategic priorities

3

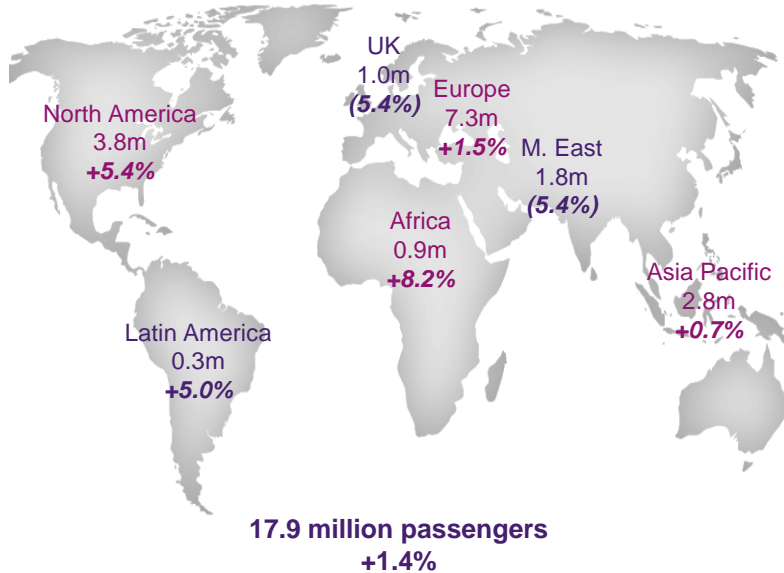
- Better service at a lower cost
- Ramping up for growth with commercial airline deal
- Delivering a sustainable, affordable and financeable expanded Heathrow



# Business Highlights

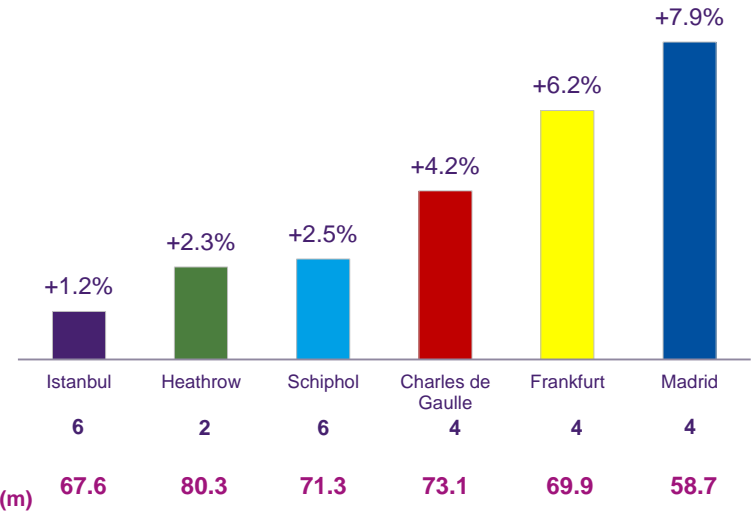
# 17.9 million passengers, 29 consecutive months of record growth

## Passenger traffic by market – 2019 vs. 2018



## Passenger traffic at European hubs

Year on year growth in traffic for 12 months to 31 March 2019



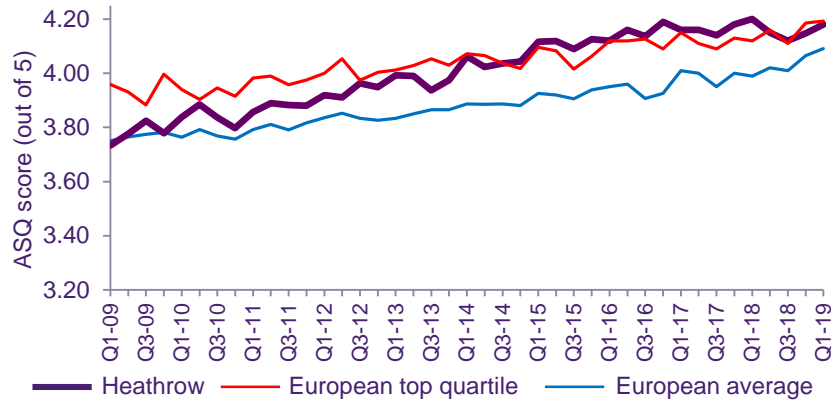
	Q1 2018	Q1 2019
Passengers ATM	111,593	<b>112,016</b>
Seats per ATM	213.9	<b>214.3</b>
Load factors (%)	74.1	<b>74.7</b>
Cargo tonnage ('000)	417	<b>408</b>

	Q1 2018	Q1 2019
Long-haul traffic growth (%)	3.5%	<b>2.1%</b>
Short-haul traffic growth (%)	2.6%	<b>0.6%</b>

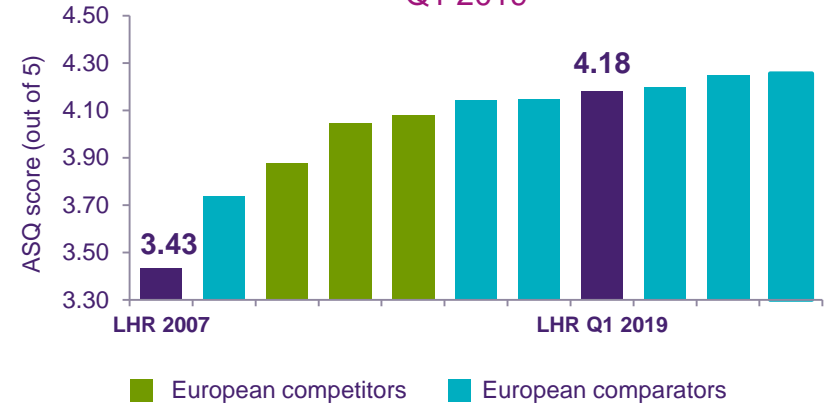
- New routes
-  Air China: Chengdu
  -  British Airways: Osaka, Charleston, Pittsburgh
  -  Flybe: Newquay
  -  Virgin Atlantic: Las Vegas

# Maintaining strong service standards and robust operations

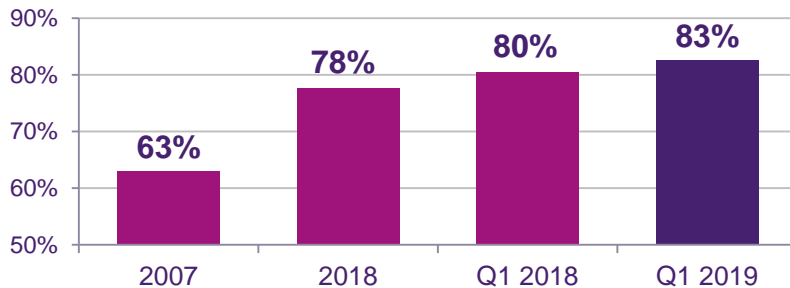
Quarterly passenger satisfaction  
Q1 2009 – Q1 2019



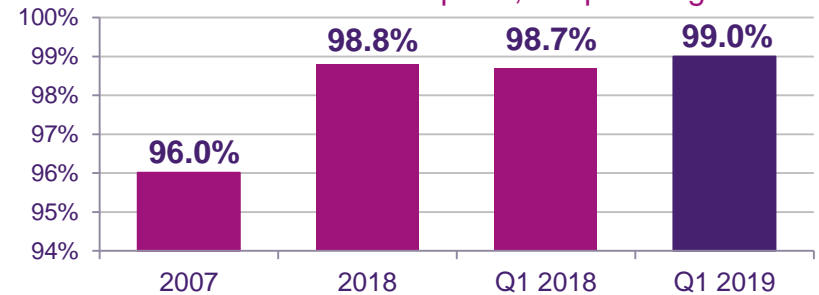
Passenger satisfaction European ranking  
Q1 2019



Departures  
within 15 minutes of schedule

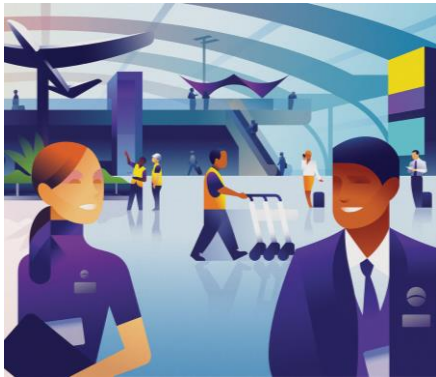


Baggage performance  
connection rate per 1,000 passengers



**Terminal 5 - World's Best Airport Terminal**  
**Best Airport in Western Europe**  
**World's Best Airport Shopping**

# Progressing on all Heathrow 2.0 flagship goals



Heathrow's Colleagues

## A Great Place to Work

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



Heathrow's Neighbors – Local Population

## A Great Place to Live

- at least halve the number of flights on non-disrupted days that operate late after 1130pm by 2022
- Airside ultra-low emissions zone by 2025
- 50% airport passenger journeys made by public transport by 2030 and halve today's colleague car journeys



UK Businesses including SMEs

## A Thriving Sustainable Economy

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



Future Generations & Environment

## A World Worth Travelling

- An aspiration to make growth from our new runway carbon neutral
- Establishing the Heathrow Centre of Excellence and trial 25 sustainable innovations by 2025
- We will be a carbon neutral airport by 2020.

**Centre of Excellence**  
HEATHROW SUSTAINABILITY

### About the Centre of Excellence

- Heathrow have set up a Centre of Excellence to seek radical new ideas and innovation in sustainability through applied research, demonstration projects and convening and incentivising the most innovative thinking
- In March 2019, Heathrow launched a £30,000 sustainability innovation prize aimed at finding ideas on how to reduce carbon impacts through Sustainable surface transport, Preparing for sustainable flights and Delivering negative emissions



# Heathrow expansion on track

- CAA consultations and policy updates

Heathrow consultation 1 launched

CAA consultation and final report to Secretary of State on airline engagement

Airspace and Future Operations consultation



Completed To come

Heathrow		
Government		
CAA		

2017

2018

2019

2020

2021

- Government consultation on draft National Policy Statement ('NPS')
- NPS consultation 2
- Parliamentary scrutiny

NPS 'designated' by Government

Heathrow Innovation Partners short list

Heathrow statutory consultation

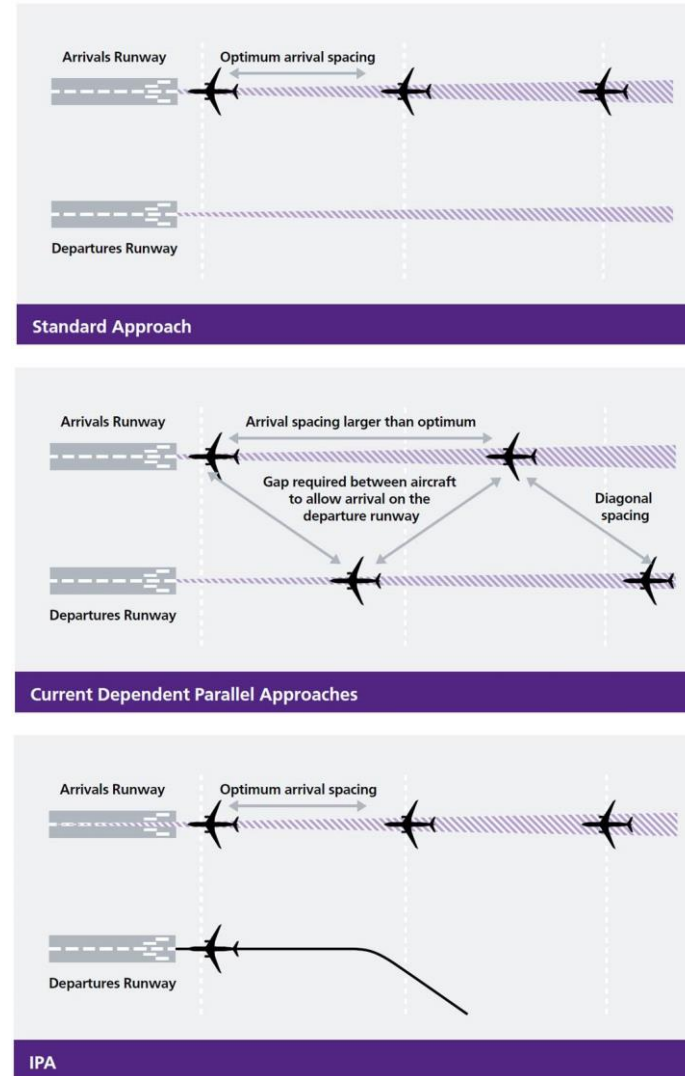
Heathrow Initial Business Plan ('IBP')

Heathrow submits Development Consent Order (DCO) application

Government decision to grant DCO

# Expansion – Airspace & Future Operations Consultation

- Consultation concluded in March 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
  - May also facilitate additional capacity in advance of the third runway being brought into operation



# iH7 - Commercial Airline Deal

- iH7 is the period from the end of Q6 in 2018 to the start of H7 in January 2022
- Our economic license was extended by one year to 31 December 2019, rolling over the current price control conditions of RPI-1.5% for the additional year.
- Current HAL proposal for 2020 and 2021 is built around rebates overlaid on an extension of the existing RPI-1.5% price path and regulatory framework. CAA supports this approach in principal and is currently consulting with all stakeholders.
- The commercial deal has been agreed with airlines as follows
  - 'Fixed' rebate of £260 million to all airlines
  - Up to the first £50 million is accrued in 2019 with the remainder accrued in 2020 and 2021
  - Payment of the fixed rebate to be spread over 4 years from accrual
  - Additional volume based rebates if volumes increase above certain levels and protections if traffic falls below certain thresholds
- Benefits
  - Allows all parties to focus on H7
  - Lenders continue to benefit from all existing regulatory protections
  - Provides Heathrow with downside protection if traffic reduces as there will be an immediate rebate adjustment
  - Lower prices for airlines and faster monetisation of the rebate for consumers



# Financial Review

# Financial highlights

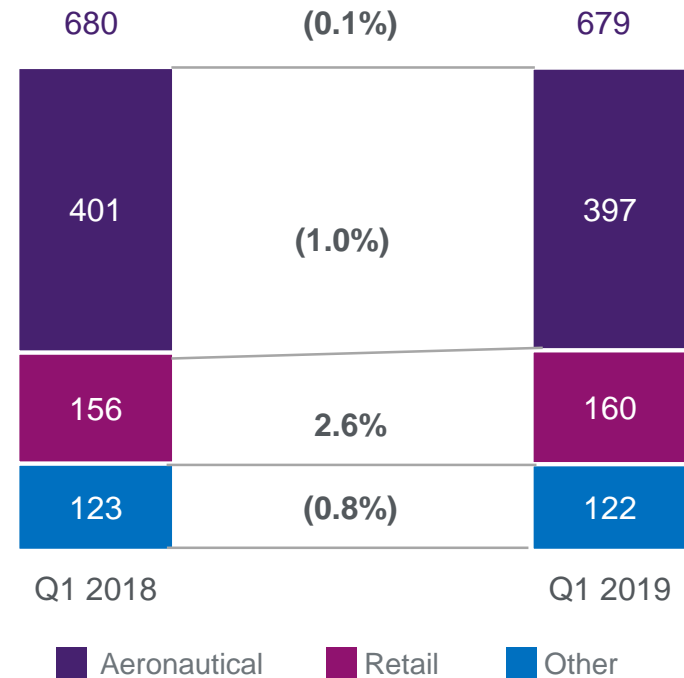
(£ million)	Q1 2018	Q1 2019	Versus Q1 2018 %
Revenue	680	<b>679</b>	(0.1)
Operating costs	278	<b>273</b>	(1.8)
Adjusted EBITDA	402	<b>406</b>	1.0
Capital expenditure	179	<b>191</b>	6.7

	Dec 2018	Mar 2019	Change from 31 Dec 18 %
Consolidated nominal net debt			
Heathrow (SP)	12,407	<b>12,771</b>	2.9
Heathrow Finance	13,980	<b>14,125</b>	1.0
RAB	16,200	<b>16,149</b>	(0.3)

# Record number of passengers, choosing to spend more in retail

- Aeronautical: delivering better value to passengers
  - strong growth in passenger numbers
  - reduction in airline charges due to the commercial airline deal
- Continued momentum of retail growth rates
  - higher proportion of passengers shopping at the airport
  - catering benefited from improved outlet offerings
  - strong growth in advertising through better utilisation of media sites
- Other revenue consistent with last year

## Analysis of revenue (£m)

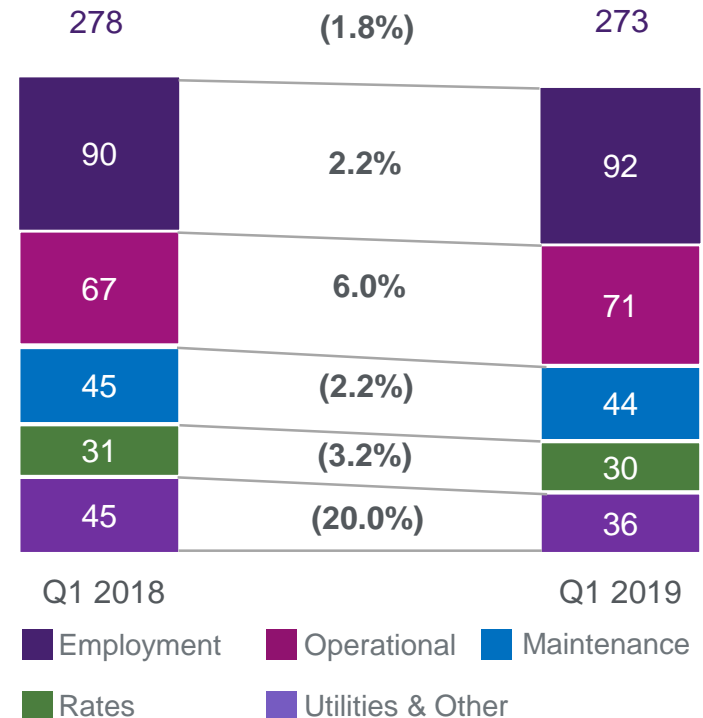


Per passenger (£)	Q1 2018	Q1 2019	Change %
Aeronautical revenue	22.67	<b>22.13</b>	(2.4)
Retail revenue	8.82	<b>8.92</b>	1.1

# Strong cost control while investing in service, resilience & growth

- Increased investment for growth, resilience, security and passenger experience
  - security costs to aid operational resilience as we have record passenger numbers
  - increased investment in special assistance
  - drone defence capabilities
- Application of IFRS 16 resulting in £13 million of lease costs now being reported below EBITDA, previously presented as operating costs
- Continued focus on cost efficiency in existing operations

## Analysis of operating costs (£m)

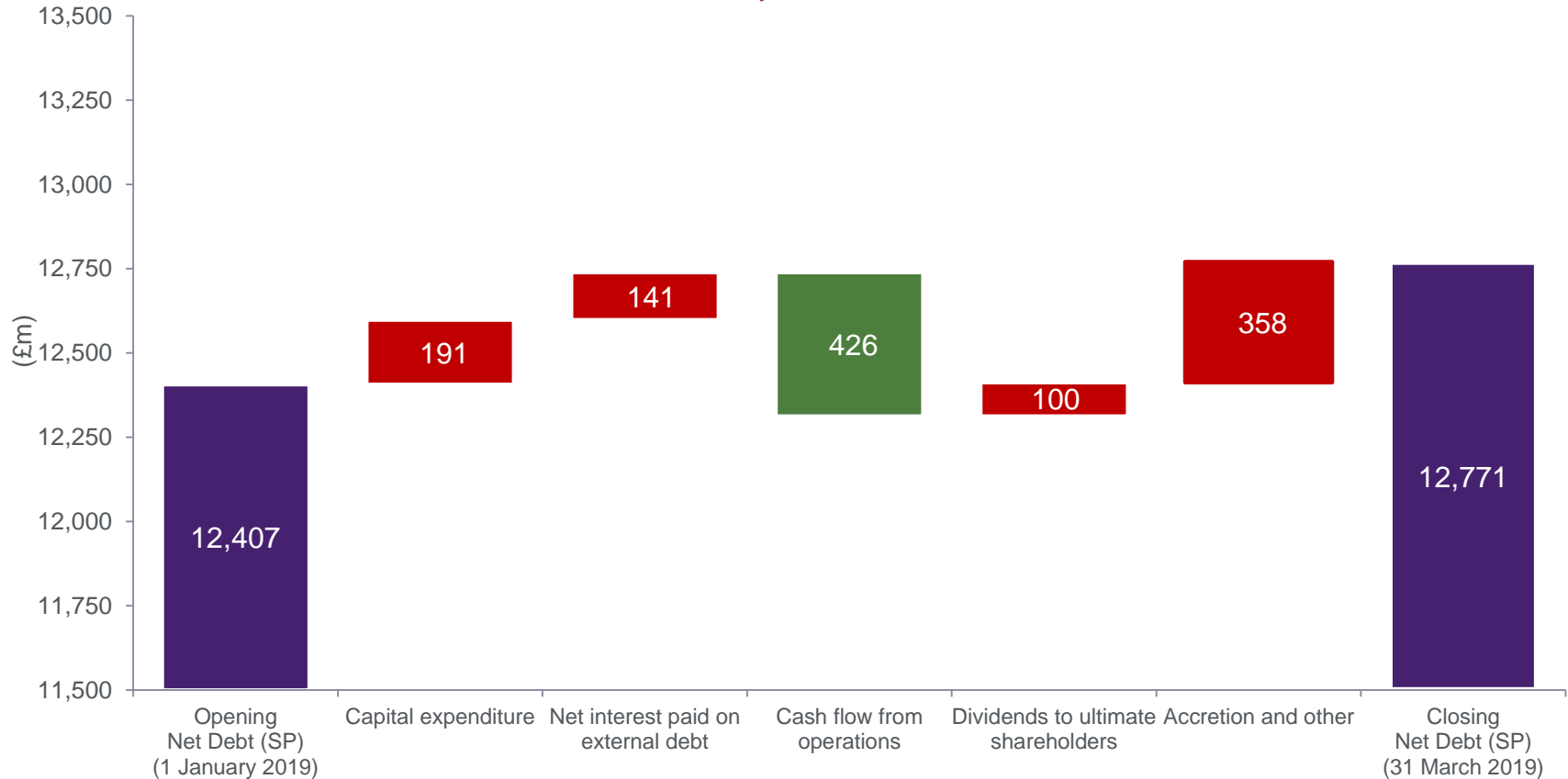


Per passenger (£)	Q1 2018	Q1 2019	Change %
Operating costs	15.72	<b>15.22</b>	(3.2%)
Operating costs*	15.72	<b>15.95</b>	1.5%

\*proforma basis excluding impact of IFRS16

# Strong operating cash flow exceeds capital expenditure and interest payments

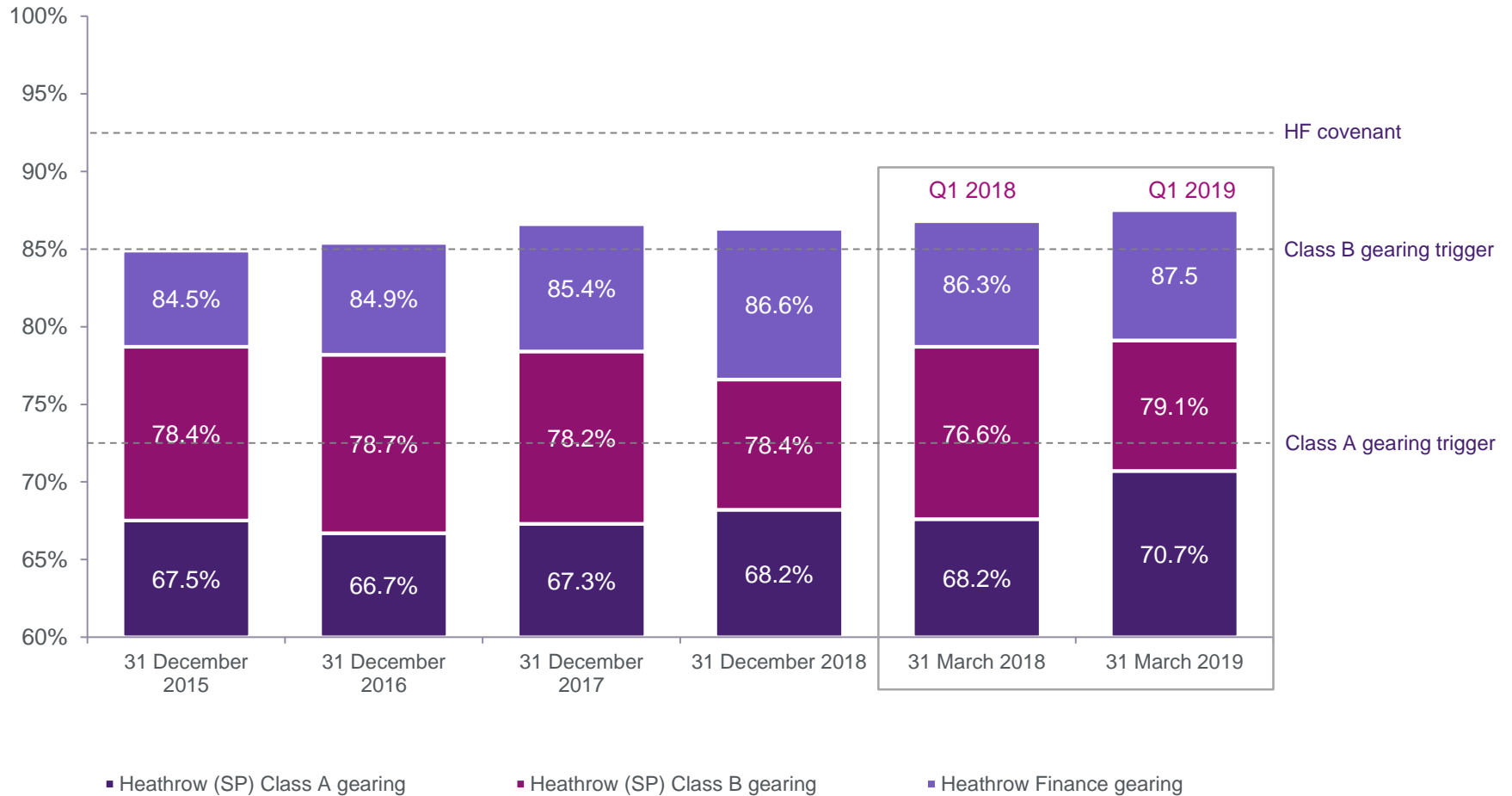
Heathrow (SP) nominal net debt  
January 2019 – March 2019





# Substantial gearing headroom retained

Evolution of gearing ratios



# Robust platform for growth

## LIQUIDITY

- Over £1.0bn raised globally
- Liquidity horizon to March 2021
- £3.5bn in undrawn facilities & cash resources

## DIVERSIFICATION

- Successful return to the Euro market after 2 years
- Further strengthened Swiss franc presence with 3<sup>rd</sup> bond issuance
- Multiple new private global investors

## DURATION

- 12 year average life of debt for Heathrow SP
- 15 year Euro bond, showing strong investor confidence in Heathrow's expansion
- 50% of debt matures post the 3<sup>rd</sup> runway becoming operational

# Outlook

- 2019 forecast for underlying performance remains in line with December 2018 investor report:
  - expected traffic : 80.6 million passengers
  - continued significant covenant headroom
- Next investor report to be released on June 27<sup>th</sup> with latest forecast information



# Strategic Update

# To give passengers the best airport service in the world

## We delivered...

## ...and we will do more



Mojo

- Colleague conference
- #worksafehomesafe campaign
- Successful completion of Q6 shared with colleagues

- Midnight Marathon
- Heathrow Britain's Busiest Airport new series launch
- Heathrow Star Awards



Transform  
customer service

- Skytrax awards
- Improved special assistance services

- Service signatures campaign
- T2 5th Birthday



Beat the plan

- Commercial airline deal
- Contactless and Oyster for HEX Ticket live
- New routes launched - Chengdu, Osaka, Phoenix

- Pay talks
- New routes launching Guernsey, Las Vegas, Ljubljana, Charleston and Valencia



Sustainable  
growth

- Airspace and Future Operations Consultation
- Local community engagement – door knocking
- Business in the Community Award Finalist

- Masterplan consultation
- Surface Access – new commuter website
- Sustainability report / Clean Air Zone

Questions?



# Appendices

# Heathrow nominal net debt at 31 March 2019

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
C\$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	214	214	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
CHF210 0.46%	0	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
AS\$175m 4.150%	96	96	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C\$400m 3.872%	238	238	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	85	85	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%	55	55	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	607	607	2039
£100m RPI +1.238%	111	111	2040
£750m 5.875%	750	750	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	85	85	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	164	164	2058
<b>Total senior bonds</b>	<b>10,778</b>	<b>10,939</b>	
Term debt	1,125	1,325	Various
Index-linked derivative accretion	364	364	Various
Revolving/working capital facilities	0	900	2021
<b>Total other senior debt</b>	<b>1,489</b>	<b>2,589</b>	
<b>Total senior debt</b>	<b>12,267</b>	<b>13,528</b>	
<b>Heathrow (SP) Limited cash</b>	<b>(849)</b>		
<b>Senior net debt</b>	<b>11,418</b>		

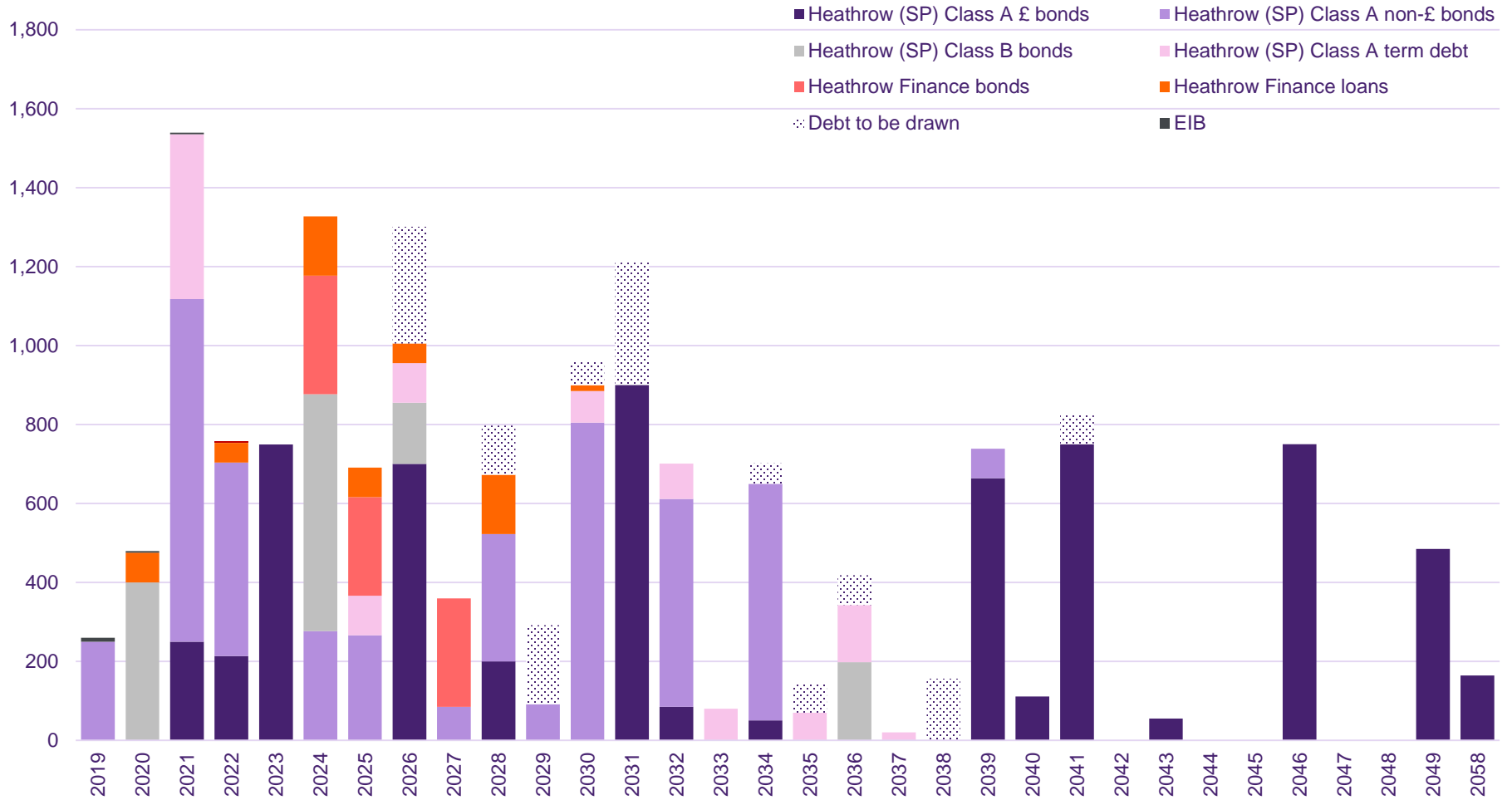
Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£75m RPI + 0.347%	0	75	2035
£75m RPI + 0.337%	0	75	2036
£180m RPI +1.061%	198	198	2036
£51m RPI + 0.419%	0	51	2038
£105m 3.460%	0	105	2038
£75m RPI + 0.362%	0	75	2041
<b>Total junior bonds</b>	<b>1,353</b>	<b>1,734</b>	
Junior revolving credit facilities	0	250	2021
<b>Total junior debt</b>	<b>1,353</b>	<b>1,984</b>	
<b>Heathrow (SP) Limited group net debt</b>	<b>12,771</b>		

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
<b>Total bonds</b>	<b>825</b>	<b>825</b>	
£75m	75	75	2020
£50m	50	50	2022
£150m	150	150	2024
£75m	75	75	2025
£185m	50	185	2026
£275m	150	275	2028
£75m	15	75	2030
£310m	0	310	2031
£52m	0	52	2034
<b>Total loans</b>	<b>565</b>	<b>1247</b>	
<b>Total Heathrow Finance plc debt</b>	<b>1,390</b>	<b>2,072</b>	
<b>Heathrow Finance plc cash</b>	<b>(36)</b>		
<b>Heathrow Finance plc net debt</b>	<b>1,354</b>		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	12,267	13,528
Heathrow (SP) Limited junior debt	1,353	1,984
Heathrow Finance plc debt	1,390	2,072
<b>Heathrow Finance plc group debt</b>	<b>15,010</b>	<b>17,583</b>
<b>Heathrow Finance plc group cash</b>	<b>(885)</b>	
<b>Heathrow Finance plc group net debt</b>	<b>14,125</b>	



# Debt maturity profile at 31 March 2019



# Notes, sources and defined terms

- Page 4
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and certain re-measurements
- Page 7
  - Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5
- Page 13
  - Operating costs refer to Adjusted operating costs which exclude depreciation and amortisation
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and certain re-measurements
  - 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 15
  - Operating costs refer to Adjusted operating costs which exclude depreciation and amortization
- Page 16
  - Opening and closing nominal net debt includes index-linked accretion
  - Other comprises index-linked accretion, other restricted payments, external tax payments and fees paid in relation to financing transactions
  - The financing arrangements of the Group and Heathrow Finance restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital, any redemptions or repurchases of share capital and payments of fees, interest or principal on any intercompany loans involving entities outside the Group or Heathrow Finance, as appropriate
- Page 17
  - Gearing ratio: external nominal net debt (including index-linked accretion) to RAB (regulatory asset base)
  - The more restrictive 90% Group RAR covenant in relation to the Heathrow Finance 2019 Notes no longer applies as the notes have now been redeemed, the covenant is now 92.5%
- Page 19
  - Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and certain re-measurements
- Page 24 and 25
  - 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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