



Heathrow
Bank of America Merrill Lynch
European High Yield and Loans Conference 2014

10 September 2014

Heathrow
Making every journey better

Foundations of Heathrow credit

1

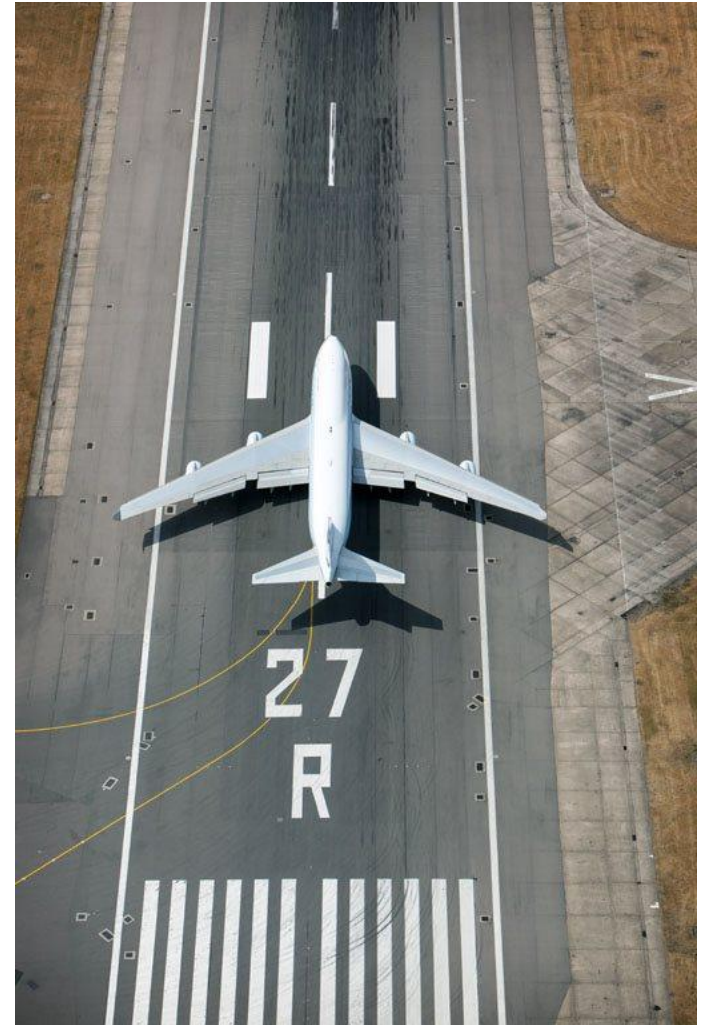
Strength and resilience
of the asset

2

Cash flow predictability
from stable regulatory
framework

3

Strong set of creditor
protections



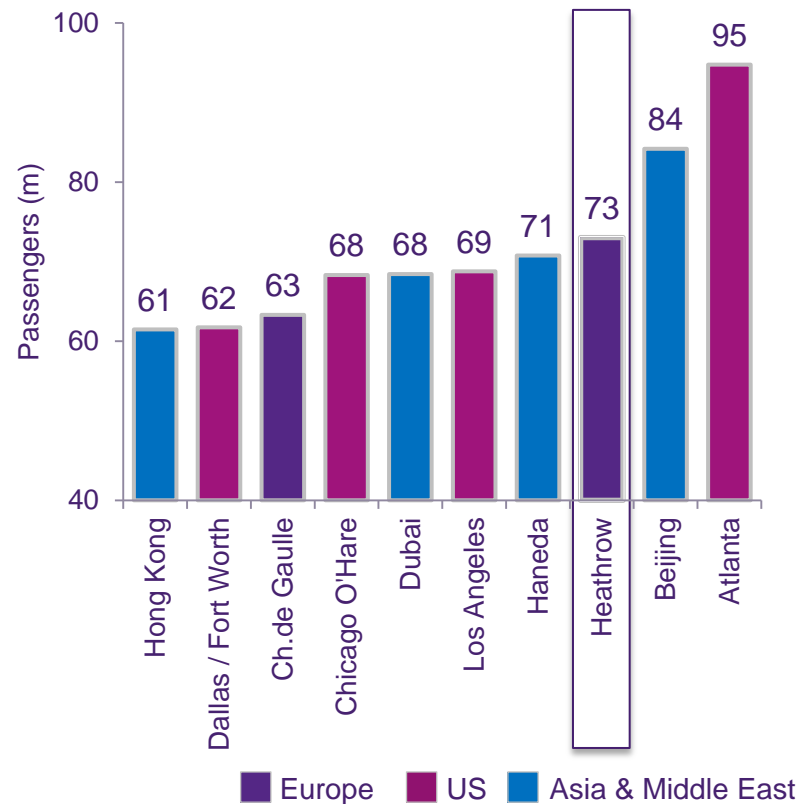


Strength and resilience of Heathrow

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 world's third busiest airport and busiest international airport
- 6 of global top 10 long haul routes operate at Heathrow
- Operates 80% of UK long haul scheduled traffic
- Over 80 airlines operate at Heathrow, over two thirds operating long haul services
- UK's only hub airport and British Airways' global hub

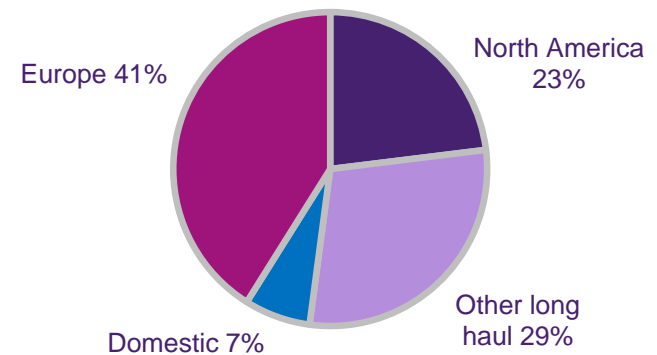
Top 10 busiest global airports
12 months to June 2014



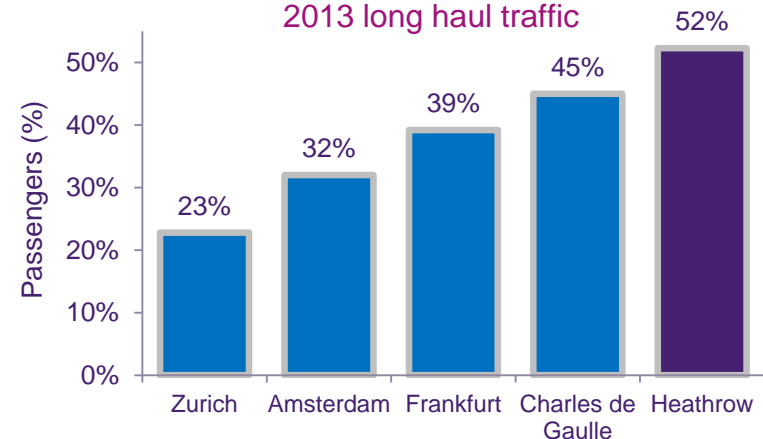
Demand at Heathrow is uniquely resilient and diverse

- Market strength and diversity
 - strength in high growth long haul
 - balanced outbound and inbound O&D demand
 - strong business and leisure traffic
 - countercyclical transfer traffic
- Operating close to full capacity
 - operates busiest two runways globally, capacity capped at 480,000 flights p.a.
 - around 75 flights per hour take off and land at Heathrow every day
- Less reliant on single airline or alliance
 - Heathrow: ~58% **oneworld**
 - CDG & AMS: ~64% SkyTeam
 - FRA: 77% Star Alliance; ZRH: 68% Star Alliance

Heathrow passenger traffic by region
12 months to December 2013



European peers
2013 long haul traffic



Heathrow

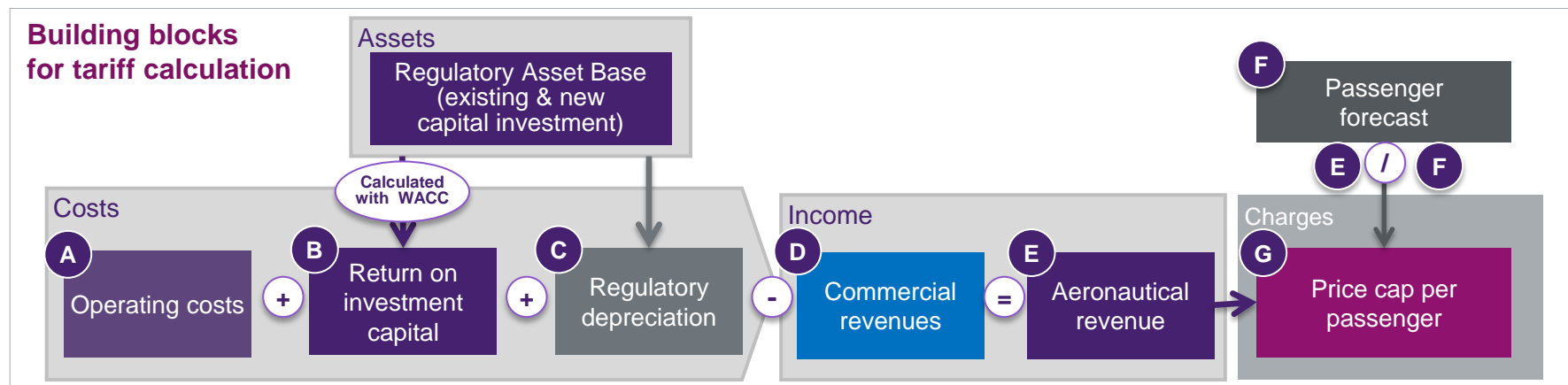
Making every journey better



Cash flow predictability from
stable regulatory framework

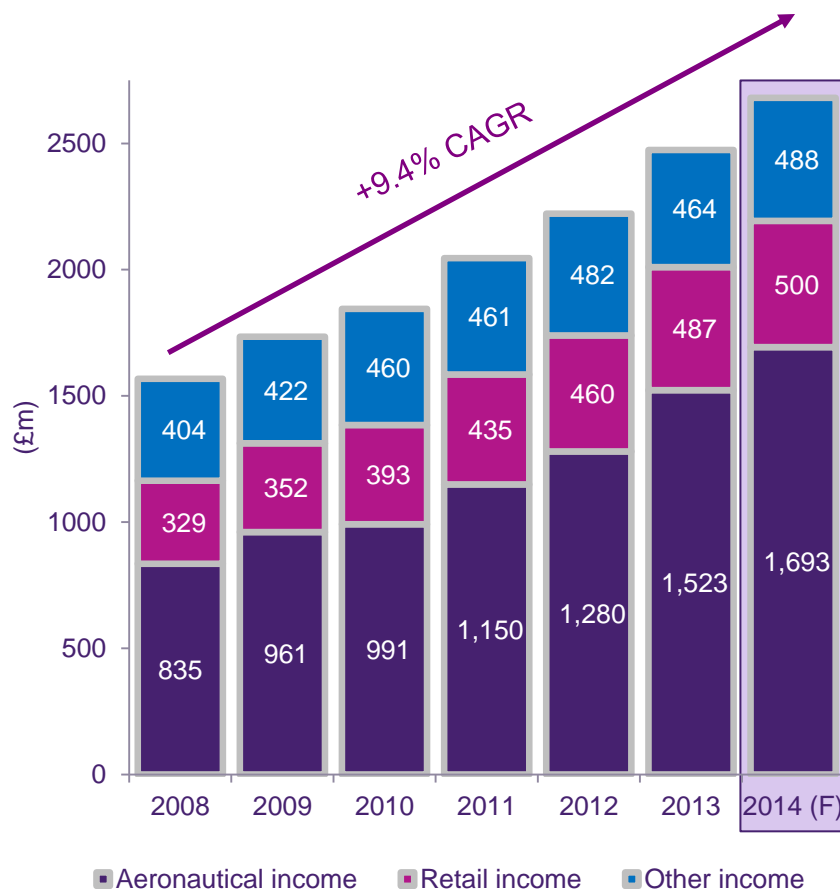
Stable regulatory framework provides cash flow predictability

- Heathrow is regulated by UK Civil Aviation Authority, with role defined by UK law
- CAA set tariff every five years, providing cost and revenue predictability
- Tariff set using a 'building block' principle and allows recovery of capital investment, operating costs and cost of capital
- 'Single till' operation where commercial revenue offsets aeronautical charges
- 'RAB based' price regulation similar to other UK regulated utilities
- New regulatory period, 'Q6', started 1 April 2014

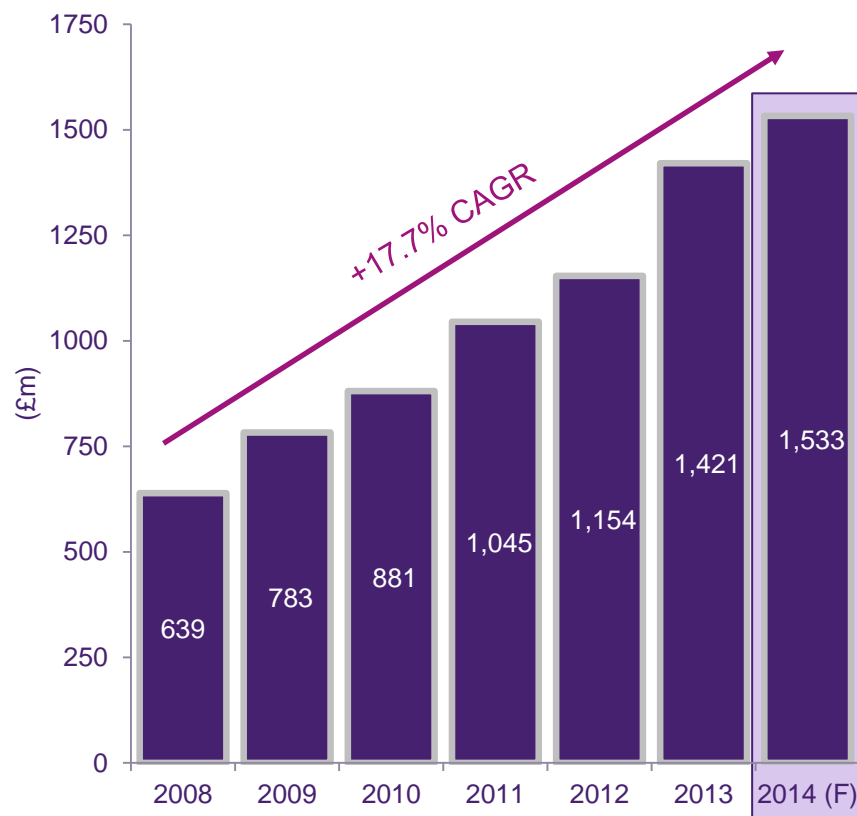


Revenue and EBITDA growth supported the high capital investment programme

Heathrow revenue



Heathrow adjusted EBITDA



Business plan improves service and operational resilience, delivers operating efficiencies and grows revenue streams

- Modest passenger growth forecasts driven by larger and fuller aircraft
 - 365 million passengers aggregate for 2014-2018: 73 million passengers annual average
 - modest growth with allowance for demand shock
- ~£600 million of aggregate operating cost efficiencies plus commercial income growth
 - programme underway with early delivery of supplier efficiencies, corporate centre reductions, union pay deals and improved productivity
 - Terminal 1 to close by October 2015 following opening of Terminal 2 and airline relocations
- Change in annual per passenger tariff of RPI-1.5%
- £2.6 billion capital spend committed through to 2018
 - includes £1 billion asset management and replacement projects
 - £350 million latest generation hold baggage screening
 - regulatory settlement provides scope to increase programme to £3.6 billion
- Heathrow cash flow positive after capital expenditure and interest payments



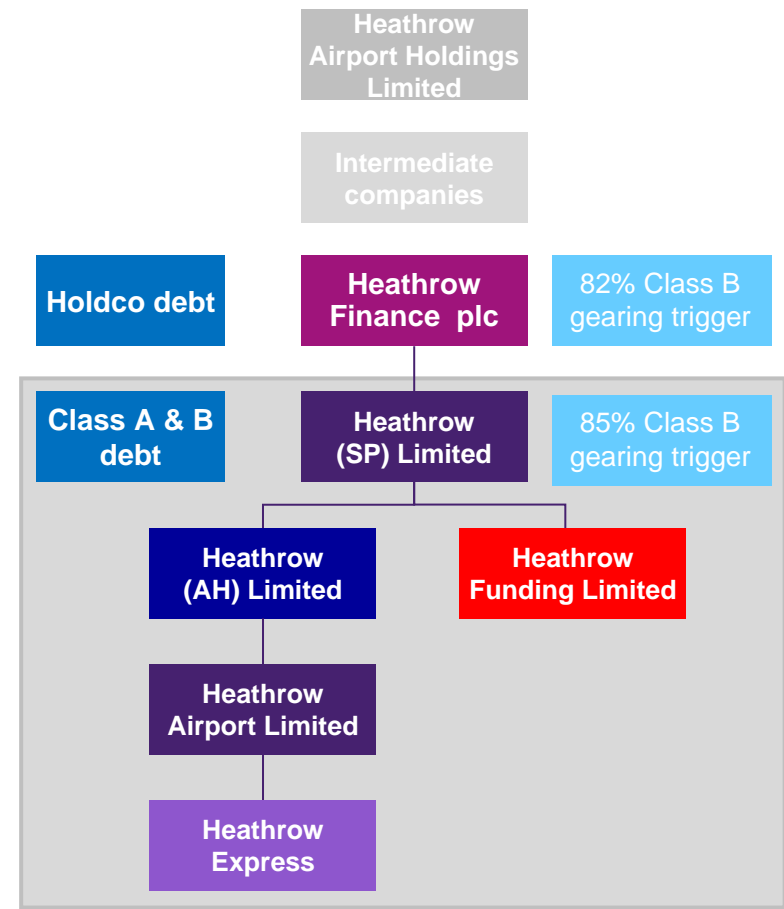
Strong suite
of creditor protections

Heathrow
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Structural features of Heathrow Finance financing

- Senior security over Heathrow (SP) shares
- Debt serviced by distributions from Heathrow (SP)
 - £400 million liquidity buffer from Heathrow (SP) Class B gearing differential trigger levels (82% v 85%) for distribution lock-up
- Indirect benefit of Heathrow (SP) financial and operational covenants and triggers
 - leverage & interest cover (also at Heathrow Finance)
 - minimum 12 months liquidity
 - restrictions on business activities, acquisitions and disposals
 - minimum hedging requirements
- Heathrow Finance creditor consent required to tighten Heathrow (SP) distribution restrictions
- Cross-acceleration of Heathrow Finance debt with Heathrow (SP) debt

Heathrow financing structure



Heathrow Finance's well established and resilient financing platform

- Debt financing in place at Heathrow Finance since £1.6 billion loan facility migrated there as part of 2008 refinancing
- Evolved to combined capital markets and loan financing in 2010
- Debt serviced through worst aviation downturn

Analysis of debt servicing since 2008

Heathrow Finance debt and other subordinated parts of capital structure							
<i>figures in £m unless stated</i>	2008	2009	2010	2011	2012	2013	2014 (F)
Heathrow Finance external interest payments	79	104	72	28	39	43	48
Interest and shareholder dividends distributed beyond Heathrow Finance	0	0	0	0	346	278	303
Gross debt at Heathrow Finance	1,566	1,566	500	550	728	763	763
Headroom to Heathrow (SP) Class B gearing trigger	1,173	1,392	938	1,330	1,232	1,133	1,019

Heathrow Finance's funding in broader context

Comparison of UK regulated business holding company financings					
	Heathrow	Thames Water	Anglian Water	Kelda	Electricity North West
Actual RAR (at 31/03/14)	82.8%	83.8%	85.4%	83.8%	88.8%
RAR trigger/covenant	90.0%	92.5%/95.0%	93.0%/95.0%	95.0%	95.0%/97.0%
Credit ratings	BB+/Ba3	BB/B1	BB+/Ba3	BB+/BB-	BB+

- Heathrow pioneered UK regulated business holdco capital markets financing in 2010
- Now a market of around £2.5 billion in outstanding bonds with at least 7 issuers
- Heathrow accounts for around 25% of market
 - 2017 £325m 7.125%
 - 2019 £275m 5.375%

Key financing considerations

- Heathrow's average annual financing requirement less than £1.25 billion to 2018
 - nearly £1.5 billion in attractively priced debt financing raised since start of 2014
 - loan facilities refinanced in 2012
 - reduced capital programme
 - some further growth in operating cash flows
- Strong financing position
 - liquidity horizon currently extends up to end 2016
 - Heathrow Finance average life of debt > 11 years
- Optimise use of established long term financing platform
 - continue to consider issuance in different currency markets
 - continue to issue across different levels in the capital structure
- Expect Heathrow Finance to be a repeat issuer
 - current £763 million debt portfolio maturing over next 5 years
 - look to maintain diversification between bonds and loans

Robust and improved financial ratios

	Trigger / covenant	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014 (F)
Regulatory Asset Ratio (Net Debt/RAB)						
Heathrow (SP) Senior RAR	70.0%	68.8%	68.0%	66.2%	67.6%	67.2%
Heathrow (SP) Junior RAR	82.0/85.0%	77.7%	75.4%	76.7%	77.2%	78.3%
Heathrow Finance RAR	90.0%	81.4%	79.4%	81.6%	82.4%	83.3%
Gearing ratios (Net debt/Adjusted EBITDA)						
Heathrow (SP) Senior gearing		9.1x	8.3x	7.8x	6.9x	6.6x
Heathrow (SP) Junior gearing		10.3x	9.2x	9.0x	7.9x	7.7x
Heathrow Finance gearing		10.8x	9.7x	9.6x	8.5x	8.2x
Interest Cover Ratios (ICR)						
Heathrow (SP) Senior ICR	1.40x	2.08x	2.76x	2.62x	3.08x	2.85x
Heathrow (SP) Junior ICR	1.20x	1.85x	2.34x	2.30x	2.43x	2.33x
Heathrow Finance ICR	1.00x	1.55x	2.17x	2.08x	2.22x	2.13x

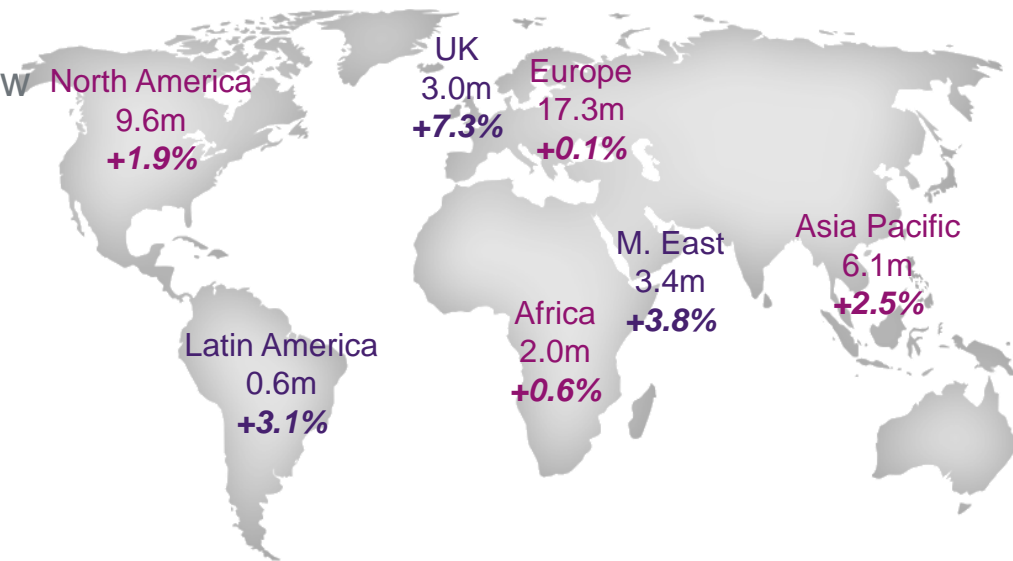


Recent operational and strategic developments

Traffic growth provides good start to Q6

- Growth in intercontinental traffic from new routes and additional frequencies
- North American growth supported by new destinations and increased frequencies
- Increase in other long haul markets supported by growth in China, Japan, Hong Kong and Mexico
- European traffic growth moderate, retaining step change from 2013
- 2014 full year traffic forecast 72.8 million - twelve months to end July 73.0 million

January to July 2014 passenger traffic by market (% change versus January - July 2013)

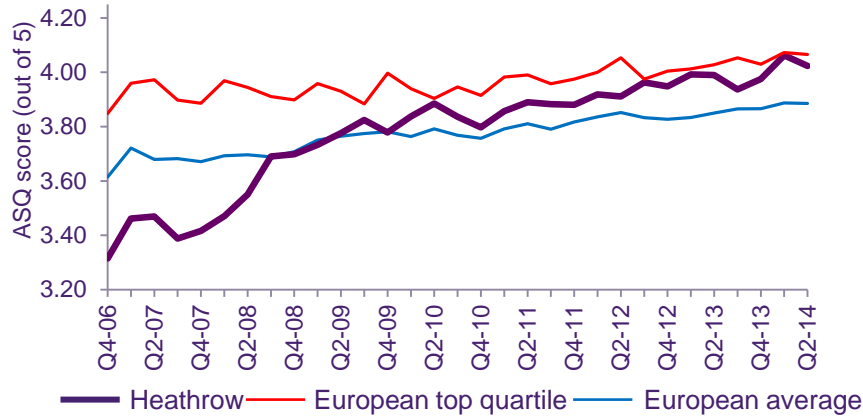


Total Heathrow passengers

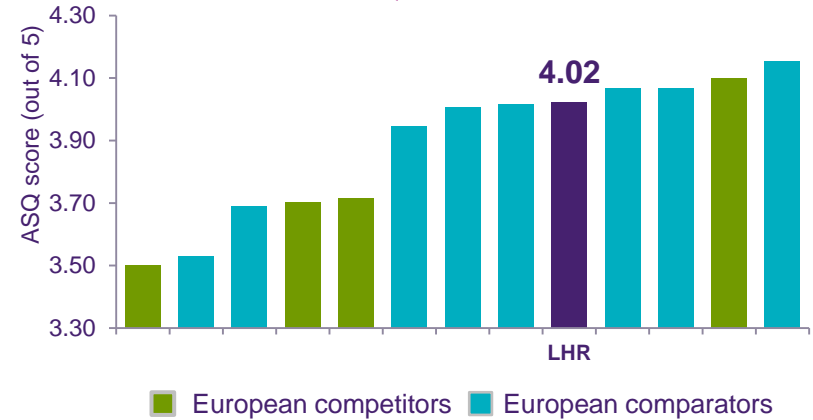
42.0 million +1.7%

Passenger satisfaction high and robust operations

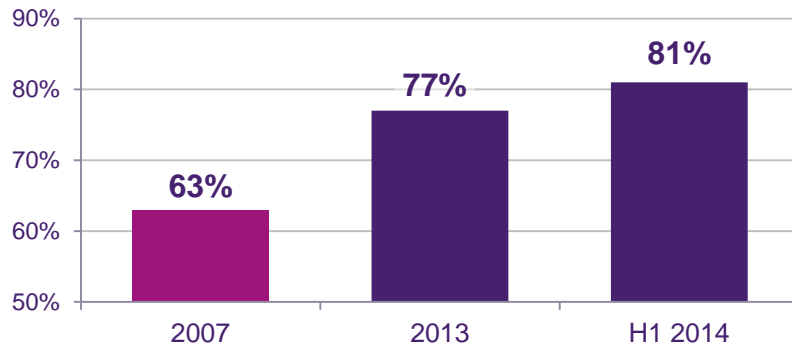
Quarterly passenger satisfaction
Q4 2006 – Q2 2014



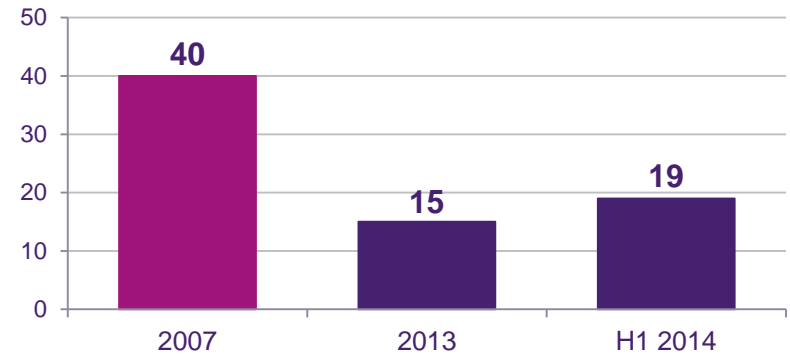
Passenger satisfaction European ranking
Q2 2014



Departures
within 15 minutes of schedule



Baggage performance
misconnect rate per 1,000 passengers



Terminal 5 - World's Best Airport Terminal
Heathrow – World's Best Airport Shopping

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Terminal 2 is the latest phase in £11 billion investment, transforming the airport for passengers and airlines

Terminal 5 A, B & C

- £4.3bn investment
- Enabler of 'masterplan'
- Winner of Skytrax award for world's best airport terminal
- Home of British Airways

Integrated baggage

- Automated hub connecting baggage across all terminals
- 110m bags a year

Terminal 1

- Refurbished check-in, departure lounge, and passport control
- Site of future T2 phase 2

Terminal 2 A and B

- £2.5bn investment
- Opened 4 June 2014
- Home of Star Alliance

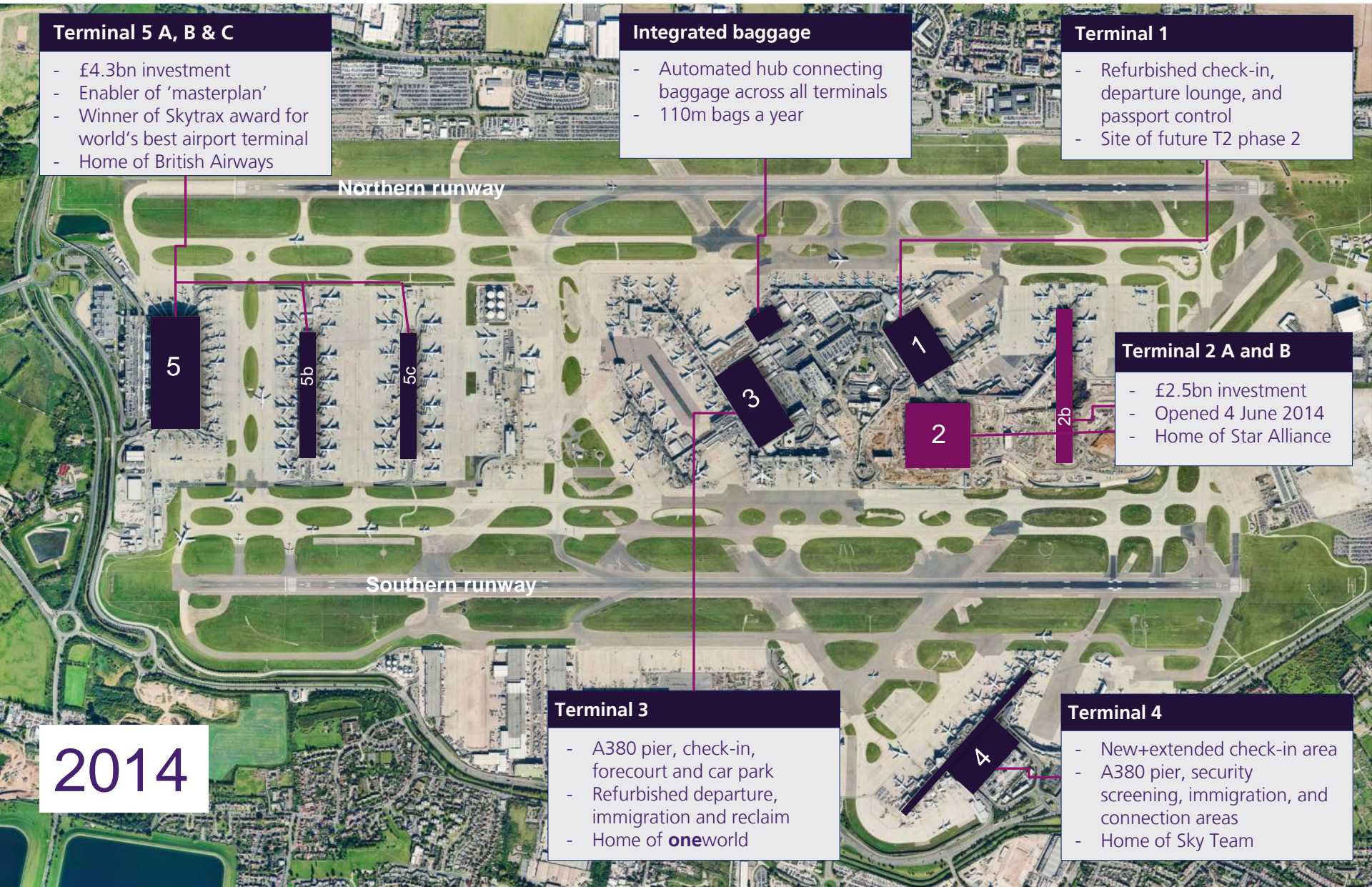
Terminal 3

- A380 pier, check-in, forecourt and car park
- Refurbished departure, immigration and reclaim
- Home of **oneworld**

Terminal 4

- New+extended check-in area
- A380 pier, security screening, immigration, and connection areas
- Home of Sky Team

2014

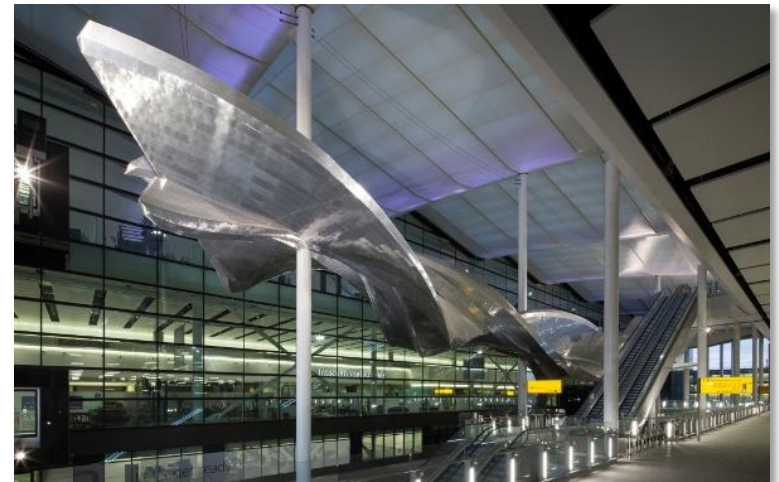


Terminal 2 - The Queen's Terminal opened 4 June 2014

- Terminal 2 – The Queen's Terminal
 - £2.5 billion investment, on time and on budget
 - main terminal building, satellite building, car park and energy centre
 - single terminal for Star Alliance improves connection times and efficiencies
- Her Majesty the Queen officially opened the Terminal on 23 June
- Phased transition: 17 daily departures on day one to 176 daily departures by October
 - 12 airlines moves completed, 27,000 passengers per day
 - Aegean Airlines, Aer Lingus, Air Canada, ANA, Air China, Avianca, EVA Air, Scandinavian Airlines, Thai Airways, Turkish Airlines, Virgin Atlantic Little Red and United Airlines.



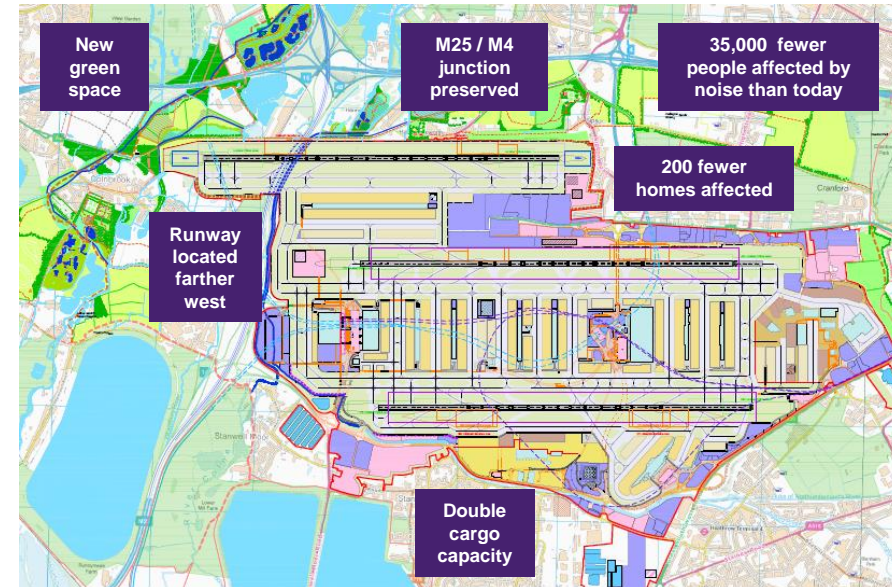
Terminal 2 departure lounge and retail area



Terminal 2 'Slipstream' sculpture

Heathrow refined proposal generates greatest benefit and is deliverable

- Heathrow builds from strength and is best placed for passengers, taxpayers and business
- Heathrow expansion delivers capacity up to 130 million passengers and 740,000 flights per year
- UK economic benefit: £100 billion present value
- Third runway from c.2025 with £16 billion phased investment over c.15 years
- Airports Commission final recommendation due in summer 2015



Investment highlights

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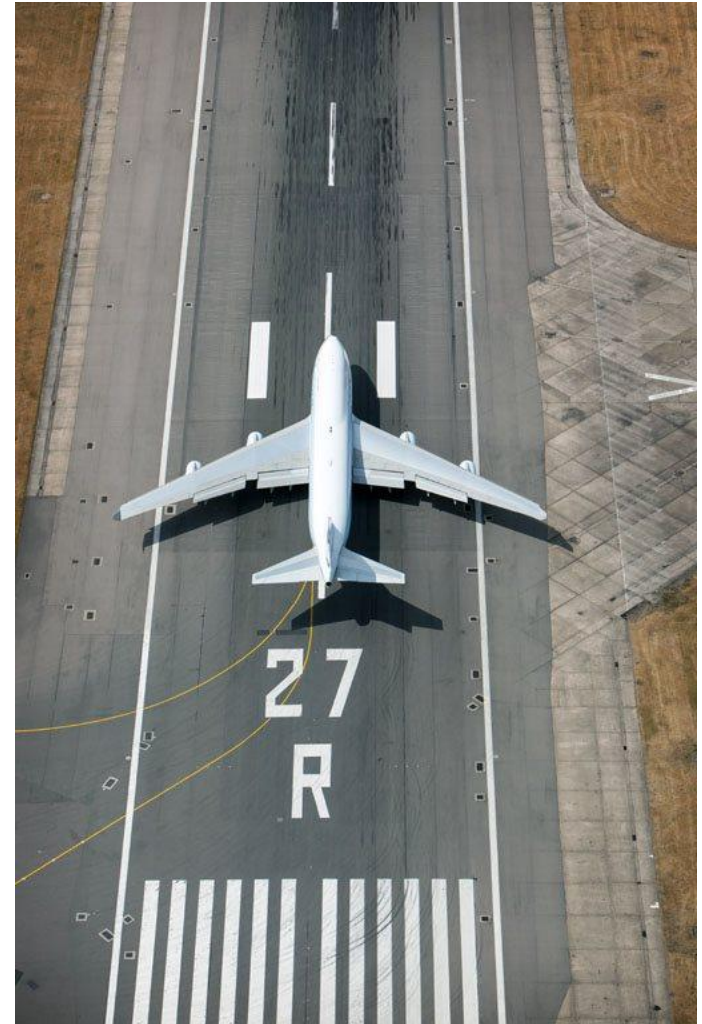
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Questions?

Notes, sources and defined terms

- Page 4
 - Source of market size: Airports Commission Interim Report 17 December 2013, PwC and Sabre
 - Source of airport rankings Airports Council International data to June 2014.
- Page 5
 - Alliance proportions measured in Total Seats sourced from OAG/ Heathrow data.
 - Proportion of long haul traffic: Airports Rapid Data Exchange (Fraport 2013 factbook); Zurich Airport company website.
- Page 8
 - Adjusted EBITDA: Heathrow only (i.e. excludes Gatwick and Stansted) earnings before interest, tax, depreciation and amortisation and exceptional items.
- Page 12
 - Forecast figures for 2014 taken from investor report issued in June 2014.
 - Interest and shareholder dividends in 2013 exclude Stansted related £300 million payment to shareholders and amounts used to repay at ADI Finance 1 Limited
- Page 15
 - Gearing ratio or RAR is the ratio of nominal net debt (including index-linked accretion) to RAB.
 - Interest cover ratio or ICR is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid.
 - Forecast figures for 2014 taken from investor report issued in June 2014.
- Page 17
 - Source of credit metrics: relevant company investor reports and accounts. Source net debt/EBITDA Heathrow estimates.
- Page 18
 - 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.

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