



# Transforming Heathrow

## Heathrow Investor Events 2013

October 2013

**Heathrow**  
Making every journey better

# Heathrow Investor Events 2013: agenda

## Compass Centre

Welcome and introduction

Q6: Next regulatory period

A New Approach: Hub Capacity

Investing in Better Journeys: Terminal 2

## Heathrow Airport

Site tour of Terminal 2

Viewing the airfield from the Air Traffic Control Tower

Latest generation aircraft: onboard A380

Evening reception at Royal Suite



# Transforming Heathrow is a journey

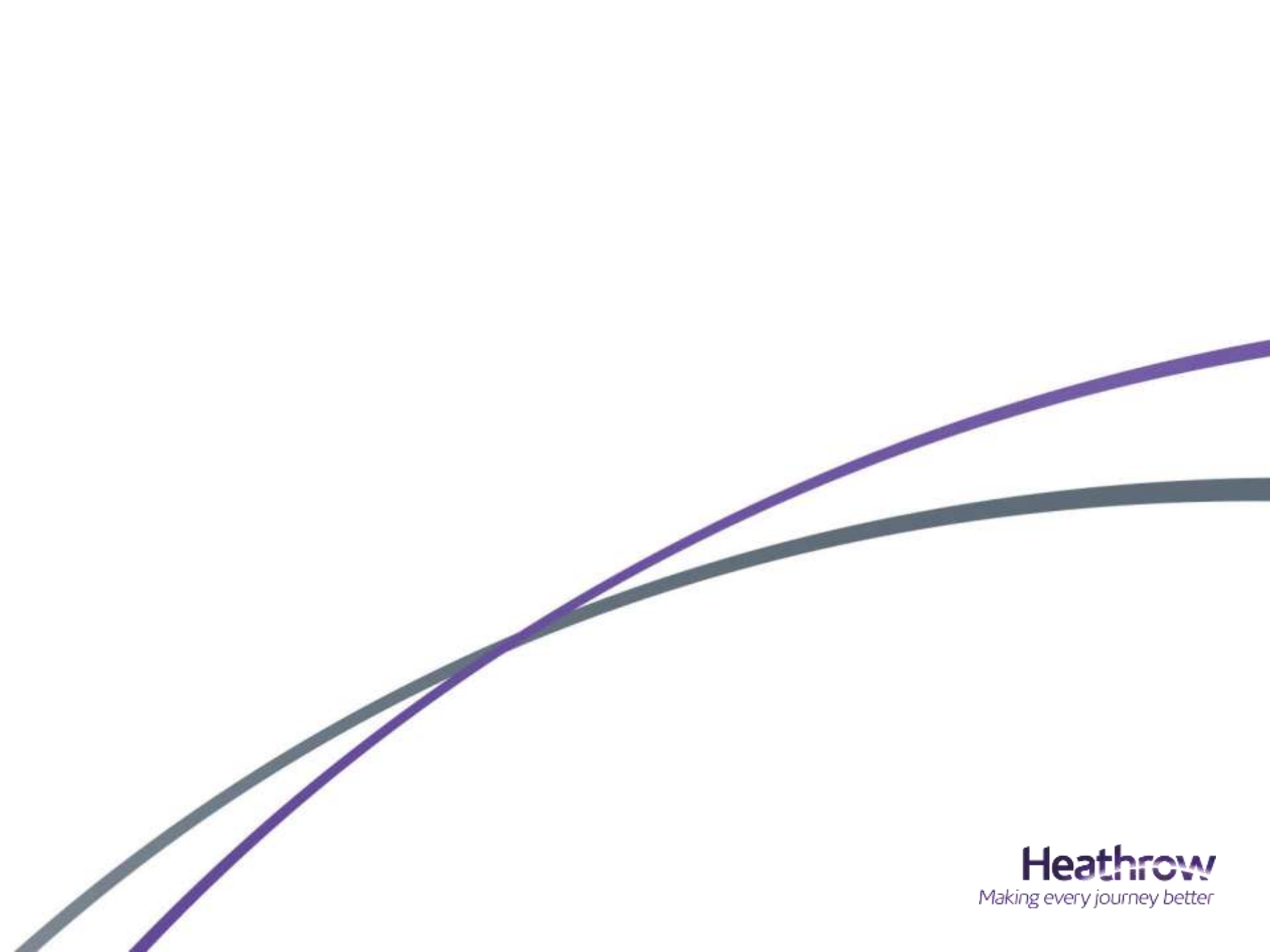
Heathrow 2002



Heathrow Two-Runway Masterplan



**Heathrow**  
Making every journey better



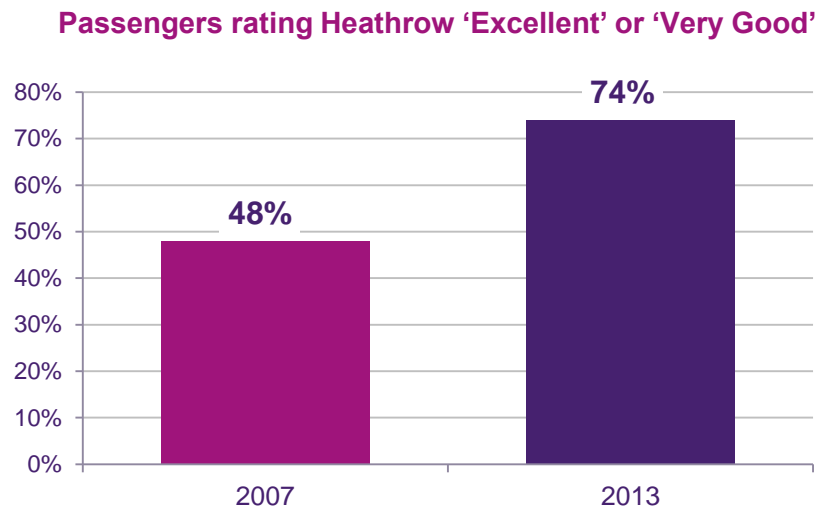
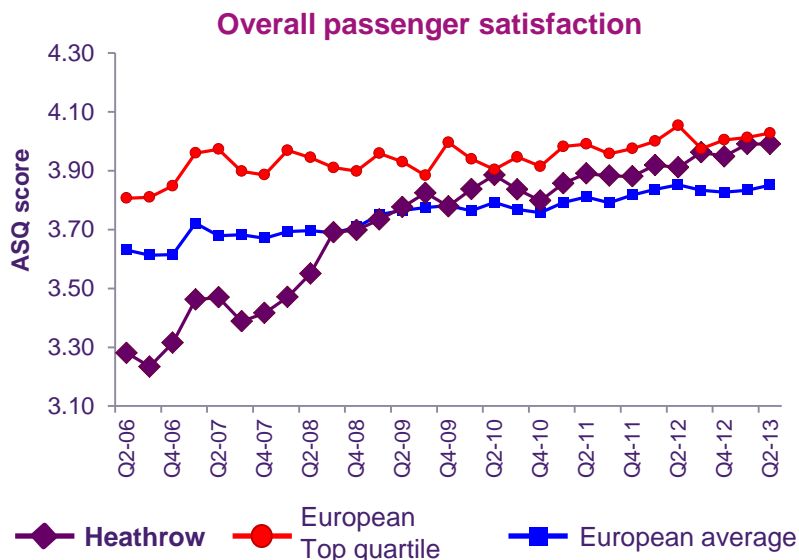
**Heathrow**  
*Making every journey better*



## Continuing the transformation Q6: next regulatory period



# We are improving the experience for our passengers...



**World's Best Airport Terminal**  
Heathrow Terminal 5

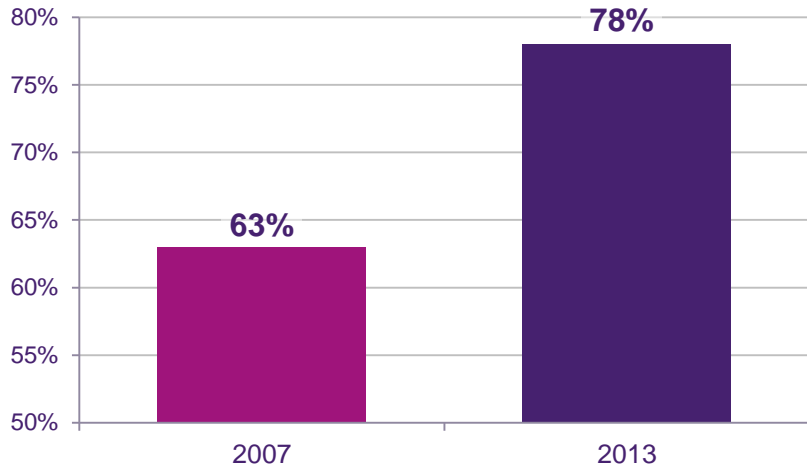


**2013 Europe's Best Airport**  
(over 25 million passengers)

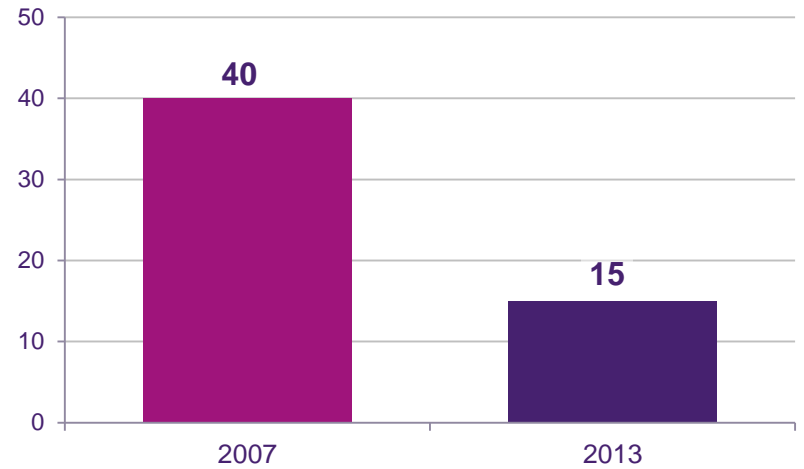
**Heathrow**  
Making every journey better

# ..and improving operations for our airlines

Departures within 15 minutes of schedule



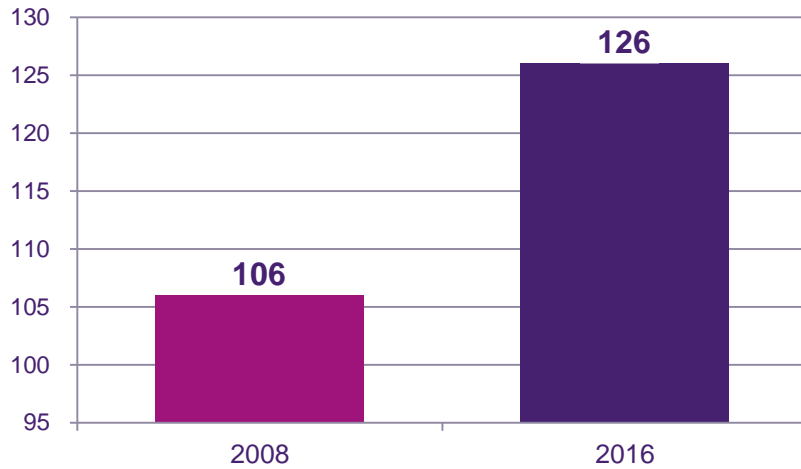
Baggage misconnect rates per 1000 passengers



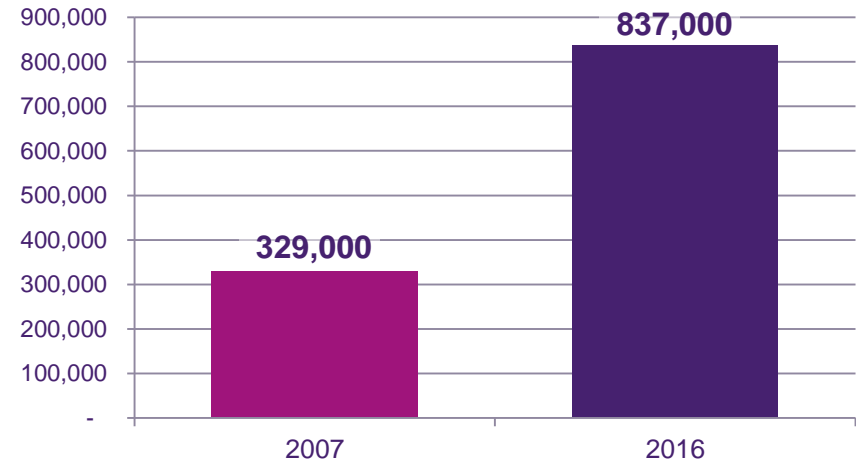
**Heathrow**  
Making every journey better

# ..and transforming our infrastructure

Wide body stands



Heathrow Terminal area (square metres)



**Heathrow**  
Making every journey better



# Heathrow's approach to Q6 is founded on passenger experience

Vision & Priorities for the Full Business Plan (January 2013)  
*reaffirmed in Alternative Business Plan (July 2013)*

## Heathrow Vision

The UK's direct connection to  
the world and Europe's hub  
of choice by  
*making every journey  
better*

## Business Plan Priorities

Deliver a noticeably better,  
'hub of choice' **passenger  
experience**

Deliver **improved resilience**  
and sufficient **hub capacity**

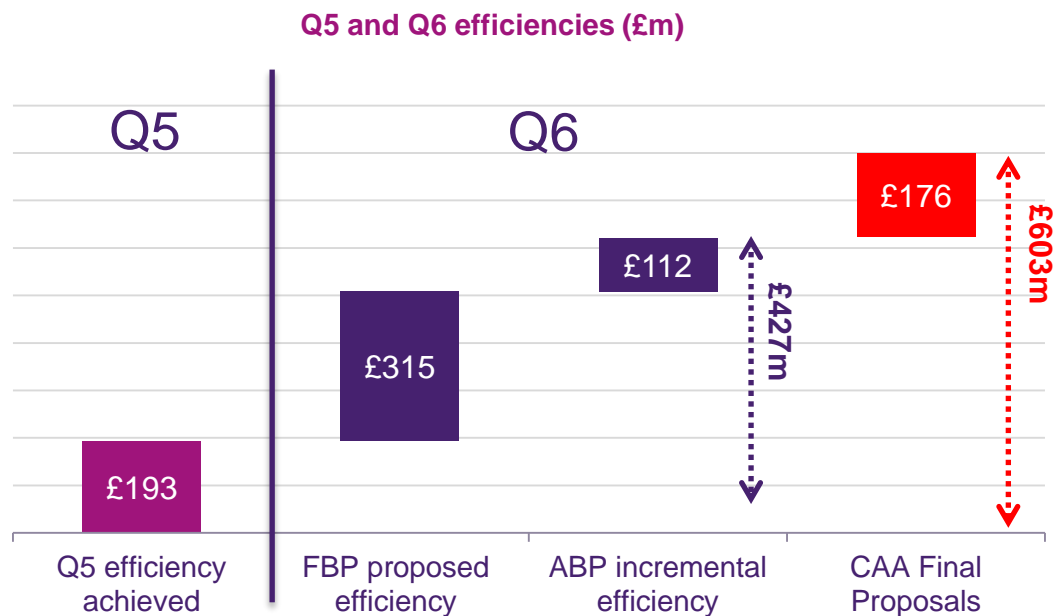
Ensure a **competitive total  
cost of operation**

Heathrow aspires to deliver £3bn capital plan with appropriate settlement

# Recap on evolution of Q6 proposals

(£m unless stated) (5 year aggregate) (11/12 prices)	Heathrow Full Business Plan (Jan 2013) CAGR	CAA Initial Proposals (Apr 2013) CAGR	Heathrow Alternative Business Plan (Jul 2013) CAGR	CAA Final Proposals (Oct 2013) CAGR
Passengers	355.2m 0.4%	358.4m 0.5%	357.8m 0.5%	<b>359.2m 0.5%</b>
Aeronautical income	8,735 6.1%	7,138 -0.9%	8,478 4.9%	<b>7,443 0.6%</b>
Non aeronautical income	4,753 1.6%	4,838 2.1%	4,618 0.9%	<b>4,650 1.2%</b>
Operating costs	5,234 -0.2%	5,017 -1.8%	5,120 -0.8%	<b>4,944 -2.0%</b>
<b>EBITDA</b>	<b>8,255 7.7%</b>	<b>6,960 1.9%</b>	<b>7,977 +6.4%</b>	<b>7,149 +2.8%</b>
Capital investment (£bn)	3.0 -	3.0 -	3.0 -	<b>2.9 -</b>
Price cap per passenger p.a.	<b>RPI +5.9%</b> -	<b>RPI -1.3%</b> -	<b>RPI +4.6%</b> -	<b>RPI +0%</b> -
WACC (pre-tax real)	<b>7.1%</b> -	<b>5.35%</b> -	<b>6.7%</b> -	<b>5.6%</b> -

# Operating efficiencies key to ongoing transformation - CAA Final Proposals challenging given pace of delivery

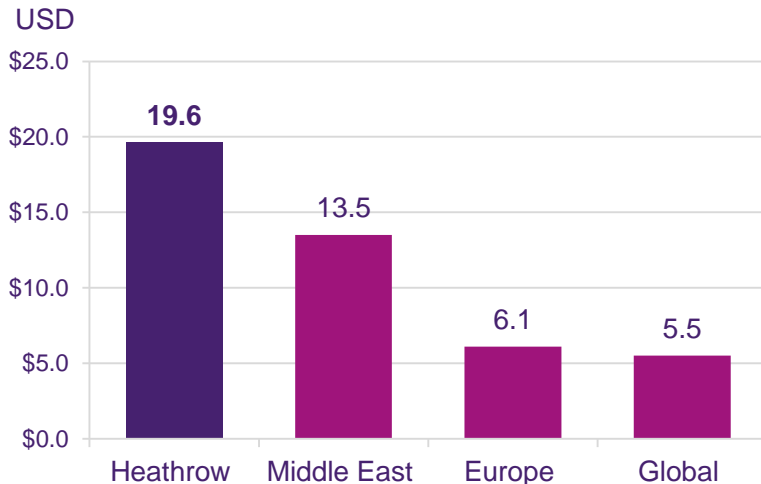


- Delivering Q5 operating efficiencies
  - exit Q5 achieving the CAA's efficiency target for operating expenses
  - opex per passenger down 8% since 2008
- ABP opex efficiencies of £427 million
  - equivalent to 2.0% pa compound reduction, excluding structural factors
  - reduction in controllable costs of 3.1% pa compound
- CAA opex efficiencies of £603 million
  - further efficiencies assume additional wage reductions, removal of non-wage 'glide path' and stretch targets
  - rates risk-sharing mechanism added
- Final Proposals very challenging given proposed scale and speed



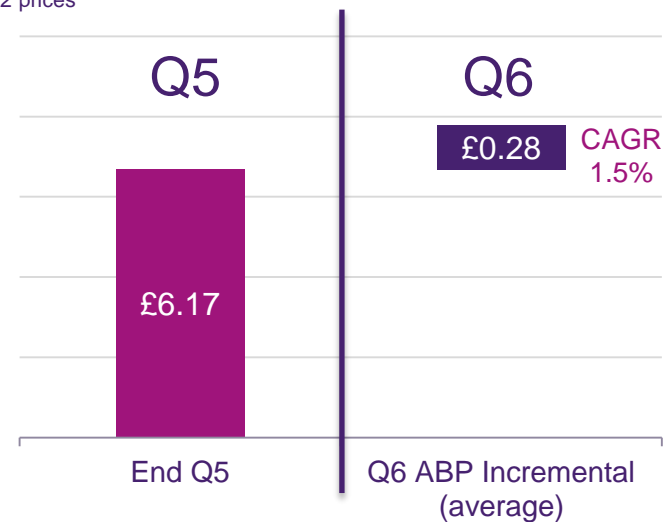
# CAA Final Proposals stretch non-aeronautical income. Heathrow retail performance is already far ahead of peers

## Comparative spend per passenger



## Net retail income per passenger

2011/12 prices

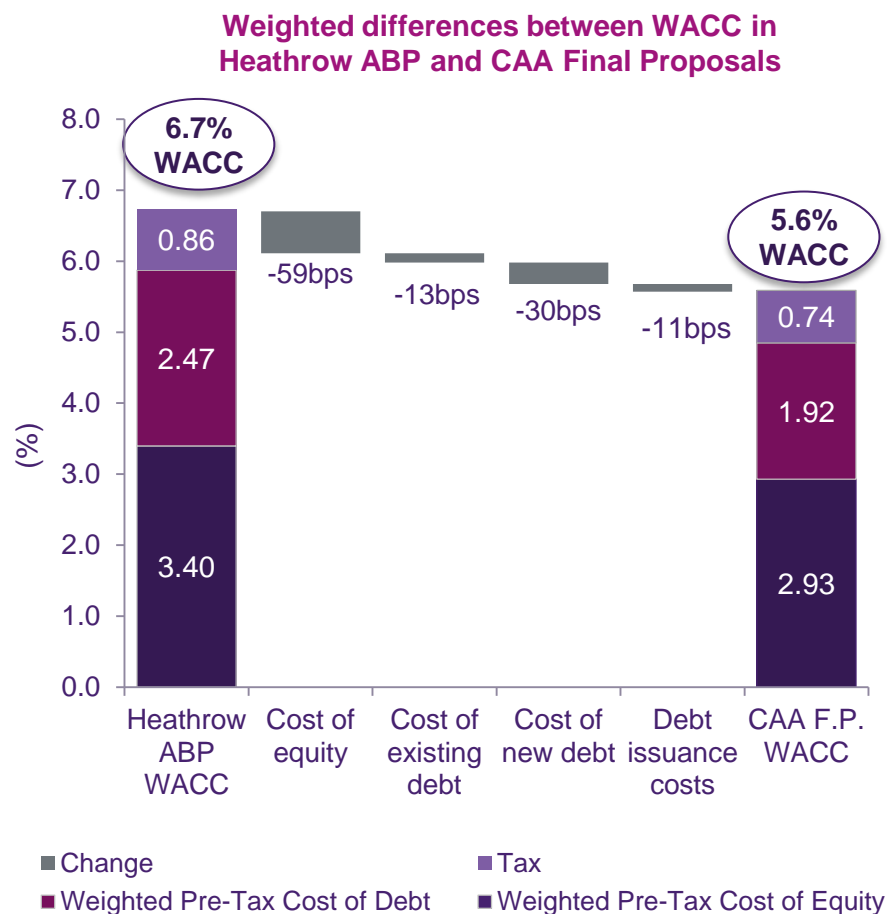


- Improved passenger experience including over 21,000m<sup>2</sup> new retail space in Terminal 5
- Q5 market drivers for growth include weak sterling, boom of luxury fashion market and real income growth
- Some of most productive airport retail space in the world benefitting the single till

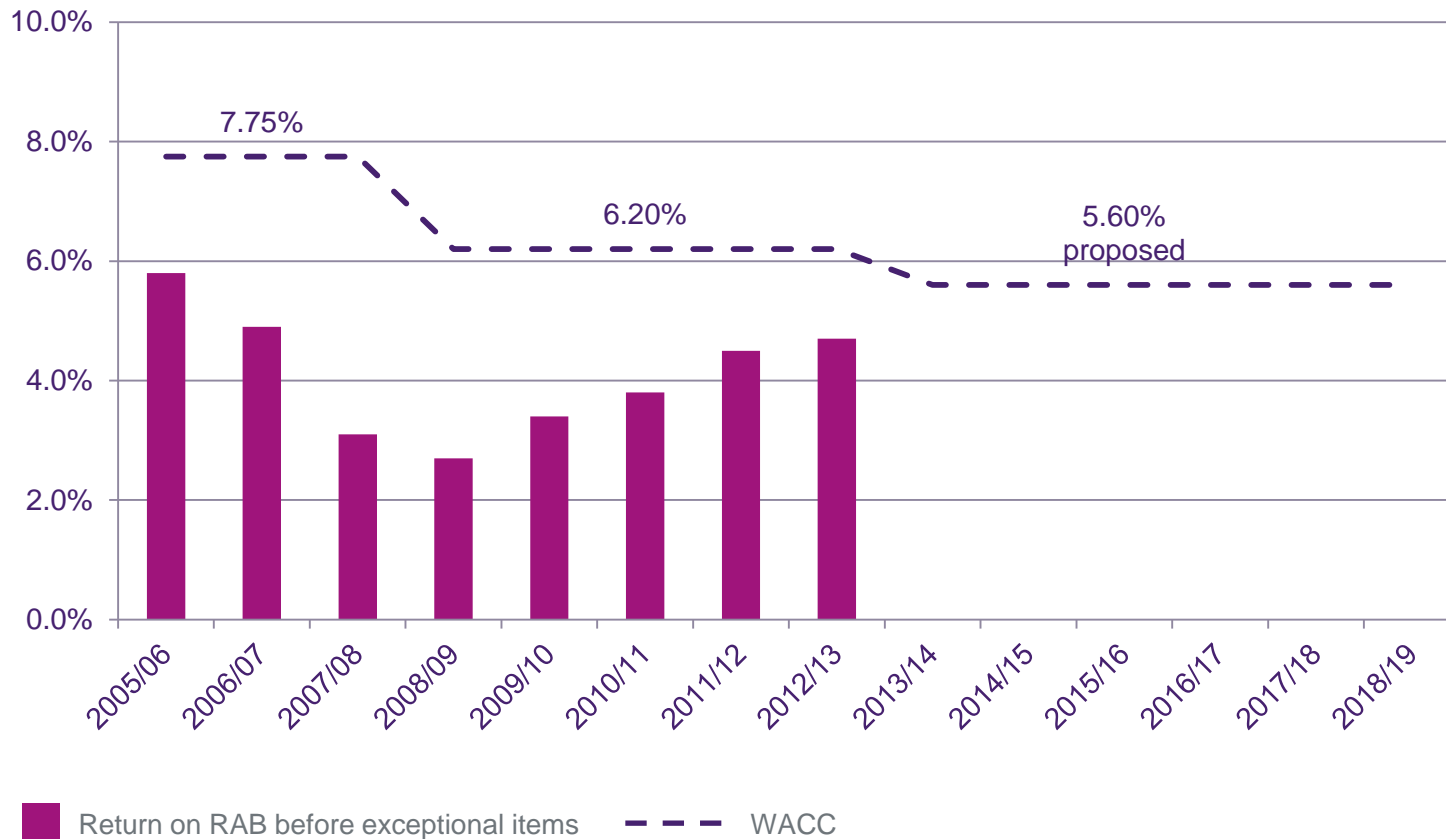
- Slower rate of growth expected in Q6 but above inflation. Flexible and evolving retail strategy key
- CAA Final Proposals include a £66 million further stretch to non-aeronautical revenue

# Movement in cost of capital in CAA Final Proposals, but still materially lower than Heathrow expected

- Final Proposals assume 5.6% weighted average cost of capital
  - Initial Proposals allowed 5.35% WACC
- Cost of equity differences remain, still significantly apart
  - equity market returns remain below UK regulatory precedent
  - inconsistent with risk hierarchy of UK regulated businesses
- Cost of debt increased, but remain apart, impacted by:
  - credit spreads
  - risk-free rate
  - cost of debt financing platform
- CAA not pursuing debt indexation



# Historically we have fallen short of the allowable return





# Key milestones

## 2013

4 November – Responses to CAA Final Proposals

## 2014

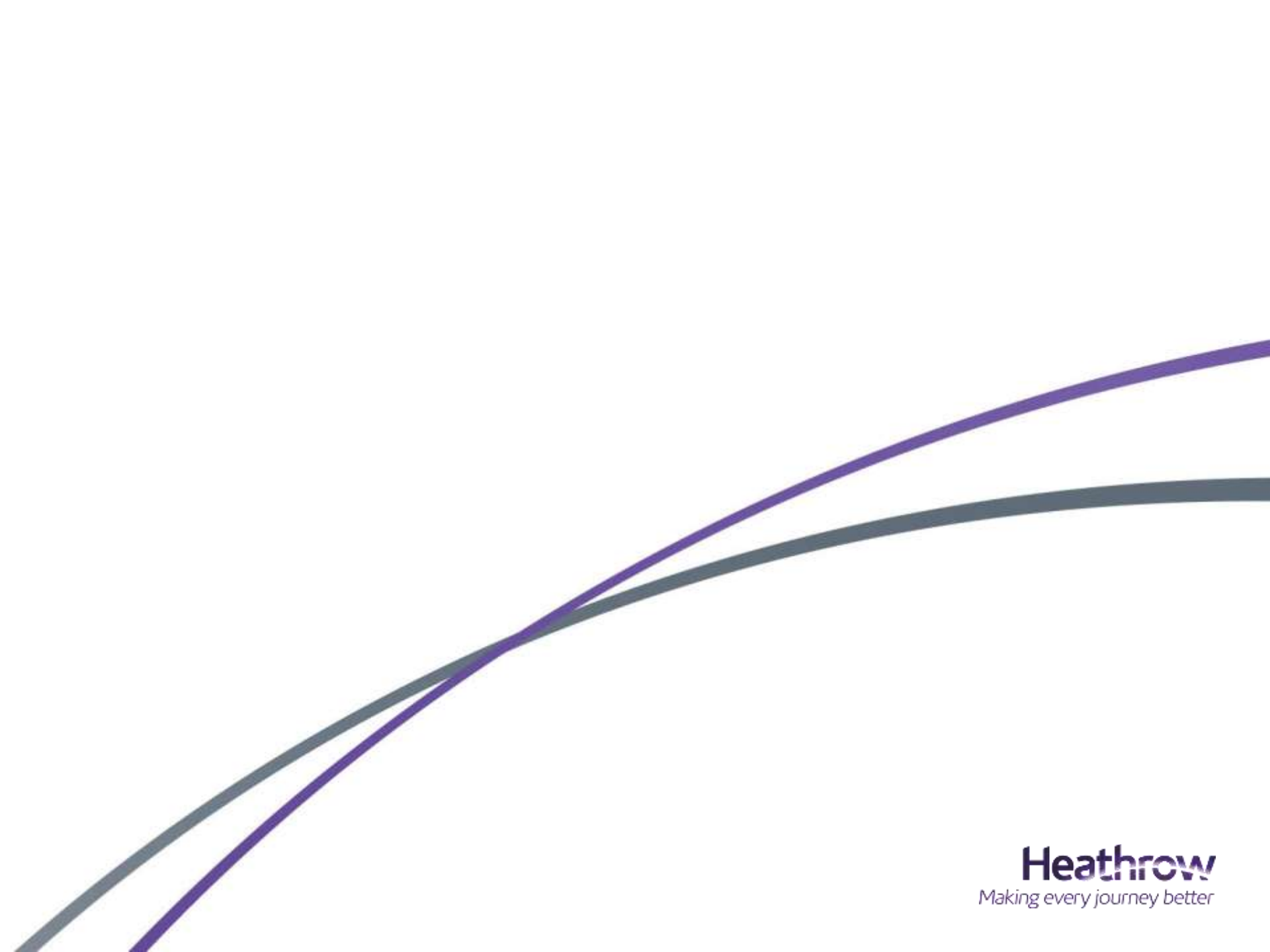
9 January – CAA Decision (including Notice to Grant Licence)

10 February – Notice Granting Licence

1 April – Start of Q6

# Conclusion

- CAA's Final Proposals are an improvement on the Initial Proposals...
- ...however, the CAA's proposed cost of capital of 5.6% is below level at which Heathrow's shareholders have said that they are willing to invest
- Heathrow is committed to delivering an efficient business. Operating the airport safely and delivering high levels of passenger experience
- Inadequate returns deter investment, threaten the continued improvements in passenger experience, undermine hub competitiveness and disincentivise UK growth



**Heathrow**  
*Making every journey better*





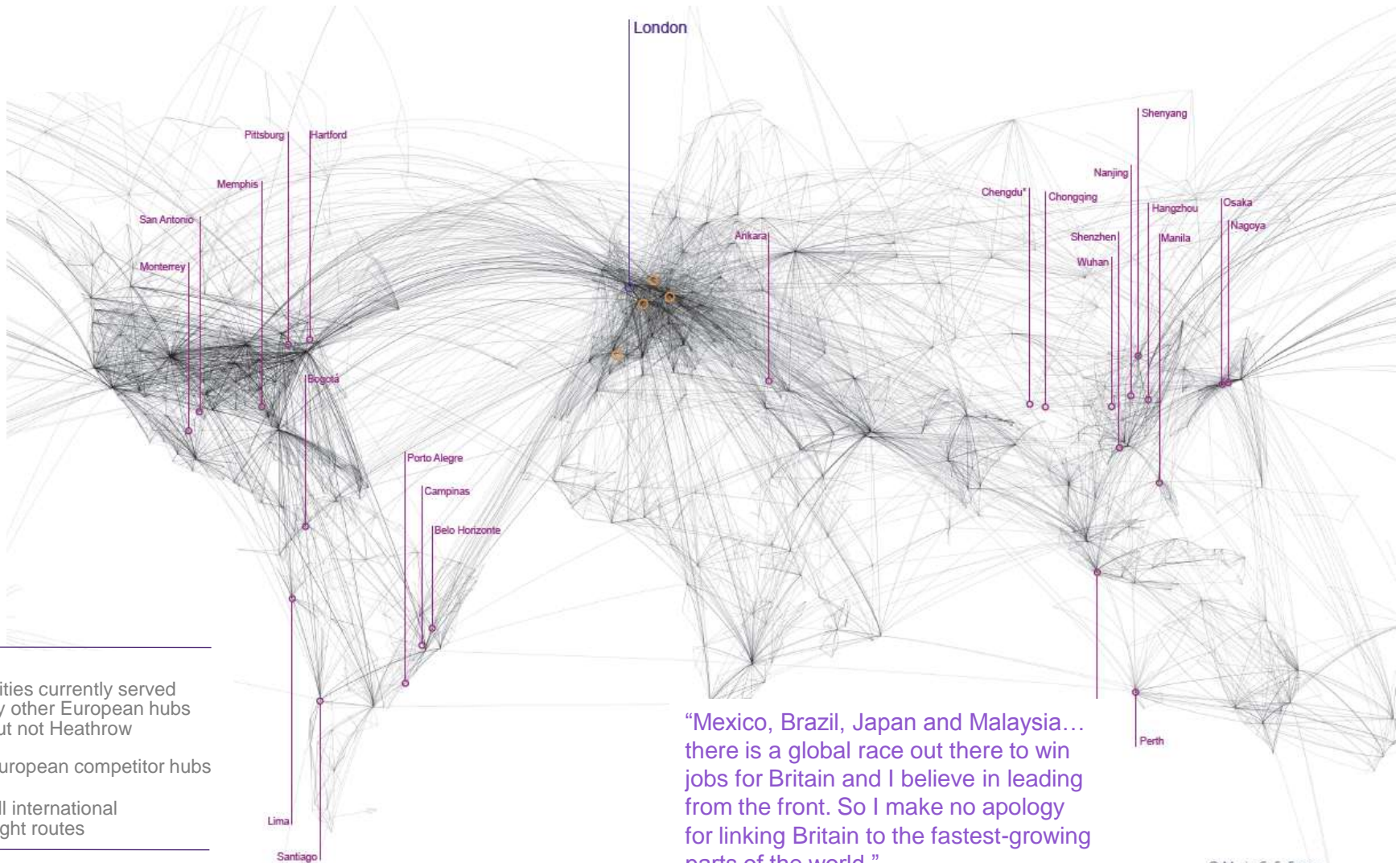
# A New Approach

Heathrow's options for connecting the UK to growth

**Heathrow**  
Making every journey better

# The UK is being cut off from important markets

Top Global Destinations by GMP that are not served by Heathrow but served by other European hubs



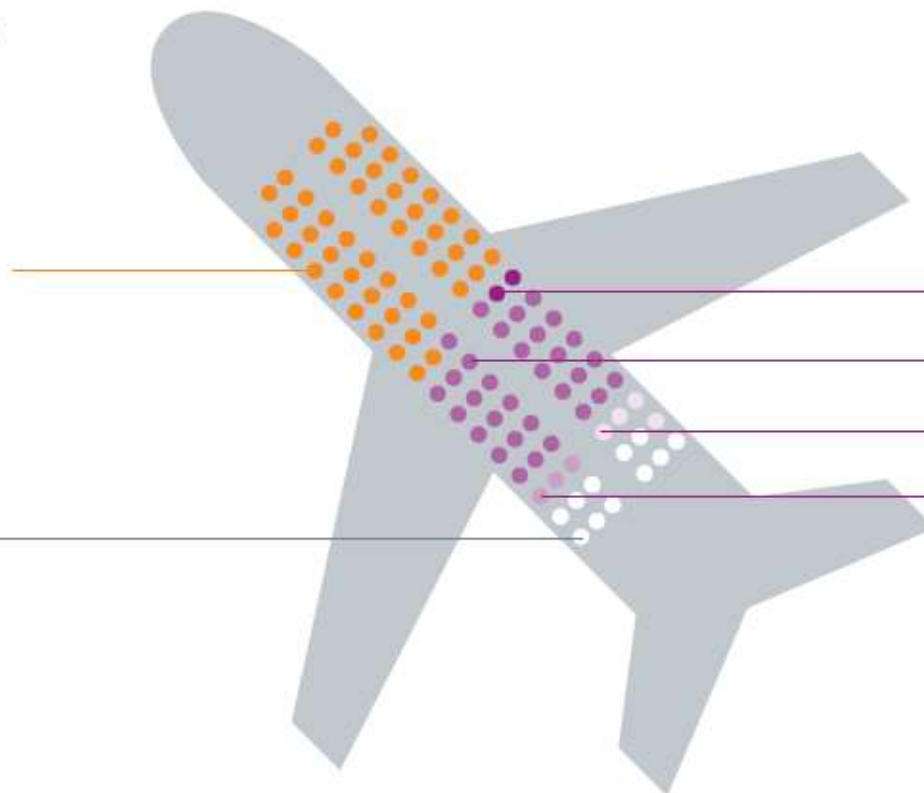
# A hub airport is important to establishing long-haul flights

Transfer passengers allow airlines to fly to more destinations more frequently than could be supported by local demand alone

## Direct passengers from London to Mexico City ...

**48% direct**  
(163 seats)

**10% Spare capacity**  
33 empty seats



## ... made possible by transfer passengers

**2% connecting from UK regions**  
(8 seats)

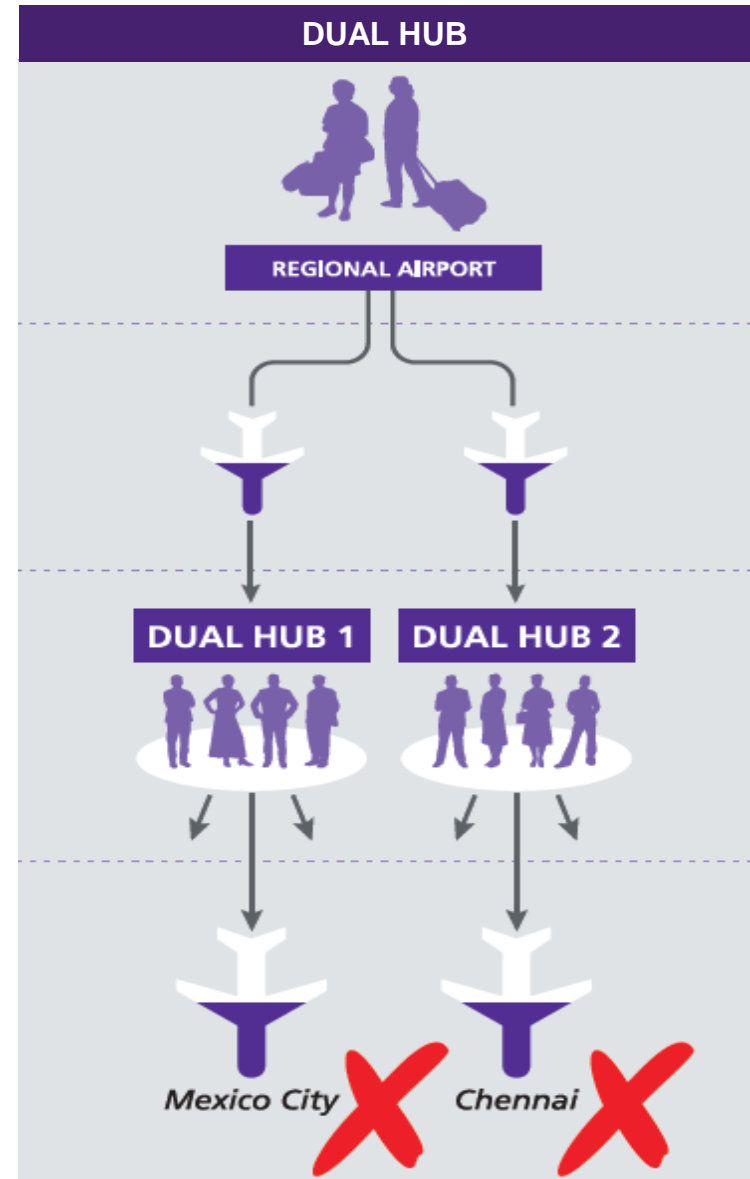
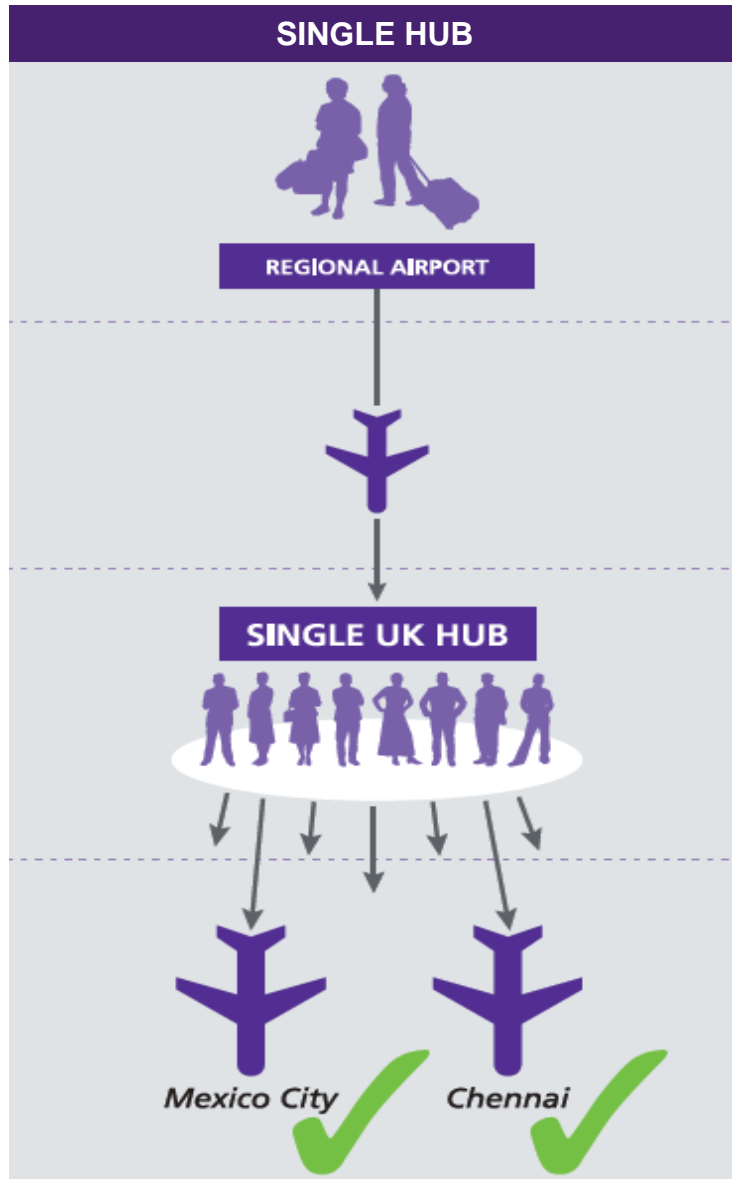
**32% from Europe**  
(108 seats)

**4% from Middle East**  
(14 seats)

**3% from rest of the world**  
(11 seats)

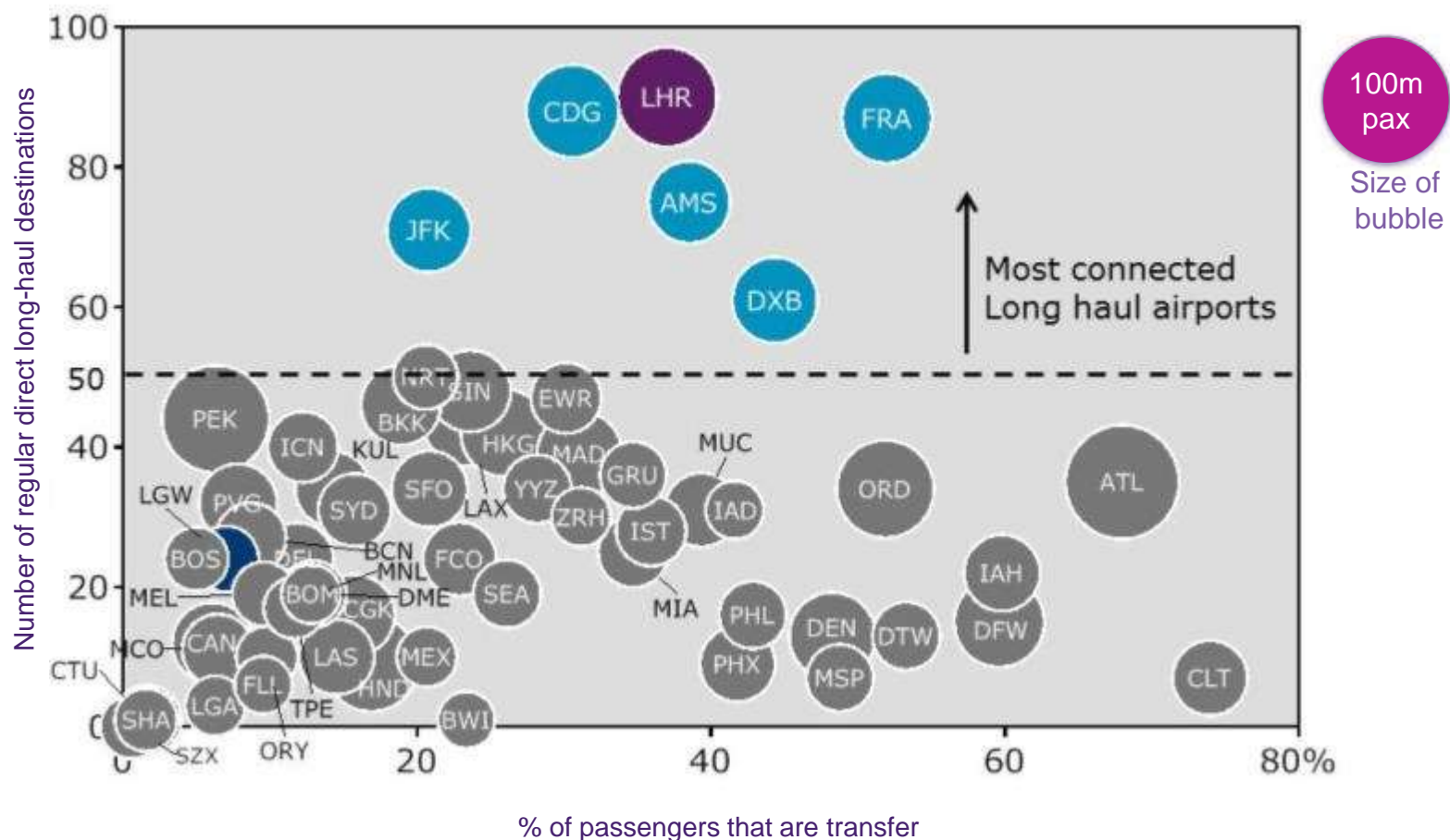


# Two hubs are not better than one



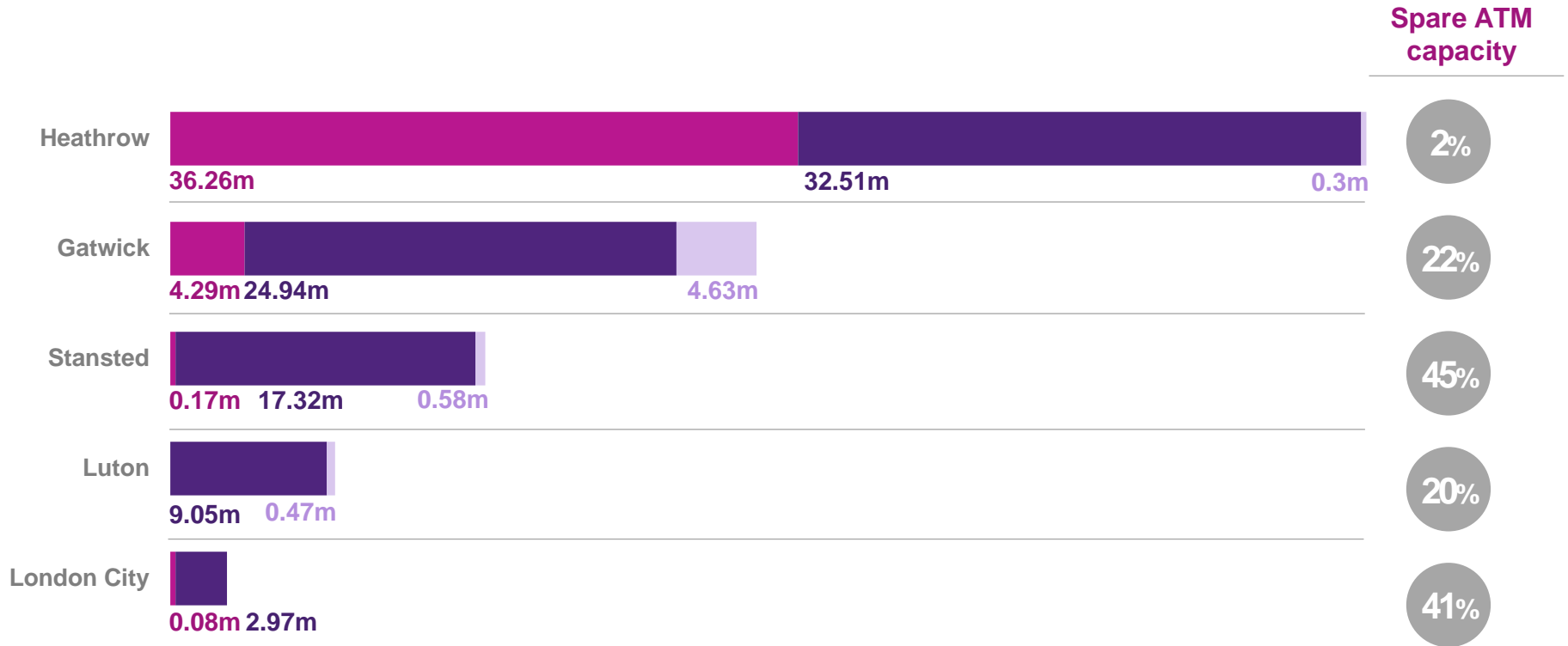
# Only six of the world's airports offer regular, direct, long-haul services to more than 50 destinations

World airports by number of long haul destinations and level of transfer traffic



# Heathrow, the UK's hub, is full.

## Other UK airports are 'point to point' and have spare capacity



### Key

- Long-haul
- Short-haul
- Charter

Heathrow, the UK's hub, is full. Other UK airports are 'point to point' and have spare capacity

## 20 long-haul airlines have withdrawn from Gatwick in five years

Year	Airline	Destination	Status	Year	Airline	Destination	Status
2008	American Airlines	Dallas	Cancelled	2011	Qatar Airways	Doha	Cancelled
2008	Oasis Hong Kong	Hong Kong	Cancelled	2011	Sunwing Airlines	Toronto	Cancelled
2008	Continental	Houston	Cancelled	2012	Hong Kong Airlines	Hong Kong	Cancelled
2008	Zoom	Ottawa	Cancelled	2012	Air Nigeria	Lagos	Cancelled
2009	Nationwide	Johannesburg	Cancelled	2012	Air Asia X	Hong Kong	Cancelled
2009	Air Namibia	Windhoek	Cancelled	2012	Delta	Atlanta	Cancelled
2009	Oman Air	Muscat	Cancelled	2012	Cubana	Mexico City	Cancelled
2009	Fly Globespan	Vancouver	Cancelled	2012	Korean Air	Seoul	Cancelled
2010	Ghana Int	Accra	Cancelled	2013	US Airways	Charlotte	Cancelled
2010	Mexicana	Mexico City	Cancelled	2013	Air China	Beijing	Cancelled

# Heathrow is best placed for Britain

Heathrow is the best location for:

1. passengers
2. business and the economy
3. local jobs
4. speed of delivery
5. cost to taxpayers



## Heathrow

Population within 60mins by car

10.2 M

9.2 M

Population within 60mins  
by public transport

## Stansted

Population within 60mins by car

5.8 M

4.7 M

Population within 60mins  
by public transport

## Thames Estuary

Population within 60mins by car

4.9 M

6.2 M

Population within 60mins  
by public transport

Key

● Company headquarters

○ 202 companies around  
London Heathrow

**Heathrow**  
Making every journey better

# A New Approach

Heathrow has put forward three new options that will:

- connect the UK to growth more quickly than any other option
- reduce the total number of people affected by noise
- deliver periods of noise respite for every community under a flight path
- meet the UK's climate change and air pollution limits
- meet long-term needs, not just the short-term

Our options for a third runway would provide the hub capacity Britain needs for the foreseeable future.



# Option 1: Third Runway North West





## Option 2: Third Runway South West





## Option 3: Third Runway North



# How the options perform

While determining the balance between the pros and cons of different options is ultimately a decision for the Commission and the Government, we believe the westerly options offer clear advantages

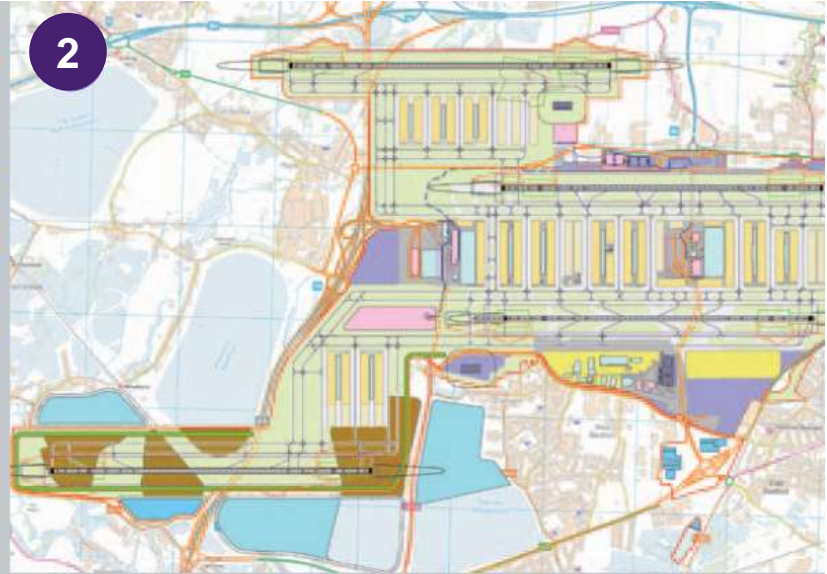
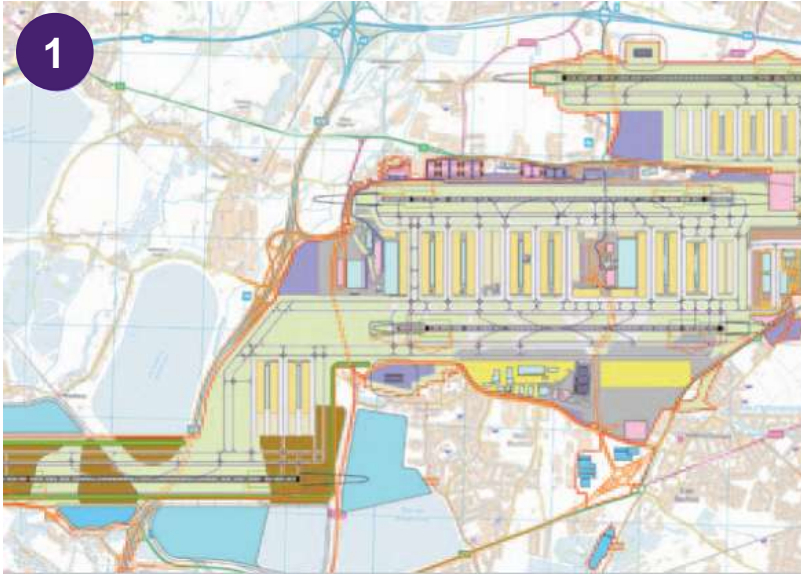
	Third Runway North	Third Runway North West	Third Runway South West
<b>Passenger capacity</b>	123m	130m	130m
<b>Flight capacity</b>	702,000	740,000	740,000
<b>Cost</b>	£14bn	£17bn	£18bn
<b>Length of new runway</b>	2,800m	3,500m	3,500m
<b>Noise (pop. within 57dBA)</b>	-10%	-15%	-20%
<b>Residential properties lost</b>	2,700	950*	850
<b>Opening date</b>	2025	2026	2029
<b>Ecology impact (hectares)</b>	-	-	716
<b>Flood zone storage lost (m<sup>3</sup>)</b>	6,000	116,000	1,416,000
<b>Grade I/II* listed buildings lost</b>	0	2*	0
<b>Construction complexity</b>	Low	Medium	High

\*We are working to develop this option to further reduce the impact on residential property and sites of significant cultural heritage



# Not just a short-term fix

Every option has been designed to move to four runways if required



**1. North / South West**

**2. North West / South West**

**3. Dual North West**

# Ten commitments

If Government supports a third runway, we will:

<b>1</b> <b>Connect Britain to economic growth</b>	by enabling airlines to add new flights to fast-growing markets
<b>2</b> <b>Connect UK nations and regions to global markets</b>	by working with airlines and government to deliver better air and rail links between UK regions and Heathrow
<b>3</b> <b>Protect 114,000 existing local jobs and create tens of thousands of new jobs nationwide</b>	by developing our local employment apprenticeships and skills programmes and supporting a supply chain throughout the UK
<b>4</b> <b>Build more quickly and at lower cost to taxpayers than building a new airport</b>	by building on the strength the UK already has at Heathrow
<b>5</b> <b>Reduce aircraft noise</b>	by encouraging the world's quietest aircraft to use Heathrow and routing aircraft higher over London so that fewer people are affected by noise than today
<b>6</b> <b>Lessen noise impacts for people under flight-paths</b>	by delivering periods of noise respite with no aircraft overhead and providing noise insulation for people in high-noise areas
<b>7</b> <b>Treat those most affected by a third runway fairly</b>	by ensuring compensation greater than market value is offered to anyone whose home needs to be purchased
<b>8</b> <b>Keep CO2 emissions within UK climate change targets and play our part in meeting local air quality limits</b>	by incentivising cleaner aircraft supporting global carbon trading and increasing public transport use
<b>9</b> <b>Increase the proportion of passengers using public transport to access Heathrow to more than 50%</b>	by supporting new rail, bus and coach schemes to improve public transport to Heathrow
<b>10</b> <b>Reduce delays and disruption</b>	by further improving Heathrow's resilience to severe weather and unforeseen events



# Passenger benefits of Heathrow expansion

- 40 new long haul destinations
- Greater choice of airlines
- More connections to UK regions
- Better choice of onward transport
- Lower fares than building a new hub
- Closer to passengers' home or business than a new hub



# UK economic benefits

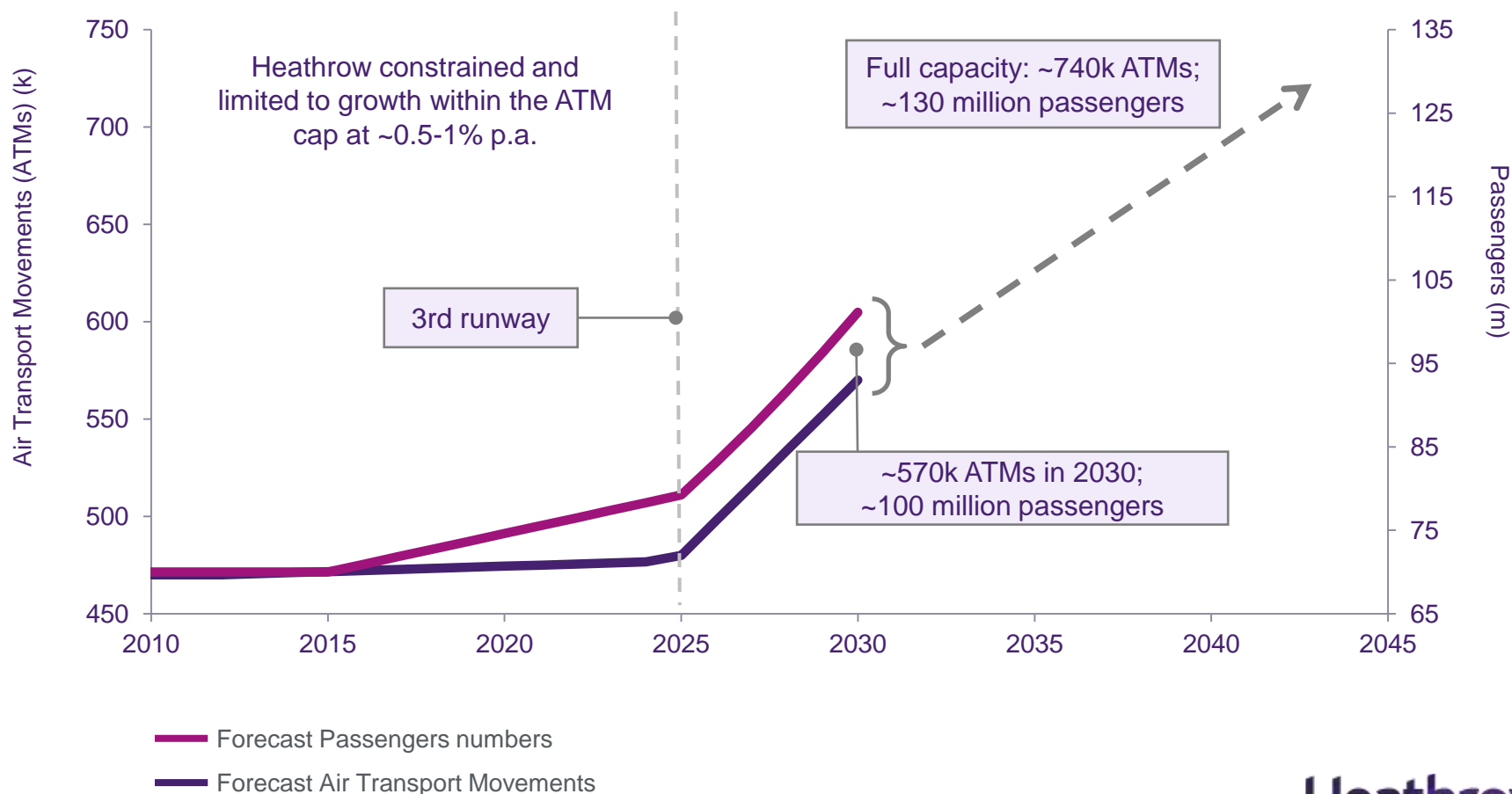
£100 bn

economic benefits would accrue to UK

3R impact to UK (£ bn PV)	
Passengers and freight users	
Extra journeys	14
More direct journeys	2
Cargo	2-3
Rest of the UK economy	
Trade	5-35
Investment	0-18
Consumption	6-11
Government revenues	5
Wider economic impacts and agglomeration	16-68
<b>Total mid-point</b>	<b>£100 billion</b>

# Three runways are enough to maintain the UK's global hub status for the foreseeable future

## Forecast growth of Passenger Demand and Air Transport Movements with third runway



# £14-18 billion phased investment over 15-20 years

## Deliver a 3rd runway

Third runway phase 1 (2020-2025)

- In 2030 enables ~100 million passengers & ~570k ATMs
- Material investment expected to begin from around 2020
- Approximately 2/3 of total spend, of which:
  - c.50% airport development
  - c.50% community, social & surface access costs, which may be more appropriately funded by government

## Infrastructure for full capacity

Third runway phase 2 (2025-2040)

- Enables full capacity of ~130 million passengers & ~740k ATMs
- Remaining 1/3 of spend, on additional terminal infrastructure
- Flexibility to phase in line with demand growth

**Key considerations:** regulatory framework, airline support, slot operating rights, political risk and expansion risk

# Heathrow builds from strength

- Hub airports are different
- The UK has a shortage of hub capacity, not airport capacity
- A hub is valuable to UK jobs, trade and economic growth
- Experience shows dual and split hubs don't work
- Only a single airport, home to UK based network carriers, can be the UK's hub
- The UK already has one of the world's most successful international hub airports
- Expanding Heathrow will connect the UK to growth more quickly and at less cost to the taxpayer than any other option
- Heathrow is better located for passengers, business and jobs

**Terminal 2** | The Queen's Terminal

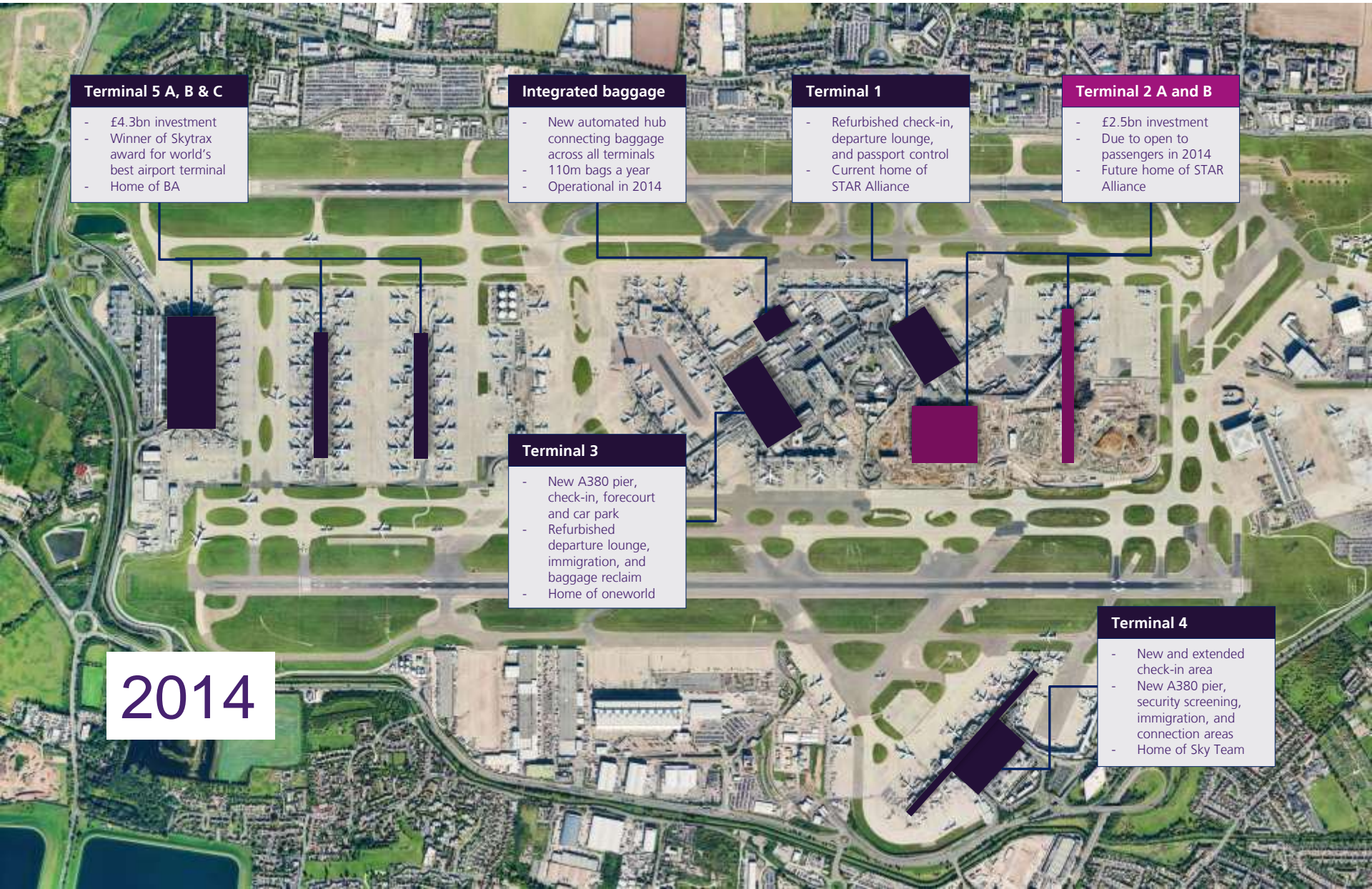
# Investing in Better Journeys

## Heathrow's New Terminal 2

**Heathrow**  
Making every journey better



# Heathrow has invested £11 billion between 2003 and 2014 – one of the UK's largest private-sector investments



## Terminal 5 A, B & C

- £4.3bn investment
- Winner of Skytrax award for world's best airport terminal
- Home of BA

## Integrated baggage

- New automated hub connecting baggage across all terminals
- 110m bags a year
- Operational in 2014

## Terminal 1

- Refurbished check-in, departure lounge, and passport control
- Current home of STAR Alliance

## Terminal 2 A and B

- £2.5bn investment
- Due to open to passengers in 2014
- Future home of STAR Alliance

## Terminal 3

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

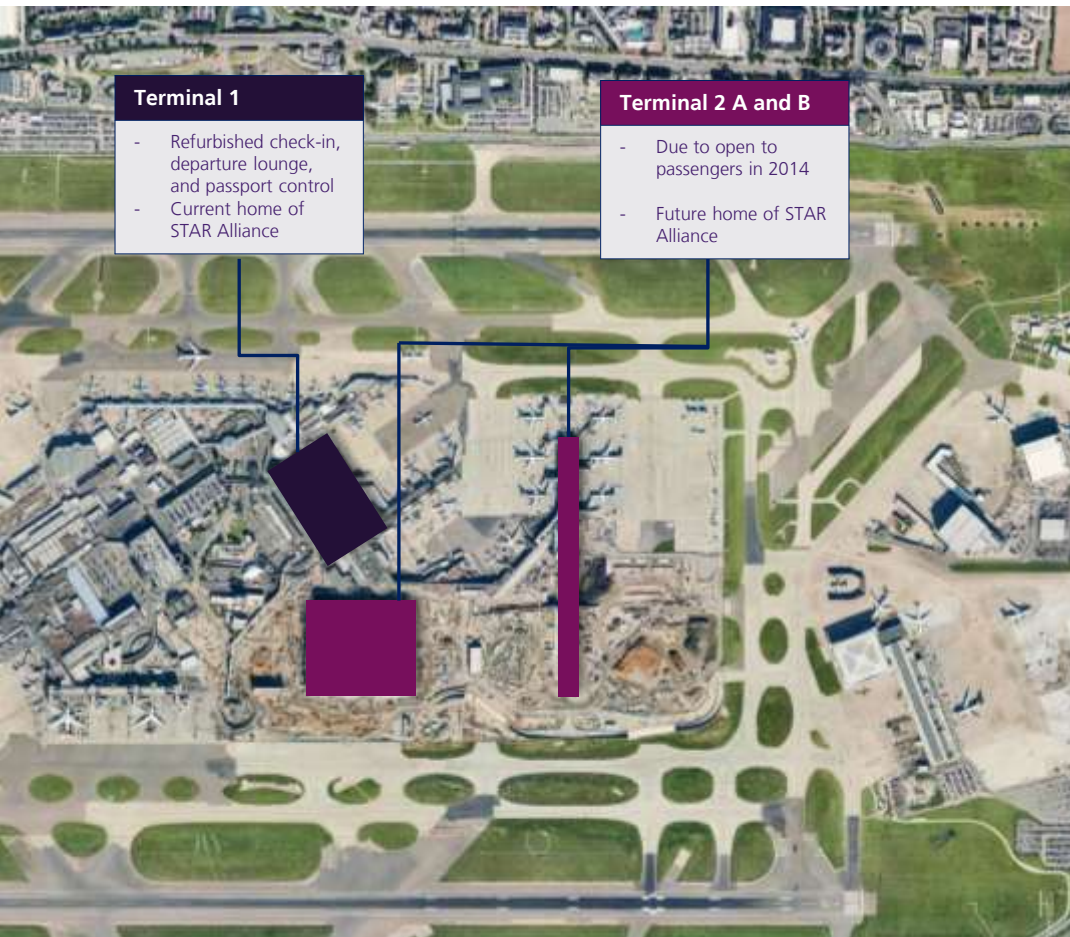
## Terminal 4

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

2014



# Terminal 2: £2.5 billion phase 1 investment



## Terminal 2 phase 1

- T2A – the main terminal building
- T2B – the satellite terminal
- 24 stands including up to 7x A380
- 1,340 space multi-storey car park
- energy centre
- up to 20 million passengers

## Terminal 2 phase 2

- T2A extension
- baggage system
- T2C and track transit

# Designed with passengers at its heart



## FAMILIES

Spacious, open, pushchair friendly concourses, and plenty of light for families



## BUSINESS

Ease of passing through, self service check-in options, automatic ticket presentation, free WiFi



## LEISURE

Passenger Ambassadors and plenty of restaurants, bars and shops for leisure travellers

# Innovating through retail

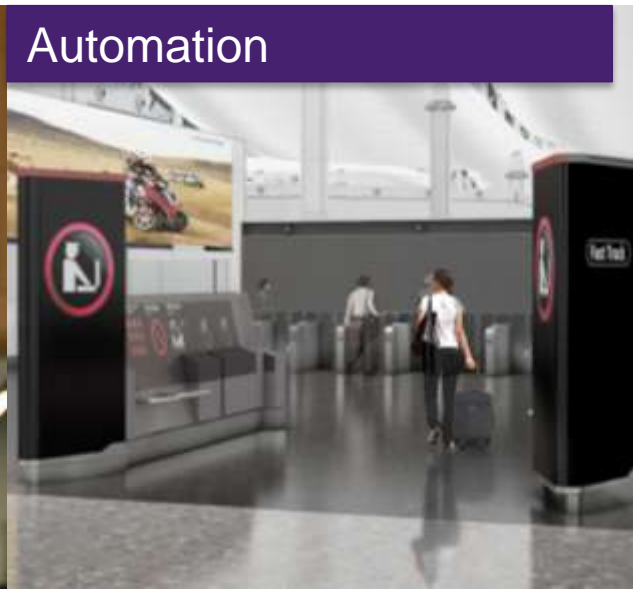


- 12,000 m<sup>2</sup> retail space (9,000 m<sup>2</sup> airside)
- 65 outlets, including 14 cafés and restaurants
- Retail mix designed around passenger need

- “Best of modern Britain” e.g:
  - ‘London’s Pride’
  - John Lewis
  - Wondertree



# Building for a successful operation



- Improved facilities for the 24,000 people working in Terminal 2
- Collaborating with partners, including airlines, handlers, UK Border Force and retailers

- Innovation in the passenger journey, tested in current terminals, e.g.:
  - Self-serve check-in and bag tag
  - Common-user check-in for 23 airlines
  - Automatic Ticket Presentation and single entrance to security



# Terminal 2 will be Heathrow's most sustainable terminal



- Over 99% of the demolished Terminal 2 recycled or re-used
- CO<sub>2</sub> reduction 40% above building regulation requirements
- Energy centre with one of the largest biomass boilers in the UK
  - woodchip sourced locally

- Fewer larger terminals reducing taxi times and CO<sub>2</sub> emissions
- North facing skylights in the waved roof let light in whilst keeping heat and glare out



# Quality and safety during the construction phase

Strong safety ethos



Fully operational airport



Quality handovers



- One of the best safety records in UK construction
  - 4 million RIDDOR free hours on T2A
  - 0.05 AFR (Accident Frequency Rate)

- Complex logistics building between two fully operational runways
- Construction on schedule and on budget
- Separate change programme to reflect evolved airline occupancy

**Heathrow**  
Making every journey better



# Planning to meet the challenges of opening

Most new terminal openings worldwide have challenges on opening

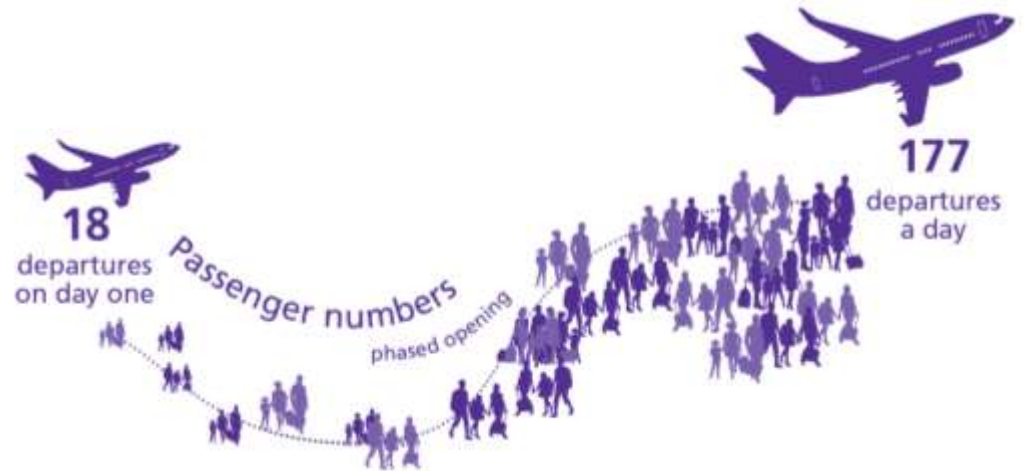
PHASED  
OPENING

26 airlines

CONTINGENCY  
PLANNING

TRAINING AND  
TESTING

182 trials  
24,000 people FIT



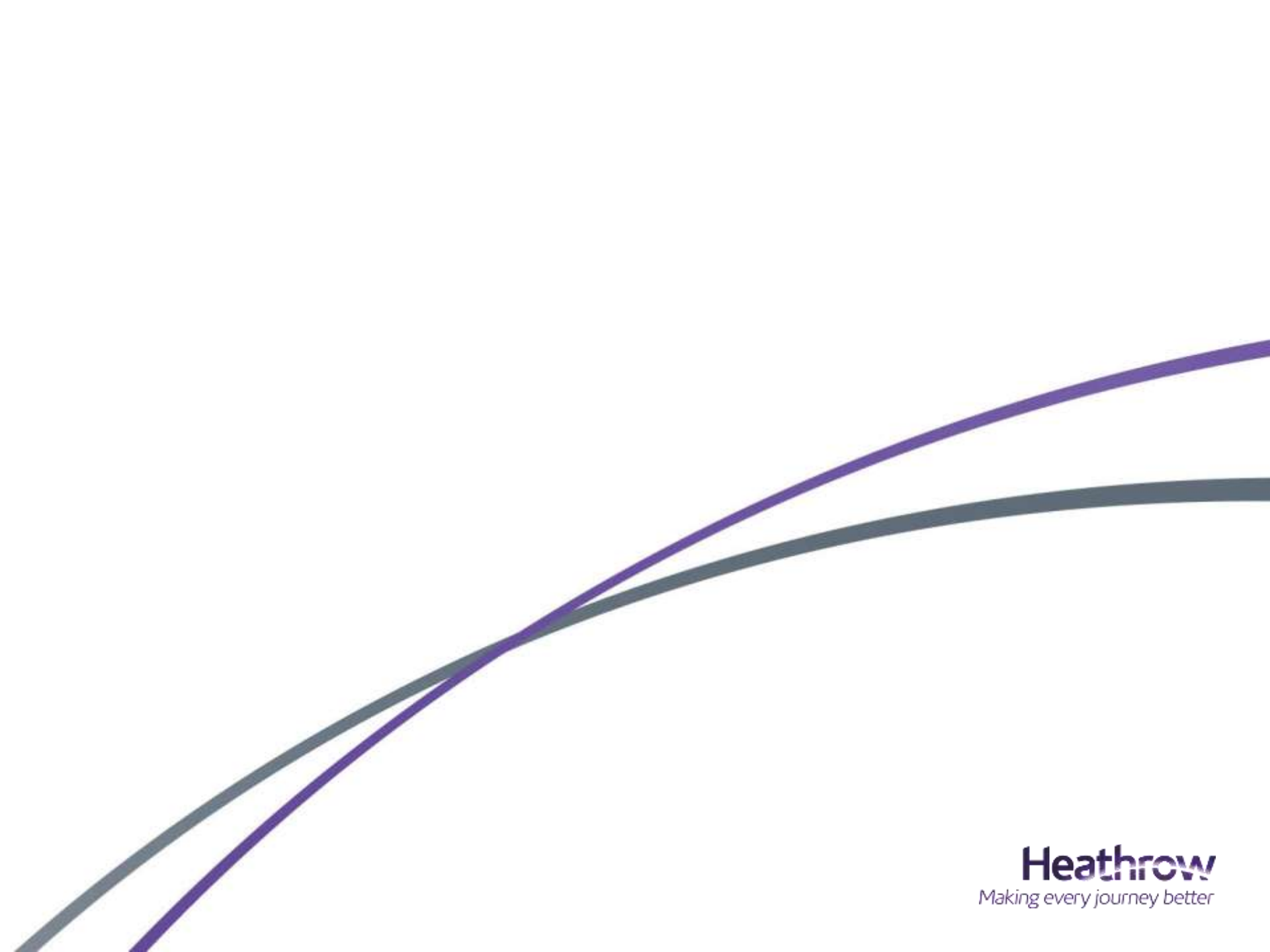
# Airline move sequence

June 2014	June 2014	TBC	July 2014	July 2014	July 2014	Sept 2014	Oct 2014	Oct 2014	Nov 2014 or later
(from T1 / T4) 04 June 2014	(from T3) 18 June 2014	(from T3)	(from T3) 02 July 2014	(from T1) 09 July 2014	(from T1 / T3) 23 July 2014	(from T3) 17 September 2014	(from T1) 01 October - 08 October 2014	(from T1) 22 October 2014	(from T1)
	    	  	  			    	      	          	    

Please note dates may change







**Heathrow**  
*Making every journey better*

# Notes, sources and defined terms

- Page 6
  - Passenger satisfaction: quarterly Airport Service Quality surveys by Airports Council International. Survey scores can range between 0 and 5 with 5 the best possible score
  - Percent rating for 2013 is 12 months to June 2013
  - SKYTRAX World Airport Awards 2013: Terminal 5 voted best airport terminal in world Heathrow voted best airport shopping in world 2012
  - Airports Council International : 2012 World Airport Traffic and Rankings (March 2013)
- Page 10
  - Note financial data shown in 2011/12 prices in line with regulatory procedure
  - CAGR in Full Business Plan and CAA Initial proposal based on 2013/14 forecasts at January 2013. CAGR in Revised Business Plan and Alternative Business Plan based on 2013/14 forecasts at June 2013
  - Weighted Average Cost of Capital is pre-tax and real
- Page 11
  - Note financial data shown in 2011/12 prices in line with regulatory procedure
  - Structural factors include T2 transition, T1 closure and rates revaluation. Controllable costs exclude rents, rates and utilities
- Page 12
  - Source: comparative spend per passenger - Verdict Global Airport Retail Study 2012
  - Note financial data shown in 2011/12 prices in line with regulatory procedure
  - NRI per passenger Q6 Average Incremental is the forecast average NRI per passenger over Q6, incremental to the forecast NRI per passenger for 2013/14
- Page 13
  - Source: CAA Final Proposals supplementary document: “Estimating the cost of capital: a technical appendix to the CAA’s Final Proposal for economic regulation of Heathrow and Gatwick after April 2014” and PWC report: “Estimating the cost of capital for designated airports: a report prepared for the Civil Aviation Authority, October 2013”
- Page 19
  - GMP: Gross Metropolitan Product, measuring the size of the economy of a metropolitan area
  - Note from September 2013, Chengdu will be served from Heathrow
- Page 22
  - Heathrow analysis of IATA Airport IS (Passenger Booking Data) and OAG Schedules 2011
  - Regular flights defined as at least 3 departures a week. Long-haul services defined as those to destinations greater than 2200 nautical miles from Heathrow.
- Page 23
  - ATM: Air Traffic Movement, aircraft take-off or landing
  - Air Transport Movement Capacity Assessment, CAA, February 2012 & UK Airport Statistics, CAA, 2012 (for Gatwick this takes an average of the winter and summer months)
- Page 35
  - Growth prior to third runway assumes increases in load factors and aircraft capacities
  - In the 5 years after new capacity comes online (equivalent to ~2.5% above the market), as seen at other capacity constrained airports following expansion Assumes growth at ~5% p.a..Market growth of 2.4% assumed thereafter.
  - 570k ATMs achieved in 2030. Assuming linear trend, growth tends towards 740k in mid-2040s
- Page 44
  - RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995
  - RIDDOR free hours: man hours without incurring a RIDDOR accident

# Disclaimer

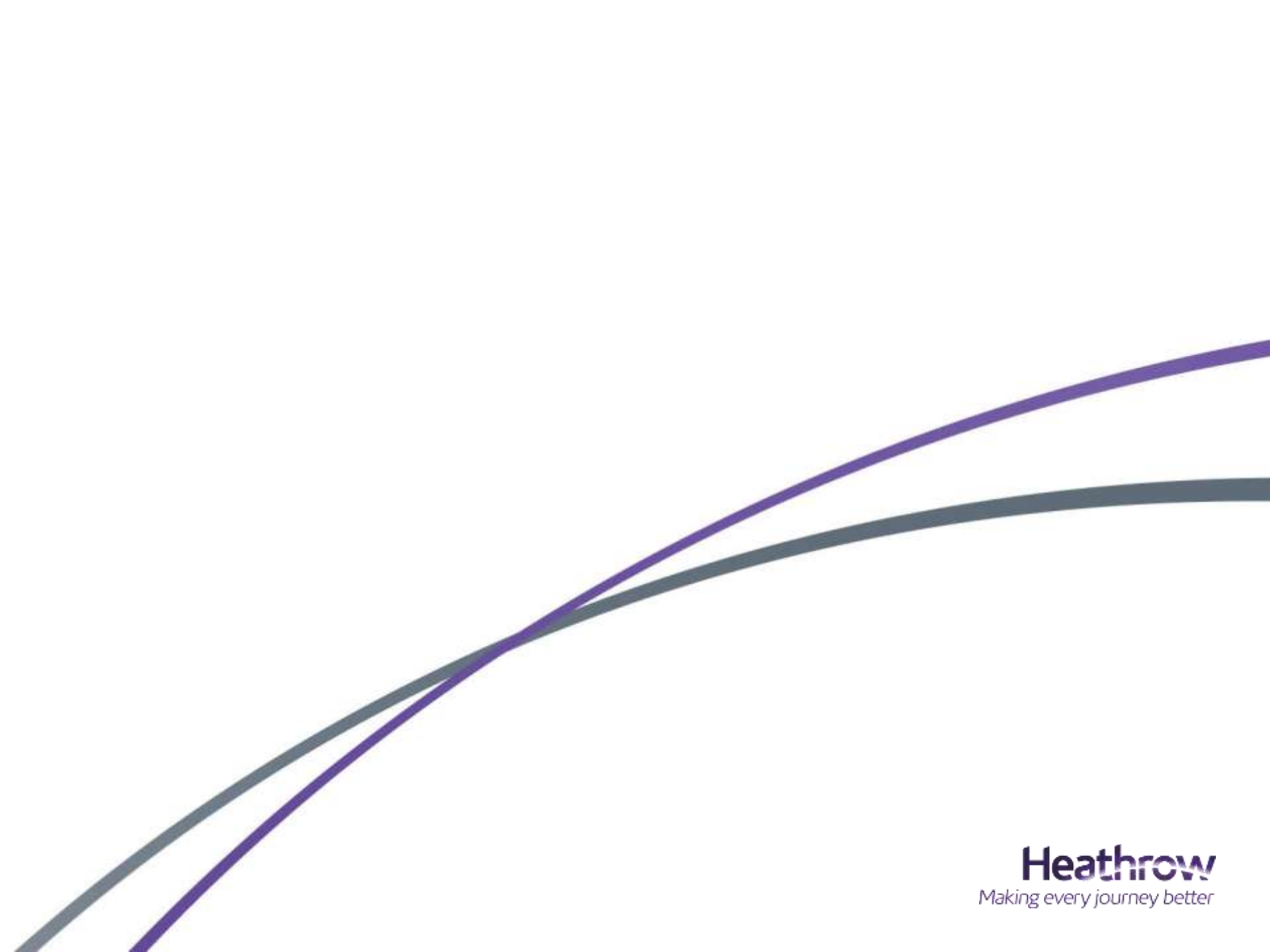
This material contains certain tables and other statistical analyses (the “Statistical Information”) which have been prepared in reliance on publicly available information and may be subject to rounding. Numerous assumptions were used in preparing the Statistical Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Statistical Information. As such, no assurance can be given as to the Statistical Information’s accuracy, appropriateness or completeness in any particular context; nor as to whether the Statistical Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions nor should any information herein be relied upon as legal, tax, financial or accounting advice. Heathrow does not make any representation or warranty as to the accuracy or completeness of the Statistical Information.

These materials contain statements that are not purely historical in nature, but are “forward-looking statements”. These include, among other things, projections, forecasts, estimates of income, yield and return, and future performance targets. These forward-looking statements are based upon certain assumptions, not all of which are stated. Future events are difficult to predict and are beyond Heathrow’s control. Actual future events may differ from those assumed. All forward-looking statements are based on information available on the date hereof and neither Heathrow nor any of its affiliates or advisers assumes any duty to update any forward-looking statements. Accordingly, there can be no assurance that estimated returns or projections will be realised, that forward-looking statements will materialise or that actual returns or results will not be materially lower than those presented.

This material should not be construed as an offer or solicitation to buy or sell any securities, or any interest in any securities, and nothing herein should be construed as a recommendation or advice to invest in any securities.

This document has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Heathrow nor any person who controls it (nor any director, officer, employee not agent of it or affiliate or adviser of such person) accepts any liability or responsibility whatsoever in respect of the difference between the document sent to you in electronic format and the hard copy version available to you upon request from Heathrow.

Any reference to “Heathrow” will include any of its affiliated associated companies and their respective directors, representatives or employees and/or any persons connected with them.



**Heathrow**  
*Making every journey better*

# Heathrow

*Making every journey better*