



Heathrow Finance plc

Roadshow presentation

October 2018

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Agenda

1. Key credit strengths
2. Strategic developments
3. Recent trading and performance update
4. Transaction summary
5. Appendix



Key credit strengths

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Foundations of Heathrow credit

1

Strength and resilience
of the asset

2

Cash flow predictability
from stable regulatory
framework

3

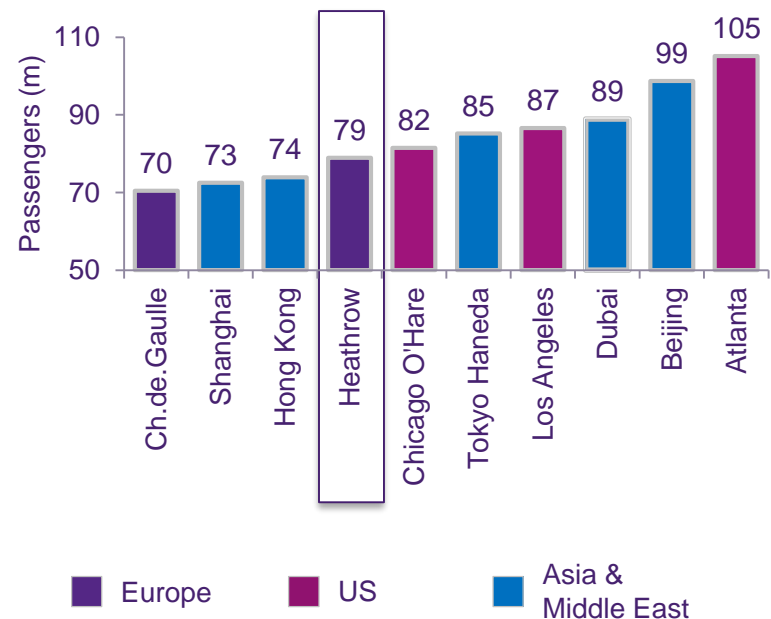
Strong set of creditor
protections



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

- Demand to fly to and from London is 28% higher than the next largest market
 - Heathrow is the busiest airport in Europe and seventh busiest airport in the world in terms of total passengers
 - ~50% of traffic across London airport system
- Heathrow enjoys strong industry position
 - ~72% 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

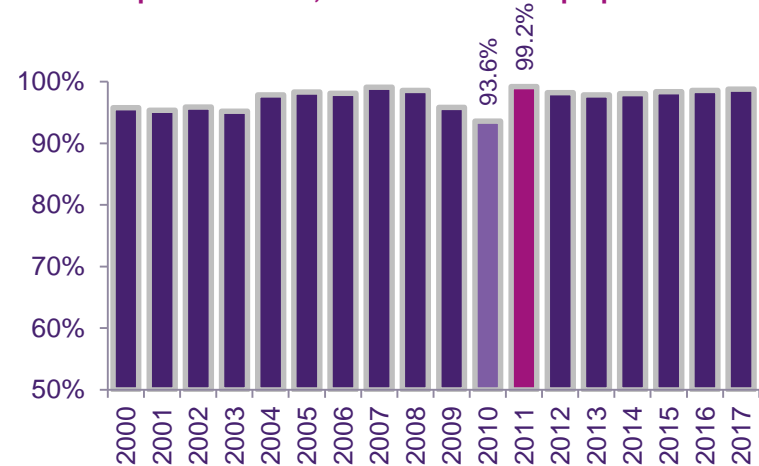
Top 10 busiest global airports
12 months to 30 June 2018



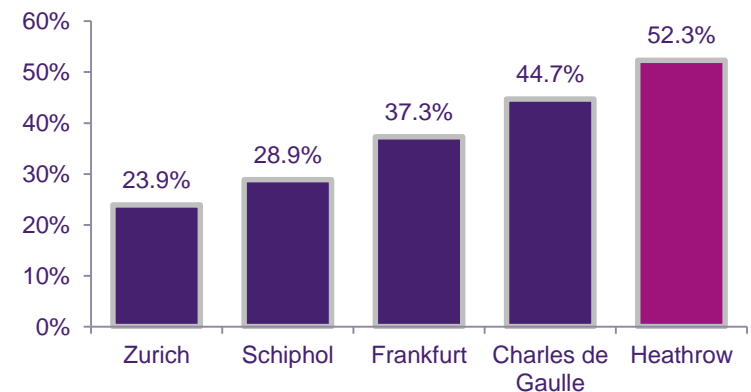
Heathrow's strength and resilience driven by traffic profile

- 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
- Proven resilience to market trends, shocks and economic downturns

Proportion of 480,000 annual ATM cap operated

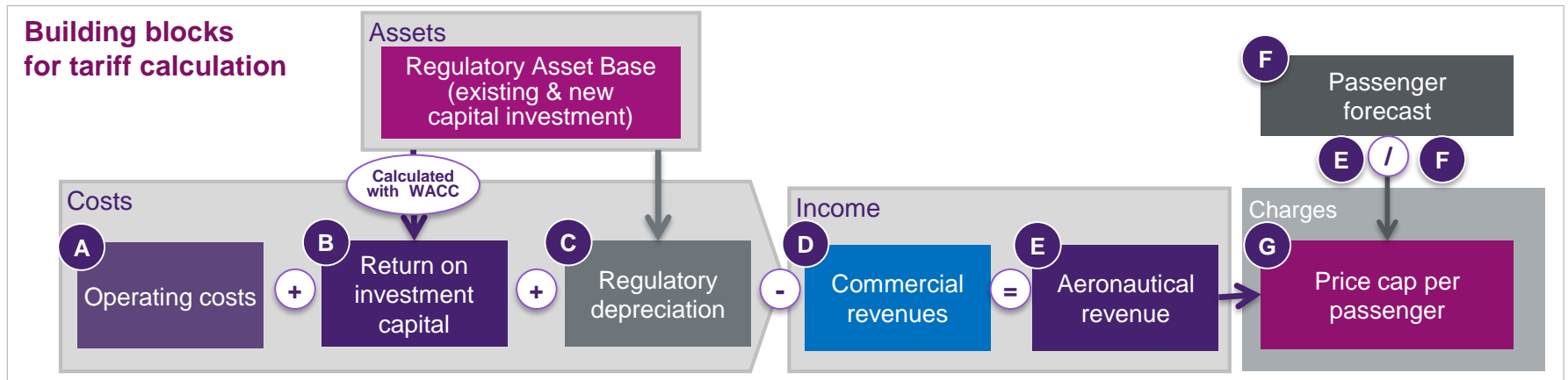


Proportion of long haul traffic (2017)



Cash flow predictability from a stable regulatory framework

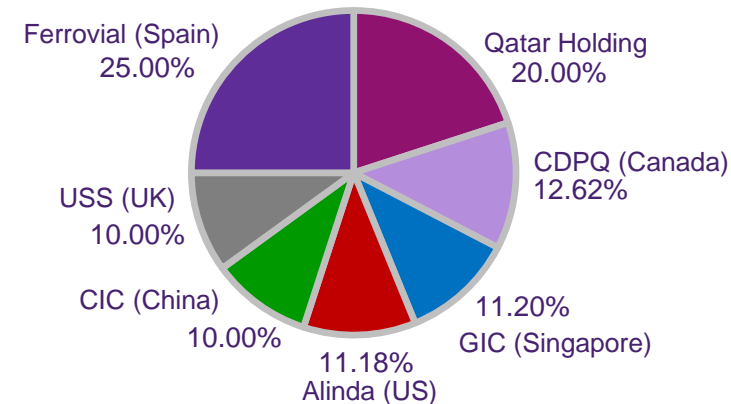
- Heathrow is regulated by UK Civil Aviation Authority, with role defined by English law
- Re-set of tariff every five years provides strong visibility of cost recovery
 - tariff set using ‘building block’ principle, allowing recovery of capital investment, operating costs and cost of capital
- £15.95 billion Regulatory Asset Base (‘RAB’) as at 30 June 2018 includes virtually all assets in the business
- ‘RAB based’ price regulation similar to other UK and Australian regulated utilities
- CAA has duty to ensure Heathrow can finance its activities
- Current ‘Q6’ regulatory period extended until at least end of 2021. The 2 year extension is known as iH7



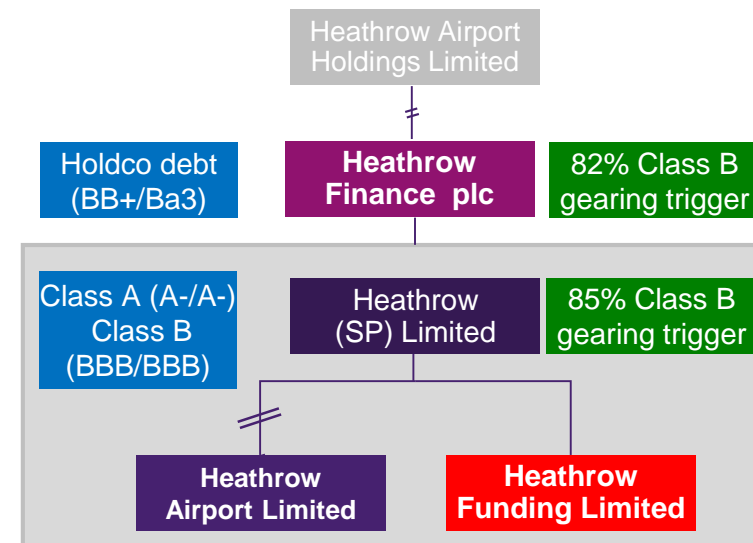
Overview of Heathrow financing

- Largest wholly-privately financed airport globally, owned by seven international investors
- Established debt financing platform – similar to major UK regulated utilities – with issuance in 7 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 30 September 2018
 - Heathrow Finance: £1,073 million
 - Class B: £1,351 million
 - Class A: £11,398 million

Heathrow ownership



Summary Heathrow financing structure



Heathrow provides a strong suite of creditor protections

- Senior security over Heathrow (SP) Limited shares
- Heathrow Finance debt serviced by distribution from Heathrow (SP) Ltd
 - £54 million in 2017 in Heathrow Finance debt service
 - Significant debt service coverage given £525 million in dividends to ultimate shareholders and nearly £11 million in debt service costs at ADIF2 in 2017
 - Over £475 million liquidity buffer provided by differential Class B trigger events between Heathrow Finance (82%) and Heathrow (SP) (85%)
- 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 and financial covenants and lock-ups

Regulatory Asset Ratio (Net Debt/RAB)

Heathrow Finance covenant	90.0/92.5%%
Class B trigger	82.0%/85.0%
Class A trigger	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

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 ~10% maximum maturities in any calendar year
- Access to 7 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 December 2020

Distribution

- Consistent with maintaining leverage targets

Expansion

- Target existing credit ratings
- Existing debt financing platform demonstrably scalable



Strategic developments

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Expansion – Heathrow’s proposal

- **New full length runway to the north-west** expected to open in **2026**
- **At least 260,000 extra flight movements** per annum
- **Increase to approximately 130 million passengers** per annum
- **Up to 180,000 new jobs** and **approximately £187 billion in economic benefits** across the country
- Evaluating master plan options and cost savings which, **coupled with accelerated traffic growth** could enable delivery **close to 2016 aeronautical charges**



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

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

Delivering a sustainable, affordable & financeable expanded Heathrow

SUSTAINABLE

- Carbon neutral growth
- Incentives for cleaner, quieter aircraft; 6.5 hour ban on scheduled night flights
- Pioneering offsite manufacturing with Logistics Hubs
- No additional airport related traffic
- Skills Taskforce

AFFORDABLE

- Charges to remain close to October 2016 levels in real terms
- Cost savings identified as master plan developed
- Over 100 expressions of interest from Innovation Partners
- Preferred masterplan consultation set for 2019

FINANCEABLE

- Entirely privately funded through mix of debt and equity
- Commitment to maintain current investment grade credit ratings
- Close to £1.6bn raised in the first nine months of 2018 providing strong foundations for expansion
- Stable regulatory environment; opportunity for alternative commercial arrangements with airlines

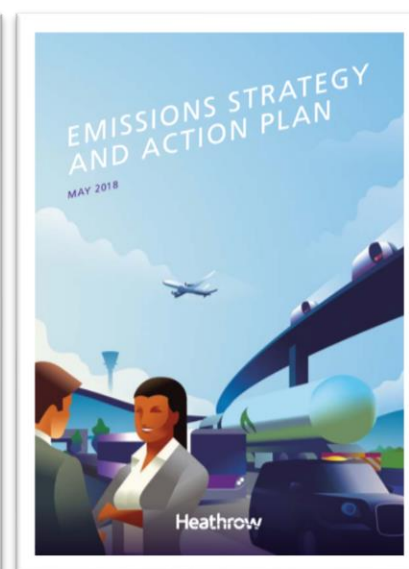
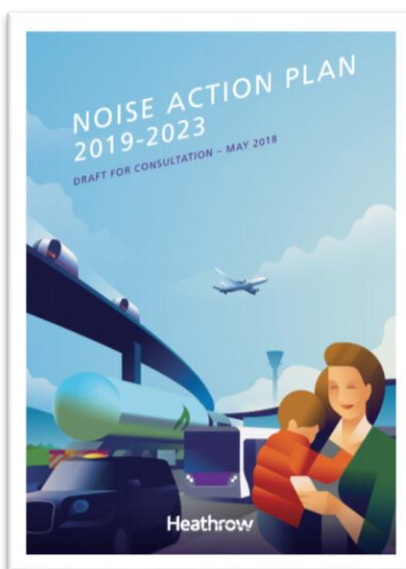
Progressing on all Heathrow 2.0 flagship goals

A GREAT
PLACE
TO WORK

A GREAT
PLACE
TO LIVE

A THRIVING
SUSTAINABLE
ECONOMY

A WORLD
WORTH
TRAVELLING



Brexit update

- Continued access to the single European aviation market is key
 - aviation industry unable to fall back on WTO rules
 - key risk is where market access relies on EU agreements – applies to 27 EU states plus 17 other countries including Canada, US and Switzerland
 - bilateral UK air service agreements with 111 long haul markets making up ~30% of Heathrow traffic
 - cliff-edge scenario is risk not just for UK airports/airlines but across continental Europe
 - Continuing to advocate maintenance of efficient flows of people and goods
- Heathrow remains in an extremely strong position regardless of the outcome of the negotiations
 - proven track record managing operational change
 - financial resilience in place
 - liquidity horizon extends to December 2020
- Heathrow encouraged by UK Government approach to aviation in negotiations

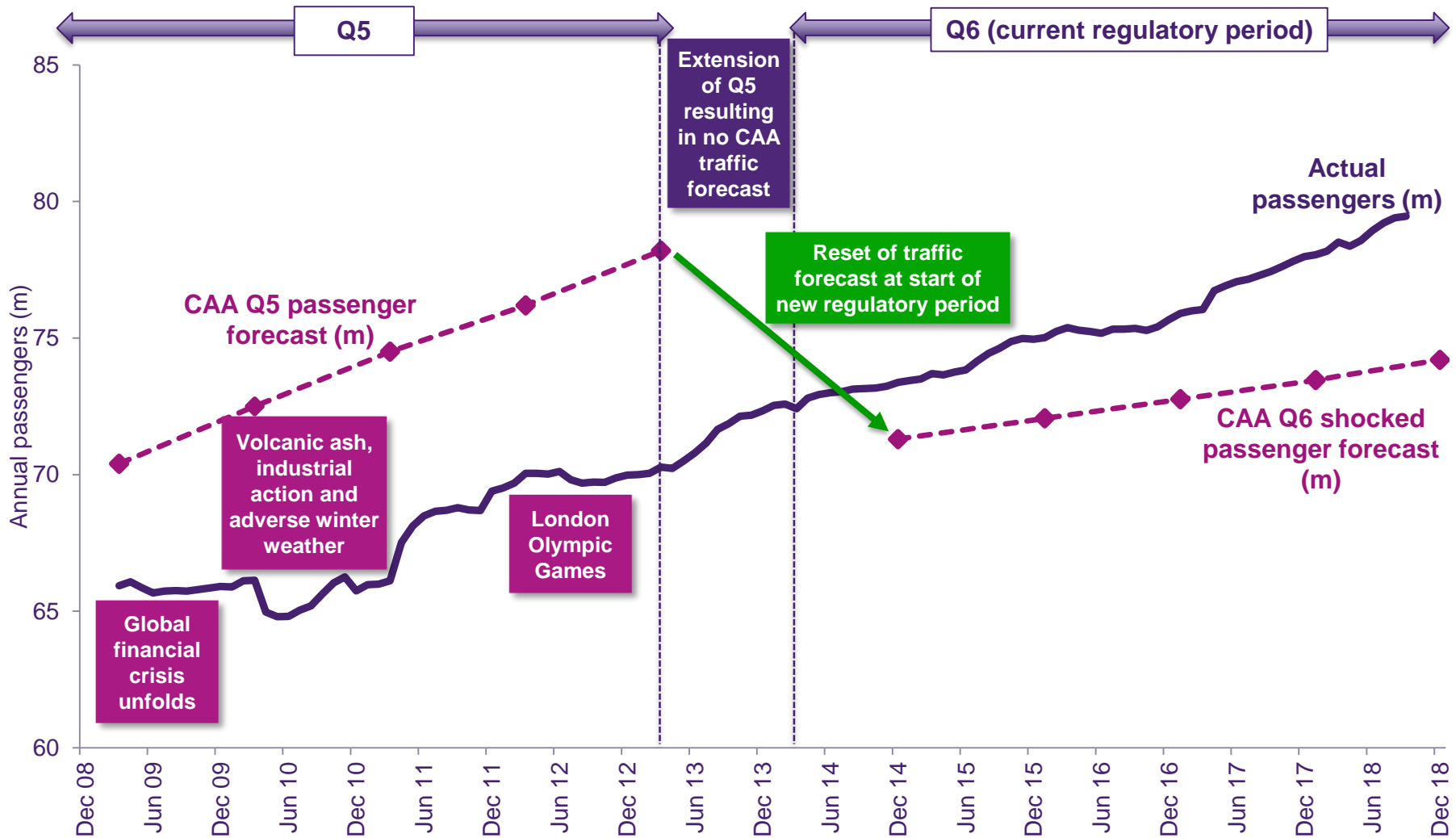


Recent trading and performance update

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Traffic outperforming in current regulatory period



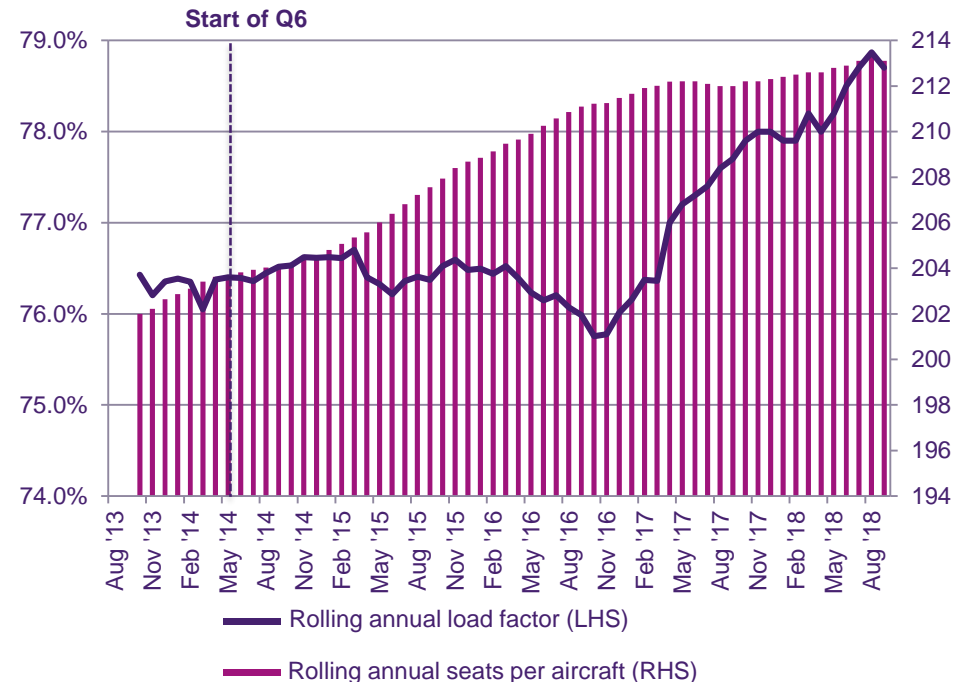
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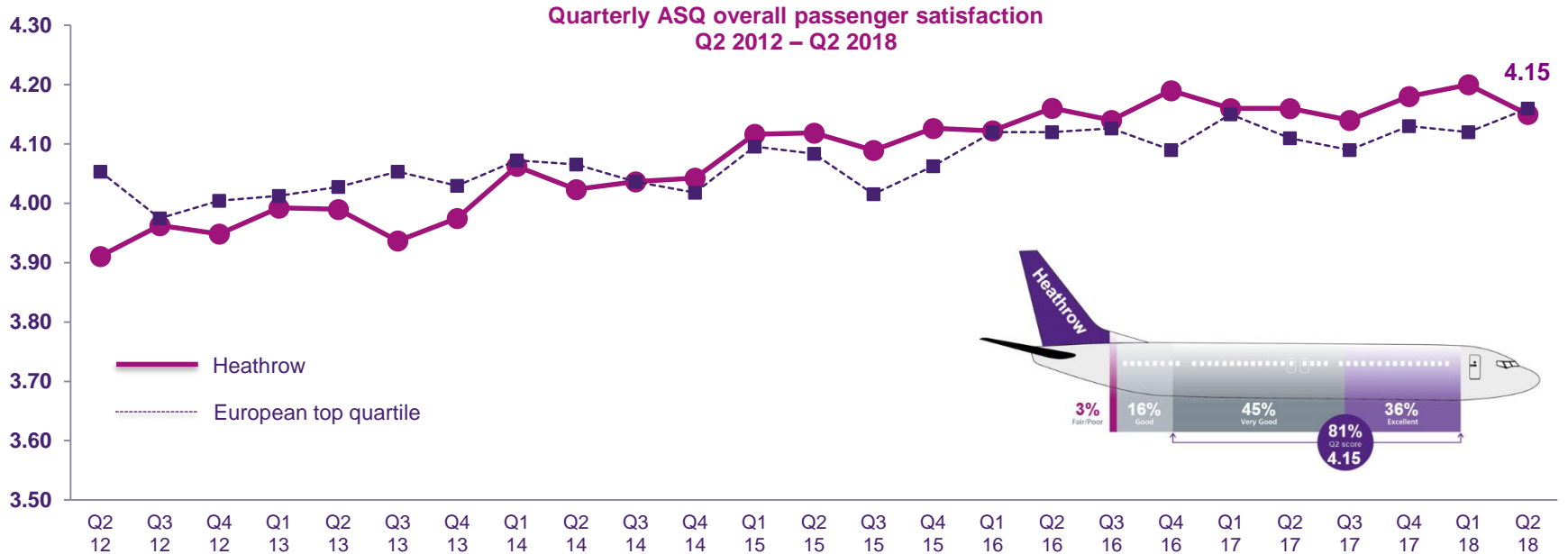
No shocks, benign macro environment, increasing seat capacity and recent boost from rising load factors in Q6

- 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
 - benefit from sterling depreciation
- Buoyant traffic in 2017 driven by record load factors
 - 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
- Record traffic continues into 2018
 - additional flights and strong load factors

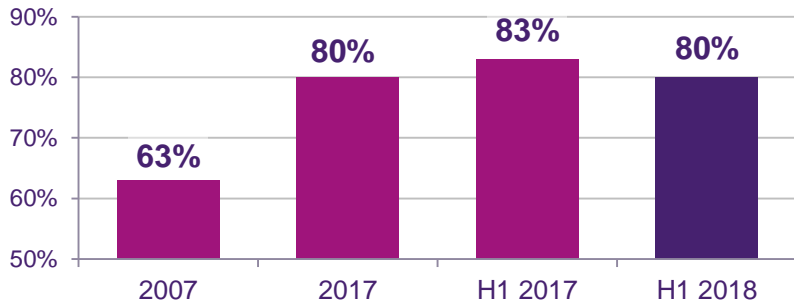
Heathrow load factor/aircraft size trends (2013-2018)



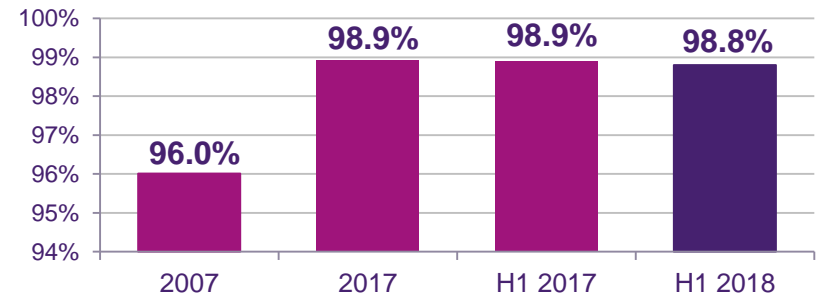
Record service standards complementing record traffic



Departures
within 15 minutes of schedule

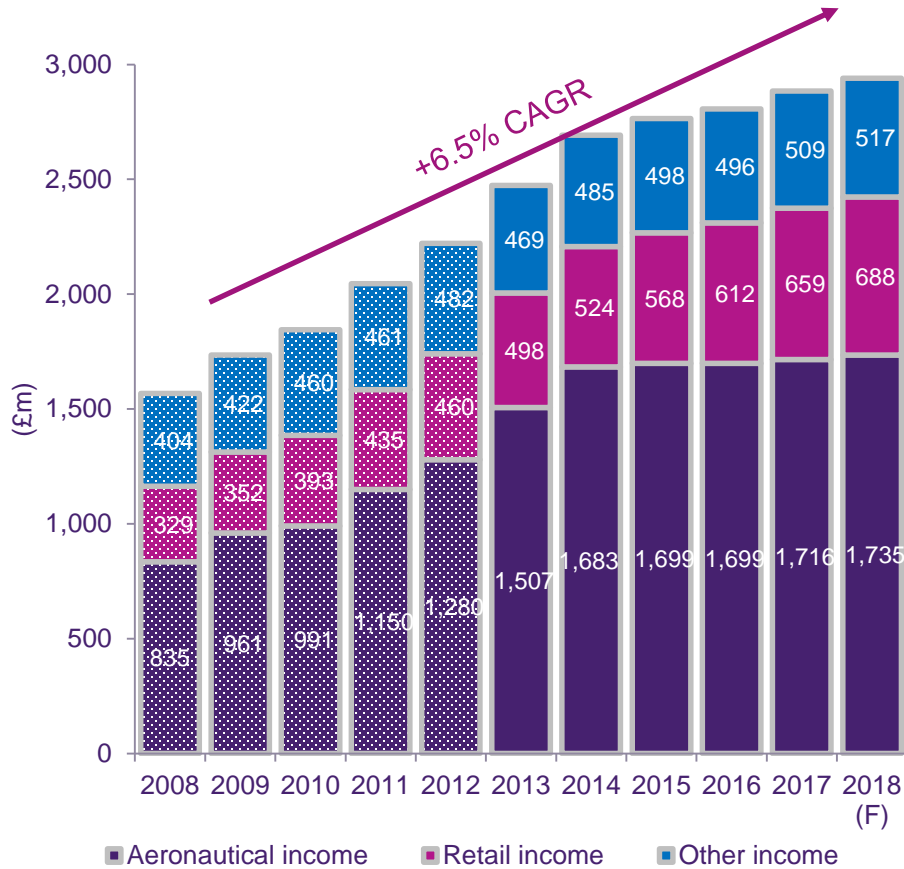


Baggage performance
connection rate per 1,000 passengers

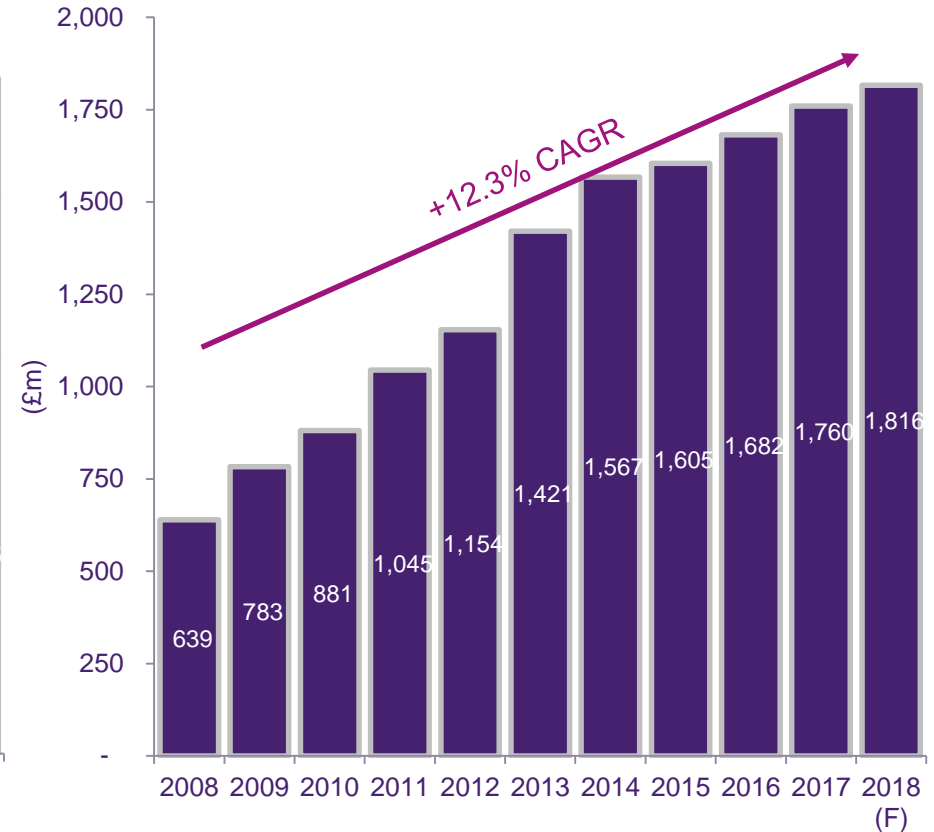


Long term financial track record and resilience of a critical global transport infrastructure business

Heathrow revenue



Heathrow Adjusted EBITDA



Strong start to 2018

(£ million)	H1 2017	H1 2018	Versus H1 2017
Revenue	1,374	1,405	+2.3%
Operating costs	539	557	+3.3%
Adjusted EBITDA	835	848	+1.6%
Capital expenditure	318	354	+11.3%

	Dec 2017	Jun 2018	Change from 31 Dec 17
Consolidated nominal net debt			
Heathrow (SP)	12,372	12,453	+0.7%
Heathrow Finance	13,674	13,749	+0.5%
RAB	15,786	15,952	+1.1%

- Strong service standards while handling record traffic
- Record traffic driven by strong load factors and more flights
- Retail income per passenger up 2.2%
- Operating costs per passenger down in real terms
- Close to £1.6 billion debt financing raised globally in the first 9 months of 2018
- Liquidity horizon extended to December 2020
- Overwhelming parliamentary support clears path to deliver expansion



Transaction summary

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Summary of terms and conditions

Issuer	Heathrow Finance plc
Issue	Senior secured notes
Amount	Benchmark size
Currency	GBP
Maturity	[xxx] years
Call structure	NCL
Issue rating	BB+ / Ba3
Use of proceeds	To partially repay existing indebtedness of the Group and for general corporate purposes .
Covenants	Group net indebtedness / RAB ratio ('RAR'): $\leq 92.5\%$ Group ICR: $\geq 1.0x$
Ranking	The Notes will be general obligations of the Issuer and will be senior obligations of the Issuer, rank pari passu with the Issuer Facilities, the 2019 Notes, the 2025 Notes, the 2027 Notes and 2030 PP, and will be structurally subordinated to all existing and future indebtedness of the Senior Borrower Group.
Offering type	RegS
Governing law	English law

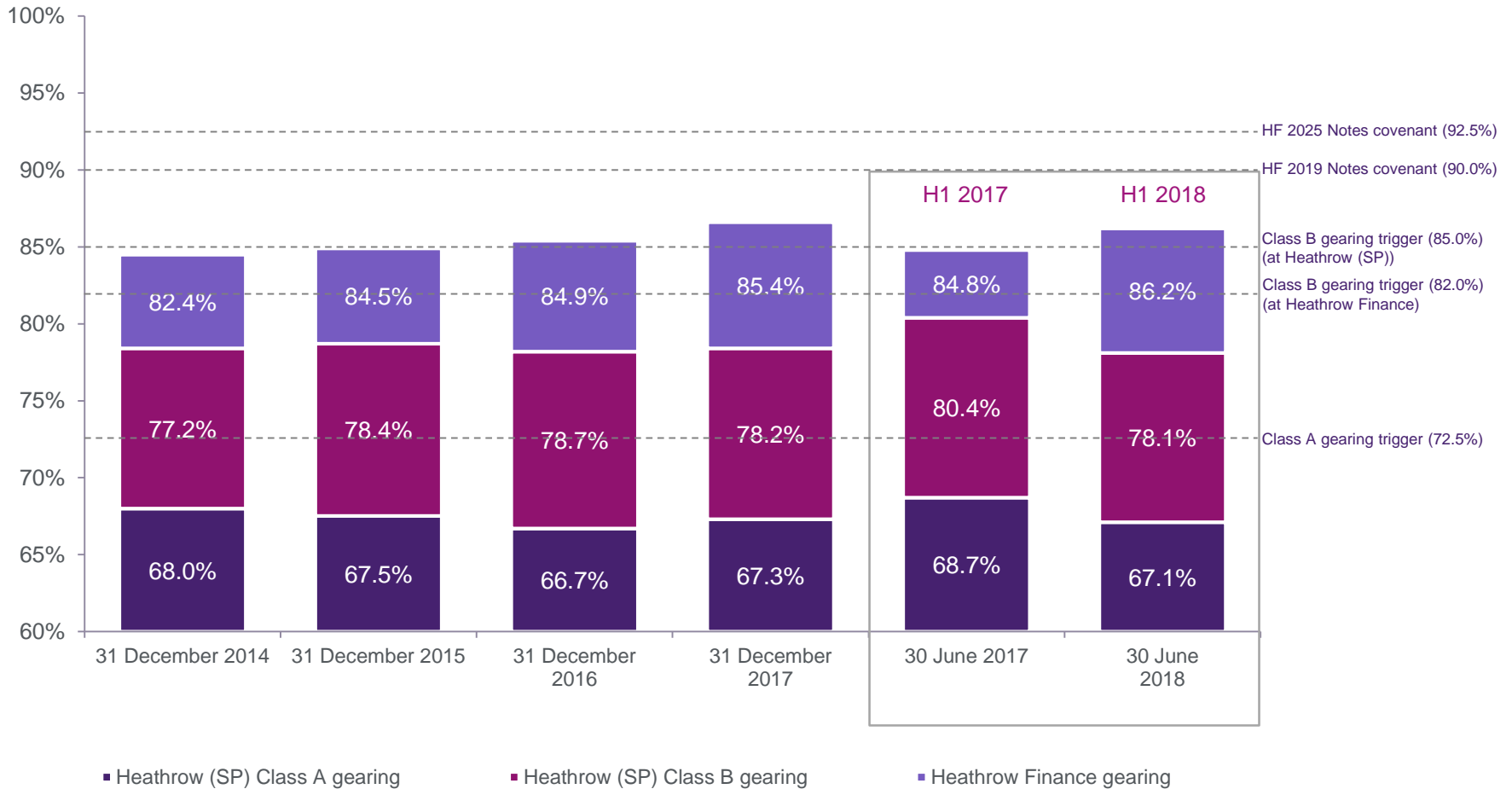
Indicative sources and uses and pro forma capitalisation

Sources (£m)	Uses (£m)
New senior secured notes [250]	Partial repayment of existing group borrowing [-]
	general corporate purposes [-]
	Transaction fees [-]
Total Sources [250]	Total Uses [250]

Pro forma capitalisation as at 30 June 2018 (£m)	Accounting value	Accounting value pro forma
Current borrowings – Issuer	22	
Current borrowings – Security Parent and subsidiaries	621	
Total current borrowings	643	
<u>Non-current borrowings – Issuer</u>		
Bonds	782	
Loans	523	
Total non-current borrowings – Issuer	1,305	
<u>Non-current borrowings – Security Parent and subsidiaries</u>		
Bonds	11,224	
Loans	602	
Total non-current borrowings – Security Parent and subsidiaries	11,826	
Loans due to group undertakings	75	
Total non-current borrowings	13,206	
Total debt	13,849	
Cash and cash equivalents	60	
Total net debt	13,789	

Substantial gearing headroom retained

Evolution of gearing ratios





Appendix Supplementary information

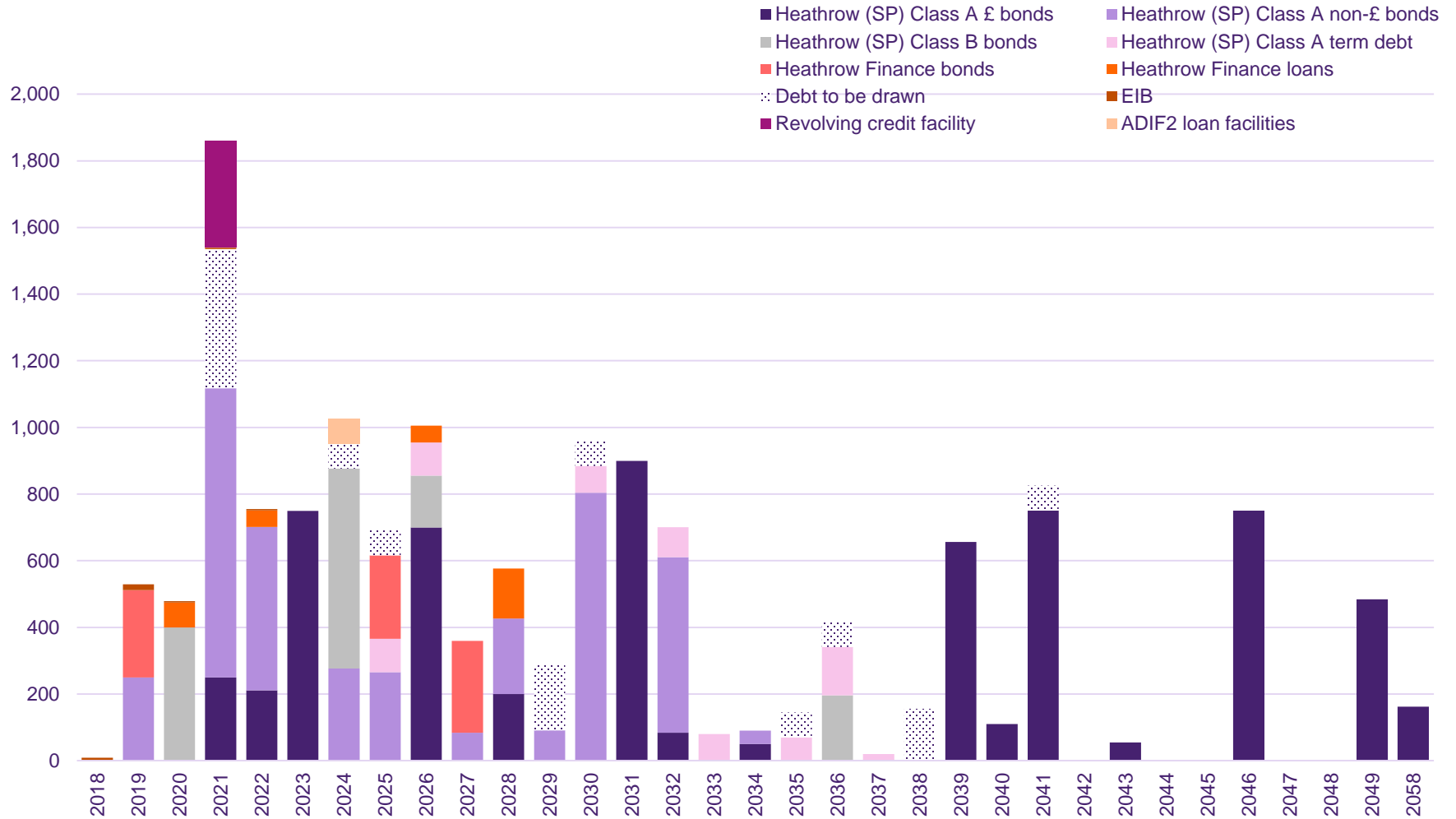
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Robust stable financial ratios

As at or for year ended 31 December	Trigger / covenant	2011 (actual)	2012 (actual)	2013 (actual)	2014 (actual)	2015 (actual)	2016 (actual)	2017 (actual)	2018 (f'cast)
RAR: Regulatory Asset Ratio (Net debt/RAB)									
Heathrow (SP) Class A RAR	70.0%/72.5%	68.0%	66.2%	67.6%	68.0%	67.5%	66.7%	67.3%	69.2%
Heathrow (SP) Class B RAR	82.0%/85.0%	75.4%	76.7%	77.2%	78.4%	78.7%	78.2%	78.4%	77.4%
Heathrow Finance RAR	90.0%/92.5%	79.4%	81.6%	82.4%	84.5%	84.9%	85.4%	86.6%	85.8%
Gearing ratios (Net debt/Adjusted EBITDA)									
Heathrow (SP) Class A gearing		8.3x	7.8x	6.9x	6.4x	6.3x	6.0x	6.0x	6.2x
Heathrow (SP) Class B gearing		9.2x	9.0x	7.9x	7.4x	7.3x	7.1x	7.0x	7.0x
Heathrow Finance gearing		9.7x	9.6x	8.5x	8.0x	7.9x	7.7x	7.8x	7.7x
ICR: Interest Cover Ratio									
Heathrow (SP) Class A ICR	1.40x	2.76x	2.62x	3.08x	2.98x	2.90x	3.12x	3.47x	3.75x
Heathrow (SP) Class B ICR	1.20x	2.34x	2.30x	2.43x	2.43x	2.36x	2.50x	2.76x	2.95x
Heathrow Finance ICR	1.00x	2.17x	2.08x	2.22x	2.23x	2.12x	2.25x	2.48x	2.63x

Debt maturity profile at 30 September 2018



Notes, sources and defined terms

- Page 6
 - Source of market size: Airport IS data December 2017. Source of airport rankings: ACI report, June 2018
 - Proportion of long haul traffic as at 31 December 2017 sourced from companies websites
 - Number of top 10 intercontinental routes involving Heathrow is sourced from OAG and based on available seats on non stop flights over 2,200 nautical miles for 2018
 - ATM: air transport movement
- Page 7
 - 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)
 - Passenger numbers sourced from company websites and Airports Council International data
 - Heathrow data based on 12 months to end June 2018
- Page 9
 - Heathrow Airport Limited has a wholly-owned subsidiary, Heathrow Express Operating Company Limited that sits within the ring-fenced financing structure
- Page 10
 - 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 is 72.5%; 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 17
 - Liquidity horizon takes into account payment of forecast capital investment, debt maturities, interest and distributions
- Page 21
 - Passenger satisfaction: quarterly Airport Service Quality surveys directed by Airports Council International (ACI); survey scores range from 1 up to 5
- Page 22
 - Operating costs refer to Adjusted operating costs which exclude depreciation, amortisation and exceptional items
 - Adjusted EBITDA: earnings before interest, tax, depreciation, amortisation, certain re-measurements and exceptional items
 - 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 23
 - 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 25
 - See notes to page 10 above regarding definitions and notes on RAR and ICR
- Page 29
 - See notes to page 10 above regarding definitions and notes on RAR and ICR

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