



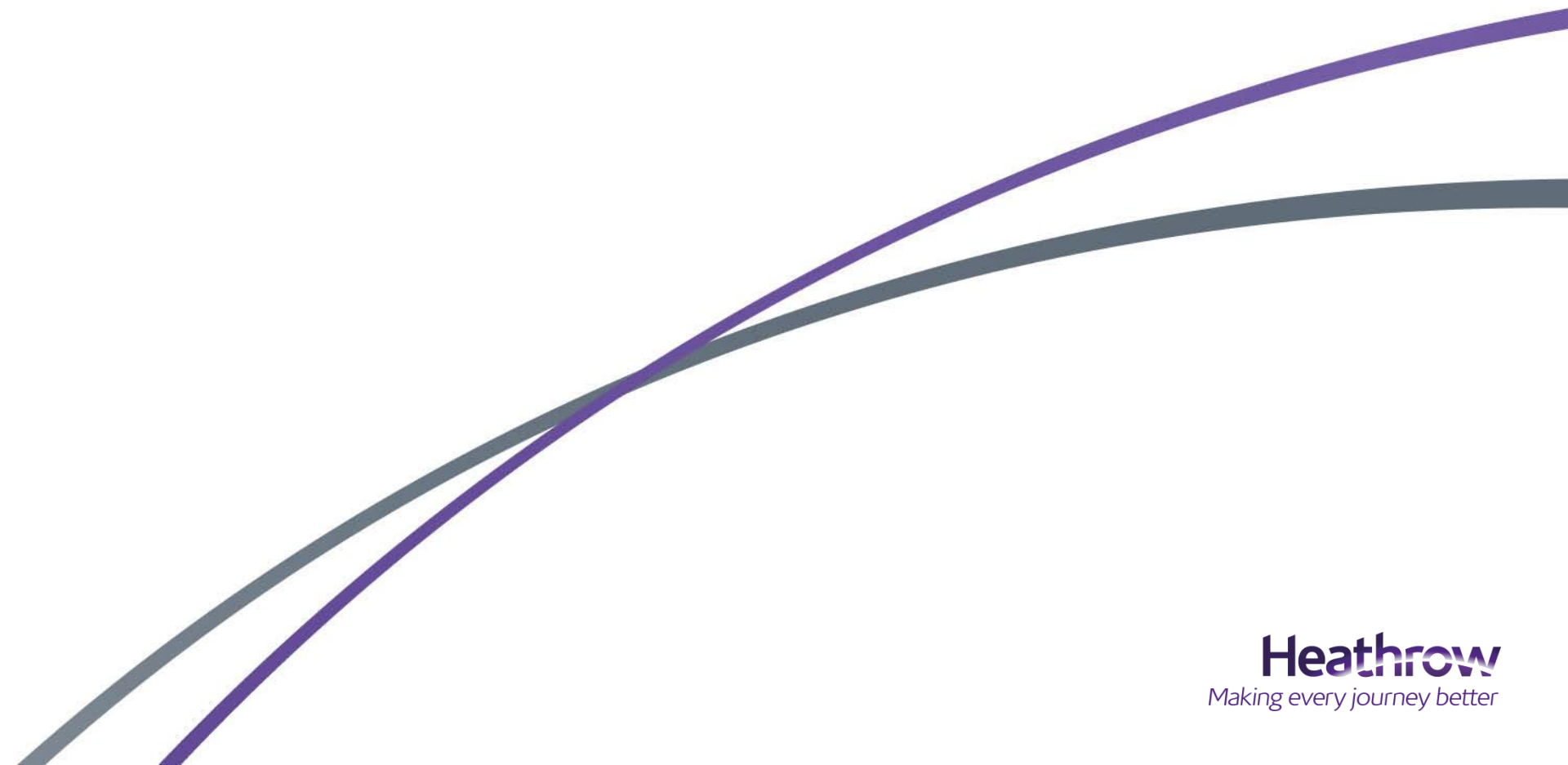
# 2016 Heathrow Investor Events

## Q6 performance review

September 2016

**Heathrow**  
Making every journey better

# Q6 Context



# Heathrow's vision and priorities

## Our Vision

**To give passengers  
the best airport  
service in the world**

## Our Priorities



Beat the plan



Transform  
customer service

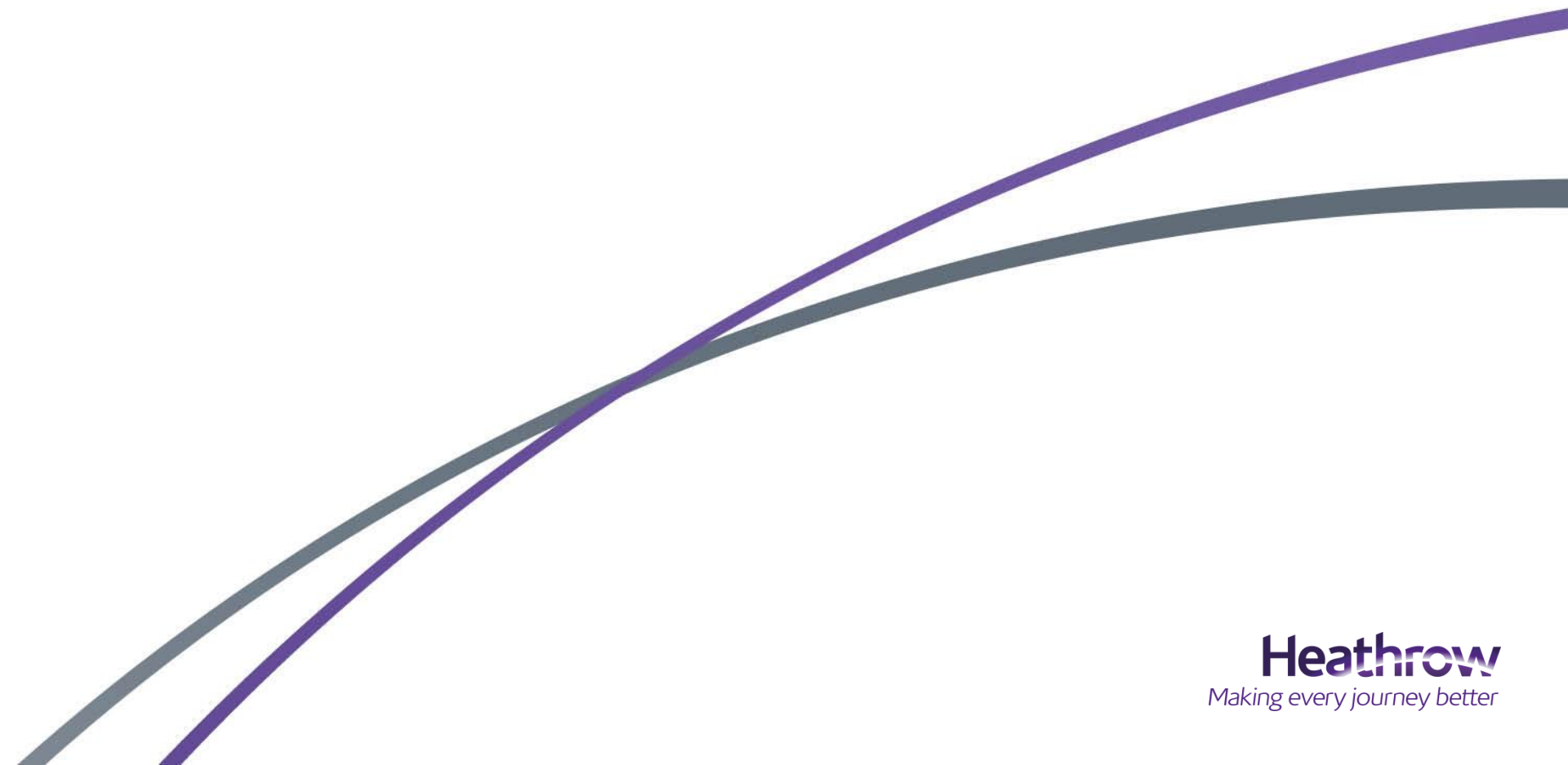


Mojo

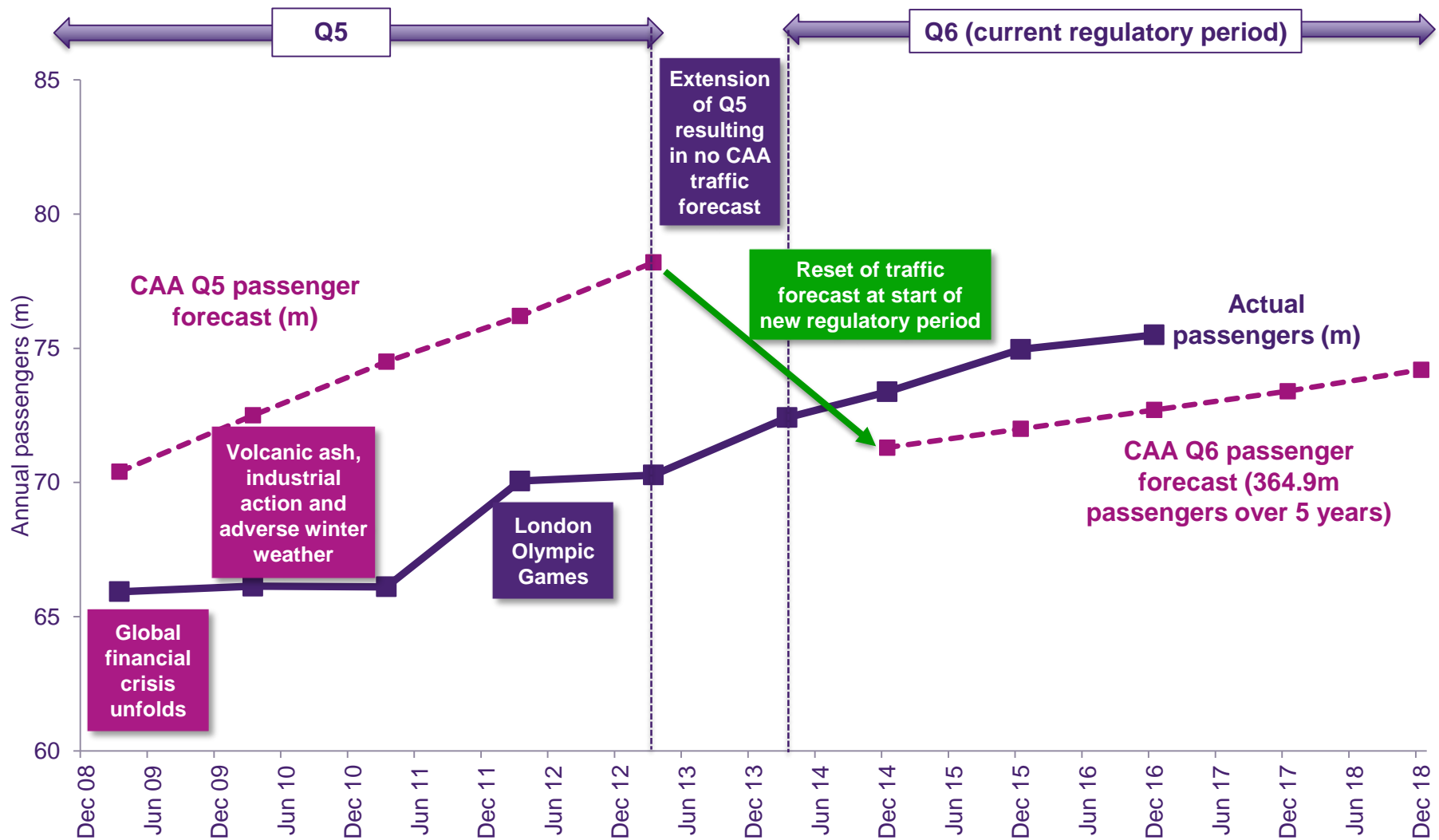


Win support  
for expansion

# Q6 Traffic Performance



# Traffic outperforming in Q6 in contrast to Q5



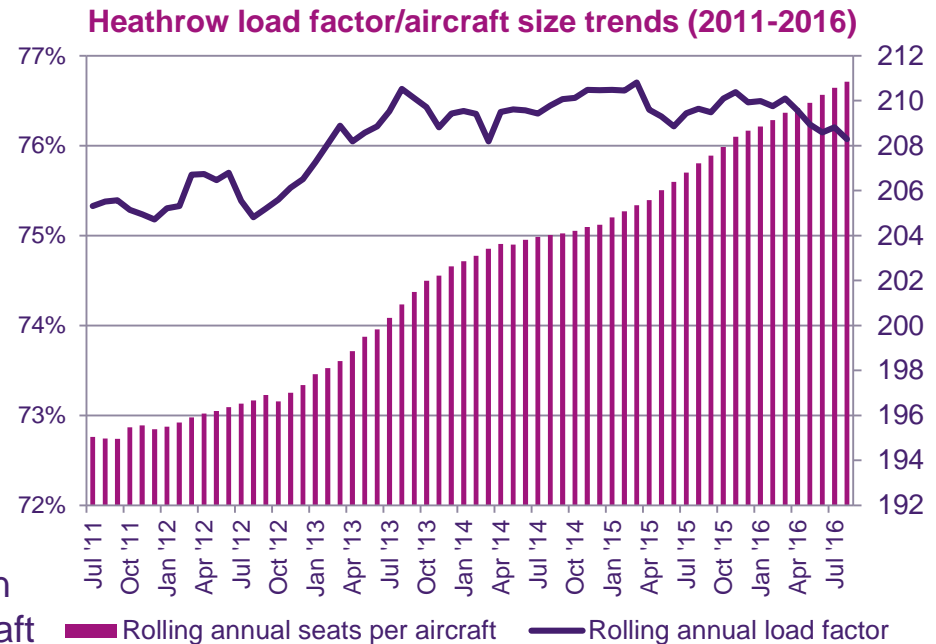
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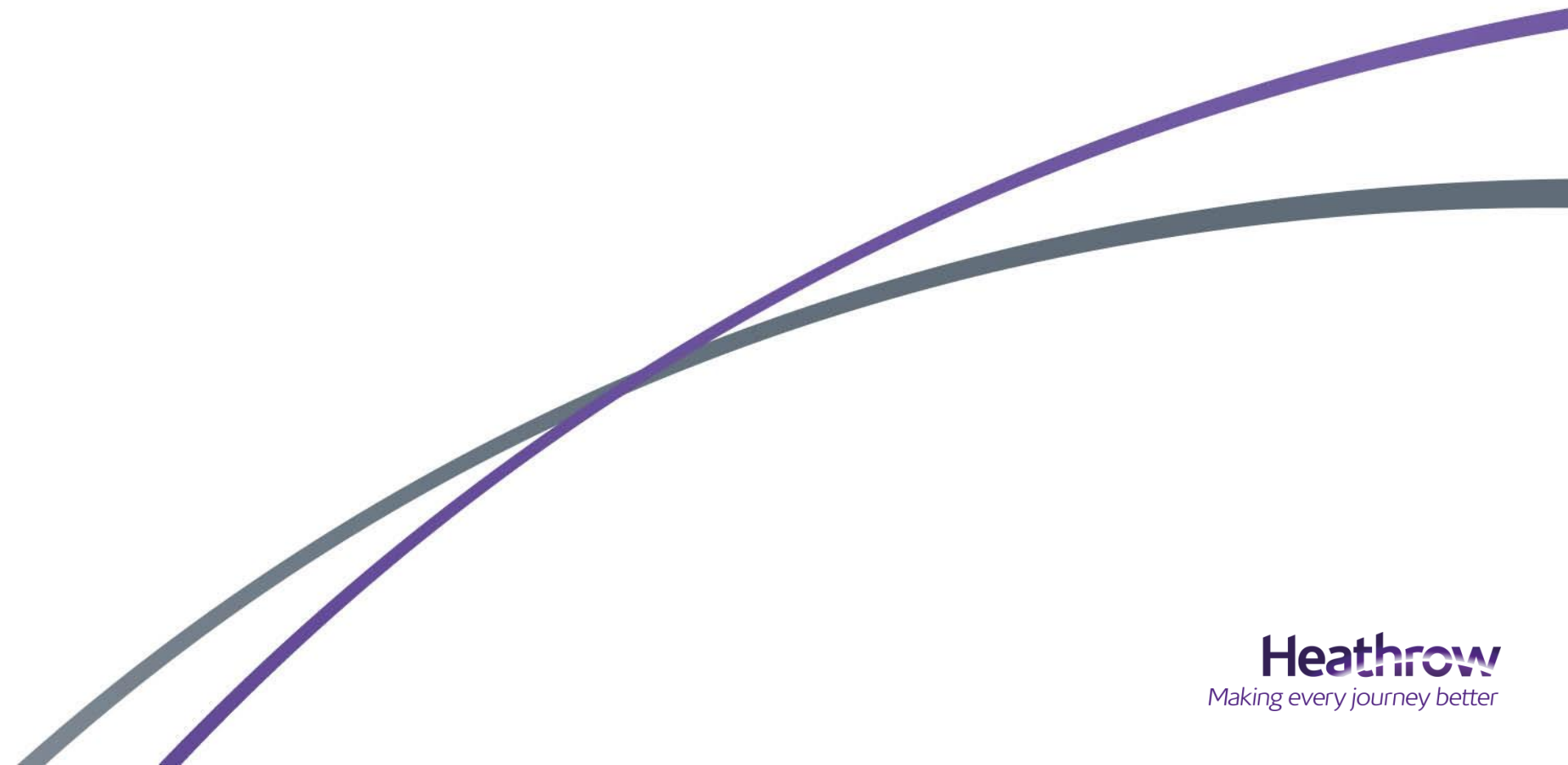
See page 27 for notes, sources and defined terms

# Q6 traffic performance driven by increasing seat capacity, stable load factors and no shocks

- Seat capacity increases based on larger aircraft (e.g. A380) and British Airways short haul fleet seat densification
- Uncertain near term outlook
  - Brexit introduces uncertainty
  - July 2016 saw Heathrow's all time record monthly traffic with August 2016 second busiest month in history
  - performance in coming months may be more representative of Brexit effects
  - British Airways plans long haul seat densification programme; other airlines plan to upgauge aircraft

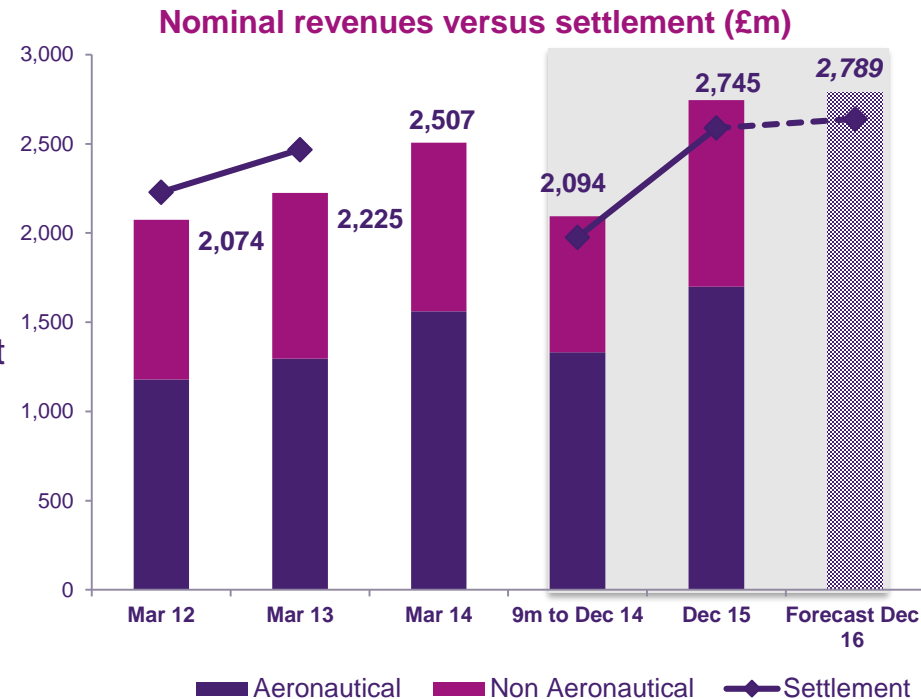


# Q6 Financial Performance – Overview



# Heathrow's strategy shows early signs of success

- CAA's Q6 settlement set challenging incremental revenue and cost efficiency targets
- Heathrow's Q6 business plan is ambitious and aims to deliver:
  - cost efficiencies worth ~£600m
  - ~£300m incremental commercial revenue
  - incremental EBITDA of more than £1bn over the 5 year period, when compared with the run rate at the end of 2013
- Better infrastructure and operations drive passenger satisfaction and revenue higher
  - hub capacity, additional routes and flights
  - stronger operational performance in punctuality and baggage handling
  - improved ASQ scores





# 2015 – operating costs versus settlement

- Operating cost performance reflects efficiencies flowing through
- Growth in passenger numbers led to higher staff costs
- Utilities costs outperform settlement by 23%
  - electricity costs outperform settlement by £19m or 33%, driven by early delivery of energy demand management projects
  - gas costs outperform by £5m or 42%, driven by lower consumption in Terminal 2 and milder weather
- Cost pressures
  - costs disallowed by CAA
  - increased focus on operational resilience
  - expansion related costs

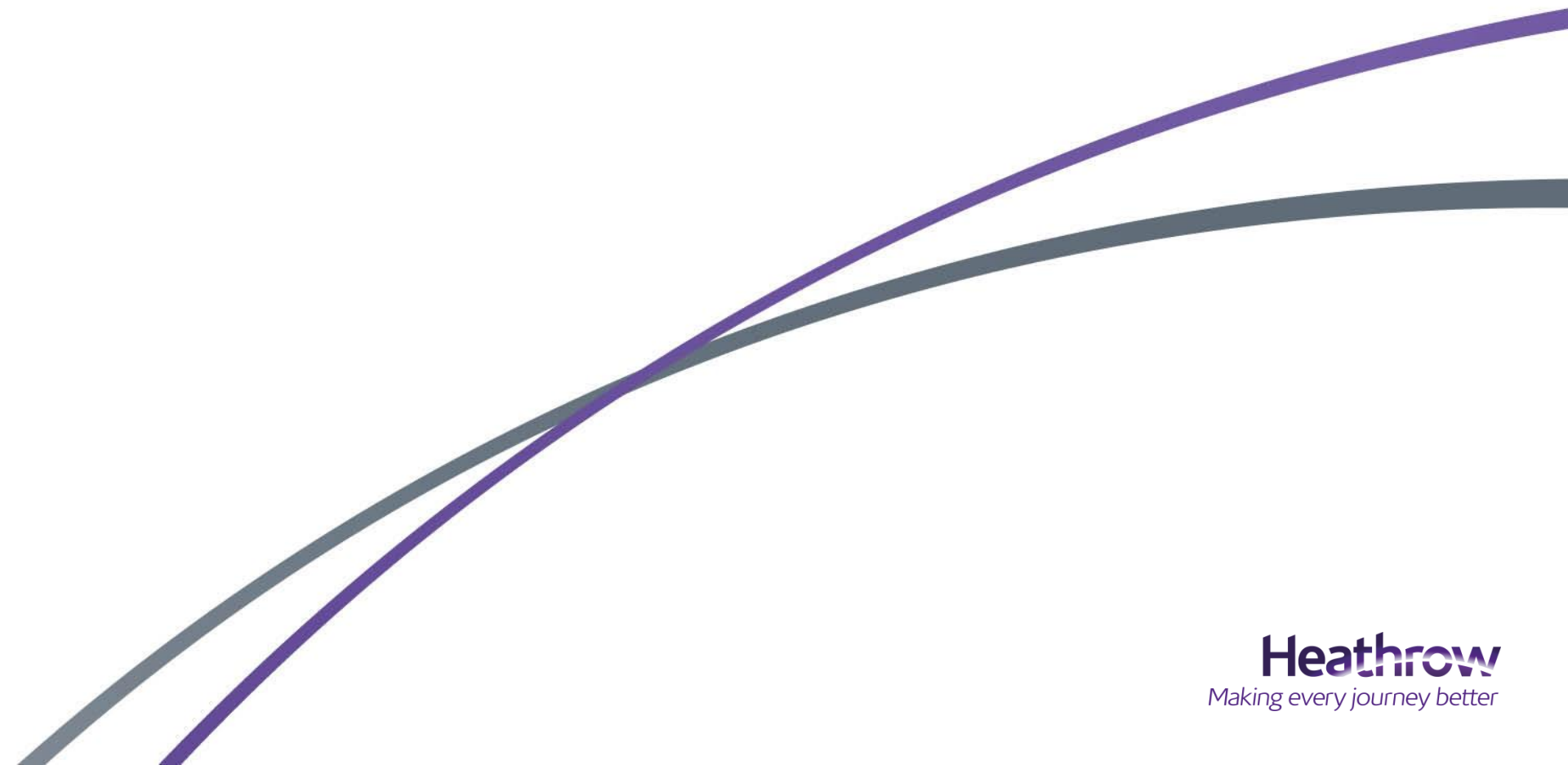
| <i>(figures in £m unless otherwise stated)</i>      | 2015               |                      |
|---|--------------------|----------------------|
|   | Actual performance | Forecast performance |
| Staff   | (423)              | (395)                |
| Maintenance & Equipment                             | (184)              | (187)                |
| Rent & Rates  | (141)              | (153)                |
| Utilities   | (89)               | (116)                |
| Other expenditure                                   | (327)              | (270)                |
| <b>Regulatory operating cost before adjustments</b> | <b>(1,164)</b>     | <b>(1,121)</b>       |
| Passengers ('000)                                   | 74,999             | 72,000               |
| Per passenger metrics                               |                    |                      |
| <b>Operating costs (regulatory)</b>                 | <b>£15.52</b>      | <b>£15.57</b>        |

## 2015 – retail income versus settlement

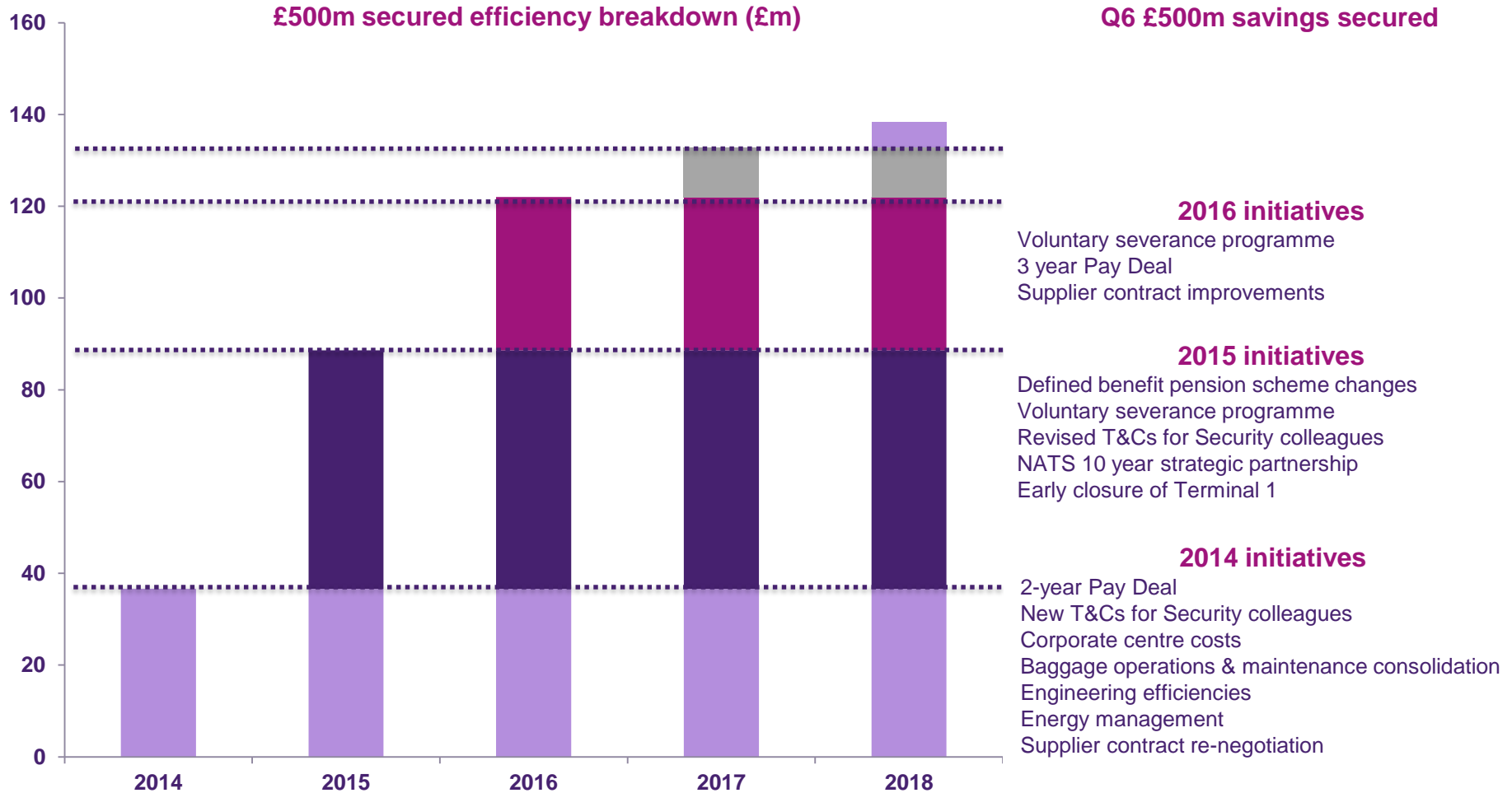
- Outperformance in absolute retail income driven by higher passenger numbers
- Apparent underperformance in duty and tax-free versus settlement due to CAA allocating all retail stretch to this area
- Other areas outperformed, particularly car parking and catering (Terminal 2 effect)
- Net retail income per passenger marginally below CAA forecast but 3m more passengers
- Lower retail expenditure due to lower car park management costs

| <i>(figures in £m unless otherwise stated)</i>    | 2015               |                      |
|---|--------------------|----------------------|
|   | Actual performance | Forecast performance |
| Duty and tax-free                                 | 128                | 155                  |
| Airside specialist shops                          | 100                | 99                   |
| Car parking                                       | 107                | 100                  |
| Bureau de change                                  | 53                 | 50                   |
| Catering  | 45                 | 41                   |
| Other   | 113                | 93                   |
| Retail expenditure                                | (17)               | (28)                 |
| <b>Net retail income per regulatory accounts</b>  | <b>529</b>         | <b>510</b>           |
| Add back retail expenditure                       | 17                 | 28                   |
| VIP/HCC income                                    | 22                 | n/a                  |
| <b>Gross retail income per statutory accounts</b> | <b>568</b>         | <b>n/a</b>           |
| Passengers ('000)                                 | 74,999             | 72,000               |
| <b>Per passenger metrics</b>                      |                    |                      |
| <b>Net income (regulatory)</b>                    | <b>£7.05</b>       | <b>£7.08</b>         |
| <b>Gross income (statutory)</b>                   | <b>£7.58</b>       | <b>n/a</b>           |

# Q6 Financial Performance – Delivering Cost Efficiencies



# >£500m savings secured of £600m target



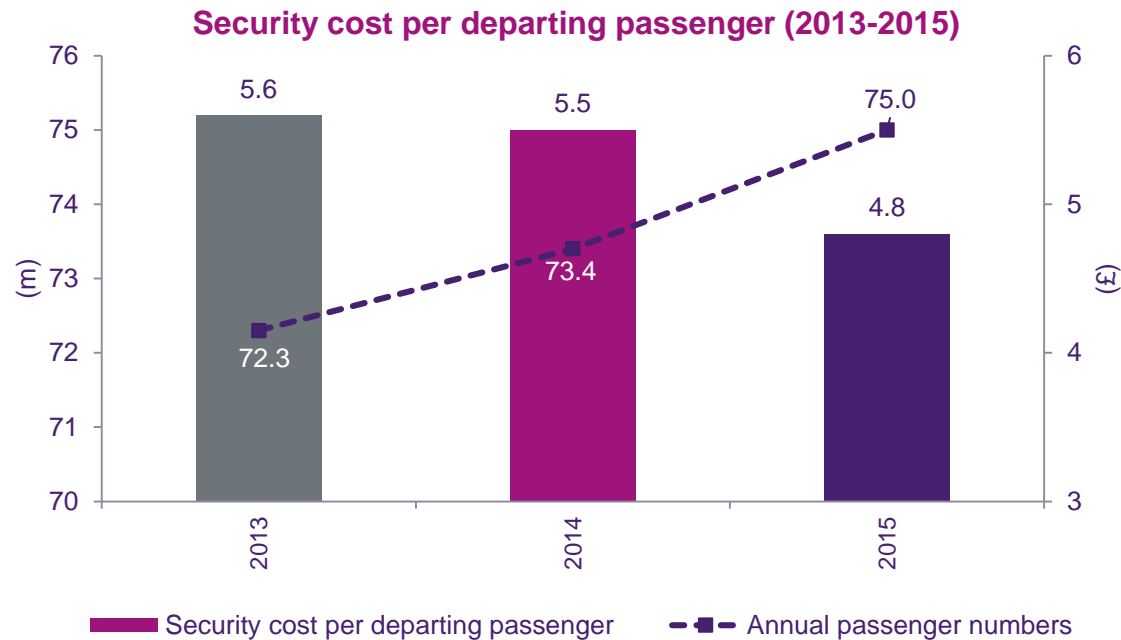
# Significant changes to defined benefit pension scheme

- Revised scheme benefits (active members only) deliver annual savings of £12m versus the previous benefits, reducing contributions from 33% to 23% of pensionable salary
- Updated scheme valuation as at 30 September 2015 reflects scheme changes and reduces deficit from £375m to £228m
- Cash benefits from H2 2016, around 1 year behind original plans

|                                 | Previous scheme terms | New scheme terms         |
|---------------------------------|-----------------------|--------------------------|
| Pensionable salary              | Final salary          | Increase capped at 2% pa |
| Accrual rate                    | 1/54th of salary      | 1/60th of salary         |
| Increase in pensions in payment | RPI                   | Capped at 2.5% pa        |

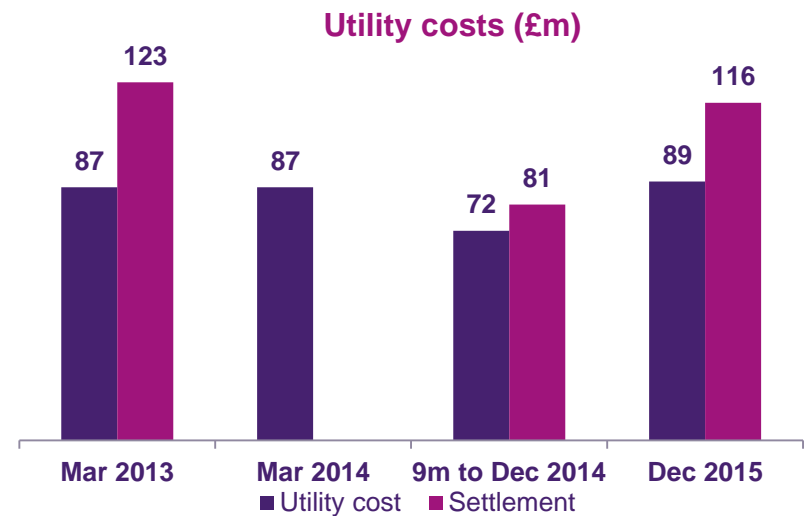
# New terms and conditions and voluntary severance scheme

- In 2014, new security officers joining to work at Terminal 2 recruited under new terms
  - terms ~30% lower than legacy contracts; subsequently extended to apply to all new security officers
- Late 2014, voluntary severance scheme introduced to accelerate migration to revised terms
  - at end of 2015, 15% of security officers were on new terms; end 2016 share expected at ~20%
- About £26m savings secured over Q6 from both initiatives plus improved productivity



# Energy efficiency measures

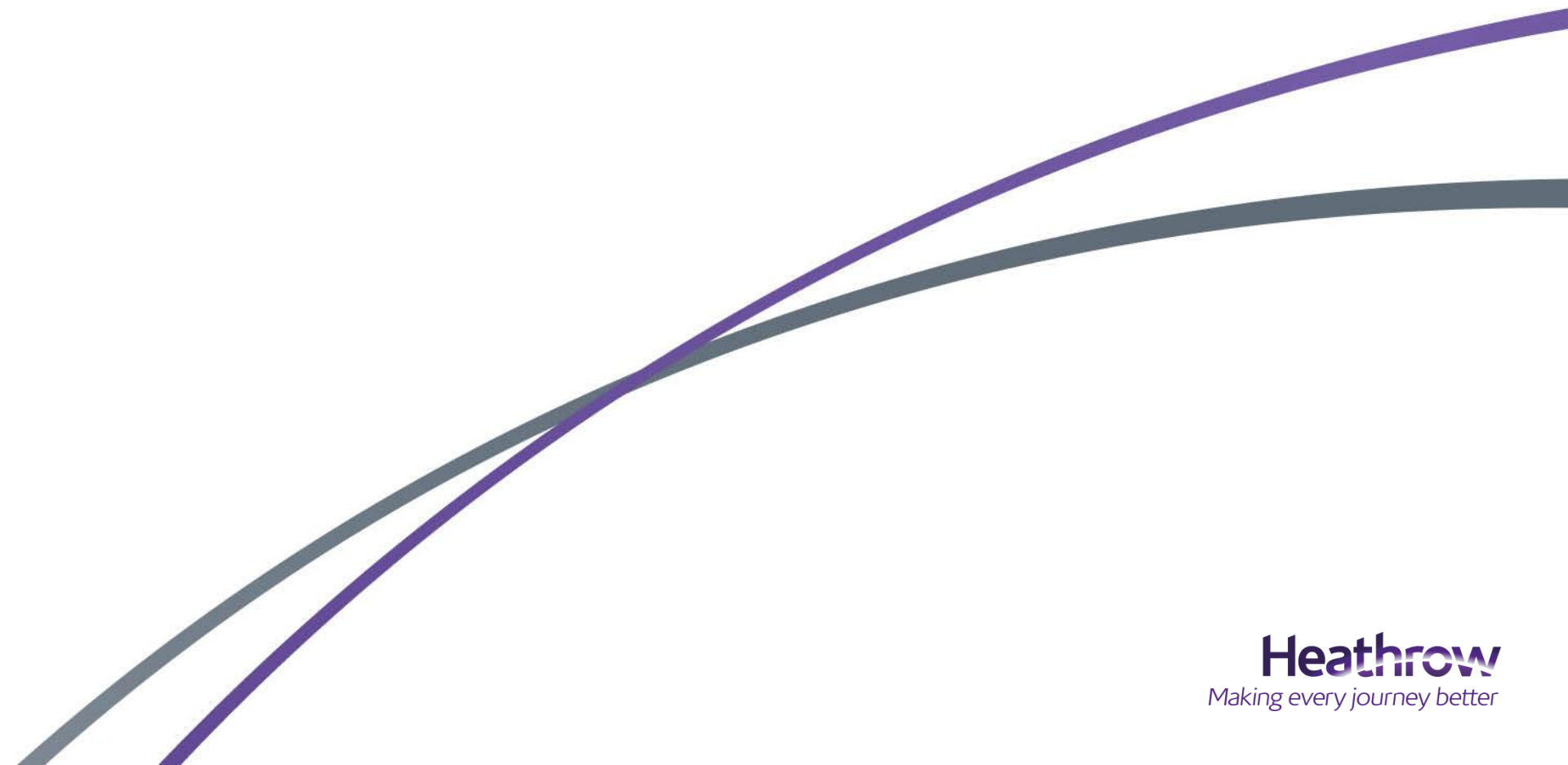
- Heathrow has undertaken various initiatives to reduce energy costs during Q6
- Energy demand management projects are expected to help secure over £30m savings over Q6
  - replacement of fluorescent light bulbs with LEDs
  - intelligent lighting systems
  - travelators that power down when not in use
- Supplier contract re-negotiations to provide additional cost efficiencies worth over £30m over Q6
  - electricity distribution infrastructure services
- Terminal 2 reduced CO<sub>2</sub> emissions by 40% compared to buildings it replaced
  - 2016 YTD electricity consumption per passenger down 4% at Terminal 2 on prior comparable period



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# Q6 Financial Performance – Delivering Incremental Commercial Revenue

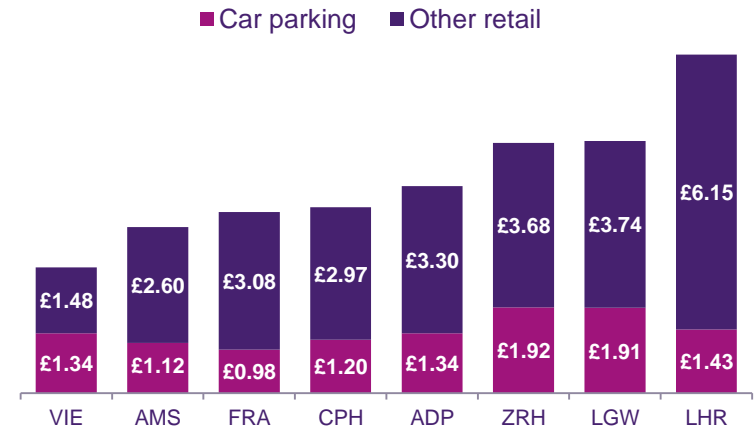




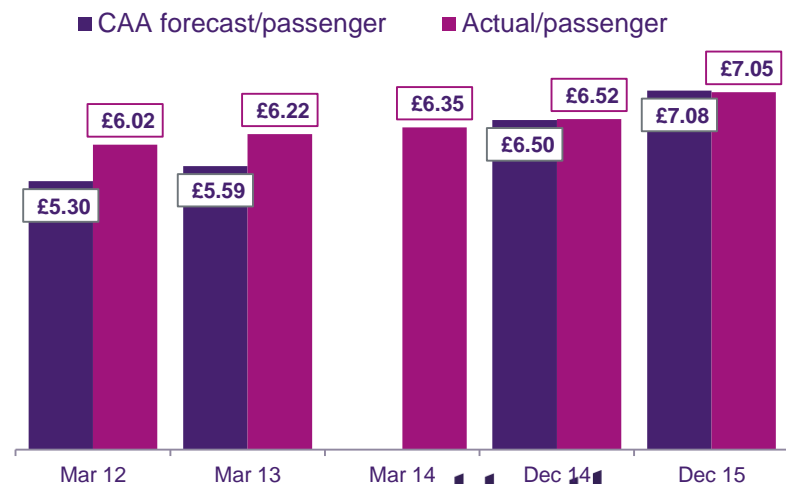
# Good progress on commercial initiatives

- Heathrow is targeting ~£300m incremental commercial income over Q6
- ~£185m of revenue improvements have been secured to date. Major contributors are
  - Terminal 5 luxury retail redevelopment
  - 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)
  - bureaux de change renegotiation
  - ongoing retail concessions negotiations
  - new Terminal 5 car parking spaces
  - independent lounges in Terminals 4 and 5

Gross retail income per passenger of selected European airports (2015)



Heathrow nominal net retail income per passenger versus Q5 and Q6 settlements



# Terminal 5 luxury retail redevelopment – financial impact

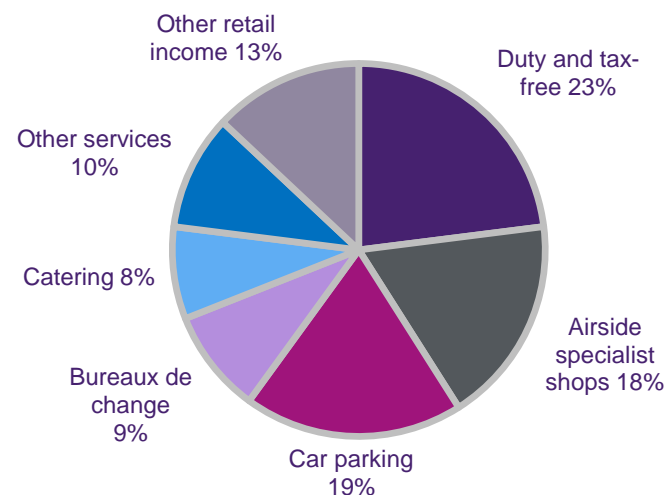
- Major reconfiguration and redesign of Terminal 5 commercial proposition
- Greater luxury offering and improved passenger experience strengthen Heathrow's unrivalled airport shopping experience
- 14 new luxury stores including 2 new iconic luxury stores Chanel and Louis Vuitton
  - Heathrow is the only airport in the world offering Chanel, Louis Vuitton and Hermès in one place
  - Bottega Veneta, Smythson, Paul Smith, Rolex, Gucci, Burberry, Cartier, Tiffany, Dior, Prada, Watches of Switzerland are Terminal 5's other high profile brands
- Double digit revenue growth following phased opening starting prior to Christmas 2014
  - £22m capital investment
  - ~£6m incremental revenue at end of August 2016
  - ~£26m expected incremental income over Q6



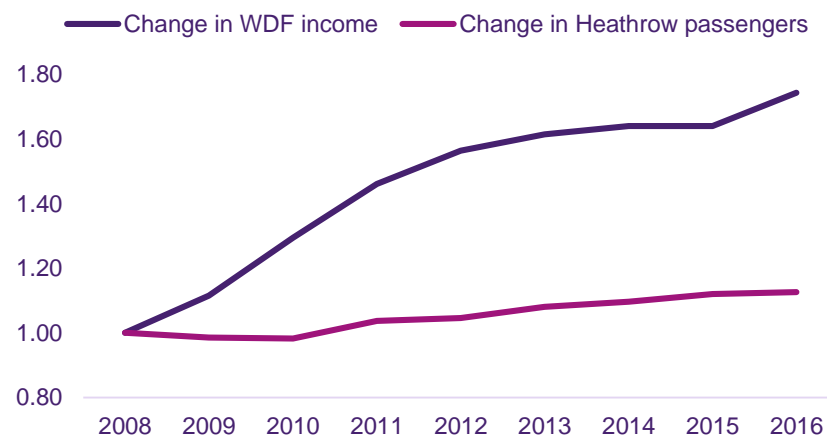
# Enhancing World Duty Free contribution

- World Duty Free ('WDF'), owned by Dufry since 2015 and previously by Autogrill; originally established by BAA
- WDF is Heathrow's largest retailer and second largest customer
  - successful partnership reflects strong commercial focus and information sharing and joint research
  - income up 7.3% per annum between 2008 and 2015 (only 1.6% annual passenger growth)
- New contract with WDF entered into in 2014
  - extended from May 2020 to November 2026
  - WDF to invest €40m upgrading facilities
- Significant enhancements to WDF stores
  - 2015: Terminal 5 store refurbished and reconfigured to allow for an additional luxury unit; overall space broadly unchanged at 2,750m<sup>2</sup>
  - 2016: currently refurbishing and extending store in Terminal 4 from 1,326m<sup>2</sup> to 1,353m<sup>2</sup>

**Heathrow retail income**  
12 months to 31 December 2015



**Growth in World Duty Free income compared to passenger growth (2008-2016e)**



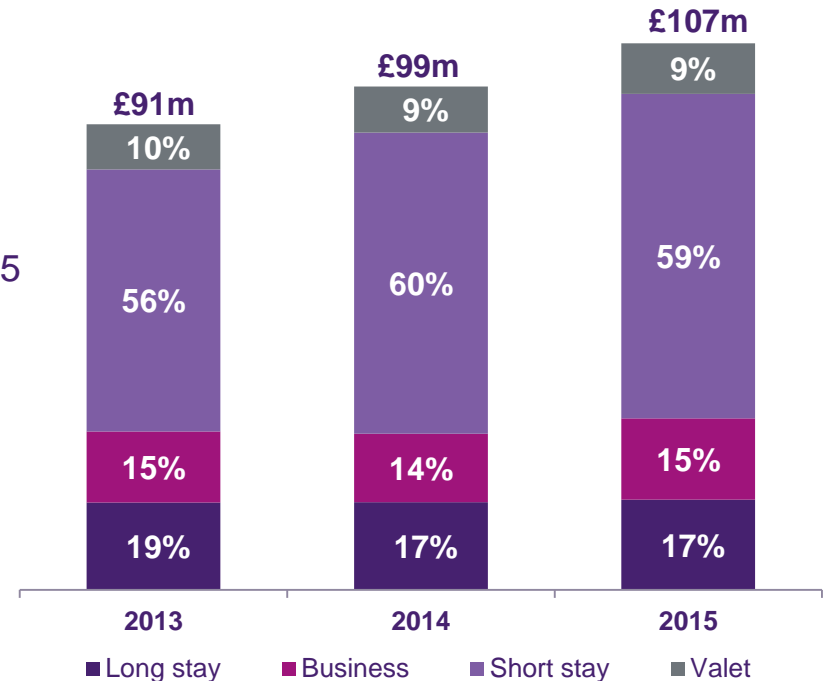
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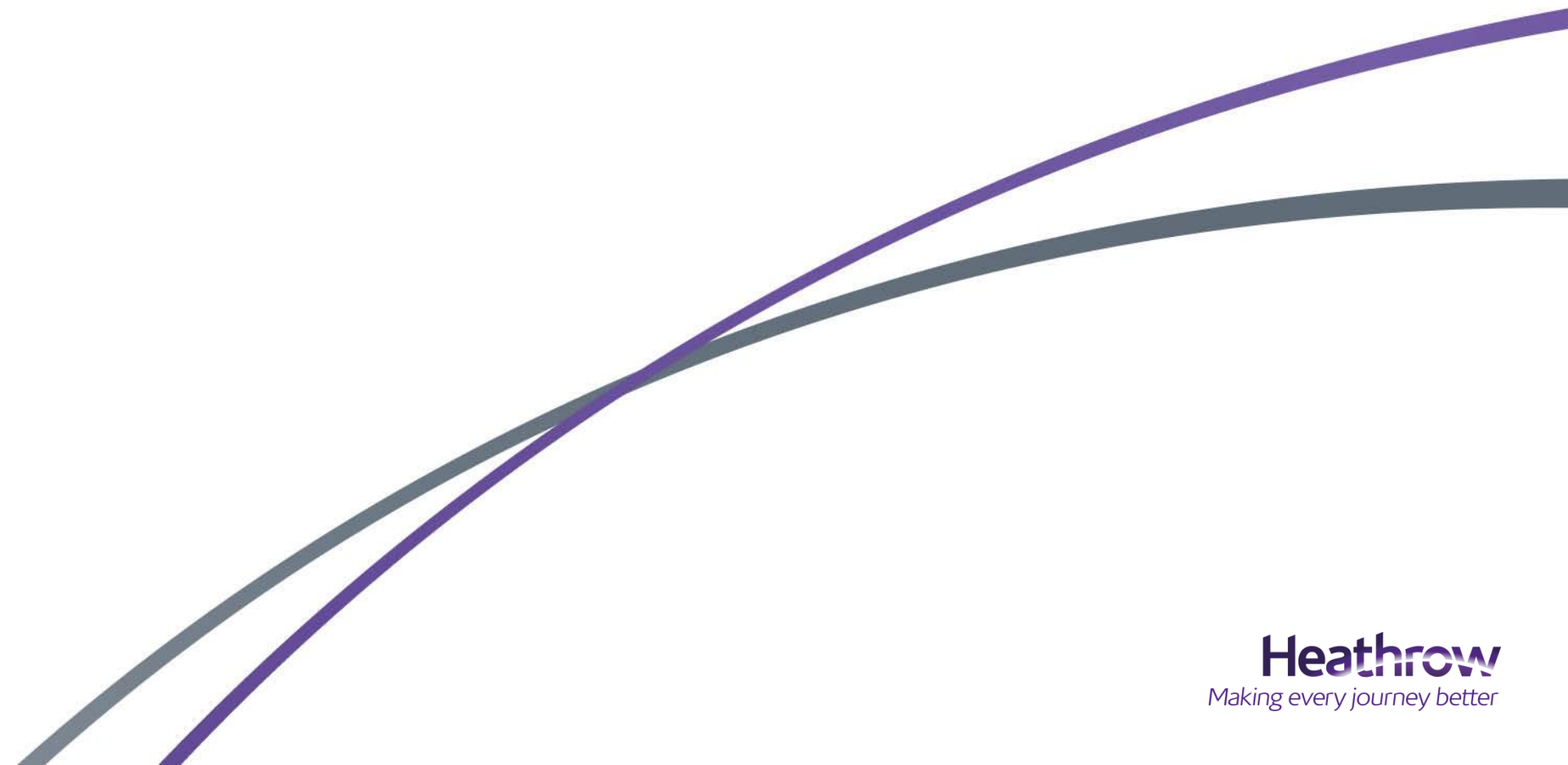
# Growing car parking revenue

- Improved infrastructure and broader product offering boosting car parking revenues
  - seven products available including Long stay (including Drop & Ride), Short stay, Business (including POD) and Valet (including Meet & Greet)
  - 1,775 (~8%) extra car parking spaces (Terminal 2 short stay and Terminal 5 business car parks)
  - 7% Q6 settlement outperformance in 2014 and 2015
  - 8.3% per annum growth between 2013 and 2015
- New facilities and products deliver growth
  - 14.9% growth in short stay parking revenue on opening of Terminal 2 and price restructure (between 2013 and 2014)
  - 9.3% growth in valet parking revenue after Meet & Greet product introduced (between 2014 and 2015)
- Yield management and demand control support revenue growth where capacity utilisation high
- Participation also improved

Breakdown of car parking revenue (2013-2015)



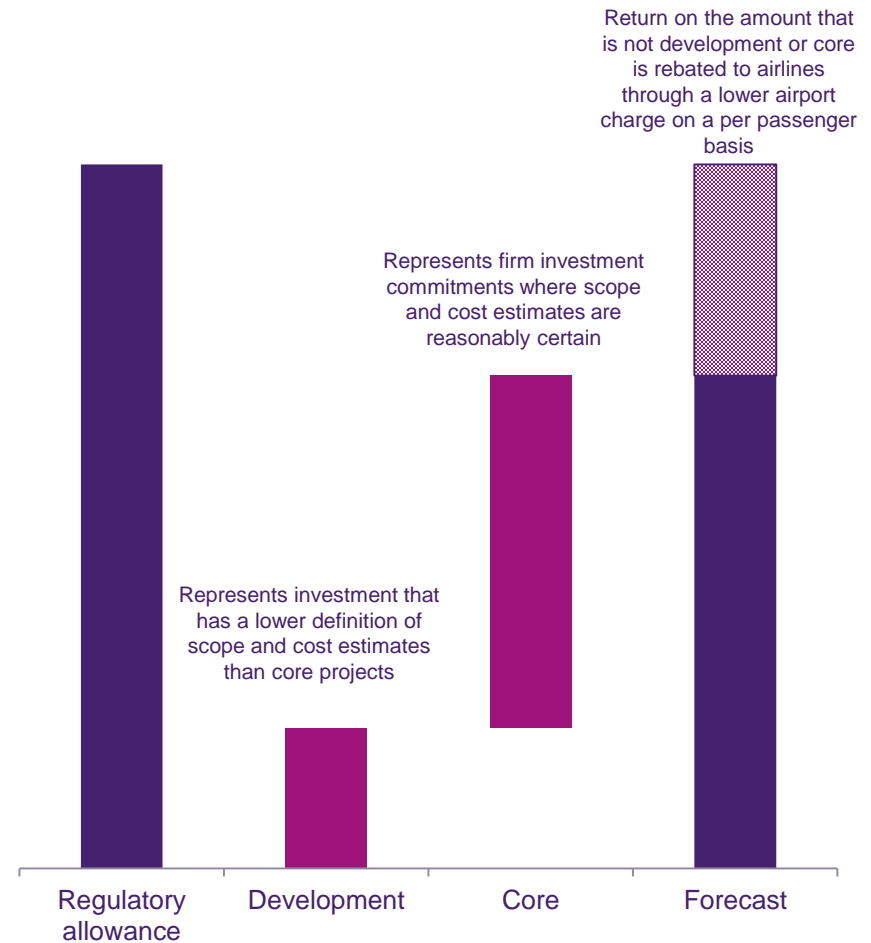
# Q6 Financial Performance – Capital Investment



# Capital efficiency framework revised under Q6

- Settlement endorsed a two tier approach to capital planning process
  - projects initially assigned to core or development categories
  - new governance ensures process integrity and cross departmental assessment
- New operating model
  - four strategic programmes
  - business cases as key enablers
  - investment triggers applied to projects moved to core category only
  - monitoring by Independent Funds Surveyor
- Regulatory return on capital not spent, used or transitioned to core rebated to airlines via airport charges
  - conversely can also earn return on any agreed capital investment above settlement

## Regulatory incentivisation



# £2.9 billion Q6 investment under four strategic programmes

## AIRPORT RESILIENCE

- ✓ Airport Operations Centre (APOC)
- ✓ Taxiway widening to meet increased demand to operate A380 aircraft
- ✓ Enhanced runway landing systems supporting punctuality
- ✓ Ground movement control system improvement

## PASSENGER EXPERIENCE

- ✓ Opening of Terminal 2: the Queen's terminal
- ✓ New Terminal 3 flight connection centre
- ✓ Parallel loading security lanes for Terminals 3, 4 and 5
- ✓ Additional body scanners and automated immigration gates strengthen security processes
- ✓ Additional escalator to improve Terminal 5 connections
- ✓ Enhanced Terminal 5 food/beverage offer
- ✓ Expanded World Duty Free store and luxury offering for Terminal 5 including Louis Vuitton, Chanel and Hermes. New 800-space Terminal 5 business car parking
- ✓ Terminal 4 retail offer refresh including luxury

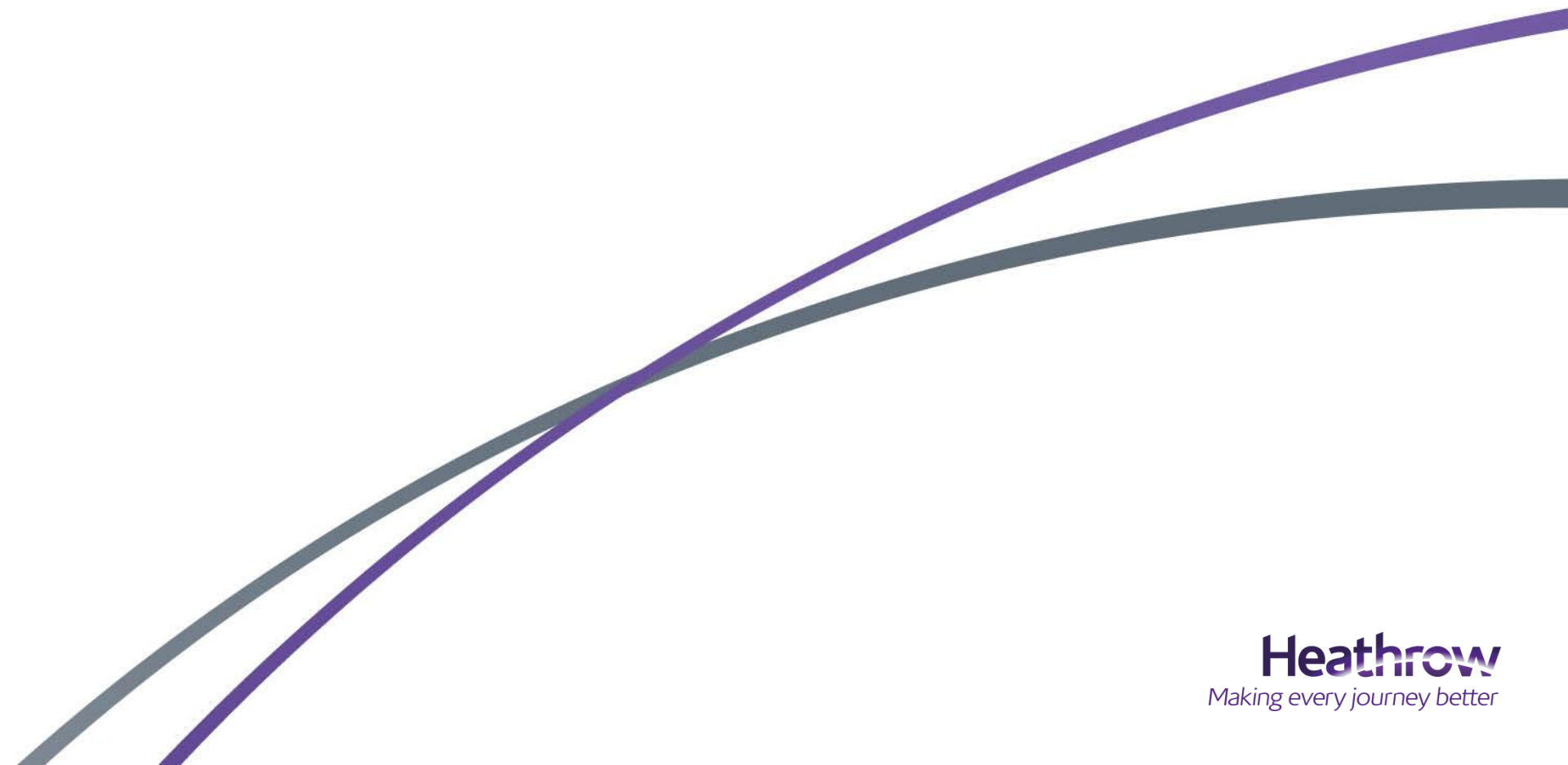
## BAGGAGE

- ✓ Underground automated baggage system between Terminal 3 and Terminal 5
- ✓ Terminal 3 Integrated Baggage system
- ✓ Terminal 1, 2 and 5: Recovery facilities
- ✓ Latest generation hold baggage screening equipment due for completion by late 2018.

## ASSET MANAGEMENT

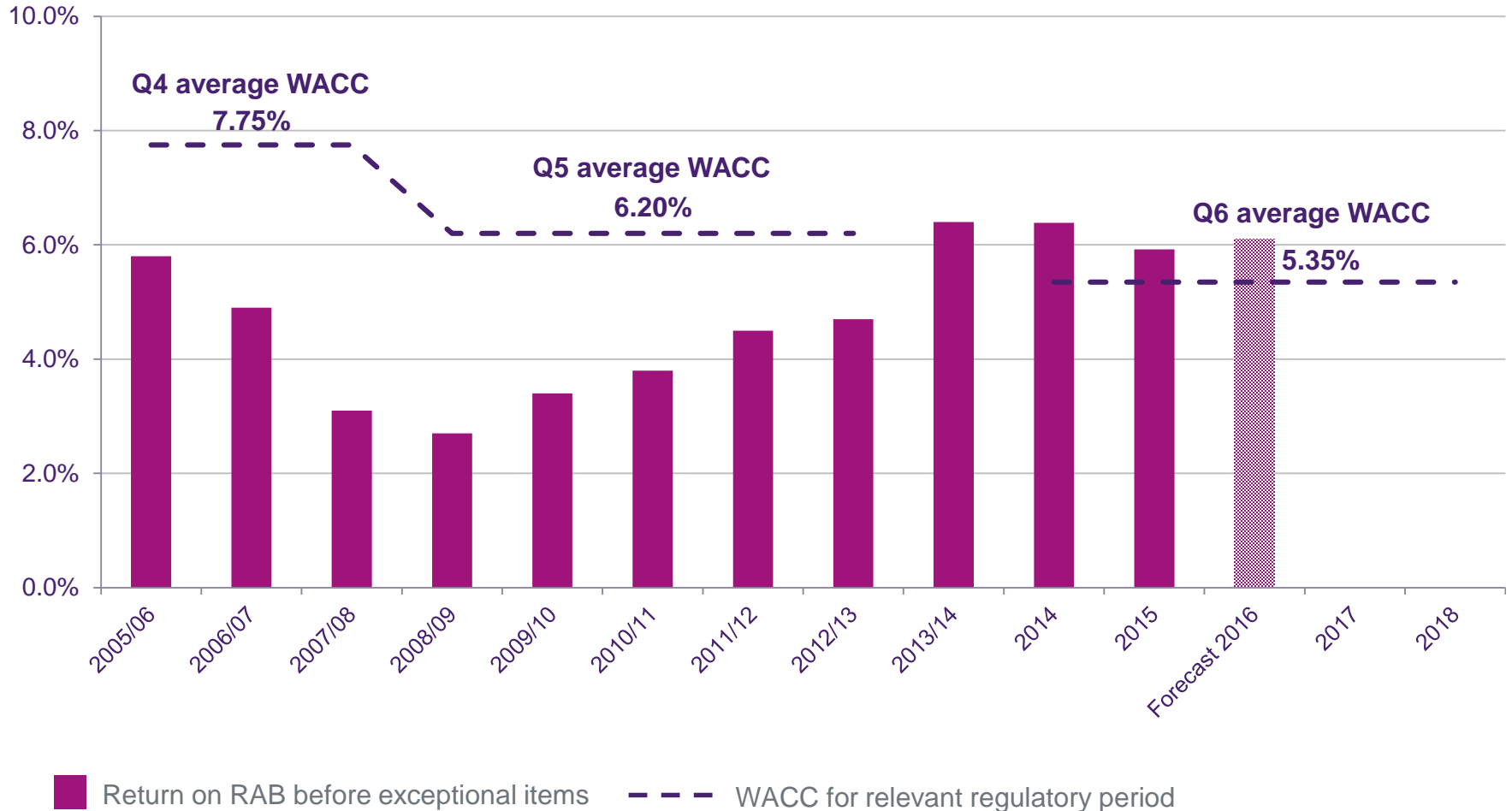
- ✓ Strengthening of tunnels, improvement of lighting and ventilation
- ✓ Terminal 4 refurbishment
- ✓ Overnight northern runway resurfacing
- ✓ Overnight work on road access tunnels into the Central Terminal Area due for completion in late 2016

# Q6 Financial Performance – Conclusions





# Q6 real returns profile significantly different from Q5's



# Looking ahead

- Significant progress being made in addressing settlement challenges and delivering on 'Beat the plan'
- Persistent low inflation through Q6 is moderating nominal returns versus settlement
- CAA kicked off H7 consultation process in March 2016 with four key priorities for the next regulatory period
  - empowering consumers and furthering their interests
  - incentivising the right consumer outcomes
  - increasing airport resilience
  - promoting cost efficiency and financeability
- Following CAA consultation launched in July 2016, likely that Q6 will be extended by one year – to end of 2019

# Notes, sources and defined terms

- Page 5
  - Source: 2008-2015 figures taken from Heathrow Airport Limited/Heathrow (SP) Limited regulatory accounts. 2016 figure is 75.5m forecast from 23 June 2016 Investor Report
- Pages 9 & 10
  - Source: Heathrow (SP) Limited regulatory accounts for year ended 31 December 2015
- Page 12
  - Examples of key efficiencies implemented since 2014 with expected financial savings flowing through the regulatory period
- Page 13
  - Under the previous scheme terms, the annual increase in pensions in payment was capped at the lower RPI and 5% per annum for joiners on or after 1 April 1991 whilst under the new scheme terms, the annual increases is capped at 2.5% per annum for future service i.e. for all pensions earned on and after 1 October 2015
  - Under the new scheme terms, the increase in pensionable salaries is capped at the lower of RPI and 2.0% per annum This is applied to both post and future scheme membership, i.e. before and after 1 October 2015
- Page 17
  - Gross retail income per passenger of selected European airports taken from annual reports for year ended 31 December 2015 except for Gatwick which is for year ended 31 March 2016, Note ADP (Aéroports de Paris) is for Charles de Gaulle and Orly. Heathrow net retail income per passenger figures taken from Heathrow Airport Limited/Heathrow (SP) Limited regulatory accounts for years ended 31 March 2012 to 31 December 2015
- Page 25
  - Actual historic returns taken from Heathrow Airport Limited/Heathrow (SP) Limited regulatory accounts for years ended 31 March 2008 to 31 December 2015; 2016 figure is an internal Heathrow estimate; WACC for each regulatory period is an average; actual forecast WACC is different for each year within a regulatory period

# Heathrow

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