Transforming Heathrow

Heathrow Investor Events 2013

September 2013

Heathrow
Making every journey better

Heathrow Investor Events 2013: agenda

Compass Centre

Introduction – Jose Leo, Chief Financial Officer

Q6: Next regulatory period - Emma Gilthorpe, Regulatory Director

A New Approach: Hub Capacity – Ross Baker, Director of Strategy and Masterplanning

Investing in Better Journeys: Terminal 2 – John Holland-Kaye, Development Director

Heathrow Airport

Site tour of Terminal 2

Viewing the airfield from the Air Traffic Control Tower

Latest generation aircraft: onboard A380

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Transforming Heathrow

Jose Leo – Chief Financial Officer

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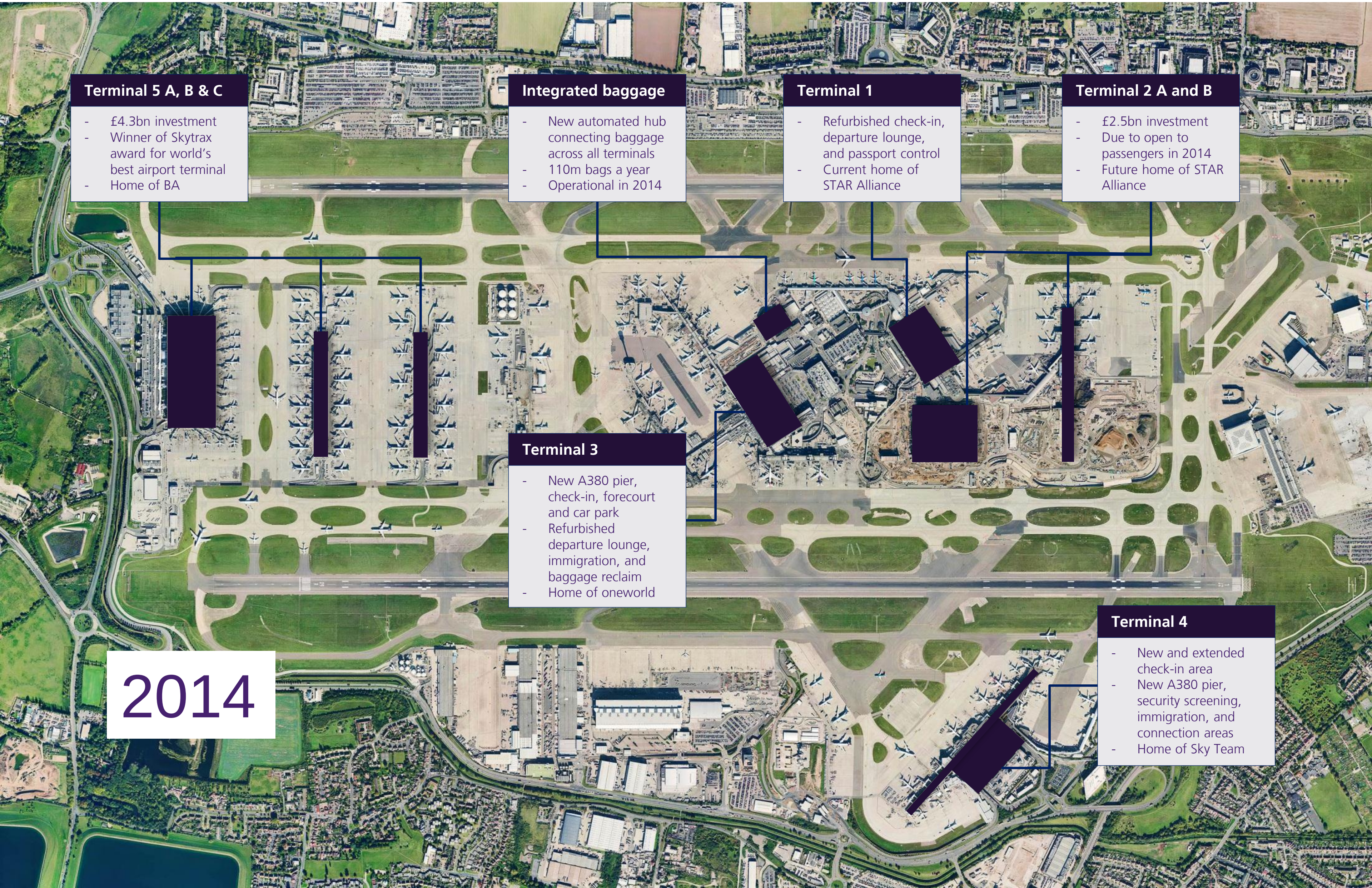
Heathrow has invested £11bn between 2003 and 2014 – one of the UK's largest private-sector investments



Investing in passenger experience

T5: £4.3bn investment
“Best Airport Terminal in the World”

T2: £2.5bn investment (phase 1)
Due to open to passengers in 2014

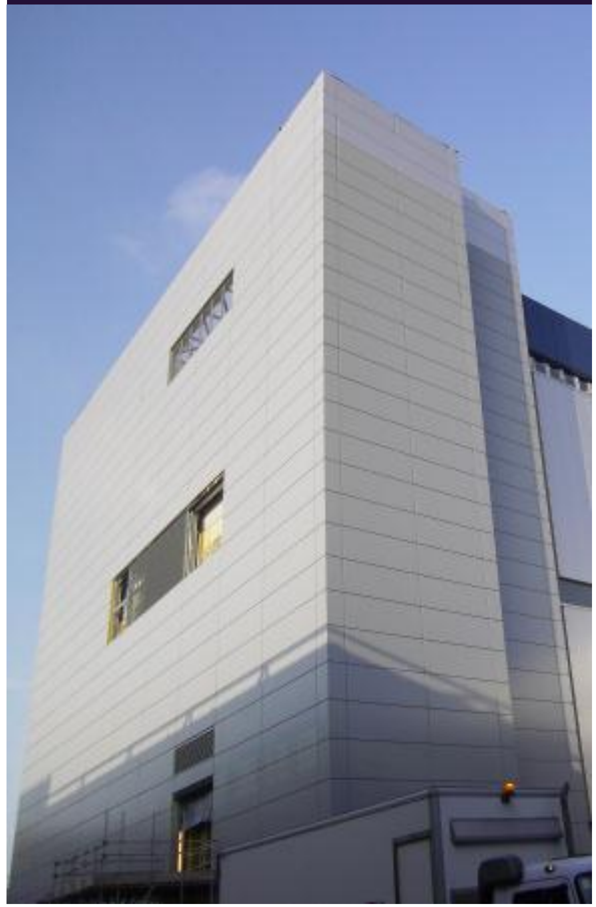
T3: £110m of investment in terminal renewal since 2007

T4: £350m investment in upgrading the terminal since 2007

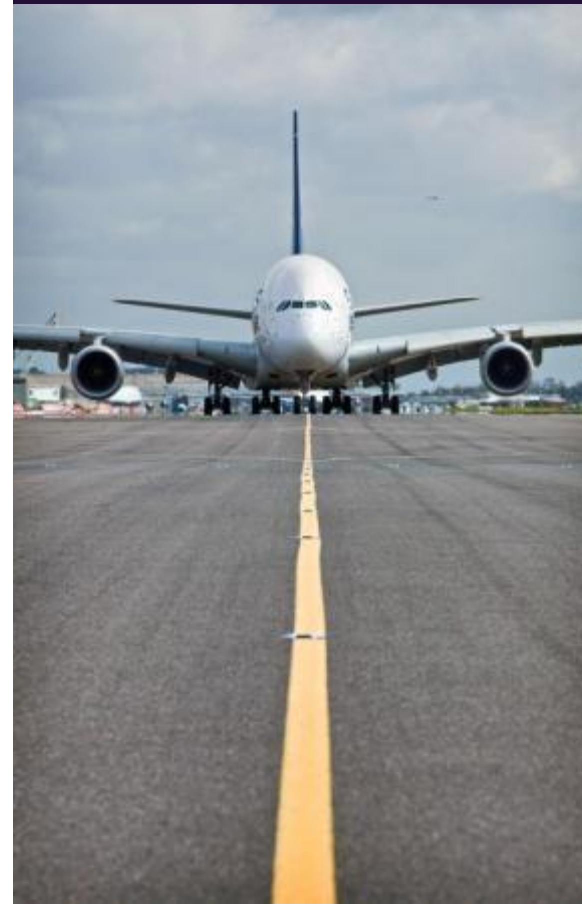
…investing in hub infrastructure, transforming for our airlines

T5 Baggage

T3 Integrated Baggage



Facilities for A380s



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Transforming Heathrow is a journey

Heathrow Two-Runway Masterplan

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Q6: next regulatory period

Emma Gilthorpe

Regulatory Director

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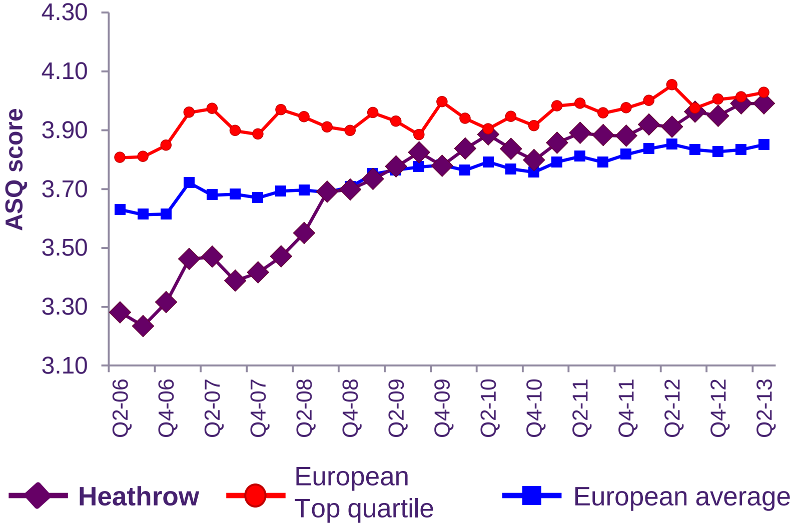
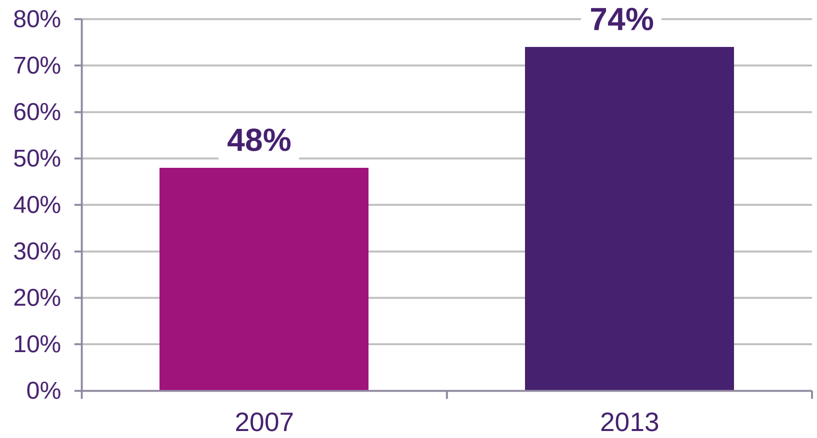
We are improving the experience for our passengers…

Overall passenger satisfaction



Passengers rating Heathrow 'Excellent' or 'Very Good'



World's Best Airport Terminal
Heathrow Terminal 5

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

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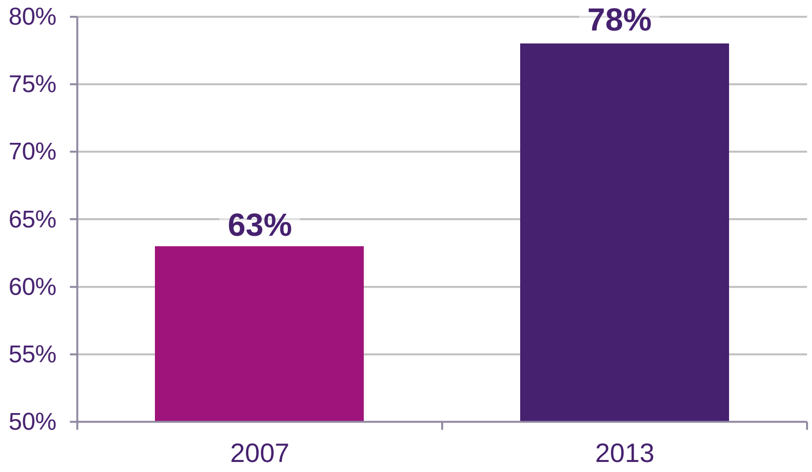
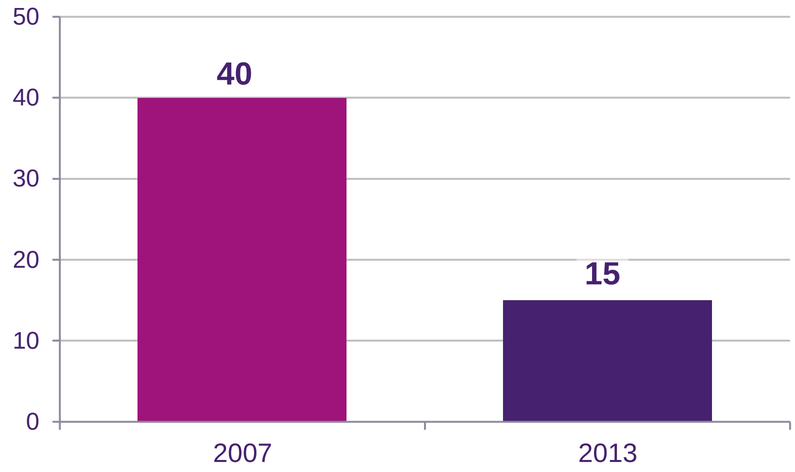
See page 55 for notes, sources and defined terms

..and improving operations for our airlines

Departures within 15 minutes of schedule



Baggage misconnect rates per 1000 passengers



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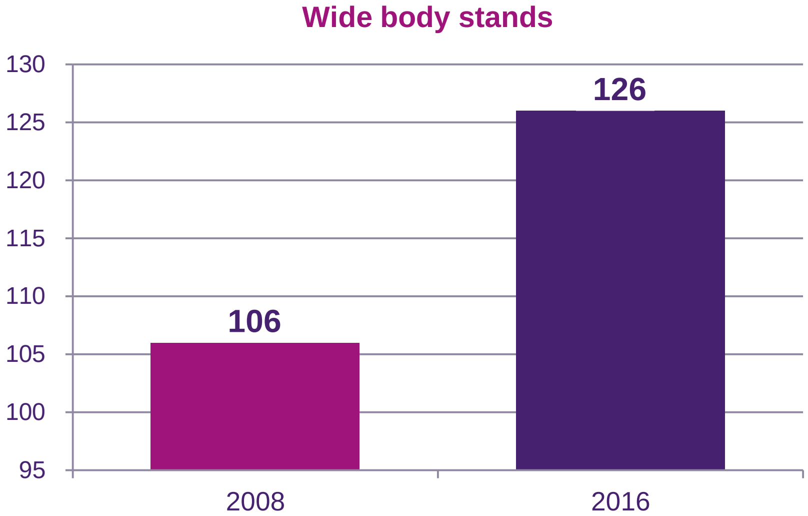
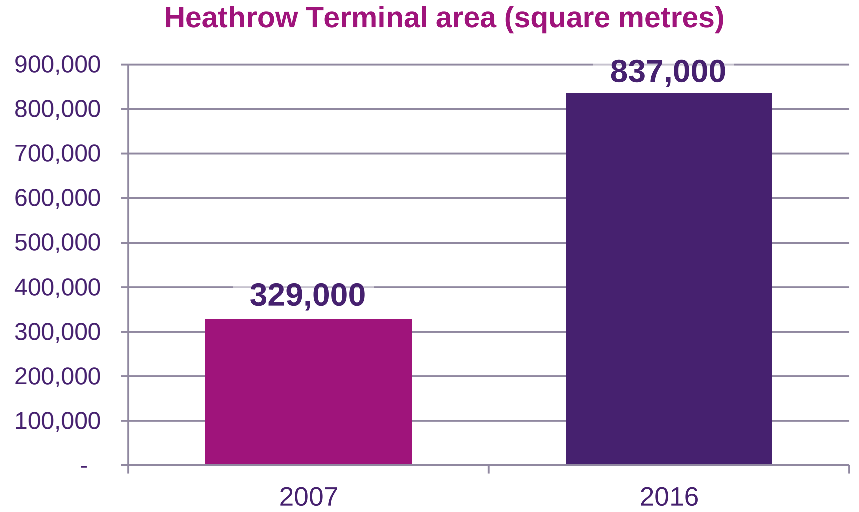
..and transforming our infrastructure





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

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Recap on evolution of Q6 proposals

(£m unless stated) (5 year aggregate) (11/12 prices)	Heathrow Full Business Plan (Jan 2013)	CAGR	CAA Initial Proposal (April 2013)	CAGR	Heathrow Revised Business Plan (Jun 2013)	CAGR	Heathrow Alternative Business Plan (Jul 2013)	CAGR
Passengers	355.2m	*0.4%*	358.4m	*0.5%*	357.8m	*0.5%*	**357.8m**	*0.5%*
Aeronautical income	8,735	*6.1%*	7,138	*-0.9%*	7,801	*2.3%*	**8,478**	*4.9%*
Non aeronautical income	4,753	*1.6%*	4,838	*2.1%*	4,583	*0.8%*	**4,618**	*0.9%*
Operating costs	5,234	*-0.2%*	5,017	*-1.8%*	5,122	*-0.8%*	**5,120**	*-0.8%*
EBITDA	**8,254**	***7.7%***	**6,959**	***1.9%***	**7,308**	***3.6%***	**7,977**	***6.4%***
Capital investment (£bn)	3.0	-	3.0	-	2.0	-	**3.0**	-
Price cap per passenger p.a.	**RPI +5.9%**	-	**RPI -1.3%**	-	**RPI +2.0%**	-	**RPI +4.6%**	-
WACC (pre-tax real)	**7.1%**	-	**5.35%**	-	**6.2%**[1]	-	**6.7%**	-

[1] Revised Business plan modelled on Q5 WACC of 6.2% as prescribed by CAA

See page 55 for notes, sources and defined terms

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We have provided options to the CAA for their Final Proposals

Revised Business Plan

- Published in response to CAA's Initial Proposals
- Priorities moderated from Full Business Plan
- Sustains passenger experience
- Capital investment reduced to £2 billion
- No WACC chosen but modelled on Q5 WACC of 6.2%
- On this basis, X is 2.0%

Alternative Business Plan

- Sets out our refined Capital Plan if the CAA proposals are fair and reasonable
- Same priorities as Full Business Plan
- Refined capital investment plan of £3 billion
- Adopts a WACC of 6.7%
- On this basis, X is 4.6%, or 1.3% with a P0 adjustment of 10%

We aspire to deliver the £3 billion investment plan

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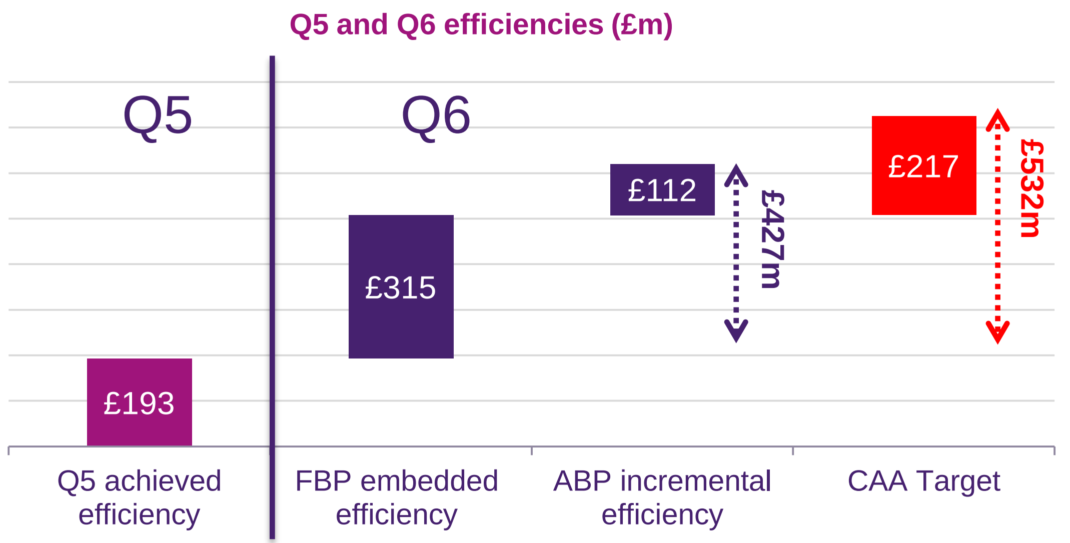
Our planned operating efficiency of £427m is challenging but key to transformation



- Exit Q5 achieving the CAA's efficiency target for operating expenses
- Opex per passenger down 1% p.a. compound since 2008
- Corporate overhead headcount down 43% since 2008 (2013: 1,057)

- Q6 opex efficiency of £427m equivalent to 2.0% pa compound reduction, excluding structural factors
- Reduction in controllable costs of 3.1% pa compound

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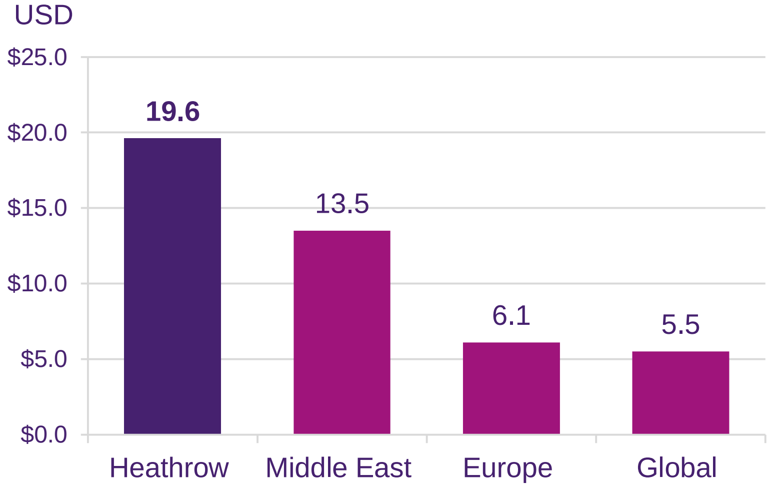
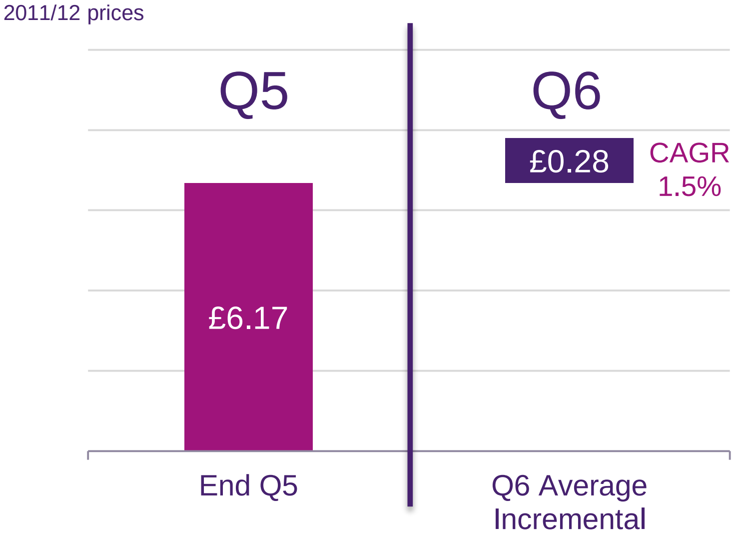
See page 55 for notes, sources and defined terms

Heathrow retail performance is far ahead of peers

Comparative spend per passenger



Net retail income per passenger



- Improved passenger experience including 21,000m^2 new retail space in Terminal 5
- Q5 market drivers for growth include weak sterling, boom of luxury fashion market and real income growth
- Commercial revenues have grown robustly over Q5, benefitting the single till

- Some of most productive airport retail space in the world
- Slower rate of growth expected in Q6 but above inflation
- Flexible and evolving retail strategy key

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Our £2billion capital plan delivers essential investment to sustain and selectively enhance passenger experience

Passenger Journey Process	Included in £2bn plan	Excluded from the £2bn plan
Travel to Heathrow	✓ Additional parking	× New pod system
Check-in		× Option for self bag drop
Ticket Presentation & Security	✓ Consistently courteous service, ✓ Automatic ticket presentation	
Departure Lounge & Retail	✓ New retail brands and lounge products	× Enhancements to Terminal 3
Taxiing & Take-off	✓ Punctuality maintained Resilience protected	× T2 Pier Service improvements
Landing & Taxiing	✓ Capacity for new quieter and fuel efficient airlines	× Increased Pre-Conditioned Air availability
Immigration & Baggage reclaim	✓ Improved reliability of baggage delivery	× T5 Baggage enhancements
Travel from Heathrow	✓ Crossrail service potential	× T4 Arrivals improvements
Connections	✓ Quicker connections	
Overall passenger journey	✓ Modest focus on sustainability ✓ Moderate asset replacement	
Overall passenger journey	✓ A new Terminal 2 ✓ Retire Terminal 1	× Progress T2 Phase 2 × Central Terminal Area Redevelopment
Overall passenger journey	✓ Free Wi-Fi	× Wayfinding Improvements

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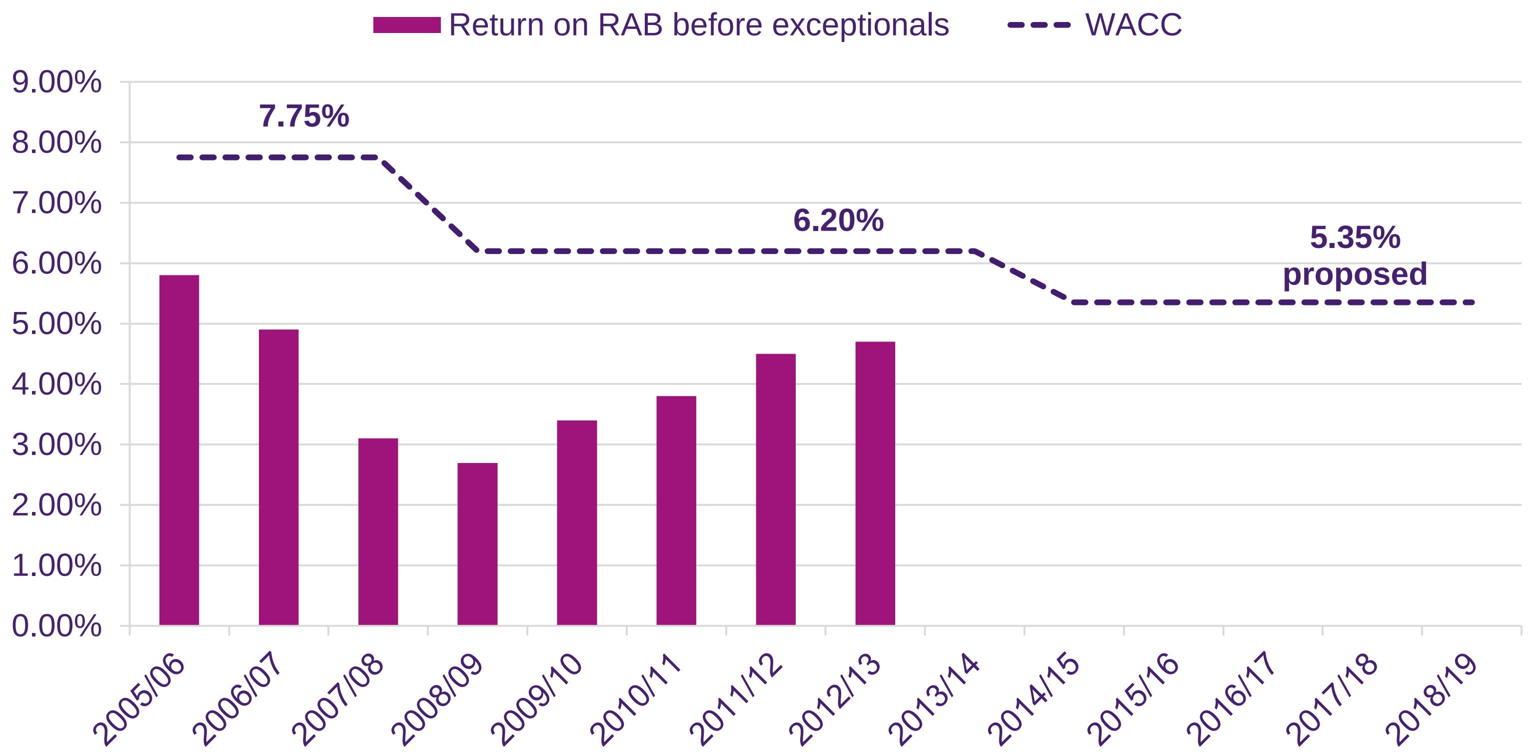
Historically we have fallen short of the allowable return



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Key milestones

2013

3 October – CAA Final Proposals published

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

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Getting the right settlement is important

- Inadequate returns deter investment, impacting passenger experience, undermining hub competitiveness and disincentivising UK growth
- We still aspire to deliver a £3 billion capital investment plan
- When in balance, passengers' and shareholders' interests align and become mutually self-reinforcing
- CAA should set the right price, not simply the lowest possible price

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A New Approach

Heathrow's options for connecting the UK to growth

Ross Baker,

Director of Strategy and Masterplanning

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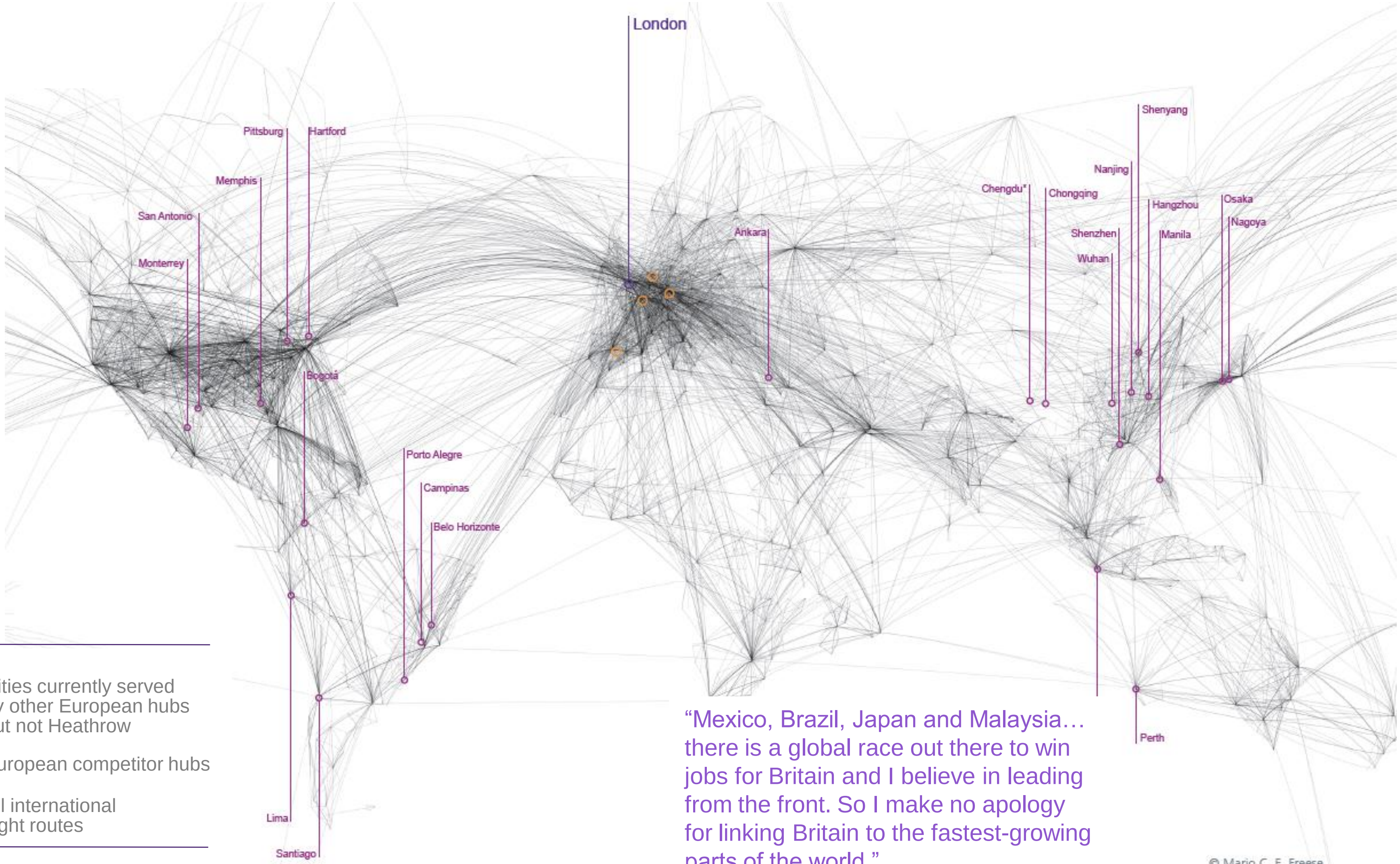
The UK is being cut off from important markets

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



Key

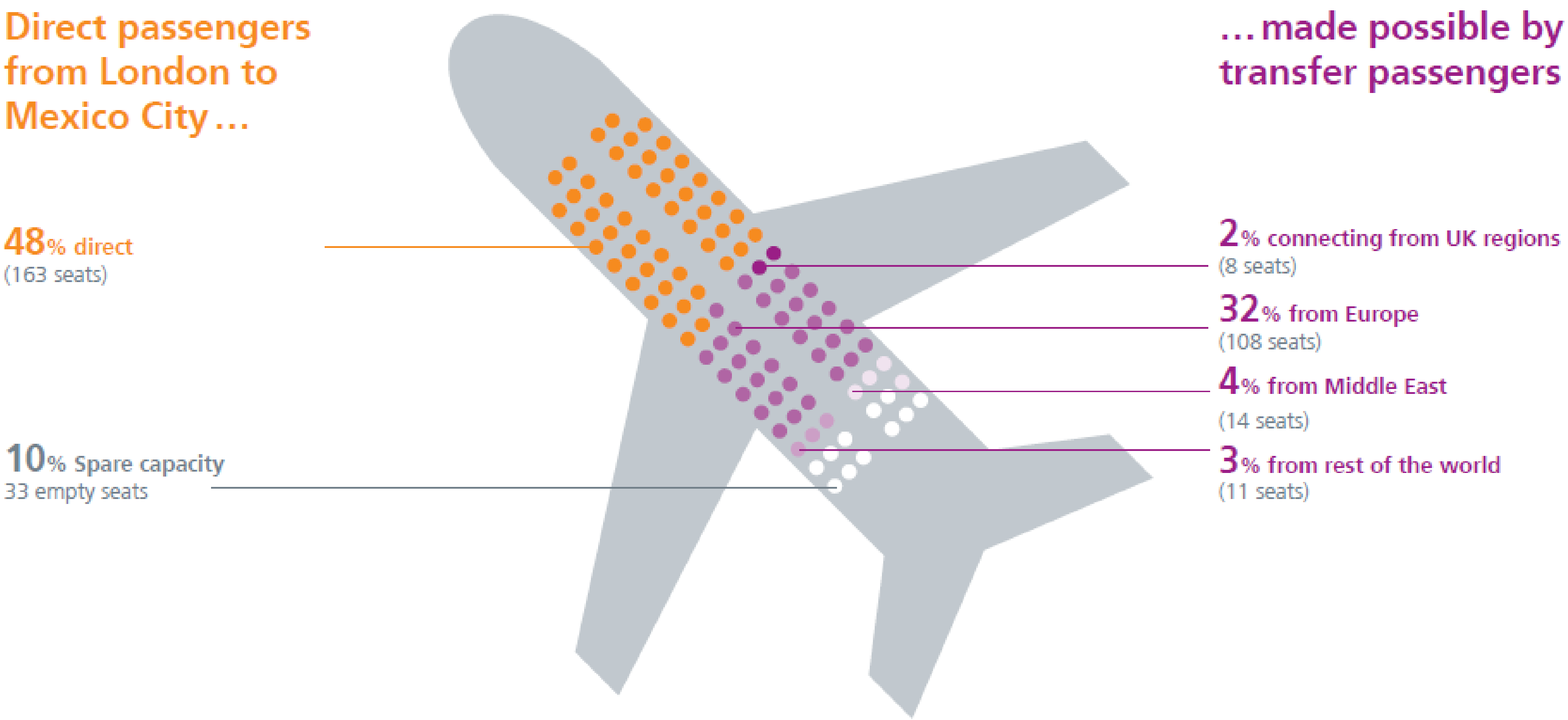
- Cities currently served by other European hubs but not Heathrow
- European competitor hubs
- All international flight routes

"Mexico, Brazil, Japan and Malaysia… there is a global race out there to win jobs for Britain and I believe in leading from the front. So I make no apology for linking Britain to the fastest-growing parts of the world."
David Cameron, November 2012

See page 55 for notes, sources and defined terms

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



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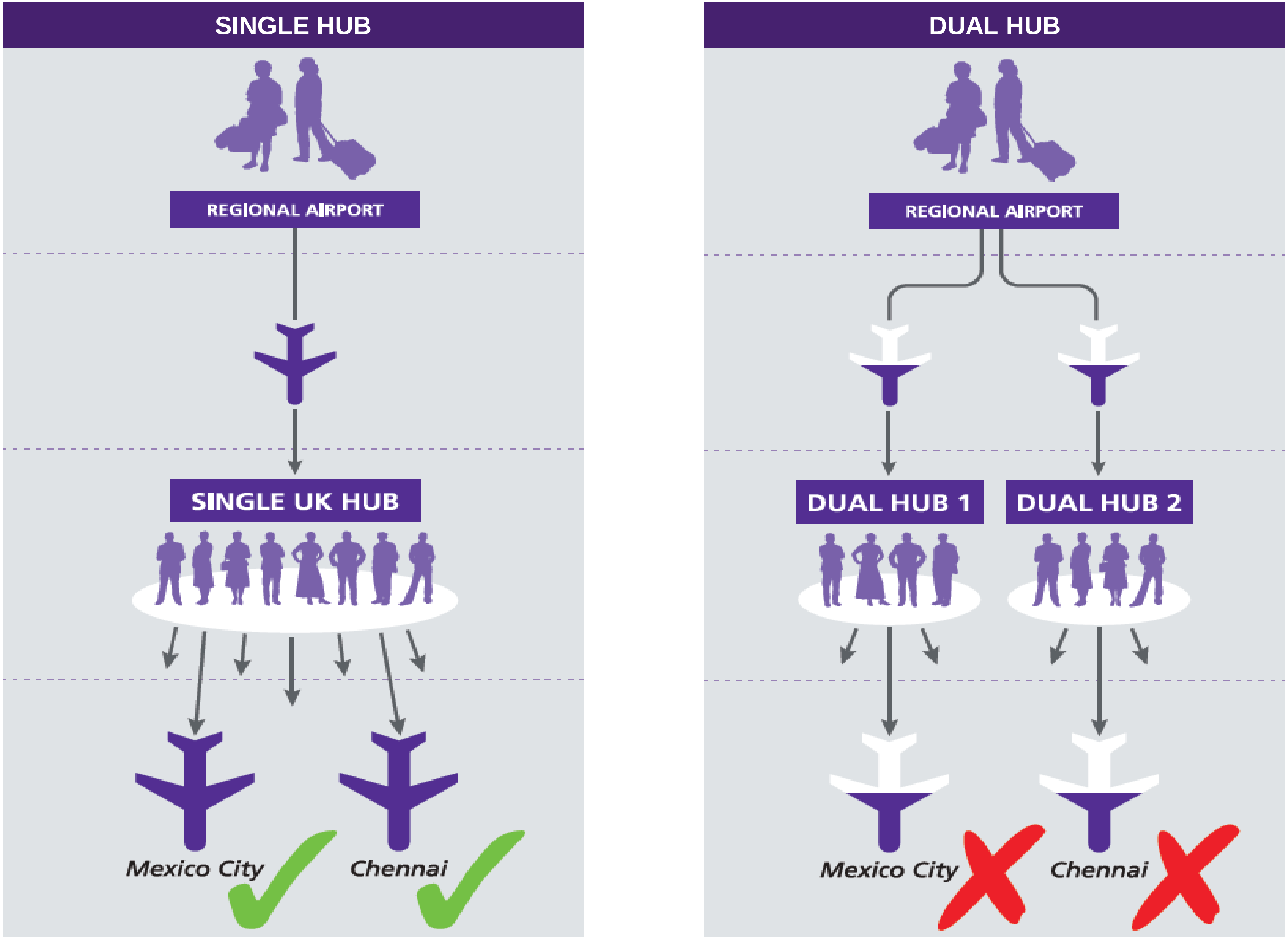
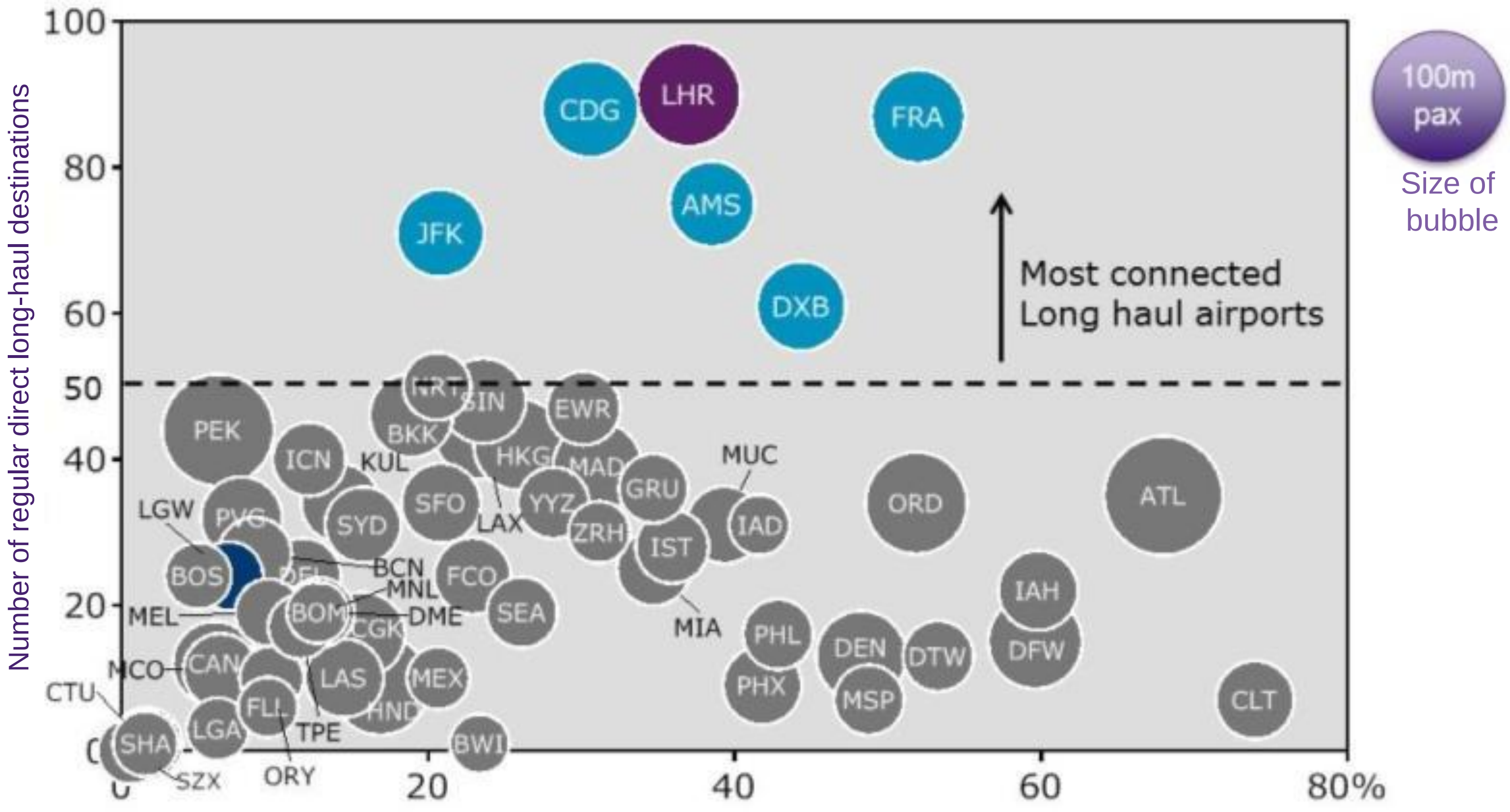
Two hubs are not better than one



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



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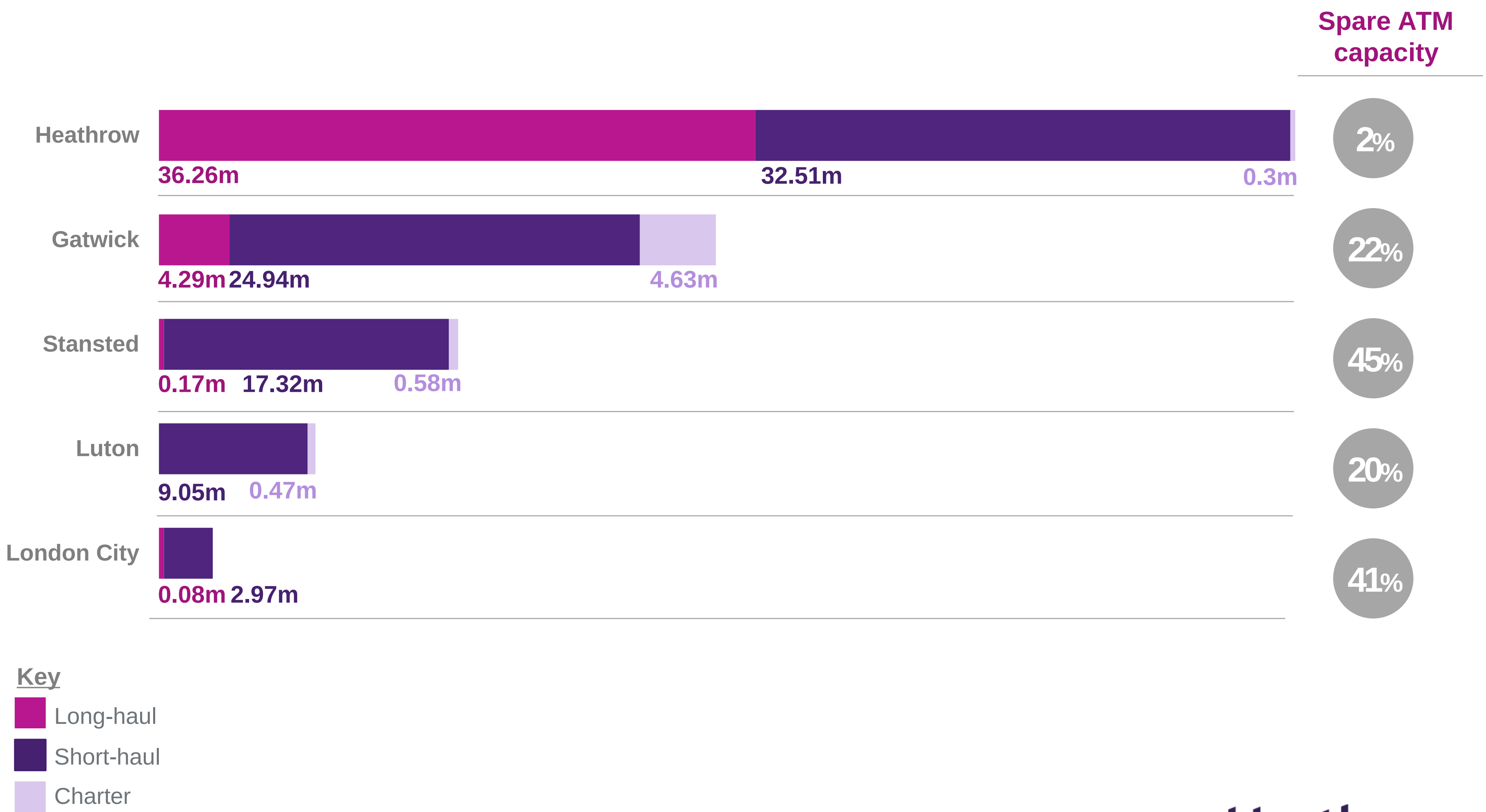
Heathrow, the UK's hub, is full.
Other UK airports are 'point to point' and have spare capacity



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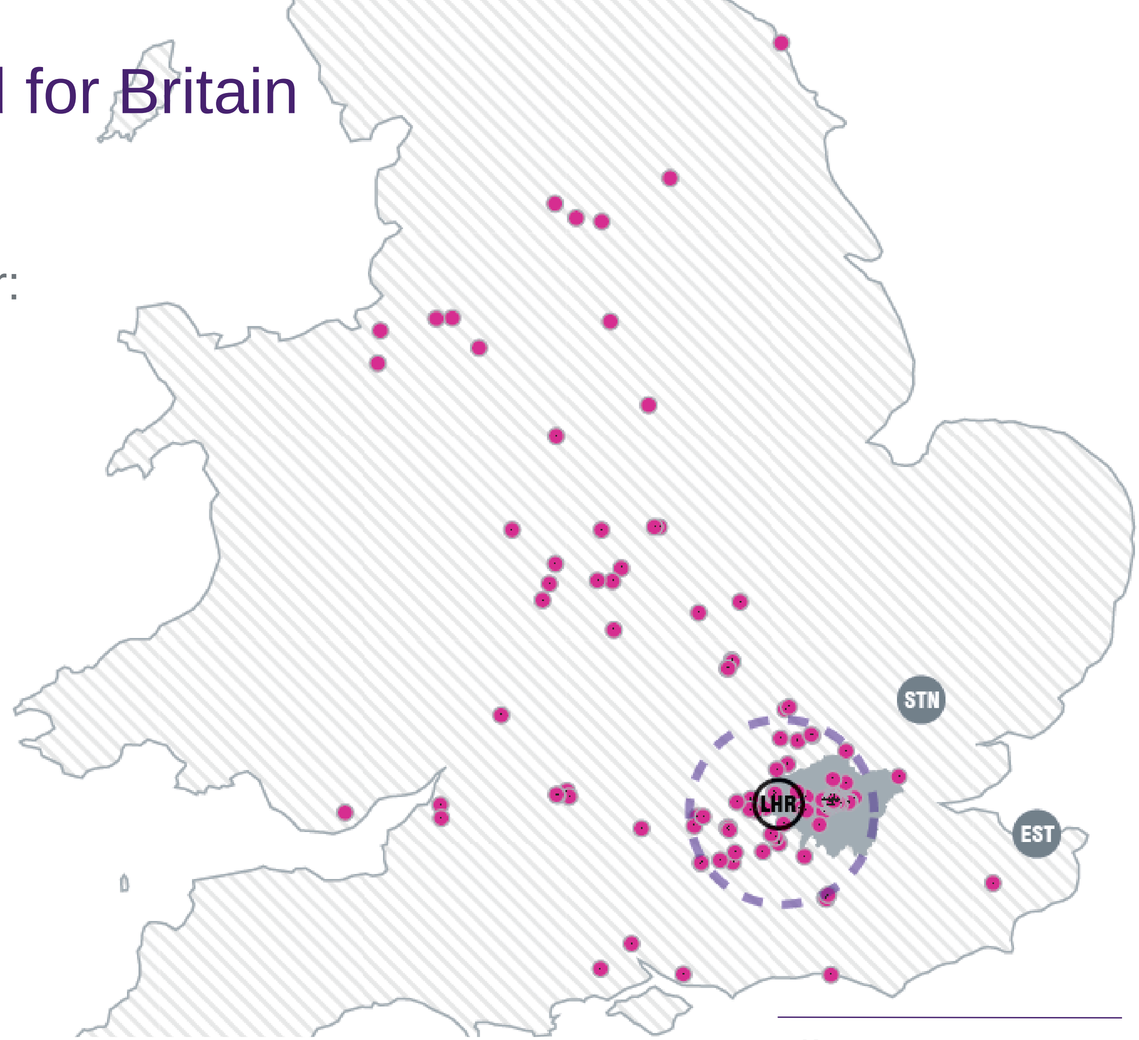
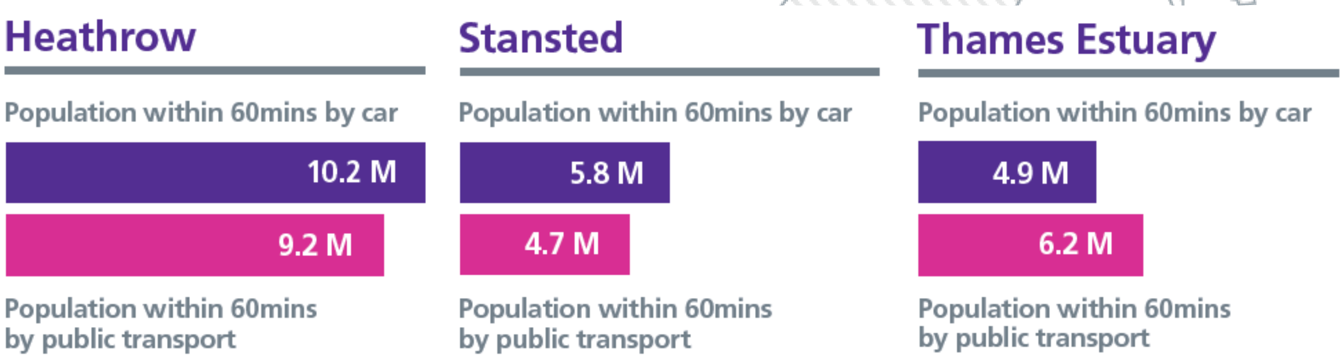
Heathrow is best placed for Britain

Heathrow is the best location for:

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



Key
Company headquarters
202 companies around London Heathrow



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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.

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Option 1: **Third Runway North West**

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Option 2: **Third Runway South West**

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Option 3: **Third Runway North**

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How the options perform

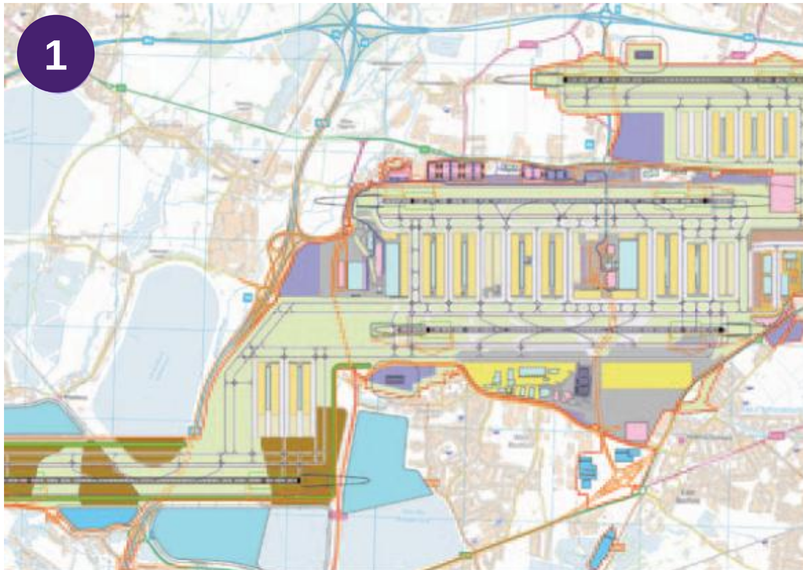
While determining the balance between the pros and cons of different options is ultimately a decision for the Commission and the Government, we believe the westerly options offer clear advantages

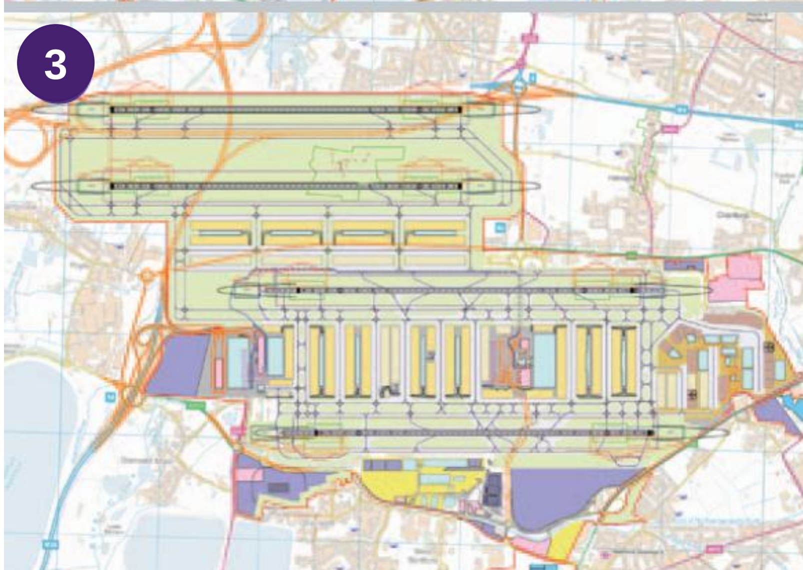
	Third Runway North	Third Runway North West	Third Runway South West
Passenger capacity	123m	130m	130m
Flight capacity	702,000	740,000	740,000
Cost	£14bn	£17bn	£18bn
Length of new runway	2,800m	3,500m	3,500m
Noise (pop. within 57dBA)	-10%	-15%	-20%
Residential properties lost	2,700	950*	850
Opening date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

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

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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
Total mid-point	**£100 billion**

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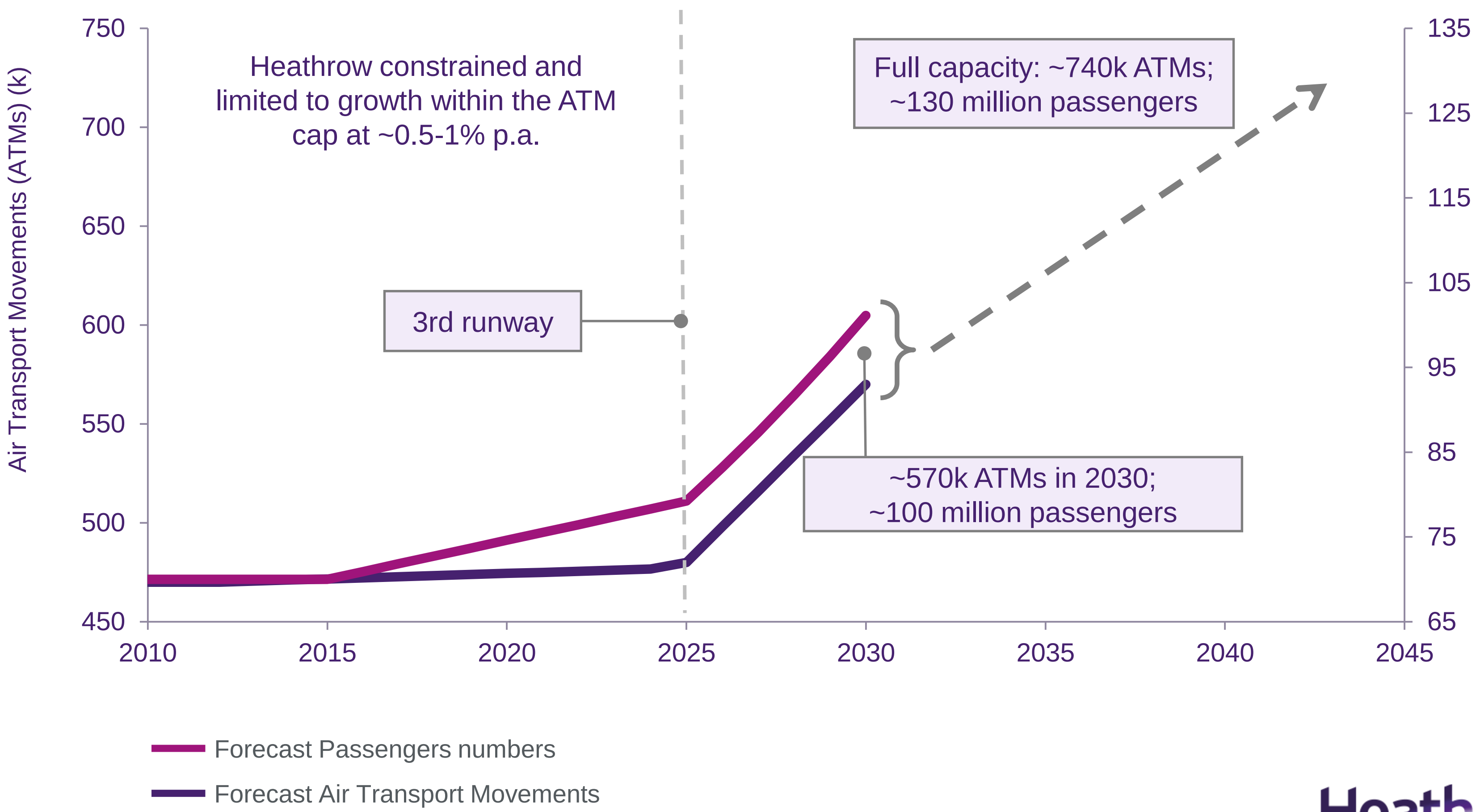
Three runways are enough to maintain the UK's global hub status for the foreseeable future

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



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£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

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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

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Investing in Better Journeys

Heathrow's New Terminal 2

John Holland-Kaye,

Development Director

Heathrow

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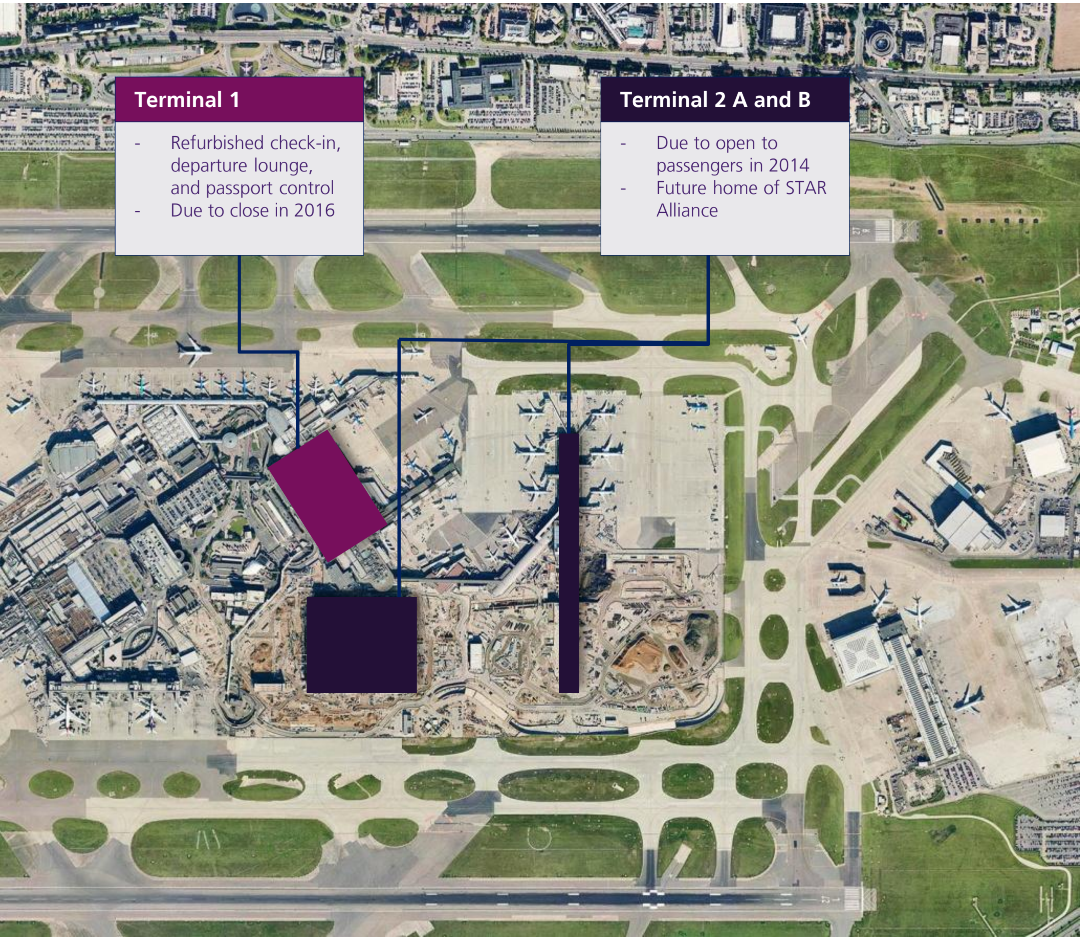
Terminal 2: £2.5 billion phase 1 investment



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

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Innovating through retail

Retail innovation

Best of modern Britain

- 12,000 m^2 retail space (9,000 m^2 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

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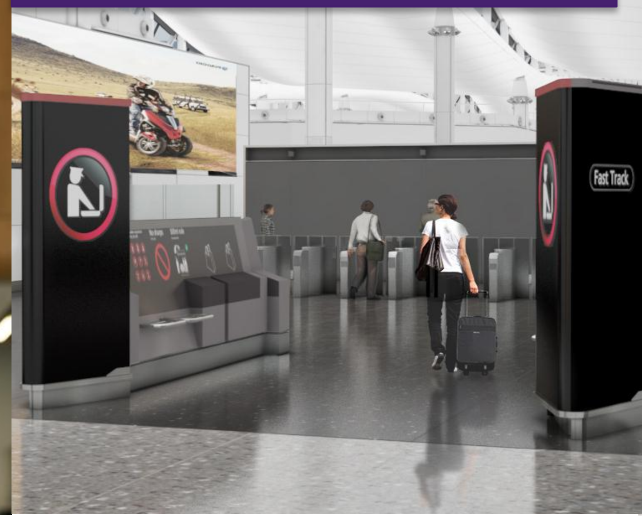
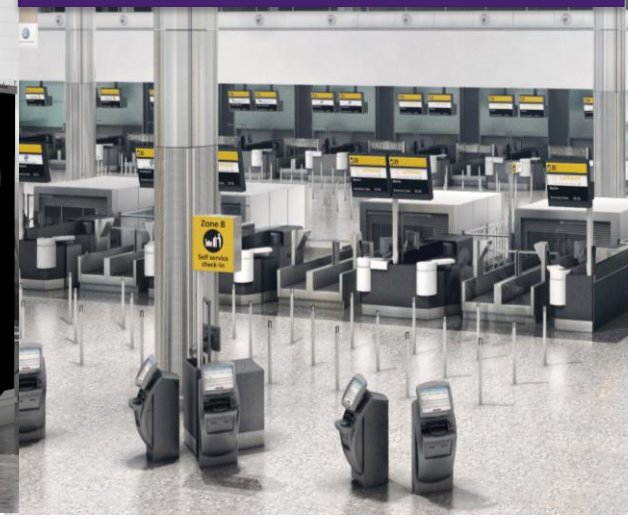
Building for a successful operation

Improved staff morale

Automation



Common-user check-in



- 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

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Terminal 2 will be Heathrow’s most sustainable terminal

Design

Demolition & construction

Operation

- Over 99% of the demolished Terminal 2 recycled or re-used
- CO_2 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_2 emissions
- North facing skylights in the waved roof let light in whilst keeping heat and glare out

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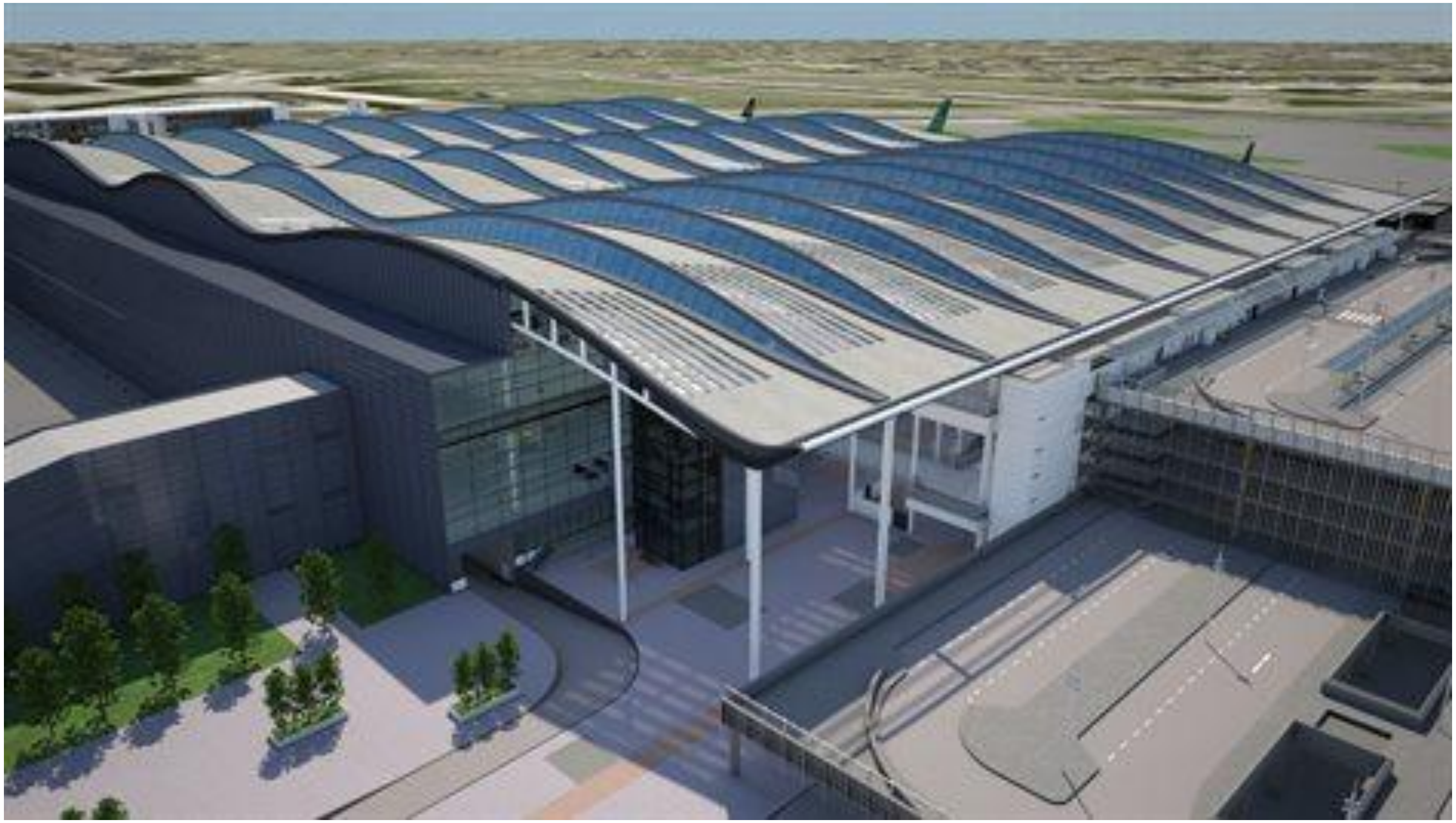
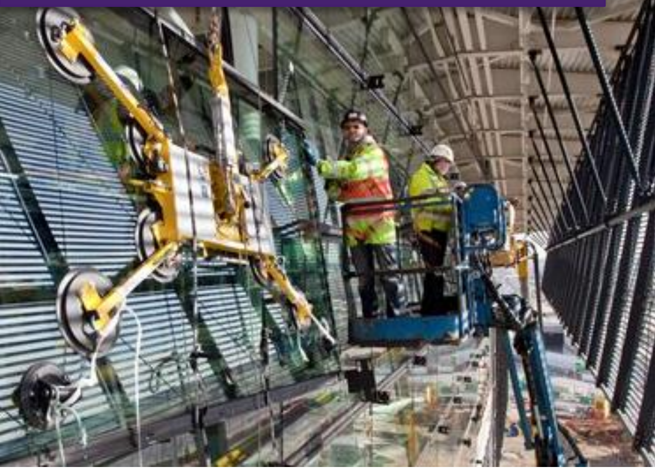


Quality and safety during the construction phase

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

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See page 55 for notes, sources and defined terms

Planning to meet the challenges of opening

Most new terminal openings worldwide have challenges on opening

PHASED OPENING

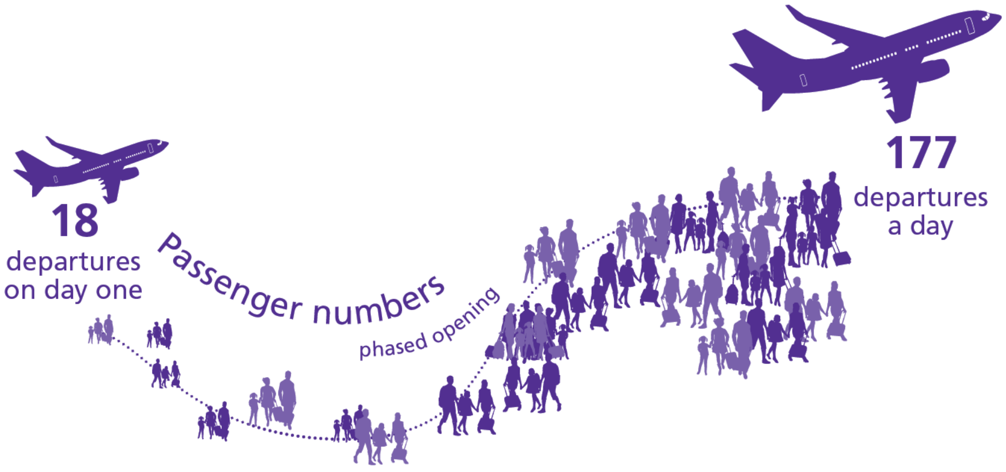
26 airlines

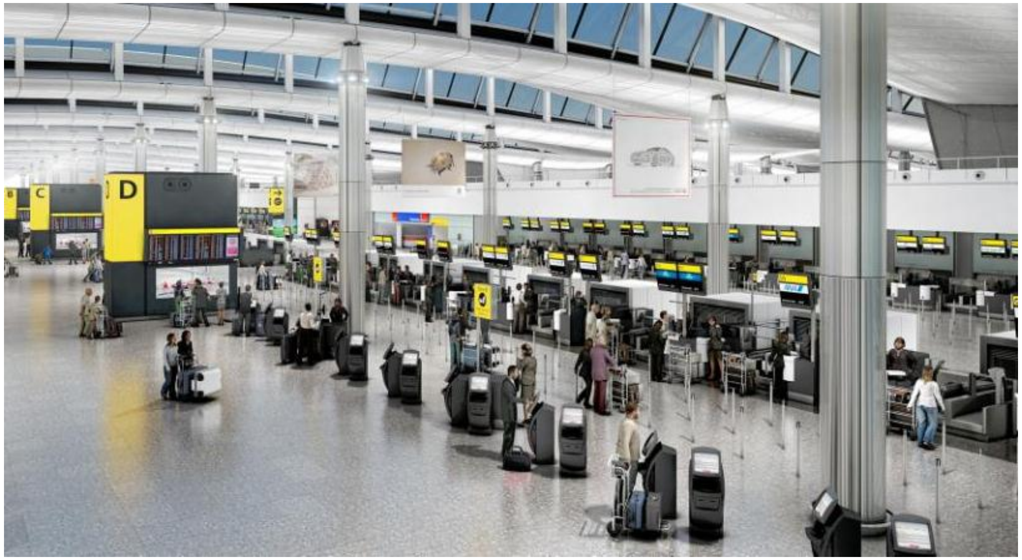
CONTINGENCY PLANNING

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)	(from T3)	(from T3)	(from T3)	(from T1)	(from T1 / T3)	(from T3)	(from T1)	(from T1)	(from T1)
04 June 2014	18 June 2014		02 July 2014	09 July 2014	23 July 2014	17 September 2014	01 October - 08 October 2014	22 October 2014	
UNITED	AIR CANADA	Scandinavian Airlines	THAI	Aer Lingus	AEGEAN	SINGAPORE AIRLINES	Lufthansa	AIR NEW ZEALAND	US AIRWAYS
	ANA	TURKISH AIRLINES	EVA AIR			EGYPTAIR	Austrian	ASIANA AIRLINES	virgin atlantic little red
	AIR CHINA					Ethiopian	SWISS	South African Airways	germanwings
							brussels airlines	TAP PORTUGAL	
								CROATIA AIRLINES	
								LOT POLISH AIRLINES	

Please note dates may change

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Notes, sources and defined terms

- Page 10
  - 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 14
  - Financial data in all scenarios shown in 2011/12 prices in line with regulatory submissions
  - 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 16
  - Structural factors include T2 transition, T1 closure and rates revaluation
  - Controllable costs exclude rents, rates and utilities
- Page 17
  - Source: comparative spend per passenger - Verdict Global Airport Retail Study 2012
  - Financial data in all scenarios shown in 2011/12 prices in line with regulatory submissions
  - 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 24
  - 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 27
  - 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 28
  - 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 39
  - 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 49
  - RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995
  - RIDDOR free hours: man hours without incurring a RIDDOR accident

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