



HEATHROW (SP) LIMITED RESULTS JANUARY - DECEMBER 2017

Heathrow Airport, London, UK. Ferrovial owns a 25% stake of the asset and it is equity accounted.

Record 78mn passengers (+3.1%), growing at its fastest rate in 5 years

Operating costs were down -3.1% on a per passenger basis

Dividends to shareholders reach GBP525mn in 2017

HEATHROW TRAFFIC

In 2017, passengers at Heathrow airport reached a record breaking 78mn, +3.1% vs. 2016 on a total of 471,082 passenger flights (470,764 in 2016). The increase in flights reflects a scheme launched in 4Q 2017 to boost utilisation of our limited spare capacity (over 1,300 additional flights in 4Q).

Traffic growth was primarily driven by higher average load factor (78% vs 76% in 2016) partly reflecting an increase in UK inbound demand particularly from Middle East & Asia Pacific. Average number of seats per passenger aircraft rose +0.4% to 212.3 (2016: 211.5).

The traffic breakdown at Heathrow was as follows:

Million passengers	% of total	2017	2016	Var.
UK	6%	4.8	4.6	3.3%
Europe	42%	32.4	31.7	2.4%
Long Haul	52%	40.8	39.4	3.6%
Total		78.0	75.7	3.1%

- **Intercontinental:** (+3.6%), driven by higher load factors. Middle East (+9.5%) reflected more flights & larger aircraft, including additional services from Emirates, Etihad, Qatar Airways and Oman Air. Asia Pacific (+4.5%) was driven by growth in load factor on routes to Malaysia, Thailand, Philippines & Vietnam. North America (+1.1%) showed increased load factors. LatAm (+5.5%) had more flights & fuller aircraft.
- **Europe** (+2.4%) with fuller, larger planes & growth on routes to Italy, Russia, Belgium, Denmark, Netherlands & Portugal (over 70,000 extra passengers in each market).
- **UK** (+3.3%) helped by Flybe's new Scottish services.
- **Cargo** (+10.2% to 1.7mn tonnes) in one of the strongest periods in the last 5 years, showed notable increases on North America & Middle East. Over 30% of UK's non-EU exports by value pass through Heathrow.

HEATHROW FINANCIAL RESULTS

(GBP million)	2017	2016	Var.
Revenues	2,884	2,807	2.7%
EBITDA	1,760	1,682	4.6%
EBITDA margin %	61.0%	59.9%	

Revenue grew +2.7% in 2017, with strong performance of retail (+7.7%). The breakdown of total revenues at Heathrow is the following:

(GBP million)	2017	2016	Var.
Aeronautical	1,716	1,699	1.0%
Retail	659	612	7.7%
Other	509	496	2.6%
Total Revenues	2,884	2,807	2.7%

Average aeronautical revenue per passenger decreased -2.0% to GBP22 (GBP22.45 in 2016), but was compensated for by the increase in traffic (+3.1%), which generated additional revenues of GBP51mn.

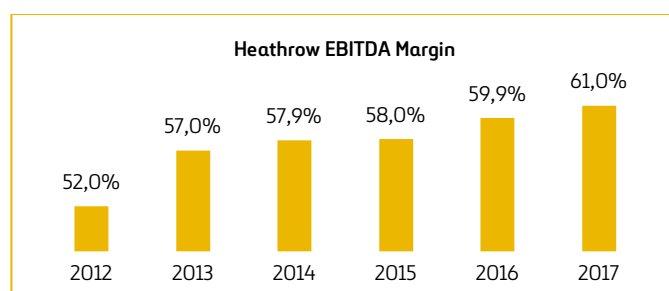
Retail revenue grew by +7.7%, reflecting the increased passenger traffic in the period. Retail concessions grew by +10.5% reflecting the benefit, particularly in duty and tax-free and airside specialist shops, from depreciation of sterling since June 2016, although, as expected, there has been some moderation in this trend. The redevelopment of T4's luxury retail offering, completed in late 2016, also contributed to this growth.

Retail revenue per passenger rose +4.5% to GBP8.45 (2016: GBP8.09) reflecting greater airside participation as well as increased retail spend per participating passenger.

Catering (+14.3%) saw strong growth from increased passenger traffic, the redevelopment of T5 catering outlets and more passengers choosing to buy food from terminals before boarding their flights. Car parking rose +5.3% due to increased passengers & a more dynamic pricing strategy.

Operating expenses decreased during 2017 by -0.1% to GBP1,124mn as cost efficiencies across a range of areas have offset the impacts of higher passenger numbers and inflation. Operating costs were -3.1% lower on a per passenger basis at £14.41 (2016: £14.87).

EBITDA increased by +4.6% in 2017 vs. sales growth of +2.7%. Amortization grew by +3.3% vs. 2016, driven by a number of new assets coming into operational use during the year. The EBITDA margin reached 61%, compared to 59.9% in 2016. EBITDA margin has shown a positive evolution during the past 5 years, as shown below:



You can find further information on Heathrow's 2017 results in the [following link](#).

REGULATORY ASPECTS

REGULATORY ASSET BASE (RAB): At 31 December 2017, the RAB reached GBP15,786mn (GBP15,237mn in December 2016).

REGULATORY PERIOD: On 21 December 2016, the CAA confirmed the extension of the current regulatory period (Q6) until 31 Dec 2019, continuing with the annual maximum tariff increase per passenger of RPI - 1.5%.

During 2017, the CAA further developed its thinking regarding the next regulatory period (H7) which would comprise a significant proportion of the expansion investment phase. The CAA launched 2 consultations during the year, in which the CAA is clear that the regulatory framework for expansion should build on the strengths which have evolved through thirty years of regulation, including continued use of the RAB and a single till approach to determine tariffs.

The latest consultation states that a further extension of Q6 to at least the end of 2020 is expected to be needed, with the CAA emphasising the need for flexibility (potential extension of Q6 if the expansion timetable changes). In terms of economics beyond 2019, in its latest consultation the CAA expresses a preference for a headline price of RPI-0% combined with additional depreciation of the RAB to reflect recent and forecast performance on building blocks such as passenger volumes, operating costs, commercial revenues and potentially the cost of debt component of the WACC.

The CAA plans to provide additional clarity on many of the above areas in April 2018 & September 2018 when it publishes its next updates.

HEATHROW EXPANSION: On 25 October 2016, the British Government announced its decision to support the construction of a third runway at Heathrow Airport to increase airport capacity in South East England.

The expansion requires parliamentary approval of the National Policy Statement (NPS) and subsequent approval of the Development Consent Order by the Secretary of State, both expected between 1H 2018 and the 2021.

On January 2018, Heathrow launched a 10-week consultation on options for expansion, expected to be one of the largest consultations ever

in the UK. The feedback will help determine a masterplan which will be presented for a second consultation in 2019 after which Heathrow will prepare a final planning application (Development Consent Order) which is expected to be submitted to the Planning Inspectorate in 2020.

Heathrow confirmed in December that it could deliver an expanded Heathrow for GBP2.5bn less than the plans submitted to the Airports Commission – total cost of the project down to GBP14bn, enabling the airport to meet the Government's challenge to expand whilst keeping airport charges close to current levels and maintaining local commitments and the passenger experience.

Heathrow has raised over GBP1.0bn in debt financing paving the way to simpler debt financing arrangements and enhancing its resilience ahead of the potential expansion.

HIGH SERVICE QUALITY:

In 2017, Heathrow continued to deliver a world-class passenger service with a record average service quality score of 4.16 out of 5 throughout the year and an excellent 4.18 score in the fourth quarter ranking Heathrow first among major European hub airports for service quality in this survey for thirteen successive quarters



- 82% of passengers rate their experience in Heathrow as "Excellent" or "very good"
- Best airport in Western Europe (3rd consecutive year)
- Best airport for shopping (8th consecutive time)

Improving passengers' journeys through the airport remains one of our key priorities. Passing through central security within a five minute period 97.3% of the time (2016: 97.0%) vs. a 95% service standard.

Punctuality improved with a record 80.2% of flights departing within 15 minutes of schedule (2016: 78.8%). Baggage performance improved significantly with the misconnect rate down to 10 bags per 1,000 passengers (2016: 14), reflecting our enhanced operational resilience.

Heathrow's service quality has shown a strong positive evolution throughout the years, as illustrated in the tables below:

