



HEATHROW (SP) LIMITED RESULTS JANUARY – DECEMBER 2018

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

Milestone year as 80,1mn passengers choose Heathrow (+2.7%)

Dividends to shareholders reach GBP500mn in 2018

HEATHROW TRAFFIC

Heathrow climbed to the best year in its history after eight years of consecutive growth. A record 80.1mn passengers travelled through Heathrow in 2018 (+2.7%). As at December 2018, Heathrow has now achieved 26 consecutive months of record passenger numbers. Aircraft continue to get fuller with load factors increasing to 79.4% (78.0% in 2017). The average number of seats per passenger aircraft increased to 213.4 (212.3 in 2017) driven by aircraft upgrades on European and Middle Eastern routes. The traffic breakdown at Heathrow was as follows:

Million passengers	% of total	Dec-18	Dec-17	Var.
UK	6%	4.8	4.8	-0.1%
Europe	42%	33.3	32.4	2.6%
Long Haul	52%	42.0	40.7	3.1%
Total		80.1	78.0	2.7%

Reflecting the success of our pricing strategy aiming to boost domestic connectivity with an additional 50% discount on airport charges for domestic flights, **short haul traffic grew by 2.2% while intercontinental grew by 3.1%.**

Intercontinental traffic growth continues to be driven by strong growth in routes to North America (+4.3%), through increasing flight frequency and aircraft size to a number of destinations, while Asia Pacific (+2.4%) grew strongly driven by our new Chinese routes.

In 2018, Heathrow doubled its Chinese connections in 2018, adding six new cities. New routes were also announced to North America with British Airways announcing a new direct route to Pittsburgh and American Airways announcing a new route to Phoenix. Both routes will commence in April 2019.

HEATHROW FINANCIAL RESULTS

(GBP million)	Dec-18	Dec-17	Var.
Revenue	2,970	2,884	3.0%
Adjusted EBITDA	1,837	1,760	4.4%
Adj. EBITDA mg %	61.9%	61.0%	

Revenue grew by +3.0% in 2018, driven by strong retail sales and continued passenger growth. The breakdown of total revenue at Heathrow is the following:

(GBP million)	Dec-18	Dec-17	Var.
Aeronautical	1,745	1,716	1.7%
Retail	716	659	8.6%
Other	509	509	0.0%
Total Revenue	2,970	2,884	3.0%

- **Aeronautical: +1.7%**, boosted by record traffic growth offset by some recoverable yield dilution as airlines respond strongly to Heathrow's tariff structure by employing cleaner and quieter aircraft. Heathrow continued delivering value for passengers and airlines with average aeronautical revenue per passenger down -1% to £21.78 (£22.00 in 2017).
- **Retail: +8.6%**, led by retail concessions and catering, reflecting strong traffic performance & longer dwell due to call to gate initiative. Retail concessions were boosted by the roll out of new digital capability on Heathrow boutique. Catering also benefitted from the call to gate initiative, allowing customers to reserve and collect their shopping, and strong performance in the year was further enhanced by refurbishments in Terminals 3 and 5, as well as "Grab & Go" offerings for passengers to take meals on flights. Other retail reflects an upside in advertising from an enhanced utilisation of spaces. Retail revenue per passenger rose 5.8% to £8.94 (£8.45 in 2017).
- **Other revenues:** remained consistent year on year, driven by other regulated charges with the increased number of passengers travelling through the airport, resulting in more baggage being processed. Heathrow Express revenue declined with the cessation of Heathrow Connect services.

Operating costs reached £1,133mn (+0.8% vs 2017, £1,124mn) and declined by -1.9% on a per passenger basis at £14.14 (2017: £14.41).

Operating cost increases were primarily driven by expansion and investment in safety, security and resilience. In the early part of the year, Heathrow spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years which impacted both maintenance and other costs. Heathrow also increased investment in our special assistance services, security costs to aid operational resilience and upgrading drone defence capabilities.

Adjusted EBITDA grew +4.4% to £1,837mn (£1,760mn in 2017), resulting in an Adjusted EBITDA margin of 61.9% (61.0% in 2017).

HEATHROW DIVIDENDS

Heathrow paid £500mn to its shareholders in 2018, compared to the £525mn paid in 2017.

2019 OUTLOOK

2019 forecast remains in line with December investor report:

- Expected traffic: 80.6 million passengers
- Expected Adjusted EBITDA: £1,885 million
- Adjusted EBITDA including Brexit contingency: £1,771 million
- Projected headroom to covenant remains significant

REGULATORY ASPECTS

REGULATORY ASSET BASE (RAB): At 31 December 2018, the RAB reached GBP16,200mn (GBP15,786mn in December 2017).

HEATHROW EXPANSION: Heathrow continues to make significant progress in expanding the airport following June’s overwhelming vote in Parliament in favour of the Airport’s National Policy Statement (‘NPS’).

The consultation on airspace and future runway operations started in January 2019, followed by a consultation in June 2019 on our preferred masterplan. After reviewing and assessing feedback from the two consultations in 2019, Heathrow will prepare a final masterplan and submit a development consent order application to the Secretary of State in 2020, kick-starting an approval process expected to take 18 months. If Heathrow is granted development consent, the new runway is expected to open in 2026.

Heathrow remains committed to deliver a sustainable, affordable and financeable expanded airport.

H7 REGULATORY DEVELOPMENTS: The CAA’s fundamental objective in developing the framework for the next regulatory period (H7) is to strike an appropriate balance between affordability and financeability to support capacity expansion in the best interest of consumers.

The CAA continues to progress its thinking on the H7 framework with a new consultation launched in October 2018: ‘Economic regulation of capacity expansion at Heathrow: policy update and consultation’.

The H7 period is due to start in January 2022 and the CAA confirms that Heathrow should produce a Business Plan for H7 by the end of 2019 to commence the price setting process.

The CAA plans to provide additional clarity on the regulatory framework in mid-2019 when it publishes its next consultation papers.

In addition to the work under way on the H7 framework, based on a MoU agreed with major carriers, a Formal Agreement has been finalised between Heathrow and airline lawyers on the airline charges to be applied prior to the start of H7. The Formal Agreement has been signed this week by a number of key carriers from multiple alliances and groups representing well over half of Heathrow’s traffic with most other carriers expected to sign in coming days as they complete internal governance. Under the Formal Agreement, we will offer a rebate to all airlines depending on actual passenger traffic volumes. The rebate creates an incentive for airlines to make better use of our existing capacity by way of a volume discount while also providing protection in the event that passenger volumes were to fall below current levels prior to 2022. Another benefit of the Formal Agreement is that it will enable all parties to concentrate on the longer-term aim of securing a regulatory settlement for H7 which will support affordable and financeable expansion of Heathrow. The Formal Agreement remains subject to consultation by the CAA and for the avoidance of doubt is not intended to replace the standard regulatory process for H7 which will continue in line with the CAA timetable.

HIGH SERVICE QUALITY

During 2018, Heathrow continued to rank ahead of European hubs in the ASQ survey. In 2018, Heathrow achieved a score of 4.15 out of 5.00 (4.16 in 2017) compared to 3.97 just five years ago.

81.9% of passengers surveyed rated their Heathrow experience ‘Excellent’ or ‘Very good’ (2017: 82.5%) illustrating the strength and resilience of our operations.



- Terminal 2: world’s ‘Best Airport Terminal’ (1st time)
- Best Airport in Western Europe (4th consecutive year)
- Best Airport in the world for Shopping (9th consec. year)

	2018	2017
ASQ	4,15	4,16
Baggage connection	98,8%	99,0%
Departure punctuality	77,6%	80,2%
Security queuing	96,8%	97,3%

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

You can find further information on Heathrow’s 2018 results in the following [link](#).

