Investor Report
June 2019

Heathrow (SP) Limited and Heathrow Finance plc

27 June 2019

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Basis of preparation

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This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the ‘Group’) for the period to 31 March 2019 and its passenger traffic for the period to 31 May 2019. It also contains forecast financial information derived from current management forecasts for Heathrow (SP) and its subsidiaries (the ‘Group’) for the whole of 2019.

Defined terms used in this document (other than in Appendix 5) have the same meanings as set out in the Master Definitions Agreement unless otherwise stated. Defined terms in Appendix 5 have the same meanings as set out either in the Master Definitions Agreement or in Heathrow Finance's facilities agreements and bond terms and conditions.

Any reference to “Heathrow” means Heathrow Airport or Heathrow Airport Limited (a company registered in England and Wales, with company number 1991017) and will include any of its direct or indirect parent companies, their subsidiaries and affiliates from time to time and their respective directors, representatives or employees and/or any persons connected with them from time to time, as the context requires.

Heathrow

Contents

1. Overview

This report sets out actual and forecast financial performance and ratios for Heathrow (SP) in 2018 and 2019 respectively, together with key business highlights. Additional information specific to Heathrow Finance is set out in Appendix 5.

We have revised our Adjusted EBITDA forecast for 2019 to £1,912 million, up 4.1% on 2018 including our expectation of slightly more muted growth than in 2018 as a result of the uncertainties surrounding BREXIT and the wider global economy. This excludes a reduced BREXIT contingency allowance. Despite this, we have upgraded our traffic forecast to 80.9 million compared to 80.6 million in the previous Investor Report, primarily as a result of higher seat capacity as airlines move to operating larger aircraft. Revenue is forecast to grow by 3.3% to £3,067 million compared to £2,970 million in 2018 with aeronautical revenue increasing by 4.6% and retail revenue by 3.6%. Revenue is marginally down compared to the previous Investor Report as we introduce the commercial airline deal. We forecast operating costs to increase 2.0% to £1,155 million in 2019 as we continue to invest in improving service levels, increased regulatory costs and investment in future growth, whilst reducing underlying operating costs per passenger in real terms. RAB is forecast to be £16.8 billion at the end of 2019 compared to £17.2 billion published in the previous investor report, due to the deferral of some capital spend into 2020 and a lower inflation forecast.

We have continued to overlay a BREXIT contingency to ensure that the business remains robust in all foreseeable circumstances. Confirmation of the aviation contingency plans and Heathrow's unique position in the European aviation market has seen us reduce the contingency allowance to £35 million from £114 million in the previous Investor Report. While we hope that this contingency will remain too prudent, we believe it is right to retain it given the ongoing uncertainty over Brexit. Including the reduced contingency, we forecast Adjusted EBITDA to be £1,877 million in 2019, up 2.2% compared to 2018, an improvement against the 3% decline in Adjusted EBITDA in the December Investor Report. We remain confident that BREXIT will not have a material impact on Heathrow airport even if the UK were to exit the EU without a deal.

The key historic and forecast financial ratios for 2018 and 2019 respectively comply with Trigger Event ratios. The 2019 forecast continues to include some debt reallocation between the ring-fenced group and Heathrow Finance as a first step as we build towards expansion. Related to this, Class B gearing has increased by around 1% compared to the previous Investor Report.

Since the previous Investor Report, our plans for expansion have substantially progressed. On 1 May 2019, the High Court dismissed all 26 grounds for review of the UK Government's Airports National Policy Statement. This confirmed the Court's view that the UK Government undertook a robust process. On 18 June 2019 we published our statutory Airport Expansion Consultation which sets out our draft preferred masterplan on the future layout of Heathrow airport, including completion of a new third runway in 2026 and future development of Heathrow through until approximately 2050. The masterplan sets out our proposals to deliver capacity for at least 115 million passengers by 2030 and at least 142 million by 2050. The consultation documents include our proposals for construction, surface access, future airport operations, economically managed growth, a preliminary environmental information report and proposals to deliver additional capacity prior to completion of the third runway. The consultation is open until 13 September 2019 and will seek public feedback on our proposals. Thereafter, we will analyse all feedback received and have regard to these views, as we refine our plans and prepare to submit our development consent order application in summer 2020. We remain on track to deliver a sustainable, affordable and financeable expanded airport.

2018 and 2019 forecast financial performance

(£m unless stated)	2018 (A)	2019 (F)	Change
Summary financials			
Revenue	2,970	3,067	3.3%
Adjusted EBITDA[(1)]	1,837	1,912	4.1%
BREXIT Contingency	-	35	N.A
Adjusted EBITDA[(2)]	1,837	1,877	2.2%
Cashflow from operations[(3)]	1,787	1,905	6.6%
Regulatory Asset Base (RAB)	16,202	16,763	3.5%
Nominal net debt			
Senior net debt	11,054	11,024	(0.3%)
Junior net debt	1,353	1,358	0.4%
Consolidated net debt	**12,407**	**12,382**	(0.2%)
Interest paid			
Senior interest paid	375	409	9.1%
Junior interest paid	100	76	(24.0%)
Total interest paid	**475**	**485**	2.1%
Ratios[(4)]			**Trigger**
Senior (Class A) RAR	68.2%	65.8%	72.5%
Junior (Class B) RAR	76.6%	73.9%	85.0%
Senior (Class A) ICR	3.72x	3.58x	1.40x
Junior (Class B) ICR	2.94x	3.02x	1.20x

(1) Pre BREXIT contingency and exceptional earnings before interest, tax, depreciation and amortisation
(2) Pre-exceptional earnings before interest, tax, depreciation and amortisation
(3) Adds back cash one-off items, non-recurring extraordinary items & exceptional items
(4) Ratios calculated using unrounded data and include the BREXIT contingency. Ratio definitions and calculations in Appendices 2 and 3

2. Business developments

Service standards

We sustained our position ahead of all major European hubs in the Airport Service Quality (ASQ) survey during the first three months of the year, achieving an average satisfaction score of 4.18 (out of 5.00) for the period. In addition, 82.6% of customers surveyed rated their Heathrow experience as 'Excellent' or 'Very Good', compared to 83.6% during the same period last year and just 50% during the same period in 2008. Our transformational journey has yet again been recognised by the industry as Terminal 5 is voted the "World's Best Airport Terminal" at the 2019 Skytrax World Airport Awards, with Terminal 2 close behind coming in as 4th. We were also named the 'Best Airport in Western Europe' for the fifth successive year and 'Best Airport for Shopping' for the tenth consecutive year.

Operational resilience remained strong despite pressures from record traffic numbers and airspace congestion in the first three months of 2019. In the period, 82.6% (2018: 80.4%) of flights departed within 15 minutes of schedule whilst the baggage connection rate was 99.0% (2018: 98.7%).

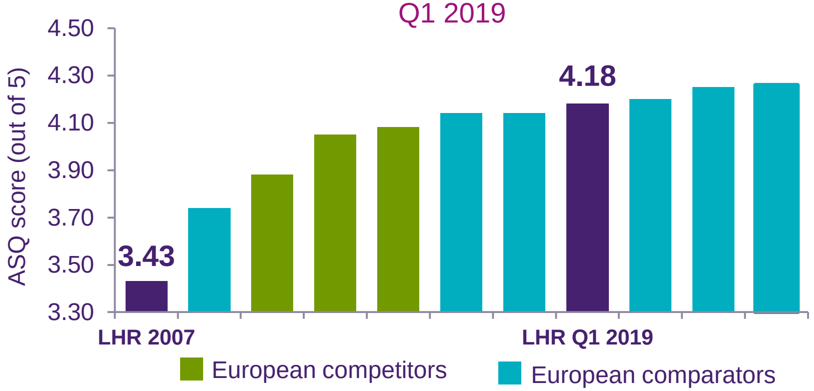
In the 12 months to 31 May 2019, rebates of £138 thousand were raised by Heathrow under the SQR scheme in relation to T2 stands.

Traffic

Our traffic increased 1.8% to 31.5 million (2018: 30.9 million) in the five months ended 31 May 2019. Traffic growth was driven by an increase in the number of flights and strong load factors. We have now achieved 31 consecutive months of record passenger numbers.

Intercontinental traffic saw strong growth on routes to North America, Latin America and Africa with additional flights to JFK, Dallas, Boston, Miami, Nashville, Brazil and Johannesburg. New routes by BA to Marrakesh, Seychelles and Durban will see more growth in Africa for the coming months. New and increased services to China helped boost the Asia Pacific market, whilst Singapore and Thailand services saw improvements in load factors. The suspension of operations by Jet Airways led to the loss of 127k passengers with some of these flying on alternative carriers but South Asia was down 64k passengers overall.

Passenger satisfaction European ranking
Q1 2019



Traffic and operating statistics

5 months to end May	2018	2019	Change
Traffic by market (m)			(%)
UK	1.9	**1.9**	(1.8)
Europe	12.8	**12.9**	0.4
North America	6.7	**7.1**	6.2
Asia Pacific	4.6	**4.6**	1.5
Middle East	3.1	**3.0**	(3.2)
Africa	1.3	**1.5**	9.1
Latin America	0.5	**0.6**	4.5
Total passengers (m)	30.9	**31.5**	**1.8**
ATM ('000)	193	**195**	+0.6
Seats per aircraft	212	**212**	0.0
Load factor (%)	75.5	**76.4**	0.9pts

Change and totals based on unrounded data. See Appendix 1 for quarterly traffic evolution.

2. Business developments

Capital Investment

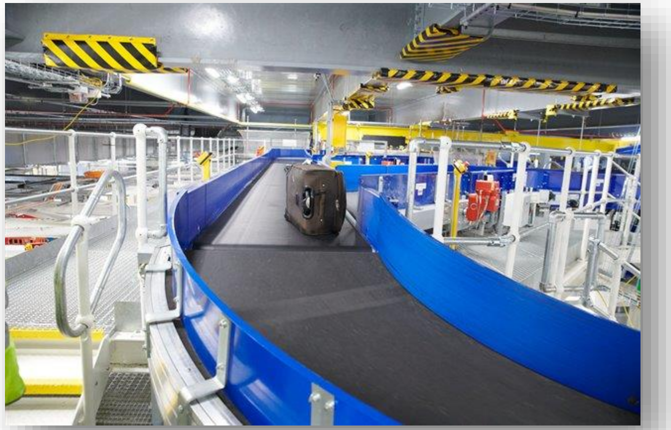
The current regulatory period ('Q6') was initially set to last from 1 April 2014 to 31 December 2018. In April 2018, the CAA confirmed that Q6 would need to be extended to the end of 2021 (details in "Regulatory developments" section). Expenditure in 2018 was £793 million including expansion related costs, lower than the £921 million in the previous Investor Report. The reduction in actual capital expenditure in 2018 reflects payment timing. As a result, capital expenditure over Q6 for the period ending 31 December 2018 fell slightly compared with the previous Investor Report with overall expenditure of £2.9 billion or £3.1 billion including expansion related costs.

Planned capital expenditure for 2019 has reduced to £627 million or £953 million including capital expenditure related to expansion. This compares to £696 million or £1,053 million including capital expenditure related to expansion in the previous Investor Report. Expansion related capital expenditure includes £196 million of Category B costs associated with the consent process and now also includes £130 million of Category C delivery costs predominately relating to early design costs which will ramp up once the CAA confirms treatment of Category C investment (expected no later than October this year).

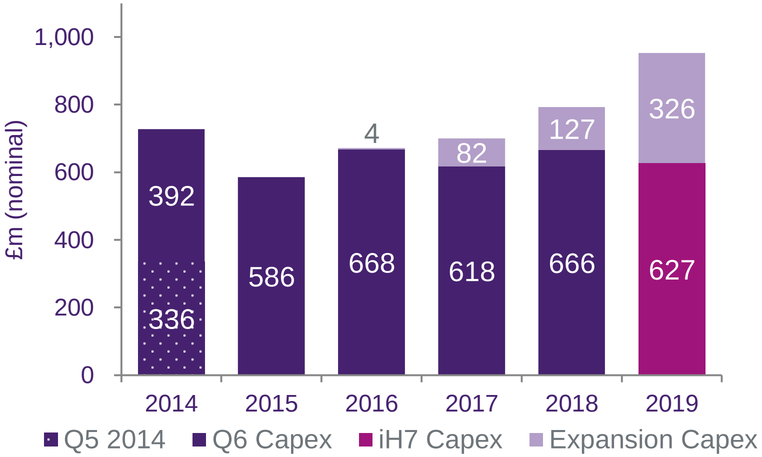
The 2019 capital expenditure forecast includes a continuation of spend on major projects such as Hold Baggage Screening – ensuring DFT compliance, Airfield Development (Kilo Apron) – improving aircraft maneuverability, a continuation of projects to enhance passenger experience across the airport, whilst ensuring resilience of operations by renewing assets that have come to the end of its economic life. In addition, as we progress our expansion plans, there will be preliminary spend on masterplan programmes to increase passenger capacity, in both the Central Terminal Area and Terminal 5 whilst still operating on the two-runway model.

The CAA is currently considering the commercial aviation deal agreed between most airlines and Heathrow airport to apply in iH7 and is yet to formally extend our licence beyond 31 December 2019. The CAA's consultation CAP1769 outlines its minded to decision that the commercial deal appears to be in the interest of consumers. Following industries views on its consultation, the CAA states that it will endorse the commercial deal and we expect the licence to be extended on this basis during the second half of 2019. As a result, this Investor Report only includes a capex forecast to the end of the currently confirmed regulatory period which ends on 31 December 2019.

Baggage screening area to be upgraded to the latest generation equipment



Forecast capital expenditure profile



Heathrow

2. Business developments

Heathrow Expansion

We remain committed to delivering Heathrow expansion responsibly through open and transparent consultation. Following on from 2 previous public consultations, we launched our statutory Airport Expansion Consultation on 18 June 2019. The consultation closes on 13 September 2019. We have assessed all feedback received to date and will assess the feedback received via this statutory consultation to finalise our masterplan as we prepare to submit our development consent order request in mid 2020. The current statutory consultation sets out our draft preferred masterplan and our growth in phases – from the opening of the new runway expected in 2026 to the completion of the masterplan in approximately 2050. Growth in infrastructure between 2026 and 2050 will align closely with forecast passenger growth. While we have adopted conservative growth forecasts, the phased capital expenditure programme will help us to maintain airport charges close to 2016 terms on average in real terms, helps airlines schedule and develop new routes, reduces operational disruption to minimise impact on the customer experience and provide flexibility to respond if passenger growth performs differently to our forecasts.

At each phase, we set out the infrastructure that will be required to accommodate estimated passenger numbers (million passengers per annum, or mppa). The phasing shown is indicative and represents key snapshots in time; the speed of delivery of infrastructure could be affected by changing passenger demand, affordability or other factors. We have phased our proposals as follows:

1) Up to around 2026. New north west runway completed including realignment of the M25, diversion of local roads and rivers and completion of surface water treatment requirements
2) 2030 (c. 115 million passengers). Partial completion of terminal facilities and satellite building, reconfigured cargo areas and some new hotels completed
3) 2035 (c. 130 million passengers). Additional terminal and satellite facilities, new parking areas and further airport related development including hotels
4) 2050 (c 140 million passengers). Completion of terminal facilities including demolition of Terminal 3 and transformation of the Central Terminal Area

In addition to providing details on our draft preferred masterplan, the Airport Expansion Consultation seeks feedback on a number of proposals including:

- **Heathrow's draft preferred masterplan for expansion:** our proposals for the future layout of the airport including the runway and other airport infrastructure such as terminals and road access;
- **Plans to operate the future airport:** how the future three runway airport will be operated, including important elements such as night flights, as well as how proposed additional flights before the new runway opens could be operated on our existing two runways;
- **Assessment of impacts of the airport's growth:** our preliminary assessment of the likely impacts of expansion on the environment and local communities; and
- **Plans to manage the impacts of expansion:** we will set out the airport's plans for mitigating the effects of expansion, including property compensation, our Noise Insulation Policy, a Community Fund, and measures to mitigate against air pollution, carbon, and other environmental effects.

One of the ways we plan to manage the impacts of expansion is through our Framework for Environmentally Managed Growth, which is part of this consultation. It sets out our proposals for how Heathrow's growth would be managed in accordance with environmental limits on air quality, surface access, noise and carbon, and supports growth in flights at the airport while ensuring Heathrow's environmental performance stays within maximum limits.

2. Business developments

Heathrow Expansion

Judicial Review

On 1 May 2019, the High Court published its judgements following the judicial review of the UK Government's Airports National Policy Statement. The High Court dismissed all 26 grounds for review with 21 held to be not arguable. The ruling provides further evidence that the debate in favour of Heathrow expansion is strong. Following the recent publication of our statutory Airport Expansion Consultation, we remain committed to delivering a sustainable, affordable and financeable expanded Heathrow airport and expect the first aircraft to operate on the new third runway in 2026. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. We also remain committed to maintaining our existing strong investment grade credit ratings throughout expansion. We are confident that we can expand the airport whilst delivering the Secretary of State challenge of keeping passenger charges close to 2016 levels in real terms.

Airspace Change Consultation

From January to March 2019, we held our Airspace and Future Operations Consultation, when we consulted on our future operations and airspace changes for an expanded Heathrow. We presented airspace design envelopes (the geographic areas where flight paths could be positioned in future) and asked for comment on any local factors we should consider when designing new flight paths to and from Heathrow. We also asked about the ways that we could operate the runways for an expanded Heathrow, including how we could provide breaks from aircraft noise through our initial proposals for runway and airspace alternation, along with how we should manage night flights in the future. The feedback received on future operations as part of this consultation has been analysed and is now summarised in our Future Operations Consultation Feedback Report.

For feedback received regarding airspace; we are currently reviewing the responses to our consultation on design envelopes earlier this year. We had over 20,000 suggestions of 'local factors' within the design envelopes. These are locations that respondents would like us to take into account when designing flight paths for an expanded Heathrow. These 'local factors' will be entered into a database alongside known locations, buildings and sites which are known to be sensitive to noise and we will consider the effect of flight path options on these when undertaking the Options Appraisal (Stage 2B of the CAA's Airspace Change Process). We will be publishing the report later this year.

Logistics Hubs

In March 2019 Heathrow announced the names and locations of the 18 shortlisted sites that remain in the running to be Heathrow's four logistics hubs, to help deliver the expanded airport. The sites were selected from a longlist of 65, all of which were visited during a nationwide tour which concluded in the summer of 2018. The longlisted locations were then all invited to take part in a pre-qualification questionnaire which helped to determine which sites were best placed to be involved in the delivery of the project. In the autumn, the 18 sites shortlisted will have the opportunity to pitch to the airport for their chance to become one of the final four centers, to be announced in 2020. The final four sites will become offsite construction centers that will help to deliver Britain's new runway bringing jobs and economic opportunities to every corner of the country as Heathrow looks to construct as much of the expanded airport offsite as possible. This innovative approach will also help to make the project safer, more affordable and sustainable – by transporting assembled components in consolidated loads.

3. Regulatory developments

iH7 Commercial Airline Deal

The CAA extended our economic license by one year to 31 December 2019, rolling over the Q6 price control conditions of RPI-1.5% for the additional year.

Following this decision, the CAA committed to a further extension to the end of 2021 to better align the next regulatory period (‘H7’) with the overall expansion timetable and related statutory process. This period encompassing 2020 and 2021 is known as iH7 (Interim H7).

We have offered a Commercial Agreement to the airline community for this period. The Agreement is built around overlaying rebates onto an extension of the existing RPI-1.5% path and regulatory framework. A significant proportion of the airlines have already signed the agreement. The CAA in principle supports the agreement as outlined in its consultation document CAP1769 as it considers that the Agreement is in the best interest of consumers. The CAA will make a formal decision on iH7 in July 2019.

The deal has been agreed with airlines as follows:

- 'Fixed' rebate of £260 million to all airlines
- Up to the first £50 million of the fixed rebate is accrued in 2019 with the remainder accrued in 2020 and 2021
- Payment of the fixed rebate to be spread over 4 years from accrual
- Additional volume based rebates if volumes increase above certain levels and protections if traffic falls below certain thresholds

Benefits of the deal include:

- Allows all parties to focus on H7
- Lenders continue to benefit from all existing regulatory protections
- Provides Heathrow with downside protection if traffic reduces as there will be an immediate rebate adjustment
- Lower prices for airlines and faster monetisation of the rebate for consumers
- Incentivises airlines to prioritise passenger growth over yield which will help to reduce traffic ramp up risk as new capacity is released


Consumers and Markets Group

Civil Aviation Authority

Economic regulation at Heathrow airport from January 2020: proposals for interim arrangements

CAP1769

4. Historical financial performance

This section summarises the results for the Group for the three months to 31 March 2019. A full description of performance is provided in the results published on 1 May 2019, available at the Investor Centre on heathrow.com.

Adjusted EBITDA

In the first three months of 2019, Adjusted EBITDA increased 1.0% to £406 million (2018: 402 million).

Revenue

In the first three months of 2019, revenue declined 0.1% to £679 million (2018: £680 million). This reflects a decrease of 1.0% in aeronautical income, an increase of 2.6% in retail income and a decline of 0.8% in other income. Aeronautical income fell due to our commercial airline deal as we offer improved value for our passengers. Whilst strong traffic growth boosted aeronautical revenue this was also offset by recoverable yield dilution experienced from airlines employing cleaner and quieter aircraft, as incentivisted by our landing tariff structure. Retail income, led by retail concessions, catering, and advertising benefitted from the strong traffic performance with a higher percentage of participating passenger, improved outlet offering and a greater utilization of our media sites.

Operating costs (excluding depreciation, amortisation and exceptional items)

In the first three months of 2019, operating costs declined 1.8% to £273 million (2018: £278 million). The decline in operating costs was driven by the adoption of IFRS 16 resulting in £13 million of lease costs now being reported below EBITDA, where they were previously presented as operating costs. Excluding the impact of IFRS 16, operating costs have increased, which was primarily driven by investment in safety, security, resilience and growth. In the period we increased our investment in our special assistance services, security costs to aid operational resilience while passenger numbers continue to increase and upgrading drone defence capabilities. Operating costs on a per passenger basis declined by 3.2%, and on a proforma basis increased by 1.5% maintaining a decline in real terms. This reflects our continued focus on cost efficiencies.

Regulatory Asset Base (RAB) and financial ratios

At 31 March 2019, the RAB was £16,149 million (31 December 2018: £16,202 million). At 31 March 2019, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 70.7% for senior debt and 79.1% for junior debt (31 December 2018: 68.2% and 76.6% respectively) compared with respective trigger levels of 72.5% and 85.0%.

Interest payable and paid

In the first three months of 2019, net finance costs before certain re-measurements were £154 million (2018: £187 million). Net external interest paid was £141 million (2018: £144 million).

Net debt (excluding debenture between Heathrow (SP) Limited and Heathrow Finance plc)

At 31 March 2019, nominal net debt was £12,771 million (31 December 2018: £12,407 million), comprising £12,131 million in bond issues, £1,125 million in other term debt and £364 million in index-linked derivative accretion and cash at bank and term deposits £849 million. Nominal net debt consisted of £11,418 million in senior net debt and £1,353 million in junior debt.

Existing Operating Leases

We applied IFRS 16 on 1 January 2019. At 31 December 2018, the value of Existing Operating Leases was £0. On 1 January 2019, the value of Existing Operating Leases was £446 million. Following the successful consent process, the capitalised value of Existing Operating Leases is excluded from our net debt covenant calculations.

5. Forecast financial performance

Adjusted EBITDA

Adjusted EBITDA in 2019 is forecast to increase 4.1% to £1,912 million (2018: £1,837 million). This reflects robust growth in aeronautical and retail income. We have adopted a conservative approach to our forecast for 2019 and included a contingency allowance of £35 million within EBITDA, this contingency is lower than we had reported in the previous investor report due to the confirmation of the aviation contingency plans. Post this adjustment, our forecast EBITDA for 2019 will increase 2.2% compared to 2018 to £1,877 million.

Traffic

In 2019, traffic is forecast to increase to 80.9 million passengers (2018: 80.1 million) including our expectation of slightly more muted growth than in 2018 as a result of the uncertainties surrounding BREXIT and the wider global economy. The expected traffic growth is driven by slightly higher movements with less handbacks and more adhoc flights being operated over summer. Load factors are also expected to grow versus last year.

Revenue

Revenue in 2019 is forecast to grow 3.3% to £3,067 million. Aeronautical income is forecast to increase 4.6% to £1,824 million (2018: £1,745 million), mainly reflecting the impact of higher passenger volumes and higher seat capacity, somewhat offset by the introduction of the commercial airline deal. Retail income is expected to grow 3.6% to £727 million (2018: £716 million). Retail revenue per passenger is expected to marginally increase to £8.99 (2018 : £8.92) which is higher than the previous Investor Report.

Operating costs (excluding depreciation, amortisation and exceptional items)

Operating costs in 2019 are forecast to increase 2.0% to £1,155 million (2018: £1,133 million). Primarily driven by driven by investment in safety, security, resilience, growth and underlying inflationary factors offset by our ongoing efficiency program and a £53m benefit after the application of IFRS16, where the lease costs are now reported below EBITDA. Operating costs on a per passenger basis are expected to increase to £14.28 compared to £14.14 in 2018. On a pro forma basis excluding the impact of IFRS16, operating costs on a per passenger basis are due to increase to £14.93.

Regulatory Asset Base

At the end of 2019, the RAB is forecast to be £16,763 million (2018: £16,202 million). This assumes capital expenditure of £953 million and average RPI of 2.6%.

Net debt and financial ratios

At 31 December 2019, nominal net debt is forecast to be £12,382 million (2018: £12,407 million). Net external interest paid is forecast to be £485 million in 2019 (2018: £475 million), as recent lower cost debt financing continues to replace more expensive legacy debt.

At 31 December 2019, the Regulatory Asset Ratio (RAR) is forecast to be 65.8% for senior debt and 73.9% for junior debt (31 December 2018: 68.2% and 76.6%), marginally higher than the previous forecasts published in December 2018. For the year ending 31 December 2019, the Interest Cover Ratio (ICR) is forecast to be 3.58x for senior debt and 3.02x for junior debt (2018: 3.72x and 2.92x).

The 2019 forecast includes some debt reallocation between the ring-fenced group and Heathrow Finance as a first step to build towards expansion. All current and forecast ratios are calculated based on applicable generally accepted accounting principles. All forecast financial ratios comply with Trigger Event ratios.

6. Financing matters

New financing and changes to facilities

Since the previous Investor Report was distributed on 20 December 2018, we have raised £1,385 million in debt financing bond demonstrating high investor confidence in Heathrow's credit strengths throughout expansion.

We also received strong support from our credit community as we completed a successful consent request to implement changes required as a result of IFRS16. As a result of the consent, the capitalized value of Existing Operating Leases as at 31 December 2018 is excluded from our net debt covenant calculations and disclosed for the first time in this report. There is no adjustment for any new operating leases executed from 1 January 2019 or interest cover calculations.

In March 2019, we raised a €650 million 15-year Class A bond maturing in 2034, further strengthening our liquidity in the EUR market. In the same month we also issued an €86 million Class A 20-year zero coupon bond. In April we issued a CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss franc issuance and further strengthening our position and liquidity in the Swiss market. Also in April we issued an 18-year USPP for £140 million which will draw down in July 2019. Heathrow Finance also raised £450 million in loan facilities, £200million of which has a delayed draw until 2020. On 1st April 2019 we repaid the £418million term loan which is due to be redrawn at the end of September 2019. In addition, the final facility raised by ADI Finance 2 Limited dated 6 July 2017 was migrated to Heathrow Finance plc in March 2019.

Debt maturities and repayments

Since the previous Investor Report was distributed on 20 December 2018, we repaid in full the outstanding of the 2019 bond issued by Heathrow Finance. We have also made scheduled EIB loan repayments of £11 million.

Hedging

Between publication of the previous Investor Report on 20 December 2018 and 27 June 2019, there has been no new index-linked hedging put in place. At 31 May 2019, the total notional value of such instruments was £6,519 million.

At 31 May 2019, 82% and 59% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2021 and 31 December 2026 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

6. Financing matters

Liquidity

The Security Group expects to have sufficient liquidity to meet all its obligations in full up to May 2021. The obligations include forecast capital investment, debt service costs, debt maturities and repayments and distributions. The liquidity forecast takes into account around £3.7 billion in committed but undrawn loan facilities, term debt and cash resources held at the Security Group and Heathrow Finance at 31 May 2019 and the expected operating cash flow over the period.

Historical and future restricted payments

The financing arrangements of the Security Group restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital; any redemptions or repurchase of share capital; and payments of fees, interest or principal on any intercompany loans.

Since the previous Investor Report was distributed on 20 December 2018, there have been gross restricted payments of £932 million (net restricted payments of £167 million). These payments primarily funded the £259 million of dividends paid to the Security Group's ultimate shareholders in December 2018 and March 2019, interest payments of £53 million on the debenture between Heathrow (SP) and Heathrow Finance in March 2019, interest payments of £2 million on loan facilities at ADIF2 in March 2019, the repayment of the Heathrow Finance 2019 bond £268 and net of £264 million of additional facilities at Heathrow Finance in May 2019.

In the remainder of 2019, net restricted payments of around £34 million are expected to be made out of the Group. These will fund dividend payments to the Group's ultimate shareholders and debt service on both the debenture between Heathrow (SP) and Heathrow Finance. This would take total expected net restricted payments out of the Group in 2019 to approximately £201 million which will fund the majority of forecast £400 million dividends to ultimate shareholders.

The Group continues to operate a framework that aims to maintain a buffer between actual leverage levels and relevant leverage trigger and covenant levels. The amount of restricted payments is considered with reference to the framework and the Group's ability to continue to access stable financial markets to provide its ongoing funding needs.

7. Corporate matters

Acquisitions, disposals and joint ventures

There have been no material acquisitions, disposals and joint ventures entered into related to any Obligor since the previous Investor Report was distributed on 20 December 2018.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 20 December 2018.

Board and management changes

On 30 January 2019, Fidel Lopez Soria resigned as a non-executive director of Heathrow Airport Holdings Limited and was replaced by Maria Casero. Ruth Kelly was appointed as an independent non-executive director of Heathrow Airport Holdings Limited on 8 April 2019.

Other than that outlined above, there have not been any other board or relevant management changes related to the obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 20 December 2018.

8. Confirmation

27 June 2019

To the Borrower Security Trustee, the Issuer, the Bond Trustee, each Rating Agency, and the Paying Agents

We confirm that each of the Ratios set out on page 4 has been calculated in respect of the Relevant Period or as at the Relevant Date for which it is required to be calculated under the Common Terms Agreement.

We confirm that the historical ratios have been calculated using, and are consistent with and have been updated by reference to, the most recently available financial information required to be provided by the Obligors under Schedule 2 (Covenants) of the Common Terms Agreement.

We confirm that all forward-looking financial ratio calculations and projections:

- have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
- are consistent and updated by reference to the most recently available financial information required to be produced by the Obligors under Schedule 2 (Covenants) of the Common Terms Agreement; and
- are consistent with the Applicable Accounting Principles (insofar as such Applicable Accounting Principles reasonably apply to such calculations and projections).

We also confirm that:

- no Default or Trigger Event has occurred and is continuing;
- the Group is in compliance with the Hedging Policy; and
- this Investor Report is accurate in all material respects.

Javier Echave

Chief Financial Officer

For and on behalf of LHR Airports Limited as Security Group Agent

Appendix 1 - Quarterly passenger traffic (2008 to 2019)

Heathrow passenger traffic and air transport movement evolution
Change versus previous year (totals and changes based on unrounded data)

Passengers (m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Jan-Mar	**15.4**	**14.4**	**14.6**	**15.0**	**15.7**	**16.0**	**16.0**	**16.4**	**16.8**	**17.2**	**17.7**	**17.9**
Change %	0.6	(6.4)	1.6	2.5	4.4	1.8	0.5	2.0	2.6	2.2	3.1	1.4
Apr-Jun	**17.1**	**16.8**	**15.5**	**17.9**	**17.9**	**18.4**	**19.0**	**19.2**	**18.9**	**20.0**	**20.4**	
Change %	(1.3)	(1.5)	(7.9)	15.3	0.4	2.9	3.2	0.7	(1.1)	5.4	2.1	
Jul-Sep	**18.6**	**18.6**	**19.5**	**19.8**	**19.4**	**20.4**	**20.6**	**21.4**	**21.6**	**21.9**	**22.5**	
Change %	(1.2)	0.3	4.4	1.5	(2.0)	5.5	0.7	3.9	0.9	1.7	2.4	
Oct-Dec	**15.9**	**16.0**	**16.1**	**16.8**	**17.0**	**17.5**	**17.7**	**18.0**	**18.4**	**18.9**	19.6	
Change %	(3.6)	1.1	0.7	3.8	1.6	2.7	1.3	1.9	1.8	3.0	3.4	
Full year	**66.9**	**65.9**	**65.7**	**69.4**	**70.0**	**72.3**	**73.4**	**75.0**	**75.7**	**78.0**	**80.1**	
Change %	(1.4)	(1.5)	(0.2)	5.5	0.9	3.4	1.4	2.2	1.0	3.1	1.4	
ATM ('000)	**473**	**460**	**449**	**476**	**471**	**470**	**471**	**472**	**473**	**474**	**476**	
Change %	(0.5)	(2.8)	(2.3)	6.0	(1.0)	(0.4)	0.2	0.3	0.2	0.2	0.3	

Heathrow

Appendix 2 - Computation of Interest Cover Ratios (1) (‘ICR’)

(See important notice on page 2 of this document)	**Trigger level**	**Year to 31 December 2018**	**Year to 31 December 2019**
		£m	**£m**
Cashflow from Operations (2)		1,787	1,905
Add back: Cash one-off, non-recurring extraordinary or exceptional items		-	-
Adjusted Cashflow from Operations		1,787	1,905
Less: corporation tax paid		(70)	(103)
Less: 2 per cent of Total RAB		(324)	(335)
Cash Flow (A)		**1,393**	**1,467**
Interest and equivalent recurring charges paid on Senior Debt (3)(4)			
Interest paid – existing Class A bonds and swaps		346	359
Interest paid – existing Class A EIB facilities		1	0
Interest paid – other Class A debt		20	26
Lease interest		-	18
Commitment fees on liquidity and revolving facilities		8	6
Total interest on Senior Debt (B)		**375**	**409**
Interest and equivalent recurring charges paid on Junior Debt (3)(4)			
Class B debt		100	76
Total interest on Junior Debt (C)		**100**	**76**
Total interest (D=B+C)		**475**	**485**
Senior ICR (A/B) (5)(6)	**1.40x**	**3.72x**	**3.58x**
Junior ICR (A/D) (5)(6)	**1.20x**	**2.94x**	**3.02x**

(1) 2019 figures are forecasts; values calculated on unrounded figures
(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 18
(3) Reconciliation of interest paid with interest payable is set out on page 18
(4) Excludes interest on debenture between Heathrow (SP) Limited and Heathrow Finance plc as this is not included in calculation of ratios under the Common Terms Agreement
(5) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid
(6) Ratios calculated on unrounded figures.

Heathrow

Appendix 2 - Computation of Interest Cover Ratios (1) – reconciling income statement to cash flow

(See important notice on page 2 of this document)	Year to 31 December 2018	Year to 31 December 2019
	£m	£m
Income		
Aeronautical income	1,745	1,824
Non-aeronautical income - retail	716	727
Non-aeronautical income - non-retail	509	516
Total income	**2,970**	**3,067**
Operating costs	1,133	1,155
Adjusted EBITDA(2)	**1,837**	**1,912**
Brexit Contingency	-	(35)
Adjusted EBITDA(3)	**1,837**	**1,877**
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Movement in capital expenditure creditors	-	50
Trade working capital	(35)	(3)
Pension	(15)	(19)
Cashflow from operations	**1,787**	**1,905**

	Year to 31 December 2019 (1)				Year to 31 December 2018
	Income statement incl amortisation(4)(5)	Less amortisation(4)	Less variation in accruals(4)	Cash flow	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	451	(49)	(43)	359	346
Interest paid – Class A EIB facilities	(0)	-	0	-	1
Interest paid and received – other Class A debt	28	(1)	(1)	26	20
Lease interest	18	-	-	18	-
Commitment fees on liquidity & RCFs (6)	8	(1)	(1)	6	8
Interest paid - Class B debt	37	(2)	41	76	100
Total interest	**542**	**(54)**	**(4)**	**485**	**475**

(1) 2019 figures are forecasts; values calculated on unrounded figures
(2) Pre BREXIT contingency and exceptional earnings before interest, tax, depreciation and amortisation
(3) Adjusted operating costs: operating costs excluding depreciation, amortisation and exceptional items.
(4) Excludes capitalised interest; Excludes interest on debenture between Heathrow (SP) Limited and Heathrow Finance plc as this is not included in calculation of ratios under the Common Terms Agreement
(5) Includes amortisation of refinancing fees and excludes accretion on Index Linked Swaps and bonds
(6) RCFs: Revolving Credit Facilities

Appendix 3 - Computation of Regulatory Asset Ratios (1) ('RAR')

(See important notice on page 2 of this document)	Trigger level	At 31 December 2018	At 31 December 2019
		£m	£m
Closing Heathrow RAB (A)		**16,202**	**16,763**
Senior Debt			
Class A Existing Bonds (closed prior to 27 June 2017)		10,145	9,872
Class A EIB facilities		29	12
Non - Existing Operating Lease debt		-	0
Other Class A debt		1,103	3,045
RPI swap accretion		488	334
Total Senior Debt (B)		**11,765**	**13,263**
Junior Debt			
Class B debt		1,353	1,358
Total Junior Debt (C)		**1,353**	**1,358**
Cash and cash equivalents (D)		(711)	(2,239)
Senior net debt (E=B+D)		**11,054**	**11,024**
Senior and junior net debt (F=B+C+D)		**12,407**	**12,382**
Senior RAR (E/A)[(2)(3)(4)]	**72.5%**	**68.2%**	**65.8%**
Junior RAR (F/A)[(2)(4)]	**85.0%**	**76.6%**	**73.9%**

(1) 2019 figures are forecasts; values calculated on unrounded figures
(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked accretion) to RAB (Regulatory Asset Base)
(3) Senior RAR does not take into account ability to reduce senior debt using undrawn junior debt under revolving credit facilities
(4) Ratios calculated on unrounded figures

Appendix 4 – Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 31 March 2019

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
C$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C$450m 3%	246	246	2021
US$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	214	214	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C$500m 3.25%	266	266	2025
CHF210 0.46%	0	161	2026
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
C$400m 3.4%	226	226	2028
£200m 7.075%	200	200	2028
A$175m 4.150%	96	96	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C$400m 3.872%	238	238	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	85	85	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	55	55	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	607	607	2039
£100m RPI +1.238%	111	111	2040
£750m 5.875%	750	750	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	85	85	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	164	164	2058
Total senior bonds	**10,778**	**10,939**	
Term debt	1,125	1,325	Various
Index-linked derivative accretion	364	364	Various
Revolving/working capital facilities	0	900	2021
Total other senior debt	**1,489**	**2,589**	
Total senior debt	12,267	13,528	
Heathrow (SP) Limited cash	**(849)**		
Senior net debt	11,418		

Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£75m RPI + 0.347%	0	75	2035
£75m RPI + 0.337%	0	75	2036
£180m RPI +1.061%	198	198	2036
£51m RPI + 0.419%	0	51	2038
£105m 3.460%	0	105	2038
£75m RPI + 0.362%	0	75	2041
Total junior bonds	**1,353**	**1,734**	
Junior revolving credit facilities	0	250	2021
Total junior debt	1,353	1,984	
Heathrow (SP) Limited group net debt	12,771		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£300m 4.75%	300	300	2024
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
Total bonds	**825**	**825**	
£75m	75	75	2020
£50m	50	50	2022
£150m	150	150	2024
£75m	75	75	2025
£185m	50	185	2026
£275m	150	275	2028
£75m	15	75	2030
£310m	0	310	2031
£52m	0	52	2034
Total loans	**565**	**1247**	
Total Heathrow Finance plc debt	1,390	2,072	
Heathrow Finance plc cash	**(36)**		
Heathrow Finance plc net debt	1,354		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	**12,267**	**13,528**
Heathrow (SP) Limited junior debt	**1,353**	**1,984**
Heathrow Finance plc debt	**1,390**	**2,072**
Heathrow Finance plc group debt	15,010	17,583
Heathrow Finance plc group cash	**(885)**	
Heathrow Finance plc group net debt	14,125	

Net debt is calculated on a nominal basis excluding intra-group loans and including index-linked accretion and includes non-Sterling debt at exchange rate of hedges entered into at inception of relevant financing

Heathrow

Appendix 5 – Additional information for Heathrow Finance plc creditors

(See important notice on page 2 of this document)	Covenant/Trigger level	As at or for year to 31 December 2018	As at or for year to 31 December 2019[1]
		£m	£m
Calculation of Group ICR[2]			
Cash Flow (A)		**1,393**	**1,466**
Interest			
Paid on Senior Debt (B)		375	409
Paid on Junior Debt (C)		100	76
Paid on Borrowings (D)		58	79
Group Interest Paid (E=B+C+D)		**533**	**564**
Group ICR (A/E)	**1.00x**	**2.62x**	**2.60x**
Calculation of Group RAR[3]			
Total RAB (F)		16,202	16,763
Net debt			
Senior Net Debt (G)		11,054	11,024
Junior Debt (H)		1,353	1,358
Borrower Net Debt (I)		1,573	2,010
Group Net Debt (J=G+H+I)		**13,980**	**14,392**
Junior RAR ((G+H)/F)[4]	**82.0%**	**76.6%**	**73.9%**
Group RAR (J/F)[4][5]	**92.5%**	**86.3%**	**85.9%**

(1) 2019 figures are forecasts
(2) ICR or Interest Cover Ratio is defined on page 17
(3) RAR or Regulatory Asset Ratio is defined on page 19
(4) Ratios calculated on unrounded data
(5) Covenant increased from 90% to 92.5% on the 4 March 2019

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