

Investor Report  
December 2019

# Heathrow (SP) Limited and Heathrow Finance plc

20<sup>th</sup> December 2019



Heathrow

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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 30 September 2019 and its passenger traffic for the period to 30 November 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 and 2020.

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# 1. Overview

This report sets out actual and forecast financial performance and ratios for Heathrow (SP) in 2019 and 2020 respectively, together with key business highlights. Additional information specific to Heathrow Finance is set out in Appendix 5.

Our final forecast for 2019 comprises of an Adjusted EBITDA forecast of £1,910 million, up 4.0% on 2018, remaining in line with our previous Investor Report. This excludes a BREXIT contingency allowance which we have reduced since the June Investor Report from £35 million to £9 million, due to confirmation of an extended aviation contingency plan and Heathrow's unique position in the European aviation market. All forecast ratios have been calculated inclusive of this allowance. 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 contingency, we forecast Adjusted EBITDA to be £1,901 million in 2019, up 3.5% on 2018. 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.

Our traffic forecast of 80.8 million, up 0.9 on 2018 and remains broadly in line with the 80.9 million in the previous Investor Report. The increase is a result of stronger load factors, increased seat capacity and slightly higher movements through a recovery of cancelled flights from last year and additional flights in the summer 2019 schedule.

In 2020 we forecast our Adjusted EBITDA to decline 2.7%, driven by a reduction in aeronautical revenue of 2.8% as we see the impact of the commercial airline deal materialise and per passenger charges fall from £22.68 in 2019 to £21.87 in 2020. We forecast operating costs to increase 3.6% to £1,206 million in 2020 as we continue to invest in the future growth of the business, whilst underlying operating costs per passenger remains in line in real terms. RAB is forecast to be £17.7 billion at the end of 2020, as we progress our expansion plans, invest in the growth of passenger capacity whilst still operating on the two-runway model and maintain the ongoing asset management programme of the existing airport estate.

The key forecast financial ratios for 2019 and 2020 respectively comply with Trigger Event ratios. Both the 2019 and 2020 forecasts continues to include some debt reallocation between the ring-fenced group and Heathrow Finance as a first step as we build towards expansion.

Since the previous Investor Report, our plans for expansion have substantially progressed. In September we had the conclusion of our statutory Airport Expansion Consultation which set out our draft preferred masterplan on the future layout of Heathrow airport, how we propose to operate and manage our growth including proposals to deliver additional capacity prior to completion of the third runway, and how we will deliver a sustainable, affordable and financeable expanded Heathrow at no cost to the taxpayer. We are currently analysing all feedback received and have regard to these views, as we refine our plans and prepare to submit our Development Consent Order ('DCO') application in 2020. In parallel with the ongoing development consent process, we continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports National Policy Statement – the appeal hearings for which are ongoing. Judicial reviews are common in infrastructure projects of this size. We remain totally confident in the robust process that has got us to this point, including the extensive evidence gathered by the independent Airports Commission, multiple rounds of public consultation and the overwhelming cross-party support of Parliament. Overall, the General Election result is positive for Heathrow. The business will now get certainty on Brexit and the Conservative's manifesto confirmed the new Government's support for expansion, subject to meeting environmental concerns. It is unlikely the Government will want to reopen difficult issues and their focus will likely be elsewhere in 2020. We will continue to move forward with the delivery of the project phase. The next milestone is the publication of our initial business plan over the next few weeks.

## 2019 and 2020 forecast financial performance

(£m unless stated)	2019	2020	Change
<b>Summary financials</b>			
Revenue	3,074	3,061	(0.4%)
Adjusted EBITDA <sup>(1)</sup>	1,910	1,855	(2.9%)
BREXIT Contingency	9	5	n.a
Adjusted EBITDA <sup>(2)</sup>	1,901	1,850	(2.7%)
Cashflow from operations <sup>(3)</sup>	1,872	1,941	3.7%
Regulatory Asset Base (RAB)	16,842	17,672	4.9%
<b>Nominal net debt</b>			
Senior net debt	11,113	10,764	(3.1%)
Junior net debt	1,358	1,424	4.9%
<b>Consolidated net debt</b>	<b>12,471</b>	<b>12,188</b>	<b>(2.6%)</b>
<b>Interest paid</b>			
Senior interest paid	377	362	(4.0%)
Junior interest paid	76	79	3.9%
<b>Total interest paid</b>	<b>453</b>	<b>441</b>	<b>(2.6%)</b>
<b>Ratios<sup>(4)</sup></b>			<b>Trigger</b>
Senior (Class A) RAR	66.0%	60.9%	72.5%
Junior (Class B) RAR	74.0%	69.0%	85.0%
Senior (Class A) ICR	3.79x	3.98x	1.40x
Junior (Class B) ICR	3.16x	3.27x	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 nine months of the year, achieving an average satisfaction score of 4.16 (out of 5.00) for the period. In addition, 82% of customers surveyed rated their Heathrow experience as 'Excellent' or 'Very Good', compared to 82% during the same period last year and just 65% during the same period in 2009.

Operational resilience remained strong despite pressures from record traffic numbers and operational disruption in the first nine months of 2019. In the period, 80.4% (2018: 78.3%) of flights departed within 15 minutes of schedule whilst the baggage connection rate was 99.0% (2018: 98.7%).

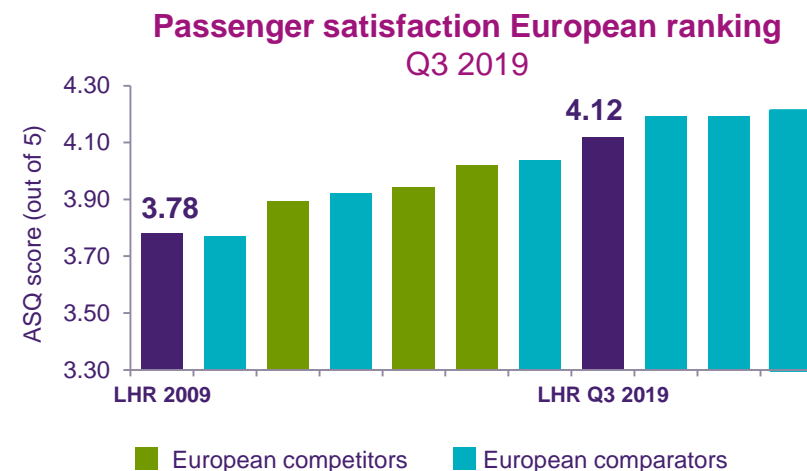
These scores are some of the best we have recorded and illustrate not only the strength and resilience of our operations but also the benefits of our continued investments. For instance, passengers are enjoying upgraded Wi-Fi facilities and a transformed immigration experience as a result of newly installed e-Gates.

In the 12 months to 30 November 2019, rebates of £755 thousand were raised by Heathrow under the SQR scheme in relation to T5 Track Transit and T2 Stands.

### Traffic

Our traffic increased 0.8% to 74.2 million (2018: 73.6 million) in the eleven months ended 30 November 2019. Traffic growth was driven by an increase in the number of flights as we look to maximize the use of runway slots within the 480,000 limit, and strong load factors which we aim to incentivise further increases through the volume based rebate element of the commercial airline deal. The average number of seats per passenger aircraft remained broadly in line with last year

Intercontinental traffic continues to be the key geographic driver of growth up 2.1% on last year driven by North America and Africa. Growth in North America is through increased load factors, flight frequency to a number of destinations such as Boston, Dallas and Phoenix, and new routes to Pittsburgh and Charleston. Growth in Africa traffic is a result of increased flight frequency to Johannesburg and new routes to Marrakesh, Seychelles and Durban. Short haul traffic recorded a slight decline of 0.6% with European traffic driving this. The decline is due to a loss in daily rotations for some carriers on selective routes.



### Traffic and operating statistics

11 months to end November	2018	2019	Change
<b>Traffic by market (m)</b>			(%)
UK	4.4	4.5	0.7
Europe	30.8	30.5	(0.8)
North America	16.7	17.3	3.8
Asia Pacific	10.6	10.5	(0.9)
Middle East	7.0	7.0	0.6
Africa	3.0	3.2	6.3
Latin America	1.2	1.3	2.6
<b>Total passengers (m)</b>	73.6	74.2	0.8
ATM ('000)	434	435	0.2
Seats per aircraft	213	213	0.1
Load factor (%)	79.5	79.9	0.4pts

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

# 2. Business developments

## Capital investment

Our economic license has been formally extended to 31 December 2021, this Investor Report therefore includes a capital expenditure forecast to the end of 2021.

Planned investment for 2019 has increased to £647 million or £1,028 million including capital expenditure related to expansion. This compares to £627 million or £953 million including capital expenditure related to expansion in the previous Investor Report. Expansion related capital expenditure includes £177 million of Category B costs associated with the consent process and includes £128 million of Category C delivery costs predominately relating to early design costs which will ramp up once we receive Development Consent Order approval, which is due to be submitted next year and has an 18 month turnaround window.

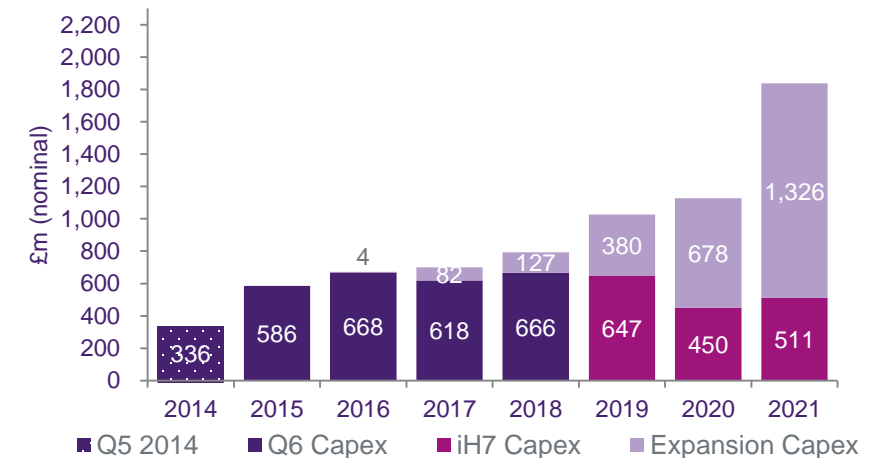
The 2020 capital expenditure forecast includes a continuation of spend on major projects such as Hold Baggage Screening – ensuring DFT compliance, Airfield Development (Kilo Apron) – improving aircraft maneuverability, Main and Cargo Tunnel works to ensure fire safety standards are maintained, and a 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 such as the purchasing of residential and commercial properties within the compulsory purchase zone, there will also 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.

Capital expenditure in 2021 continues to invest in maintaining and improving the asset base along with enhancing security through the regulated campus and terminal security programmes. In addition, we will continue to develop our expansion plans through further property investment and spend on increasing passenger capacity.

T5 Hold Baggage Screening replacement



Forecast capital expenditure profile



## 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 closed 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 to the completion of the masterplan in approximately 2050. Growth in infrastructure will align closely with forecast passenger growth. While we have adopted conservative growth forecasts, the phased capital expenditure programme will help us to reduce airfares materially while maintaining affordable airport charges, 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 opening the new runway. 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.

The draft preferred masterplan also 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.





# 3. Regulatory developments

## iH7 Commercial Airline Deal

To better align the next regulatory period ('H7') with the overall expansion timetable, 2016 the CAA has extended our economic licence 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, in November 2019 the CAA has formally extended our economic licence by a further two years to the end of 2021. This period encompassing 2020 and 2021 is known as iH7 (Interim H7).

For the iH7 period we have signed a Commercial Agreement with the airline community on the aeronautical charges to be applied. The Commercial Agreement is built around overlaying rebates onto an extension of the existing RPI-1.5% path and regulatory framework.

The commercial deal has been agreed with airlines as follows:

- 'Fixed' rebate of up to £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



Economic regulation of Heathrow Airport Limited  
from January 2020: notice of licence modifications

CAP1852





# 3. Regulatory developments

## Treatment of Category B and C capital expenditure

In July 2019, the CAA published a new consultation titled “Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable (CAP1819)”. In this document, the CAA consulted on the regulatory treatment of Category B costs, pre-DCO Category C costs and the timetable for H7. Regarding Category B and pre-DCO Category C costs, the CAA confirmed that these costs are in the interest of consumers and that efficiently invested costs should be added to the RAB and attract a financial return once the expenditure takes place. In addition, the CAA consults on what is the most appropriate allowed return for these costs in 2020 and 2021 and describes the next steps to formally give effect to its policy on these costs.

Following this consultation, in December 2019 the CAA published their near final decision for the regulation of Category B costs and its minded to decision on the regulatory treatment of pre-DCO Category C costs including the path of investment that best supports the interest of consumers. Regarding the regulatory framework for pre-DCO Category C costs and Category B costs, the CAA proposes different levels of financial return for these costs depending on the outcome of the DCO and the outturn level of these costs relative to allowed forecast. We will closely review and respond to the CAA’s consultation, whilst considering it in our plans.

The CAA’s announcement is an important milestone in expanding Heathrow and connecting all of Britain to global growth. It increases certainty for our local communities and the job creation, increased trade and lower airfares that expansion delivers. We will now review the detail to ensure it will unlock the initial £1.5 – 2 billion of private investment over the next two years at no cost to the taxpayer. Whilst this is a step forward, the CAA has delayed the project timetable by at least 12 months. We now expect to complete the third runway between early 2028 and late 2029.

Consumers and Markets Group



Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable



## 4. Historical financial performance

This section summarises the results for the Group for the nine months to 30 September 2019. A full description of performance is provided in the results published on 25<sup>th</sup> October 2019, available at the Investor Centre on [heathrow.com](http://heathrow.com).

### Adjusted EBITDA

In the first nine months of 2019, Adjusted EBITDA increased 6.3% to £1,459 million (2018: 1,372 million).

### Revenue

In the first nine months of 2019, revenue increased 4.1% to £2,302 million (2018: £2,211 million). This reflects an increase of 5.5% in aeronautical income, an increase of 3.1% in retail income and an increase of 0.8% in other income. Aeronautical revenue increased due to record passenger traffic coupled with yield concentration from a favourable mix of long-haul passengers and recovery of prior year yield dilution, although somewhat offset by the introduction of the commercial airline deal. Retail income, led by retail concessions and catering, benefitted from strong passenger traffic, the Pound weakening against both Euro and US Dollar, and more people choosing to participate in an improved outlet offering.

### Operating costs (excluding depreciation, amortisation and exceptional items)

In the first nine months of 2019, operating costs increased by 0.5% to £843 million (2018: £839 million). Following the adoption of IFRS 16, £37 million of lease costs are now being reported below EBITDA, where they would have prior been included in operating costs, above EBITDA. Operating costs excluding the application of IFRS 16 have increased by 4.9%, which was primarily driven by investment in security, resilience and passenger experience. We spent more on services for passengers with reduced mobility, upgrading drone defence capabilities, implementing new hold baggage screening, investing in our IT systems and higher consumption of utilities.

### Regulatory Asset Base (RAB) and financial ratios

At 30 September 2019, the RAB was £16,529 million (31 December 2018: £16,202 million). At 30 September 2019, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 69.5% for senior debt and 77.7% 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 nine months of 2019, net finance costs before certain re-measurements were £577 million (2018: £617 million). Net external interest paid was £468 million (2018: £476 million).

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

At 30 September 2019, nominal net debt was £12,844 million (31 December 2018: £12,407 million), comprising £12,070 million in bond issues, £1,459 million in other term debt, £395 million in index-linked derivative accretion and cash at bank and term deposits £1,080 million. Nominal net debt consisted of £11,487 million in senior net debt and £1,357 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 4.0% to £1,910 million (2018: £1,837 million) which is in line with the previous investor report. This reflects robust growth in aeronautical and retail income. In 2020, a lower yield per passenger due to the commercial airline deal and higher operating costs is expected to drive EBITDA down 2.9% to £1,855 million. We adopted a conservative approach to both our 2019 and 2020 forecasts and included a contingency allowance for BREXIT of £9 million and £5 million respectively. Post this adjustment, our forecast EBITDA for 2019 and 2020 is forecast to increase by 3.5% and reduce by 2.7% respectively.

## Traffic

For calendar year 2019, in the absence of disruption, traffic is expected to be 80.8 million, an increase of 0.9% compared to 2018 (2018: 80.1 million). This is a slight reduction in forecast from the 80.9 million published in the June 2019 report. In the 12 months to November 2019, traffic was 80.7 million which is on track to achieve the latest forecast by year end. The expected traffic growth is driven by stronger load factors, increased seat capacity and slightly higher movements through a recovery of cancelled flights from last year and additional flights in the summer 2019 schedule. In 2020, traffic is expected to grow further to 81.5 million as a result of an increase in average seats per movement and updates to short haul fleet.

## Revenue

Revenue in 2019 is forecast to grow 3.5% to £3,074 million (2018: £2,970 million). Aeronautical income is forecast to increase 5.0% to £1,833 million (2018: £1,745 million), reflecting higher passenger volumes, yield concentration from a favourable mix of long-haul passengers and recovery of prior year yield dilution, partially offset by the introduction of the commercial airline deal. Retail income is expected to grow 3.7% to £728 million (2018: £716 million) benefiting from strong volumes, the Pound weakening against the Euro and US Dollar, and an improved outlet offering. Retail revenue per passenger has risen from the previous forecast from £8.99 to £9.01 (2018: £8.94). In 2020 revenue is due to decrease to £3,061 million, driven by a 2.8% decrease in aeronautical revenues, a 1.3% increase in retail revenues and a 5.5% rise in non-retail revenues.

## Operating costs (excluding depreciation, amortisation and exceptional items)

Operating costs in 2019 are forecast to increase 2.8% to £1,164 million (2018: £1,133 million). Primarily driven by investment in security, resilience and passenger experience 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 £14.40 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 £15.06. In 2020 operating costs are forecast to increase to £1,206 million driven by investment in future growth although partially offset by efficiencies.

## Regulatory Asset Base

At the end of 2019 and 2020, the RAB is forecast to be £16,842 million and £17,672 million respectively (2018: £16,202 million). This assumes capital expenditure of £1,027 million and £1,128 million, and average RPI of 2.6% and 3.0% across the two years.

## Net debt and financial ratios

At 31 December 2019, nominal net debt is forecast to be £12,471 million (2018: £12,407 million) and £12,188 million at 31 December 2020. Net external interest paid is forecast to be £453 million in 2019 (2018: £475 million) and £441 million in 2020. At 31 December 2019, the Regulatory Asset Ratio (RAR) is forecast to be 66.0% for senior debt and 74.0% for junior debt (31 December 2018: 68.2% and 76.6%), in line with the previous forecasts published in June 2019. For the year ending 31 December 2019, the Interest Cover Ratio (ICR) is forecast to be 3.79x for senior debt and 3.16x for junior debt (2018: 3.72x and 2.94x). The 2019 and 2020 forecasts include 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 27 June 2019, we have raised £695 million in debt financing demonstrating high investor confidence in Heathrow's credit strengths throughout expansion.

In December we issued a £70 million equivalent Class A Private Placement with a scheduled repayment in 2039. This was denominated in JPY and represents Heathrow's 8th currency of issuance. In October we raised £75 million of Class B funding which remains undrawn. In August we raised £100 million in loan facilities at Heathrow Finance with £50 million remaining undrawn to be repaid in 2035. In November we issued a £300 million sterling bond at Heathrow Finance with a 10 year maturity being repaid in 2029. In December we also raised a further £150 million in loan facilities at Heathrow Finance which will be drawn in 2020 and have a maturity in 2029.

At the start of November we extended the maturity date on our Revolving Credit Facility by 2 years to November 2023.

Earlier in the year we 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.

## **Debt maturities and repayments**

Since the previous Investor Report was distributed on 27 June 2019, in July we had the redemption of our \$400m CAD bond, in August and December we made scheduled EIB loan repayments of £6.2 million, and in October and December we repaid £325 million of Heathrow Finance loans.

## **Hedging**

Between publication of the previous Investor Report on 27 June 2019 and 20 December 2019, there has been no new index-linked hedging put in place. At 30 November 2019, the total notional value of such instruments was £6,519 million.

At 30 November 2019, 80% and 58% 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 £4.1 billion in committed but undrawn loan facilities, term debt and cash resources held at the Security Group and Heathrow Finance at 30 November 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 27 June 2019, there have been gross restricted payments of £577 million (net restricted inflow of £72 million). These payments primarily funded the £200 million of dividends paid to the Security Group's ultimate shareholders in June and July 2019, interest and principle payments of £57 million on the debenture between Heathrow (SP) and Heathrow Finance in September 2019, and net of £324 million of proceeds received from additional facilities at Heathrow Finance.

In the remainder of 2019, net restricted payments of around £200 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 the debenture between Heathrow (SP) and Heathrow Finance. This would take total expected net restricted payments out of the Group in 2019 to approximately £269 million which will fund the majority of forecast £500 million dividends to ultimate shareholders.

In 2020 we are projected to have a net restricted inflow of approximately £276 million, mainly comprising regular dividend payments to the Group's ultimate shareholders of £400 million as well as interest payments on the debenture between Heathrow and Heathrow Finance offset by funds raised at Heathrow Finance.

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 27 June 2018.

## **Outsourcing**

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 27 June 2019.

## **Board and management changes**

There have not been any board or relevant management changes related to the obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 27 June 2019.



# 8. Confirmation

20 December 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
<b>Jan-Mar</b>	<b>15.4</b>	<b>14.4</b>	<b>14.6</b>	<b>15.0</b>	<b>15.7</b>	<b>16.0</b>	<b>16.0</b>	<b>16.4</b>	<b>16.8</b>	<b>17.2</b>	<b>17.7</b>	<b>17.9</b>
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
<b>Apr-Jun</b>	<b>17.1</b>	<b>16.8</b>	<b>15.5</b>	<b>17.9</b>	<b>17.9</b>	<b>18.4</b>	<b>19.0</b>	<b>19.2</b>	<b>18.9</b>	<b>20.0</b>	<b>20.4</b>	<b>20.8</b>
Change %	(1.3)	(1.5)	(7.9)	15.3	0.4	2.9	3.2	0.7	(1.1)	5.4	2.1	2.1
<b>Jul-Sep</b>	<b>18.6</b>	<b>18.6</b>	<b>19.5</b>	<b>19.8</b>	<b>19.4</b>	<b>20.4</b>	<b>20.6</b>	<b>21.4</b>	<b>21.6</b>	<b>21.9</b>	<b>22.5</b>	<b>22.2</b>
Change %	(1.2)	0.3	4.4	1.5	(2.0)	5.5	0.7	3.9	0.9	1.7	2.4	(1.1)
<b>Oct-Dec</b>	<b>15.9</b>	<b>16.0</b>	<b>16.1</b>	<b>16.8</b>	<b>17.0</b>	<b>17.5</b>	<b>17.7</b>	<b>18.0</b>	<b>18.4</b>	<b>18.9</b>	<b>19.6</b>	
Change %	(3.6)	1.1	0.7	3.8	1.6	2.7	1.3	1.9	1.8	3.0	3.4	
<b>Full year</b>	<b>66.9</b>	<b>65.9</b>	<b>65.7</b>	<b>69.4</b>	<b>70.0</b>	<b>72.3</b>	<b>73.4</b>	<b>75.0</b>	<b>75.7</b>	<b>78.0</b>	<b>80.1</b>	
Change %	(1.4)	(1.5)	(0.2)	5.5	0.9	3.4	1.4	2.2	1.0	3.1	1.4	
<b>ATM ('000)</b>	<b>473</b>	<b>460</b>	<b>449</b>	<b>476</b>	<b>471</b>	<b>470</b>	<b>471</b>	<b>472</b>	<b>473</b>	<b>474</b>	<b>476</b>	
Change %	(0.5)	(2.8)	(2.3)	6.0	(1.0)	(0.4)	0.2	0.3	0.2	0.2	0.3	

# Appendix 2 - Computation of Interest Cover Ratios (1) ('ICR')

<i>(See important notice on page 2 of this document)</i>	Trigger level	Year to 31 December 2019 <sup>(1)</sup>	Year to 31 December 2020 <sup>(1)</sup>
		£m	£m
Cashflow from Operations <sup>(2)</sup>		1,872	1,941
Add back: Cash one-off, non-recurring extraordinary or exceptional items		-	-
Adjusted Cashflow from Operations		1,872	1,941
Less: corporation tax paid		(103)	(146)
Less: 2 per cent of Total RAB		(337)	(353)
<b>Cash Flow (A)</b>		<b>1,432</b>	<b>1,442</b>
Interest and equivalent recurring charges paid on Senior Debt <sup>(3)(4)</sup>			
Interest paid – existing Class A bonds and swaps		376	307
Interest paid – existing Class A EIB facilities		-	-
Interest paid – other Class A debt		(6)	34
Lease interest		-	-
Commitment fees on liquidity and revolving facilities		7	21
<b>Total interest on Senior Debt (B)</b>		<b>377</b>	<b>362</b>
Interest and equivalent recurring charges paid on Junior Debt <sup>(3)(4)</sup>			
Class B debt		76	79
<b>Total interest on Junior Debt (C)</b>		<b>76</b>	<b>79</b>
<b>Total interest (D=B+C)</b>		<b>453</b>	<b>441</b>
<b>Senior ICR (A/B)<sup>(5)(6)</sup></b>	<b>1.40x</b>	<b>3.79x</b>	<b>3.98x</b>
<b>Junior ICR (A/D)<sup>(5)(6)</sup></b>	<b>1.20x</b>	<b>3.16x</b>	<b>3.27x</b>

(1) 2019 and 2020 figures are forecasts

(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.



# 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	Year to
	31 December 2019 <sup>(1)</sup>	31 December 2020 <sup>(1)</sup>
	£m	£m
<b>Income</b>		
Aeronautical income	1,833	1,781
Non-aeronautical income - retail	728	738
Non-aeronautical income - non-retail	513	542
<b>Total income</b>	<b>3,074</b>	<b>3,061</b>
<b>Operating costs<sup>(2)</sup></b>	<b>(1,164)</b>	<b>(1,206)</b>
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>1,910</b>	<b>1,855</b>
Brexit Contingency	(9)	(5)
<b>Adjusted EBITDA</b>	<b>1,901</b>	<b>1,850</b>
<b>Working capital and cash one-off non-recurring extraordinary or exceptional items</b>		
Trade working capital	(10)	112
Pension	(19)	(21)
<b>Cashflow from operations</b>	<b>1,872</b>	<b>1,941</b>

	Year to 31 December 2020 <sup>(1)</sup>			Year to 31 December 2019 <sup>(1)</sup>	
	Income statement incl amortisation <sup>(4)(5)</sup>	Less amortisation <sup>(4)</sup>	Less variation in accruals <sup>(4)</sup>	Cash flow	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	365	(55)	(3)	307	376
Interest paid – Class A EIB facilities	0	-	(0)	-	-
Interest paid and received – other Class A debt	37	(1)	(2)	34	(6)
Lease interest	-	-	-	-	-
Commitment fees on liquidity & RCFs <sup>(6)</sup>	23	(2)	(0)	21	7
Interest paid - Class B debt	81	(2)	0	79	76
<b>Total interest</b>	<b>506</b>	<b>(60)</b>	<b>(5)</b>	<b>441</b>	<b>453</b>

(1) 2019 and 2020 figures are forecasts; values calculated on unrounded figures

(2) Adjusted operating costs: operating costs excluding depreciation, amortisation and exceptional items.

(3) Pre BREXIT contingency and exceptional earnings before interest, tax, depreciation and amortisation

(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')

<i>(See important notice on page 2 of this document)</i>	Trigger level	At 31 December 2019 <sup>(1)</sup>	At 31 December 2020 <sup>(1)</sup>
		£m	£m
<b>Closing Heathrow RAB (A)</b>		<b>16,842</b>	<b>17,672</b>
<b>Senior Debt</b>			
Class A Existing Bonds (closed prior to 20 December 2019)		10,373	10,411
Class A EIB facilities		12	8
Non - Existing Operating Lease debt		-	-
Other Class A debt		1,977	2,752
RPI swap accretion		343	221
<b>Total Senior Debt (B)</b>		<b>12,705</b>	<b>13,392</b>
<b>Junior Debt</b>			
Class B debt		1,358	1,424
<b>Total Junior Debt (C)</b>		<b>1,358</b>	<b>1,424</b>
<b>Cash and cash equivalents (D)</b>		<b>(1,592)</b>	<b>(2,628)</b>
<b>Senior net debt (E=B+D)</b>		<b>11,113</b>	<b>10,764</b>
<b>Senior and junior net debt (F=B+C+D)</b>		<b>12,471</b>	<b>12,188</b>
<b>Senior RAR (E/A)<sup>(2)(3)(4)</sup></b>	<b>72.5%</b>	<b>66.0%</b>	<b>60.9%</b>
<b>Junior RAR (F/A)<sup>(2)(4)</sup></b>	<b>85.0%</b>	<b>74.0%</b>	<b>69.0%</b>

(1) 2019 and 2020 figures are forecasts

(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 30 September 2019

Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
<b>Senior debt</b>			
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	217	217	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%	161	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
AS\$175m 4.150%	96	96	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C\$400m 3.872%	239	239	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%	57	57	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	617	617	2039
£100m RPI +1.238%	113	113	2040
£750m 5.875%	750	750	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	86	86	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	168	168	2058
<b>Total senior bonds</b>	<b>10,713</b>	<b>10,713</b>	
Term debt	1,459	1,459	Various
Index-linked derivative accretion	395	395	Various
Revolving/working capital facilities	0	900	2021
<b>Total other senior debt</b>	<b>1,854</b>	<b>2,754</b>	
<b>Total senior debt</b>	<b>12,567</b>	<b>13,467</b>	
<b>Heathrow (SP) Limited cash</b>	<b>(1,080)</b>		
<b>Senior net debt</b>	<b>11,487</b>		

Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
<b>Junior debt</b>			
£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%	202	202	2036
£51m RPI + 0.419%	0	51	2038
£105m 3.460%	0	105	2038
£75m RPI + 0.362%	0	75	2041
<b>Total junior bonds</b>	<b>1,357</b>	<b>1,738</b>	
Junior revolving credit facilities	0	250	2021
<b>Total junior debt</b>	<b>1,357</b>	<b>1,988</b>	
<b>Heathrow (SP) Limited group net debt</b>	<b>12,844</b>		

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
<b>Total bonds</b>	<b>825</b>	<b>825</b>	
£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	30	75	2030
£302m	302	302	2031
£100m	0	100	2034
£300m	0	300	2035
<b>Total loans</b>	<b>882</b>	<b>1,587</b>	
<b>Total Heathrow Finance plc debt</b>	<b>1,707</b>	<b>2,412</b>	
<b>Heathrow Finance plc cash</b>	<b>(376)</b>		
<b>Heathrow Finance plc net debt</b>	<b>1,331</b>		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
<b>Heathrow (SP) Limited senior debt</b>	<b>12,567</b>	<b>13,467</b>
<b>Heathrow (SP) Limited junior debt</b>	<b>1,357</b>	<b>1,988</b>
<b>Heathrow Finance plc debt</b>	<b>1,707</b>	<b>2,412</b>
<b>Heathrow Finance plc group debt</b>	<b>15,631</b>	<b>17,867</b>
<b>Heathrow Finance plc group cash</b>	<b>(1,456)</b>	
<b>Heathrow Finance plc group net debt</b>	<b>14,175</b>	

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



# Appendix 5 – Additional information for Heathrow Finance plc creditors

<i>(See important notice on page 2 of this document)</i>	Covenant/Trigger level	As at or for year to 31 December 2019 <sup>(1)</sup>	As at or for year to 31 December 2020 <sup>(1)</sup>
		£m	£m
<b>Calculation of Group ICR<sup>(2)</sup></b>			
<b>Cash Flow (A)</b>		<b>1,432</b>	<b>1,442</b>
Interest			
Paid on Senior Debt (B)		377	362
Paid on Junior Debt (C)		76	79
Paid on Borrowings (D)		79	101
<b>Group Interest Paid (E=B+C+D)</b>		<b>532</b>	<b>542</b>
<b>Group ICR (A/E)</b>	<b>1.00x</b>	<b>2.69x</b>	<b>2.66x</b>
<b>Calculation of Group RAR<sup>(3)</sup></b>			
Total RAB (F)		16,842	17,672
<b>Net debt</b>			
Senior Net Debt (G)		11,113	10,764
Junior Debt (H)		1,358	1,424
Borrower Net Debt (I)		1,975	2,745
<b>Group Net Debt (J=G+H+I)</b>		<b>14,446</b>	<b>14,933</b>
<b>Junior RAR ((G+H)/F)<sup>(4)</sup></b>	<b>82.0%</b>	<b>74.0%</b>	<b>69.0%</b>
<b>Group RAR (J/F)<sup>(4)</sup></b>	<b>92.5%</b>	<b>85.8%</b>	<b>84.5%</b>

(1) 2019 and 2020 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

**Heathrow**