Investor Report
December 2018

# Heathrow (SP) Limited and Heathrow Finance plc

Heathrow

20 December 2018

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## Basis of preparation

This Investor Report (other than Appendix 5) is being distributed by LHR Airports Limited (as 'Security Group Agent') on behalf of Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (AH) Limited and Heathrow (SP) Limited ('Heathrow SP'), (together the 'Obligors' or 'the Security Group'), pursuant to the Common Terms Agreement. Appendix 5 is being distributed by Heathrow Finance plc ('Heathrow Finance') pursuant to the terms of Heathrow Finance's facilities agreements and its bond issuance maturing in 2019, 2025 and 2027.

This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the 'Group') for the period to 30 September 2018 and its passenger traffic for the period to 30 November 2018. 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.

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# Contents



# 1. Overview

This report sets out 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.

Our final forecast for 2018 comprises revenues of £2,959 million and Adjusted EBITDA of £1,825 million, representing modest upgrades from our previous Investor Report.

We expect traffic to grow to 80.6 million passengers in 2019, driven primarily by load factors increasing from 79.2% to 79.9%. Revenue is forecast to grow 4.3% to £3,085 million. Aeronautical revenue is forecast to grow 6% to £1,847 million, supported by both traffic growth and an increased maximum allowable yield per passenger of £22.91 up 4% from 2018.

We forecast EBITDA to continue to improve to £1,885 million, supported by revenue growth, offset by a 5.7% increase in operating costs to £1,200 million 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.

We have overlaid our forecast for 2019 above with a BREXIT contingency of £114 million to ensure that the business is robust in all circumstances, bringing EBITDA to £1,771 million. Since internal approval of this budget, we have been very encouraged that the EU and UK Governments have clarified that flights will continue and passengers will be able to fly even if the Withdrawal Agreement is not executed. In additional, the U.K. has also announced Air Service Agreements with key markets such as the U.S. While we hope that this contingency will prove to be too prudent, we believe it is right to leave it in given the ongoing uncertainty over Brexit.

We welcome the draft Withdrawal Agreement and the publication of the EU contingency plans for aviation which, subject to a reciprocal offer by the U.K., significantly reduces the risk of disruption in the event that there is no deal. Despite this, S&P Global Ratings recently affirmed our Class A and Class B issue credit ratings but revised the outlook to negative. Although S&P Global Ratings recognises our resilience, the negative outlook reflects the operational and financial risks related to the uncertainties surrounding the future U.K.- E.U relationship. It is disappointing that S&P Global Ratings has given no credit to mitigating actions such as a more moderate dividend policy or drawing of subordinated debt already available in the group, which can fully absorb the impact factored in S&P's Global Ratings worst-case. We remain confident that we can manage our financial position through BREXIT to meet S&P Global Ratings requirements to return to a stable outlook as soon as possible.

The key historic and forecast financial ratios for 2018 and 2019 respectively comply with Trigger Event ratios. The 2019 forecast includes some debt reallocation between the ring-fenced group and Heathrow Finance as a first step to build towards expansion.

Since the previous Investor Report, parliament voted overwhelmingly to back Heathrow expansion. We remain on track to deliver an affordable, financeable and sustainable expanded airport. 2019 will see us publish 2 consultations on our expansion plans. Our Airspace and Future Operations consultation will be held in early January while the second, in mid 2019 will request feedback on our draft Masterplan proposals.

## 2018 and 2019 forecast financial performance

| (£m unless stated) | 2018 | 2019 | Change |
|---|---|---|---|
| **Summary financials** | | | |
| Revenue | 2,959 | 3,085 | 4.3% |
| Adjusted EBITDA(1) | 1,825 | 1,885 | 3.3% |
| BREXIT Contingency | - | (114) | N.A |
| Adjusted EBITDA(2) | 1,825 | 1,771 | -3.0% |
| Cashflow from operations(3) | 1,808 | 1,791 | -0.9% |
| Regulatory Asset Base (RAB) | 16,448 | 17,158 | 4.3% |
| **Nominal net debt** | | | |
| Senior net debt | 11,128 | 11,015 | -1.0% |
| Junior net debt | 1,353 | 1,359 | 0.4% |
| **Consolidated net debt** | **12,481** | **12,374** | -0.9% |
| **Interest paid** | | | |
| Senior interest paid | 371 | 388 | 4.6% |
| Junior interest paid | 101 | 77 | -23.8% |
| **Total interest paid** | **472** | **465** | -1.5% |
| **Ratios(4)** | | | **Trigger** |
| Senior (Class A) RAR(5) | 67.7% | 64.2% | 72.5% |
| Junior (Class B) RAR | 75.9% | 72.1% | 85.0% |
| Senior (Class A) ICR | 3.78x | 3.49x | 1.40x |
| Junior (Class B) ICR | 2.97x | 2.92x | 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. Ratio definitions and calculations in Appendices 2 and 3
(5) Trigger increased from 70.0% to 72.5% on the 1 April 2018



Heathrow

# 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) over the period. In addition, 82% of customers surveyed rated their Heathrow experience as ‘Excellent’ or ‘Very Good’, compared to just 55% during the same 9 month period in 2008. Our transformation journey continues with the introduction of the Service Signatures programme with the aims of noticing and caring, sharing what we know and making things better.

Passengers have voted Terminal 2 as the “World’s Best Airport Terminal” at the 2018 Skytrax World Airport Awards. We were also named the ‘Best Airport in Western Europe’ for the fourth successive year and ‘Best Airport for Shopping’ for the ninth consecutive year. Our status as one of the best hub airports worldwide was further endorsed by OAG which named Heathrow as the Number 1 ‘most internationally connected airport in the world’ for 2018.

Operational resilience remained strong despite particularly adverse weather conditions, pressures from record traffic numbers and airspace congestion in the first 9 months of 2018. In the period, 78.3% (2017: 80.9%) of flights departed within 15 minutes of schedule whilst the baggage connection rate also slightly declined to 98.7% (2017: 99.0%).

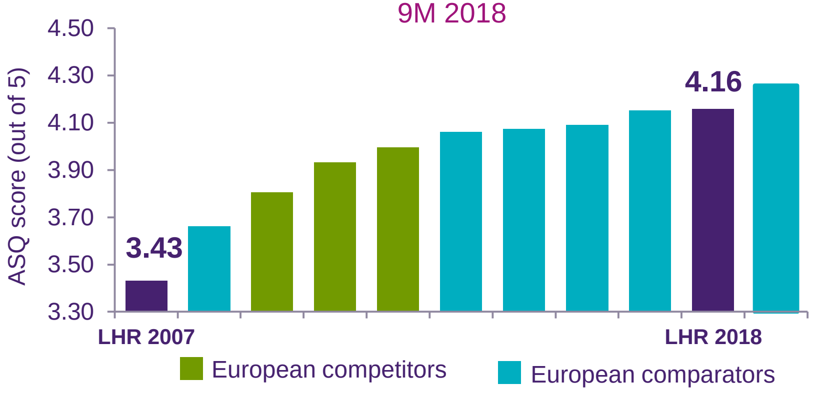
In the 12 months to 30 November 2018, no rebates were paid by Heathrow under the SQR scheme.

### Traffic

Our traffic increased 2.7% to 73.6 million (2017: 71.7 million) in the eleven months ended 30 November 2018. Traffic growth was driven by an increase in the number of flights and strong load factors. Heathrow has now achieved 25 consecutive months of record passenger numbers.

Intercontinental traffic saw strong growth on routes to the Asia Pacific and North America. Asia Pacific grew driven by our 6 new direct Chinese routes, and North America through increasing flight frequency and aircraft size to a number of destinations including Phoenix, Miami, New York and San Francisco. European traffic recorded further growth in load factors, especially on routes to Istanbul, Rome, Amsterdam and Barcelona, reflecting the success of our pricing strategy aiming to boost European and domestic connectivity.

**Passenger satisfaction European ranking**
9M 2018




**Traffic and operating statistics**

| 11 months to end November | 2017 | 2018 | Change |
|---|---|---|---|
| **Traffic by market (m)** | | | (%) |
| UK | 4.4 | **4.4** | 0.4 |
| Europe | 30.0 | **30.8** | 2.5 |
| North America | 16.0 | **16.7** | 4.4 |
| Asia Pacific | 10.3 | **10.6** | 2.6 |
| Middle East | 6.9 | **7.0** | 0.6 |
| Africa | 2.9 | **3.0** | 4.9 |
| Latin America | 1.2 | **1.2** | 4.2 |
| **Total passengers (m)** | 71.7 | **73.6** | **2.7** |
| ATM (‘000) | 436 | **437** | +0.2 |
| Seats per aircraft | 211 | **212** | 0.2 |
| Load factor (%) | 77.9 | **79.5** | 2.0pts |

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

# 2. Business developments

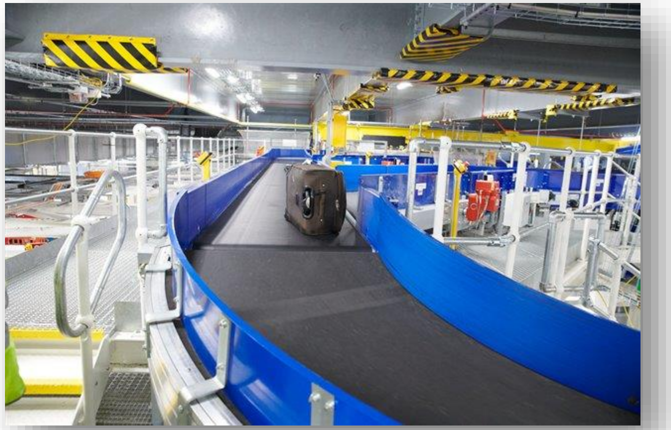
### Capital Investment

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). Capital expenditure over Q6 for the period ending 31 December 2018 remains broadly in line with the previous Investor Report with overall expenditure of £3.0 billion or £3.3 billion including expansion related costs. Expenditure in 2018 is in line with the previous Investor Report at £921 million including expansion related costs.

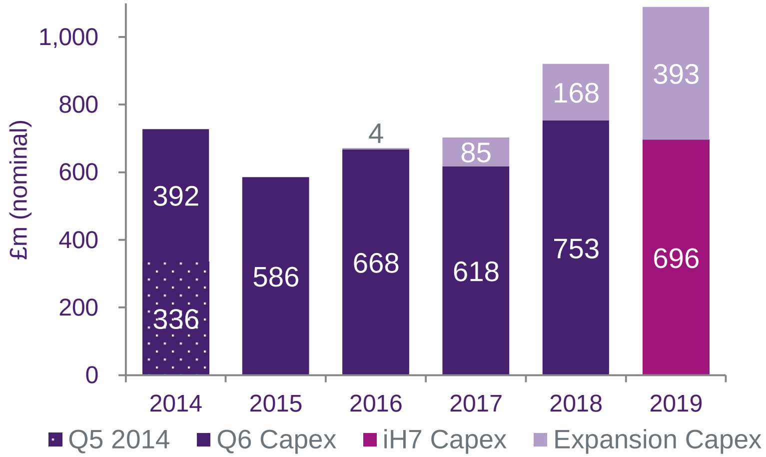
Planned capital expenditure for 2019 has increased to £696 million or £1,089 million including capital expenditure related to expansion. This compares to £650 million or £850 million including capital expenditure related to expansion in the previous investor report. Expansion related capital expenditure includes £201 million of category B costs associated with the consent process and now also includes £191 million of Category C delivery costs predominately relating to early design costs.

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, since the previous Investor Report parliament voted overwhelmingly to back Heathrow expansion, and to prepare for it 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.

**Baggage screening area to be upgraded to the latest generation equipment**



**Forecast capital expenditure profile**




Heathrow

# 2. Business developments

## Heathrow Expansion

We continue to make significant progress in expanding the airport following June's overwhelming vote in Parliament in favour of the Airport's National Policy Statement ('NPS'). Initial ground surveys at 650 sites across the land required for the project are already underway and the airport is moving towards confirming its preferred masterplan. We have incorporated feedback from a successful initial public consultation earlier this year, and will hold two consultations in 2019 to seek further views on our plans. Our Airspace and Future Operations consultation will be held in early 2019, as the UK government addresses airspace congestion and progresses the redesign of UK and European airspace for the 21st century. This will be followed by a consultation in mid 2019 where we will seek feedback on our preferred masterplan and how we will manage and mitigate the effects of our growth. After reviewing and assessing feedback from next year's consultations, we will prepare a final masterplan and submit a development consent order application to the Planning Inspectorate in 2020, kick-starting an approval process which will take 18 months. Once development consent is granted, the new runway is expected to open in 2026.

On 26 November 2018, we launched our prequalification process to determine which of the 65 longlisted Logistics Hub sites will be shortlisted for the final procurement process to select the final four sites next year. Each of the 65 sites offer their own unique elements to the project, from their location, transport links, local skills and supply chain, size, regional expertise and business plans. Heathrow will be the first major infrastructure project in the UK to pioneer the large-scale use of Logistics Hubs – aiming to build as much of the project offsite as possible. The hubs will work by pre-assembling components offsite before transporting them to Heathrow just as they are needed. This method will boost the project's efficiency and cut emissions by transporting components to site in consolidated loads, which will minimise the number of journeys required. At the same time, we are currently receiving business cases from the 37 shortlisted innovation partners and will shortly be commencing our evaluation process.

# 2. Business developments

**Heathrow Expansion**

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. We are also committed to maintaining our existing strong investment grade credit ratings throughout expansion. We are confident that we can expand the airport whilst delivering the SoS challenge of keeping passenger charges close to 2016 levels in real terms.

Expanding Heathrow will unlock billions of pounds in growth, create tens of thousands of new skilled jobs across the UK, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations.

In parallel with the ongoing development consent process outlined above, we will continue to support the government on the judicial review proceedings relating to the Airport's NPS – the hearing of which has now been set for March 2019. Securing consent for large-scale infrastructure projects often involves judicial review and Heathrow remains fully confident that the Government's decision-making process was robust.

To date, there have been no successful challenges against the designation of a NPS.

# 2. Business developments

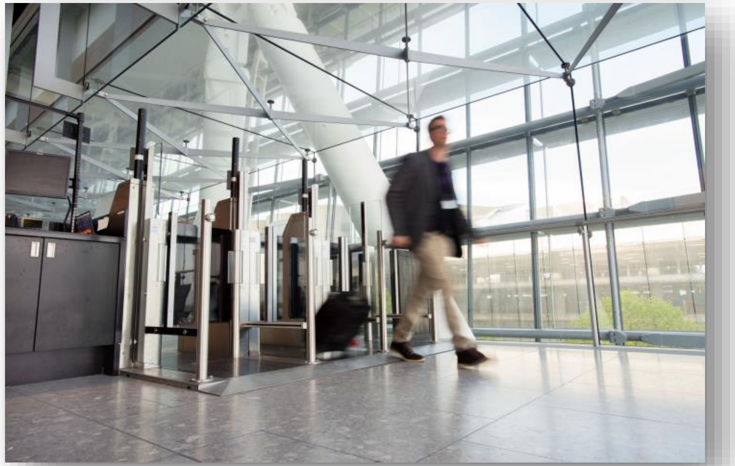
### Brexit

We continue to monitor progress of Article 50 negotiations and welcome the draft Withdrawal Agreement, which has been approved by the UK cabinet and the EU and is now in the ratification stage with UK and EU Parliaments. However, regardless of Brexit, the EU recently published further details for contingency planning for aviation that ensure – in a no deal scenario and subject to a reciprocal offer by the U.K.– that UK airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for 'EU One Stop Aviation Security Regime'. While these contingency arrangements are only intended to be in place until the end of 2019, if enacted, we anticipate that there will be very little, if any, impact on flights in the event that MPs vote against the Withdrawal Agreement.

Separately, the UK Government is continuing work to implement replacement Air Service Agreements for the 17 countries which are currently covered by the UK's membership of the EU. The Government has already indicated that a number of these ASA's, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASA's, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

We have a unique position as we are UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have taken an extremely responsible approach to both operational and financial planning for 2019. Extensive operational contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we have raised close to £2.3 billion from global investors in 2018. This extends our liquidity horizon until March 2021 and ensures that Heathrow has sufficient financial firepower to cope with a no-deal Brexit and still meet its obligations – including progressing our expansion plans.

**Self-boarding gates extend automation across the passenger journey**





Heathrow

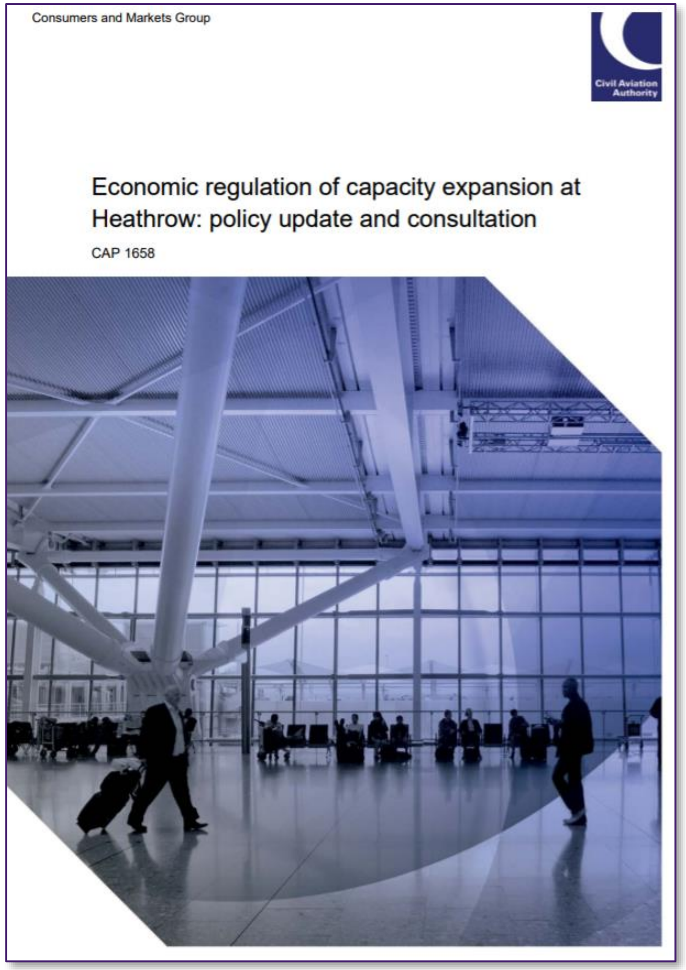
# 3. Regulatory developments

**Q6 extension**

In December 2016, the CAA issued a formal notice to modify our economic licence by extending our current regulatory period by one year to 31 December 2019, rolling over the current price control conditions of RPI-1.5% for the additional year.

Following this decision, the CAA indicated that further extensions may be needed to better align the next regulatory period (‘H7’) with the overall expansion timetable and related statutory process. In 2017, the regulator committed to a further extension of Q6 by at least an additional year to the end of 2020. In April 2018, the CAA eventually confirmed that Q6 would need to be extended to the end of 2021. This period therefore encompasses 2020 and 2021 and is called iH7 (Interim H7). The CAA has decided to roll forward the current price control conditions of RPI-1.5% for 2020 and 2021 resulting in revised underlying revenue requirements via updated forecasts for operating costs, commercial revenue, traffic and observable components of the cost of capital such as the cost of new debt and corporation tax.

The CAA expects to finalise the methodology and economic terms for the iH7 period over 2019 leading to a formal license modification scheduled for the last quarter of 2019. A final decision on the economic terms of iH7 will be made in 2019.


Consumers and Markets Group

Civil Aviation Authority

Economic regulation of capacity expansion at Heathrow: policy update and consultation

CAP 1658

# 4. Historical financial performance

This section summarises the results for the Group for the nine months to 30 September 2018. A full description of performance is provided in the results published on 26 October 2018, available at the Investor Centre on heathrow.com.

**Adjusted EBITDA**

In the first nine months of 2018, Adjusted EBITDA increased 1.9% to £1,372 million (2017: £1,347 million).

**Revenue**

In the first nine months of 2018, revenue increased 2.3% to £2,211 million (2017: £2,161 million). This reflects an increase of 1.5% in aeronautical income, 5.7% in retail income and 0.8% in other income. Aeronautical income was boosted by strong traffic growth and higher headline tariff although slightly offset through yield dilution experienced from the success of our landing tariff structure employing cleaner and quieter aircraft. Retail income, led by retail concessions and catering, benefitted from the strong traffic performance, increased dwell in the departure lounge our to our call to gate initiative and the roll out of new additional digital capabilities on Heathrow boutique, allowing customers to reserve and collect their shopping.

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

In the first nine months of 2018, operating costs increased 3.1% to £839 million (2017: £814 million). Operating cost increases were primarily driven by higher expansion and security costs and increased investment in our special assistance services and resilience. In the earlier part of the period Heathrow spent over £5 million in ensuring operational resilience during one of the worst winters in recent years. Operating costs on a per passenger basis increased by 0.6% showing a decline in real terms reflecting Heathrow's continued focus on cost efficiencies.

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

At 30 September 2018, the RAB was £16,108 million (31 December 2017: £15,786 million). At 30 September 2018, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 70.8% for senior debt and 79.1% for junior debt (31 December 2017: 67.3% and 78.4% respectively) compared with respective trigger levels of 72.5% and 85.0%.

**Interest payable and paid**

In the first nine months of 2018, net finance costs before certain re-measurements were £617 million (2017: £619 million). Net external interest paid was £375 million (2017: £397 million).

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

At 30 September 2018, nominal net debt was £12,749 million (31 December 2017: £13,674 million), comprising £11,386 million in bond issues, £724 million in other term debt, £320 million outstanding in the revolving credit facilities and £447 million in index-linked derivative accretion and cash at bank and term deposits £128 million. Nominal net debt consisted of £11,398 million in senior net debt and £1,351 million in junior debt.

# 5. Forecast financial performance

### Adjusted EBITDA

Adjusted EBITDA in 2018 is forecast to increase 3.7% to £1,825 million (2017: £1,760 million) which is slightly higher than the previous investor report. This reflects continued robust growth in retail income and higher aeronautical income. In 2019, further traffic growth and higher yield per passenger is expected to drive EBITDA up 3.3% to £1,885 million. However, we have adopted a conservative approach to our forecast for 2019 and included a contingency allowance of £114 million within EBITDA. Post this adjustment, our forecast EBITDA for 2019 will reduce 3.0% compared to 2018 to £1,771 million.

### Traffic

In the 12 months to November 2018, traffic was 79.9 million compared to 79.0 million in the previous forecast for calendar year 2018. For calendar year 2018, in the absence of disruption, traffic is expected to be close to 79.9 million, an increase of 2.4% compared to 2017(2017: 78.0 million). The expected traffic growth is driven by strong load factor, increased seat capacity and slightly higher movements. The increased forecast partly reflects the upgraded outlook for UK GDP growth in 2018. In 2019, traffic is expected to grow further to 80.6 million driven primarily by a further increase in load factors.

### Revenue

Revenue in 2018 is forecast to grow 2.6% to £2,959 million. Aeronautical income is forecast to increase 1.5% to £1,742 million (2017: £1,716 million), mainly reflecting the impact of higher passenger volumes and inflation. Retail income is expected to grow 6.6% to £702 million (2017: £659 million) benefitting from higher airside passenger participation and higher spend per participating passenger. Retail revenue per passenger has increased from the previous forecast of £8.71 to £8.78 per passenger (2017 : £8.44). In 2019 revenue is forecast to increase to £3,085 million, supported by a 6% increase in aeronautical revenues and a 2.1% increase in retail revenues.

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

Operating costs in 2018 are forecast to increase slightly to £1,135 million (2017: £1,124 million). Operating costs on a per passenger basis reduced to £14.21 compared to £14.41 in 2017. In 2019 operating costs are forecast to increase 5.7% to £1,200 million primarily driven by pass through regulatory cost increases, Heathrow express, investment in future growth and systems and underlying inflationary factors offset by our ongoing efficiency program, whilst underlying costs are forecast to remain flat yoy on real terms.

### Regulatory Asset Base

At the end of 2018 and 2019, the RAB is forecast to be £16,448 million and £17,158 million respectively (2017: £15,786 million). This assumes capital expenditure of £921 million and £1,089 million and average RPI of 3.4% and 3.1% across the two years.

### Net debt and financial ratios

At 31 December 2018, nominal net debt is forecast to be £12,481 million (2017: £12,372 million) and is forecast to be £12,374 million at 31 December 2019. Net external interest paid is forecast to be £472 million in 2018 to £465 million in 2019, as recent lower cost debt financing continues to replace more expensive legacy debt.

At 31 December 2018, the Regulatory Asset Ratio (RAR) is forecast to be 67.7% for senior debt and 75.9% for junior debt (31 December 2017: 67.3% and 78.4%), marginally lower than the previous forecasts published in June 2018. For the year ending 31 December 2018, the Interest Cover Ratio (ICR) is forecast to be 3.78x for senior debt and 2.97x for junior debt (2017: 3.47x and 2.76x).

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 27 June 2018, we have raised £1,631 million in debt financing. In July 2018 we raised £255 million in Class B private placements which mature between 2036 and 2041. We have further built upon our strong position and liquidity in the Canadian market with a CAD400 million 12 year bond issuance in August 2018. This was the first issuance by a UK based company with a maturity date beyond 10 years. In September 2018 we issued an AUD 175 million 10 year Class A bond which was our debut issuance in the Australian market and a £55 million Class A US private placement due 2043. In October 2018 Heathrow Finance issued a £300 million 5.5 year bond. Finally, in November 2018 we also raised another £200 million via a 10 year Class A term loan facility with Export Development Canada (‘EDC’), the Canadian Export Credit Agency with a 12 month availability period. Heathrow Finance also raised £487 million in loan facilities which will be drawn between 2018 and 2020.

### Debt maturities and repayments

Since the previous Investor Report was distributed on 27 June 2018, we permanently repaid £50 million and temporarily repaid £150 million of debt at Heathrow Finance Limited in July 2018. In September 2018, we repaid a £400 million bond issued by Heathrow Funding Limited.

### Hedging

Since the previous Investor Report was distributed on 27 June 2018 to 19 December 2018, Heathrow Funding has extended just over £265 million notional of index-linked swaps, previously maturing between 2021 and 2025, by up to 17 years. Additionally, Heathrow entered into £700 million notional of two year forward starting index-linked swaps with a 10 and 15 year tenor. At 30 November 2018, the total notional value of such instruments was £5,019 million.

At 30 November 2018, 86% and 62% 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 March 2021. The obligations include forecast capital investment, debt service costs, debt maturities and repayments and distributions. The liquidity forecast takes into account around £3.1 billion in committed but undrawn loan facilities, term debt and cash resources held at the Security Group and Heathrow Finance at 30 November 2018 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 2018, there have been gross restricted payments of £468 million (net restricted payments of £68 million). These payments primarily funded the £213 million of quarterly dividends paid to the Security Group's ultimate shareholders in June and July 2018, interest payments of £54 million on the debenture between Heathrow (SP) and Heathrow Finance in September 2018, interest payments of £2 million on loan facilities at ADIF2 in September 2018 and temporary repayment of £50 million and permanently repayment £150 million of loan facilities at Heathrow Finance in July 2018.

In the remainder of 2018, approximately £159 million in restricted payments are expected to be made out of the Security Group to fund dividend payments to the Group's ultimate shareholders although this will be largely offset by the receipt of £150 million arising from redrawing £150 million of the Heathrow Finance loan facilities that were temporarily repaid earlier in 2018 as noted above. This will result in aggregate net restricted payments in 2018 being approximately £161 million.

Net restricted payments in 2019 are projected to be 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 (SP) and Heathrow Finance and external debt held at ADIF2, 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 2018.

### Board and management changes

On 26 September 2018, Benjamin Bao resigned as a director of Heathrow Airport Holdings Limited and FGP Topco Limited. David Xie replaced him as a director of these companies.

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 27 June 2018.

# 8. Confirmation

20 December 2018

*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 2018)

**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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Jan-Mar** | **15.4** | **14.4** | **14.6** | **15.0** | **15.7** | **16.0** | **16.0** | **16.4** | **16.8** | **17.2** | **17.7** |
| Change % | 0.6 | -6.4 | 1.6 | 2.5 | 4.4 | 1.8 | 0.5 | 2.0 | 2.6 | 2.2 | 3.1 |
| **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** | |
| Change % | -3.6 | 1.1 | 0.7 | 3.8 | 1.6 | 2.7 | 1.3 | 1.9 | 1.8 | 3.0 | |
| **Full year** | **66.9** | **65.9** | **65.7** | **69.4** | **70.0** | **72.3** | **73.4** | **75.0** | **75.7** | **78.0** | |
| Change % | -1.4 | -1.5 | -0.2 | 5.5 | 0.9 | 3.4 | 1.4 | 2.2 | 1.0 | 3.1 | |
| **ATM ('000)** | **473** | **460** | **449** | **476** | **471** | **470** | **471** | **472** | **473** | **474** | |
| Change % | -0.5 | -2.8 | -2.3 | 6.0 | -1.0 | -0.4 | 0.2 | 0.3 | 0.2 | 0.2 | |



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# 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] | | 1,808 | 1,791 |
| Add back: Cash one-off, non-recurring extraordinary or exceptional items | | | |
| Adjusted Cashflow from Operations | | 1,808 | 1,791 |
| Less: corporation tax paid | | (75) | (93) |
| Less: 2 per cent of Total RAB | | (329) | (343) |
| **Cash Flow (A)** | | **1,404** | **1,355** |
| Interest and equivalent recurring charges paid on Senior Debt[3][4] | | | |
| Interest paid – existing Class A bonds and swaps | | 349 | 339 |
| Interest paid – existing Class A EIB facilities | | 1 | 0 |
| Interest paid – other Class A debt | | 18 | 43 |
| Commitment fees on liquidity and revolving credit facilities | | 3 | 5 |
| **Total interest on Senior Debt (B)** | | **371** | **388** |
| Interest and equivalent recurring charges paid on Junior Debt[3][4] | | | |
| Class B debt | | 101 | 77 |
| **Total interest on Junior Debt (C)** | | **101** | **77** |
| **Total interest (D=B+C)** | | **472** | **465** |
| **Senior ICR (A/B)[5][6]** | **1.40x** | **3.78x** | **3.49x** |
| **Junior ICR (A/D)[5][6]** | **1.20x** | **2.97x** | **2.92x** |

(1) 2018 and 2019 figures are forecasts; values calculated on unrounded figures
(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 19
(3) Reconciliation of interest paid with interest payable is set out on page 19
(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 31 December 2018 | Year to 31 December 2019 |
|---|---|---|
| | £m | £m |
| **Income** | | |
| Aeronautical income | 1,742 | 1,847 |
| Non-aeronautical income - retail | 702 | 716 |
| Non-aeronautical income - non-retail | 515 | 521 |
| **Total income** | **2,959** | **3,085** |
| **Operating costs** | 1,135 | 1,200 |
| **Adjusted EBITDA(2)** | **1,825** | **1,885** |
| Brexit Contingency | 0 | (114) |
| **Adjusted EBITDA(3)** | **1,825** | **1,771** |
| **Working capital and cash one-off non-recurring extraordinary or exceptional items** | | |
| Trade working capital | 4 | 39 |
| Pension | (21) | (19) |
| **Cashflow from operations** | **1,808** | **1,791** |

| | 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 | 382 | (47) | 4 | 339 | 349 |
| Interest paid – Class A EIB facilities | 0 | - | - | 0 | 1 |
| Interest paid and received – other Class A debt | 46 | (1) | (2) | 43 | 18 |
| Commitment fees on liquidity & RCFs(6) | 9 | (3) | (1) | 5 | 3 |
| Interest paid - Class B debt | 79 | (2) | - | 77 | 101 |
| **Total interest** | **517** | **(53)** | **1** | **465** | **472** |

(1) 2018 and 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)** | | **16,448** | **17,158** |
| **Senior Debt** | | | |
| Class A Existing Bonds (closed prior to 27 June 2017) | | 9,755 | 9,543 |
| Class A EIB facilities | | 29 | 12 |
| Other Class A debt | | 1,492 | 2,942 |
| RPI swap accretion | | 482 | 578 |
| **Total Senior Debt (B)** | | **11,758** | **13,075** |
| **Junior Debt** | | | |
| Class B debt | | 1,353 | 1,359 |
| **Total Junior Debt (C)** | | **1,353** | **1,359** |
| **Cash and cash equivalents (D)** | | (630) | (2,060) |
| **Senior net debt (E=B+D)** | | **11,128** | **11,015** |
| **Senior and junior net debt (F=B+C+D)** | | **12,481** | **12,374** |
| **Senior RAR (E/A)(2)(3)(4)(5)** | **70.0%/72.5%** | **67.7%** | **64.2%** |
| **Junior RAR (F/A)(2)(4)** | **85.0%** | **75.9%** | **72.1%** |

(1) 2018 and 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
(5) Trigger increased from 70.0% to 72.5% on the 1 April 2018



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# Appendix 4 – Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 30 September 2018

| 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% | 211 | 211 | 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 |
| £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 |
| 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% | 84 | 84 | 2032 |
| €50m Zero Coupon | 42 | 42 | 2032 |
| €500m 1.875% | 443 | 443 | 2032 |
| £50m 4.171% | 50 | 50 | 2034 |
| €50m Zero Coupon | 40 | 40 | 2034 |
| £50m RPI +1.382% | 56 | 56 | 2039 |
| £460m RPI +3.334% | 600 | 600 | 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% | 84 | 84 | 2049 |
| £400m 2.75% | 400 | 400 | 2049 |
| £160m RPI +0.147% | 162 | 162 | 2058 |
| **Total senior bonds** | **10,035** | **10,035** | |
| Term debt | 724 | 1,342 | Various |
| Index-linked derivative accretion | 447 | 447 | Various |
| Revolving/working capital facilities | 320 | 900 | 2021 |
| **Total other senior debt** | **1,491** | **2,689** | |
| Total senior debt | 11,526 | 12,724 | |
| **Heathrow (SP) Limited cash** | **(128)** | | |
| Senior net debt | 11,398 | | |

| 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 |
| £180m RPI +1.061% | 196 | 196 | 2036 |
| £75m RPI + 0.337% | 0 | 75 | 2036 |
| £51m RPI + 0.419% | 0 | 51 | 2038 |
| £105m 3.460% | 0 | 105 | 2038 |
| £75m RPI + 0.362% | 0 | 75 | 2041 |
| **Total junior bonds** | **1,351** | **1,732** | |
| Junior revolving credit facilities | 0 | 250 | 2021 |
| Total junior debt | 1,351 | 1,982 | |
| Heathrow (SP) Limited group net debt | 12,749 | | |

| Heathrow Finance plc | Amount | Available | Maturity |
|---|---|---|---|
| | (£m) | (£m) | |
| £275m 5.375% | 262 | 262 | 2019 |
| £250m 5.75% | 250 | 250 | 2025 |
| £275m 3.875% | 275 | 275 | 2027 |
| **Total bonds** | **787** | **787** | |
| £75m | 75 | 75 | 2020 |
| £50m | 50 | 50 | 2022 |
| £75m | 0 | 75 | 2024 |
| £75m | 0 | 75 | 2025 |
| £50m | 50 | 50 | 2026 |
| £150m | 150 | 150 | 2028 |
| £75m | 0 | 75 | 2030 |
| **Total loans** | **325** | **550** | |
| Total Heathrow Finance plc debt | 1,112 | 1,337 | |
| **Heathrow Finance plc cash** | **(39)** | | |
| Heathrow Finance plc net debt | 1,073 | | |

| Heathrow Finance plc group | Amount | Available |
|---|---|---|
| | (£m) | (£m) |
| **Heathrow (SP) Limited senior debt** | **11,526** | **12,724** |
| **Heathrow (SP) Limited junior debt** | **1,351** | **1,982** |
| **Heathrow Finance plc debt** | **1,112** | **1,337** |
| Heathrow Finance plc group debt | 13,989 | 16,043 |
| **Heathrow Finance plc group cash** | **(167)** | |
| Heathrow Finance plc group net debt | 13,822 | |

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



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# 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)** | | **1,404** | **1,355** |
| Interest | | | |
| Paid on Senior Debt (B) | | 371 | 388 |
| Paid on Junior Debt (C) | | 101 | 77 |
| Paid on Borrowings (D) | | 57 | 86 |
| **Group Interest Paid (E=B+C+D)** | | **529** | **551** |
| **Group ICR (A/E)** | **1.00x** | **2.65x** | **2.46x** |
| **Calculation of Group RAR[3]** | | | |
| Total RAB (F) | | 16,448 | 17,158 |
| **Net debt** | | | |
| Senior Net Debt (G) | | 11,128 | 11,015 |
| Junior Debt (H) | | 1,353 | 1,359 |
| Borrower Net Debt (I) | | 1,570 | 2,323 |
| **Group Net Debt (J=G+H+I)** | | **14,051** | **14,697** |
| **Junior RAR ((G+H)/F)[4]** | **82.0%** | **75.9%** | **72.1%** |
| **Group RAR (J/F)[4]** | **90.0%** | **85.4%** | **85.7%** |

(1) 2018 and 2019 figures are forecasts
(2) ICR or Interest Cover Ratio is defined on page 16
(3) RAR or Regulatory Asset Ratio is defined on page 18
(4) Ratios calculated on unrounded data



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