Heathrow

HEATHROW (SP) LIMITED AND HEATHROW FINANCE PLC

INVESTOR REPORT DECEMBER 2023

15 December 2023

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This Investor Report (other than Appendix 6) 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 6 is being distributed by Heathrow Finance plc ('Heathrow Finance') pursuant to the terms of Heathrow Finance's facilities agreements and its bond terms and conditions relating to bond issuances maturing in 2024, 2025, 2027 and 2029. This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the 'Group') for the period to 30 September 2023, nominal consolidated net debt of obligors, Heathrow Funding Limited and Heathrow Finance as of 30 September 2023 and its passenger traffic for the period to 30 November 2023. It also contains forecast financial information derived from current management forecasts for Heathrow (SP) and its subsidiaries (the 'Group') for the whole 2023.

Defined terms used in this document (other than in Appendix 6) have the same meanings as set out in the Master Definitions Agreement unless otherwise stated. Defined terms in Appendix 6 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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"We are closing out the year as the fourth busiest airport in the world and the most connected airport globally, two remarkable achievements that are a testament to the hard work and dedication that colleagues bring every day to Heathrow.

In my first couple of months, I have been out and about getting to know Heathrow's day-to-day operations. At the same time, I have my eyes on the future, considering how we can make the airport even better for shareholders, passengers, airlines and Team Heathrow partners.

Over the next three years, we will deliver value accretive infrastructure projects that focus on the passenger experience, continue to lay the necessary foundations to reach net zero by 2050 and maintain a resilient operation."

Thomas Woldbye | Heathrow CEO

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APPENDICES

1. OVERVIEW

This report sets out the financial performance and ratios for Heathrow (SP) in 2022 (actual), 2023 (forecast) and 2024 (forecast), together with key business updates. Additional information relating to Heathrow Finance is presented in Appendix 6.

The strong recovery in traffic at Heathrow continued in the first eleven months of 2023, with a total of 72.5 million passengers travelling through the airport. We saw a significant increase in connectivity across various regions, highlighting an impressive recovery, with Heathrow named the most connected airport in the world by OAG. We remain Europe's busiest airport, and in October became the 4th busiest airport globally.

Passenger service levels have improved as a result of the investment in recruitment and training over the past two years. In the first nine months, 74% of passengers rated their overall satisfaction with Heathrow as 'Excellent' or 'Very good'. We have also seen very strong performance in security, with 90% of passengers now consistently waiting less than 5 minutes and close to 100% less than 10 minutes. On arrivals, punctuality has slightly dropped compared to last year due to air traffic control strikes in Europe, airspace congestion, and adverse weather events. However, departure punctuality has improved, and the gap between both metrics is closing as airline ground handling resources increase.

Decarbonising the aviation sector remains at the centre of our strategy moving forward. We continue to promote Sustainable Aviation Fuel (SAF) at the airport, with major airlines committing to using 10% SAF by 2030. Our incentive scheme will help achieve this. In 2024, 2.5% of Heathrow's fuel will be SAF, and we have seen a clear sign of the growing adoption with the world's first 100% SAF-powered transatlantic flight taking off from Heathrow to New York on 28 November. This was a remarkable day for aviation and marked a historic moment for the industry and its roadmap to decarbonisation. SAF has a fundamental role to play in aviation's pathway to net zero, but currently there's not enough supply. For net zero to be a reality, we need the Government and industry to work together to kickstart a domestic SAF industry.

We now expect 79.1 million passengers to travel through the airport in 2023 (+28.4% vs FY22), in line with the updated guidance provided in our Q3 results announcement. Adjusted EBITDA is forecast to be £2,246 million (+33.4% vs FY22), again in line with Q3 guidance. This is driven by an increase in revenue to £3,673 million (+26.1% vs FY22) on the back of traffic growth, with operating costs expected to increase to £1,428 million (+16.2% vs FY22). The rise in operating costs versus last year is due to the Company's continued investment in growth, resourcing, and the impact of inflation.

Passenger numbers for 2024 are forecast to increase to 81.4 million, an increase of 2.9%. Despite this increase, Adjusted EBITDA is forecast to decline to £1,885 million (-16.1% vs FY23), primarily driven by the reduction in the aeronautical tariff to £26.74 (£31.57 in 2023) in line with the Final Decision of the CAA. Overall revenue is forecast to be £3,450 million (-6.1% vs FY23) with aeronautical revenue decreasing to £2,190 million (-11.3% vs FY23) and non-aeronautical revenue increasing to £1,260 million (+4.5% vs FY23). Operating costs are expected to increase to £1,566 million (+9.7% vs FY23), reflecting lower forecasted inflation and stabilisation of our operating costs. The RAB is forecast to be £20.0 billion at the end of 2023 and £20.4 billion at the end of 2024 as we progress with our investment plans.

Finally, on 18 October, Thomas Woldbye assumed the position of Heathrow's Chief Executive Officer, bringing with him a wealth of experience and strategic vision to lead Heathrow into its next phase of growth.

2022, 2023 and 2024 financial performance

(£m unless stated)	2022	2023 (F)	2024 (F)	Trigger / Forecasting Event
Passengers (m)	61.6	79.1	81.4	
Summary financials				
Revenue	2,913	3,673	3,450	
Adjusted EBITDA[1]	**1,684**	**2,246**	**1,885**	
Cashflow from operations[2]	1,719	2,209	1,898	
Regulatory Asset Base (RAB)	19,182	20,006	20,420	
Nominal net debt				
Senior net debt	12,447	12,387	12,839	
Junior net debt	2,132	2,194	2,076	
Consolidated net debt	**14,579**	**14,580**	**14,915**	
Interest paid				
Senior interest paid	122	478	452	
Junior interest paid	70	72	72	
Total interest paid	**191**	**550**	**524**	
Ratios[3]				
Senior(Class A) RAR	64.9%	61.9%	62.9%	72.5% / 72.5%
Junior (Class B) RAR	76.0%	72.9%	73.0%	85.0% / 85.0%
Senior(Class A) ICR	10.97x	3.79x	3.13x	1.40x / 1.60x
Junior (Class B) ICR	6.97x	3.29x	2.70x	1.20x / 1.40x

(£m unless stated)	2022	2023 (F)	2024 (F)	Covenant
Heathrow Finance				
Borrower net debt	1,207	1,957	1,937	
Group net debt	**15,786**	**16,538**	**16,852**	
Borrower interest paid	109	93	121	
Group interest paid	**300**	**643**	**645**	
Group RAR[3]	82.3%	82.7%	82.5%	92.5%
Group ICR[3]	4.44x	2.82x	2.19x	1.00x

1) Pre-exceptional earnings before interest, tax, depreciation and amortisation
2) Adds back cash one-off items, non-recurring extraordinary items & exceptional items
3) Ratios calculated using unrounded data. Ratio definitions and calculations in Appendices 2, 3 and 6

2. BUSINESS DEVELOPMENTS

SERVICE STANDARDS

In the first nine months of 2023, despite handling an additional 15 million passengers compared to 2022, we sustained an ASQ rating of 3.99 out of 5.00. This is testament to our commitment to passenger services and operational efficiency. Notably, 74% of passengers surveyed between January and September 2023 rated their overall satisfaction with Heathrow as 'Excellent' or 'Very good,' consistent with the previous year. The proportion of 'Poor' ratings remained low at just 1%.

Our operational resilience remained robust in the first nine months of 2023. Effective security measures allowed 90.7% of passengers to clear security within 5 minutes, a significant improvement from 70.1% in 2022. However, adverse weather conditions, European strike actions, and airspace congestion continued to affect arrival and departure punctuality during this period.

In the 12 months to 30 November 2023, rebates of £10,951,285 were paid by Heathrow under the "Measures, Targets, Incentives" scheme (previously known as Service Quality Rebates), in relation to terminals security, transfer search and control post security search. However, in relation to the same period, a £2,352,537 bonus is also expected for exceeding performance targets related to way finding and flight information.

TRAFFIC

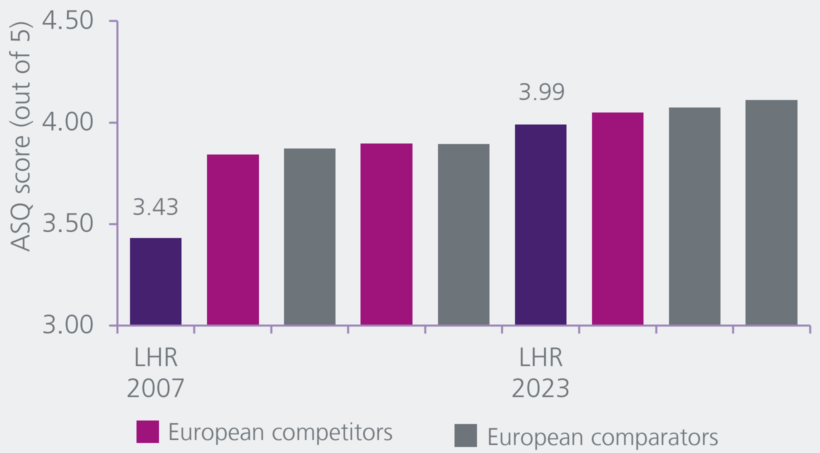
During the first eleven months of the year, we saw a total of 72.5 million passengers passing through our terminals (2022: 55.7 million). This represented a substantial increase of 30.2% compared to the same period in 2022. We also reclaimed our position as the world's most internationally connected airport in OAG's annual report. Also, since the month of October, Heathrow was the fourth-busiest airport in the world, positioning Heathrow and its recovery ahead of previous pre-pandemic levels.

Our markets are displaying robust performance, with notable strengths observed in North and Latin America, Africa and Asia Pacific. The positive impact of these trade and tourism routes underscores the pivotal role Heathrow plays in connecting all of Britain to global growth. The Asia Pacific region has experienced a significant rebound in passenger numbers, especially given borders only reopened earlier in the year. In November, the region reached 89% of the passenger volume seen during the same month in 2019, signifying a substantial recovery, driving a knock-on effect to short-haul flights in Europe and UK, where both regions are now above 95% of 2019 levels.

Aircraft have been consistently operating with high passenger numbers, with load factors showing a steady rise to 79.5% in 2023, marking an increase from 76.7% in 2022. Similarly, the average number of seats per ATM has continued to rise in 2023 to 218.9, surpassing both the prior year (217.6) and pre-pandemic levels (213.4). The increasing load factors and the use of larger aircrafts create more opportunities for growth.

Our cargo tonnage, including mail, increased by 1% when compared to the first eleven months of 2022. Despite the return of belly hold capacity to normal levels on numerous routes, cargo tonnage continues to lag behind due to the global air cargo industry grappling with the impacts of various macroeconomic factors, which have led to subdued demand.

Q3 2023 Passenger satisfaction European ranking



Traffic and operating statistics

	Jan - Nov 2019	Jan - Nov 2022	Jan - Nov 2023	2023 vs. 2022 (%)
Passengers (m)	74.3	55.7	72.5	30.2
Long-haul traffic growth/(decline) %	2.2	318.8	23.7	N/A
Short-haul traffic growth/(decline) %	(0.6)	184.6	36.1	N/A
Passengers ATM	435,090	333,302	412,748	23.8
Cargo ATM	2,773	9,226	3,549	(61.5)
Load factors (%)	79.9	76.7	79.5	3.7
Seats per ATM	213.4	217.6	218.9	0.6
Cargo tonnage ('000)	1,464	1,284	1,297	1.0

Note:
Air Transport Movement 'ATM' – means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights, cargo flights but it does not include empty positioning flights, and private non-commercial flights

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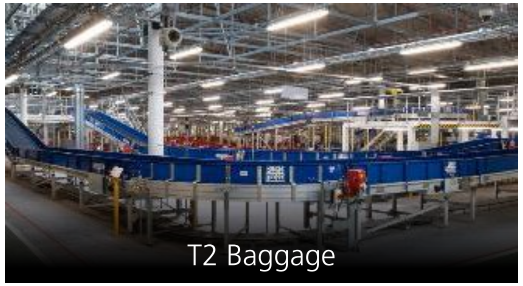
2. BUSINESS DEVELOPMENTS

CAPITAL INVESTMENT

Our H7 investment plan is split into six core programmes and totals around £4.3bn. They are T2 Baggage, Next-Generation Security, Commercial Revenues, Efficient Airport, Asset Management & Compliance and Carbon and Sustainability. The programmes are designed to maintain value, boost resilience, ensure compliance, and optimise asset performance.

Our capex forecast for 2024 is £936m, which is 50% higher than in 2023. Our plan includes several projects, such as the installation of new security lanes in Terminals 2, 3, 4 and 5, asset management and compliance focused on the continuation of the cargo and main tunnel refurbishment, runway resurfacing, and starting the delivery of our virtual control facility. Additionally, we will begin initial work on the Terminal 2 baggage system and invest in digitalising our retail offerings, enhancing the VIP experience, and optimising our property portfolio. We will also be investing in our Carbon and Sustainability programme including new electric vehicle charging facilities and pre-conditioned air capabilities for our airline partners.


T2 Baggage


Next-Generation Security

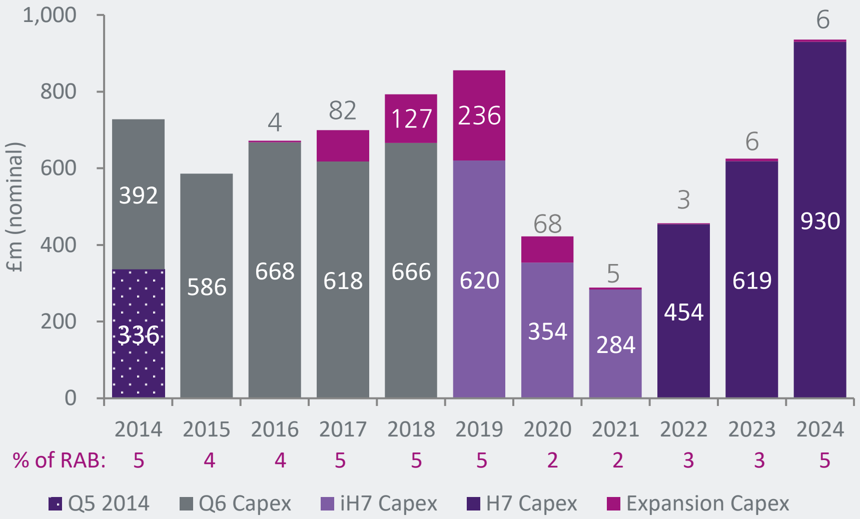

Commercial Revenues


Efficient Airport


Asset Management & Compliance


Carbon and Sustainability

Forecast capital expenditure profile



EXPANSION DEVELOPMENTS

We are conducting an internal review of the work that we have carried out and the different circumstances we find the aviation industry in, and this will enable us to progress with appropriate recommendations and ways forward. The Government's ANPS continues to provide policy support for our plans for a third runway and the related infrastructure required to support an expanded airport.

2. BUSINESS DEVELOPMENTS

Our sustainability strategy sets out the goals we will work towards this decade. It focuses on delivering outcomes that align with the most material environmental, community and colleague issues for the airport.

In March 2023, we published our 2022 Sustainability Report. This details the progress we have made towards our 2030 goals, as well as some of the challenges we have faced. You can access the full report on our Investor Centre.

NET ZERO AVIATION

Decarbonising the aviation sector remains a key priority for Heathrow. To get there, we will need to work closely with our airline customers, energy companies and the Government. We continue to make Sustainable Aviation Fuels (SAF) a regular feature of fuel supply at the airport, with major airlines committing to using at least 10% SAF by 2030, supported by our incentive scheme. In 2024, the incentive will increase to enable 2.5% of Heathrow's fuel to be SAF, equivalent to at least 340,000 tonnes of avoided carbon emissions.

We've been working in partnership with the Sustainable Market Initiatives (SMI) to identify ways to encourage commitment from corporates to purchase SAF to reduce emissions from their business aviation travel, while also flagging the need for more clarity and consistency on SAF accounting and reporting of scope three emissions.

SAF demand currently exceeds supply, which requires a significant scale-up of production. Together with industry partners, we have been advocating for price support to accelerate the development of a domestic SAF industry. In early September, the Department for Transport committed to introducing a revenue certainty mechanism to support SAF production in the UK. As part of the Energy Bill, the government has tabled legislation that will launch a consultation on options for designing and implementing the scheme within six months of the amended Bill receiving assent.

As a further sign of the increasing use of SAF, the first transatlantic flight from a major airline fuelled with 100% SAF operated by Virgin Atlantic departed Heathrow to New York on 28 November. This followed a successful ground test on the Rolls-Royce engine in July and is further proof that 100% SAF long-haul flights can be done.

A GREAT PLACE TO LIVE AND WORK

We are committed to Heathrow being a great place to live and work. It is critical to ensure our airport is a diverse and inclusive workplace for all, and that we provide the skills, education and long-term employment opportunities that make the airport the local employer of choice. We must also be a valuable neighbour for those who live closest to us, making sure these communities benefit from cleaner air, quieter nights and improved quality of life. Following public consultation in June and July, Heathrow's final Noise Action Plan 2024-28 was submitted to the Department for Environment, Food & Rural Affairs (Defra) for approval in October.

In November, we held our 25th Business Summit with over 250 representatives from local small and medium-sized businesses attending to hear from, and meet with, Heathrow senior directors and Tier 1 suppliers. An awards ceremony that evening celebrated the contribution our supply chain makes to Heathrow's continuing success.

Since the launch of Heathrow's Giving Back Programme in January, over 600 colleagues have already delivered over 1,750 hours of volunteering to benefit local communities. We have also delivered over 2,000 external jobs, apprenticeships and early career opportunities and over 4,000 experiences of workdays.

3. REGULATORY DEVELOPMENTS

On the 17 October, the CMA published its Final Determination on the H7 appeals submitted by Heathrow, British Airways, Virgin Atlantic and Delta. Overall, the CMA considered that the CAA was not wrong in most of the aspects of its H7 Final Decision which had been subject to appeal. However, the CMA considered that the CAA had erred on three specific elements:

- The CAA was wrong in the way it mechanistically implemented the AK Factor, which was introduced by the CAA to claw back revenue which was 'overrecovered' against the maximum allowable yield in 2020 and 2021.
- The CAA made an error in a relatively minor aspect of its cost of debt calculation.
- In the passenger forecast, the CAA was wrong in relation to the calculation of the shock factor.

The CMA has issued an order to the CAA for these three elements to be reconsidered in sufficient time for any amendments to be incorporated into the price cap from 2025. CAA will review the three elements during H1 2024. With most elements of the CAA's Final Decision retained, a flat charge of £21.03 (2020 CPI) will be in place between 2024 and 2026.

Earlier this year, the Department for Transport (DfT) published its review of the CAA. Amongst its recommendations, the DfT set out that the CAA's process for conducting economic regulation should be reviewed, considering process, governance and 'mechanics' of their economic regulation activity.

The CAA has not yet published its plans regarding how and when it will develop this process review, but we expect this to happen early next year, before the commencement of any discussions on the H8 regulatory period. The CAA timelines for H8 are still uncertain, although we expect to see initial plans set out next year.

4. HISTORICAL FINANCIAL PERFORMANCE

This section summarises the results for the Group for the nine months to 30 September 2023. A full description of performance is provided in the results published on 26 September 2023, available at the Investor Centre on heathrow.com.

TRAFFIC

In the first nine months of 2023, traffic increased by 34.4% to 59.4 million passengers (2022: 44.2 million) placing Heathrow as Europe's busiest airport and the fourth busiest airport in the world in October.

ADJUSTED EBITDA

In the first nine months of 2023, Adjusted EBITDA increased 35.9% to £1,701 million (2022: £1,252 million).

REVENUE

In the first nine months of 2023, total revenue increased 30.1% to £2,739 million (2022: £2,106 million). This was driven by an increase of 36.1% in aeronautical income, an increase of 24.5% in retail income and an increase of 12.9% in other income. Aeronautical income increased predominantly due to higher passenger numbers, the 2023 interim price cap implemented by the CAA and higher ATMs. Retail income increased due to higher departing passengers, car parking revenue and premium services. Other revenue increased due to higher ORC revenue and Heathrow Express revenue in line with higher passenger numbers.

ADJUSTED OPERATING COSTS (EXCLUDING DEPRECIATION, AMORTISATION AND EXCEPTIONAL ITEMS)

In the first nine months of 2023, adjusted operating costs increased by 21.5% to £1,038 million (2022: £854 million). Adjusted operating costs per passenger decreased by 9.6% to £17.47 (2022: £19.32). Operating costs have increased in line with passenger numbers and as we rebuilt capacity. This includes costs related to additional colleagues, overtime, recruitment and training. The increase in maintenance is largely driven by terminal cleaning and conservation of terminal, airside, and baggage areas. Utilities and other costs have also been impacted by higher consumption and higher energy prices.

REGULATORY ASSET BASE (RAB) AND FINANCIAL RATIOS

At 30 September 2023, the RAB was £19,953 million (31 December 2022: £19,182 million). At 30 September 2023, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 62.6% for senior debt and 73.5% for junior debt (31 December 2022: 64.9% and 76.0%, respectively) compared with respective trigger levels of 72.5% and 85.0%.

INTEREST PAYABLE AND PAID

In the first nine months of 2023, net finance costs before certain re-measurements were £1,165 million (2022: £1,127 million) driven by additional inflation accretion expense as the RPI annual growth rate reached 9.1% as published in August 2023. Net external interest paid was £362 million (2022: £131 million).

NET DEBT (EXCLUDING DEBENTURE BETWEEN HEATHROW (SP) LIMITED AND HEATHROW FINANCE PLC)

At 30 September 2023, nominal net debt was £14,664 million (31 December 2022: £14,579 million), comprising £13,994 million in bond issues, £1,665 million in other term debt, £977 million in index-linked derivative accretion and £65 million of additional lease liabilities. This was offset by cash, cash equivalents and term deposits of £2,037 million. Nominal net debt consisted of £12,481 million in senior net debt and £2,183 million in junior debt.

LEASE LIABILITIES

We applied IFRS 16 on 1 January 2019. The capitalised value of existing operating leases pre-dating the transition to IFRS 16 is excluded from our net debt covenant calculations. Additional lease liabilities are however taken into account when calculating net nominal debt and amounted to £65 million as at 30 September 2023. The aggregate liability of all leases as at 30 September 2023 was £410 million, of which £365 million were entered into before 1 January 2019 and £65 million after 1 January 2019.

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5. FORECAST FINANCIAL PERFORMANCE

TRAFFIC

In 2023, traffic is expected to increase by 28% to 79.1 million passengers versus last year (2022: 61.6m). This is in line with Q3 guidance, and reflects strong passenger traffic recovery over the year. In 2024, traffic is forecast to increase 3% to 81.4 million passengers. Further details on our traffic forecasts can be found on page 11.

ADJUSTED EBITDA

The Adjusted EBITDA is expected to increase by 33.4% to £2,246 million in 2023, compared to £1,684 million in 2022. This growth is attributed to a rise in passenger numbers, which will result in a 26.1% increase in total revenue to £3,673 million. The operating costs are expected to go up by 16.2% to £1,428 million, reflecting investments in recruitment, full operations, and inflation. However, in 2024, the Adjusted EBITDA is expected to decrease by 16.1% to £1,885 million due to lower aeronautical charges determined by CAA.

REVENUE

Total revenue is expected to increase by 26.1% to £3,673 million in 2023. Aeronautical income is expected to increase by 31.3% to £2,468 million, mainly driven by the recovery in passenger numbers. Airport Retail income, which includes retail concessions and car parking, is also expected to rise by 21.5% to £685 million, with car parking performing strongly. However, with passenger mode of travel to the airport normalising post-pandemic and additional customer choices, including the introduction of Elizabeth Line, this has resulted in an overall decline in income per passenger versus 2022, which is now at £8.66 compared to £9.16 in 2022. Other revenue, which includes property and Heathrow Express, is expected to increase by 10.7% to £520 million in 2023.

In 2024, total revenue is forecasted to decrease to £3,450 million (-6.1% vs FY23) despite the increase in traffic. This decrease is mainly driven by the aeronautical charge set by the CAA in their Final H7 Decision. Aeronautical revenue is expected to decrease by 11.3% to £2,190 million, while non-aeronautical income is forecast to increase by 4.5% to £1,260 million.

ADJUSTED OPERATING COSTS (EXCLUDING DEPRECIATION, AMORTISATION AND EXCEPTIONAL ITEMS)

2023 adjusted operating costs are expected to rise by 16.2% to £1,428 million, compared to the previous year which was £1,229 million. This increase is due to the rise in operational costs, employment costs and inflation. However, operating costs per passenger are expected to decrease by 2.6% to £18.81.

In 2024, operating costs are expected to increase by only 9.7% to £1,566 million as a result of lower forecasted inflation and stabilisation of our operational costs.

REGULATORY ASSET BASE

At the end of 2023 and 2024, the RAB is forecast to be £20,006 million and £20,420 million respectively (2022: £19,182 million). The forecasts for 2023 and 2024 assume capital expenditure of £625 million and £936 million and average RPI of 9.87% and 4.82%, respectively.

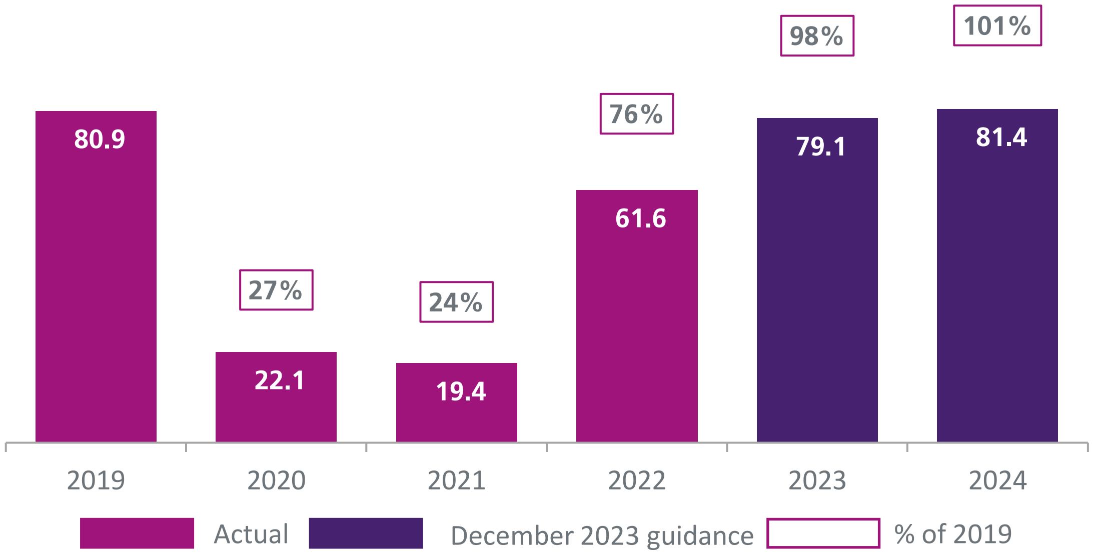
NET DEBT AND FINANCIAL RATIOS

At 31 December 2023, nominal net debt is forecast to be £14,581 million (2022: £14,579 million). Net external interest paid is forecast to be £550 million in 2023 (2022: £192 million), an increase of £5 million compared to June's guidance. The Regulatory Asset Ratio (RAR) is forecast to be 61.9% for senior debt and 72.9% for junior debt (31 December 2022: 64.9% and 76.0%) driven by the expected increased growth in the RAB and increased cash balances. For the year ending 31 December 2023, the Interest Cover Ratio (ICR) is forecast to be 3.79x for senior debt and 3.29x for junior debt (2022: 10.97x and 6.97x)

All current and forecast ratios are calculated based on applicable generally accepted accounting principles.

5. FORECAST FINANCIAL PERFORMANCE

Annual traffic forecast (m)



ASSUMPTIONS

In 2023, traffic is expected to be 79.1 million, an increase of 28% compared to 2022 (2022: 61.6 million). This is an increase on the forecast published in the June 2023 report (74 million) due to all Covid-19 related travel restrictions having been lifted earlier than expected and the cost-of-living crisis having had less than expected impact on air travel demand and recovery. In the 11 months to November 2023, traffic was 72.5 million which is on track to achieve the latest forecast by year end.

In 2024, traffic is forecast to increase to 81.4 million passengers, exceeding 2019 levels. This is based on the strong recovery seen this Summer continuing alongside the flight schedule and slot utilisation stabilising, although we remain cautious in the face of a higher cost of living, the global economy remaining relatively subdued and the potential fall-out from geopolitical events. We expect sustained growth in passenger numbers from the Asia Pacific region now that borders have fully re-opened.

6. FINANCING MATTERS

NEW FINANCING AND CHANGES TO FACILITIES

Since the previous Investor Report was distributed on 30 June 2023, we concluded our funding plan for the year by raising a further £695 million in new Class A debt, bringing our total debt raised for 2023 to £780 million.

In July we priced our debut Sustainability-Linked Bond, a €650 million 10-year trade using our 2030 Sustainability Performance Targets as set out in our Sustainability Linked Bond Framework. The bond proceeds were swapped back to GBP, which included our first Sustainability-Linked Derivative. Also in July, the proceeds from the £85m private placement raised earlier in the year settled. In September, we exercised an option to extend our Revolving Credit Facility by one year, extending the maturity to 2027. In November we raised a dual tranche £140m wrapped bond with maturities in 2056 and 2057, providing additional duration and diversification to our £17 billion debt portfolio. Finally, in December, we successfully received unanimous lender approval for the conversion of our Revolving Credit Facility and Working Capital Facility to a Sustainability Linked Loan.

From the start of the year up until the date of this report, we have also made early paydowns of accretion on our inflation swaps for a cash amount totalling £484 million. We will continue to assess the impact of inflation on our financing, taking action if and when necessary to ensure we maintain a resilient credit profile. This could involve further early paydowns of accretion and/or a reduction in our overall inflation exposure, subject to market conditions.

DEBT MATURITIES AND REPAYMENTS

Since the previous Investor Report was distributed on 30 June 2023 there was a £2m amortisation repayment on a Class A index linked bond in July.

We have issued a notice to redeem the outstanding debt held at ADIF2 Limited and expect the settlement to occur before year end.

HEDGING

Since the publication of the previous Investor Report on 30 June 2023, cross currency swaps have been executed to convert the proceeds of the EUR 650m Sustainability Linked Bond to GBP. Notably one of these was our inaugural Sustainability Linked Derivative. The portfolio of derivatives has no breaks.

At 12 December 2023, the total notional value of cross-currency swaps was £6,090 million, the total notional value of index-linked swaps was £5,547 million, and the total notional value of interest rate swaps was £7,378 million.

At 12 December 2023, the interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged with 92.1% bearing either a fixed rate of interest or inflation-linked rate of interest. The hedging position remains at least 75% until 31 December 2026 and at least 50% until 31 December 2031.

6. FINANCING MATTERS

LIQUIDITY

The Security Group expects to have sufficient liquidity to meet all our forecast needs for at least 24 months under our base case traffic forecast. The obligations include forecast operational costs and capital investment, debt service costs, debt maturities and repayments. The liquidity forecast considers £4.7 billion at 30 November 2023, comprising cash resources held at the Security Group and Heathrow Finance as well as committed but undrawn revolving credit facilities and the expected operating cash flow over the period. Over the course of 2024 the Security Group expects to transition to managing to an 18-month liquidity horizon, rather than a 24-month horizon, reflecting the more stable outlook post-pandemic.

HISTORICAL 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 30 June 2023, Heathrow SP made a restricted payment of £105 million (2022: £1.1 billion) in September to service scheduled interest payments on debt held at Heathrow Finance and ADIF2 Limited. No dividend payments to ultimate shareholders were made during the period.

CREDIT RATINGS

Since the previous Investor Report was distributed on 30 June 2023, there have been no changes to our underlying ratings. In November 2023, S&P assigned an AA rating to our two guaranteed class A notes, reflecting the long-term issuer rating on the guarantor.

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 30 June 2023.

OUTSOURCING

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 30 June 2023.

BOARD AND MANAGEMENT CHANGES

Thomas Woldbye assumed the position of Heathrow's Chief Executive Officer on 18 October following the departure of John Holland-Kaye.

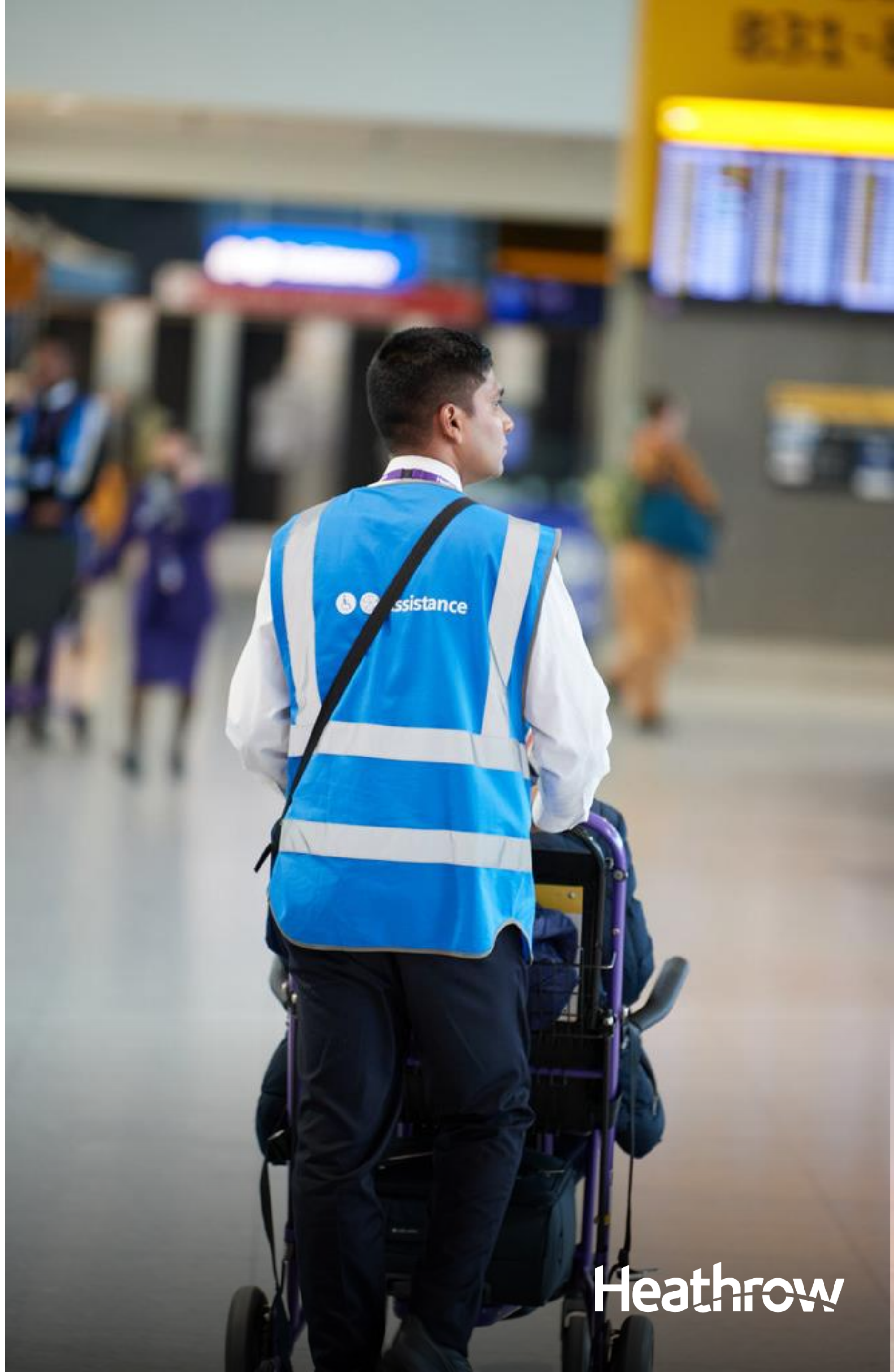
Shawn Kinder was appointed as a Shareholder Non-Executive Director on 21 September, representing Ferrovial, and replaced Maria Casero. Shawn is global Corporate Development and Strategy Director at Ferrovial Airports.

SHAREHOLDER UPDATE

On 28 November, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund, who would acquire Ferrovial's shareholding in c.15% and c.10% stakes respectively, through separate vehicles.

The transaction is subject to complying with right of first offer (ROFO) and full tag-along rights, which may be exercised by the other FGP Topco shareholders pursuant to the Shareholders' Agreement and the Articles of Association of the company.

Full completion of the acquisition under the agreement is also subject to the satisfaction of applicable regulatory conditions.



8. CONFIRMATION

15 December 2023

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 or 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

APPENDICES

APPENDIX 1 - QUARTERLY PASSENGER TRAFFIC (2008 TO 2023)

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	2016	2018	2019	2020	2021	2022	2023
Jan-Mar	**15.4**	**14.4**	**14.6**	**15.0**	**15.7**	**16.0**	**16.0**	**16.4**	**16.8**	**17.2**	**17.7**	**17.9**	**14.6**	**1.7**	**9.7**	**16.9**
Change %	0.6	(6.4)	1.6	2.5	4.4	1.8	0.5	2.0	2.6	2.2	3.1	1.4	(18.3)	(88.5)	474.9	75.0
Apr-Jun	**17.1**	**16.8**	**15.5**	**17.9**	**17.9**	**18.4**	**19.0**	**19.2**	**18.9**	**20.0**	**20.4**	**20.8**	**0.7**	**2.2**	**16.4**	**20.1**
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	(96.2)	176.6	657.1	22.5
Jul-Sep	**18.6**	**18.6**	**19.5**	**19.8**	**19.4**	**20.4**	**20.6**	**21.4**	**21.6**	**21.9**	**22.5**	**22.2**	**3.5**	**6.3**	**18.1**	**22.3**
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)	(84.1)	78.3	187.2	23.2
Oct-Dec (1)	**15.9**	**16.0**	**16.1**	**16.8**	**17.0**	**17.5**	**17.7**	**18.0**	**18.4**	**18.9**	**19.6**	**19.9**	**3.1**	**6.1**	**17.4**	**13.1**
Change %	(3.6)	1.1	0.7	3.8	1.6	2.7	1.3	1.9	1.8	3.0	3.4	1.8	(84.3)	194.3	88.4	N/A
Full year	**66.9**	**65.9**	**65.7**	**69.4**	**70.0**	**72.3**	**73.4**	**75.0**	**75.7**	**78.0**	**80.1**	**80.9**	**22.1**	**19.4**	**61.6**	**72.5**
Change %	(1.4)	(1.5)	(0.2)	5.5	0.9	3.4	1.4	2.2	1.0	3.1	1.4	1.0	(77.7)	(12.3)	217.6	N/A
ATM (‘000) (1)	**473**	**460**	**449**	**476**	**471**	**470**	**471**	**472**	**473**	**474**	**476**	**476**	**201**	**190**	**376**	**413**
Change %	(0.5)	(2.8)	(2.3)	6.0	(1.0)	(0.4)	0.2	0.3	0.2	0.2	0.3	0.0	(57.8)	(5.4)	98.3	N/A

(1) Oct - Dec 2023 excludes December.

APPENDIX 2 - COMPUTATION OF INTEREST COVER RATIOS[1] ('ICR')

(See important notice on page 2 of this document)	Year to 31 December 2022 (£m)	Year to 31 December 2023 (£m)	Year to 31 December 2024 (£m)
Income			
Aeronautical income	1,879	2,468	2,190
Non-aeronautical income - retail	564	685	714
Non-aeronautical income – non-retail	470	520	547
Total income	**2,913**	**3,673**	**3,451**
Operating costs[2]	(1,229)	(1,428)	(1,566)
Adjusted EBITDA	**1,684**	**2,246**	**1,885**
Working capital and cash one-off non-recurring extraordinary or exceptional items			
Cash payments in respect of prior year exceptional items	(2)	-	-
Trade working capital	49	(29)	13
Pension	(12)	(7)	-
Cashflow from operations	**1,719**	**2,209**	**1,898**

(1) 2023 and 2024 figures are forecasts; values calculated on unrounded figures
(2) Adjusted operating costs: operating costs excluding depreciation, amortisation and exceptional items.

Heathrow

APPENDIX 2 - COMPUTATION OF INTEREST COVER RATIOS[1]

(See important notice on page 2 of this document)	Trigger Level	Year to 31 December 2022 (£m)	Year to 31 December 2023 (£m)	Year to 31 December 2024 (£m)
Cashflow from Operations[2]		1,719	2,209	1,898
Add back: Cash payments in respect of prior year exceptional items		-	-	-
Adjusted Cashflow from Operations		1,719	2,209	1,898
Less: corporation tax relief / (paid)		(1)	-	(74)
Less: 2 per cent of Total RAB		(384)	(400)	(408)
Cash Flow (A)		**1,334**	**1,809**	**1,416**
Interest and equivalent recurring charges paid on Senior Debt[3][4]				
Interest paid – Class A bonds and swaps[7]		82	449	394
Interest paid and received – other Class A debt and new debt issued from 1 January 2023		12	4	32
Lease interest		24	18	20
Commitment fees on liquidity and revolving credit facilities		4	7	7
Total interest on Senior Debt (B) [7]		**122**	**478**	**452**
Interest and equivalent recurring charges paid on Junior Debt[3][4]				
Class B debt		70	72	72
Total interest on Junior Debt (C)		**70**	**72**	**72**
Total interest (D=B+C)		**191**	**550**	**524**
Senior ICR (A/B)[5][6]	**1.40x**	**10.97x**	**3.79x**	**3.13x**
Junior ICR (A/D)[5][6]	**1.20x**	**6.97x**	**3.29x**	**2.70x**

(1) 2023 and 2024 figures are forecasts; values calculated on unrounded figures

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 18

(3) 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

(4) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid

(5) Ratios calculated on unrounded figures

(6) It is expected that interest paid will rise in 2023 and 2024 as the impact of swaps reprofiling comes to an end.

Heathrow

APPENDIX 3 - COMPUTATION OF REGULATORY ASSET RATIOS[1] ('RAR')

(See important notice on page 2 of this document)	Trigger Level	Year to 31 December 2022 (£m)	Year to 31 December 2023 (£m)	Year to 31 December 2024 (£m)
Closing Heathrow RAB (A)		**19,182**	**20,006**	**20,420**
Senior Debt				
Class A existing bonds		12,046	11,399	11,175
Non - Existing Operating Lease debt		53	66	139
Other Class A debt and new debt issued from 1 January 2023		1,455	2,237	2,237
RPI swap accretion		726	793	360
Total Senior Debt (B)		**14,280**	**14,495**	**13,911**
Junior Debt				
Class B existing debt				
Other Class B debt		2,132	2,194	2,076
Total Junior Debt (C)		**2,132**	**2,194**	**2,076**
Cash and cash equivalents (D)		**(1,833)**	**(2,108)**	**(1,072)**
Senior net debt (E=B+D)		**12,447**	**12,387**	**12,839**
Senior and junior net debt (F=B+C+D)		**14,579**	**14,580**	**14,915**
Senior RAR (E/A)[2][3][4][5]	72.5%	**64.9%**	**61.9%**	**62.9%**
Junior RAR (F/A)[2][4][5]	85.0%	**76.0%**	**72.9%**	**73.0%**

(1) 2023 and 2024 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

Heathrow

APPENDIX 4 – NOMINAL CONSOLIDATED NET DEBT OF OBLIGORS, HEATHROW FUNDING LIMITED AND HEATHROW FINANCE PLC AS AT 30 SEPTEMBER 2023

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
CHF400m 0.5%	277	277	2024
C$500m 3.25%	266	266	2025
€750m 1.50%	681	681	2025
CHF210m 0.45%	161	161	2026
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
C$650m 2.7%	374	374	2027
C$400m 3.4%	226	226	2028
£200m 7.075%	200	200	2028
A$175m 4.150%	96	96	2028
CHF165m 1.800%	136	136	2029
£450m 2.75%	450	450	2029
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C$400m 3.872%	238	238	2030
€500m 1.125%	427	427	2030
C$500m 3.661%	291	291	2031
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	111	111	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
C$300m 3.7%	363	363	2033
4.500% €650m SLB due 2033	557	557	2033
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	74	74	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	799	799	2039
¥10,000m 0.8%	71	71	2039
£100m RPI +1.238%	147	147	2040
£750m 5.875%	750	750	2041
A$125m 3.500%	68	68	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£60m 4.702%	60	60	2047
£75m RPI +1.372%	111	111	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	205	205	2058
Total senior bonds	**11,936**	**11,936**	
Term debt	1,540	1,540	Various
Index-linked derivative accretion	977	977	Various
Revolving / WC facilities	0	1019	2026
Operating lease liability	65	65	Various
Total other senior debt	**2,582**	**3,601**	
Total senior debt	14,518	15,537	
Heathrow (SP) Limited cash	**(2,037)**		
Senior net debt	12,481		

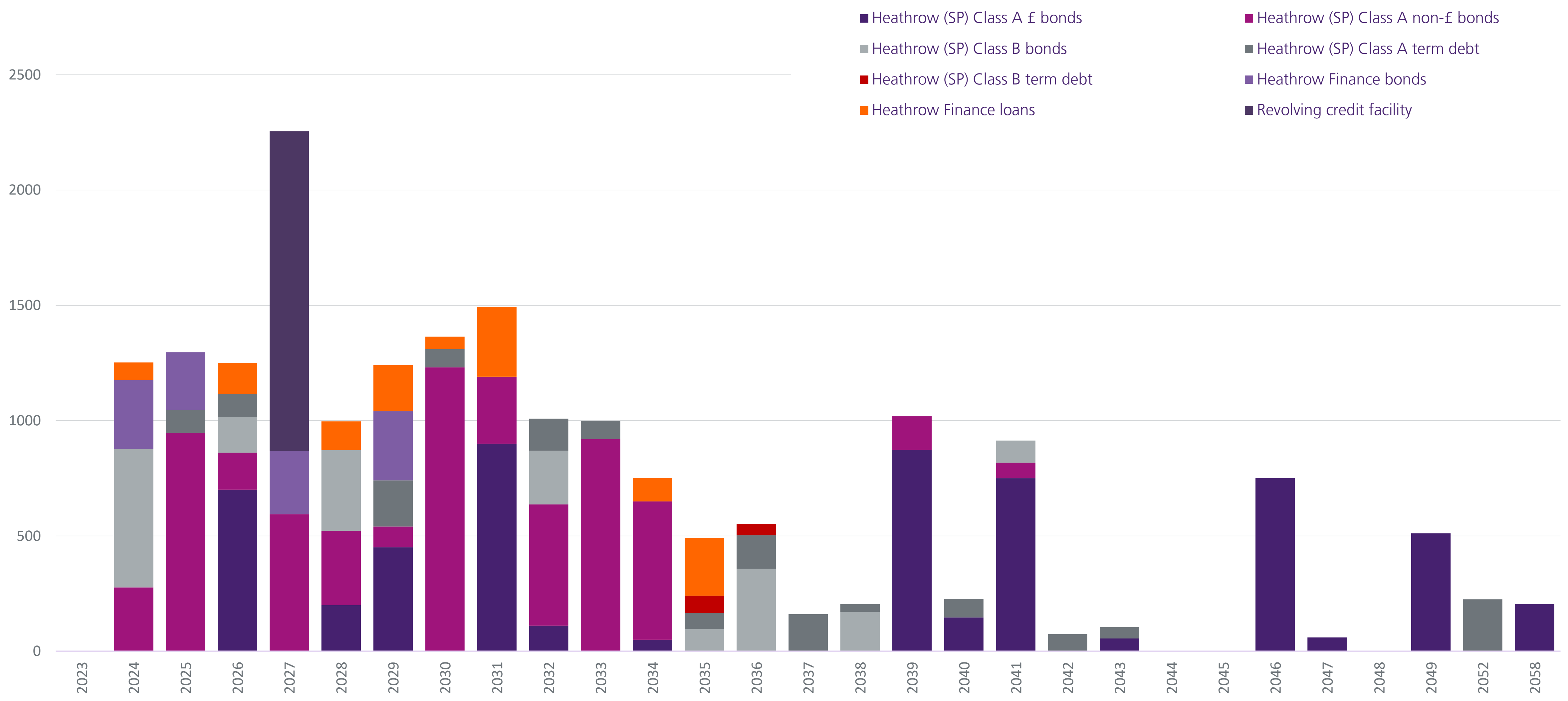
Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£350m 2.625%	350	350	2028
£182m 0.101%	232	232	2032
£75m RPI + 0.347%	96	96	2035
£75m RPI + 0.337%	96	96	2036
£180m RPI +1.061%	261	261	2036
£51m RPI + 0.419%	65	65	2038
£105m 3.460%	105	105	2038
£75m RPI + 0.362%	96	96	2041
Total junior bonds	**2,058**	**2,058**	
Term debt	125	125	Various
Junior revolving credit facilities	0	367	2026
Total junior debt	2,183	2,550	
Heathrow (SP) Limited group net debt	14,664		

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
£300m 4.125%	300	300	2029
Total bonds	**1,125**	**1,125**	
£75m	75	75	2024
£135m	135	135	2026
£125m	125	125	2028
£200m	200	200	2029
£53m	53	53	2030
£302m	302	302	2031
£100m	100	100	2034
£250m	250	250	2035
Total loans	**1,239**	**1,239**	
Total Heathrow Finance plc debt	2,364	2,364	
Heathrow Finance plc cash	**(1,183)**		
Heathrow Finance plc net debt	1,181		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	**14,518**	**15,537**
Heathrow (SP) Limited junior debt	**2,183**	**2,550**
Heathrow Finance plc debt	**2,364**	**2,364**
Heathrow Finance plc group debt	19,065	20,451
Heathrow Finance plc group cash	**(3,220)**	
Heathrow Finance plc group net debt	15,845	

Heathrow

APPENDIX 5 – DEBT MATURITY PROFILE AS AT 30 SEPTEMBER 2023



APPENDIX 6 – ADDITIONAL INFORMATION FOR HEATHROW FINANCE PLC CREDITORS(1)

(See important notice on page 2 of this document)	Covenant / Trigger Level	As at or for year to 31 December 2022 (£m)	As at or for year to 31 December 2023 (£m)	As at or for year to 31 December 2024 (£m)
Calculation of Group ICR(2)				
Cash Flow (A)		**1,334**	**1,809**	**1,416**
Interest				
Paid on Senior Debt (B)		122	478	452
Paid on Junior Debt (C)		70	72	72
Paid on Borrowings (D)		109	93	121
Group Interest Paid (E=B+C+D)		**300**	**643**	**645**
Group ICR (A/E) (2)(5)	**1.00x**	**4.44x**	**2.82x**	**2.19x**
Calculation of Group RAR(3)				
Total RAB (F)		19,182	20,006	20,420
Net debt				
Senior Net Debt (G)		12,447	12,387	12,839
Junior Debt (H)		2,132	2,194	2,076
Borrower Net Debt (I)		1,207	1,958	1,937
Group Net Debt (J=G+H+I)		**15,786**	**16,538**	**16,852**
Junior RAR ((G+H)/F)(3) (4)	**82.0%**	**76.0%**	**72.9%**	**73.0%**
Group RAR (J/F)(4)(5)	**92.5%**	**82.3%**	**82.7%**	**82.5%**

(1) 2023 and 2024 figures are forecasts
(2) ICR or Interest Cover Ratio is defined on page 18
(3) RAR or Regulatory Asset Ratio is defined on page 20
(4) Ratios calculated on unrounded data

Heathrow

Heathrow