



Heathrow

HEATHROW (SP) LIMITED AND HEATHROW FINANCE PLC

Investor Report December 2021 **Update**

28 January 2022

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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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CONTENTS

1.	Updates Since 10 th December Report	4
2.	Quarterly Passenger Traffic (2008 to 2021)	5
3.	Computation of Interest Cover Ratios	6
4.	Computation of Interest Cover Ratios – Reconciling Income Statement to Cash Flow	7
5.	Computation of Regulatory Asset Ratios	8
6.	Additional Information for Heathrow Finance plc Creditors	9



1. UPDATES SINCE 10th DECEMBER REPORT

2022 financial performance

(£m unless stated)	2022 Revised (F)	Trigger / Forecasting Event
Passengers (m)	45.5	
Summary financials		
Revenue	2,187	
Adjusted EBITDA ⁽¹⁾	1,040	
Cashflow from operations ⁽²⁾	1,033	
Regulatory Asset Base (RAB)	21,637	
Nominal net debt		
Senior net debt	11,633	
Junior net debt	2,065	
Consolidated net debt	13,698	
Interest paid		
Senior interest paid	102	
Junior interest paid	71	
Total interest paid	173	
Ratios⁽³⁾		
Senior (Class A) RAR	53.8%	72.5% / 70.0%
Junior (Class B) RAR	63.3%	85.0% / 85.0%
Senior (Class A) ICR	5.86x	1.40x / 1.60x
Junior (Class B) ICR	3.47x	1.20x / 1.40x

(£m unless stated)	2022 (F)	Covenant 2022
Heathrow Finance		
Borrower net debt	2,220	
Group net debt	15,918	
Borrower interest paid	113	
Group interest paid	286	
Group RAR ⁽³⁾⁽⁴⁾	73.6%	92.5%
Group ICR ⁽³⁾⁽⁵⁾	2.10x	1.00x

- 1) Pre-exceptional earnings before interest, tax, depreciation and amortisation
- 2) Addback 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
- 4) Heathrow Finance's RAR covenant increased from 92.5% to 93.5% for the testing date occurring on 31 December 2021
- 5) Heathrow Finance's ICR covenant was waived for the financial year ended 31 December 2021

DECEMBER 2021 INVESTOR REPORT UPDATE On 10 December 2021 we published our Investor Report setting out the forecast financial performance and ratios for Heathrow (SP) in 2022, together with key business updates. Additional information specific to Heathrow Finance was also set out. As we were awaiting a decision from the CAA in respect of the 2022 aeronautical charge at the time of publication, we prepared our 2022 forecast based on the tariffs set out in our aeronautical charge consultation document on 31 August 2021. The CAA have now published their final decision on the 2022 interim charge (see below), so we are issuing an update to our forecast financial performance and ratios in 2022 to reflect the revised charge. This update should be read in conjunction with the Investor Report published in December.

2022 AERONAUTICAL CHARGE On 16 December 2021, the CAA published a statement setting out an interim charge of £30.19 (nominal) for 2022. We are extremely disappointed in this decision from the CAA. It relies on rushed analysis and will undermine passenger experience at the UK's hub airport. As we detailed in the December Investor Report, there are material and basic errors in many aspects of the CAA's assessment which we have set out in our response to their Initial Proposals and which risks leaving Heathrow without sufficient cashflow to support investment in improving passenger service and resilience. We will continue to work with the CAA to resolve these issues ahead of its final decision later in 2022.

2022 UPDATED FINANCIAL FORECAST Our 2022 financial forecast remains based on a traffic forecast of 45.5 million passengers. The reduction in aeronautical charge of approximately £7 per passenger has led to a reduction in revenue of £307m versus the December report to £2,187m (£2,494m previously). The forecast for operating costs remains unchanged at £1,147m. Our forecast for Adjusted EBITDA has therefore also reduced by £307m to £1,040m (£1,347m previously). No covenant breaches are forecast in 2022 at Heathrow (SP) or Heathrow Finance.

Based on the CAA's interim 2022 price there is a risk to covenants and credit metrics in 2022 if cashflows from passengers are more than 15% below forecast. However, this is only a holding price which will be reviewed at the time of the final settlement later this year. We have identified material and basic errors in the CAA's analysis, which, if corrected, would lead to a higher charge in the final decision and protect financeability. The CAA has a duty to ensure Heathrow is financeable and this will be one of the key issues for the H7 regulatory settlement. Please refer to updated appendices 2, 3 and 6 for more details.

HEATHROW'S RESPONSE TO THE CAA'S INITIAL PROPOSALS AND RBP UPDATE 2 We submitted our response to the CAA's Initial Proposals on 17 December 2021. Alongside our response we also submitted the second update to our Revised Business Plan (RBP), known as RBP Update 2. In our submission and RBP Update 2, we set out our responses to the CAA's policy proposals and H7 building block forecasts and provided our updated view of passenger volumes and cost and revenue forecasts for the H7 period. Key updates include:

- Our plan for the next five years will deliver the quick, easy and reliable journeys that consumers want, with only a 2% increase in ticket prices;
- An H7 charge of £41.95 (2018p) reflecting new forecasts of opex, commercial revenues and a revised passenger forecast of 317.1m over the H7 period;
- Opportunity to reduce charge to £34 (2018p) if the CAA sets the right regulatory policies to enable deferral of regulatory depreciation beyond H7; furthermore, a properly structured risk sharing mechanism would implicitly lower the charge when volumes increase;
- A pre-tax WACC of 8.5%;
- A capital plan of £4.1bn (2018p), allowing us to invest in key programmes such as Regulated Security Compliance and the refurbishment of the Terminal 2 baggage system;
- Continuing to request a full RAB adjustment of £2.5bn to fully implement the CAA's regulatory framework following the impact of COVID-19; and
- Proposed changes to the CAA's risk sharing mechanism to ensure it reflects the commercial revenue risk inherent in the single till model.

The CAA will continue its H7 process through 2022 and, as the next step, we expect them to publish their Final Proposals in Q2 2022.

2021 PERFORMANCE UPDATE On 11 January 2022, we published our December traffic figures. These showed that we welcomed only 19.4 million passengers to Heathrow in 2021 – less than one quarter of 2019 and 2.7 million below 2020 levels. At least 600,000 passengers cancelled travel plans from Heathrow in December due to Omicron and the uncertainty caused by swiftly imposed government travel restrictions. We will provide a full review of 2021 performance when we report our annual results on 23 February 2022.

UPDATED APPENDIX 1 - QUARTERLY PASSENGER TRAFFIC (2008 TO 2021)

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
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
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)
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
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
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
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
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	9.2
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
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
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)
ATM ('000)	473	460	449	476	471	470	471	472	473	474	476	476	201	190
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)

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

<i>(See important notice on page 2 of this document)</i>	Trigger Level	Year to 31 December 2022 (£m) Base Case	Year to 31 December 2022 (£m) ⁽⁷⁾ Sensitivity Case
Cashflow from Operations ⁽²⁾		1,033	732
Add back: Cash payments in respect of prior year exceptional items		-	-
Adjusted Cashflow from Operations		1,033	732
Less: corporation tax relief / (paid)		-	-
Less: 2 per cent of Total RAB		(433)	(367)
Cash Flow (A)		600	365
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾			
Interest paid – existing Class A bonds and swaps		40	40
Interest paid – existing Class A revolving facilities		-	-
Interest paid and received – other Class A debt		39	40
Lease interest		18	18
Commitment fees on liquidity and revolving facilities		4	4
Total interest on Senior Debt (B)		102	102
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾			
Class B debt		71	71
Total interest on Junior Debt (C)		71	71
Total interest (D=B+C)		173	173
Senior ICR (A/B)⁽⁵⁾⁽⁶⁾	1.40x	5.86x	3.56x
Junior ICR (A/D)⁽⁵⁾⁽⁶⁾	1.20x	3.47x	2.11x

(1) 2022 figures are forecasts; values calculated on unrounded figures

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 7

(3) Reconciliation of interest paid with interest payable is set out on page 7 for 2021

(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

(7) Sensitivity case assumes interim RAB adjustment of £300m only and 15% reduction in cashflows to mainly reflect traffic volatility

UPDATED APPENDIX 2 - COMPUTATION OF INTEREST COVER RATIOS⁽¹⁾ – RECONCILING INCOME STATEMENT TO CASH FLOW

<i>(See important notice on page 2 of this document)</i>	Year to 31 December 2022 (£m) Base Case	Year to 31 December 2022 (£m) Sensitivity Case ⁽⁶⁾
Income		
Aeronautical income	1,416	1,203
Non-aeronautical income - retail	424	361
Non-aeronautical income – non-retail	347	322
Total income	2,187	1,886
Operating costs⁽²⁾	(1,147)	(1,147)
Adjusted EBITDA	1,040	739
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Cash payments in respect of prior year exceptional items	-	
Trade working capital	21	21
Pension	(28)	(28)
Cashflow from operations	1,033	732

	Year to 31 December 2022	Year to 31 December 2021			
	Cash flow	Income statement incl. amortisation ^{(3)/(4)}	Less amortisation ⁽³⁾	Less variation in accruals ⁽³⁾	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	40	135	(46)	(110)	(21)
Interest paid – Class A EIB facilities	-	-	-	-	-
Interest paid and received – other Class A debt	39	17	-	(4)	13
Lease interest	19	16	-	-	16
Commitment fees on liquidity & RCFs ⁽⁵⁾	4	6	-	-	6
Interest paid – Class B debt	71	72	(2)	(10)	60
Total interest⁽¹⁾	173	246	(48)	(124)	74

(1) 2022 figures are forecasts; values calculated on unrounded figures

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

(3) 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

(4) Includes amortisation of refinancing fees and excludes accretion on Index Linked Swaps and bonds

(5) RCFs: Revolving Credit Facilities

(6) Sensitivity case assumes interim RAB adjustment of £300m only and 15% reduction in cashflows to mainly reflect traffic volatility

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

<i>(See important notice on page 2 of this document)</i>	Trigger Level	Year to 31 December 2022 (£m) Base Case	Year to 31 December 2022 (£m) ⁽⁵⁾ Sensitivity Case
Closing Heathrow RAB (A)		21,637	18,370
Senior Debt			
Class A existing bonds		11,095	11,095
Class A EIB facilities		-	-
Non - Existing Operating Lease debt		137	137
Other Class A debt		2,252	2,252
RPI swap accretion		687	687
Total Senior Debt (B)		14,171	14,171
Junior Debt			
Class B existing debt		2,065	2,065
Other Class B debt		-	-
Total Junior Debt (C)		2,065	2,065
Cash and cash equivalents (D)		(2,538)	(2,321)
Senior net debt (E=B+D)		11,633	11,850
Senior and junior net debt (F=B+C+D)		13,698	13,915
Senior RAR (E/A)⁽²⁾⁽³⁾⁽⁴⁾	72.5%	53.8%	64.5%
Junior RAR (F/A)⁽²⁾⁽⁴⁾	85.0%	63.3%	75.7%

(1) 2022 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) Sensitivity case assumes interim RAB adjustment of £300m only and 15% reduction in cashflows to mainly reflect traffic volatility

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

<i>(See important notice on page 2 of this document)</i>	Covenant / Trigger Level	As at or for year to 31 December 2022 (£m) Base Case	As at or for year to 31 December 2022 (£m) ⁽⁵⁾ Sensitivity Case
Calculation of Group ICR⁽²⁾			
Cash Flow (A)		600	364
Interest			
Paid on Senior Debt (B)		102	102
Paid on Junior Debt (C)		71	71
Paid on Borrowings (D)		113	113
Group Interest Paid (E=B+C+D)		286	286
Group ICR (A/E)^{(2) (6)}	1.00x	2.10x	1.27x
Calculation of Group RAR⁽³⁾			
Total RAB (F)		21,637	18,370
Net debt			
Senior Net Debt (G)		11,633	11,850
Junior Debt (H)		2,065	2,065
Borrower Net Debt (I)		2,220	2,220
Group Net Debt (J=G+H+I)		15,918	16,135
Junior RAR ((G+H)/F)^{(3) (4)}	82.0%	63.3%	75.7%
Group RAR (J/F)^{(4) (7)}	92.5%	73.6%	87.8%

(1) 2022 figures are forecasts

(2) ICR or Interest Cover Ratio is defined on page 6

(3) RAR or Regulatory Asset Ratio is defined on page 8

(4) Ratios calculated on unrounded data

(5) Sensitivity case assumes interim RAB adjustment of £300m only and 15% reduction in cashflows to mainly reflect traffic volatility

(6) Heathrow Finance's ICR covenant was waived for the financial year ended 31 December 2021

(7) Heathrow Finance's RAR covenant increased from 92.5% to 93.5% for the testing date occurring on 31 December 2021

Heathrow