HEATHROW (SP) LIMITED AND HEATHROW FINANCE PLC

INVESTOR REPORT JUNE 2023

30 June 2023

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BASIS OF PREPARATION

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 31 March 2023, nominal consolidated net debt of obligors, Heathrow funding limited and Heathrow finance plc as at 31 May 2023 and its passenger traffic for the period to 31 May 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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I'm proud of my team's hard work, which has put Heathrow in a strong position at the 2023 midpoint. Their dedication and forward planning have ensured six months of stable operations and excellent service for our passengers, even during challenging strikes and exceptionally busy periods.

Alongside our Team Heathrow partners, we are putting the finishing touches on plans to continue providing seamless journeys over the summer getaway. Our colleagues' acceptance of an inflation-beating pay deal is good news for passengers, eliminating the risk of further security strikes both this year and next.

Beyond running a good operation today, our priority is to make Heathrow an even better airport in the future. We have plans for new multi-billion pound investments in passenger experience, operational resilience and sustainability and will be looking to press ahead with them over the remainder of the year.

John Holland-Kaye | Heathrow CEO

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APPENDICES

1. OVERVIEW

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

Over the first five months of the year, we have seen a strong recovery in traffic at Heathrow, with 30 million passengers travelling through the airport. Operationally we have performed well, delivering excellent service and successfully getting passengers on their way, particularly over the busy half term, Easter and May public holidays. Our robust contingency plans ensured the airport continued to run smoothly despite industrial action during many of these peak periods. We remain focussed on building service and operational resilience and we are well prepared to ramp up operations further for the summer peak as more colleague resource across Team Heathrow comes on board.

For 2023, we are forecasting traffic in the range of 70 – 78 million, with the mid-point at 74 million (+20.1% vs FY22) – aligned with guidance included in our Q1 results, and 6.8 million higher than the forecast in our December Investor Report. This updated traffic forecast reflects the strong start to the year, an improved economic outlook and the removal of most travel restrictions relating to COVID-19, with China re-opening and the US opening its borders to the unvaccinated.

Given the higher forecast traffic outturn, adjusted EBITDA is forecast to be £1,965 million (+16.7% vs FY22), an increase of £218 million versus the December Investor Report. Revenue is expected to grow to £3,436 million (+18.0% vs FY22), up £249 million versus the December Investor Report, with aeronautical revenue increasing to £2,304 million (+22.6% vs FY22) and non-aeronautical revenue increasing to £1,132 million (+9.4% vs FY22). Operating costs are forecast to rise to £1,471 million (+19.6% vs FY22), an increase of £30 million versus the December Investor Report, due to continued investment in growth, resourcing and the impact of inflation. The estimated RAB at the end of 2023 is £19,657 million and reflects no further RAB adjustment to the £300 million granted by the CAA in their Final Decision, although this remains a point we have appealed to the CMA. As of the end of May, the wider Heathrow Group had £3.8 billion of available liquidity and, under our base case, this is sufficient to cover all our obligations for at least 24 months. At Heathrow (SP) and Heathrow Finance, we do not forecast any breach of financial covenants in 2023.

The Civil Aviation Authority (CAA) published the Final Decision for the H7 regulatory period in March. The decision establishes a flat charge of £21.03 (2020 CPI) from 2024 to 2026. The current interim price cap of £31.57 (nominal) will be retained for 2023. While we continue to disagree with several conclusions reached by the CAA, we are focused on ensuring we can deliver the best possible outcomes for passengers through our H7 plan. On 18 April, we filed an appeal of the CAA's decision to the Competition and Markets Authority (CMA), formally requesting the CMA to review certain parts of the CAA's decision (further details are provided in section 3). British Airways, Virgin Atlantic and Delta also appealed the CAA's decision. On 11 May, the CMA granted permission for both Heathrow and the airlines to appeal on all grounds. As the CMA has extended the statutory deadline for its final determination, a decision will be made by 17 October.

On 30 June 2023, the Board of Directors of Heathrow Airport Holdings confirmed the appointment of Thomas Woldbye, currently the Chief Executive Officer of Copenhagen Airport, as the person to replace John Holland-Kaye. John will remain in post over the summer getaway until Thomas officially starts later in the year.

2022 and 2023 financial performance

(£m unless stated)	2022 (A)	2023 (F)	Trigger / Forecasting Event
Passengers (m)	61.6	74.0	
Summary financials			
Revenue	2,913	3,436	
Adjusted EBITDA(1)	1,684	1,965	
Cashflow from operations(2)	1,719	1,919	
Regulatory Asset Base (RAB)	19,182	19,657	
Nominal net debt			
Senior net debt	12,447	12,417	
Junior net debt	2,132	2,333	
Consolidated net debt	**14,579**	**14,750**	
Interest paid			
Senior interest paid	122	467	
Junior interest paid	70	77	
Total interest paid(4)	**192**	**544**	
Ratios(3)			
Senior(Class A) RAR	64.9%	63.2%	72.5% / 72.5%
Junior (Class B) RAR	76.0%	75.0%	85.0% / 85.0%
Senior(Class A) ICR	10.97x	3.26x	1.40x / 1.60x
Junior (Class B) ICR	6.97x	2.80x	1.20x / 1.40x
(£m unless stated)	**2022 (A)**	**2023 (F)**	**Covenant**
Heathrow Finance			
Borrower net debt	1,207	1,171	
Group net debt	**15,786**	**15,921**	
Borrower interest paid	109	79	
Group interest paid	**300**	**623**	
Group RAR(3)	82.3%	81.0%	92.5%
Group ICR(3)	4.44x	2.45x	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
4) Total Interest Paid increases significantly in 2023 due to the end of the swap reprofiling benefit realised in 2021 and 2022

2. BUSINESS DEVELOPMENTS

SERVICE STANDARDS

Over the first five months of 2023, the vast majority of passengers have had a positive experience through the airport, with 94% of passengers surveyed rating their Heathrow experience as 'Excellent' or 'Good' (QSM Jan-May 2022: 93%). Despite the operational challenges over the holidays period Heathrow continued to perform better than some of its European competitors.

Operational resilience remained strong in the first five months of 2023 despite security strikes over Easter and bank holidays. In the period, 64.6% (2022: 72%) of flights departed within 15 minutes of their schedule, while the baggage connection performance remained flat at 98.4% (2022: 98.5%). Contrary to misleading headlines, over the five months, 98.0% of passengers were through security within 10 minutes (2022: 95%). Heathrow colleagues have delivered excellent passenger service throughout the previous strike periods, with most passengers waiting less than 5 minutes, and almost all waiting less than 10 minutes for security.

During the first quarter of 2023, we achieved an overall ASQ rating of 4.01 out of 5.00 (Q1 2022: 4.13). Whilst this is down on the same quarter last year when passenger numbers were significantly lower, it reflects a steady improvement over the previous three quarters as passenger numbers have grown rapidly.

In the 12 months to 30 April 2023, rebates of £38,980,358 were paid by Heathrow under the Service Quality Rebates (SQR) scheme in relation to terminals security, transfer search and control post security search, mainly in the second quarter of 2022. However, in relation to the same period, a £2,980,862 bonus is also expected for exceeding performance targets.

TRAFFIC

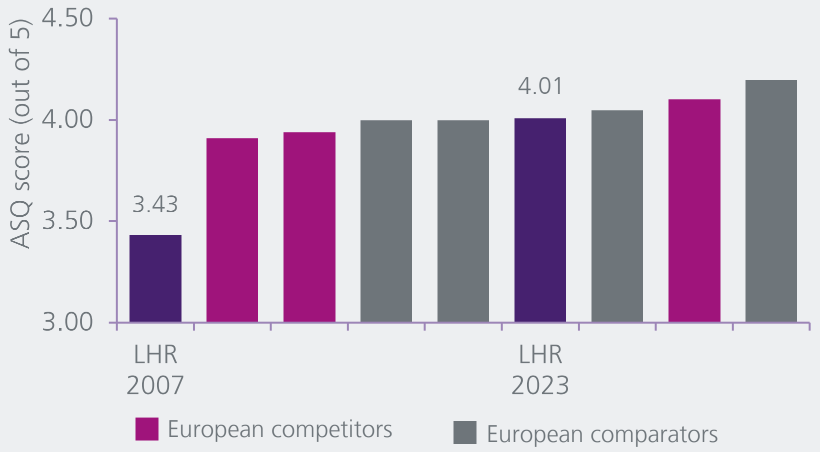
The first five months saw continued passenger growth, and a total of 30.0 million passengers travelled through the airport (2022: 20.1 million). While inbound leisure and business travel demonstrate promising recovery, it is outbound leisure travel that remains the primary catalyst for passenger growth. In the initial five months of 2023, business travel represented 29% of total traffic, a decrease from the pre-pandemic period when it accounted for 34%. It is worth reminding though that Heathrow holds no passenger mix risk.

Passenger growth has been observed across all regions, with notable contributions from North America, EU, Africa and Latin America, resulting in a significant increase in passenger numbers compared to 2022. The Asia Pacific region has experienced significant benefits from the reopening of borders early this year and in May it stands at 83% of 2019. This positive development is exemplified by the successful restart of Heathrow routes to China by airlines like Shenzhen Airlines and Air China.

The number of air traffic movements (ATMs) increased by 35.5% which is in line with the overall increase in demand. Additionally, load factors increased to 75.8% for the first five months, although this is below the full-year level for 2019 and provides further growth opportunities. The average number of seats per passenger aircraft remained higher than last year at 220.7 (2022: 215.4).

Our cargo tonnage decreased by 7.8% compared to the first five months of 2022. Even with belly hold capacity back to normal on many routes, tonnage remains down as the global air cargo industry is suffering the effects of various macroeconomic factors resulting in weak demand.

Q1 2023 Passenger satisfaction European ranking



Traffic and operating statistics

	Jan - May 2019	Jan - May 2022	Jan - May 2023	2023 vs. 2022 (%)
Passengers (m)	31.5	20.1	30.0	49.6
Long-haul traffic growth/(decline) %	3.7	605.4	60.1	N/A
Short-haul traffic growth/(decline) %	6.0	583.5	38.6	N/A
Passengers ATM	193,376	132,295	179,307	35.5
Cargo ATM	1,165	5,437	1,563	(71.2)
Load factors (%)	75.9	70.5	75.8	7.5
Seats per ATM	220.7	215.4	220.7	2.5
Cargo tonnage ('000)	675	576	531	(7.8)

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

2. BUSINESS DEVELOPMENTS

CAPITAL INVESTMENT

In March, the CAA published its Final Decision for the H7 regulatory period with a capital expenditure envelope of £3.6 billion (2020 CPI). Our investment plan is centred on 6 core programmes which will run throughout H7 as follows:

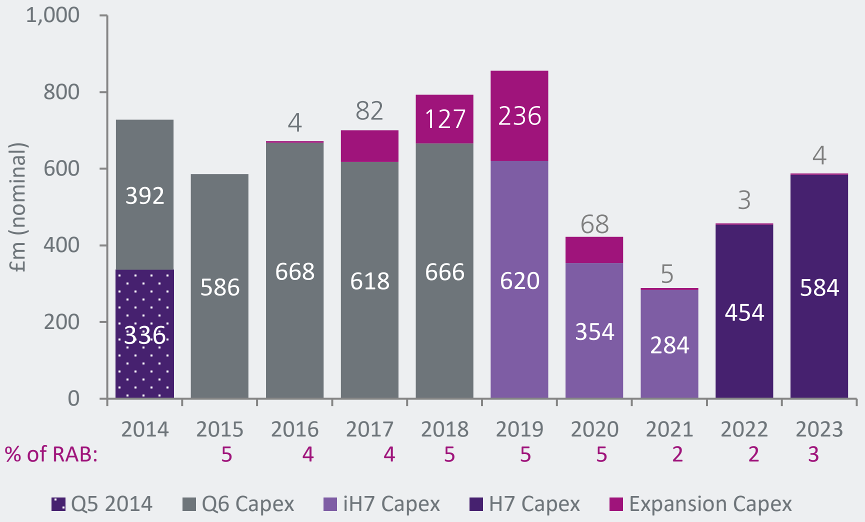
- **Asset management and compliance**: focused on the replacement of assets to keep colleagues and passengers safe and secure.
- **Security**: improving security through the installation of next generation security lanes, enhancing service through allowing passengers to keep liquids and laptops in bags.
- **T2 Baggage**: investment to maintain service level standards for the existing baggage system whilst transitioning to a new system in T2.
- **Commercial Revenues**: investment in digital retail to expand and diversify our commercial offering to meet increased passenger expectations post COVID-19.
- **Efficient Airport**: improving operational resilience, predictability and reliability of journeys and delivering targeted service improvements to consumers with specific focus on those that are most vulnerable.
- **Carbon & Sustainability**: targeting investment which will help deliver our net zero goals and improvements to noise, air quality and traffic congestion.

For 2023 our capex forecast is £588m, which is 29% higher than in 2022. Our plan includes: work on new security lanes in Terminals 2, 3 and 5; asset management and compliance focussed on the continuation of the cargo and main tunnel refurbishment, runway resurfacing and beginning delivery of our virtual control facility; initial work on the Terminal 2 baggage system; and investment in our commercial proposition including surface access routes.

EXPANSION DEVELOPMENTS

We are currently conducting an internal review of the work that we have carried out and the different circumstances we find the aviation industry in. This will enable us to develop and progress appropriate recommendations. 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.

Forecast capital expenditure profile



New CT scanners

Heathrow

2. BUSINESS DEVELOPMENTS

Our refreshed 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. We are pleased to have achieved science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. Heathrow is the first airport to achieve this status with SBTi's updated 1.5 degrees standard.

The Sustainable Aviation Fuels (SAF) incentive scheme continues to make SAF a regular feature of fuel supply at the airport. A success in 2022, the incentive has been increased from 0.5% to 1.5% in 2023, and it has once again been oversubscribed. In 2023, 14 airlines (7 new) submitted bids, 114% of the year's goal. The scheme contributes to both keeping Heathrow highly competitive with other airports with regular SAF supply outside the UK and it signals real increased demand for SAF domestically, even more relevant at the time the government has just published its second SAF mandate consultation. To progress the '30 by 30' campaign, which urges corporates to purchase 30% SAF by 2030 for their business travel, we have developed a plan and criteria to engage with organisations to secure their commitment. We anticipate announcing signatories of the campaign at COP28 in Q4. Current policies do not cover all the SAF needed by 2030, so organisations can act through campaigns like '30 by 30' to help signal demand in the market. Corporations coming together demonstrating they want to be part of the solution to achieve net zero air travel sends a demand signal for SAF to governments, which can develop policies to escalate its production.

Heathrow is a member of the UK industry coalition Sustainable Aviation (SA). In April 2023, SA published its latest decarbonisation roadmap, confirming UK aviation can grow and get to net zero. This latest analysis shows aviation can reduce 87% of its emissions in-sector by 2050, more than was previously thought.

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. In January 2023, we published Heathrow's new Giving Back Programme which will collectively benefit at least one million local residents by 2030, focusing on employability, nature and the local environment. The Giving Back Programme builds on our history of community investment over many years. We have continued to roll out the Sustainable Travel Zone, launched in 2022. Highlights include reduced journey times from Reading to Heathrow on RailAir coach and new early morning and late evening National Express coaches from Luton and Hemel Hempstead, to meet shift patterns. Heathrow's revised noise insulation and Vortex scheme was launched in early April. The new scheme will simplify our offer and be based on a single boundary. Through it we will offer funding for noise insulation and ventilation costs for residential and community buildings. Eligibility will be based on noise footprints known as contours, based on UK noise policy. In March 2023, we held the first in a series of Heathrow Lift Off events scheduled to take place throughout 2023. These are designed to give local small and medium sized businesses the opportunity to present to Heathrow and to a group of our tier 1 suppliers. We have delivered over 200 work experience opportunities since the start of the year through a combination of T-Levels placements, Essential Skills Masterclasses for students with additional learning needs, and an engineering insights experience for local students.

3. REGULATORY DEVELOPMENTS

On 8 March 2023, the CAA published its Final Decision for the H7 regulatory period. The decision sets an average price cap of £23.06 (2020 CPI) across H7. This will be implemented through a flat charge of £21.03 (2020 CPI) across 2024 to 2026, with the current interim price cap (£31.57 nominal) retained for 2023. Overall, forecasts in the Final Decision build on the CAA's Final Proposals and it is largely based on the same assumptions.

Following the publication of the Final Decision, we assessed the forecasts and evidence put forward by the CAA in detail. While we continue to disagree with a number of conclusions reached by the CAA, we are now focusing on ensuring that we can deliver the best possible outcomes for passengers through our own H7 plan. There are, however, a number of areas in which the CAA has made clear errors which will undermine the investment needed to deliver the airport service and resilience consumers want.

Given this, on 18 April we filed an appeal of the CAA's decision to the CMA, formally requesting the CMA to review the following parts of the CAA's decision:

- The decision on WACC, specifically on the asset beta and the cost of embedded debt;
- The decision to only apply a £300m RAB adjustment following the impact of COVID-19;
- The decision to apply an additional K- Factor to claw back over recovery against the yield per passenger in 2020 and 2021, effectively returning 25% of Heathrow's aeronautical revenue over those years; and
- The CAA's new capital incentive framework which will be more costly and complex.

Alongside Heathrow's appeal, British Airways, Virgin Atlantic and Delta also appealed the CAA's H7 Final Decision to the CMA. Airlines also appealed the decisions on WACC and RAB adjustment alongside appealing additional grounds on the CAA's passenger forecast and the asymmetric risk allowance.

On 11 May 2023, the CMA granted permission for both Heathrow and the airlines to appeal on all grounds.

On 16 May, the CMA announced that it plans to use the extension to the statutory deadline for its final determination, meaning that a decision will be taken by 17 October.

The appeal will be led by the CMA Panel of Kirstin Baker (Panel Chair), Juliet Lazarus and Paul Muysert. We expect the process to include hearings throughout the summer.

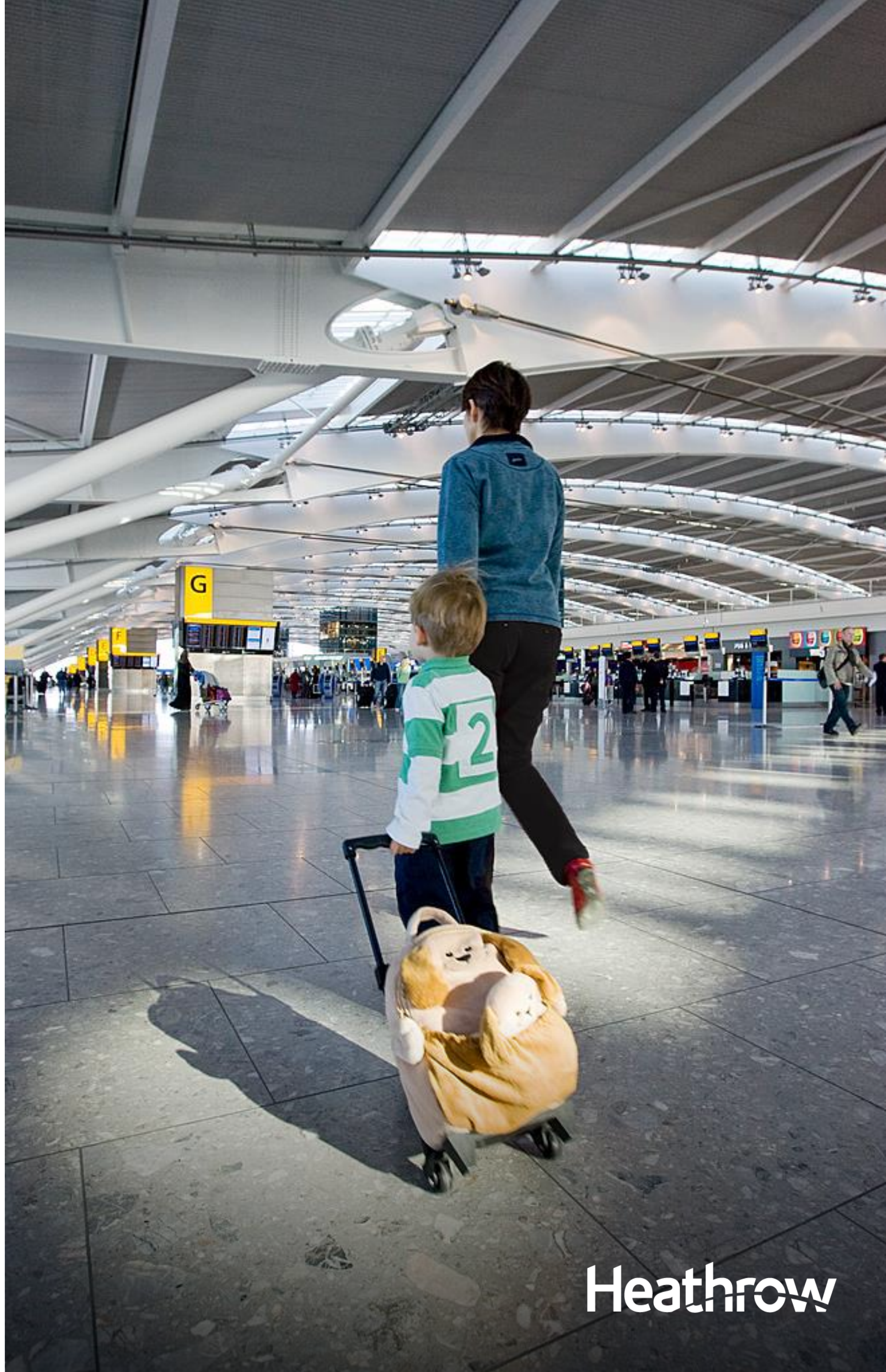
CMA Appeal Process

18 April
Appeal filed

11 May
CMA decision on permission to appeal

31 May
CAA response to appeals

17 October
Deadline for CMA decision (extended)



4. HISTORICAL FINANCIAL PERFORMANCE

This section summarises the results for the Group for the three months to 31 March 2023. A full description of performance is provided in the results published on 26 April 2023, available at the Investor Centre on heathrow.com.

TRAFFIC

In the first three months of 2023, traffic increased by 74.2% to 16.9 million passengers (2022: 9.7 million) placing Heathrow ahead of its European competitors as Europe's busiest airport and the second busiest airport in the world for international travel.

ADJUSTED EBITDA

In the first three months of 2023, Adjusted EBITDA increased 78.0% to £486 million (2022: £273 million).

REVENUE

In the first three months of 2023, total revenue increased 57.8% to £814 million (2022: £516 million). This was driven by an increase of 67.2% in aeronautical income, an increase of 47.5% in retail income and an increase of 34.8% 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 by 34.8% 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 three months of 2023, adjusted operating costs increased by 35.0% to £328 million (2022: £243 million). The increase in operating costs reflects the ramp up of operations, mainly in Terminal 3 and Terminal 4. This includes costs relating to additional colleagues, overtime, recruitment and training. There has been an increase in operational and maintenance costs as a result of the reopening of operations and higher passengers compared to 2022. Utilities and other costs have also been impacted by higher consumption and higher energy prices.

REGULATORY ASSET BASE (RAB) AND FINANCIAL RATIOS

At 31 March 2023, the RAB was £19,591 million (31 December 2022: £19,182 million). At 31 March 2023, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 64.0% for senior debt and 74.9% 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 three months of 2023, net finance costs before certain re-measurements were £442 million (2022: £308 million) driven by additional inflation accretion expense as the RPI annual growth rate reached 13.8% as published in March 2023. Net interest paid (excluding restricted payments) was £91 million (2022: £47 million).

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

At 31 March 2023, nominal net debt was £14,681 million (31 December 2022: £14,579 million), comprising £13,357 million in bond issues, £1,580 million in other term debt, £783 million in index-linked derivative accretion and £49 million of additional lease liabilities. This was offset by cash, cash equivalents and term deposits of £1,088 million. Nominal net debt consisted of £12,530 million in senior net debt and £2,151 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 £49 million as at 31 March 2023. The aggregate lease liability of all leases classified as Existing Operating Leases as at 31 March 2023 was £367 million.

5. FORECAST FINANCIAL PERFORMANCE

TRAFFIC

In 2023, traffic is expected to increase 20.1% to 74.0 million passengers versus last year (2022: 61.6m). This is in the middle of the guidance range released with our Q1 results and is an increase from the forecast published in December 2022 (67.2m), reflecting stronger passenger traffic recovery. Further detail on our traffic forecasts can be found on page 11.

ADJUSTED EBITDA.

Adjusted EBITDA in 2023 is forecast to increase 16.7% to £1,965 million (2022: £1,684 million). This is driven by higher passenger numbers, with total revenue increasing by 17.9% to £3,436 million. Operating costs have increased by 19.6% to £1,470 million, reflecting the investments in recruitment, full operations and inflation.

REVENUE

Revenue in 2023 is forecasted to increase by 17.9% to £3,436 million. Aeronautical income is forecast to increase 22.6% to £2,304 million (2022: £1,879 million), mainly driven by traffic recovery. Retail income is expected to increase 14.3% to £644 million (2022: £564 million), particularly as a result of strong car parking performance. However, the removal of tax-free shopping has resulted in a decline in spending per passenger to £8.71 (2022: £9.16). Other revenue is expected to increase by 3.6% to £487 million (2022: £470 million).

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

Adjusted operating costs in 2023 are forecast to increase to £1,471 million (2022: £1,229 million) because of ramp-up costs, additional colleagues, overtime, recruitment and training. We are also forecasting an increase in Passengers Requiring Support (PRS) resourcing costs, cleaning and maintenance costs and service quality rebates paid. Operating costs on a per-passenger basis are expected to remain broadly flat with 2022 at £19.86.

REGULATORY ASSET BASE

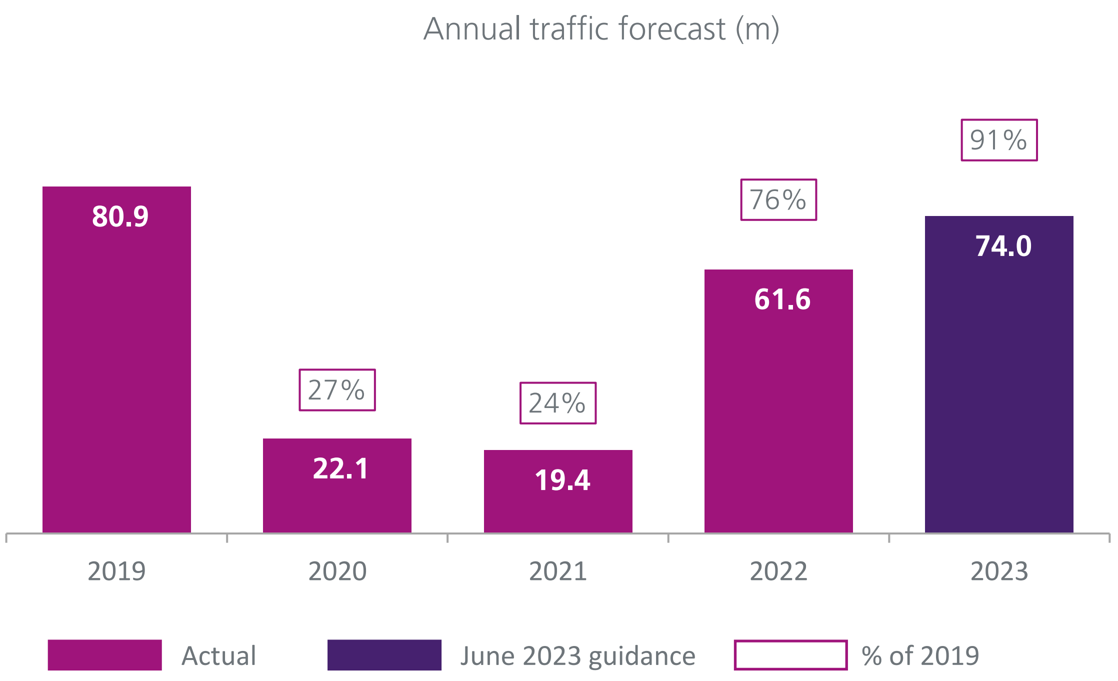
At the end of 2023, the RAB is forecast to be £19,657 million (2022: £19,182 million). The increase in RAB over the year is primarily driven by high inflation, with an average RPI assumption of 8.75% and year end assumption of 4.3%. The forecast for 2023 assumes capital expenditure of £588 million and regulatory depreciation in line with the CAA's final decision.

NET DEBT AND FINANCIAL RATIOS

At 31 December 2023, nominal net debt for Heathrow SP is forecast to be £14,750 million (2022: £14,579 million). Net external interest paid is forecast to be £544 million in 2023 (2022: £192 million), the increase is due to the end of the beneficial impact of the swap reprofiling programme which concluded in 2022. The Regulatory Asset Ratio (RAR) is forecast to be 63.2% for senior debt and 75.0% for junior debt (31 December 2022: 64.9% and 76.0%) driven by the expected increased growth in the RAB. For the year ending 31 December 2023, the Interest Cover Ratio (ICR) is forecast to be 3.26x for senior debt and 2.80x 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



APPROACH

Traffic in 2023 is forecast to increase by 20% to 74.0 million passengers (2022: 61.6 million) which is a recovery of 91% compared to 2019. The increased forecast reflects the improved economic outlook and considers that the majority of travel restrictions relating to COVID-19 have been eased, for instance, China re-opening and the US opening its borders to the unvaccinated, offset by the impact of ongoing operational challenges facing the global aviation ecosystem.

6. FINANCING MATTERS

NEW FINANCING AND CHANGES TO FACILITIES

Since the previous Investor Report was distributed on 16 December 2022, we have raised £85 million in new Class A debt through the private placement market, with maturities in 2038 and 2043. These transactions complement our robust liquidity position. Total forecast debt issuance for 2023 is £750 million. Up until the date of this report, we have also made early paydowns of accretion on our inflation swaps totalling £159 million.

DEBT MATURITIES AND REPAYMENTS

Since the previous Investor Report was distributed on 16 December 2022 there was a scheduled repayment of a £750 million Class A bond in February.

HEDGING

No derivatives have been executed since the publication of the previous Investor Report on 16 December 2022. The portfolio of derivatives has no breaks.

At 31 May 2023, the total notional value of cross-currency swaps was £5,533 million, the total notional value of index-linked swaps was £5,647 million, and the total notional value of interest rate swaps was £7,378 million.

At 31 May 2023, the interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged with 95.2% 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 takes into account £3.8 billion at 31 May 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.

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 16 December 2023, Heathrow SP made a restricted payment of £95 million (2021: £1.1 billion) in March 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

Management's assessment of liquidity and access to debt capital markets in affordable terms are reliant on Heathrow's ability to maintain a stable credit rating. Since the previous Investor Report was distributed on 16 December 2022 and following the publication of the H7 Final Proposals, S&P, Fitch and Moody's affirmed our ratings and moved to a stable outlook in each case.

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 16 December 2022.

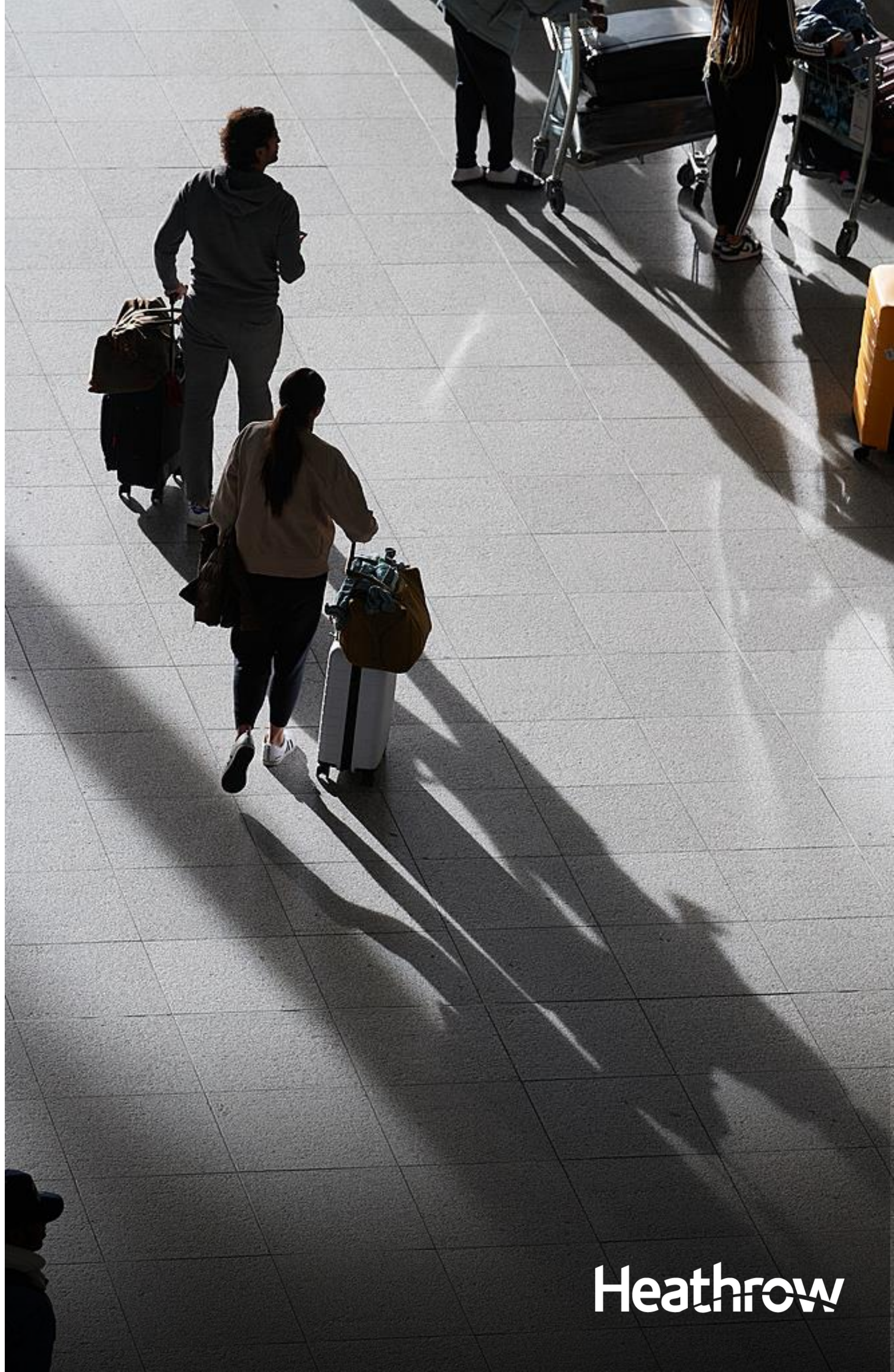
OUTSOURCING

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 16 December 2022.

BOARD AND MANAGEMENT CHANGES

On 2 February 2023, John Holland-Kaye announced his intention to step down as Chief Executive Officer of Heathrow and as an Executive Director of the HAHL Board during 2023.

On 30 June 2023, the Board of Directors of Heathrow Airport Holdings confirmed the appointment of Thomas Woldbye, currently the Chief Executive Officer of Copenhagen Airport, as the person to replace John Holland-Kaye. John will remain in post over the summer getaway until Thomas officially starts later in the year.



8. CONFIRMATION

30 June 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(1)	**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**	**13.1**
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	N/A
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**	
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	
Oct-Dec	**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**	
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	
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**	
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	
ATM (‘000)	**473**	**460**	**449**	**476**	**471**	**470**	**471**	**472**	**473**	**474**	**476**	**476**	**201**	**190**	**376**	
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	

(1) Apr-Jun 2023 excludes June.

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

(See important notice on page 2 of this document)	**Trigger Level**	**Year to 31 December 2022 (£m)**	**Year to 31 December 2023 (£m)**
Cashflow from Operations[2]		1,719	1,919
Add back: Cash payments in respect of prior year exceptional items		-	-
Adjusted Cashflow from Operations		1,719	1,919
Less: corporation tax relief / (paid)		(1)	-
Less: 2 per cent of Total RAB		(384)	(393)
Cash Flow (A)		**1,334**	**1,526**
Interest and equivalent recurring charges paid on Senior Debt[3][4]			
Interest paid – Class A bonds and swaps[7]		82	441
Interest paid and received – other Class A debt and new debt issued from 1 January 2023		12	4
Interest paid – Class A revolving credit facilities		-	-
Lease interest		24	18
Commitment fees on liquidity and revolving credit facilities		4	4
Total interest on Senior Debt (B) [7]		**122**	**467**
Interest and equivalent recurring charges paid on Junior Debt[3][4]			
Class B debt		70	77
Total interest on Junior Debt (C)		**70**	**77**
Total interest (D=B+C)		**192**	**544**
Senior ICR (A/B)[5][6]	**1.40x**	**10.97x**	**3.26x**
Junior ICR (A/D)[5][6]	**1.20x**	**6.97x**	**2.80x**

(1) 2023 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 for 2022
(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) It is expected that interest paid will rise in 2023 as the impact of swaps reprofiling comes to an end.

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 2022 (£m)	Year to 31 December 2023 (£m)
Income		
Aeronautical income	1,879	2,304
Non-aeronautical income - retail	564	645
Non-aeronautical income – non-retail	470	487
Total income	**2,913**	**3,436**
Operating costs[2]	(1,229)	(1,471)
Adjusted EBITDA	**1,684**	**1,965**
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	(35)
Pension	(12)	(11)
Cashflow from operations	**1,719**	**1,919**

	Year to 31 December 2023				Year to 31 December 2022
	Income statement incl. amortisation[3][4]	Less amortisation[3]	Less variation in accruals[3]	Cash flow	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	425	(24)	40	441	82
Interest paid – Class A EIB facilties	-	-	-	-	-
Interest paid and received – other Class A debt	14	-	(10)	4	12
Lease interest	18	-	-	18	24
Commitment fees on liquidity & RCFs[5]	2	(1)	3	4	4
Interest paid – Class B debt	76	2	(1)	77	70
Total interest[1]	**535**	**(23)**	**32**	**544**	**192**

(1) 2023 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

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)
Closing Heathrow RAB (A)		**19,182**	**19,657**
Senior Debt			
Class A existing bonds		12,046	11,386
Class A EIB facilities		-	-
Non - Existing Operating Lease debt		52	69
Other Class A debt and new debt issued from 1 January 2023		1,455	2,055
RPI swap accretion		726	903
Total Senior Debt (B)		**14,279**	**14,413**
Junior Debt			
Class B existing debt		2,132	2,333
Other Class B debt		-	-
Total Junior Debt (C)		**2,132**	**2,333**
Cash and cash equivalents (D)		(1,833)	(1,996)
Senior net debt (E=B+D)		**12,447**	**12,417**
Senior and junior net debt (F=B+C+D)		**14,579**	**14,750**
Senior RAR (E/A)[2][3][4][5]	**72.5%**	**64.9%**	**63.2%**
Junior RAR (F/A)[2][4][5]	**85.0%**	**76.0%**	**75.0%**

(1) 2023 figures are forecasts; values calculated on unrounded figures
(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked accretion) to RAB (Regulatory Asset Base)
(3) Senior RAR does not take into account ability to reduce senior debt using undrawn junior debt under revolving credit facilities
(4) Ratios calculated on unrounded figures

APPENDIX 4 – NOMINAL CONSOLIDATED NET DEBT OF OBLIGORS, HEATHROW FUNDING LIMITED AND HEATHROW FINANCE PLC AS AT 31 MARCH 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%	107	107	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
C$300m 3.7%	363	363	2033
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	72	72	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	771	771	2039
¥10,000m 0.8%	71	71	2039
£100m RPI +1.238%	141	141	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%	107	107	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	201	201	2058
CHF400m 0.5%	277	277	2024
Total senior bonds	**11,331**	**11,331**	
Term debt	1,455	1,455	Various
Index-linked derivative accretion	783	783	Various
Revolving / WC facilities	0	1,019	2026
Operating lease liability	49	49	Various
Total other senior debt	**2,287**	**3,306**	
Total senior debt	**13,618**	**14,637**	
Heathrow (SP) Limited cash	**(1,088)**		
Senior net debt	**12,530**		

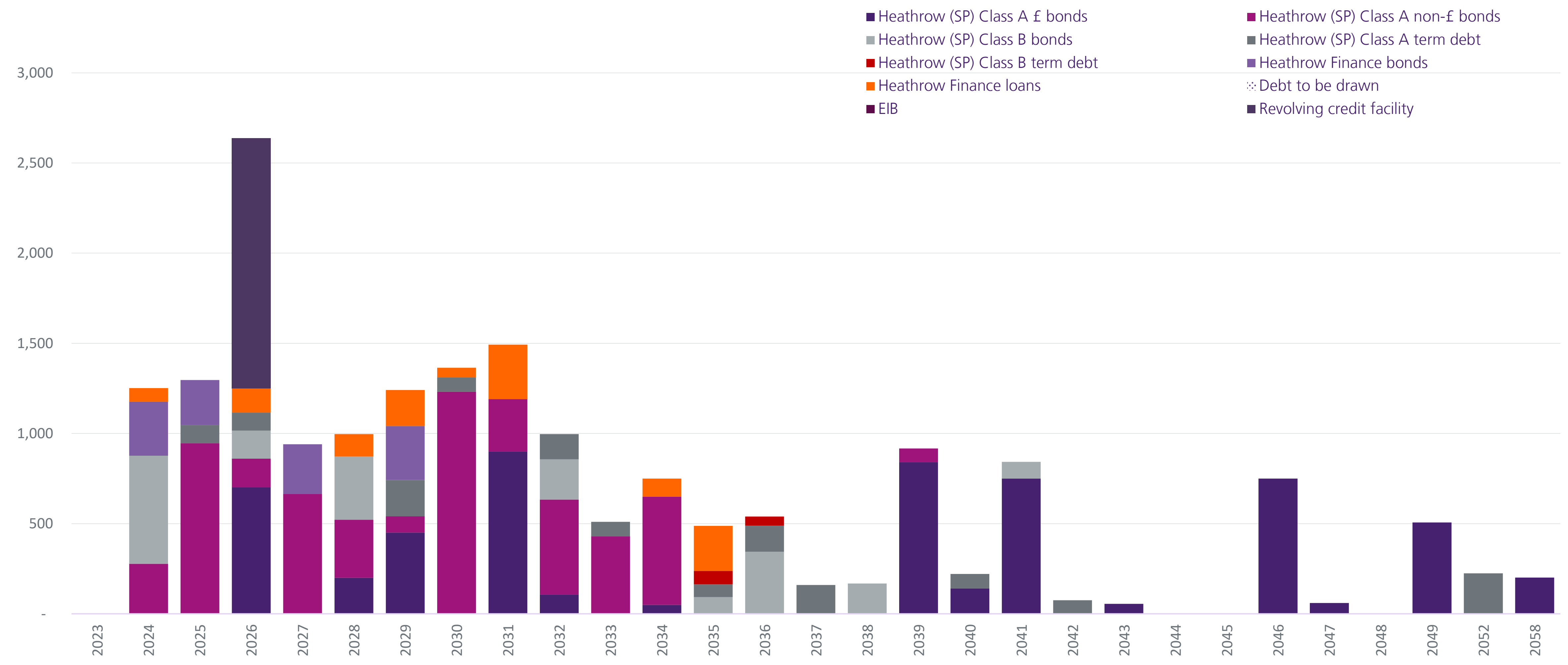
Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£350m 2.625%	350	350	2028
£182m 0.101%	223	223	2032
£75m RPI + 0.347%	93	93	2035
£75m RPI + 0.337%	93	93	2036
£180m RPI +1.061%	251	251	2036
£51m RPI + 0.419%	63	63	2038
£105m 3.460%	105	105	2038
£75m RPI + 0.362%	93	93	2041
Total junior bonds	**2,026**	**2,026**	
Term debt	125	125	Various
Junior revolving credit facilities	0	367	2026
Total junior debt	**2,151**	**2,518**	
Heathrow (SP) Limited group net debt	**14,681**		

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
£301m	301	301	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	**(1,164)**		
Heathrow Finance plc net debt	**1,200**		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	**13,618**	**14,637**
Heathrow (SP) Limited junior debt	**2,151**	**2,518**
Heathrow Finance plc debt	**2,364**	**2,364**
Heathrow Finance plc group debt	**18,133**	**19,519**
Heathrow Finance plc group cash	**(2,252)**	
Heathrow Finance plc group net debt	**15,881**	

Heathrow

APPENDIX 5 – DEBT MATURITY PROFILE AS AT 31 MARCH 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)
Calculation of Group ICR[2]			
Cash Flow (A)		**1,334**	**1,526**
Interest			
Paid on Senior Debt (B)		122	467
Paid on Junior Debt (C)		70	77
Paid on Borrowings (D)		109	79
Group Interest Paid (E=B+C+D)		**300**	**623**
Group ICR (A/E) [2][5]	**1.00x**	**4.44x**	**2.45x**
Calculation of Group RAR[3]			
Total RAB (F)		19,182	19,657
Net debt			
Senior Net Debt (G)		12,447	12,417
Junior Debt (H)		2,132	2,333
Borrower Net Debt (I)		1,207	1,171
Group Net Debt (J=G+H+I)		**15,786**	**15,921**
Junior RAR ((G+H)/F)[3] [4]	**82.0%**	**76.0%**	**75.0%**
Group RAR (J/F)[4][5]	**92.5%**	**82.3%**	**81.0%**

(1) 2023 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