



Heathrow

HEATHROW (SP) LIMITED AND HEATHROW FINANCE PLC

Investor Report June 2020

16 June 2020

Heathrow

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This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the 'Group') for the period to 31 March 2020 and its passenger traffic for the period to 30 April 2020. It also contains forecast financial information derived from current management forecasts for Heathrow (SP) and its subsidiaries (the 'Group') for the whole of 2020 and 2021.

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.

Any reference to "Heathrow" means Heathrow Airport or Heathrow Airport Limited (a company registered in England and Wales, with company number 1991017) and will include any of its direct or indirect parent companies, their subsidiaries and affiliates from time to time and their respective directors, representatives or employees and/or any persons connected with them from time to time, as the context requires.

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1. EXECUTIVE SUMMARY

- COVID-19 is having a significant negative impact on Heathrow's passenger traffic and financial performance.
- Heathrow's management has taken immediate steps to protect the financial resilience of the UK's only hub, aiming to reduce operating expenses by at least £300 million and reducing capital expenditure by over £650 million in 2020.
- Heathrow's actions to protect liquidity for creditors will reduce its average monthly cash burn from £240 million to £159 million per month. The actions taken will slow the growth of the RAB which is expected to fall as a result in 2020.
- Heathrow remains highly liquid: the Group had £3.0 billion of cash and committed facilities available as at 30 April 2020.
- The Court of Appeal's decision regarding the governmental process surrounding the Airports National Policy Statement and the impact of COVID-19 mean that the expansion programme and related investments are delayed by at least two years.
- Heathrow is working with the CAA on defining the terms of its next regulatory period (H7), which will reset all building blocks from 2022 to reflect new market and trading conditions.
- Rapid deterioration in traffic and cash flows have put trigger events at Heathrow SP and covenants at Heathrow Finance under strain.
- The key historic financial ratios for 2019 comply with Default and Trigger Event ratios at Heathrow SP.
- At the date of this report, a Forecasting Event has occurred and a Trigger Event is forecast to occur in relation to the forecast ICR for the year ending 31 December 2020 for Class A and Class B debt at Heathrow SP when tested in June 2020. A potential breach of the trigger events will effectively result in a cash trap within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.
- Heathrow Finance is forecast to breach its RAR and ICR covenant tests in relation to the financial year ending 31 December 2020, when tested in June 2021. Heathrow's management is taking steps to resolve this issue including seeking a waiver on financial covenants from Heathrow Finance creditors. Further details are provided under the Financing Matters section.
- Heathrow remains committed to restoring stronger credit metrics in the medium term.



2. OVERVIEW

This report sets out actual and forecast financial performance and ratios for Heathrow (SP) in 2019, 2020 and 2021 respectively, together with key business updates. Additional information specific to Heathrow Finance is set out in Appendix 6.

COVID-19 has had an unprecedented impact on the aviation industry, including Heathrow. The pandemic has resulted in significant reductions in passenger traffic as governments around the world closed their borders and airlines dramatically cut their capacity. While steps to ease these lockdowns are starting to emerge, the timing and speed of a recovery in passenger demand remain highly uncertain. Heathrow currently anticipates that traffic volumes may gradually recover in the second half of 2020. Overall in 2020, passenger traffic is expected to decline 63.9% compared to 2019 to 29.2 million passengers with a return to pre COVID-19 traffic volumes not anticipated until after 2022.

Our response to this crisis has been quick, decisive and built around 3 pillars: keeping people safe, maximising revenue and implementing our protection plan to safeguard Heathrow's financial resilience and preserve our cash position. We will be reducing operating expenses by at least £300 million and cut capital expenditure by over £650 million - equivalent to 4% of RAB - in 2020.

We have significantly revised our forecast since our December 2019 Investor Report. 2020 Adjusted EBITDA is expected to decline 81.4% to £357 million compared to 2019. This is largely driven by revenue reducing by 58.9% to £1,261 million compared to £3,070 million in 2019 with aeronautical revenue declining by 60.6%, retail revenue by 73.8% and other revenue by 32.3%. We forecast operating costs to reduce to £904 million in 2020. The RAB is forecast to be £16.4 billion at the end of 2020 compared to £17.7 billion published in the previous Investor Report, reflecting our plans to cancel or defer capital spend for 2020 and lower inflation expectations. Heathrow continues to benefit from a strong liquidity position with £3.0 billion of cash and committed facilities available to the business as at 30 April 2020.

Since our last Investor Report, the Court of Appeal concluded that the Government was required but failed to take account of the Paris Climate Agreement when preparing the Airports National Policy Statement ('ANPS'). The Court declared the ANPS suspended unless and until the Government carries out a review of the policy. Heathrow applied and was granted permission to appeal the decision to the Supreme Court. Given the COVID-19 crisis and ongoing appeal process, our expansion programme is being demobilized and planned investment deferred.

The key historic financial ratios for 2019 comply with Default and Trigger Event ratios. As at the date of this report, a Forecasting Event has occurred and a Trigger Event is forecast to occur in relation to the forecast ICR for the year ending 31 December 2020. Furthermore, while compliance with RAR and ICR covenant tests can be confirmed at Heathrow Finance in June 2020, a breach of both RAR and ICR covenants is expected when tested for FY 2020 in June 2021. Heathrow's management is taking steps to remedy the breaches at Heathrow Finance. Further details can be found under the Financing Matters section.

(£m unless stated)	2019 (A)	2020 (F)	2021 (F)	Trigger / Forecasting Event
Summary financials				
Revenue	3,070	1,261	2,401	
Adjusted EBITDA ⁽¹⁾	1,921	357	1,330	
Cashflow from operations ⁽²⁾	1,942	446	1,305	
Regulatory Asset Base (RAB)	16,598	16,400	16,437	
Nominal net debt				
Senior net debt	11,055	11,507	11,257	
Junior net debt	1,357	1,663	1,678	
Consolidated net debt	12,412	13,170	12,935	
Interest paid				
Senior interest paid	404	384	357	
Junior interest paid	75	82	62	
Total interest paid	479	466	419	
Ratios⁽³⁾				
Senior(Class A) RAR	66.6%	70.2%	68.5%	72.5% / 72.5%
Junior (Class B) RAR	74.8%	80.3%	78.7%	85.0% / 85.0%
Senior(Class A) ICR	3.74x	0.29x	2.71x	1.40x / 1.60x
Junior (Class B) ICR	3.15x	0.24x	2.31x	1.20x / 1.40x

(£m unless stated)	2019 (A)	2020 (F)	2021 (F)	Covenant
Heathrow Finance				
Borrower net debt	1,949	2,126	2,236	
Group net debt	14,361	15,296	15,171	
Borrower interest paid	79	96	111	
Group interest paid	558	562	530	
Group RAR ⁽³⁾	86.5%	93.3%	92.3%	92.5%
Group ICR ⁽³⁾	2.71x	0.20x	1.82x	1.00x

1) Pre-exceptional earnings before interest, tax, depreciation and amortisation

2) Addback cashone-off items, non-recurring extraordinary items & exceptional items

3) Ratios calculated using unrounded data. Ratio definitions and calculations in Appendices 2 and 3

3. BUSINESS DEVELOPMENTS

KEEPING PEOPLE SAFE

Heathrow will stay open as long as it is safe to do so. The airport will continue to serve the UK by keeping open vital supply lines and helping people get home.

Keeping people safe remains our first and non-negotiable priority. We are collaborating closely with Public Health England to facilitate their work within our terminals to keep people safe at all times. Measures implemented include the provision of hand sanitiser dispensers, additional cleaning and sanitation procedures as well as signage and floor stickers to remind passengers to socially distance. Our colleagues are also on hand to help manage the queues and ensure safe and adequate spacing between passengers, and have been provided PPE such as face masks to do so safely. We have also installed Perspex screens at check-in desks and security to increase separation between passengers and colleagues.

We call on the Government to take a lead in setting a Common International Standard for health screening at airports. We have started trialing new technologies that could form part of this Standard. In the meantime, the Government has decided that a quarantine period is necessary for passengers arriving in the UK while exit plans remain to be outlined. We believe that failing to put these exit plans in place rapidly will put even more jobs in the aviation sector at risk. We also expect the Government will provide further updates on their airbridge proposals in the coming weeks.

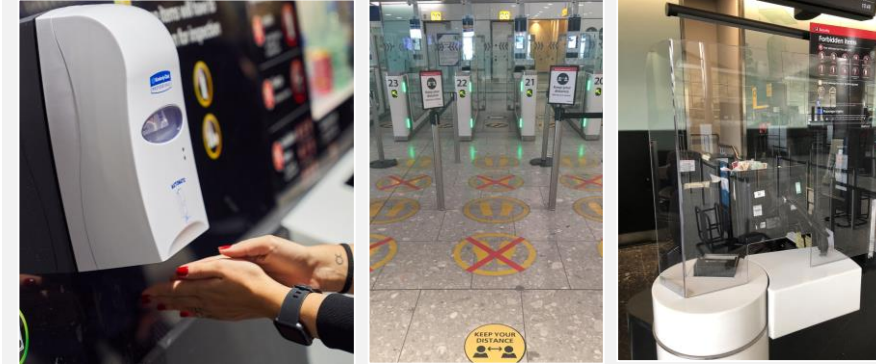
SERVICE STANDARDS

In the 12 months to 30 April 2020, rebates of £628,000 were paid by Heathrow under the SQR scheme in relation to Terminal 5's track transit system.

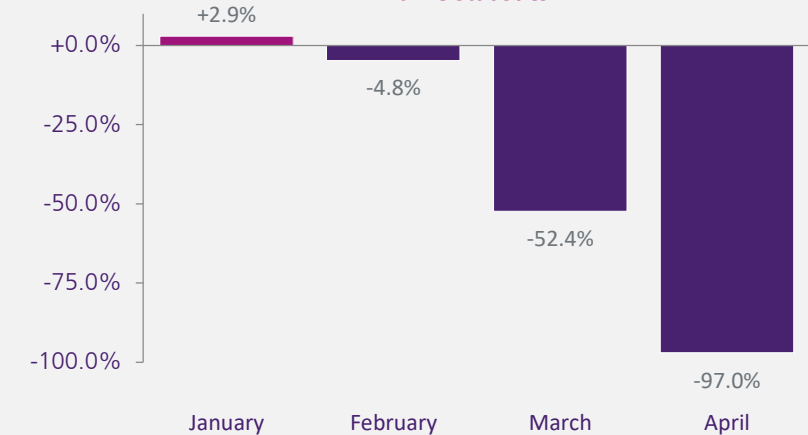
MAXIMISING REVENUE

We have worked with our airline partners to consolidate their operations into Heathrow. We are also using available capacity to prioritise cargo flights. Most of our cargo travels in the belly hold of passenger planes and therefore is not charged, however dedicated cargo movements are subject to a movement charge. Our busiest day for dedicated cargo movements was 30 April 2020, with 95 movements – 14 times the usual daily average pre-COVID. This demonstrates the value of our hub position and strong connectivity which have provided us some resilience during this crisis.

Measures implemented in terminals to keep people safe



2020 Traffic statistics

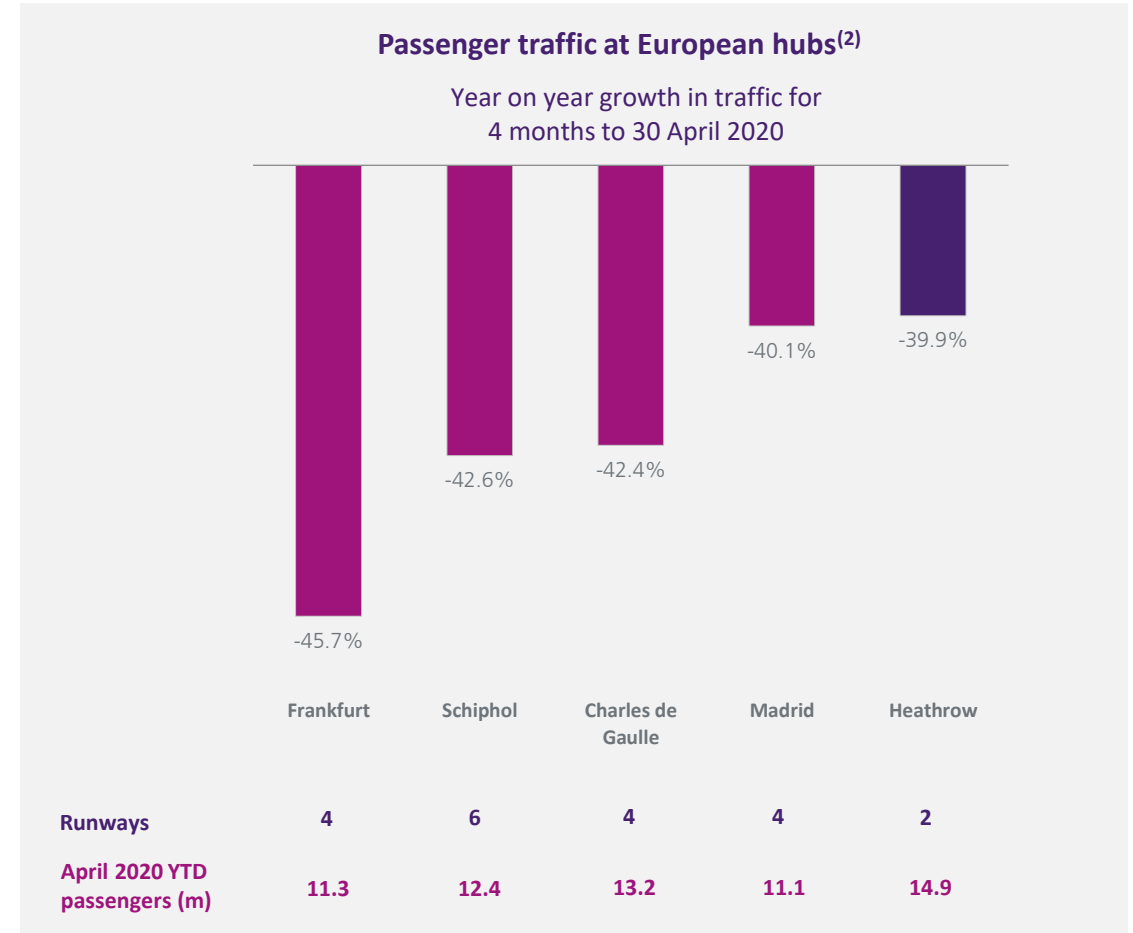


3. BUSINESS DEVELOPMENTS

IMPACT OF COVID-19 ON TRAFFIC

	Jan - Apr 2019	Jan - Apr 2020 ⁽¹⁾
Passengers (m)	24.7	14.9
Long-haul traffic growth/(decline)	0.6	(42.0)
Short-haul traffic growth/(decline)	2.3	(39.3)
Passengers ATM	152,046	101,382
Cargo ATM	911	2,452
Load factors (%)	76.1	66.0
Seats per ATM	213.8	217.7
Cargo tonnage ('000)	541	384

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



Note:
(1) On 11 June 2020, Heathrow reported 227,230 passengers for May 2020. Traffic statistics are available on Heathrow's website (<https://www.heathrow.com/company/investor-centre/reports/traffic-statistics>)
(2) Passenger traffic as at 30 April 2020 sourced from companies websites

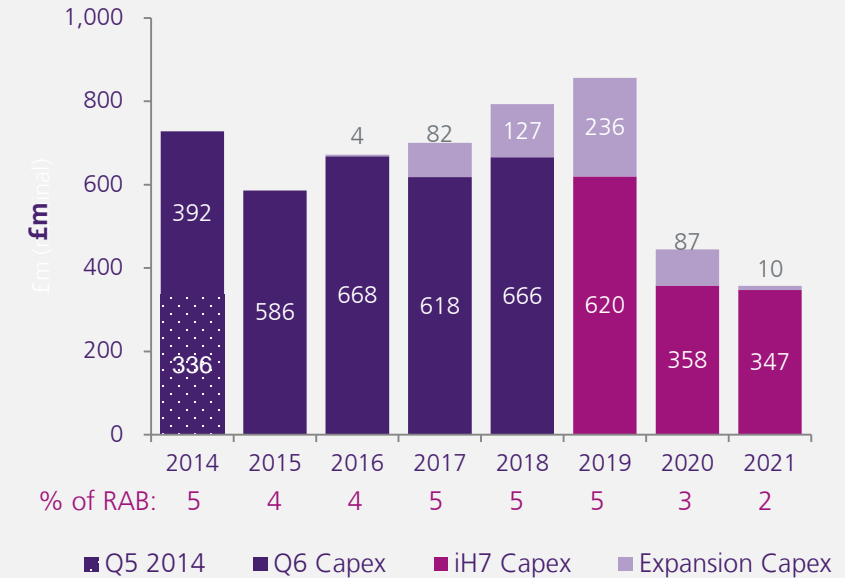
3. BUSINESS DEVELOPMENTS

PROTECTION PLAN

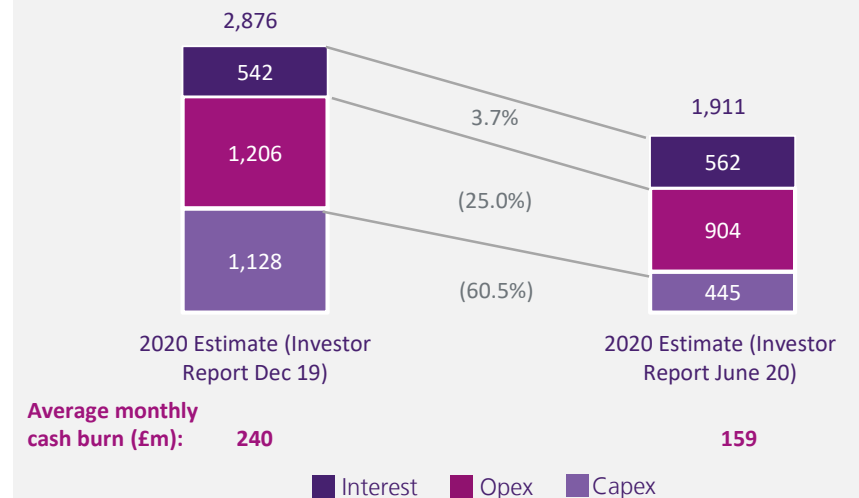
We have taken immediate steps to safeguard the financial resilience of our business and preserve our cash position. Since we initiated our business protection plan, our estimated monthly cash burn has reduced from around £240 million per month pre-COVID-19 to £159 million per month.

- **Strong liquidity position** – Prudent management over the past decade means that we are able to face this crisis with a robust financial position including £3.0 billion of cash and committed facilities as of 30 April 2020, sufficient to meet all our obligations until June 2021 under the extreme stress-test of no revenues, or well into 2022 under our forecast traffic scenario.
- **Consolidation of operations** – With passenger traffic significantly reducing, we have consolidated our operations to a single runway and have temporarily shifted passenger operations out of Terminals 3 and 4 into Terminals 2 and 5, whilst maintaining the capability to scale back up rapidly once the recovery phase begins.
- **Management initiatives to reduce costs by at least 30%** – At least £300 million of cost savings have been identified for the year, equivalent to an annualised saving of 30% on the operating expenses forecast published in our previous Investor Report. Management actions include people initiatives such as an executive pay holiday, a company-wide pay reduction, bonus cancellation, freezing recruitment and restructuring the organisation, renegotiating all supplier contracts, operating from a smaller footprint and stopping all non-essential spend. Discussions are ongoing with the government around measures that will support a further reduction in our cost base. We are also utilising the Government’s job retention scheme having now furloughed around 4,000 colleagues (of a total of over 7,000 colleagues directly employed by Heathrow).
- **Deferral of capital investment** – Planned investment for 2020 has decreased to £358 million or £445 million including capital expenditure related to expansion, with a forecast RAB of £16.4 billion. This compares to £450 million or £1,128 million including capital expenditure related to expansion, and a RAB of £17.7 billion in our previous Investor Report. The reduction of over £650 million aims to preserve cash while ensuring that we deliver on our safety, resilience and security requirements. The 2020 capital expenditure forecast includes spend on projects such as Hold Baggage Screening to ensure DfT compliance, airfield development to improve aircraft maneuverability, main and cargo tunnel works to ensure fire safety standards are maintained, and a continuation of projects to renew assets that have come to the end of their economic life. Capital expenditure in 2021 has also decreased to £357 million including capital expenditure related to expansion compared to £1,837 million in the previous Investor Report. The reduction in 2021 is largely driven by the deferral of expansion-related investment.
- **Fit for purpose regulation** – The current COVID-19 crisis is a further example that demonstrates that existing regulation has failed to create a long-term balance between risks and reward given the asymmetric risks faced by Heathrow. This failure threatens the sustainability of investment for consumers. We are engaging with the CAA to ensure it creates a fair framework that drives the right incentives for investment for the benefit of consumers and delivers on CAA’s duties on financeability in the context of H7.

Forecast capital expenditure profile



Analysis of cash burn levels (£m)



3. BUSINESS DEVELOPMENTS

HEATHROW EXPANSION

On 27 February 2020, the Court of Appeal concluded that the Government was required but failed to take account the Paris Climate Agreement when preparing the Airports National Policy Statement ('ANPS'). The Court declared that the ANPS has no legal effect unless and until the Government carries out a review of the policy.

The Government declined to appeal to the Supreme Court directly, but Heathrow and other interested parties have applied for permission to appeal the Court of Appeal ruling. In May 2020, we were granted permission by the Supreme Court to appeal this ruling and intend to proceed with this appeal.

We do believe that once the benefits of air travel and connectivity have been restored, an expanded Heathrow will be required, however responding to the impacts of COVID-19 is our priority right now.



4. REGULATORY DEVELOPMENTS

INITIAL BUSINESS PLAN ('IBP') AND THE H7 PRICE CONTROL PERIOD

In December 2019 we submitted our Initial Business Plan ('IBP') to the CAA. The IBP included our proposals for the regulatory framework for the H7 price control period ('H7'), due to begin on 1 January 2022. In light of the impact of COVID-19 and the Court of Appeal ruling setting aside the ANPS, we plan to publish a discussion document outlining how key regulatory building blocks could change depending on different recovery scenarios in coming months.

The CAA has also progressed its thinking on the regulatory framework for H7 with its latest consultation published in April 2020. The document provides an update on the H7 timetable, confirming the need for Heathrow to submit a final or revised business plan ('FBP or RBP' respectively) in Autumn 2020 to establish the H7 price control in 2022. It also notes the impact of COVID-19 and the need to review how uncertainty can be managed through Heathrow's regulatory framework. The CAA will be publishing a further consultation document in coming weeks.

We will continue to collect feedback on our IBP from our airline partners and other key stakeholders through Summer 2020. This feedback will be reflected in our FBP. The CAA will use our FBP to inform their assumptions for setting the price path for the H7 price control.



5. HISTORICAL FINANCIAL PERFORMANCE

This section summarises the results for the Group for the three months to 31 March 2020. A full description of performance is provided in the results published on 1 May 2020, available at the Investor Centre on [heathrow.com](https://www.heathrow.com).

TRAFFIC

In the first three months of 2020, traffic declined by 18.3% to 14.6 million passengers (2019: 17.9 million) reflecting the early impact of COVID-19.

ADJUSTED EBITDA

In the first three months of 2020, Adjusted EBITDA decreased 22.4% to £315 million (2019: 406 million).

REVENUE

In the first three months of 2020, revenue declined 12.7% to £593 million (2019: £679 million). This reflects a decrease of 16.2% in aeronautical income, a decrease of 15.0% in retail income and an increase of 3.6% in other income. Aeronautical income fell predominantly due to reduced passenger numbers as a result of COVID-19. Fewer aircraft movements also drove revenue down following the European Commission's temporary suspension of the slot usage rule. Retail income declined as a result of reduced passenger numbers. Other revenue increased by 3.6% driven by track access charges.

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

In the first three months of 2020, adjusted operating costs rose by 1.8% to £278 million (2019: £273 million). The rise in operating costs was driven by investments early in the year, such as services for passengers with reduced mobility and implementing new hold baggage screening. In addition, there was an increase in utilities costs driven by a rise in government levies on usage, whilst overall consumption declined. Operating costs on a per passenger basis increased by 24.7%. This reflects our cost base being largely fixed in the short term, whilst passenger numbers have declined.

REGULATORY ASSET BASE (RAB) AND FINANCIAL RATIOS

At 31 March 2020, the RAB was £16,646 million (31 December 2019: £16,598 million). At 31 March 2020, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 65.4% for senior debt and 74.9% for junior debt (31 December 2019: 66.6% and 74.8% respectively) compared with respective trigger levels of 72.5% and 85.0%.

INTEREST PAYABLE AND PAID

In the first three months of 2020, net finance costs before certain re-measurements were £167 million (2019: £154 million). Net external interest paid was £148 million (2019: £141 million).

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

At 31 March 2020, nominal net debt was £12,472 million (31 December 2019: £12,412 million), comprising £12,130 million in bond issues, £1,453 million in other term debt, £221 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £4 million of additional lease liabilities post transition to IFRS 16. This was offset by cash, cash equivalents and term deposits of £2,486 million. Nominal net debt consisted of £10,884 million in senior net debt and £1,558 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 £4 million as at 31 March 2020. The aggregate lease liability of all leases classified as Existing Operating Leases as at 31 March 2020 was £375 million.

6. FORECAST FINANCIAL PERFORMANCE

TRAFFIC

In 2020, traffic is forecast to decrease 63.9% to 29.2 million passengers (2019: 80.9 million) reflecting the unprecedented impact of COVID-19 which has brought air travel to a halt in the first half of 2020.

ADJUSTED EBITDA

Adjusted EBITDA in 2020 is forecast to decrease 81.4% to £357 million (2019: £1,921 million). This is largely driven by the significant impact of COVID-19 on passenger numbers, reducing revenue by 58.9% while costs are reducing slower given our largely fixed cost base.

REVENUE

Revenue in 2020 is forecast to decrease 58.9% to £1,261 million. Aeronautical income is forecast to decrease 60.6% to £722 million (2019: £1,831 million), mainly driven by the significant reduction in passenger numbers. Retail income is expected to decrease 73.8% to £189 million (2019: £722 million). Retail revenue per passenger is expected to decrease to £6.47 (2019: £8.93). Other revenue is expected to decrease by 32.3% to £350 million.

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

Adjusted operating costs in 2020 are forecast to decrease 21.3% to £904 million (2019: £1,149 million) primarily driven by the £300 million of costs saving initiatives identified by management to protect the financial resilience of the business. Operating costs on a per passenger basis are expected to increase to £30.95 compared to £14.21 in 2019 reflecting the largely fixed nature of our cost base.

REGULATORY ASSET BASE

At the end of 2020, the RAB is forecast to be £16,400 million (2019: £16,598 million). The decline in RAB is driven by the deferral of capital expenditure to prioritise liquidity. This assumes capital expenditure of £445 million and average RPI of 1.3%.

NET DEBT AND FINANCIAL RATIOS

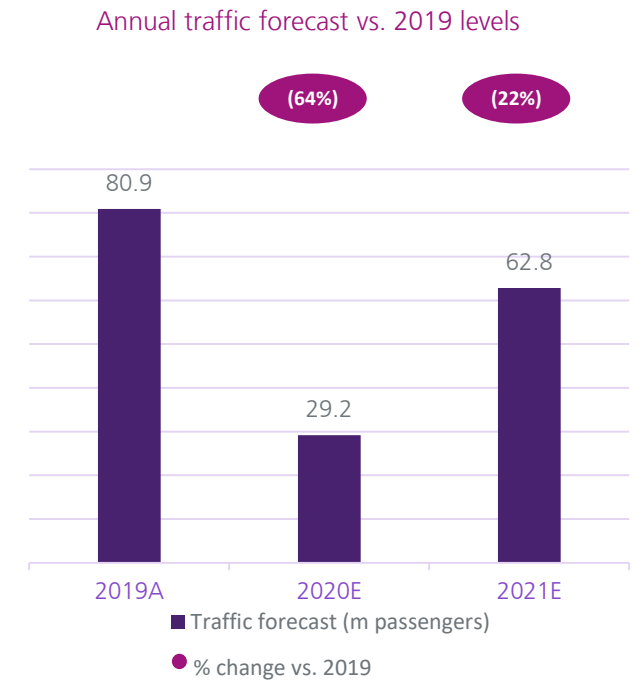
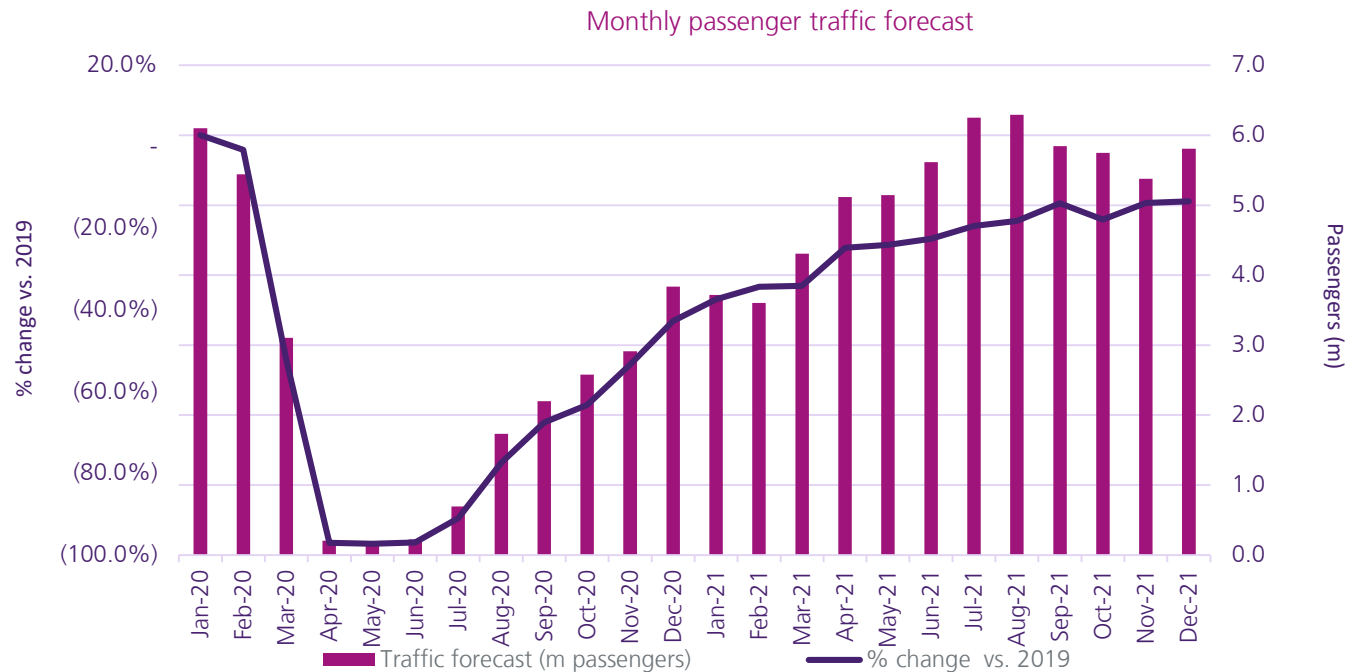
At 31 December 2020, nominal net debt is forecast to be £13,170 million (2019: £12,412 million). Net external interest paid is forecast to be £466 million in 2020 (2019: £479 million), as recent financing activities are at a lower cost.

At 31 December 2020, the Regulatory Asset Ratio (RAR) is forecast to be 70.2% for senior debt and 80.3% for junior debt (31 December 2019: 66.6% and 74.8%) driven by the expected reduced growth in the RAB and reduced cash balances. For the year ending 31 December 2020, the Interest Cover Ratio (ICR) is forecast to be 0.29x for senior debt and 0.24x for junior debt (2019: 3.74x and 3.15x).

All current and forecast ratios are calculated based on applicable generally accepted accounting principles. As at the date of this Investor Report, a Forecasting Event has occurred and a Trigger Event is expected to occur in relation to the forecast ICR for senior and junior debt for the year ending 31 December 2020. A potential breach of the trigger events will effectively result in a cash trap within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.

6. FORECAST FINANCIAL PERFORMANCE

HEATHROW EXPECTS A STAGED RECOVERY IN TRAFFIC OVER THE COURSE OF H2 2020 AND 2021



- Heathrow has developed a bottom up forecast to reflect a staged recovery in passengers over the remainder of the year reflecting the potential impact of social distancing and short term changes in consumer behaviour
- Heathrow forecasts the short haul passenger mix to be c.70% during the summer months, reducing to c.60% at the end of 2020
- Heathrow forecasts the visiting friends and relatives segment to return first, followed by leisure and then business. The recovery for leisure is forecast to be quicker, with pre-COVID business levels not forecast to be fully reached until after 2021
- Assumptions on load factors are consistent with the need for social distancing to continue until the end of 2020. Given the lack of clarity on application and the time period of the quarantine regime, the potential for country exceptions and the emerging policy on airbridges, there is no explicit assumption on the date at which quarantine will be lifted. Instead, scenarios are based on a market-by-market analysis of recovery curves, taking account of purpose for travel and consumer propensity to travel.
- The economic impact as a result of COVID-19 is expected to subdue a potential recovery in 2021 with a return to pre-crisis traffic levels not until post 2022. However, Heathrow’s exposure to traffic is restricted to the next 18 months due to the protection provided by the regulatory framework, whereby from 1 January 2022 the building blocks will be reset to reflect the new market and trading conditions



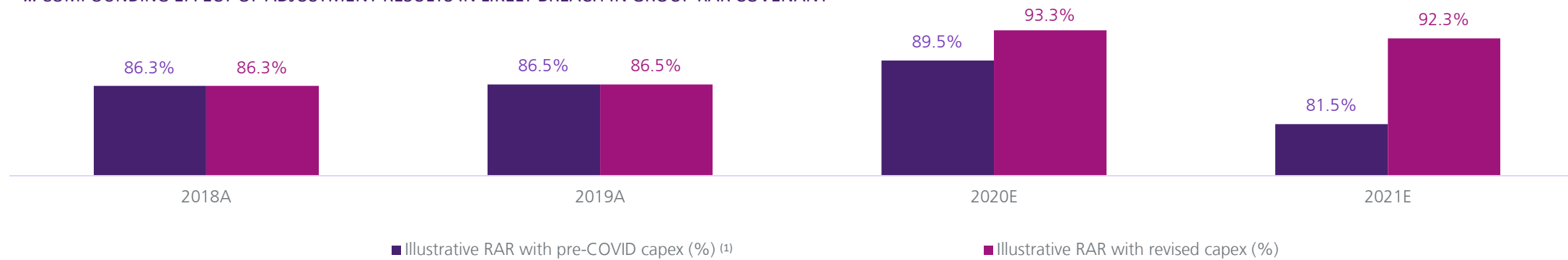
6. FORECAST FINANCIAL PERFORMANCE

FORECAST EVOLUTION OF RAB AND DRIVER

HEATHROW HAS DEFERRED CAPEX TO PRIORITISE LIQUIDITY FOR INVESTORS, THIS HAS SLOWED GROWTH IN RAB...

£ million (outturn)	2018A	2019A	2020E	2021E
Opening RAB	15,786	16,202	16,598	16,400
Additions to RAB	785	847	435	347
Returns on Cat B	8	14	19	20
Indexation	425	358	178	519
Regulatory depreciation	(802)	(823)	(830)	(850)
Closing RAB ⁽²⁾	16,202	16,598	16,400	16,437

... COMPOUNDING EFFECT OF ADJUSTMENT RESULTS IN LIKELY BREACH IN GROUP RAR COVENANT



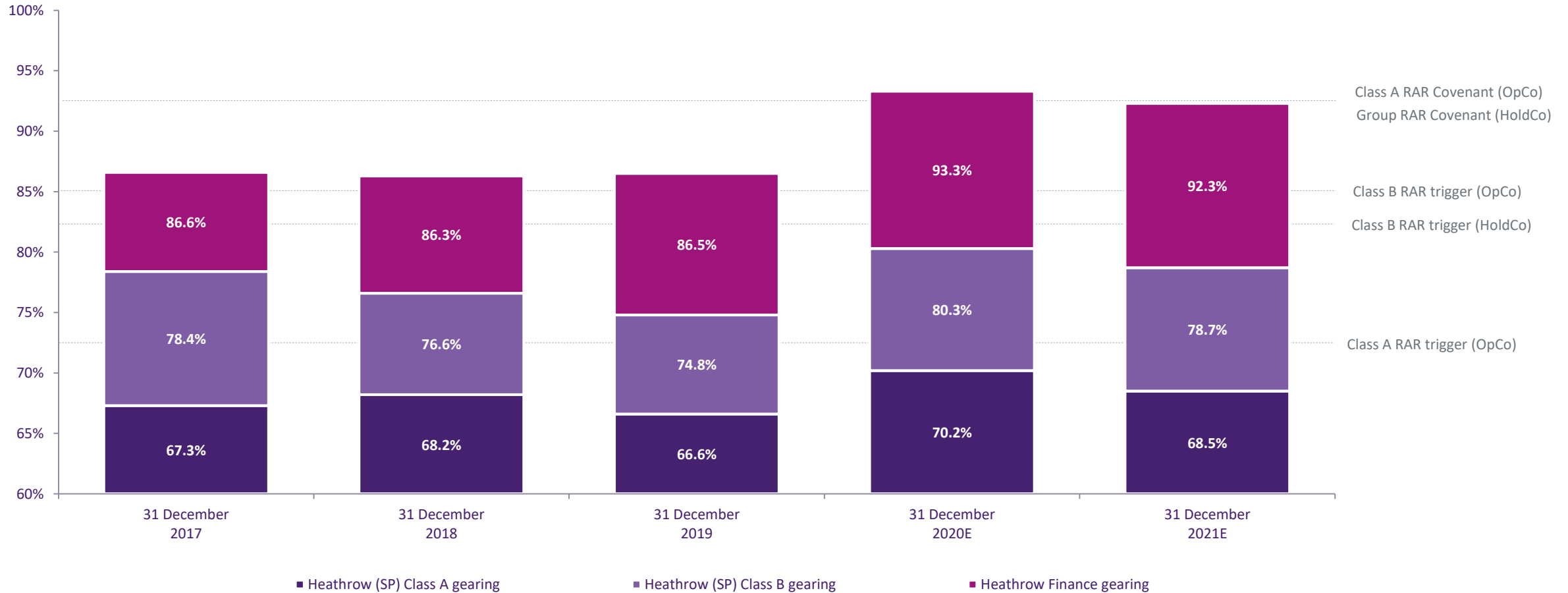
Note:

- 1) Based on 2020E and 2021E capex estimates from December 2019 Investor Report of £1,128m and £1,837m respectively, starting from the current 2020E RAB estimate of £16.4bn and adding the difference in capex, with all else equal
- 2) Calculated using unrounded numbers

6. FORECAST FINANCIAL PERFORMANCE

RISK OF DEFAULT AT HEATHROW FINANCE BUT SUFFICIENT BUFFER FOR HEATHROW (SP) LIMITED

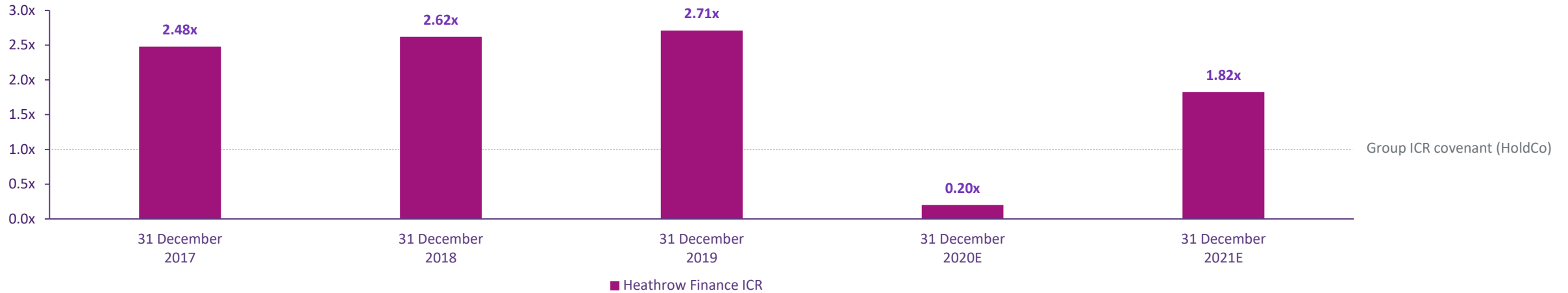
RAR EVOLUTION AND FORECASTS (%)



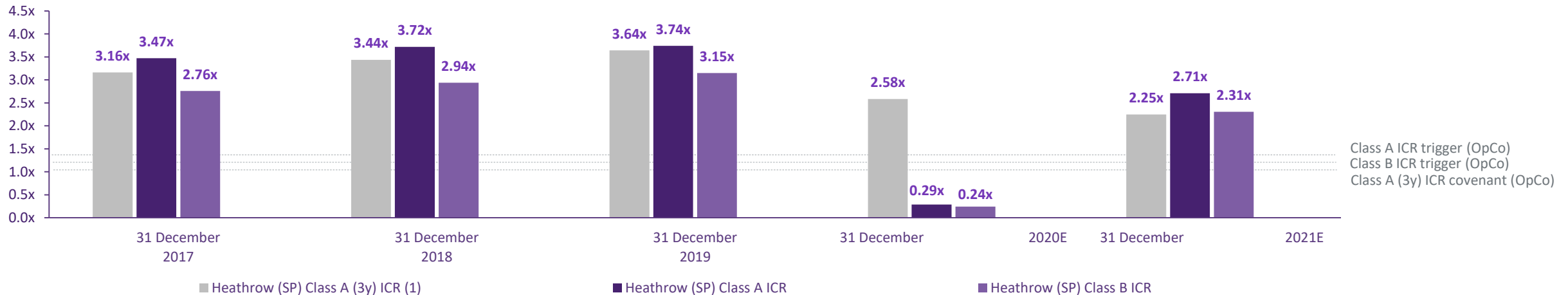
6. FORECAST FINANCIAL PERFORMANCE

EXPECTED BREACH OF GROUP ICR, HOWEVER ONLY A TRIGGER EVENT IS EXPECTED AT HEATHROW (SP)

COVID-19 IMPACT ON PASSENGERS IS EXPECTED TO CAUSE A DEFAULT AT HEATHROW FINANCE PLC



TRIGGER EVENTS AT HEATHROW (SP), RESULTING IN LIMITATIONS TO RESTRICTED PAYMENTS, BUT NO DEFAULT



Note:

1) 3-year average as calculated for the Average Senior ICR covenant test in June of the following year

7. FINANCING MATTERS

NEW FINANCING AND CHANGES TO FACILITIES

Since the previous Investor Report was distributed on 20 December 2019, we have raised £130 million in new debt financing.

We signed an £80 million Class A USPP which will be drawn in July 2020 and is due to mature in 2040. Heathrow Finance also raised £50 million in loan facilities due to mature in 2029.

We drew in full £900 million Class A revolving credit and working capital facilities, £250 million Class B revolving credit facilities and £535 million of Heathrow Finance facilities with maturities ranging between 2026 and 2035, including the £50 million raised this year. We also received the proceeds of £381 million Class B delayed draw bonds with maturities ranging between 2035 and 2041 and £75 million Class B term debt maturing in 2035. We have cancelled £22 million of Heathrow Finance debt. There is also an adjustment of £4 million for new operating leases executed from 1 January 2019.

In light of the increasing risks to Heathrow's financing arrangements, we have initiated discussions with Heathrow Finance creditors in order to secure a waiver on Heathrow Finance's financial covenants. Further details are available here <https://www.londonstockexchange.com/news-article/market-news/consent-solicitation-heathrow-finance-plc/14579814>.

DEBT MATURITIES AND REPAYMENTS

Since the previous Investor Report was distributed on 20 December 2019, we made scheduled EIB loan repayments of £2 million in February and in March we repaid £400 million Class B bonds.

HEDGING

Between the publication of the previous Investor Report on 20 December 2019 and the date of publication of this report, there has been no new index-linked derivative hedging put in place. At 30 April 2020, the total notional value of such instruments was £6,395 million.

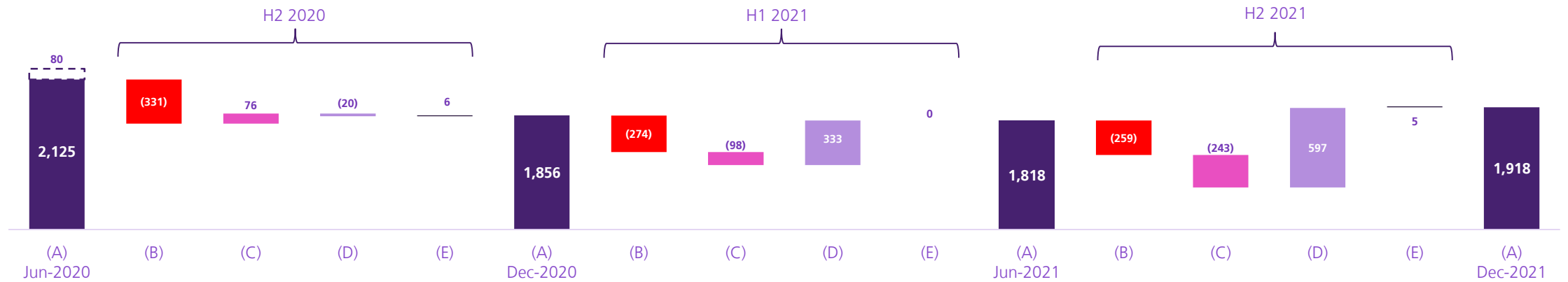
At 30 April 2020, 83.7% and 64.7% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2021 and 31 December 2026 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

7. FINANCING MATTERS

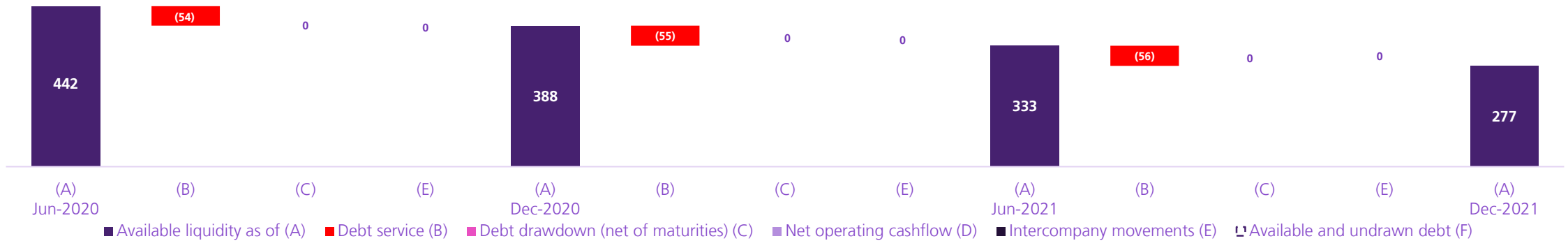
LIQUIDITY

The Security Group expects to have sufficient liquidity to meet all its obligations until at least June 2021 under the extreme stress-test scenario of no revenue, or well into 2022 under our traffic forecast. The obligations include forecast operational costs and capital investment, debt service costs, debt maturities and repayments. The liquidity forecast takes into account £3.0 billion in committed but undrawn loan facilities, term debt and cash resources held at the Security Group and Heathrow Finance at 30 April 2020 and the expected operating cash flow over the period.

AVAILABLE LIQUIDITY AT HEATHROW (SP) IS FORECAST TO BE £2.2 BILLION AT THE END OF JUNE 2020



AVAILABLE LIQUIDITY AT HEATHROW FINANCE IS FORECAST TO BE £442 MILLION AT THE END OF JUNE 2020



7. FINANCING MATTERS

HISTORICAL AND FUTURE RESTRICTED PAYMENTS

The financing arrangements of the Security Group restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital; any redemptions or repurchase of share capital; and payments of fees, interest or principal on any intercompany loans.

Since the previous Investor Report was distributed on 20 December 2019, there have been gross restricted payments of £290 million (net restricted payments of £210 million). These payments primarily funded the £300 million of dividends paid to the Security Group's ultimate shareholders in December 2019 and February 2020 and a cash inflow of £80 million from Heathrow Finance to Heathrow SP in February and March 2020.

In the 90 days following the publication of this investor report, we are not expecting any restricted payments to be made out of the Group. In addition, for the remainder of 2020 no further restricted payments are to be made out of the Group as a result of the expected breach of our trigger events. This will be the case until the breach is remedied. This would leave total expected net restricted payments out of the Group in 2020 at £27 million. Heathrow Finance benefits from a strong liquidity position and is not reliant on cash from Heathrow (SP) to service its debt.

8. 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 20 December 2019.

OUTSOURCING

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 20 December 2019.

BOARD AND MANAGEMENT CHANGES

Rachel Lomax stepped down from the HAHB Board on 23 February 2020, having served just over nine years on the Board. Stuart Birrell resigned as a director of Heathrow Airport Limited and LHR Airports Limited on 17 March 2020.

Other than that outlined above, there have not been any other board or relevant management changes related to the obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 20 December 2019.



9. CONFIRMATION

16 June 2020

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:

- the key historic financial ratios for 2019 comply with Default and Trigger Event ratios. As at the date of this Investor Report, a Forecasting Event has occurred and a Trigger Event is expected to occur in relation to the forecast ICR for senior and junior debt for the year ending 31 December 2020.
- 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

Heathrow

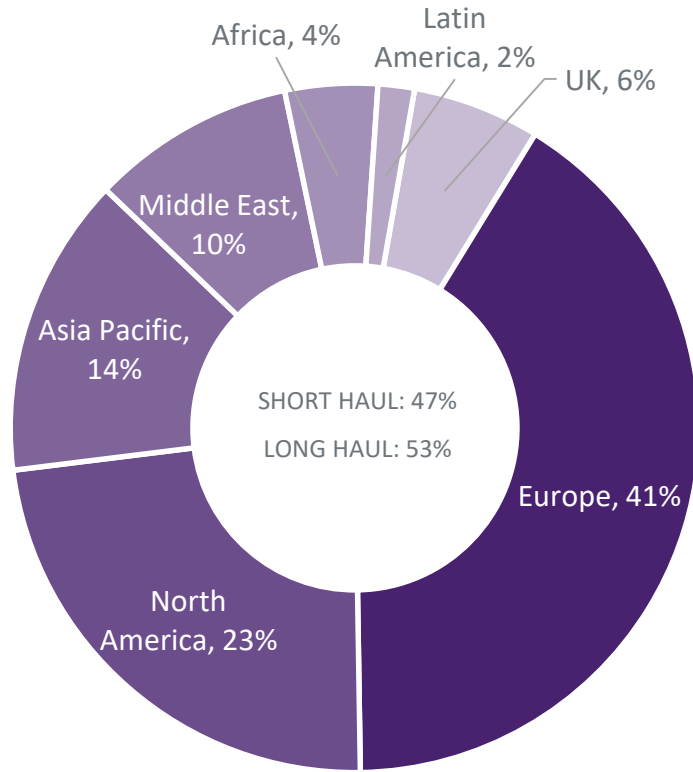
APPENDIX 1 - QUARTERLY PASSENGER TRAFFIC (2008 TO 2020)

Heathrow passenger traffic and air transport movement evolution

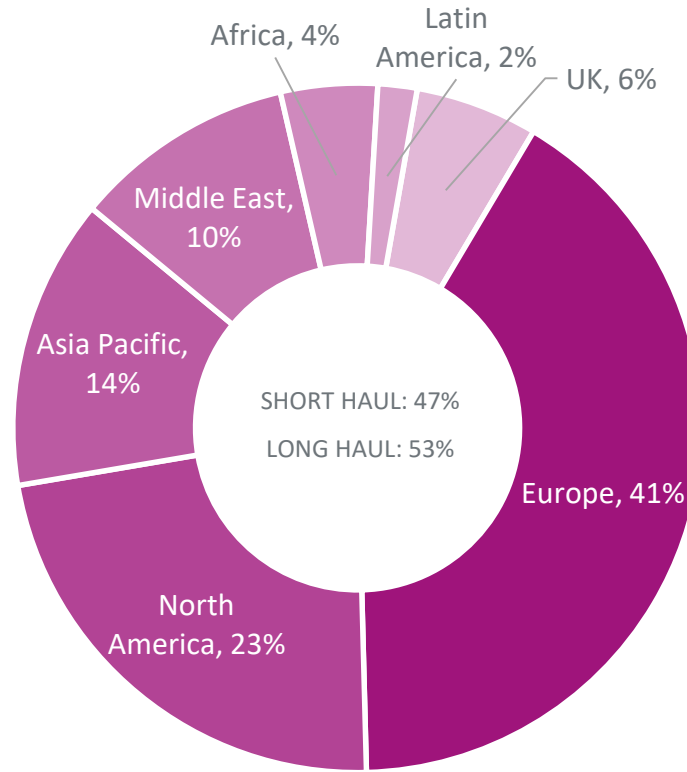
Change versus previous year (totals and changes based on unrounded data)

Passengers (m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016	2018	2019	2020
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
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)
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	
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	
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	
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)	
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	
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	
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	
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	
ATM ('000)	473	460	449	476	471	470	471	472	473	474	476	476	
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	

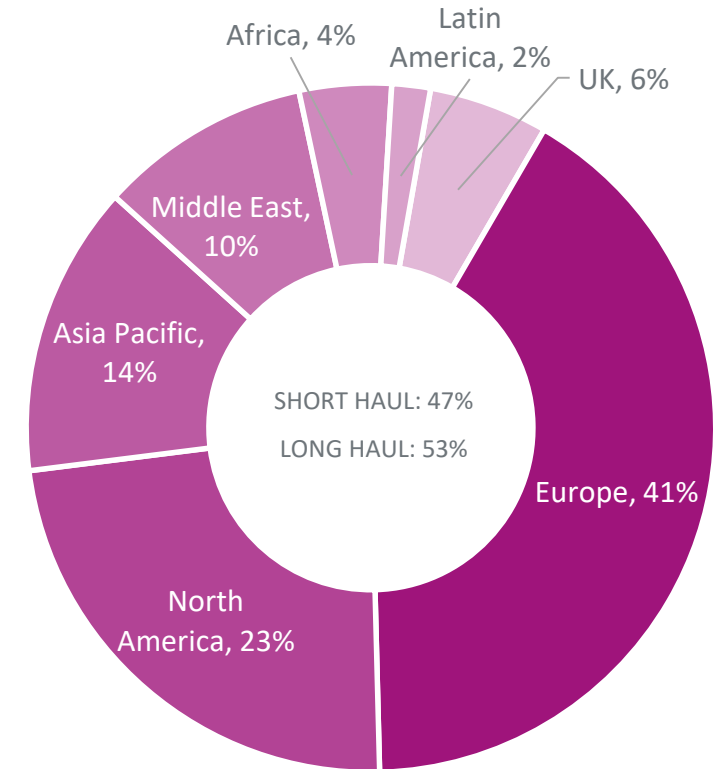
APPENDIX 1 – TRAFFIC EXPECTATIONS BY MARKET



2019A

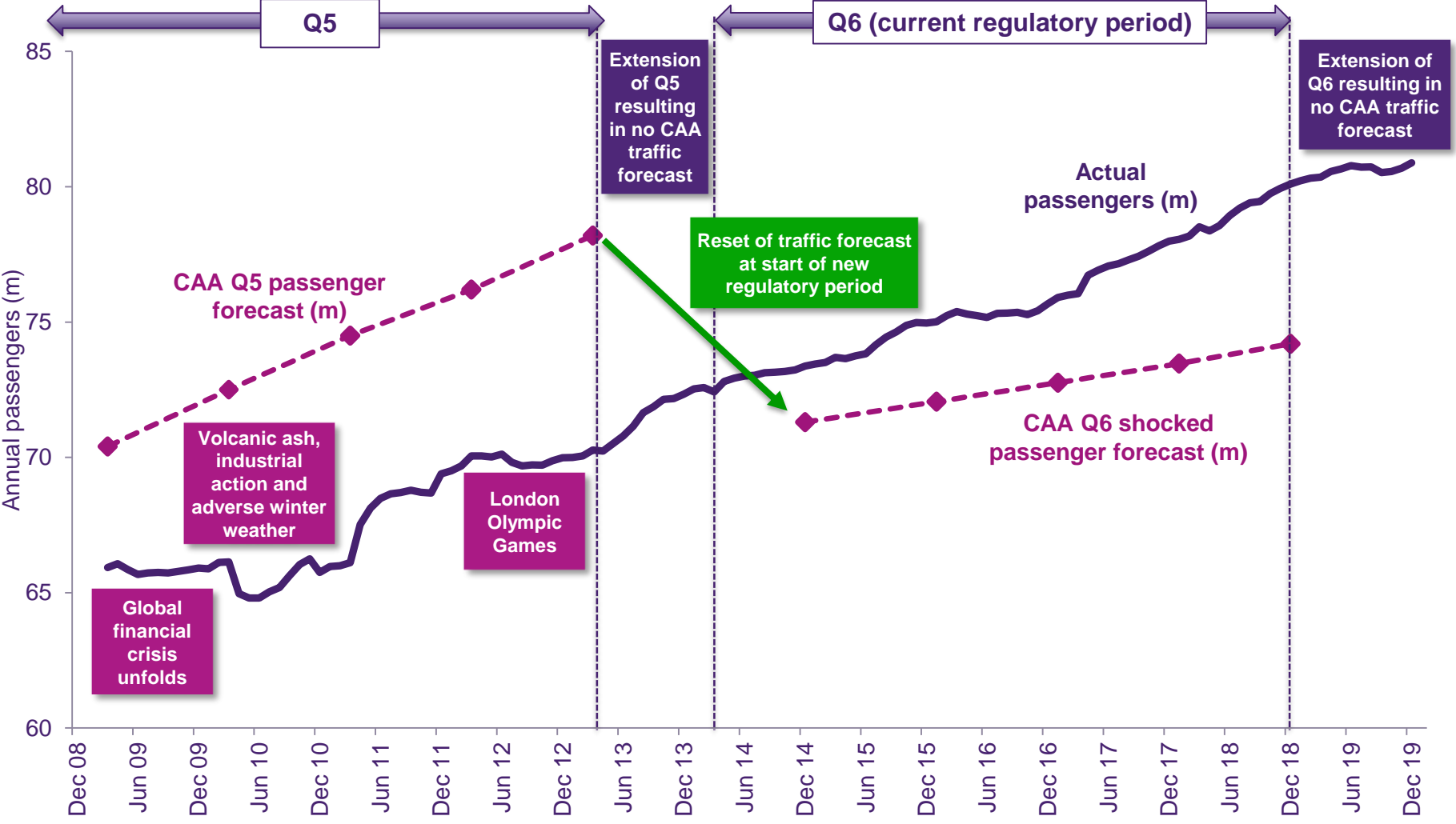


2020E



2021E

APPENDIX 1 – REGULATORY RESET OF TRAFFIC FORECASTS FOR Q6



APPENDIX 2 - COMPUTATION OF INTEREST COVER RATIOS⁽¹⁾ (‘ICR’)

<i>(See important notice on page 2 of this document)</i>	Trigger Level	Year to 31 December 2019 (£m)	Year to 31 December 2020 (£m)	Year to 31 December 2021 (£m)
Cashflow from Operations ⁽²⁾		1,942	416	1,305
Add back: Cash one-off, non-recurring extraordinary or exceptional items		-	(30)	-
Adjusted Cashflow from Operations		1,942	446	1,305
Less: corporation tax paid		(98)	(5)	(10)
Less: 2 per cent of Total RAB		(332)	(328)	(329)
Cash Flow (A)		1,512	113	966
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾				
Interest paid – existing Class A bonds and swaps		386	350	300
Interest paid – existing Class A EIB facilities		0	0	0
Interest paid – other Class A debt		(7)	9	30
Lease interest		16	16	16
Commitment fees on liquidity and revolving facilities		9	9	11
Total interest on Senior Debt (B)		404	384	357
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾				
Class B debt		75	82	62
Total interest on Junior Debt (C)		75	82	62
Total interest (D=B+C)		479	466	419
Senior ICR (A/B)⁽⁵⁾⁽⁶⁾	1.40x	3.74x	0.29x	2.71x
Junior ICR (A/D)⁽⁵⁾⁽⁶⁾	1.20x	3.15x	0.24x	2.31x

(1) 2020 and 2021 figures are forecasts; values calculated on unrounded figures

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 26

(3) Reconciliation of interest paid with interest payable is set out on page 26 for 2020

(4) Excludes interest on debenture between Heathrow (SP) Limited and Heathrow Finance plc as this is not included in calculation of ratios under the Common Terms Agreement

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

(6) Ratios calculated on unrounded figures

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

(See important notice on page 2 of this document)

	Year to 31 December 2019 (£m)	Year to 31 December 2020 (£m)	Year to 31 December 2021 (£m)
Income			
Aeronautical income	1,831	722	1,394
Non-aeronautical income - retail	722	189	415
Non-aeronautical income – non-retail	517	350	592
Total income	3,070	1,261	2,401
Operating costs⁽²⁾	1,149	904	1,071
Adjusted EBITDA	1,921	357	1,330
Working capital and cash one-off non-recurring extraordinary or exceptional items			
Trade working capital	43	113	(7)
Pension	(22)	(24)	(18)
Cashflow from operations	1,942	446	1,305

	Year to 31 December 2021	Year to 31 December 2020			Year to 31 December 2019
	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	300	374	(41)	17	350
Interest paid – Class A EIB facilities	0	0	-	0	-
Interest paid and received – other Class A debt	30	16	0	(7)	9
Lease interest	16	16	-	-	16
Commitment fees on liquidity & RCFs ⁽⁵⁾	11	34	(1)	(24)	9
Interest paid – Class B debt	62	69	(2)	14	82
Total interest⁽¹⁾	419	509	(45)	1	466

(1) 2020 and 2021 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')

<i>(See important notice on page 2 of this document)</i>	Trigger Level	Year to 31 December 2019 (£m)	Year to 31 December 2020 (£m)	Year to 31 December 2021 (£m)
Closing Heathrow RAB (A)		16,598	16,400	16,437
Senior Debt				
Class A Existing Bonds		10,790	10,519	9,441
Class A EIB facilities		12	8	4
Non - Existing Operating Lease debt		5	3	14
Other Class A debt		1,443	2,705	3,487
RPI swap accretion		345	129	229
Total Senior Debt (B)		12,595	13,364	13,175
Junior Debt				
Class B debt		1,357	1,663	1,678
Total Junior Debt (C)		1,357	1,663	1,678
Cash and cash equivalents (D)		(1,540)	(1,856)	(1,918)
Senior net debt (E=B+D)		11,055	11,507	11,257
Senior and junior net debt (F=B+C+D)		12,412	13,170	12,935
Senior RAR (E/A)⁽²⁾⁽³⁾⁽⁴⁾	72.5%	66.6%	70.2%	68.5%
Junior RAR (F/A)⁽²⁾⁽⁴⁾	85.0%	74.8%	80.3%	78.7%

(1) 2020 and 2021 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 30 APRIL 2020

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	219	219	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
CHF210 0.46%	161	161	2026
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
C\$400m 3.4%	226	226	2028
£200m 7.075%	200	200	2028
A\$175m 4.150%	96	96	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
C\$400m 3.872%	238	238	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	88	88	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
€650 1.875%	559	559	2034
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	58	58	2039
€86 Zero Coupon	75	75	2039
£460m RPI +3.334%	624	624	2039
¥10,000m 0.8%	71	71	2039
£100m RPI +1.238%	114	114	2040
£750m 5.875%	750	750	2041
£55m 2.926%	55	55	2043
£750m 4.625%	750	750	2046
£75m RPI +1.372%	87	87	2049
£400m 2.75%	400	400	2049
£160m RPI +0.147%	166	166	2058
Total senior bonds	10,795	10,795	

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
Term debt	1,453	1,533	Various
Index-linked derivative accretion	223	223	Various
Revolving/working capital facilities	900	900	2023
Lease liability	4	4	
Total other senior debt	2,580	2,660	
Total senior debt	13,375	13,455	
Heathrow (SP) Limited cash	(2,444)		
Senior net debt	10,931		

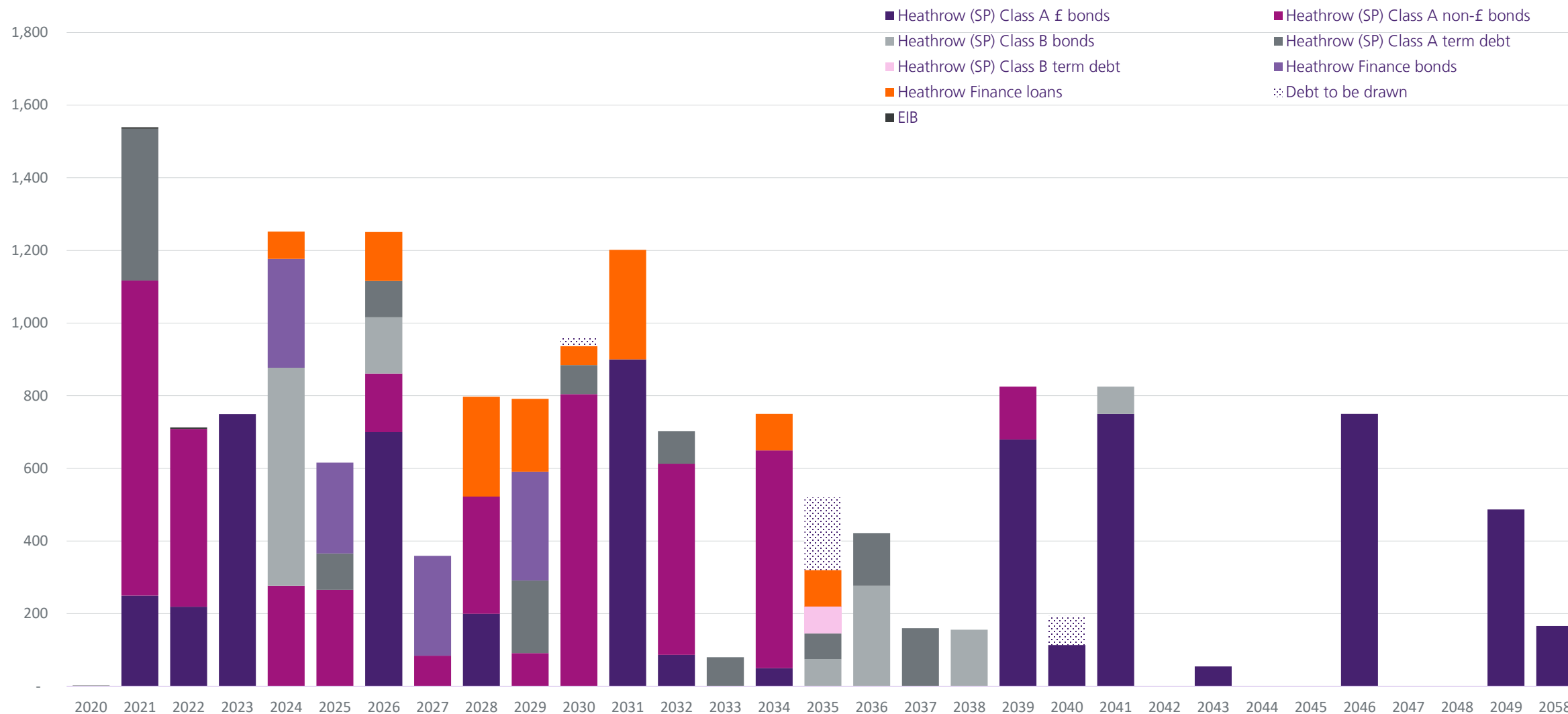
Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£75m RPI + 0.347%	76	76	2035
£75m RPI + 0.337%	75	75	2036
£180m RPI +1.061%	202	202	2036
£51m RPI + 0.419%	51	51	2038
£105m 3.460%	105	105	2038
£75m RPI + 0.362%	76	76	2041
Total junior bonds	1,340	1,340	
Term debt	75	75	2035
Junior revolving credit facilities	250	250	2023
Total junior debt	1,665	1,665	
Heathrow (SP) Limited group net debt	12,596		

Net debt is calculated on a nominal basis excluding intra-group loans and including index-linked accretion and includes non-Sterling debt at exchange rate of hedges entered into at inception of relevant financing

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
£275m	275	275	2028
£200m	200	200	2029
£75m	52	75	2030
£302m	302	302	2031
£100m	100	100	2034
£300m	100	300	2035
Total loans	1,239	1,462	
Total Heathrow Finance plc debt	2,364	2,587	
Heathrow Finance plc cash	(294)		
Heathrow Finance plc net debt	2,070		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	13,375	13,455
Heathrow (SP) Limited junior debt	1,665	1,665
Heathrow Finance plc debt	2,364	2,587
Heathrow Finance plc group debt	17,404	17,707
Heathrow Finance plc group cash	(2,738)	
Heathrow Finance plc group net debt	14,666	

APPENDIX 5 – DEBT MATURITY PROFILE AS AT 30 APRIL 2020



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 2019 (£m)	As at or for year to 31 December 2020 (£m)	As at or for year to 31 December 2021 (£m)
Calculation of Group ICR⁽²⁾				
Cash Flow (A)		1,512	113	966
Interest				
Paid on Senior Debt (B)		404	384	357
Paid on Junior Debt (C)		75	82	62
Paid on Borrowings (D)		79	96	111
Group Interest Paid (E=B+C+D)		558	562	530
Group ICR (A/E)	1.00x	2.71x	0.20x	1.82x
Calculation of Group RAR⁽³⁾				
Total RAB (F)		16,598	16,400	16,437
Net debt				
Senior Net Debt (G)		11,055	11,507	11,257
Junior Debt (H)		1,357	1,663	1,678
Borrower Net Debt (I)		1,949	2,126	2,236
Group Net Debt (J=G+H+I)		14,361	15,296	15,171
Junior RAR ((G+H)/F)⁽⁴⁾	82.0%	74.8%	80.3%	78.7%
Group RAR (J/F)⁽⁴⁾	92.5%	86.5%	93.3%	92.3%

(1) 2020 and 2021 figures are forecasts

(2) ICR or Interest Cover Ratio is defined on page 25

(3) RAR or Regulatory Asset Ratio is defined on page 27

(4) Ratios calculated on unrounded data

Heathrow