Heathrow (SP) Limited and Heathrow Finance plc

Investor report

19 December 2013

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Important notice

This Investor Report (other than Appendix 5) is being distributed by LHR Airports Limited (formerly BAA Airports Limited) (as 'Security Group Agent') on behalf of Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (AH) Limited and Heathrow (SP) Limited (together the 'Obligors') pursuant to the Common Terms Agreement. Appendix 5 is being distributed by Heathrow Finance plc pursuant to the terms of Heathrow Finance plc's facilities agreements and its bond issues due 2017 and 2019.

This Investor Report contains forward looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of the Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Basis of preparation

This Investor Report (other than Appendix 5) is being distributed pursuant to the terms of the Common Terms Agreement ('CTA'). Appendix 5 is being distributed by Heathrow Finance plc pursuant to the terms of its facilities agreements and its bond issues due 2017 and 2019.

Investor Reports relate to the performance of the Security Group which includes Heathrow airport. This Investor Report comments on the historic financial performance of the Security Group for the period up to 30 September 2013 and its historic passenger traffic for the period up to 30 November 2013. It also contains forecast financial information derived from current management forecasts for the Security Group for the whole of 2013 and 2014.

Defined terms used in this document (other than in Appendix 5) have the same meanings as set out in the Master Definitions Agreement unless otherwise stated. Defined terms in Appendix 5 have the same meanings as set out either in the Master Definitions Agreement or in Heathrow Finance plc's facilities agreements and bond terms and conditions.

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1. Introduction

This Investor Report covers a range of financial and operational developments for Heathrow (SP) Limited ('Heathrow (SP)') and Heathrow Finance plc ('Heathrow Finance') for 2012, 2013 and 2014. In particular, it provides financial forecasts for 2013 and 2014 including financial ratios (RAR and ICR).

The financial and operational commentary only relates to Heathrow airport, as a result of the sale of Stansted airport in February 2013.

Latest forecasts for Heathrow (SP) indicate Adjusted EBITDA(1) for 2013 of £1,372 million, representing 17.3% growth versus 2012 actuals. The forecast remains consistent with expectations set out in the results for the nine months ended 30 September 2013.

Heathrow's forecast financial performance in 2014 is for growth in Adjusted EBITDA of 8.2% to £1,485 million. This comprises revenue growth of 7.9% to £2,666 million. Revenue growth reflects aeronautical charge increases and revenue recovery through the 'K' factor mechanism and a forecast modest increase in traffic of 0.7%. Forecast savings in operating costs in 2014, expected as part of those planned over Q6 (mainly through reduction in employment costs despite extra staffing required at Terminal 2), are more than offset in 2014 by increased costs in rent and rates, maintenance, utilities and general expenses incurred principally in preparing for and commencing operations at the new Terminal 2.

Heathrow expects to invest around £740 million in its capital programme in 2014 primarily on Terminal 2, the Integrated Baggage system for Terminal 3 and projects to further improve the resilience of operating the airport at full capacity.

In the years to 31 December 2013 and 2014, all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

2013 and 2014 forecast ratio levels

	Forecast ratio level	Trigger level
Regulatory asset ratio (RAR)(2)		
Senior (Class A) ratios(3)		
At 31 December 2013	68.4%	70.0%
At 31 December 2014	66.4%	70.0%
Junior (Class B) ratios		
At 31 December 2013	78.2%	85.0%
At 31 December 2014	77.6%	85.0%
Interest cover ratio (ICR)(4)		
Senior (Class A) ratios		
For year to 31 December 2013	2.85x	1.40x
For year to 31 December 2014	2.76x	1.40x
Junior (Class B) ratios		
For year to 31 December 2013	2.25x	1.20x
For year to 31 December 2014	2.25x	1.20x

(1) Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items
(2) Regulatory Asset Ratio is defined on page 22
(3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under revolving credit facility
(4) Interest Cover Ratio is defined on page 20

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2. Significant business developments – service standards

Heathrow's focus on transforming passengers' experience of travelling through the airport continues to receive significant endorsement from the travelling public.

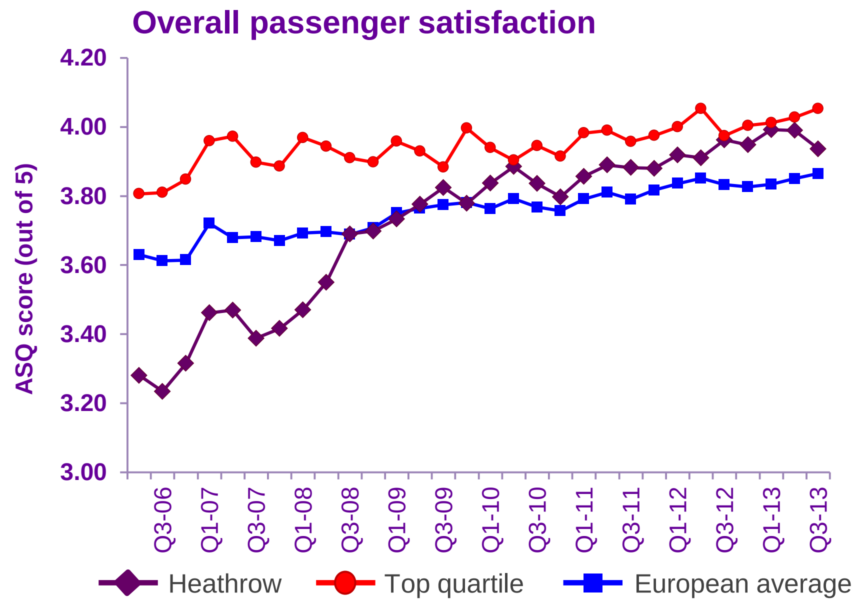
In June, Heathrow was named Best Airport in the 2013 ACI Europe Awards: Best Airport (with over 25 million passengers). This builds on the 2013 SKYTRAX World Airport Awards where Heathrow was, for the first time, named among the top 10 airports globally, and where Terminal 5 was named the world's best airport terminal for the second consecutive year.

Supporting these achievements, Heathrow achieved its highest ever overall passenger satisfaction score of 3.99 in the independent Airport Service Quality (ASQ) survey, directed by Airports Council International (ACI), in the first two quarters this year and in the third quarter scored 3.94. As a result, the year to date performance of 3.97 reflects a notable improvement over the same period last year (2012: 3.93).

In addition, in the nine months ended 30 September 2013:

- the proportion of aircraft departing within 15 minutes of schedule was 78% (2012: 79%), with the slight decline principally caused by adverse weather conditions in January and March.
- the proportion of baggage not accompanying passengers on their journeys was 15 per 1,000 passengers (2012: 14 per 1,000).
- passengers passed through central security within periods prescribed under Heathrow's service quality rebate ('SQR') scheme 91.2% of the time (2012: 96.0%), compared with the 95% service standard.

In the 6 months to 30 September 2013, Heathrow rebated £7 million under the SQR scheme, mainly relating to security queuing.



Terminal 5 - **World's Best Airport Terminal**

Heathrow – **World's Best Airport Shopping**

2013 **Europe's Best Airport**
(over 25 million passengers)

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2. Significant business developments – passenger traffic

In the eleven months ended 30 November 2013, Heathrow traffic increased 3.4% to 66.5 million (2012: 64.4 million). The growth reflects increased load factors and larger aircraft. In addition, growth was boosted by the non-recurrence of the dip in demand experienced during the Olympic Games in summer 2012. Adjusting for that, underlying growth for the year to date is estimated at 2.3%.

Average load factors for the period were 76.3% (2012: 75.7%) and the average number of seats per passenger aircraft increased to 202.4 (2012: 197.0). These factors more than offset the decline in flight numbers to 432,974 (2012: 433,896) that partly reflect the 2012 leap year.

European traffic increased strongly in 2013, with around 1.3 million additional passengers in the period, a growth of 4.9%. Underlying growth in Europe reflects the integration of bmi routes into British Airways. UK traffic growth partly reflects the launch of UK domestic services by Virgin Little Red at the start of the summer.

Most intercontinental regions grew steadily, with Asia Pacific traffic benefitting from new routes and frequencies including growth in China and India. Middle East traffic increased with larger aircraft and passenger growth from Emirates, Etihad and Saudi Airlines. North and Latin American traffic grew steadily. The decline in African traffic in part reflects the withdrawal of former bmi African services.

Quarterly traffic trends for Q1 2008 to Q3 2013 are set out in Appendix 1. Monthly passenger traffic performance data is available at www.heathrowairport.com.

Passenger traffic

	11 months ended 30 November		
By market served	2012 (m)	2013 (m)	Change[(1)]
UK	4.4	4.6	5.8%
Europe	26.4	27.7	4.9%
North America	15.0	15.3	2.0%
Asia Pacific	8.9	9.4	5.4%
Middle East	5.1	5.3	4.2%
Africa	3.6	3.2	-11.0%
Latin America	0.9	1.0	5.5%
Total	**64.4**	**66.5**	**3.4%**

(1) Percentage change and totals calculated using unrounded passenger numbers

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2. Significant business developments – capital investment

Heathrow's investment programme in 2013 has focused on the construction of the new Terminal 2. The terminal is to be named Terminal 2: The Queen's Terminal and will be home to 26 airlines, including Star Alliance carriers operating at Heathrow, as well as Aer Lingus and Virgin Little Red.

The construction phase has comprised delivery of a main terminal building and a satellite building, together with a multi-storey car park and an energy centre supporting the Terminal 2 campus and the wider airport. Stands and taxiways have also been formed around the buildings. Key remaining activities include modifications reflecting change in occupancy following the acquisition of bmi by British Airways.

The project moved on time from the construction phase to the operational readiness phase in November 2013. Operations start on 4 June 2014 with United Airlines, followed by a phased move of airlines into the terminal over the following five months.

In addition, significant investment continues on Heathrow's baggage infrastructure. The Western Baggage tunnel, an underground automated baggage system between Terminal 3 and Terminal 5, is now fully operational. Construction of the Terminal 3 integrated baggage system has made significant progress in 2013, with the main building substantially complete. The baggage system is now being assembled inside the building and will be ready for its first live operation at the end of 2014. A progressive roll-out will lead to full operational benefits being achieved by early 2016.

Resurfacing the southern runway began in March 2013 and was completed in September 2013. Works were carried out during night closures of the runway. The northern runway will be resurfaced in 2014. Refurbishment of the main road tunnels to Terminals 1,2 and 3 and the Cargo tunnel will also begin in 2014.

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3. Significant regulatory and governmental developments (A)

Regulatory period from April 2014: “Q6”

The next regulatory period (‘Q6’) for economic regulation of Heathrow begins on 1 April 2014. Following constructive engagement with Heathrow’s airline community during 2012, Heathrow proposed a Full Business Plan for Q6 in January 2013, setting out its operational and capital plan to continue the transformation of Heathrow, focusing on service delivery and improving the passenger experience, whilst delivering operating efficiencies and a fair return on investment. On 30 April 2013 the CAA published Initial Proposals for Q6 proposing price controls and a draft licence and proposed a change to the maximum allowable yield per passenger of RPI minus 1.3% per year.

In response to the Initial Proposals, Heathrow refreshed its plans which included increased efficiency savings of over £400 million and updated passenger forecasts. Two plans were provided to the CAA, firstly a Revised Business Plan, with a reduced capital investment plan of £2 billion, to reflect the CAA’s proposed lower level of returns. Secondly an Alternative Business Plan which included a £3 billion capital investment plan. Heathrow aspires to deliver the Alternative Business Plan, subject to fair and appropriate returns.

The CAA published Final Proposals for consultation on 3 October 2013. The CAA proposes a change to the maximum allowable yield per passenger of RPI +0% per year and assumes a capital investment plan of £2.885 billion. The CAA’s proposed pre-tax, real cost of capital of 5.6% underestimates equity risk and does not adequately recognise the costs of embedded and new debt associated with one of the UK’s largest private sector investment programmes.

Heathrow has reviewed the detail of the Final Proposals and responded to the CAA on 4 November 2013. The CAA is currently expected to publish its final determination on 10 January 2014.

Licensing of UK airports

The Civil Aviation Act 2012, replaced the Airports Act 1986 and introduced a new licensing regime for UK airports as well as a new framework for economic regulation. The licensing regime is similar to those in place in certain other regulated sectors such as water and energy. Under the legislative framework, Heathrow will require a new economic licence which will contain provisions relating to price control, service quality conditions and financial resilience conditions. The licence is planned to take effect at the start of the next regulatory period, 1 April 2014.

The CAA has published a draft licence as part of its final proposals in relation to Q6. The draft licence does not contain provisions which would substantively impact on the Security Group’s financing arrangements. As drafted in the Final Proposals, Heathrow’s licence will remain in force in perpetuity, and can be amended by the CAA in the future through a prescribed licence modification process.

3. Significant regulatory and governmental developments (B)

Airports Commission

At the end of 2012 the UK government established the Airports Commission, chaired by Sir Howard Davies. The Airports Commission was tasked with examining the requirement for additional airport capacity to maintain the UK's position as Europe's most important aviation hub. On 17 July 2013 Heathrow submitted three third runway options for the Airports Commission to consider. The options were located to the north-west, south-west or north of the existing airport.

On 17 December 2013 the Commission published its interim report on the steps needed to maintain the UK's global hub status. The Commission has stated that there is a clear case for at least one net additional runway in London and the South East by 2030 and has short-listed potential sites for further analysis and assessment: 1) a 3,500 metre runway at Heathrow located north-west of the existing site proposed by Heathrow; 2) a separate proposal by Heathrow Hub Limited to lengthen Heathrow's existing northern runway to 6,000 metre; and 3) a new runway at Gatwick Airport south of the existing runway. In addition, the Commission recommended short-term actions to improve the use of existing runway capacity in the next 5 years.

Heathrow's north-west third runway option would raise the capacity at Heathrow to 740,000 flights a year (from the current limit of 480,000) and would cater for 130 million passengers compared to 70 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future and is designed to evolve to four runways if required.

The north-west runway option is to the west of the short third runway proposal under the 2003 Air Transport White Paper. With a north-west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This is due to its positioning further from London, quieter new generation aircraft and changes in operating procedures. The option maintains the principle of runway alternation to provide periods of respite from noise for all communities around Heathrow. The runway would be full-length and would support all aircraft types operating at Heathrow. It performs better on noise and residential property impact than the option to the north and can be delivered comparatively quickly and cost-effectively and without some of the wider construction challenges presented by the south-west option.

Construction of the new runway could be completed in six years with an estimated earliest operational date of 2026 at an estimated cost of £17 billion, of which £11 billion relates to airport infrastructure. The proposal is based on private funding of the core airport infrastructure, investment over approximately 15 years, on the basis of an appropriate regulatory regime in place to give long-term visibility of returns to investors commensurate with risk. The remaining £6 billion comprises, £2 billion of surface access costs and £4 billion of environmental or community costs, which may be more appropriately funded by Government.

The company welcomes the inclusion of Heathrow in the short-list and is now reviewing the detail of the Commission's report. Heathrow will now begin work with local authorities, local communities and other stakeholders to develop the runway options further; and will consult next year as proposals are developed in more detail. The Airports Commission is due to report its final findings in summer 2015.

4. Historic financial performance[1] (A)

Turnover

In the nine months ended 30 September 2013, Heathrow's turnover increased 10.7% to £1,836 million (2012: £1,658 million). This reflects an increase of 18.3% in aeronautical income, 5.9% in gross retail income and 4.7% decrease in other income.

The increase in aeronautical income reflects passenger traffic growth as well as the headline increase in tariffs. In addition, growth partially reflects recovery of 2011/12 yield dilution, the non-recurrence of substantial yield dilution in 2012, combined with yield concentration in 2013.

Gross retail income increased 5.9% to £358 million (2012: £338 million) and net retail income increased 6.3% to £339 million (2012: £319 million) with net retail income per passenger rising 2.6% to £6.18 (2012: £6.02). The rate of growth through the year is likely to have been impacted by the shift in mix towards European traffic, as traditionally such passengers have a lower propensity to spend in Heathrow's retail outlets. Bureaux de change, car rental and car parking have been the main contributors to growth overall.

Operating costs[2]

In the nine months ended 30 September 2013, operating costs reduced by 1.1% to £801 million (2012: £810 million). Employment costs were up 6.8%, with approximately half the increase due to one-off expenses related to restructuring and incentives to drive future cost efficiencies and an increase in non-cash pension service charges. The residual change is a combination of efficiencies achieved through senior management pay freezes and headcount savings, offsetting other movements, including contractually agreed pay rises. General expenses reduced by £32 million, mainly reflecting the change in the way in which the recharge of intra group services is recorded as a result of the disposal of Stansted Airport. The remaining movement in general expenses reflects non-recurrence of costs associated with preparation for the Olympic Games partially offset by additional costs incurred in ensuring operations were maintained during adverse weather in January.

Adjusted EBITDA[3]

Adjusted EBITDA for the nine months ended 30 September 2013 increased 22.1% to £1,035 million (2012: £848 million). The significant increase in Adjusted EBITDA from 2012 principally reflects increased traffic and aeronautical tariffs.

Capital expenditure and Regulatory Asset Base (RAB)

Cash flow capital expenditure at Heathrow was £948 million in the nine months ended 30 September 2013. Heathrow's RAB was £14,318 million at 30 September 2013.

(1) For more detail, see results for nine months ended 30 September 2013 issued on 21 October 2013
(2) Total operating costs excluding depreciation and exceptional items
(3) Adjusted EBITDA defined as earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historic financial performance[1] (B)

Interest payable

In the nine months ended 30 September 2013, the Group's net interest payable was £485 million (2012: £537 million) excluding fair value adjustments on financial instruments. Underlying net interest payable was £570 million (2012: £573 million), after adjusting for £116 million (2012: £70 million) in capitalised interest and £31 million (2012: £35 million) in non-cash amortisation of financing fees and fair value adjustments of bonds. The non-cash, fair value loss on financial instruments recorded within interest payable was £159 million (2012: £251 million gain), principally due to the impact on the mark-to-market value of index-linked swaps of increased implied future inflation rates since December 2012, following the unexpected decision of the ONS not to alter the calculation methodology for the Retail Price Index.

Interest paid

Net interest paid in the nine months ended 30 September 2013 was £458 million (2012: £332 million). This consisted of £403 million (2012: £283 million) paid in relation to external debt and £55 million (2012: £48 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid on external debt largely reflects two factors: the first time payment of coupons on bond issues completed in 2012; and timing differences that led to certain coupon payments falling in the third quarter this year and the fourth quarter last year. The increased interest paid on the debenture between Heathrow (SP) and Heathrow Finance is due primarily to an increase in the size of the debenture as a result of the £275 million Heathrow Finance bond put in place in December 2012, partially offset by repayment of some of Heathrow Finance's loan facilities.

The difference between net interest paid and underlying net interest payable is largely accounted for by £154 million (2012: £146 million) non-cash accretion on index-linked instruments.

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

The Group's nominal debt at 30 September 2013 comprised £10,256 million outstanding under various bond issues, £623 million outstanding under loan facilities, £444 million in index-linked derivative accretion and cash at bank and term deposits of £164 million. Nominal net debt comprised £9,709 million in senior (Class A) net debt and £1,450 million in junior (Class B) debt. The average cost of the Group's external gross debt at 30 September 2013 was 4.26% (31 December 2012: 4.24%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 September 2013 was 5.86% (31 December 2012: 5.83%).

Financial ratios

At 30 September 2013, senior and junior gearing ratios (net debt to RAB) were 67.8% and 77.9% respectively compared with trigger levels of 70.0% and 85.0%.

(1) For more detail, see results for nine months ended 30 September 2013 issued on 21 October 2013

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5. 2013 and 2014 traffic forecasts

2013

Heathrow traffic for the year ending 31 December 2013 is forecast to be 72.3 million passengers, compared to a forecast of 71.4 million in the previous Investor Report. The rate of growth in traffic was boosted in the summer by the non-recurrence of the dip in demand experienced during the Olympic Games in 2012. In addition, the growth reflects increased load factors and larger aircraft.

2014

For the year ending 31 December 2014, Heathrow's passenger traffic is forecast at 72.8 million, an increase of 0.7% based on the above 2013 forecast.

The growth expected in 2014 comes despite continued severe constraint on additional numbers of flights. It reflects a slight increase in the number of flights from the expected approximately 470,000 in 2013 and an assumption of larger average aircraft size, with an expected increase in A380 and B787 services. Given the expected increase in capacity, load factors are assumed to remain broadly constant. Growth in 2014 is expected to come from North America (+4%), China and Hong Kong (+10%) and UK domestic (+4%).

The 2014 traffic forecast incorporates the first 9 months (April to December) of Q6. The forecast does not include any allowance for potential disruptions or shocks. This is consistent with Heathrow's approach to traffic forecasting where a forecast that doesn't reflect shocks is required for short-term planning whilst medium or long-term forecasts make an allowance for potential shocks given that historically they have impacted Heathrow's traffic by an average of close to 1.4%.

6. 2013 and 2014 financial forecasts

Heathrow (SP) 2013 and 2014 financial forecasts are set out opposite (more detail is in Appendices 2 and 3). Highlights include:

- **forecast £1,485 million 2014 Adjusted EBITDA representing annual growth of 8.2% versus the latest 2013 forecast**
- **moving to being cashflow positive in 2014 after capital expenditure and interest costs**

Aeronautical income is forecast to increase 10.0% driven by tariff increases, revenue recovery through the 'K factor' mechanism and higher passenger traffic.

Retail income is expected to grow 1.5% in 2014 and forecast net retail income per passenger growth is 0.4%. Growth is expected to be driven by duty and tax-free and airside specialist shops.

Operating costs in 2014 (excluding depreciation and exceptional items) are forecast to increase 7.6% to £1,181 million. Forecast cost savings, expected as part of those planned over Q6 (mainly through reduction in employment costs despite extra staffing required at Terminal 2), are more than offset by increased costs in rent and rates, maintenance, utilities and general expenses incurred principally in preparing for and commencing operations at the new Terminal 2.

Forecast growth in Adjusted EBITDA in 2014 is expected to occur predominantly in the first, third and fourth quarters of the year. This reflects year on year tariff increases in these three periods. Consistent with the start of the current regulatory period, changes to tariffs for the 2014/15 regulatory year will be deferred from 1 April 2014 to 1 July 2014, this means that the second quarter will not be subject to a year on year tariff increase.

Heathrow's forecast capital expenditure for 2014 is approximately £740 million, over £600 million lower than in 2013, given the current peak of spend related to Terminal 2 and the move to a lower capital investment phase through the next regulatory period.

Average RPI used in the forecast for 2014 is 2.7%.

All forecast financial ratios comply with Trigger Event ratios.

2013 and 2014 Financial Forecasts

Financials	2013	2014	Change(1)
(figures in £m unless otherwise stated)			
Revenue	2,470	2,666	7.9%
Adjusted EBITDA	1,372	1,485	8.2%
Cash flow from operations	1,337	1,468	9.7%
Cash flow for ICR calculation	1,045	1,165	11.5%
Capital expenditure	1,367	742	-45.7%
Total RAB (2)	14,613	15,144	3.6%
Nominal net debt(2)			
Senior net debt	9,996	10,053	0.6%
Junior debt	1,425	1,700	19.3%
Total nominal net debt	11,421	11,753	2.9%
Interest paid(2)			
Senior interest paid	367	421	14.7%
Junior interest paid	98	96	-2.0%
Total interest paid	465	517	11.2%

Ratios(2)(3)	2013	2014	Trigger level
Senior (Class A) RAR	68.4%	66.4%	70.0%
Junior (Class B) RAR	78.2%	77.6%	85.0%
Senior (Class A) ICR	2.85x	2.77x	1.40x
Junior (Class B) ICR	2.25x	2.25x	1.20x

(1) Percentage changes calculated using unrounded figures
(2) 2013 RAB, net debt, interest paid and financial ratios reflect the Stansted sale price
(3) See Appendices 2 and 3 for the definition of rations (RAR and ICR) and their calculations

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7. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions, disposals and joint ventures
There have been no material acquisitions, disposals or joint ventures related to any Obligor since the previous Investor Report was distributed on 27 June 2013.

Outsourcing
There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 27 June 2013.

8. Significant board and management changes

On 1 November 2013 Terry Morgan, director of Technical Standards and Assurance, resigned from the Executive Committee of Heathrow Airport Limited (HAL) and resigned as a director of HAL and LHR Airports Limited (LHR). On 1 November 2013, Jim O'Sullivan, Managing Director of Heathrow Airport Holdings' non-Heathrow airports, an existing member of HAL's executive committee and director of both HAL and LHR, also assumed responsibility for Technical Standards and Assurance.

On 10 December 2013, Ian Ballentine, Director of Procurement, joined HAL's Executive Committee and was appointed a director of both HAL and LHR. He originally joined the business in November 2012 and has previously worked at Network Rail and Thames Water.

There have not been any other board or relevant management changes related to the Obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 27 June 2013.

9. Financing matters (A)

Bond issues and maturities

Since the previous Investor Report was distributed on 27 June 2013, Heathrow Funding has issued a 33 year £750 million Class A bond in October 2013 at a coupon of 4.625%. In addition, a £396 million Class A bond was repaid in November 2013.

Loan facilities

Since the previous Investor Report was distributed on 27 June 2013:

- Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £10 million; and
- Heathrow Airport Limited repaid its £50 million Class B term loan facility that was due to mature in September 2014.

Financing outside the Group

Refinancing of the £600 million loan facility at ADI Finance 1 Limited ('ADIF1') was completed in July 2013, primarily utilising the proceeds from £505 million in new 7 and 9 year term loan facilities put in place at ADI Finance 2 Limited ('ADIF2'). The balance of the ADIF1 facility was repaid utilising the proceeds from a combination of the increase in May 2013 in Heathrow Finance's £50 million loan facility to £85 million and part of one of the restricted payments out of the Group. The new ADIF2 facilities were secured with margins below 6% compared to the 7% margin on the previous ADIF1 facility.

Hedging

At 30 November 2013, at least 96% and 81% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 March 2014 and 31 March 2019 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. The Group is already compliant with the 75%/50% hedging requirement for the regulatory periods ending on 31 March 2019 and 31 March 2024.

Since the previous Investor Report was distributed on 27 June 2013, the Group has reduced its index-linked swap portfolio by a net amount of £171 million leaving its total notional value at £5,266 million.

9. Financing matters (B)

Liquidity

At 30 September 2013, the Group had approximately £1.8 billion in undrawn bank facilities and cash resources. Since 30 September 2013, the Group has completed a £750 million 33 year Class A bond and repaid a maturing £396 million Class A bond. Taking into account these transactions, the Group expects the headroom under its facilities, when combined with its cash resources and expected operating cash flows, to be sufficient to meet all its liquidity requirements, including refinancing maturing bond and bank debt, funding Heathrow's capital investment programme and payment of projected distributions outside the Group, until late 2015.

Historic and future Restricted Payments

Since the previous Investor Report was distributed on 27 June 2013, there have been £160 million of restricted payments made by the Group. This included £28 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance and £49 million in quarterly dividends paid to the Group's ultimate shareholders in September 2013. The remaining £83 million (together with £35 million distributed from Heathrow Finance) was utilised in connection with the refinancing of the ADIF1 loan facility, principally due to the smaller size of the new ADIF2 loan facilities (£505 million) compared to the ADIF1 loan facility (£600 million).

In the remainder of 2013, a further £43 million in restricted payments are expected to be made out of the Group to fund in part the final quarterly dividend payment being made to the Group's ultimate shareholders in 2013 and the £15 million initial interest payment under the ADIF2 loan facilities put in place earlier in 2013. This will mean that in total £716 million in restricted payments will have been made out of the Group during 2013.

Regular quarterly dividend payments to the Group's ultimate shareholders are expected to total £270 million for 2014 (compared to £255 million in 2013 and are currently expected to be funded in full by restricted payments from the Group). Other restricted payments in 2014, principally to meet interest payments on debt held at Heathrow Finance plc and ADIF2, are expected to total approximately £80 million. Total restricted payments in 2014 are therefore projected at £350 million, compared to £716 million in 2013. The reduction in 2014 principally reflects no recurrence of the £300 million payment to the Group's ultimate shareholders following the disposal of Stansted which reflected a return on their historical investment in the airport.

As has been the case in 2012 and 2013, the payments will be considered by the Group within the framework of the guidance on target leverage levels previously provided and will reflect its ability to continue to access stable financial markets to provide its ongoing funding needs.

10. Confirmation

19 December 2013

To the Borrower Security Trustee, the Bond Trustee, each Rating Agency, the Paying Agents and each other Issuer Secured Creditor

We confirm that each of the Ratios set out on page 13 has been calculated in respect of the Relevant Period(s) or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

We confirm that all forward-looking financial ratio calculations and projections:

- have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
- are consistent and updated by reference to the most recently available financial information required to be produced by the Obligors under Schedule 2 (Covenants) of the Common Terms Agreement; and
- are consistent with the Applicable Accounting Principles (insofar as such Applicable Accounting Principles reasonably apply to such calculations and projections).

We also confirm that:

- no Default or Trigger Event has occurred and is continuing;
- the Group is in compliance with the Hedging Policy; and
- this Investor Report is accurate in all material respects.

Yours faithfully

Jose Leo
Chief Financial Officer
For and on behalf of LHR Airports Limited as Security Group Agent

Appendix 1 - Quarterly passenger traffic trends (2008 to 2013)

Heathrow passenger traffic evolution (1)					
	Q1	**Q2**	**Q3**	**Q4**	**Full year**
2008	**15.4**	**17.1**	**18.6**	**15.9**	**66.9**
change	*+0.6%*	*-1.3%*	*-1.2%*	*-3.6%*	***-1.4%***
2009	**14.4**	**16.8**	**18.6**	**16.0**	**65.9**
change	*-6.4%*	*-1.5%*	*+0.3%*	*+1.1%*	**-1.5%**
2010	**14.6**	**15.5**	**19.5**	**16.1**	**65.7**
change	*+1.6%*	*-7.9%*	*+4.4%*	*+0.7%*	***-0.2%***
2011	**15.0**	**17.9**	**19.8**	**16.8**	**69.4**
change	*+2.5%*	*+15.3%*	*+1.5%*	*+3.8%*	***+5.5%***
2012	**15.7**	**17.9**	**19.4**	**17.0**	**70.0**
change	*+4.4%*	*+0.4%*	*-2.0%*	*+1.6%*	***+0.9%***
2013	**16.0**	**18.4**	**20.4**		
change	*+1.8%*	*+2.9%*	*+5.5%*		

(1) Heathrow traffic only. Change versus same period in the previous year, calculated using unrounded numbers.

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Appendix 2 - Computation of Interest Cover Ratios[1] ('ICR') – calculation of ratios

(See important notice on page 2 of this document)	Trigger level	Year to 31 December 2013[1]	Year to 31 December 2014[1]
		£m	£m
Cashflow from Operations[2]		1,337	1,468
Add back: Cash one-off, non-recurring extraordinary or exceptional items		0	0
Cashflow from Operations (before exceptional items)		1,337	1,468
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(292)	(303)
Cash Flow (A)		**1,045**	**1,165**
Interest and equivalent recurring charges paid on Senior Debt[3][4]			
Interest paid – existing Class A bonds		472	485
Interest paid – existing Class A EIB facilities		2	2
Interest paid – other Class A debt		3	6
Interest paid/(received) on swaps		(121)	(83)
Commitment fees on liquidity and revolving credit facilities		11	11
Total interest on Senior Debt (B)		**367**	**421**
Interest and equivalent recurring charges paid on Junior Debt[3][4]			
Class B debt		98	96
Total interest on Junior Debt (C)		**98**	**96**
Total interest (D=B+C)		**465**	**517**
Senior ICR (A/B)[5]	**1.40x**	**2.85x**	**2.77x**
Junior ICR (A/D)[5]	**1.20x**	**2.25x**	**2.25x**

(1) Figures for 2013 and 2014 are forecast data
(2) Reconciliation of cashflow from operations with Adjusted EBITDA is set out on page 21
(3) Reconciliation of interest paid with interest payable is set out on page 21
(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

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Appendix 2 - Computation of Interest Cover Ratios – reconciling income statement to cash flow

(See important notice on page 2 of this document)	Year to 31 December 2013	Year to 31 December
	£m	**£m**
Income		
Aeronautical income	1,520	1,672
Non-aeronautical income - retail	489	496
Non-aeronautical income - non-retail	461	498
Total income	**2,470**	**2,666**
Operating expenses(1)	1,098	1,181
Adjusted EBITDA	**1,372**	**1,485**
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Trade working capital	(7)	3
Pension	(28)	(20)
Cashflow from operations	**1,337**	**1,468**

	Year to 31 December 2014(2)(3)				Year to 31 December 2013
	Income statement incl amortisation(4)	Income statement excl amortisation	Variation in accruals	Cash flow(5)	Cash flow(5)
	£m	**£m**	**£m**	**£m**	**£m**
Interest paid – existing Class A bonds	498	480	5	485	472
Interest paid – Class A EIB facilities	2	2	0	2	2
Interest paid – other Class A debt	17	11	(5)	6	3
Interest paid/(received) on swaps(5)	(35)	(72)	(11)	(83)	(121)
Commitment fees on liquidity & revolving credit facilities	11	11	0	11	11
Interest paid - Class B debt	109	107	(11)	96	98
Total interest	**602**	**539**	**(22)**	**517**	**465**

(1) Operating expenses excluding depreciation and exceptional items
(2) Excludes capitalised interest
(3) Excludes interest on debenture between Heathrow (SP) Limited and Heathrow Finance plc as this is not included in calculation of ratios under the Common Terms Agreement
(4) Includes amortisation of refinancing fees and swap prepayments but excludes accretion on Index Linked Swaps
(5) Excludes interest rate swap cancellations.

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Appendix 3 - Computation of Regulatory Asset Ratios[1] ('RAR')

(See important notice on page 2 of this document)	Trigger level	At 31 December 2013[1]	At 31 December 2014[1]
		£m	£m
Forecast closing Heathrow RAB (A)		**14,613**	**15,144**
Senior Debt			
Class A Existing Bonds		9,213	8,718
Class A EIB facilities		215	177
Other Class A debt		150	1,032
RPI swap accretion		438	494
Total Senior Debt (B)		**10,016**	**10,421**
Junior Debt			
Class B debt		1,425	1,700
Total Junior Debt (C)		**1,425**	**1,700**
Cash and cash equivalents (D)		(20)	(368)
Senior net debt (E=B+D)		**9,996**	**10,053**
Senior and junior net debt (F=B+C+D)		**11,421**	**11,753**
Senior RAR (E/A)[2][3]	**70.0%**	**68.4%**	**66.4%**
Junior RAR (F/A)[2]	**85.0%**	**78.2%**	**77.6%**

(1) Figures for 2013 and 2014 are forecasts.
(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 £400 million undrawn junior debt under revolving credit facility

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Appendix 4 – Nominal consolidated net debt of Obligors and Heathrow Funding Limited at 30 September 2013

			Amount and features of available facilities			
		Amount	Local currency		S&P/Fitch rating	Maturity
Senior (Class A)		**(£m)**	**(m)**	**(£m)**		
Bonds		396	396	396	A-/A-	2013/15
		513	513	513	A-/A-	2014/16
		300	300	300	A-/A-	2015/17
		319	319	319	A-/A-	2015/17
		300	300	300	A-/A-	2016/18
		434	434	434	A-/A-	2016/18
		584	584	584	A-/A-	2017/19
		272	272	272	A-/A-	2017/19
		510	510	510	A-/A-	2018/20
		250	250	250	A-/A-	2019/21
		250	250	250	A-/A-	2021/23
		621	621	621	A-/A-	2021/23
		188	188	188	A-/A-	2022/24
		750	750	750	A-/A-	2023/25
		700	700	700	A-/A-	2026/28
		200	200	200	A-/A-	2028/30
		900	900	900	A-/A-	2031/33
		42	42	42	A-/A-	2032/34
		42	42	42	A-/A-	2032/34
		535	535	535	A-/A-	2039/41
		750	750	750	A-/A-	2041/43
Total bonds		**8,856**		**8,856**		
Bank debt	EIB Facilities	226	226	226	n/a	2013/22
	Revolving/Working Capital Facilities	347	1,600	1,600	n/a	2017
Total bank debt		**573**		**1,826**		
Total senior debt		**9,429**		**10,682**		
Junior (Class B)						
Bonds		400	400	400	BBB/BBB	2018
		400	400	400	BBB/BBB	2020
		600	600	600	BBB/BBB	2024
Bank debt	Term Loan Facility	50	50	50	n/a	2014
	Revolving Facility	0	400	400	n/a	2017
Total junior debt		**1,450**		**1,850**		
Gross debt		**10,879**		**12,532**		
Cash		**-164**				
Index-linked derivative accretion		**444**				
Net debt		**11,159**				

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Appendix 5 – Additional information for Heathrow Finance plc creditors

(See important notice on page 2 of this document)	Covenant/ Trigger level	As at or for year to 31 December 2013	As at or for year to 31 December 2014
		£m	£m
Calculation of Group ICR			
Cash Flow (A) (see page 20)		**1,045**	**1,165**
Interest			
Paid on Senior Debt (B) (see page 20)		367	421
Paid on Junior Debt (C) (see page 20)		98	96
Paid on Borrowings (D)		43	47
Group Interest Paid (G=B+C+D)		**508**	**564**
Group ICR (A/G)	**1.00x**	**2.06x**	**2.06x**
Calculation of Group RAR			
Total RAB (see page 22) (H)		14,613	15,144
Net debt			
Senior Net Debt (see page 22) (I)		9,996	10,053
Junior Debt (see page 22) (J)		1,425	1,700
Borrower Net Debt (K)		762	762
Group Net Debt (L=I+J+K)		**12,183**	**12,515**
Junior RAR ((I+J)/H)	**82.0%**	**78.2%**	**77.6%**
Group RAR (L/H)	**90.0%**	**83.4%**	**82.6%**

(1) ICR or Interest Cover Ratio is defined on page 20
(2) RAR or Regulatory Asset Ratio is defined on page 22

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