Heathrow (SP) Limited and Heathrow Finance plc

Investor Report

12 December 2014

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Important notice

This Investor Report (other than Appendix 5) 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’) pursuant to the Common Terms Agreement. Appendix 5 is being distributed by Heathrow Finance plc. (‘Heathrow Finance’ pursuant to the terms of Heathrow Finance plc’s facilities agreements and its bond issues due 2017, 2019 and 2025.

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. Appendix 5 is being distributed by Heathrow Finance plc pursuant to the terms of its facilities agreements and its bond issues due 2017, 2019 and 2025.

Investor Reports relate to the performance of the Security Group which includes Heathrow airport. This Investor Report comments on the historical financial performance of the Security Group for the period up to 30 September 2014 and its historical passenger traffic for the period up to 30 November 2014. It also contains forecast financial information derived from current management forecasts for the Security Group for the rest of 2014 and whole of 2015.

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.

Contents

1. Introduction

This report sets out forecast financial performance and forecast ratios for Heathrow (SP) in 2014 and 2015, together with key business plan highlights and corporate developments. Additional information specific to Heathrow Finance is set out in Appendix 5.

In the years to 31 December 2014 and 31 December 2015 all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

Heathrow expects to be cash flow positive in 2014 and 2015 after capital expenditure and external interest costs.

Adjusted EBITDA forecast in 2014 and 2015 is modestly above the regulatory settlement, primarily reflecting the absence of demand shocks.

Adjusted EBITDA[(1)] in 2014 for Heathrow (SP) is forecast to increase by 10.9% versus 2013 to £1,576 million. Growth in 2014 is mainly driven by aeronautical revenue which largely reflects the RPI+7.5% tariff rise in quarter 1 based on the last regulatory period and around £50 million of revenue recovery through the K factor mechanism.

Adjusted EBITDA[(1)] in 2015 is forecast to be £1,565 million, a reduction of 0.7% over 2014. This forecast reduction of around £10 million principally reflects the non-recurrence of £50 million of revenue recovery in 2014 and the incremental cost of operating an additional terminal for the whole year, largely offset by underlying improvements.

Underlying revenue growth is driven by a passenger volume increase of 1.0% and a continued rise in non aeronautical revenue, which will benefit from the refurbished and expanded Terminal 5 luxury retail investment. Operating costs will rise by around £40 million due to a full year of operating Terminal 2, and more general cost inflation. These pressures are expected to be partially offset by further cost efficiencies, in addition to the closure of Terminal 1 in 2015 which is forecast to save £15 - £20 million compared with 2014.

Heathrow expects to invest nearly £700 million and around £580 million in its capital programme in 2014 and 2015 respectively.

2014 and 2015 forecast financial ratio levels

	31 Dec 2014 Forecast	31 Dec 2015 Forecast	Trigger level
Regulatory Asset Ratio (RAR)[(2)]			
Senior (Class A) ratio	**66.7%**	**66.0%**	70.0%
Junior (Class B) ratio	**77.1%**	**76.1%**	85.0%
Interest Cover Ratio (ICR) [(3)]			
Senior (Class A) ratio	**2.88x**	**2.88x**	1.40x
Junior (Class B) ratio	**2.36x**	**2.34x**	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) Interest Cover Ratio is defined on page 20

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2. Business developments – service standards and traffic

Heathrow became the number one major hub airport in Europe for passenger satisfaction in the third quarter of 2014 in the independent Airports Council International's Airport Service Quality survey. This built on record levels of overall passenger satisfaction through 2014, with 78% of passengers surveyed rating their experience as 'Excellent' or 'Very Good'.

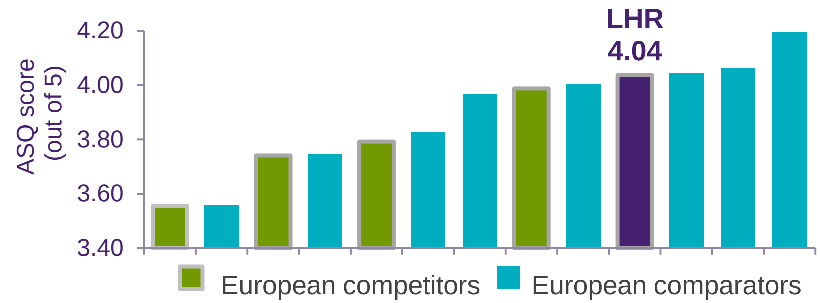
Operational performance has been strong to date in 2014, with record punctuality and overall improvement in passenger experience. In the nine months ended 30 September 2014, 79% of aircraft departed within 15 minutes of schedule (2013: 78%), the proportion of baggage not accompanying passengers was 19 per 1,000 passengers (2013: 15 per 1,000) and passengers passed through central security within periods prescribed under Heathrow's service quality rebate ('SQR') scheme 95.8% of the time (2013: 91.2%. Service standard: 95%). In the 12 months to 30 September 2014, Heathrow rebated £5.7 million under the SQR scheme, mainly relating to security queuing.

Heathrow traffic increased 1.4% to 67.4 million (2013: 66.5 million) in the eleven months ended 30 November 2014. The number of flights operated increased 0.1% to 433k (2013: 433k). The average number of seats per passenger aircraft increased to 204 (2013: 202) and on average each aircraft was 76.6% full (2013: 76.3%).

Growth in 2014 has been driven by intercontinental traffic, which has increased 2.0%. New destinations include Manila, Chengdu, Mexico City, Bogota and Austin, Texas, with British Airways announcing the start of a new service to Kuala Lumpur. In addition, Air China has consolidated all its London operation into Heathrow. European traffic was flat year on year, retaining the step change in traffic that these markets experienced in 2013. Domestic traffic was up 5.2%.

Terminal 5 – World's Best Airport Terminal since 2012
Heathrow – World's Best Airport Shopping since 2010

Passenger satisfaction European ranking
Q3 2014



Traffic and operating statistics

11 months to end November	2013	**2014**	Change
Traffic by market (m)			(%)
UK	4.6	**4.9**	+5.2%
Europe	27.7	**27.7**	0.0%
North America	15.3	**15.6**	+1.7%
Asia Pacific	9.4	**9.6**	+1.7%
Middle East	5.3	**5.5**	+3.3%
Africa	3.2	**3.2**	+0.3%
Latin America	1.0	**1.0**	+6.3%
Total passengers (m)	**66.5**	**67.4**	**+1.4%**
ATM ('000)	433	**433**	+0.1%
Seats per aircraft	202	**204**	+0.9%
Load factor (%)	76.3	**76.6**	+0.3pts

Change and totals based on unrounded data
See Appendix 1 for quarterly traffic evolution

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2. Business developments – 2014-2018 business plan

Heathrow's latest period of economic regulation ('Q6') started on 1 April 2014 and runs until 31 December 2018. Heathrow's business plan for the period aims to deliver a noticeably better passenger experience, ensuring improved operational resilience and delivering a competitive cost of operation.

Building on 2014, in nominal terms, for the four years from 2015 to 2018, revenue is forecast to rise at a compound annual growth rate of around 2% whilst operating costs remain broadly flat resulting in approximately 4% compound annual growth in Adjusted EBITDA.

Key factors of the business plan(1)

Heathrow's latest plan assumes around 367 million passengers over 2014-2018, of which 73.2 million passengers are expected in 2014 and 73.9 million in 2015. The forecast for the remaining years retains an assumption of demand shock and averages 73.4 million passengers each year. The latest plan forecasts marginally higher passengers than the regulatory settlement reflecting the assumed absence of demand shock in 2014 and 2015 and more favourable short term demand performance. Given Heathrow's severe capacity constraint, passenger traffic growth is driven by improved utilisation through fuller and larger aircraft.

In addition to more passengers, revenue growth is driven by tariff growth of inflation minus 1.5% and nominal growth in commercial revenue from 2015 totalling £0.5 billion. These are underpinned by forecast macroeconomic growth and a set of commercial initiatives targeting growth and improved efficiency of retail spaces; and a better commercial offering. Examples of this include extension and refurbishment of the Terminal 5 retail offering; improved terms with retailers; enhanced car park product and yield management and increased use of media space.

The below inflation operating cost forecast reflects two competing forces, namely cost pressures particularly from new, additional infrastructure such as Terminal 2 and baggage facilities driving around £100 million per year of additional costs plus cost inflation through the period; which are partially offset by the benefits of an extensive efficiency programme and agreed airline moves which bring forward the closure of Terminal 1. Financial forecasts are currently based on closure of Terminal 1 in October 2015.

Heathrow's efficiency programme is expected to deliver an aggregate of over £700 million of savings between 2014 and 2018. Around half of the savings are from employment costs; these include corporate centre headcount reductions, slower wage growth, provision of more sustainable pension benefits, increased productivity and broader market-alignment of employment terms. Most of the remainder of the savings will be delivered through improved supplier terms across the airport operation and corporate centre.

Heathrow's programme of management actions in commercial activities combined with the cost initiatives aims to grow aggregate EBITDA over the five year period by more than £1 billion, when compared with the run rate at the end of 2013.

(1) forecast values are in nominal terms.

2. Business developments – 2014-2018 business plan

Capital investment plan[(1)]

Planned capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.6 billion. The capital programme is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. The plan includes a £1 billion programme of asset management and replacement projects, completion of the £0.5 billion Terminal 3 Integrated Baggage facility and a £320 million project to implement latest generation hold baggage screening equipment to comply with EU directives. In line with the regulatory settlement, the capital programme may increase to up to £3.3 billion. This is subject to further scoping of the remaining individual projects and corresponding approval of the business cases.

Progress to date

In 2014, the business has focused on securing early sustainable savings and revenue growth to contribute through the full business plan period. The cost efficiencies secured to date are projected to deliver approximately £280 million in savings for the period of the plan and revenue initiatives forecast to generate around £100 million have been implemented.

Approximately £80 million in employment cost efficiencies for the five years have been secured comprising £37 million corporate centre savings, a further £30 million saving from a two-year pay deal and £14 million of savings from modern contracts for new joiners. In addition, discussions have been initiated with members of the defined benefit pension scheme about changing the terms of the scheme to make it more affordable and sustainable for the future.

Supplier cost efficiencies on initiatives secured to date are projected to deliver nearly £200 million for the five years. These include £100 million baggage operations and maintenance contract consolidation; and savings in other areas including engineering efficiencies, energy management and other supplier efficiencies.

Through 2014 a number of commercial initiatives have been started, including successful car park revenue management with the introduction of a wider product range, together with yield and demand management. Given the positive start, additional car parking revenue is expected to contribute £50 million over the five years. Retail concessions are being negotiated on an ongoing basis. Most notably, in October Heathrow extended agreements with World Duty Free by six and a half years. The revised agreement delivers benefit in 2014 and is forecast to deliver substantial benefit over the current regulatory period.

(1) forecast values are in nominal terms.

3. Significant regulatory and governmental developments

Airports Commission

At the end of 2013, the Airports Commission chaired by Sir Howard Davies published its interim report stating that there is a clear case for at least one net additional runway in London and the South East by 2030. Heathrow's proposal for a third runway to the north west of the existing airport facilities was shortlisted for further appraisal along with another option at Heathrow and one at Gatwick.

Heathrow's expansion proposal would raise the airport's capacity to 740,000 flights a year, from the current limit of 480,000, catering for up to 130 million passengers annually compared with up to 80 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future. Heathrow expects expansion to involve an investment of £16 billion over 15 years.

Heathrow held public consultations and worked with local authorities, communities and other stakeholders and submitted a refreshed proposal to the Airports Commission in May 2014. This proposal improved on the July 2013 plan with further reduction of noise impact, improved road capacity, reduced congestion impacts and faster delivery of hub capacity at a competitive world-class airport. Engagement with all stakeholders has continued since May including consultation on appropriate noise and property compensation schemes for those who would be most affected by expansion; feedback has led to further refinement to minimise the impacts on local communities of proposed infrastructure changes.

Following detailed independent assessments, the Airport Commission launched a national consultation on 11 November 2014. The consultation invites views and conclusions in respect of the three short-listed options; comments on the Commission's appraisal and overall approach; as well as inviting comment on how the Commission carried out its appraisal of 16 specific topics. Responses to the consultation need to be submitted by 3 February 2015.

The Commission will take account of responses in its final report which is expected in summer 2015.

CAA

On 23 October the CAA began a consultation on its draft policy statement for the economic regulation of new runway capacity. The deadline for responses is 19 December 2014 and the CAA is expected to make a final policy statement in the first quarter of 2015.

3. Significant regulatory and governmental developments

Change in Accounting Standards

As a result of the Financial Reporting Council's ongoing project to harmonise accounting standards in the UK, from 1 January 2015, the current UK accounting standards used for the preparation of the Heathrow (SP) consolidated accounts will be replaced by Financial Reporting Standard ('FRS') 100. This must be reflected in Heathrow (SP) Limited's reporting no later than the year ending 31 December 2015. As allowed by FRS 100, the Heathrow (SP) group is considering moving from reporting under UK GAAP to adopting full International Financial Reporting Standards ("IFRS"). In the event of adopting IFRS, in order to provide comparable historical financial information, restated financial information in accordance with IFRS would be reported with the publication of the full year 2014 results.

Under IFRS the restated net assets of the Heathrow (SP) group at the transition date of 1 January 2012 would be expected to reduce, reflecting the differences from the current UK accounting standards used for the preparation of the Heathrow (SP) accounts. An uplift to assets of £360 million relating to operational land would be expected. This would be more than offset by deferred tax liabilities expected to total £1,357 million, primarily reflecting the impact of the historical abolition of the Industrial Buildings Allowance, as well as relating to assets classified as operational land and as investment properties, such as car parks. Therefore the reduction at the date of transition would be £997 million, but is subject to audit.

These changes would have no impact on RAR and ICR credit metrics.

4. Historical financial performance

This section summarises the results for the Heathrow (SP) group for the period to 30 September 2014 that were reported on 29 October 2014.

Turnover

In the nine months ended 30 September 2014, Heathrow's turnover increased 8.2% to £1,986 million (2013: £1,836 million). This reflects an increase of 11.6% in aeronautical income, 2.8% in gross retail income and 2.6% in other income.

The strong performance of aeronautical income reflects a combination of factors. Over a quarter of the growth reflects the increase in the headline tariffs for the 2013/14 regulatory year for the first quarter. A substantial proportion of the increase reflects recovery of previous yield dilution, which has been concentrated into the last six months of 2014. The remainder of the increase is driven by passenger traffic growth, the new tariff implemented in July 2014, the non-recurrence of yield dilution which occurred in the first six months of 2013, partially offset by yield dilution in 2014, and the absence of capital triggers in the 2014 regulatory year.

In the nine months ended 30 September 2014, net retail income increased 3.2% to £353 million (2013: £342 million) with net retail income per passenger rising 1.7% to £6.34 (2013: £6.24). Growth in 2014 has been led by improved car parking income, increased media and advertising income and a modest rise in duty and tax-free revenue. Income from airside specialist shops reduced by 2.9% and a number of anticipated factors contributed to the reduction, including the impact of works on the Terminal 5 luxury retail improvements and airline moves associated with Terminal 2 opening; in addition the strength of sterling relative to last year impacted retail spend.

Operating costs(1)

Operating cost performance continues to be robust. In the nine months ended 30 September 2014, adjusted operating costs increased 2.6% to £814 million (2013: £793 million). As anticipated, the start of operations at Terminal 2 has driven higher operating costs as a result of running an additional terminal. This is estimated to total an additional £24 million between June and September 2014.

With the increase in activities to win approval for expansion at Heathrow, around £5 million of associated costs have been incurred in general expenses in 2014. Employment costs continue to be a focus for the business. As well as a major restructure of Heathrow's corporate centre which is delivering benefit, Heathrow agreed a two-year pay agreement with employees represented under the company's collective bargaining agreement.

Adjusted EBITDA(2)

Adjusted EBITDA for the nine months ended 30 September 2014 increased 12.4% to £1,172 million (2013: £1,043 million). The higher Adjusted EBITDA principally reflects the increase in aeronautical income.

(1) Total operating costs excluding depreciation and exceptional items
(2) Adjusted EBITDA: earnings before interest, tax, depreciation and amortisation and exceptional items

4. Historical financial performance

Interest payable

In the nine months ended 30 September 2014, the Security Group's net interest payable was £606 million (2013: £644 million). Underlying net interest payable was £581 million (2013: £570 million), after adjusting for a fair value loss on financial instruments of £17 million (2013: £159 million loss), capitalised interest of £80 million (2013: £116 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £88 million (2013: £31 million).

Interest paid

Net interest paid in the nine months ended 30 September 2014 was £471 million (2013: £458 million) of which £416 million (2013: £403 million) was paid in relation to external debt. The remaining £55 million (2013: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

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

The Security Group's nominal net debt at 30 September 2014 was £11,762 million, comprising £11,400 million outstanding under various bond issues, £25 million of drawings under revolving credit facilities, £287 million outstanding under other loan facilities, £558 million in index-linked derivative accretion and cash at bank and term deposits of £508 million. Nominal net debt comprised £10,182 million in senior (Class A) net debt and £1,580 million in junior (Class B) debt. The average cost of the Security Group's external gross debt at 30 September 2014 was 4.57% (31 December 2013: 4.53%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Security Group's average cost of debt at 30 September 2014 was 5.75% (31 December 2013: 6.01%).

Capital expenditure and Regulatory Asset Base (RAB)

Cash flow capital expenditure at Heathrow was £689 million in the nine months ended 30 September 2014. Heathrow's RAB at 30 September 2014 was £14,844 million.

Financial ratios

At 30 September 2014, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 68.6% for senior debt and 79.2% for junior debt, compared with respective trigger levels of 70.0% and 85.0%.

5. Forecast traffic and revenue performance

Traffic

Heathrow traffic for the year ending 31 December 2014 is forecast to be 73.2 million passengers, an increase of 1.2% on 2013. Taking into account recent traffic performance, the latest forecast represents a minor reduction from the outlook presented in October. The traffic growth is a result of larger aircraft as airlines have taken deliveries of A380s and also a marginal increase in the number of movements, and has been focused on domestic and long haul routes, with Europe remaining flat year on year.

For the year ending 31 December 2015, Heathrow's passenger traffic is forecast at 73.9 million, an increase over 2014 of 1.0%. Growth in 2015 reflects an assumption of larger average aircraft size, with an expected increase in A380 and B787 services and a slight increase in the number of flights from the expected approximately 470,000 in 2014. Given the expected increase in capacity, load factors are assumed to remain broadly constant. Growth in 2015 is expected to come from long haul passengers travelling on routes serving North America, the Middle East and Latin America.

These forecasts do 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 1.3%.

Revenue

Revenue in 2014 is forecast to be £2,688 million, an increase of 8.6%. Aeronautical income is expected to grow 11.7% to £1,701 million from £1,523 million in 2013. This reflects the benefit in the first three months of 2014 of the tariff increase from the 'Q5' regulatory period, as well as approximately £50 million of revenue recovery through the regulatory 'K' factor mechanism. Aeronautical revenue has also benefitted from record passenger volumes. Given the relative strength of sterling for much of 2014, retail growth has been more modest and is expected to total £505 million for 2014, a rise of 3.7%.

Revenue in 2015 is forecast to be £2,727 million, up 1.5% from 2014. The lower rate of growth reflects a full year of the current regulatory period and the non-recurrence of the £50 million revenue recovery that has occurred through 2014. Underlying revenue growth is driven from passenger volume increases and a rise in non aeronautical revenue. When stripping out the 2014 revenue recovery, underlying aeronautical income is forecast to grow 3.0%, driven by tariff increases and higher passenger traffic. Retail income is expected to grow 5.0% in 2015 with net retail income per passenger growth of 5.0%. Retail income growth is forecast from airside specialist shops, duty and tax free outlets, continued growth in car parking as well as development of ancillary revenue streams.

6. Forecast financial performance

Strong earnings and a lower capital expenditure programme mean that from 2014 Heathrow expects to be cash flow positive after capital expenditure and external interest costs.

Furthermore, forecast Adjusted EBITDA in 2014 and 2015 is modestly above the regulatory settlement, primarily reflecting the absence of demand shocks.

Adjusted EBITDA in 2014 for Heathrow (SP) is forecast to increase by 10.9% over 2013 to £1,576 million, reflecting significant growth in aeronautical revenue.

Following the almost 11% rise expected in 2014, Adjusted EBITDA in 2015 is forecast to be £1,565 million, a reduction of 0.7%. This primarily reflects the non-recurrence of £50 million of revenue recovery in aeronautical revenue described in section 5 (see page 12) and the incremental cost of operating Terminal 2 and new baggage facilities.

Operating costs in 2015 (excluding depreciation and exceptional items) are forecast to increase 4.5% to £1,162 million. The main contributing factors are the additional cost of operating Terminal 2 which is expected be around £40 million higher than 2014 given operations began in mid-2014; cost inflation and an increased noise compensation programme. Cost increases are expected to be partially offset by further efficiencies in employment and supplier costs. In addition, the closure of Terminal 1 in October 2015 is forecast to contribute £15 - £20 million of savings.

Heathrow's forecast capital expenditure is expected to be almost £700 million in 2014 and £580 million in 2015, with the RAB expected to grow to £15.3 billion by the end of 2015.

Nominal net debt is forecast to increase to £11,660 million by the end of 2015 and interest payments are expected to remain largely consistent with 2014 levels, as the low cost of recent debt financings starts to replace higher cost financing.

Average RPI used in the forecast for 2015 is 3.1%.

All forecast financial ratios comply with Trigger Event ratios.

Forecast financial performance
2014 and 2015 forecast

Financials	2014	2015	Change[1]
(figures in £m unless otherwise stated)			
Revenue	2,688	2,727	1.5%
Adjusted EBITDA	1,576	1,565	-0.7%
Cash flow from operations (adjusted)[3]	1,532	1,549	1.1%
Cash flow for ICR calculation	1,233	1,234	0.1%
Capital expenditure[3]	693	580	-16.3%
Total RAB	14,953	15,320	2.5%
Nominal net debt			
Senior net debt	9,976	10,105	1.3%
Junior debt	1,555	1,555	0.0%
Total nominal net debt	**11,531**	**11,660**	1.1%
Interest paid			
Senior interest paid	428	428	0.1%
Junior interest paid	95	100	5.2%
Total interest paid	**523**	**528**	1.0%

Ratios[4]	2014	2015	Trigger level
Senior (Class A) RAR	66.7%	66.0%	70.0%
Junior (Class B) RAR	77.1%	76.1%	85.0%
Senior (Class A) ICR	2.88x	2.88x	1.40x
Junior (Class B) ICR	2.36x	2.34x	1.20x

(1) Changes calculated using unrounded data
(2) Adds back cash one-off items, non-recurring extraordinary items and exceptional items
(3) Gross balance sheet additions to tangible fixed assets: in 2014 the cash flow impact of capital expenditure is projected to be up to £180 million higher due to a reduction in capital creditors as Heathrow's investment programme reduces
(4) Ratio definitions and calculations in Appendices 2 and 3

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7. Acquisitions, disposals, joint ventures and outsourcing

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 27 June 2014.

Outside the Security Group, Heathrow Airport Holdings Limited announced the sale on 16 October 2014 of its 100% interest in Aberdeen International Airport Limited, Glasgow Airport Limited and Southampton International Airport Limited to a consortium formed by Ferrovial and Macquarie for £1,048 million in cash and assumed debt, payable in full at closing. At closing, the consideration will be increased to compensate for the elapsed time between signing and the closing date. Closing is conditional on EU merger regulation clearance and completion of employee consultation, both of which conditions have been met. Completion of the transaction is therefore expected shortly, but in any case no later than January 2015.

Management focus will be solely on Heathrow airport following transition to the new owners.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 27 June 2014.

8. Significant board and management changes

On 1 July 2014, John Holland-Kaye became Chief Executive Officer of Heathrow replacing Colin Matthews. John Holland-Kaye joined the company as Commercial Director in May 2009 and was responsible for the major growth in retail income and improved passenger experience during Q5. From November 2012, John was Development Director and was responsible for delivering the £1 billion annual investment in transforming Heathrow, including the new Terminal 2: The Queen's Terminal, which opened to passengers on 4 June 2014. John was previously Divisional CEO with Taylor Wimpey PLC, Operations Director at Taylor Woodrow PLC and Divisional Managing Director at Bass Brewers Ltd.

On 1 October 2014, it was announced that José Leo will stand down as Chief Financial Officer after over eight years with Heathrow. José joined Heathrow in 2006 and has successfully transformed Heathrow's finances, implementing Heathrow's long-term financing platform, raising well over £11 billion of funding and establishing a strong reputation in global markets for transparent financial management of the business. José will remain as Chief Financial Officer until March 2015 by when his successor is expected to be in place, ensuring a smooth transition.

On 1 September 2014, Fidel Lopez, Commercial Director left the business, resigning as a member of the Heathrow Executive Committee and as director of Heathrow Airport Limited, LHR Airports Limited and Heathrow Express Operating Company Limited. He was replaced by Brian Woodhead, who is a director of Heathrow Express Operating Company Limited.

On 25 September 2014, Renaud Faucher and Santiago Olivares resigned as directors of Heathrow Airport Holdings Limited and were replaced by Fidel Lopez and Eric Lachance respectively.

On 19 November 2014, it was announced that Neil Clark, Chief Information Officer, would be leaving Heathrow.

On 20 November 2014, Mike Powell was appointed as a director of Heathrow Airport Holdings Limited.

Other than those 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 27 June 2014.

9. Financing matters

New financing

Since the previous Investor Report was distributed on 27 June 2014, Heathrow Funding has raised £255 million through private placements, comprising a £100 million 26 year Class A index-linked bond and a £155 million 12 year Class B bond. In addition, the €50 million 20 year and £100 million 12 year private placements, which were priced during the first half of the year, were drawn in July 2014 and September 2014 respectively.

Loan facilities

Since the previous Investor Report was distributed on 27 June 2014, Heathrow Airport Limited has made scheduled EIB loan repayments of £8.7 million.

On 1 November 2014 Heathrow Airport Limited completed the refinancing of its core revolving credit and liquidity facilities. The aggregate amount of the new facilities is £2.15 billion: comprising £1.1 billion Class A general purposes facility and £300 million Class B general purposes facility and £750 million in standby liquidity facilities. The new revolving credit facilities have a 5 year term, maturing in November 2019, and replace similar facilities that were due to mature in June 2017. The Class A and B tranches of the revolving credit facility carry margins of 60 basis points and 100 basis points.

On 1 December the £175 million revolving credit facility arranged in December 2013 was cancelled.

Financing outside the Group

In October 2014 Heathrow Finance placed a £250 million, 10.5 year bond with a fixed coupon of 5.75%.

Liquidity

At 30 September 2014 and adjusting on the basis of assuming that the new revolving credit facilities and loan cancellations set out above occurred on that date, the Security Group had approximately £2.0 billion in undrawn bank facilities and cash resources. The Security Group therefore expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, up to December 2016.

9. Financing matters

Hedging

At 30 September 2014, at least 89.7% and 66.7% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2018 and 31 December 2023 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

Since the previous Investor Report was distributed on 27 June 2014, Heathrow Funding has not entered into any additional index-linked swaps leaving the total notional value of such instruments at £5,266 million.

Historical and future restricted payments

Since the previous Investor Report was distributed on 27 June 2014, there have been £258 million of restricted payments made by the Security Group. This funded £28 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance, £16 million in interest payments on loan facilities at ADI Finance 2 Limited ('ADIF2') and £129 million to fund the majority of the quarterly dividends paid to shareholders in July and September 2014 whilst £85 million was retained within the Heathrow Airport Holdings Limited group.

In the remainder of 2014, approximately £150 million in restricted payments are expected to be made out of the Group to fund dividend payments to the Group's ultimate shareholders and the interest payment under the ADIF2 loan facilities. This takes the expected total restricted payments out of the Group in 2014 to around £500 million.

Restricted payments in 2015 are projected to be approximately £450 million. These are expected to fund regular quarterly dividend payments to the Group's ultimate shareholders of £300 million. Other restricted payments, including to meet interest payments on debt held at Heathrow Finance and ADIF2, are expected to total approximately £150 million.

The Group continues to operate a framework that aims to maintain a buffer between actual leverage levels and relevant leverage trigger and covenant levels. The amount of restricted payments is considered with reference to the framework and the Group's ability to continue to access stable financial markets to provide its ongoing funding needs.

Change in shareholdings

Since the previous Investor Report was distributed on 27 June 2014, the holdings of the Group's ultimate shareholders have changed as follows: Ferrovial: 25.00%; Qatar Holding 20.00%; CDPQ 12.62%; GIC 11.20%; Alinda 11.18%; China Investment Corporation 10.00% and USS 10.00%.

10. Confirmation

12 December 2014

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 or as at the Relevant Date 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.

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

Appendix 1 - Quarterly passenger traffic (2008 to 2014)

Heathrow passenger traffic and air transport movement evolution
Change versus same in previous year (based on unrounded data)

Passengers (m)	2008	2009	2010	2011	2012	2013	2014
Jan-Mar	**15.4**	**14.4**	**14.6**	**15.0**	**15.7**	**16.0**	**16.0**
Change %	0.6	-6.4	1.6	2.5	4.4	1.8	0.5
Apr-Jun	**17.1**	**16.8**	**15.5**	**17.9**	**17.9**	**18.4**	**19.0**
Change %	-1.3	-1.5	-7.9	15.3	0.4	2.9	3.2
Jul-Sep	**18.6**	**18.6**	**19.5**	**19.8**	**19.4**	**20.4**	**20.6**
Change %	-1.2	0.3	4.4	1.5	-2.0	5.5	0.7
Oct-Dec	**15.9**	**16**	**16.1**	**16.8**	**17.0**	**17.5**	**17.5(F)**
Change %	-3.6	1.1	0.7	3.8	1.6	2.7	0.1(F)
Full year	**66.9**	**65.9**	**65.7**	**69.4**	**70.0**	**72.3**	**73.2(F)**
Change %	-1.4	-1.5	-0.2	5.5	0.9	3.4	1.2(F)
ATM ('000)	**473**	**460**	**449**	**476**	**471**	**470**	**472 (F)**
Change %	-0.5	-2.8	-2.3	6.0	-1.0	-0.4	0.5 (F)

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

(See important notice on page 2 of this document)	Trigger level	Year to 31 December 2014	Year to 31 December 2015
		£m	£m
Cashflow from Operations[2]		1,513	1,543
Add back: Cash one-off, non-recurring extraordinary or exceptional items		19	6
Cashflow from Operations (adjusted)[3]		1,532	1,549
Less: corporation tax paid		0	(9)
Less: 2 per cent of Total RAB		(299)	(306)
Cash Flow (A)		**1,233**	**1,234**
Interest and equivalent recurring charges paid on Senior Debt[4][5]			
Interest paid – existing Class A bonds and swaps		414	419
Interest paid – existing Class A EIB facilities		2	3
Interest paid and received – other Class A debt[6]		0	1
Commitment fees on liquidity and revolving credit facilities		12	5
Total interest on Senior Debt (B)		**428**	**428**
Interest and equivalent recurring charges paid on Junior Debt[4][5]			
Class B debt		95	100
Total interest on Junior Debt (C)		**95**	**100**
Total interest (D=B+C)		**523**	**528**
Senior ICR (A/B)[7]	**1.40x**	**2.88x**	**2.88x**
Junior ICR (A/D)[7]	**1.20x**	**2.36x**	**2.34x**

(1) 2014 and 2015 figures are forecasts; Values calculated on unrounded figures
(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 21
(3) Adds back cash one-off items, non-recurring extraordinary items and exceptional items
(4) Reconciliation of interest paid with interest payable is set out on page 21
(5) 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
(6) Includes £9 million forecast interest received for cash held on balance sheet
(7) 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(1) – reconciling income statement to cash flow

(See important notice on page 2 of this document)	Year to 31 December 2014	Year to 31 December 2015
	£m	£m
Income		
Aeronautical income	1,701	1,701
Non-aeronautical income - retail	505	530
Non-aeronautical income - non-retail	482	496
Total income	**2,688**	**2,727**
Operating expenses[2]	1,112	1,162
Adjusted EBITDA	**1,576**	**1,565**
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Cash exceptional	(27)	(6)
Movement in capital expenditure creditors	0	0
Trade working capital	(11)	12
Pension	(26)	(27)
Cashflow from operations	**1,513**	**1,543**

	Year to 31 December 2015				Year to 31 December 2014
	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[5]	461	(44)	2	419	414
Interest paid – Class A EIB facilities	3	(0)	(0)	3	2
Interest paid – other Class A debt	10	(3)	(6)	1	0
Commitment fees on liquidity & revolving credit facilitie	7	-	(2)	5	12
Interest paid - Class B debt	101	(2)	2	100	95
Total interest	**581**	**(49)**	**(4)**	**528**	**523**

(1) 2014 and 2015 figures are forecasts; Values calculated on unrounded figures
(2) Operating expenses excluding depreciation and exceptional items; Values calculated on unrounded figures
(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 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 2014	At 31 December 2015
		£m	£m
Closing Heathrow RAB (A)		**14,953**	**15,320**
Senior Debt			
Class A Existing Bonds		9,950	9,364
Class A EIB facilities		176	137
Other Class A debt		0	700
RPI swap accretion		426	392
Total Senior Debt (B)		**10,552**	**10,593**
Junior Debt			
Class B debt		1,555	1,555
Total Junior Debt (C)		**1,555**	**1,555**
Cash and cash equivalents (D)		(576)	(488)
Senior net debt (E=B+D)		**9,976**	**10,105**
Senior and junior net debt (F=B+C+D)		**11,531**	**11,660**
Senior RAR (E/A)[2][3]	**70.0%**	**66.7%**	**66.0%**
Junior RAR (F/A)[2]	**85.0%**	**77.1%**	**76.1%**

(1) Figures for 2014 and 2015 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

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Appendix 4 – Nominal consolidated net debt of Obligors and Heathrow Funding Limited at 30 September 2014

			Amount and features of individual financings			
		Amount	Local currency		S&P/Fitch rating	Maturity
Senior (Class A)		**(£m)**	**(m)**	**(£m)**		
Bonds	£300m 3%	300	300	300	A-/A-	2015/17
	US$500m 2.5%	319	500	319	A-/A-	2015/17
	£300m 12.45%	300	300	300	A-/A-	2016/18
	€500m 4.125%	434	500	434	A-/A-	2016/18
	€700m 4.375%	584	700	584	A-/A-	2017/19
	CHF400m 2.5%	272	400	272	A-/A-	2017/19
	€750m 4.6%	510	750	510	A-/A-	2018/20
	C$400m 4%	250	400	250	A-/A-	2019/21
	£250m 9.2%	250	250	250	A-/A-	2021/23
	C$450m 3%	246	450	246	A-/A-	2021/23
	US$1,000m 4.875%	621	1,000	621	A-/A-	2021/23
	£180m RPI +1.65%	193	193	193	A-/A-	2022/24
	€600m 1.875%	490	600	490	A-/A-	2022/24
	£750m 5.225%	750	750	750	A-/A-	2023/25
	£700m 6.75%	700	700	700	A-/A-	2026/28
	£200m 7.075%	200	200	200	A-/A-	2028/30
	£900m 6.45%	900	900	900	A-/A-	2031/33
	€50m Zero Coupon	42	50	42	A-/A-	2032/34
	£75m RPI +1.366%	76	76	76	A-/A-	2032/34
	€50m Zero Coupon	42	50	42	A-/A-	2032/34
	£50m 4.171%	50	50	50	A-/A-	2034/36
	€50m Zero Coupon	40	50	40	A-/A-	2034/36
	£50m RPI +1.382%	51	51	51	A-/A-	2039/41
	£460m RPI +3.334%	548	549	549	A-/A-	2039/41
	£100m RPI +1.238%	101	100	100	A-/A-	2040/42
	£750m 5.875%	750	750	750	A-/A-	2041/43
	£750m 4.625%	750	750	750	A-/A-	2046/48
	£75m RPI +1.372%	76	76	76	A-/A-	2049/51
Total bonds		**9,845**		**9,845**		
Loans	Loan facilities	287	287	287	n/a	2014/26
	Revolving/Working capital facilities	0	1,325	1,325	n/a	2015/17
Total loans		**287**		**1,612**		
Total senior debt		**10,132**		**11,457**		
Junior (Class B)						
Bonds	£400m 6.25%	400	400	400	BBB/BBB	2018
	£400m 6%	400	400	400	BBB/BBB	2020
	£600m 7.125%	600	600	600	BBB/BBB	2024
	£155m 4.221%	155	155	155	BBB/BBB	2026
Loans		25	450	450	n/a	2017/18
Total junior debt		**1,580**		**2,005**		
Gross debt		**11,712**		**13,462**		
Cash		**-508**				
Index-linked derivative accretion		**558**				
Net debt		**11,762**				

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

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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 2014**	**As at or for year to 31 December 2015**
		£m	£m
Calculation of Group ICR[1]			
Cash Flow (A)[1]		**1,233**	**1,234**
Interest			
Paid on Senior Debt (B)[1]		428	428
Paid on Junior Debt (C)[1]		95	100
Paid on Borrowings (D)		48	62
Group Interest Paid (E=B+C+D)		**571**	**589**
Group ICR (A/E)	**1.00x**	**2.16x**	**2.09x**
Calculation of Group RAR[2]			
Total RAB (F)[2]		14,953	15,320
Net debt			
Senior Net Debt (G)[2]		9,976	10,105
Junior Debt (H)[2]		1,555	1,555
Borrower Net Debt (I)		1,028	1,200
Group Net Debt (J=G+H+I)		**12,558**	**12,860**
Junior RAR ((G+H)/F)	**82.0%**	**77.1%**	**76.1%**
Group RAR (J/F)	**90.0%**	**84.0%**	**83.9%**

(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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