



Heathrow (SP) Limited and Heathrow Finance plc

Investor Report

26 June 2015

Heathrow
Making every journey better

Important notice

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 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's facilities agreements and its bond issues due 2017, 2019 and 2025.

This Investor Report summarises the financial performance of the Security Group for the period to 31 March 2015 and its passenger traffic for the period to 31 May 2015. It also contains forecast financial information derived from current management forecasts for the Security Group for the 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's facilities agreements and bond terms and conditions.

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1. Introduction

This report sets out forecast financial performance and forecast ratios for Heathrow (SP) in 2014 and 2015, together with key business highlights. 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 have complied or are forecast to comply with relevant Trigger Event ratio levels. Forecast ratios have been adjusted since the previous Investor Report primarily reflecting prevailing inflation assumptions.

Adjusted EBITDA⁽¹⁾ in 2015 is forecast to be £1,601 million, an increase of 2.2% over 2014. The £36 million increase in forecast reflects stronger than anticipated traffic and retail revenue together with improved operating costs.

Revenue growth is driven by a passenger volume increase of 1.1% and a continued rise in non aeronautical revenue, benefitting from the refurbished and expanded Terminal 5 luxury retail investment. In comparison to 2014, the growth rate of aeronautical revenue is dampened in 2015 due to the non-recurrence of £50 million of revenue recovery in 2014.

Operating costs are forecast to rise £15 million in 2015. This solid cost performance reflects delivery of cost efficiencies, significantly offsetting the additional £40 million due to the full year of operating Terminal 2, and more general cost inflation. The key change since the last Investor Report is the earlier closure of Terminal 1, brought forward to 30 June from the end of October. Heathrow expects to invest up to £700 million in its capital programme in 2015, with enhancements to passenger experience, airport efficiency and asset replacement and maintenance.

2014 and 2015 Financial Ratios

	31 Dec 2014 Actual	31 Dec 2015 Forecast	Trigger level
Regulatory Asset Ratio (RAR)⁽²⁾			
Senior (Class A) ratio	68.0%	66.0%	70.0%
Junior (Class B) ratio	78.4%	77.1%	85.0%
Interest Cover Ratio (ICR)⁽³⁾			
Senior (Class A) ratio	2.98x	2.90x	1.40x
Junior (Class B) ratio	2.43x	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

2. Business developments - service and traffic



Heathrow – Best Airport in Western Europe
Terminal 5 – World’s Best Airport Terminal since 2012
Heathrow – World’s Best Airport Shopping since 2010

Service Standards

Heathrow delivered its best ever passenger service in the first three months of 2015 and 82% (2014: 80%) of passengers surveyed rated their experience as ‘Excellent’ or ‘Very Good’ and hit a record 4.12 out of 5.00 in the independent Airport Service Quality survey. The score reflects strong overall operational performance, good punctuality and strong levels of satisfaction across key passenger service attributes.

In the 12 months to 31 May 2015, Heathrow rebated £6.8 million under the SQR scheme, of which £4.4 million relates to the display of flight information following the introduction of new standards during 2014. The remainder almost entirely relates to security queuing, for which there have been no breaches in 2015.

Heathrow was named the ‘Best Airport in Western Europe’ for the first time at the 2015 Skytrax World Airport Awards. In addition, Terminal 5 was voted the world’s ‘Best Airport Terminal’ for the fourth year in a row and Heathrow voted ‘Best Airport for Shopping’ for the sixth time.

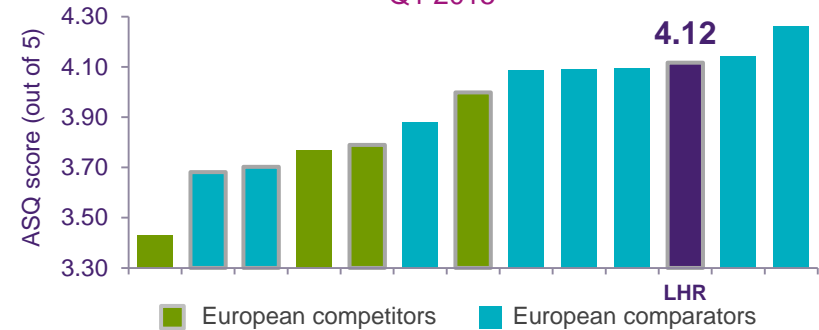
Traffic

Heathrow traffic increased 1.3% to 28.8 million (2014: 28.5 million) in the five months ended 31 May 2015. Overall load factors fell reflecting an increase in average number of seats per aircraft.

European traffic was up 2.0% largely reflecting increased seat capacity by British Airways, while domestic traffic increased 2.3%.

Intercontinental traffic rose 0.7% with increased frequencies on North America leading to a rise of 1.6%. Middle East traffic grew 3.6% reflecting increased flights and larger aircraft. Asia Pacific traffic decreased by 1.3%. Significant growth on routes serving China and Hong Kong substantially offset reduced traffic elsewhere in the region. In March, Vietnam Airlines moved its London operations from Gatwick to Heathrow, following Air China’s switch last year. Latin American traffic grew 10.6% reflecting Avianca’s new route to Colombia, increased frequencies to Mexico and traffic growth in Brazil.

Passenger satisfaction European ranking
Q1 2015



Traffic and operating statistics

5 months to end May	2014	2015	Change
Traffic by market (m)			(%)
UK	2.0	2.1	2.3
Europe	11.6	11.9	2.0
North America	6.3	6.4	1.6
Asia Pacific	4.2	4.1	-1.3
Middle East	2.4	2.5	3.6
Africa	1.4	1.4	-5.5
Latin America	0.4	0.5	10.6
Total passengers (m)	28.5	28.8	1.3
ATM ('000)	191	192	0.4
Seats per aircraft	204	207	1.8
Load factor (%)	73.2	72.6	-0.6pts

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

Heathrow
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2. Business developments - business plan

As well as focusing on customer service, Heathrow is delivering an ambitious programme of cost efficiencies and revenue growth over the 2014-2018 period. This programme aims to enhance Heathrow's competitive position and deliver an appropriate return for Heathrow's financial stakeholders. By the end of 2014, Heathrow secured cost efficiencies expected to be worth £280 million over the business plan period, as well as £100 million in revenue enhancements.

Momentum has been maintained in 2015 and initiatives are being delivered to build on the £280 million secured in 2014. Closure of Terminal 1 has been brought forward by four months, and airline moves have been taking place to facilitate the early closure, together with additional transfer facilities in Terminal 3 to support British Airways move from Terminal 1.

Improvements to key supplier contracts have been made, a voluntary severance programme within the security operation has been launched and Heathrow Express office activities have been co-located at Heathrow.

Finally, following discussions with trade union and other member representatives, a proposal has been developed to make the defined benefit pension scheme affordable and sustainable in the near future. The proposal has been subject to a formal consultation with individual members which will close on 17 July 2015. If the proposals are to be implemented, the changes to the Scheme will be made effective from 1 September 2015.



Terminal 1 closure brought forward to
June 2015

2. Business developments - capital development

Capital expenditure in 2015 is currently expected to be in the region of £700 million, materially lower than in recent years.

Investment in Heathrow's baggage infrastructure continues in 2015. The £0.5 billion Terminal 3 Integrated Baggage facility opened in March 2015 and will have a staged roll-out to May 2016. The facility is designed to reduce misconnections and enable faster transfer times and greater baggage handling capacity.

In addition in 2015, parallel loading security lanes have been introduced into Terminals 3, 4 and 5, which are delivering improved flow rates through security. An interim flight connections centre in Terminal 3, opened in June 2015, is easing security flows and enabling British Airways to move from Terminal 1. In addition, passenger facilities have been enhanced, including a new 800-space business car park serving Terminal 5.

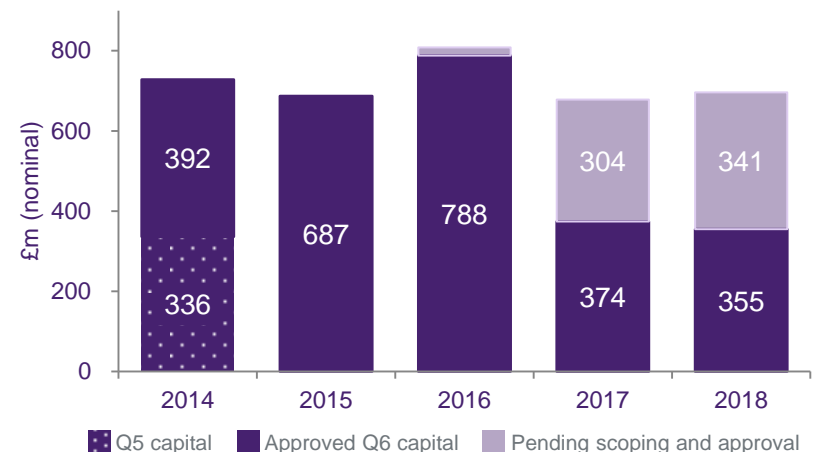
Planned capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.6 billion. The capital programme is primarily focused on sustaining and improving the passenger experience, together with maintenance and compliance related projects. The overall plan includes a £1 billion programme of asset management and replacement projects and a £350 million project to implement latest generation hold baggage screening equipment.

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.



Terminal 3 Integrated Baggage facility

Forecast capital expenditure profile



3. Regulatory and governmental developments

Airports Commission

The UK government formed the Airports Commission, chaired by Sir Howard Davies, to determine how to maintain the UK's status as an international hub for aviation. The Commission is expected to make its recommendation imminently.

Heathrow's proposal for expansion is best for Britain. Only Heathrow can connect the whole of the UK with the growing markets of the world. The Airports Commission puts the economic benefit of expanding Heathrow at up to £211 billion, creating 180,000 jobs with regions outside the south east of England gaining as much as £114 billion of the economic benefits. Heathrow is by far the largest wholly-privately funded airport in the world. Heathrow has successfully attracted global investors to fund £11 billion of investment over the last decade and Heathrow's expansion proposal is expected to involve privately funded investment of £16 billion over 15 years.

Demand continues to outstrip supply with 30 airlines waiting for slots at Heathrow. Vietnam Airlines recently moved its entire London operations from Gatwick, following in the steps of Air China. easyJet confirmed its support for an expanded Heathrow, which it believes provides the greatest benefits for passengers and the economy. Heathrow is the country's biggest port, handling over a quarter of exports by value, including British-made pharmaceuticals, high tech components for Formula 1 cars and high quality fresh salmon exported to China. It connects British exporters to global markets and makes it easier for UK inward investment. To retain the UK's position as a hub for international trade, Heathrow's plans include overhauling cargo facilities, doubling the capacity.

Businesses, politicians, industry groups and individuals across Britain are backing Heathrow. The expansion plan has more support than any other option, including more than 30 chambers of commerce. Most recently, the influential business group London First confirmed a resounding majority of its members support expansion of Heathrow over Gatwick.

Heathrow's expansion takes a new approach, putting the local community at its heart. A new and improved noise insulation scheme has been proposed, aiming to reduce the impact of noise and treat local people fairly. The noise insulation offer goes above and beyond UK policy requirements, expands on Heathrow's previous proposals and is comparable to those offered by other European hub airports. In total, Heathrow estimates that over £700 million could be spent through this insulation offer. The scheme is subject to government policy support and regulatory approval by the CAA.

It is anticipated that, once published, the Airports Commission report will be considered by Government, with a decision expected during the course of autumn.

4. Historical financial performance

This section summarises the results for the Heathrow (SP) group for the period to 31 March 2015, reported on 24 April 2015.

Turnover

In the three months ended 31 March 2015, Heathrow's turnover increased 8.0% to £622 million (2014: £576 million). This reflects an increase of 9.3% in aeronautical income, 6.4% in gross retail income which drove a 5.6% increase in net retail income per passenger to £6.78 (2014: £6.42) and 5.4% in other income. Around half the growth in aeronautical income reflected tariff changes and increased traffic. The remainder mainly related to the absence, in the period, of rebates such as capital triggers, compared to the first quarter of 2014, partially offset by the non-recurrence of significant revenue recovery through the K factor mechanism that occurred in 2014.

Retail revenue benefitted from strong car parking performance from increased capacity, continued yield management and a broader product offering. Growth in airside specialist shops was strong, with double-digit growth in luxury store income following the successful opening before Christmas of the redeveloped luxury retail stores in Terminal 5. Growth in duty and tax free stores is moderated in part by an extensive refurbishment in Terminal 5. The refurbished store will further enhance the shopping experience at Heathrow.

Adjusted operating costs⁽¹⁾

In the three months ended 31 March 2015, adjusted operating costs increased 8.9% to £280 million (2014: £257 million). The increase reflects £16 million related to the operation of an additional terminal since the opening of Terminal 2 and £5 million incurred in activities on the planning for expansion of Heathrow.

Therefore, underlying costs increased by just £2 million. Employment costs benefitted from increased productivity within operations, as well as the benefit of lower overall headcount compared to last year. These efficiencies are partially offset by increased non-cash pension costs. As with Terminal 2, the opening of the Terminal 3 Integrated Baggage facility drives an increase in utilities, rent and rates. In the first quarter, operational readiness costs also impacted general expenses.

Adjusted EBITDA⁽²⁾

Adjusted EBITDA increased 7.2% to £342 million in the first three months (2014: £319 million), resulting in an Adjusted EBITDA margin of 55% (2014: 55%).

(1) Adjusted operating costs: operating costs before depreciation, amortisation and exceptional items

(2) Adjusted EBITDA: earnings before interest, tax, depreciation, amortisation and exceptional items

4. Historical financial performance

Interest payable and paid

In the three months ended 31 March 2015, the Group's net finance costs were £158 million (2014: £155 million) and net interest paid was £208 million (2014: £197 million), of which £177 million (2014: £170 million) related to external debt and £31 million (2014: £27 million) related to the debenture between Heathrow (SP) and Heathrow Finance. Net interest paid was higher than underlying net finance costs primarily due to timing differences between the payment of interest and the accruals for interest with the first quarter of the year characterised by relatively high interest payments.

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

The Security Group's nominal net debt was £11,793 million at 31 March 2015 an increase of 1.2% since the end of 2014 (31 December 2014: £11,653 million), comprising £11,967 million in bond issues, £342 million in loan facilities, £411 million in index-linked derivative accretion and cash at bank and term deposits of £927 million. Nominal net debt consisted of £10,163 million in senior net debt and £1,630 million in junior debt. The average cost of the Security Group's nominal gross debt at 31 March 2015 was 4.35% (31 December 2014: 4.59%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 March 2015 was 5.40% (31 December 2014: 5.70%).

Capital expenditure and Regulatory Asset Base (RAB)

The cash flow impact of capital investment in the first three months of 2015 was £161 million (2014: £271 million) with £128 million (2014: £336 million) gross additions to fixed assets in the period. The RAB at 31 March 2015 was £14,790 million compared to £14,860 million at 31 December 2014. The decrease in Heathrow's RAB during the three months ended 31 March 2015 primarily reflects a net reduction in assets of approximately £40 million due to increased depreciation and lower capital expenditure, together with a £30 million reduction reflecting the change in inflation since December 2014.

Financial ratios

At 31 March 2015, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 68.7% for senior debt and 79.7% for junior debt (31 December 2014: 68.0% and 78.4% respectively) compared with respective trigger levels of 70.0% and 85.0%.

5. Forecast traffic performance

Heathrow's 2015 passenger traffic forecast has been increased by 0.3 million to 74.2 million, reflecting the strong performance in the first five months of the year. Annual traffic is now expected to increase by 1.1%. Growth in 2015 reflects the expectation of larger average aircraft size, with an increase in A380 and B787 services as well as more seats per short haul aircraft. In the twelve months to the end of May 2015, Heathrow's passenger traffic was 73.8 million passengers, which compares with 73.4 million in calendar year 2014.

The 2015 forecast does not include an allowance for potential disruptions or shocks. This is consistent with Heathrow's approach to traffic forecasting where short-term planning assumes a full schedule, 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%.

6. Forecast financial performance

Heathrow has raised its forecast for Adjusted EBITDA in 2015 to £1,601 million, an increase of £36 million, which arises from improved revenue conditions and better cost performance.

Revenue in 2015 is forecast to be £2,741 million, up 1.8% from 2014. The forecast has been increased by £14 million to reflect stronger than anticipated traffic benefitting aeronautical and retail revenue.

The lower rate of growth in 2015 compared with 2014 principally reflects the non-recurrence of the £50 million revenue recovery that occurred through 2014. Underlying revenue growth of 3.7% is driven from passenger volume increases and a rise in non aeronautical revenue. Retail income is now expected to grow 6.4% in 2015 driven by airside specialist shops, continued growth in car parking as well as development of ancillary revenue streams.

Operating costs in 2015 (excluding depreciation and exceptional items) are now forecast to increase 1.3% to £1,140 million. A programme of operational efficiencies mitigates most of the additional cost of operating Terminal 2, which is expected to be around £40 million higher than in 2014 given operations began in mid-2014, as well as general cost inflation. Heathrow's forecast capital expenditure is expected to be around £700 million in 2015, with the RAB expected to grow to £15.1 billion by the end of 2015. The forecast RAB has reduced by around £200 million, principally reflecting lower inflation than previously forecast.

2015 is forecast to be cash flow positive after capital expenditure and external interest costs reflecting strong earnings and the lower capital expenditure programme.

Nominal net debt is forecast to be £11,654 million at the end of 2015, flat on 2014, with interest payments broadly consistent with 2014 levels, as the lower cost of recent debt financings starts to replace higher cost financing.

Average RPI used in the forecast for 2015 is 1.1%.

All forecast financial ratios comply with Trigger Event ratios.

Forecast financial performance

Financials	2014 (A)	2015 (F)	Change
<i>(figures in £m unless otherwise stated)</i>			
Revenue	2,692	2,741	1.8%
Adjusted EBITDA	1,567	1,601	2.2%
Cash flow from operations (adjusted)⁽¹⁾	1,560	1,566	0.4%
Cash flow for ICR calculation	1,263	1,234	-2.3%
Capital expenditure⁽²⁾	728	687	-5.6%
Total RAB	14,860	15,119	1.7%
Nominal net debt			
Senior net debt	10,098	9,983	-1.1%
Junior debt	1,555	1,671	7.5%
Total nominal net debt	11,653	11,654	0.0%
Interest paid			
Senior interest paid	424	426	0.5%
Junior interest paid	94	101	7.4%
Total interest paid	518	527	1.7%
Ratios⁽³⁾	2014 (A)	2015 (F)	Trigger level
Senior (Class A) RAR	68.0%	66.0%	70.0%
Junior (Class B) RAR	78.4%	77.1%	85.0%
Senior (Class A) ICR	2.98x	2.90x	1.40x
Junior (Class B) ICR	2.43x	2.34x	1.20x

(1) Adds back cashone-off items, non-recurring extraordinary items and exceptional items

(2) Gross balance sheet additions to tangible fixed assets

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

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 12 December 2014.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 12 December 2014.

8. Significant board and management changes

On 1 June 2015, Michael Uzielli became Chief Financial Officer of Heathrow. Michael joined from British Gas where, as Finance Director he drove revenue growth, championed a cost focus to increase efficiency, restructured the company's pension schemes and led a highly engaged finance team. His work also involved building strong relationships with Government and the energy industry regulators. Michael has aviation industry experience having worked at British Airways and was previously at Schroders.

Michael was appointed as an Executive Director on the Board of Heathrow Airport Holdings Limited on 9 June 2015. At the same time, Michael was also appointed a director of the following companies: Heathrow Funding Limited, Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited and Heathrow Finance plc. He is a member of the Heathrow Airport Holdings Limited Executive Committee.

With effect from 25 March 2015, Jose Leo resigned as director of the following companies: Heathrow Airport Holdings Limited, Heathrow Funding Limited, Heathrow (SP) Limited, Heathrow (AH) Limited, Heathrow Airport Limited and Heathrow Finance plc.

On 22 June 2015, Stuart Birrell became Chief Information Officer for Heathrow. Stuart joined from Formula 1's McLaren Group and was previously CIO of Gatwick Airport. He is a member of the Heathrow Airport Holdings Limited Executive Committee. Stuart will be appointed a director of Heathrow Airport Limited with effect from 1 July 2015.

David Williamson was appointed director of the following companies with effect from 25 March 2015: Heathrow Funding Limited, Heathrow (SP) Limited, Heathrow (AH) Limited and Heathrow Finance plc.

Emma Gilthorpe was appointed director of Heathrow (SP) Limited with effect from 1 March 2015.

Jim O'Sullivan resigned as a director of Heathrow Airport Limited with effect from 31 December 2014.

Neil Clark resigned as a director of Heathrow Airport Limited with effect from 31 March 2015.

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 12 December 2014.

9. Financing matters

New financing

Since the previous Investor Report was distributed on 12 December 2014, the Security Group has raised £1.2 billion in term debt financing. In February, a €750 million, 15 year public bond with a fixed rate coupon of 1.5% was issued, significantly extending Heathrow's maturity profile in the Euro market. In May, a C\$500 million, 10 year public bond with a fixed rate coupon of 3.25% was issued, deepening Heathrow's presence in the Canadian market.

During 2015, Heathrow has also raised nearly £250 million of long-term private placements, this includes £150 million of 15 to 20 year sterling funding from non-sterling sources, which will be drawn later in 2015. A private placement for NOK1 billion with a 12.5 year maturity and a fixed coupon of 2.65% takes the number of currency markets Heathrow has accessed to six. At the end of 2014, Heathrow also raised a 21-year, £115 million private placement at Class B, which will be drawn later in 2015.

New financing outside the Security Group

Since the publication of the previous Investor Report, Heathrow Finance has entered into three term loans totalling £125 million. The loans range in tenor from 5 to 10 years, with pricing over LIBOR of between 2.75% and 3.55%. The £50 million, 10 year loan will be drawn on 1 July 2015.

Debt maturities and repayments

Since the previous Investor Report was distributed on 12 December 2014, two bonds issued by Heathrow Funding Limited have matured, a £300 million bond and a US\$500 million (£319 million) bond. In addition, Heathrow Airport Limited has made scheduled EIB loan repayments of £30 million.

Liquidity

The Security Group expects to have sufficient liquidity to meet all its obligations in full up to January 2017. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account around £2.8 billion in undrawn loan facilities and cash resources held at the Security Group and Heathrow Finance at 31 May 2015, £315 million in committed term debt financing to be drawn after 31 May 2015, and the expected operating cash flow over the period.

9. Financing matters

Hedging

At 31 May 2015, at least 78.2% and 58.0% 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 12 December 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

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

Since the previous Investor Report was distributed on 12 December 2014, there have been net restricted payments of £229 million (gross restricted payments £304 million) made by the Security Group. This funded £31 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance, £17 million in interest payments on loan facilities at ADI Finance 2 Limited ('ADIF2') and £176 million to fund the majority of the quarterly dividends paid to shareholders in December 2014 and February 2015.

In the remainder of 2015, nearly £300 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 2015 to around £372 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.

10. Confirmation

26 June 2015

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 12 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.

Michael Uzielli



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

Appendix 1 - Quarterly passenger traffic (2008 to 2015)

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	2015
Jan-Mar	15.4	14.4	14.6	15.0	15.7	16.0	16.0	16.4
Change %	0.6	-6.4	1.6	2.5	4.4	1.8	0.5	2.0
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	17.7	
Change %	-3.6	1.1	0.7	3.8	1.6	2.7	1.3	
Full year	66.9	65.9	65.7	69.4	70.0	72.3	73.4	74.2
Change %	-1.4	-1.5	-0.2	5.5	0.9	3.4	1.4	1.1
ATM ('000)	473	460	449	476	471	470	471	471
Change %	-0.5	-2.8	-2.3	6.0	-1.0	-0.4	0.2	0.1

Forecast

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	Year to 31 December 2014 £m	Year to 31 December 2015 ⁽¹⁾ £m
Cashflow from Operations ⁽²⁾		1,525	1,546
Add back: Cash one-off, non-recurring extraordinary or exceptional items		35	20
Adjusted Cashflow from Operations		1,560	1,566
Less: corporation tax paid		0	(30)
Less: 2 per cent of Total RAB		(297)	(302)
Cash Flow (A)		1,263	1,234
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾			
Interest paid – existing Class A bonds and swaps		413	420
Interest paid – existing Class A EIB facilities		2	2
Interest paid and received – other Class A debt ⁽⁵⁾		(2)	(1)
Commitment fees on liquidity and revolving credit facilities		11	5
Total interest on Senior Debt (B)		424	426
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾			
Class B debt		94	101
Total interest on Junior Debt (C)		94	101
Total interest (D=B+C)		518	527
Senior ICR (A/B)⁽⁶⁾⁽⁷⁾	1.40x	2.98x	2.90x
Junior ICR (A/D)⁽⁶⁾⁽⁷⁾	1.20x	2.43x	2.34x

(1) 2015 is forecast data

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 20

(3) Reconciliation of interest paid with interest payable is set out on page 20

(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) 2014 includes £2 million actual interest received for cash held on balance sheet and 2015 includes £4 million forecast interest received for cash held on balance sheet

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

(7) Ratios calculated on unrounded figures.

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

<i>(See important notice on page 2 of this document)</i>	31 December 2014	31 December 2015 ⁽¹⁾
	£m	£m
Income		
Aeronautical income	1,706	1,711
Non-aeronautical income - retail	503	535
Non-aeronautical income - non-retail	483	495
Total income	2,692	2,741
Adjusted operating costs ⁽²⁾	1,125	1,140
Adjusted EBITDA	1,567	1,601
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Cash exceptional	(35)	(20)
Movement in capital expenditure creditors	0	0
Trade working capital	15	(17)
Pension	(22)	(18)
Cashflow from operations	1,525	1,546

	Year to 31 December 2015 ⁽¹⁾				Year to
	Income statement incl amortisation ⁽³⁾⁽⁴⁾	Less amortisation ⁽³⁾	Less variation in accruals ⁽³⁾	Cash flow	31 December 2014
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps ⁽⁵⁾	457	(47)	10	420	413
Interest paid – Class A EIB facilities	2	(0)	(0)	2	2
Interest paid – other Class A debt	10	(2)	(9)	(1)	(2)
Commitment fees on liquidity & RCFs ⁽⁶⁾	6	-	(1)	5	11
Interest paid - Class B debt	101	(2)	2	101	94
Total interest	576	(51)	2	527	518

(1) 2015 is forecast data

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

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

(4) Includes amortisation of refinancing fees and swap prepayments but excludes accretion on Index Linked Swaps

(5) Excludes interest rate swap cancellations

(6) RCFs: Revolving Credit Facilities

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	At 31 December 2014 £m	At 31 December 2015 ⁽¹⁾ £m
Closing Heathrow RAB (A)		14,860	15,119
Senior Debt			
Class A Existing Bonds (closed prior to 26 June 2015)		9,847	10,157
Class A EIB facilities		176	137
Other Class A debt		100	250
RPI swap accretion		411	258
Total Senior Debt (B)		10,534	10,802
Junior Debt			
Class B debt		1,555	1,671
Total Junior Debt (C)		1,555	1,671
Cash and cash equivalents (D)		(436)	(819)
Senior net debt (E=B+D)		10,098	9,983
Senior and junior net debt (F=B+C+D)		11,653	11,654
Senior RAR (E/A)⁽²⁾⁽³⁾⁽⁴⁾	70.0%	68.0%	66.0%
Junior RAR (F/A)⁽²⁾⁽⁴⁾	85.0%	78.4%	77.1%

(1) 2015 is forecast data

(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked accretion) to RAB (Regulatory Asset Base)

(3) Senior RAR does not take into account ability to reduce senior debt using undrawn junior debt under revolving credit facilities

(4) Ratios calculated on unrounded figures

Appendix 4 – Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 31 March 2015

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
£300m 3%	300	300	2015/17
US\$500m 2.5%	319	319	2015/17
£300m 12.45%	300	300	2016/18
€500m 4.125%	434	434	2016/18
€700m 4.375%	584	584	2017/19
CHF400m 2.5%	272	272	2017/19
€750m 4.6%	510	510	2018/20
C\$400m 4%	250	250	2019/21
£250m 9.2%	250	250	2021/23
C\$450m 3%	246	246	2021/23
US\$1,000m 4.875%	621	621	2021/23
£180m RPI +1.65%	193	193	2022/24
€600m 1.875%	490	490	2022/24
£750m 5.225%	750	750	2023/25
£700m 6.75%	700	700	2026/28
£200m 7.075%	200	200	2028/30
€750m 1.5%	566	566	2030/32
£900m 6.45%	900	900	2031/33
€50m Zero Coupon	42	42	2032/34
£75m RPI +1.366%	77	77	2032/34
€50m Zero Coupon (2)	42	42	2032/34
£50m 4.171%	50	50	2034/36
€50m Zero Coupon (3)	40	40	2034/36
£50m RPI +1.382%	51	51	2039/41
£460m RPI +3.334%	548	548	2039/41
£100m RPI +1.238%	100	100	2040/42
£750m 5.875%	750	750	2041/43
£750m 4.625%	750	750	2046/48
£75m RPI +1.372%	77	77	2049/51
Total senior bonds	10,412	10,412	
Term debt	267	267	2015/26
Index-linked derivative accretion	411	411	Various
Revolving/working capital facilities	0	1,100	2019
Total other senior debt	678	1,778	
Total senior debt	11,090	12,190	
Heathrow (SP) Limited cash	(927)		
Senior net debt	10,163		

Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£400m 6.25%	400	400	2018
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
Total junior bonds	1,555	1,555	
Junior revolving credit facilities	75	450	2018/19
Total junior debt	1,630	2,005	
Heathrow (SP) Limited group net debt	11,793		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£325m 7.125%	296	296	2017
£275m 5.375%	263	263	2019
£250m 5.75%	250	250	2025
Total bonds	809	809	
£78m	78	78	2019
£25m	25	25	2020
£50m	50	50	2022
Total loans	153	153	
Total Heathrow Finance plc debt	962	962	
Heathrow Finance plc cash	(60)		
Heathrow Finance plc net debt	902		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	11,090	12,190
Heathrow (SP) Limited junior debt	1,630	2,005
Heathrow Finance plc debt	962	962
Heathrow Finance plc group debt	13,682	15,157
Heathrow Finance plc group cash	(987)	
Heathrow Finance plc group net debt	12,695	

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

Appendix 5 – Additional information for Heathrow Finance plc creditors

<i>(See important notice on page 2 of this document)</i>	Covenant/Trigger level	As at or for year to 31 December 2014	As at or for year to 31 December 2015 ⁽¹⁾
		£m	£m
Calculation of Group ICR⁽²⁾			
Cash Flow (A)		1,263	1,234
Interest			
Paid on Senior Debt (B)		424	426
Paid on Junior Debt (C)		94	101
Paid on Borrowings (D)		49	60
Group Interest Paid (E=B+C+D)		567	587
Group ICR (A/E)	1.00x	2.23x	2.10x
Calculation of Group RAR⁽³⁾			
Total RAB (F)		14,860	15,119
Net debt			
Senior Net Debt (G)		10,098	9,983
Junior Debt (H)		1,555	1,671
Borrower Net Debt (I)		907	1,163
Group Net Debt (J=G+H+I)		12,560	12,817
Junior RAR ((G+H)/F)⁽⁴⁾	82.0%	78.4%	77.1%
Group RAR (J/F)⁽⁴⁾	90.0%	84.5%	84.8%

(1) 2015 is forecast data

(2) ICR or Interest Cover Ratio is defined on page 19

(3) RAR or Regulatory Asset Ratio is defined on page 21

(4) Ratios calculated on unrounded data

Heathrow

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