



Heathrow (SP) Limited and Heathrow Finance plc

Investor Report

14 December 2016

Heathrow
Making every journey better

Important notice

This Investor Report does not contain or constitute an offer to sell or issue or a solicitation of an offer to buy or subscribe for, securities (or an interest in any securities) to any person in any jurisdiction in which such offer or solicitation is unlawful prior to registration or qualification under the relevant securities laws of any such jurisdiction. Nothing in this Investor Report shall be intended to provide the basis for any credit or other evaluation of securities, and/or be construed as a recommendation or advice to invest in any securities.

This Investor Report is not being distributed to or directed at persons other than persons whose ordinary activities involve them in acquiring, holding, managing or disposing of securities (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of securities (as principal or agent) for the purposes of their businesses where the issue of securities would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ('FSMA') by Heathrow. In addition, this Investor Report is not an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) in connection with the issue or sale of the securities other than in circumstances in which section 21(1) of FSMA does not apply to Heathrow.

The information and opinions contained herein are provided as at the date of this Investor Report. Please note that this Investor Report and any other information or opinions provided in connection with this Investor Report have not been independently verified or reviewed, including by Heathrow's auditors. Accordingly, this Investor Report and any other information or opinions provided in connection with this Investor Report may not contain all material information concerning Heathrow and no representation, warranty or undertaking, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this Investor Report and any other information or the opinions provided in connection with this Investor Report, and no person shall have any right of action (in negligence or otherwise) against Heathrow and/or its representatives (including employees, officers, contractors and professional advisers) in relation to the accuracy or completeness of any such information or in relation to any loss howsoever arising from any use of this presentation or the information or opinions provided in connection with this presentation or otherwise arising in connection with the presentation. Heathrow expressly disclaims any obligation or undertaking to update any forward-looking statements, information or opinions contained in this Investor Report or provided in connection with this Investor Report, or to correct any inaccuracies in these materials which may become apparent.

This Investor Report may contain certain tables and other statistical analyses (the 'Statistical Information') which have been prepared in reliance on publicly available information and may be subject to rounding. Numerous assumptions were used in preparing the Statistical Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Statistical Information. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context; nor as to whether the Statistical Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions nor should any information herein be relied upon as legal, tax, financial or accounting advice.

This Investor Report may contain statements that are not purely historical in nature, but are "forward-looking statements" with respect to certain of Heathrow's plans, beliefs and expectations relating to its future financial condition, performance, results, strategy and objectives. These include, among other things, projections, forecasts, estimates of income, yield and return, and future performance targets. These forward-looking statements are based upon certain assumptions, not all of which are stated. By their nature, all forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, and are not guarantees of future performance, therefore undue reliance should not be placed on them. Future events are difficult to predict and are beyond Heathrow's control. Actual future events may differ from those assumed, and a number of important factors could cause Heathrow's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Any forward-looking statements speak only as of the date on which they are made. Neither Heathrow nor its advisers assume any obligation to update any of the forward-looking statements contained in these materials or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to any applicable laws and regulations. Accordingly, there can be no assurance that estimated returns or projections will be realised, that forward-looking statements will materialise or that actual returns or results will not be materially lower than those presented.

These materials are the property of Heathrow except where otherwise indicated and are subject to copyright with all rights reserved.

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' or 'the Security Group').

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 issuance maturing in 2017, 2019 and 2025.

This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the 'Group') for the period to 30 September 2016 and its passenger traffic for the period to 30 November 2016. It also contains forecast financial information derived from current management forecasts for Heathrow (SP) and its subsidiaries (the 'Group') for 2016 and 2017.

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.

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

Contents

	Page
1. Overview	4
2. Business developments	5
3. Governmental developments	8
4. Historical financial performance	9
5. Forecast financial performance	10
6. Financing matters	11
7. Corporate matters	13
8. Confirmation	14

Appendices

1. Quarterly passenger traffic (2008 to 2016)	15
2. Computation of Interest Cover Ratios	16
3. Computation of Regulatory Asset Ratios	18
4. Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 30 September 2016	19
5. Additional information for Heathrow Finance plc creditors	20

1. Overview

This report sets out forecast financial performance and ratios for Heathrow (SP) in 2016 and 2017, together with key business highlights. Additional information specific to Heathrow Finance is set out in Appendix 5.

Heathrow forecasts a solid EBITDA performance in 2016 (up 3.7% on 2015 to £1,665 million) driven primarily by moderate traffic growth, strong momentum in retail income and significant cost efficiencies.

EBITDA in 2017 is forecast to be £1,660 million, marginally lower than the projected 2016 outcome. This reflects broadly flat revenues and operating costs versus 2016. On the revenue line, further significant growth in retail income is expected to offset a reduction in aeronautical revenue due to a decreasing tariff in 2017 and a forecast slight reduction in traffic partially reflecting the loss of 2016's leap year day. Heathrow expects to be cash flow positive in 2016 and 2017 after capital expenditure and external interest costs. Cash interest costs are expected to continue reducing as recently raised lower cost debt continues to replace more expensive legacy debt.

All forecast financial ratios for 2016 and 2017 comply with Trigger Event ratios.

On 25 October 2016, Heathrow welcomed the Government's decision to support its expansion and confirmed it will begin work to deliver the new runway that will connect all of Britain to the world, bringing new jobs and economic growth to every nation and region of the UK.

Heathrow expansion will help build a stronger, fairer Britain. A third runway will bring huge benefits to everyone in Britain, with forecasts that it will create up to £211 billion of growth across the country. As the UK charts a new course outside the EU, it will enable up to 40 new long-haul trading routes and support Britain's exporters to reach the fastest growing markets in the world. To give Britain a 'Brexit Boost' and unlock jobs and growth across the country sooner, Heathrow will consult on plans to bring in 25,000 extra flights per year from 2021.

2016 and 2017 forecast financial performance

(£m unless stated)	2016	2017	Change
Summary financials			
Revenue	2,780	2,774	-0.2%
EBITDA ⁽¹⁾	1,665	1,660	-0.3%
Cashflow from operations ⁽²⁾	1,642	1,620	-1.3%
Regulatory Asset Base (RAB)	15,246	15,747	3.3%
Nominal net debt			
Senior net debt	10,137	10,612	4.7%
Junior net debt	1,739	1,745	0.4%
Consolidated net debt	11,876	12,357	4.1%
Interest paid			
Senior interest paid	417	390	-6.5%
Junior interest paid	101	101	0.0%
Total interest paid	518	491	-5.2%
Ratios⁽³⁾			Trigger
Senior (Class A) RAR	66.5%	67.4%	70.0%
Junior (Class B) RAR	77.9%	78.5%	85.0%
Senior (Class A) ICR	3.10x	3.22x	1.40x
Junior (Class B) ICR	2.49x	2.55x	1.20x

- (1) Pre exceptional earnings before interest, tax, depreciation and amortisation
 (2) Adds back cash one-off items, non-recurring extraordinary items & exceptional items
 (3) Ratios calculated using unrounded data. Ratio definitions and calculations in Appendices 2 and 3

2. Business developments - service standards and traffic

Service Standards

Heathrow continues to deliver high quality passenger service and in the independent Airport Service Quality survey for the third quarter of 2016, 81% of passengers rated their Heathrow experience as 'Excellent' or 'Very Good' and Heathrow achieved a 4.14 (out of 5.00) score. Passengers voted Heathrow the 'Best Airport in Western Europe' for the second successive year at the 2016 Skytrax World Airport Awards, Terminal 5 was voted the world's 'Best Airport Terminal' for the fifth successive year and Heathrow was voted 'Best Airport for Shopping' for the seventh successive year. Heathrow was also awarded ACI Europe's Best Airport Award for the third time.

Focus on operational resilience contributed to improved punctuality in the third quarter of 2016, with 78.6% of flights departing within 15 minutes of schedule (Q3 2015: 78.1%). The focus on baggage performance has resulted in an improved misconnect rate of 14 per 1,000 passengers (Q3 2015: 17 per 1,000).

In the 12 months to 30 November 2016, no rebates were paid by Heathrow under the SQR scheme.

Traffic

Heathrow traffic increased 0.7% to 69.5 million (2015: 69.1 million) in the eleven months ended 30 November 2016. The 2016 leap year contributed around 0.3% to the growth.

Long haul traffic increased 1.4%, principally from routes serving the Middle East and Asia Pacific regions. Passengers benefited from larger aircraft on Middle East routes and new airlines serving Asia including Vietnam Airlines and Garuda Airlines. Short haul traffic reflected increased seat capacity and passengers on European routes, more than offset by reduced domestic traffic following Virgin Little Red ceasing operations in 2015.

Passenger satisfaction European ranking
Q3 2016



Traffic and operating statistics

11 months to end November	2015	2016	Change
Traffic by market (m)			
			(%)
UK	4.8	4.3	-10.3
Europe	28.8	29.3	1.6
North America	15.9	15.8	-0.8
Asia Pacific	9.6	9.8	2.8
Middle East	5.8	6.3	8.0
Africa	3.0	2.9	-4.5
Latin America	1.1	1.1	1.9
Total passengers (m)			
	69.1	69.5	0.7
ATM ('000)	435	436	0.3
Seats per aircraft	208	211	1.3
Load factor (%)	76.6	75.8	-0.8pts

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



Heathrow – Best Airport in Western Europe since 2015

Terminal 5 – World's Best Airport Terminal since 2012

Heathrow – World's Best Airport Shopping since 2010

2. Business developments

Capital investment

In 2016, Heathrow expects to invest over £650 million across the airport campus, improving the passenger experience and airport resilience, enhancing baggage resilience and working through a broad asset replacement programme. Passengers should benefit from improved baggage connection reliability following the opening of the Terminal 3 integrated baggage facility and see reduced baggage disruption as facilities are made more resilient. Security processes have been strengthened and made more efficient with more body scanners installed across terminals and additional automated immigration gates introduced. Also, passengers connecting through Terminal 5 should now experience an improved connection experience with the installation of an additional escalator.

The retail proposition at Terminal 4 is currently being significantly refreshed. The restaurant and bar group, Drake & Morgan opened 'The Commission', their first airport unit. Terminal 4's luxury stores, such as Harrods, Burberry and Cartier, are also being re-developed and five new luxury brands will be introduced, two of which will be new to Heathrow. The luxury retail redevelopment in Terminal 5 has now been matched by the introduction of an enhanced food and beverage offer.

Airfield improvements continue to meet increased A380 operations with taxiway widening projects and stand modifications completed. Winter operations will benefit from improved de-icing facilities and enhanced runway landing systems should assist arrivals punctuality. The refurbishment and enhancing of the main road access tunnels into the central terminal area will be completed in early 2017.

Business plan to 2018

Heathrow's business plan for the current regulatory period is intended to improve customer service, strengthen operational resilience and deliver an ambitious programme of cost efficiencies and revenue growth. Work continues to secure cost efficiencies and well over £500 million of efficiencies have now been secured, out of the target £600 million for the period to end of 2018. A three year pay offer was agreed earlier in 2016 and further contract improvements have been secured with suppliers.

The benefits of investment in Terminal 5 retail outlets and new car parking capacity continue to flow through strongly contributing to the £300 million incremental commercial revenue target set for the regulatory period.

Investment in Terminal 5 retail outlets



Heathrow

Making every journey better

2. Business developments

Heathrow expansion

On 25 October 2016, Heathrow welcomed Government's decision to support its expansion and confirmed it will begin work to deliver the new runway that will connect all of Britain to the world, bringing new jobs and economic growth to every nation and region of the UK. A new third runway to the north west of Heathrow would deliver a world leading, ambitious and affordable plan which balances the huge national and local economic gain from expansion with the environmental impacts.

The Government's decision follows the unanimous and unambiguous recommendation of the Airports Commission in July 2015 after a two and a half year, £20m study. A third runway will bring huge benefits to everyone in Britain, creating up to 180,000 jobs and £211 billion of growth across the country. As the UK charts a new course outside the EU, it will enable up to 40 new long-haul trading routes and support Britain's exporters to reach the fastest growing markets in the world. To give Britain a 'Brexit Boost' and unlock jobs and growth across the country sooner, Heathrow will consult on plans to bring in 25,000 extra flights per year from 2021.

In July 2016, the Civil Aviation Authority ('CAA') commenced consultation on the regulatory treatment of costs incurred in obtaining the development consent order ('DCO') required to proceed with expansion (so called 'Category B' costs). Heathrow currently estimates £250-300 million of such costs will be incurred primarily between 2017 and 2020. Following responses to its initial consultation, in November 2016, the CAA issued its final proposals in relation to these costs to which responses had to be submitted by 12 December 2016. The CAA's decision on this matter is expected to be published in January 2017. The final proposals include (i) an ability to recover up to £10 million per annum of such costs (from 2016) through aeronautical income shortly after they are incurred, (ii) mechanisms that allow costs in excess of £10 million per annum to be added to the regulatory asset base ('RAB'), for the regulatory WACC to accrue on the costs once added to the RAB and for recovery of the costs over a 15 year period to commence following receipt of the DCO and (iii) a risk sharing mechanism under which either 105% or 85% of costs added to the RAB will be recovered if the DCO is granted or not granted, respectively. Key developments in relation to Heathrow expansion expected in 2017 include publication by the Government of a draft National Policy Statement in early 2017 (followed by public and parliamentary scrutiny), consultation by the CAA on the regulatory treatment of Category C costs (construction costs related to expansion) and the first of two public consultations Heathrow is planning to undertake as it develops its DCO for submission to the Planning Inspectorate.

The financial forecasts for 2017 published in this investor report include operating costs of £10-15 million (similar to 2016) and capital expenditure of approximately £110 million. The capital expenditure is expected to comprise approximately £75 million in Category B costs with the rest being Category C costs that will only be incurred once satisfactory arrangements for their recovery have been agreed with airlines and the CAA.

What an expanded Heathrow could look like



3. Governmental developments

Next regulatory period

In March 2016, the CAA published its “Strategic Themes for the Review of Heathrow Airport’s Charges (H7)” document. The document sets out the CAA’s key milestones and details four key priorities for the next regulatory period (H7). The four priorities are ‘empowering consumers and furthering their interests’, ‘incentivising the right consumer outcomes’, ‘increasing airport operational resilience’ and ‘promoting cost efficiency and financeability’. Heathrow responded to the CAA’s consultation in April.

In addition, in July 2016, the CAA launched a consultation on the potential extension of Heathrow’s current Q6 regulatory period in order particularly to reduce the risk that the process for agreeing the terms for the next regulatory period is sub-optimal due to uncertainty regarding potential new runway capacity. On 13 October 2016, the CAA published a proposed modification to Heathrow’s economic license that would extend Heathrow’s current regulatory period (Q6) by one year to 31 December 2019, rolling over two current price control of RPI -1.5% for the additional year.

Taxation

As part of the G20 Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project concerning proposals to limit the tax deductibility of corporate interest expense, the UK Government has released draft legislation and its response to the second consultation on the detailed design and implementation undertaken between May and August 2016. It has been announced that the new corporate interest restriction will be effective from 1 April 2017 and the new rules will cap deductions for net interest expense to the higher of 30% of tax-based EBITDA and the result of applying the group ratio rule (GRR). The Government’s intention is that the GRR should enable UK businesses (such as Heathrow) to continue to obtain deductions on interest incurred on all external debt. In addition, to protect investment in infrastructure that has a public benefit (which includes airport operators), a Public Benefit Infrastructure Exemption (PBIE) will be introduced. Further draft legislation on PBIE and the GRR will be released in January 2017 and Heathrow will continue to engage with advisers and HM Treasury to ensure that the legislation aligns with the Government’s policy intent.

4. Historical financial performance

This section summarises the results for the Group for the nine months to 30 September 2016. A full description of performance is provided in the results published on 20 October 2016, available at the Investor Centre on heathrow.com.

EBITDA

In the first nine months of 2016, EBITDA increased 4.4% to £1,274 million (2015: £1,220 million).

Revenue

In the first nine months of 2016, revenue increased 1.2% to £2,093 million (2015: £2,068 million). This reflects a decrease of 0.1% in aeronautical income mainly from traffic, 8.5% in retail income and a decrease of 2.4% in Other income. Retail shops performed well following the major redevelopment of stores in Terminal 5. Continued take-up of Heathrow's car parking range and successful yield management have driven car parking revenue growth. Growth in retail income accelerated in the third quarter, particularly in areas such as duty and tax-free and airside specialist shops, driven particularly by sterling's depreciation following the EU referendum in late June.

Operating costs (excluding depreciation, amortisation and exceptional items)

In the first nine months of 2016, operating costs decreased 3.4% to £819 million (2015: £848 million). Cost control continues to be strong as the full benefits flow through from initiatives implemented in 2015, including reductions in energy consumption. The take-up of the voluntary severance programme in 2015, improvements in new entrant pay levels, automation and other workforce efficiencies are reducing employment costs. The changes made to the defined benefit pension scheme in 2015 are driving further savings.

Regulatory Asset Base (RAB) and financial ratios

At 30 September 2016, the RAB was £15,112 million (31 December 2015: £14,921 million). At 30 September 2016 the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 68.0% for senior debt and 79.5% for junior debt (31 December 2015: 67.5% and 78.7% respectively) compared with respective trigger levels of 70.0% and 85.0%.

Interest payable and paid

In the first nine months of 2016, net finance costs before certain re-measurements were £547 million (2015: £525 million). Net external interest paid was £418 million (2015: £440 million).

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

At 30 September 2016, nominal net debt was £12,016 million (31 December 2015: £11,745 million), comprising £12,283 million in bond issues, £449 million in term notes and loan facilities, £189 million in index-linked derivative accretion and cash at bank and term deposits of £905 million. Nominal net debt consisted of £10,278 million in senior net debt and £1,738 million in junior debt.

5. Forecast financial performance

EBITDA

Heathrow forecasts EBITDA for 2016 of £1,665 million, up 3.7% (2015: £1,605 million), driven primarily by moderate traffic growth, strong momentum in retail income and significant operating cost efficiencies.

EBITDA in 2017 is forecast to be £1,660 million, marginally lower than the projected 2016 outcome. This forecast reflects broadly flat revenues and operating costs versus 2016. On the revenue line, further significant growth in retail income is expected to offset a reduction in aeronautical revenue due to a decreasing tariff in 2017 and a forecast slight reduction in traffic. There will be continued focus on delivering operating efficiencies and taking into account one-off cost benefits in 2016, underlying operating costs are expected to reduce in 2017.

Traffic

Outturn traffic in 2016 is forecast to be around 75.5 million passengers (2015: 75.0 million) with the leap year day and a continued increase in average seats per aircraft movement partially offset by lower load factors. Traffic in 2017 is forecast to decline marginally to 75.0 million, partially reflecting the loss of 2016's leap year day. This is driven particularly by the current forecast slowdown in UK GDP growth in 2017. Only modest growth in seats per aircraft is expected in 2017 following the strong growth in this metric in recent years.

Revenue

Revenue in 2016 is forecast to grow 0.5% to £2,780 million, with aeronautical income down 0.9% to £1,684 million (2015: £1,699 million) reflecting lower tariffs. Retail revenue is expected to increase 6.0% to £602 million (2015: £568 million), with non-retail income being £494 million (2015: £498 million). Retail income in 2016 has benefitted from significant investment in Terminal 5's luxury retail offering, a wider car parking product range and the effects of sterling's depreciation since the EU referendum.

Revenue in 2017 is forecast to decline 0.2% to £2,774 million. Aeronautical revenue is forecast to be lower than 2016, mainly due to the impact of low RPI on the aeronautical tariff and lower traffic. Retail income is once more expected to grow robustly, up 4.7% on 2016.

Operating costs (excluding depreciation, amortisation and exceptional items)

Operating costs in 2016 are forecast to reduce 3.9%. The reduction reflects the full year effect of cost efficiencies implemented during 2015 and significantly lower utility costs including a one-off benefit related to prior periods resulting from re-negotiated terms for the provision of electricity distribution infrastructure services. In 2017, operating costs are forecast to be essentially flat on 2016 on a reported basis but down slightly on an underlying basis as described above.

Regulatory Asset Base

At the end of 2016 and 2017, the RAB is forecast to be £15,246 million and £15,747 million respectively (2015: £14,921 million) which assumes £657 million and £775 million in capital expenditure in the 2 years. The forecast for 2017 also assumes average RPI of 3.2%.

Net debt and financial ratios

At 31 December 2016, nominal net debt is forecast to be £11,876 million (2015: £11,745 million) and is forecast to be £12,357 million at 31 December 2017. Net external interest paid is forecast to decline from £518 million in 2016 to £491 million in 2017 as recent lower cost debt financing continues to replace more expensive legacy debt.

At 31 December 2016, the Regulatory Asset Ratio (RAR) is forecast to be 66.5% for senior debt and 77.9% for junior debt (31 December 2015: 67.5% and 78.7%). At the end of 2017, RAR is forecast to be 67.4% for senior debt and 78.5% for junior debt.

For the year ending 31 December 2016, the Interest Cover Ratio (ICR) is forecast to be 3.10x for senior debt and 2.49x for junior debt (2015: 2.90x and 2.36x). For 2017, the ICR is forecast to be 3.22x for senior debt and 2.55x for junior debt.

All forecast financial ratios comply with Trigger Event ratios.

6. Financing matters

New financing and changes to facilities

Since the previous Investor Report was distributed on 23 June 2016, Heathrow has raised nearly £700 million in term debt financing. In July, Heathrow further diversified its funding sources in completing a second private placement in Norwegian krone, a NOK1.0 billion (£91 million) Class A financing that was drawn earlier this month and matures in December 2029. Also in July, Heathrow successfully returned to the sterling bond market for the first time since 2013 with a £400 million 33 year Class A bond issue with a 2.75% coupon.

In addition, nearly £400 million in loan facilities (£200 million of Class A and £50 million of Class B core revolving credit facilities as well as £130 million in liquidity facilities) were cancelled as Heathrow continues to optimize the efficiency of its financing.

Outside the Security Group, since the publication of the previous Investor Report, Heathrow Finance has entered into £200 million in 10-12 year term loans which are expected to be drawn either before the end of 2016 or in 2017.

Debt maturities and repayments

Since the previous Investor Report was distributed on 23 June 2016, a €500 million (£434 million) bond issued by Heathrow Funding Limited matured. In addition, Heathrow Airport Limited has made scheduled EIB loan repayments of £9 million and extended the maturity of its £1.15 billion core revolving credit facilities by one year from October 2020 to October 2021.

In addition, Heathrow Finance repurchased bonds maturing in March 2017 with a nominal value of £24 million at a cash cost of £25 million.

Hedging

Since the previous Investor Report was distributed on 23 June 2016, Heathrow Funding Limited has extended £481 million notional of index-linked swaps, previously maturing between 2018 and 2021, by 10 years. At 30 November 2016 the total notional value of such instruments was £5,116 million, the same amount as reported in the previous Investor Report.

At 30 November 2016, at least 84% and 58% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2019 and 31 December 2024 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

6. Financing matters

Liquidity

The Security Group expects to have sufficient liquidity to meet all its obligations in full up to December 2018. The liquidity horizon has changed from July 2019 as reported in the results of Heathrow (SP) Limited for the nine months ended 30 September 2016. This change reflects the announcement by the UK Government on 25 October 2016 of its support for Heathrow expansion, since when Heathrow believes it is appropriate to take into account expected expenditure in the coming years related to potential expansion. The liquidity horizon takes into account obligations such as forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account around £1.7 billion in undrawn loan facilities and cash resources held at the Security Group and Heathrow Finance at 30 November 2016, £791 million in committed term debt financing to be drawn after 30 November 2016 and the expected operating cash flow over the period.

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 23 June 2016, the Security Group has made gross restricted payments of £376 million. These payments funded the majority of the £150 million of quarterly dividends paid to the Security Group's ultimate shareholders in June 2016 and July 2016, interest payments of £34 million on the debenture between Heathrow (SP) and Heathrow Finance in September 2016, interest payments of £16 million on loan facilities at ADI Finance 2 Limited ('ADIF2') in June 2016 and repayment of £195 million of loan facilities at ADIF2 in July and October.

In the remainder of 2016, gross restricted payments of around £110 million are expected to be made out of the Group. These will fund dividend payments to the Group's ultimate shareholders and debt service on the ADIF2 loan facilities.

Restricted payments in 2017 are projected to be approximately £450 million, mainly comprising regular dividend payments to the Group's ultimate shareholders as well as interest payments on debt held at Heathrow Finance and ADIF2.

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.

7. Corporate matters

Acquisitions, disposals and joint ventures

There have been no material acquisitions, disposals and joint ventures entered into related to any Obligor since the previous Investor Report was distributed on 23 June 2016.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 23 June 2016.

Board and Management changes

On 5 July 2016, Jonathan Coen and Simon Earles were appointed as directors of Heathrow Express Operating Company Limited.

On 22 September 2016, Yan Wang resigned as a director of Heathrow Airport Holdings Limited and was replaced by Benjamin Bao who was appointed as a director on the same date.

On 10 November 2016, Javier Echave, previously Acting Chief Financial Officer, was confirmed as Heathrow's new permanent Chief Financial Officer. Javier had previously been appointed a director of Heathrow Funding Limited, Heathrow (SP) Limited, Heathrow (AH) Limited, and Heathrow Finance plc. Since Javier's permanent appointment he has also been appointed as a director of Heathrow Airport Holdings Limited and Heathrow Airport Limited and has become a member of the Executive Committee.

On 22 November 2016, it was announced that Ross Baker was being appointed as Chief Commercial Officer and Andrew Macmillan as Chief Strategy Officer. These changes take effect from 1 January 2017, when they will also be appointed as directors of Heathrow Airport Limited. On the same date, it was also announced that Clare Harbord and Ian Ballentine, Director of Corporate Affairs and Procurement Director respectively, will leave Heathrow and their responsibilities are being reallocated to other members of the Executive Committee.

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 23 June 2016.

8. Confirmation

14 December 2016

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 4 has been calculated in respect of the Relevant Period or as at the Relevant Date for which it is required to be calculated under the Common Terms Agreement.

We confirm that 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.

Javier Echave



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

Appendix 1 - Quarterly passenger traffic (2008 to 2016)

Heathrow passenger traffic and air transport movement evolution

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

Passengers (m)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Jan-Mar	15.4	14.4	14.6	15.0	15.7	16.0	16.0	16.4	16.8
Change %	0.6	-6.4	1.6	2.5	4.4	1.8	0.5	2.0	2.6
Apr-Jun	17.1	16.8	15.5	17.9	17.9	18.4	19.0	19.2	18.9
Change %	-1.3	-1.5	-7.9	15.3	0.4	2.9	3.2	0.7	-1.1
Jul-Sep	18.6	18.6	19.5	19.8	19.4	20.4	20.6	21.4	21.6
Change %	-1.2	0.3	4.4	1.5	-2.0	5.5	0.7	3.9	0.9
Oct-Dec	15.9	16.0	16.1	16.8	17.0	17.5	17.7	18.0	
Change %	-3.6	1.1	0.7	3.8	1.6	2.7	1.3	1.9	
Full year	66.9	65.9	65.7	69.4	70.0	72.3	73.4	75.0	
Change %	-1.4	-1.5	-0.2	5.5	0.9	3.4	1.4	2.2	
ATM ('000)	473	460	449	476	471	470	471	472	
Change %	-0.5	-2.8	-2.3	6.0	-1.0	-0.4	0.2	0.3	

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	Year to 31 December 2016	Year to 31 December 2017
		£m	£m
Cashflow from Operations ⁽²⁾		1,642	1,620
Add back: Cash one-off, non-recurring extraordinary or exceptional items			
Adjusted Cashflow from Operations		1,642	1,620
Less: corporation tax paid		(45)	(50)
Less: 2 per cent of Total RAB		(305)	(315)
Cash Flow (A)		1,292	1,255
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾			
Interest paid – existing Class A bonds and swaps		411	384
Interest paid – existing Class A EIB facilities		1	1
Commitment fees on liquidity and revolving credit facilities		5	5
Total interest on Senior Debt (B)		417	390
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾			
Class B debt		101	101
Total interest on Junior Debt (C)		101	101
Total interest (D=B+C)		518	491
Senior ICR (A/B) ⁽⁵⁾⁽⁶⁾	1.40x	3.10x	3.22x
Junior ICR (A/D) ⁽⁵⁾⁽⁶⁾	1.20x	2.49x	2.55x

(1) 2016 and 2017 figures are forecasts; values calculated on unrounded figures

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 17

(3) Reconciliation of interest paid with interest payable is set out on page 17

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

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

(6) Ratios calculated on unrounded figures.

Appendix 2 - Computation of Interest Cover Ratios ⁽¹⁾ – reconciling income statement to cash flow

<i>(See important notice on page 2 of this document)</i>	31 December 2016	31 December 2017
	£m	£m
Income		
Aeronautical income	1,684	1,641
Non-aeronautical income - retail	602	630
Non-aeronautical income - non-retail	494	503
Total income	2,780	2,774
Adjusted operating costs ⁽²⁾	1,115	1,114
Adjusted EBITDA	1,665	1,660
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Trade working capital	21	(17)
Pension	(44)	(23)
Cashflow from operations	1,642	1,620

	Year to 31 December 2017 ⁽¹⁾				Year to
	Income statement	Less	Less variation	Cash flow	31 December 2016
	incl amortisation ⁽³⁾⁽⁴⁾	amortisation ⁽³⁾	in accruals ⁽³⁾		Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	436	(70)	7	372	409
Interest paid – Class A EIB facilities	1	0	0	1	1
Interest paid and received – other Class A debt	13	(1)	0	12	2
Commitment fees on liquidity & RCFs ⁽⁵⁾	5	(1)	0	5	5
Interest paid - Class B debt	102	(1)	0	101	101
Total interest	557	(73)	7	491	518

(1) 2016 and 2017 figures are forecasts; values calculated on unrounded figures

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

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

(4) Includes amortisation of refinancing fees and excludes accretion on Index Linked Swaps and bonds

(5) RCFs: Revolving Credit Facilities

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	At 31 December 2016 £m	At 31 December 2017 £m
Closing Heathrow RAB (A)		15,246	15,747
Senior Debt			
Class A Existing Bonds (closed prior to 14 December 2016)		10,210	9,839
Class A EIB facilities		98	62
Other Class A debt		340	890
RPI swap accretion		170	349
Total Senior Debt (B)		10,818	11,140
Junior Debt			
Class B debt		1,739	1,745
Total Junior Debt (C)		1,739	1,745
Cash and cash equivalents (D)		(681)	(528)
Senior net debt (E=B+D)		10,137	10,612
Senior and junior net debt (F=B+C+D)		11,876	12,357
Senior RAR (E/A)⁽²⁾⁽³⁾⁽⁴⁾	70.0%	66.5%	67.4%
Junior RAR (F/A)⁽²⁾⁽⁴⁾	85.0%	77.9%	78.5%

(1) 2016 and 2017 figures are forecasts; values calculated on unrounded figures

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

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

(4) Ratios calculated on unrounded figures

Appendix 4 – Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 30 September 2016

Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
Senior debt			
€500m 4.125%	434	434	2016
€700m 4.375%	584	584	2017
CHF400m 2.5%	272	272	2017
€750m 4.6%	510	510	2018
C\$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	198	198	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
£200m 7.075%	200	200	2028
€750m 1.5%	566	566	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	78	78	2032
€50m Zero Coupon	42	42	2032
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	52	52	2039
£460m RPI +3.334%	562	562	2039
£100m RPI +1.238%	103	103	2040
£750m 5.875%	750	750	2041
£750m 4.625%	750	750	2046
£75m RPI +1.372%	78	78	2049
£400m 2.75%	400	400	2049
Total senior bonds	10,545	10,545	
Term debt	449	449	Various
Index-linked derivative accretion	189	189	Various
Revolving/working capital facilities	0	900	2021
Total other senior debt	638	1,538	
Total senior debt	11,183	12,083	
Heathrow (SP) Limited cash	(905)		
Senior net debt	10,278		

Heathrow (SP) Limited	Amount	Available	Maturity
	(£m)	(£m)	
Junior debt			
£400m 6.25%	400	400	2018
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£180m RPI +1.061%	183	183	2036
Total junior bonds	1,738	1,738	
Junior revolving credit facilities	0	250	2021
Total junior debt	1,738	1,988	
Heathrow (SP) Limited group net debt	12,016		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£325m 7.125%	276	276	2017
£275m 5.375%	263	263	2019
£250m 5.75%	250	250	2025
Total bonds	789	789	
£75m	75	75	2020
£50m	50	50	2022
£50m	50	50	2025
Total loans	175	175	
Total Heathrow Finance plc debt	964	964	
Heathrow Finance plc cash	(145)		
Heathrow Finance plc net debt	819		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	11,183	12,083
Heathrow (SP) Limited junior debt	1,738	1,988
Heathrow Finance plc debt	964	964
Heathrow Finance plc group debt	13,885	15,035
Heathrow Finance plc group cash	(1,050)	
Heathrow Finance plc group net debt	12,835	

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 2016	As at or for year to 31 December 2017 ⁽¹⁾
		£m	£m
Calculation of Group ICR⁽²⁾			
Cash Flow (A)		1,292	1,255
Interest			
Paid on Senior Debt (B)		417	390
Paid on Junior Debt (C)		101	101
Paid on Borrowings (D)		57	56
Group Interest Paid (E=B+C+D)		575	547
Group ICR (A/E)	1.00x	2.25x	2.29x
Calculation of Group RAR⁽³⁾			
Total RAB (F)		15,246	15,747
Net debt			
Senior Net Debt (G)		10,137	10,612
Junior Debt (H)		1,739	1,745
Borrower Net Debt (I)		1,108	1,032
Group Net Debt (J=G+H+I)		12,984	13,389
Junior RAR ((G+H)/F)⁽⁴⁾	82.0%	77.9%	78.5%
Group RAR (J/F)⁽⁴⁾	90.0%	85.2%	85.0%

(1) 2016 and 2017 figures are forecasts

(2) ICR or Interest Cover Ratio is defined on page 17

(3) RAR or Regulatory Asset Ratio is defined on page 18

(4) Ratios calculated on unrounded data

Heathrow

Making every journey better