
# Heathrow (SP) Limited and Heathrow Finance plc

## Investor report

Issued on 18 December 2012

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# Important notice

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

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

# Basis of preparation

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

Investor Reports relate to the performance of the Security Group which includes Heathrow and Stansted airports. This Investor Report comments on the historic financial performance of the Security Group for the period up to 30 September 2012 and its historic passenger traffic for the period up to 30 November 2012. It also contains forecast financial information derived from current management forecasts for the Security Group including Stansted airport for the whole of 2012 but Heathrow only for 2013.

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 of report

# 1. Introduction

This Investor Report covers a range of financial and operational developments for Heathrow (SP) Limited ('Heathrow (SP)') and Heathrow Finance plc ('Heathrow Finance') for 2011, 2012 and 2013. In particular it provides forecast financial information including financial ratios (RAR and ICR).

A disposal process for Stansted airport is currently underway and the forecasts included in this Investor Report assume the sale will occur in early 2013. As a result, whilst Stansted's performance in 2012 is discussed in the relevant parts of this document, for 2013, other than in respect of the assumed impact of the sale on net debt, RAB, interest costs and financial ratios, the financial and operational commentary focuses only on Heathrow airport.

The latest forecasts for Heathrow (SP) indicate Adjusted EBITDA(1) for 2012 will be £1,246 million, representing 10.1% growth versus 2011 actuals and consistent with expectations set out in the results for the nine months ended 30 September 2012.

Heathrow's strong financial performance is expected to continue in 2013 as illustrated by the following highlights:

- Passenger traffic expected to increase 1.2% to 70.9 million
- Revenue growth of 9.7% to £2,439 million reflecting primarily increased aeronautical tariffs supported by further growth in retail income per passenger
- Adjusted EBITDA growth of 16.6% to £1,344 million

Heathrow expects to invest over £1.3 billion on its capital programme in 2013 mainly due to construction of the new Terminal 2.

In the years to 31 December 2012 and 2013, all financial ratios are forecast to comply with relevant Trigger Event ratio levels.

| | Actual / forecast ratio level | Trigger level |
|---|---|---|
| **Regulatory asset ratio (RAR)(2)** | | |
| **Senior ratios(3)** | | |
| **At 31 December 2012** | **65.9%** | **70.0%** |
| **At 31 December 2013(4)** | **66.8%** | **70.0%** |
| **Junior ratios** | | |
| **At 31 December 2012** | **76.9%** | **85.0%** |
| **At 31 December 2013(4)** | **77.9%** | **85.0%** |
| **Interest cover ratio (ICR)(5)** | | |
| **Senior ratios** | | |
| **For year to 31 December 2012** | **2.68x** | **1.40x** |
| **For year to 31 December 2013(4)** | **2.88x** | **1.40x** |
| **Junior ratios** | | |
| **For year to 31 December 2012** | **2.35x** | **1.20x** |
| **For year to 31 December 2013(4)** | **2.24x** | **1.20x** |

1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
2) The Regulatory Asset Ratio is defined on page 21
3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under revolving credit facility
4) 2013 ratios reflect the Stansted sale price assumption on page 13
5) The Interest Cover Ratio is defined on page 19

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# 2. Significant business developments – service standards

Consistent delivery of high service standards is a strategic priority, being a key enabler in delivering cost efficiencies and strengthening the competitive position of the airports. The benefits of this focus are being increasingly endorsed by the travelling public, demonstrating that passengers are noticing the improvements made by the airports.

Passenger satisfaction has once more improved at Heathrow in 2012 and it has achieved its highest ever scores in Airports Council International's three quarterly Airport Service Quality surveys of 2012 to date. This included a record score in the most recent surveys for the third quarter of 2012. This places it close to the top of the 5 largest airports in Europe. In addition, in April 2012 Heathrow's Terminal 5 was voted by passengers as the world's best airport terminal in the SKYTRAX World Airport Awards.

In addition to the benefit of new and refurbished infrastructure, this reflects improvements in individual service standards such as punctuality, baggage misconnect rates and security queuing times.

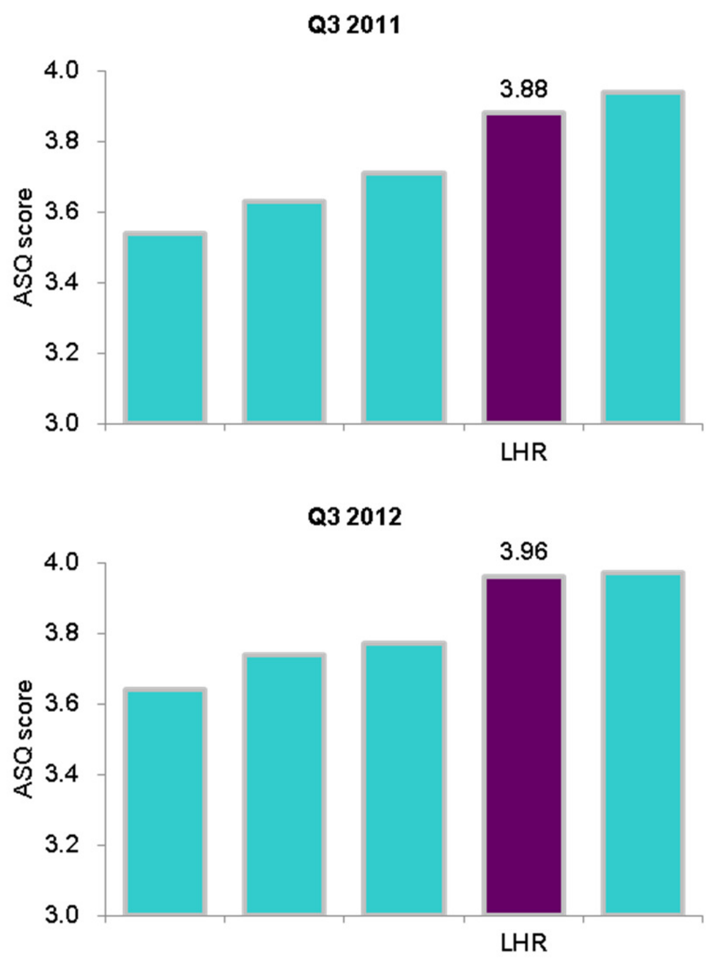
In the nine months ended 30 September 2012, the percentage of aircraft departing within 15 minutes of schedule was 79% (2011: 80%) at Heathrow and 89% (2011: 88%) at Stansted.

At Heathrow, in the nine months ended 30 September 2012, the proportion of baggage not accompanying passengers on their journeys improved to 14 per 1,000 passengers (2011: 15 per 1,000 passengers). Heathrow has delivered some of its best ever monthly baggage misconnect performances during 2012.

In the first nine months of 2012, passengers passed through central security within periods prescribed under service quality rebate ('SQR') schemes 96.0% (Heathrow) and 98.0% (Stansted) of the time, compared with 95.0% service standards in both cases.

In the six months ended 30 September 2012, Heathrow incurred £4.9 million of payments under its SQR scheme (2011: £3.1 million) and Stansted £0.0 million (2011: £0.2 million).

Overall passenger satisfaction for 5 largest European airports

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# 2. Significant business developments – passenger traffic[1]

In the eleven months ended 30 November 2012, Heathrow and Stansted's combined traffic declined 0.2% to 80.6 million (2011: 80.7 million), with moderate 0.8% growth at Heathrow offset by a 3.8% decline at Stansted.

Underlying demand at Heathrow has been robust through 2012 with all-time record traffic for the first eleven months of the year. However, reported year on year performance has fluctuated through the year due to one-off factors or different timings of holiday periods. The first quarter saw robust growth partly due to the leap year and change in Easter's timing. Conversely the second quarter saw a modest decline due mainly to Easter's timing and the Royal Wedding in 2011. In the third quarter, July and August's traffic was impacted by over 400,000 passengers compared to the same period of 2011 by the London 2012 Olympics and Paralympic Games, which resulted in UK based travellers staying in the country to enjoy the Games and non-UK travellers avoiding travel to the UK due to concerns over disruption caused by the Games. Since September, traffic trends have normalised with all-time records achieved in September and November.

Heathrow's growth has been driven by North Atlantic traffic with traffic with other long haul destinations declining including service reductions to India and Africa. European traffic and domestic traffic increased marginally.

Traffic trends at Stansted have improved in recent months with the 3.8% decline over the eleven months to November contrasting with a 0.7% increase in the months of October and November combined. Stansted has continued to experience robust load factors, suggesting no material deterioration in demand dynamics.

Quarterly traffic trends for Q1 2008 to Q3 2012 are set out in Appendix 1.

**Passenger traffic**

| | 11 months ended 30 November | | |
|---|---|---|---|
| | 2011 (m) | 2012 (m) | Change[2] |
| *By airport* | | | |
| Heathrow | 63.9 | 64.4 | 0.8% |
| Stansted | 16.9 | 16.2 | -3.8% |
| **Total[2]** | **80.7** | **80.6** | **-0.2%** |
| *By market served* | | | |
| UK | 5.7 | 5.5 | -3.7% |
| Europe[3] | 41.3 | 41.2 | -0.2% |
| Long haul | 33.8 | 33.9 | 0.5% |
| **Total[2]** | **80.7** | **80.6** | **-0.2%** |

1) Monthly passenger traffic data is published at www.baa.com
2) Percentage change and totals calculated using un-rounded passenger numbers
3) Includes both scheduled and charter traffic and includes North African charter traffic

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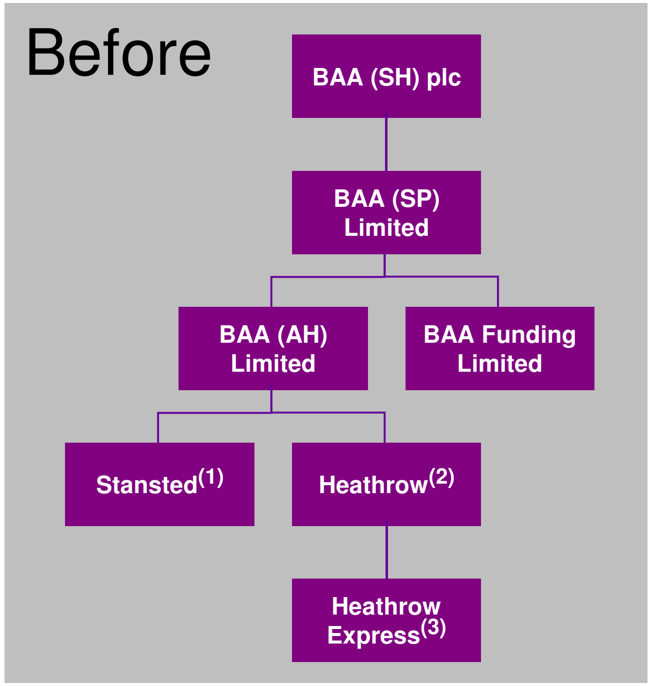
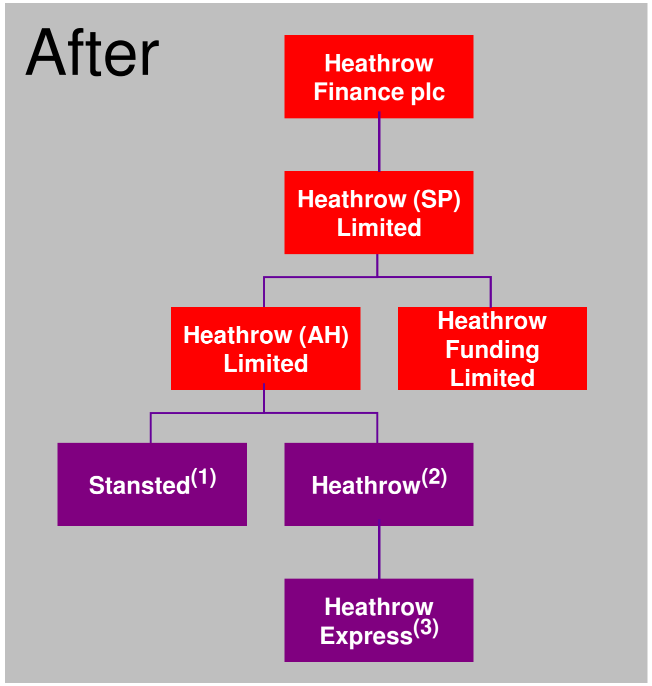
# 2. Significant business developments – change of name

On 15 October 2012, it was announced that the BAA name would cease to be used. This change was implemented for a number of reasons including the fact that Heathrow will account for more than 95% of the former BAA group once Stansted is sold. As a result, whilst the brands and related legal entity names (such as Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited) of individual operating businesses are being retained, the names of many of the holding companies in the business assumed the Heathrow brand.

The change saw BAA Limited become Heathrow Airport Holdings Limited ('Heathrow Airport Holdings'). In relation to companies relevant to the financing of the London airports, BAA Funding Limited became Heathrow Funding Limited ('Heathrow Funding'), BAA (SH) plc became Heathrow Finance plc, BAA (SP) Limited became Heathrow (SP) Limited and BAA (AH) Limited became Heathrow (AH) Limited. In addition, BAA Airports Limited, the shared services provider and sponsor of the group defined benefit pension scheme, became LHR Airports Limited. The company names of entities particularly relevant to the London airports' financing, before and after the name changes, are illustrated below.




Notes
1) Stansted = Stansted Airport Limited
2) Heathrow = Heathrow Airport Limited
3) Heathrow Express = Heathrow Express Operating Company Limited

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# 3. Significant regulatory/governmental developments

**Modernisation of economic regulation of UK airports**

Legislation to introduce changes to the framework for the economic regulation of UK airports has been introduced to Parliament. The Civil Aviation Bill finished its progression through Parliament in November and is now awaiting Royal Assent. The legislation may continue to be subject to amendment prior to its implementation.

**Competition Commission inquiry into the supply of UK airport services by Heathrow Airport Holdings**

On 20 August 2012, the Heathrow Airport Holdings group announced its decision not to appeal to the Supreme Court against the ruling of the Competition Commission of 19 July 2011 that required the Heathrow Airport Holdings group to divest Stansted airport. As a result, the Heathrow Airport Holdings group is now proceeding with the sale of Stansted airport. Net proceeds(1) from the disposal of Stansted will be applied in repaying debt within the security group.

**Q6 CAA consultation**

On 30 July 2012, Heathrow published an initial business plan for the next regulatory period and will also publish a final business plan in January 2013, which will further help inform the regulatory process.

Heathrow and its airline community recently concluded a constructive engagement process relating to various key aspects of Heathrow's development in the next regulatory period. Once the Civil Aviation Authority ('CAA') has completed its own research and analysis, formal consultation by the CAA on the review of price regulation is expected to begin in April or May 2013. It is currently expected that the CAA's final proposals will be published later in 2013 and the CAA's decision on licence conditions, of which its draft for initial consultation is expected by April 2013, will be published in January 2014.

**Airports Commission**

Reflecting increasing concern around how to maintain the UK's status as an international hub for aviation, the government has recently established the Airports Commission, chaired by Sir Howard Davies. The Commission has been tasked with assessing the options for meeting the UK's international connectivity needs and recommending the optimum approach for meeting these needs and for ensuring any need is met as expeditiously as practicable. The Commission is expected to produce an interim report by the end of 2013 but is currently not due to report its full findings until summer 2015. However, the lead times to implement any recommendations in terms of new runways are expected to be significant even if immediate political consensus in support of the recommendations is achieved.

1) After transaction and separation costs, costs of terminating or restructuring any relevant derivatives and payments required to be made into pension schemes including in particular the Heathrow Airport Holdings group's defined benefit pension scheme

# 4. Historic financial performance[1] (A)

**Turnover**

In the nine months ended 30 September 2012, turnover increased 8.2% to £1,843.6 million (2011: £1,703.3 million). This reflects increases of 10.5% in aeronautical income, 4.3% in retail income and 6.4% in other income.

There was a 11.2% increase in aeronautical income at Heathrow and a 4.3% increase at Stansted. Heathrow's increase primarily reflects the headline 12.2% and 12.7% increases in its tariffs applicable from 1 April 2011 and 1 April 2012 respectively supported by the modest increase in passenger traffic. At Stansted, growth in aeronautical income reflects principally the fact that headline tariffs increased by 6.33% and 6.83% from 1 April 2011and 1 April 2012 respectively together with reduced tariff discounts, partially offset by a decline in traffic.

The retail business has continued to perform well. This is evident from the 4.7% increase in net retail income per passenger (Heathrow: +4.8%; Stansted: +2.5%) in the nine months ended 30 September 2012 to £5.68 (2011: £5.42).

This reflects retail income increasing by 4.3% to £401.5 million (2011: £385.0 million). This performance was led by duty and tax-free, airside specialist shops, bureaux de change and catering. Strength in duty and tax-free and airside specialist shops was driven by factors including an increased proportion of higher spending non-EU passengers, the major refurbishment of Terminal 3's airside specialist shops and the new walk through area in the World Duty Free store in Terminal 3. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments. A strong performance in bureaux de change was mainly due to improvements in contract terms with business partners. Catering income grew well ahead of passenger growth due to rebalancing of the portfolio towards premium outlets, enhanced contractual terms and a general focus on speed and quality of service.

**Operating costs**

In the nine months ended 30 September 2012, operating costs increased by 6.9% to £920.7 million (2011: £861.1 million). The main drivers of the increased adjusted operating costs were higher employment costs, maintenance expenditure, rents and rates and general expenses. Employment costs were increased by 12.1% reflecting principally budgeted pay rises and an increase in the defined benefit pension scheme service charge. Increased maintenance expenditure was mainly due to the costs of the temporary Olympic terminal at Heathrow together with the impact of the adverse winter weather in early February 2012. Increases in rents and rates were driven primarily by inflation-linked increases in property rates as well as additional rateable property (such as Terminal 5C that opened in June 2011). The growth in general expenses reflected increases across a range of cost categories including air traffic control, insurance, cleaning and Olympic related.

**Adjusted EBITDA**

Adjusted EBITDA for the nine months ended 30 September 2012 increased 9.6% to £922.9 million (2011: £842.2 million). The significant increase reflects higher aeronautical and retail income per passenger.

1) For more detail, see results for nine months ended 30 September 2012 issued on 29 October 2012

# 4. Historic financial performance[1] (B)

**Interest payable**

In the nine months ended 30 September 2012, net interest payable was £537.5 million (2011: £585.4 million) excluding fair value gains and losses on financial instruments. Underlying net interest payable was £572.5 million (2011: £566.6 million), after adjusting for £69.5 million (2011: £21.5 million) in capitalised interest and £34.5 million (2011: £40.3 million) in non-cash amortisation of financing fees and bond fair value adjustments. Within interest payable is also recorded a non-cash net fair value gain on financial instruments of £250.9 million (2011: £72.9 million loss).

**Interest paid**

Net interest paid in the nine months ended 30 September 2012 was £332.3 million (2011: £309.4 million), consisting of £283.6 million (2011: £268.3 million) paid in relation to external debt and £48.7 million (2011: £41.1 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid is due primarily to the overall increase in net debt, timing differences and the increase in the average cost of debt. Net interest paid was lower than underlying net interest payable primarily due to an amortisation charge of £38.4 million (2011: £48.0 million) in net interest payable relating to prepayments of derivative interest; £145.7 million (2011: £179.3 million) non-cash charge relating to inflation accretion on index-linked instruments; the non-cash amortisation of financing fees and bond fair value adjustments; and movement in interest accruals; partially offset by capitalised interest.

**Net debt (excluding debenture between Heathrow (SP) and Heathrow Finance)**

The Security Group's nominal debt at 30 September 2012 comprised £10,233.1 million outstanding under various bond issues. There was also £630.4 million outstanding under various loan facilities and index-linked derivative accretion of £483.9 million. With cash at bank and term deposits of £64.8 million, nominal net debt was £11,282.6 million. The average cost of the Security Group's external gross debt at 30 September 2012 was 4.31% taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion and 6.05% including index-linked accretion.

**Capital expenditure and Regulatory Asset Base (RAB)**

Cash flow capital expenditure at Heathrow was £818.8 million in the nine months ended 30 September 2012 and £14.0 million at Stansted. The combined RAB of Heathrow and Stansted was £14,518.9 million at 30 September 2012.

**Financial ratios**

At 30 September 2012, senior and junior gearing ratios (net debt to RAB) were 66.5% and 77.7% respectively compared with trigger levels of 70.0% and 85.0%.

1) For more detail, see results for nine months ended 30 September 2012 issued on 29 October 2012

# 5. 2012 and 2013 traffic forecasts

**Given the sale of Stansted airport is expected to occur in early 2013, the traffic forecast commentary only addresses Stansted traffic in respect of 2012.**

**2012**

The most recent formal forecast for traffic across Heathrow and Stansted for the year ending 31 December 2012 is 87.2 million, made up of 70.1 million at Heathrow and 17.1 million at Stansted. This compares with forecasts of 70.9 million and 17.1 million respectively included in the Investor Report distributed on 26 June 2012. The change in Heathrow's 2012 traffic forecast principally reflects traffic volumes in July and August which were over 400,000 passengers lower than experienced in the comparable period of 2011. Traffic had been expected to increase modestly year on year during these two months.

Performance since these forecasts were finalised suggests that overall passenger numbers across the two airports in 2012 will be slightly higher due to outperformance at Stansted.

The expected 2012 outturn at Heathrow would represent the second consecutive record level of traffic in a calendar year.

**2013**

For the year ending 31 December 2013, Heathrow's passenger traffic is forecast to increase to 70.9 million (an increase of 1.2% from the forecast 2012 outturn outlined above). The year on year performance partly reflects one fewer day (equivalent to close to 200,000 passengers) in 2013 given the leap year in 2012.

The growth expected at Heathrow in 2013 comes despite the continued severe constraint on additional numbers of flights. It reflects a marginal increase in the expected number of flights from the expected 470,000 outturn in 2012 together with an assumption of larger average aircraft size. Load factors are expected to remain broadly flat on the forecast 2012 outturn.

Larger aircraft reflect, for example, Emirates expected to have moved from 3 of its 5 daily Heathrow services being operated by A380 aircraft at the beginning of 2012 to all 5 services by early 2013. It also reflects the full year effect of other A380 service introductions during 2012 and greater deployment of A320 aircraft in place of smaller A319s on short haul routes.

The 2013 traffic forecast does not include any allowance for potential disruptions or shocks such as most recently had a meaningful impact on Heathrow in 2010. This is consistent with Heathrow's approach to traffic forecasting where short-term forecasts are driven principally by capacity and airline scheduling that don't reflect shocks whilst medium or long term forecasts make an allowance for potential shocks given that historically they have impacted Heathrow's traffic by an average of close to 1.5%.

# 6. 2012 and 2013 financial forecasts

Heathrow (SP) 2012 and 2013 financial forecasts are set out opposite (more detail is in Appendices 2 and 3). Stansted is currently for sale and therefore, other than in respect of the assumed impact of its disposal on net debt, RAB, interest costs and financial ratios, the 2013 financial forecasts exclude Stansted.

Highlights include:

- **forecast £1,246 million 2012 Adjusted EBITDA of which £1,153 million generated by Heathrow**
- **forecast 2013 Adjusted EBITDA up 16.6% on current 2012 forecast for Heathrow to £1,344 million**

Forecast growth in Heathrow's 2013 Adjusted EBITDA reflects particularly a 16.6% increase in aeronautical income driven by headline tariffs increasing from 1 April 2012 and 2013 by 12.7% and 10.4% respectively supported by higher passenger traffic (see page 11).

Heathrow's retail income is expected to grow 5.5% in 2013 with net retail income per passenger increasing 3.8%. Growth is expected to be driven by duty and tax-free and airside specialist shops with catering and car parks also expected to perform well.

Heathrow's operating costs in 2013 (excluding depreciation and exceptional items) are forecast to increase 2.4% to £1,096 million primarily reflecting the impact of inflation on staff costs and operational readiness expenses for Terminal 2 partially offset by some operational savings.

Heathrow's forecast capital expenditure for 2013 is £1.3 billion.

Average RPI used in the forecast for 2013 is 2.7%.

**All forecast financial ratios comply with Trigger Event ratios.**

| **Financials** | 2012 | 2013 | Change(1) |
|---|---|---|---|
| *(figures in £m unless otherwise stated)* | | | |
| **Revenue** | **2,464** | **2,439** | **-1.0%** |
| Revenue (Heathrow only) | 2,223 | 2,439 | 9.7% |
| **Adjusted EBITDA** | **1,246** | **1,344** | **7.9%** |
| Adjusted EBITDA (Heathrow only) | 1,153 | 1,344 | 16.6% |
| **Cash flow from operations** | **1,193** | **1,290** | **8.1%** |
| **Cash flow for ICR calculation** | **896** | **998** | **11.4%** |
| **Capital expenditure** | **1,214** | **1,354** | **11.5%** |
| **Total RAB (2)** | **14,846** | **14,608** | **-1.6%** |
| **Nominal net debt(2)** | | | |
| **Senior net debt** | **9,786** | **9,752** | **-0.3%** |
| **Junior debt** | **1,625** | **1,625** | **0.0%** |
| **Total nominal net debt** | **11,411** | **11,377** | **-0.3%** |
| **Interest paid(2)** | | | |
| **Senior interest paid** | **335** | **347** | **3.7%** |
| **Junior interest paid** | **47** | **99** | **111.9%** |
| **Total interest paid** | **381** | **446** | **17.0%** |

| **Ratios(2)(3)** | 2012 | 2013 | Trigger level |
|---|---|---|---|
| **Senior RAR** | **65.9%** | **66.8%** | **70.0%** |
| **Junior RAR** | **76.9%** | **77.9%** | **85.0%** |
| **Senior ICR** | **2.68x** | **2.88x** | **1.40x** |
| **Junior ICR** | **2.35x** | **2.24x** | **1.20x** |

1) Percentage changes calculated using un-rounded figures
2) 2013 RAB, net debt, interest paid and financial ratios reflect the Stansted sale price assumption on page 13
3) See Appendices 2 and 3 for the definition of ratios (RAR and ICR) and their calculations

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# 7. Acquisitions, disposals, joint ventures and outsourcing

**Acquisitions, disposals and joint ventures**

There have been no acquisitions, disposals or joint ventures involving any Obligor since the previous Investor Report was distributed on 26 June 2012.

As noted on page 8, on 20 August 2012, the Heathrow Airport Holdings group announced its decision not to appeal to the Supreme Court against the ruling of the Competition Commission of 19 July 2011 that required the Heathrow Airport Holdings group to divest Stansted airport. As a result, the Heathrow Airport Holdings group is now proceeding with the disposal of Stansted airport.

The forecasts included in this Investor Report assume that the sale of Stansted will occur in early 2013 at a sale price of 100% of its regulatory asset base, before costs related to the sale such as transaction and separation costs, costs of terminating or restructuring any relevant derivatives and payments required to be made into pension schemes including in particular the Heathrow Airport Holdings group's defined benefit pension scheme. Proceeds, after the costs outlined above, will be applied in repaying debt within the Security Group.

**Outsourcing**

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 26 June 2012.

# 8. Significant board/management changes

On 2 November 2012, Mr. Bing Hu was appointed as a director of Heathrow Airport Holdings on completion of the purchase by Stable Investment Corporation, a wholly-owned subsidiary of CIC International Co. Ltd which is in turn part of China Investment Corporation ('CIC'), of a 10.0% shareholding in FGP Topco Limited, Heathrow Airport Holdings' ultimate holding company, from entities controlled or managed by Ferrovial, Caisse de dépôt et placement du Québec ('CDPQ') and the Government of Singapore Investment Corporation ('GIC'). He is the Managing Director, Head of Special Investments Department of CIC.

Board appointments to reflect Qatar Holding's purchase of a 20.0% shareholding in FGP Topco Limited are expected to occur shortly.

On 30 November 2012, Nicolas Villen resigned as a director of Heathrow Airport Holdings.

In August 2012, Philip Langsdale, Chief Information Officer, left the Heathrow business and was replaced by Neil Clark. He joined the business in May 2009 having previously worked in the aviation industry for over 20 years for British Airways.

In October 2012, Steven Morgan, Capital Director, left the Heathrow business and was replaced by John Holland-Kaye, previously Commercial Director, who has taken on responsibility for Heathrow's capital programme under the new title of Development Director. Fidel Lopez has replaced John Holland-Kaye as Commercial Director and Jim O'Sullivan, previously Managing Director of Edinburgh airport, has replaced Fidel Lopez as Managing Director Airports Division.

As a result of these changes, in October 2012 Fidel Lopez resigned as a director of Stansted Airport Limited ('STAL') and was appointed a director of Heathrow Express Operating Company Limited ('HEX') whilst John Holland-Kaye resigned as a director of HEX and Jim O'Sullivan was appointed a director of STAL.

Also in October 2012, Neil Clark, Emma Gilthorpe, Clare Harbord, Carol Hui, Fidel Lopez, Colin Matthews, Jim O'Sullivan and Fiona Rodford were appointed directors of Heathrow Airport Limited ('HAL') and Steven Morgan resigned as a director of HAL.

In October 2012, Fred Maroudas resigned as a director of Heathrow Funding, Heathrow (SP), Heathrow Finance, Heathrow (AH) Limited and Heathrow (DSH) Limited with Andrew Efiong replacing him as a director of all these companies reflecting the appointment of Fred Maroudas as Finance Director of Heathrow and the appointment of Andrew Efiong as Director of Treasury.

Other than as outlined above, there have been no board or relevant management changes related to the Obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 26 June 2012.

# 9. Financing matters (A)

**Bond issues**

Since the previous Investor Report was distributed on 26 June 2012, Heathrow Funding has completed a C$400 million seven year Class A issue with a scheduled redemption date of 3 July 2019.

Further, in December 2012, Heathrow Finance issued a £275 million bond maturing on 2 September 2019. The net proceeds of the bond have been used to repay £125 million of Heathrow Finance's £175 million loan facility put in place in 2010 with the remainder being injected into the Security Group for general corporate purposes.

**Loan facilities**

Since the previous Investor Report was distributed on 26 June 2012:

- the old Capital Expenditure Facility has been fully repaid utilising the proceeds from the C$400 million Class A bond issue referred to above;
- Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £20 million; and
- Heathrow Airport Limited made a net drawdown under the revolving credit facility of £140 million as of 30 September 2012.

**Hedging**

At 30 November 2012, at least 84% and 72% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 March 2014 and 31 March 2019 respectively, consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods. Since the previous Investor Report was distributed on 26 June 2012, £383 million of interest rate swaps were converted into forward starting interest rate swaps, £855 million of interest rate swaps were cancelled and Heathrow Funding has entered into an additional £125 million of index-linked swaps taking the total notional value of such instruments to £5,379 million.

**New shareholders in FGP Topco Limited**

In August and October 2012, it was announced that entities controlled or managed by Ferrovial, CDPQ and GIC were selling shareholdings in FGP Topco Limited, the ultimate holding company of the Heathrow Airport Holdings group, to Qatar Holding LLC (20.00%) and Stable Investment Corporation (10.00%) respectively. Qatar Holding is a global investment corporation wholly-owned by the Qatar Investment Authority and Stable Investment Corporation is a wholly-owned subsidiary of CIC International Co. Ltd. which is in turn part of CIC which invests China's foreign exchange reserves. Both transactions implied an equity value for FGP Topco Limited of £4.5 billion. As a result of these transactions, FGP Topco Limited and Heathrow Airport Holdings will be owned by entities controlled or managed by Ferrovial (33.65%), Qatar Holding (20.00%), CDPQ (13.29%), GIC (11.88%), Alinda Capital Partners (11.18%) and CIC (10.00%).

# 9. Financing matters (B)

**Liquidity**

The Security Group expects the headroom under its facilities to be sufficient, when combined with its cash resources and expected operating cash flows, to meet all its liquidity requirements, including refinancing maturing bond and bank debt and funding Heathrow's substantial capital investment programme, until the second half of 2014. This liquidity horizon will extend further on receipt of the proceeds from the sale of Stansted airport.

**Historic and future Restricted Payments**

Since the previous Investor Report was distributed on 26 June 2012, there have been £129.5 million of restricted payments made by the Security Group, reflecting £28.5 million of interest paid on the debenture between Heathrow (SP) and Heathrow Finance and £101.0 million of dividends paid by Heathrow (SP) to Heathrow Finance.

These restricted payments have been utilised to meet £19.6 million of interest payments on Heathrow Finance's external debt and to distribute £101.0 million beyond Heathrow Finance that was utilised, together with other cash within the Heathrow Airport Holdings group, in paying interest on the Senior Loan Facility held at ADI Finance 1 Limited and making dividend payments to Heathrow Airport Holdings' ultimate shareholders. The balance of the £129.5 million of restricted payments was either retained at Heathrow Finance to meet financing related costs or returned to the Security Group.

In the remainder of 2012, approximately £51 million of the final quarterly dividend payment of £60 million for 2012 being made to the Security Group's ultimate shareholders is expected to be made by way of restricted payment out of the Security Group. This will mean that in total slightly below £400 million in restricted payments will have been made by Heathrow (SP) during 2012, marginally below the guidance in the December 2011 Investor Report regarding the expected amount of 2012 restricted payments.

Looking at 2013, the Security Group expects to make restricted payments of around £350 million which will be used in part to fund interest due on the debenture between Heathrow (SP) and Heathrow Finance and the Senior Loan Facility held at ADI Finance 1 Limited and in part to pay dividends to its ultimate shareholders.

The expected overall reduction in Restricted Payments in 2013 relative to 2012 reflects no recurrence of the payments of a 'one-off' nature that were made in 2012 to repay previously accrued interest on the facility at ADI Finance 1 Limited prior to dividend distributions to the Security Group's ultimate shareholders commencing.

Dividend payments to the Security Group's ultimate shareholders are expected to increase slightly on 2012's level of £240 million. As has been the case in 2012, the payments will be considered by the Security Group within the framework of the guidance on target leverage levels previously provided and will reflect its ability to continue to access stable financial markets to finance its substantial ongoing capital investment programme.

# 10. Confirmation

18 December 2012

*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(s) or as at the Relevant Dates for which it is required to be calculated under the Common Terms Agreement.

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

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

We also confirm that:

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

Yours faithfully

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

# Appendix 1 - Quarterly passenger traffic trends (Q1 2008 to Q3 2012)

| | Heathrow (m) | Period on period growth[1] | Stansted (m) | Period on period growth[1] | Total[1] (m) | Period on period growth[1] |
|---|---|---|---|---|---|---|
| Q1 2008 | 15.4 | 0.6% | 4.8 | -4.3% | 20.2 | -0.6% |
| Q2 2008 | 17.1 | -1.3% | 6.0 | -4.9% | 23.0 | -2.2% |
| Q3 2008 | 18.6 | -1.2% | 6.8 | -4.9% | 25.4 | -2.2% |
| Q4 2008 | 15.9 | -3.6% | 4.7 | -10.4% | 20.6 | -5.2% |
| Q1 2009 | 14.4 | -6.4% | 4.1 | -14.6% | 18.5 | -8.3% |
| Q2 2009 | 16.8 | -1.5% | 5.1 | -14.2% | 21.9 | -4.8% |
| Q3 2009 | 18.6 | 0.3% | 6.3 | -8.3% | 24.9 | -2.0% |
| Q4 2009 | 16.0 | 1.1% | 4.5 | -5.7% | 20.5 | -0.5% |
| Q1 2010 | 14.6 | 1.6% | 3.9 | -4.7% | 18.6 | 0.2% |
| Q2 2010 | 15.5 | -7.9% | 4.6 | -10.1% | 20.1 | -8.4% |
| Q3 2010 | 19.5 | 4.4% | 5.9 | -6.0% | 25.4 | 1.8% |
| Q4 2010 | 16.1 | 0.7% | 4.2 | -6.8% | 20.3 | -0.9% |
| Q1 2011 | 15.0 | 2.5% | 3.7 | -6.6% | 18.7 | 0.6% |
| Q2 2011 | 17.9 | 15.3% | 4.9 | 6.0% | 22.7 | 13.2% |
| Q3 2011 | 19.8 | 1.5% | 5.6 | -5.5% | 25.3 | -0.1% |
| Q4 2011 | 16.8 | 3.8% | 3.9 | -5.2% | 20.7 | 1.9% |
| Q1 2012 | 15.7 | 4.4% | 3.5 | -5.3% | 19.1 | 2.5% |
| Q2 2012 | 17.9 | 0.4% | 4.7 | -3.9% | 22.6 | -0.5% |
| Q3 2012 | 19.4 | -2.0% | 5.3 | -4.9% | 24.7 | -2.6% |

(1) Total passenger numbers and period on period changes calculated using un-rounded passenger numbers

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

| (See important notice on page 2 of this document) | Trigger level | Year to 31 December 2012[1] £m | Year to 31 December 2013[1] £m |
|---|---|---|---|
| Cashflow from Operations[2] | | 1,193 | 1,290 |
| Add back: Cash one-off, non-recurring extraordinary or exceptional items | | 0 | 0 |
| Cashflow from Operations (before exceptional items) | | 1,193 | 1,290 |
| Less: corporation tax paid | | 0 | 0 |
| Less: 2 per cent of Total RAB | | (297) | (292) |
| **Cash Flow (A)** | | **896** | **998** |
| Interest and equivalent recurring charges paid on Senior Debt[3][4] | | | |
| Interest paid – existing Class A bonds | | 457 | 426 |
| Interest paid – existing Class A EIB facilities | | 4 | 2 |
| Interest paid – other Class A debt | | 8 | 1 |
| Interest paid/(received) on swaps[5] | | (154) | (94) |
| Commitment fees on liquidity and revolving credit facilities | | 20 | 11 |
| **Total interest on Senior Debt (B)** | | **335** | **347** |
| Interest and equivalent recurring charges paid on Junior Debt[3][4] | | | |
| Class B debt | | 47 | 99 |
| **Total interest on Junior Debt (C)** | | **47** | **99** |
| **Total interest (D=B+C)** | | **381** | **446** |
| **Senior ICR (A/B)[6]** | **1.40x** | **2.68x** | **2.88x** |
| **Junior ICR (A/D)[6]** | **1.20x** | **2.35x** | **2.24x** |

(1) 2012 and 2013 figures are forecasts. For the year ended 31 December 2011, actual Senior and Junior Interest Cover Ratios were 2.76x and 2.34x respectively
(2) Reconcilation of cashflow 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 ratios under the Common Terms Agreement
(5) Interest paid/(received) on swaps in 2012 includes swap interest prepayments of £38.3 million
(6) Interest Cover Ratio is cash flow from operations less 2% of RAB and corporation tax paid to HMRC divided by net interest paid



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

| (See important notice on page 2 of this document) | Year to 31 December 2012 | Year to 31 December 2013 |
|---|---|---|
| | | £m |
| Income | | |
| Aeronautical income | 1,414 | 1,482 |
| Non-aeronautical income - retail | 548 | 492 |
| Non-aeronautical income - non-retail | 502 | 465 |
| **Total income** | **2,464** | **2,439** |
| Operating expenses (1) | 1,218 | 1,096 |
| **Adjusted EBITDA** | **1,246** | **1,344** |
| Working capital and similar items | | |
| Net movements in working capital | (12) | (8) |
| Difference between pension charge and cash contributions | (42) | (45) |
| **Cashflow from operations** | **1,193** | **1,290** |

| | Year to 31 December 2013 (2)(3) | | | | Year to 31 December 2012 |
|---|---|---|---|---|---|
| | Income statement inc amortisation (4) | Income statement excl amortisation | Variation in accruals | Cash flow (5) | Cash flow (5) |
| | £m | £m | £m | £m | £m |
| Interest paid – existing Class A bonds | 475 | 448 | (22) | 426 | 457 |
| Interest paid – Class A EIB facilities | 3 | 2 | 0 | 2 | 4 |
| Interest paid – other Class A debt | 20 | 13 | (13) | 1 | 8 |
| Interest paid/(received) on swaps (5) | (89) | (121) | 27 | (94) | (154) |
| Commitment fees on liquidity & revolving credit facilities | 12 | 12 | (0) | 11 | 20 |
| Interest paid - Class B debt | 103 | 100 | (1) | 99 | 47 |
| **Total interest** | **523** | **454** | **(9)** | **446** | **381** |

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



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

| (See important notice on page 2 of this document) | Trigger level | At 31 December 2012[1] | At 31 December 2013[1] |
|---|---|---|---|
| | | £m | £m |
| Closing Regulatory Asset Base (RAB) (net of profiling adjustment) | | | |
| Heathrow | | 13,514 | 14,608 |
| Stansted | | 1,333 | 0 |
| **Total forecast closing RAB (A)** | | **14,846** | **14,608** |
| Senior Debt | | | |
| Class A Existing Bonds | | 8,840 | 8,464 |
| Class A EIB facilities | | 255 | 215 |
| Other Class A debt | | 210 | 802 |
| RPI swap accretion | | 516 | 378 |
| **Total Senior Debt (B)** | | **9,820** | **9,859** |
| Junior Debt | | | |
| Class B debt | | 1,625 | 1,625 |
| **Total Junior Debt (C)** | | **1,625** | **1,625** |
| **Cash and cash equivalents (D)** | | **(34)** | **(108)** |
| **Senior net debt (E=B+D)** | | **9,786** | **9,752** |
| **Senior and junior net debt (F=B+C+D)** | | **11,411** | **11,377** |
| **Senior RAR (E/A)[2][3]** | **70.0%** | **65.9%** | **66.8%** |
| **Junior RAR (F/A)[2]** | **85.0%** | **76.9%** | **77.9%** |

(1) Figures for 2012 and 2013 are forecasts. At 31 December 2011, actual Senior and Junior Regulatory Asset Ratios were 68.0% and 75.4% respectively
(2) Regulatory Asset Ratio is the ratio of nominal net debt (including index-linked accretion) to RAB (Regulatory Asset Base)
(3) Senior RAR does not take into account ability to reduce senior debt using £400 million undrawn junior debt under revolving credit facility

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# Appendix 4 – Nominal consolidated net debt of Obligors and Heathrow Funding Limited at 30 September 2012

| | | Amount | Amount and features of available facilities | | | |
|---|---|---|---|---|---|---|
| | | Amount | Local currency | | S&P/Fitch rating | Maturity |
| **Senior (Class A)** | | (£m) | (m) | (£m) | | |
| Bonds | | 396.4 | 396.4 | 396.4 | A-/A- | 2013/15 |
| | | 512.9 | 749.9 | 512.9 | A-/A- | 2014/16 |
| | | 300.0 | 300.0 | 300.0 | A-/A- | 2015/17 |
| | | 319.3 | 500.0 | 319.3 | A-/A- | 2015/17 |
| | | 299.9 | 299.9 | 299.9 | A-/A- | 2016/18 |
| | | 433.8 | 500.0 | 433.8 | A-/A- | 2016/18 |
| | | 583.8 | 700.0 | 583.8 | A-/A- | 2017/19 |
| | | 272.3 | 400.0 | 272.3 | A-/A- | 2017/19 |
| | | 510.2 | 750.0 | 510.2 | A-/A- | 2018/20 |
| | | 249.6 | 400.0 | 249.6 | A-/A- | 2019/21 |
| | | 249.8 | 249.8 | 249.8 | A-/A- | 2021/23 |
| | | 621.3 | 1,000.0 | 621.3 | A-/A- | 2021/23 |
| | | 182.6 | 182.6 | 182.6 | A-/A- | 2022/24 |
| | | 749.6 | 749.6 | 749.6 | A-/A- | 2023/25 |
| | | 700.0 | 700.0 | 700.0 | A-/A- | 2026/28 |
| | | 199.9 | 199.9 | 199.9 | A-/A- | 2028/30 |
| | | 900.0 | 900.0 | 900.0 | A-/A- | 2031/33 |
| | | 41.6 | 50.0 | 41.6 | A-/A- | 2032/34 |
| | | 41.9 | 50.0 | 41.9 | A-/A- | 2032/34 |
| | | 518.2 | 518.2 | 518.2 | A-/A- | 2039/41 |
| | | 750.0 | 750.0 | 750.0 | A-/A- | 2041/43 |
| **Total bonds** | | **8,833.1** | | **8,833.1** | | |
| Bank debt | EIB Facilities | 265.4 | 265.4 | 265.4 | n/a | 2012/22 |
| | Revolving/Working Capital Facilities | 140.0 | 1,600.0 | 1,600.0 | n/a | 2013/17 |
| **Total bank debt** | | **405.4** | | **1,865.4** | | |
| **Total senior debt** | | **9,238.5** | | **10,698.5** | | |
| **Junior (Class B)** | | | | | | |
| Bonds | | 400.0 | 400.0 | 400.0 | BBB/BBB | 2018 |
| | | 400.0 | 400.0 | 400.0 | BBB/BBB | 2020 |
| | | 600.0 | 600.0 | 600.0 | BBB/BBB | 2024 |
| Bank debt | Term Loan Facility | 225.0 | 225.0 | 225.0 | n/a | 2014 |
| | Revolving Facility | 0.0 | 400.0 | 400.0 | n/a | 2017 |
| **Total junior debt** | | **1,625.0** | | **2,025.0** | | |
| **Gross debt** | | **10,863.5** | | **12,723.5** | | |
| **Cash** | | **(64.8)** | | | | |
| **Index-linked derivative accretion** | | **483.9** | | | | |
| **Net debt** | | **11,282.6** | | | | |

Net debt is calculated on a nominal basis excluding intra-group loans and including index-linked accretion and includes 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 2012 | As at or for year to 31 December 2013 |
|---|---|---|---|
| | | £m | £m |
| **Calculation of Group ICR** | | | |
| **Cash Flow (A) (see page 19)** | | **896** | **998** |
| Interest | | | |
| Paid on Senior Debt (B) (see page 19) | | 335 | 347 |
| Paid on Junior Debt (C) (see page 19) | | 47 | 99 |
| Paid on any Permitted Financial Indebtedness not subordinated to Senior or Junior Debt (D) | | 0 | 0 |
| Paid on Borrowings (E) | | 37 | 44 |
| Received by Heathrow Finance plc or any of its subsidiaries (F) | | 0 | 0 |
| **Group Interest Paid (G=B+C+D+E+F)** | | **419** | **490** |
| **Group ICR (A/G)** | **1.00x** | **2.14x** | **2.04x** |
| **Calculation of Group RAR** | | | |
| Total RAB (see page 21) (H) | | 14,846 | 14,608 |
| Net debt | | | |
| Senior Net Debt (see page 21) (I) | | 9,786 | 9,752 |
| Junior Debt (see page 21) (J) | | 1,625 | 1,625 |
| Borrower Net Debt (K) | | 728 | 728 |
| **Group Net Debt (L=I+J+K)** | | **12,138** | **12,104** |
| **Junior RAR ((I+J)/H)** | **82.0%** | **76.9%** | **77.9%** |
| **Group RAR (L/H)** | **90.0%** | **81.8%** | **82.9%** |

(1) ICR or Interest Cover Ratio is defined on page 19
(2) RAR or Regulatory Asset Ratio is defined on page 21

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