



# Heathrow (SP) Limited and Heathrow Finance plc

## Investor Report

27 June 2014

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## Important notice

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

Investor Reports relate to the performance of the Security Group which includes Heathrow airport. This Investor Report comments on the historic financial performance of the Security Group for the period up to 31 March 2014 and its historic passenger traffic for the period up to 31 May 2014. It also contains forecast financial information derived from current management forecasts for the Security Group for the whole of 2014.

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

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# 1. Introduction

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

The most recent forecasts for Heathrow (SP) for 2014 indicate Adjusted EBITDA<sup>(1)</sup> will be £1,533 million, representing 7.9% growth versus 2013 actuals. The original 2014 forecast published in December 2013, once adjusted for reclassification of Terminal 2 operational readiness costs as exceptional items, was £1,513 million.<sup>(2)</sup>

Heathrow's forecast of continued strong financial performance in 2014 reflects in particular:

- passenger traffic growth of 0.7% to 72.8 million<sup>(3)</sup>; and
- revenue growth of 8.4% to £2,681 million primarily reflecting traffic growth and aeronautical tariff changes. This is supported by further growth in non-aeronautical income.

Heathrow expects to invest around £800 million in its capital programme in 2014, reduced from £1.3 billion in 2013. This represents a shift in spending from major capital projects such as the completion of Terminal 2 to capital spend on regular maintenance and operational resilience.

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

## 2013 and 2014 financial ratio levels

	31 Dec 2013 Actual	31 Dec 2014 Forecast	Trigger level
<b>Regulatory asset ratio (RAR)<sup>(4)</sup></b>			
Senior (Class A) ratios <sup>(5)</sup>	67.6%	67.2%	70.0%
Junior (Class B) ratios	77.2%	78.3%	85.0%
<b>Interest cover ratio (ICR)<sup>(6)</sup></b>			
Senior (Class A) ratios	3.08x	2.85x	1.40x
Junior (Class B) ratios	2.43x	2.33x	1.20x

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items
- (2) 2014 Adjusted EBITDA forecast of £1,485 million published in December 2013 did not treat Terminal 2 operational readiness costs as exceptional items
- (3) 2014 financial forecasts set out in this document are based on the traffic forecast of 72.8 million. See page 12 for current traffic trends and outlook
- (4) Regulatory Asset Ratio is defined on page 22
- (5) Senior RAR does not take into account ability to reduce senior debt using undrawn junior revolving credit facilities
- (6) Interest Cover Ratio is defined on page 20

## 2. Significant business developments – service standards

Heathrow has achieved its highest ever level of overall passenger satisfaction in the first quarter of 2014, according to Airports Council International's Airport Service Quality survey. A record 80% of passengers surveyed in the period rated their experience as 'Excellent' or 'Very Good'. This reflects a strong operational performance, record levels of punctuality and an overall improvement in passenger experience in security and immigration. It also reflects the benefit of new and refurbished infrastructure.

Heathrow Terminal 5 was named the world's best airport terminal for the third consecutive year and the airport was named 'Best Airport for Shopping' for a fifth consecutive time in the 2014 Skytrax World Airport Awards, providing further significant independent endorsement of the quality of passengers' experience at Heathrow.

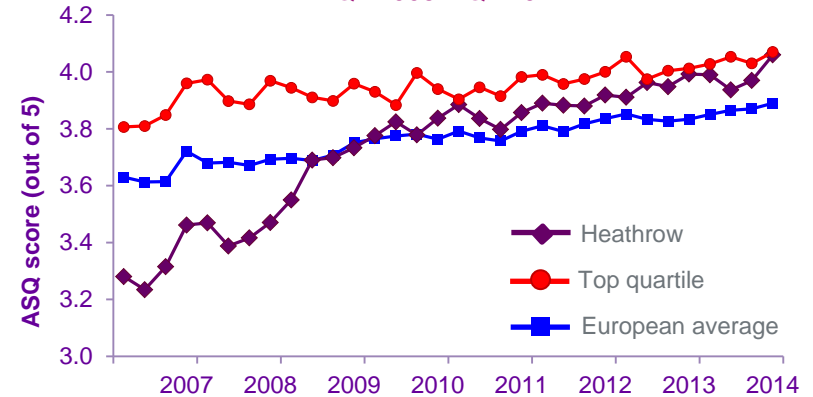
In the three months ended 31 March 2014, 83.6% of aircraft departed within 15 minutes of schedule (2013: 75.7%), the proportion of baggage not accompanying passengers on their journeys was 14 per 1,000 passengers (2013: 15 per 1,000) and passengers passed through central security within periods prescribed under Heathrow's service quality rebate ('SQR') scheme 95.9% of the time (2013: 92.9%), compared with the 95% service standard.

In the 12 months to 31 March 2014, Heathrow rebated £9.7 million under the SQR scheme, mainly relating to security queuing.

For the Q6 regulatory period, the CAA has raised standards for certain elements of the service quality scheme to build on improvements Heathrow made through Q5. In addition, the standards for measuring security queues will move to a per passenger basis from April 2015, subject to the introduction of queue measurement automation. The standard will require 99% of passengers to pass through security within 10 minutes. Heathrow continues to focus on achieving excellence in service quality.

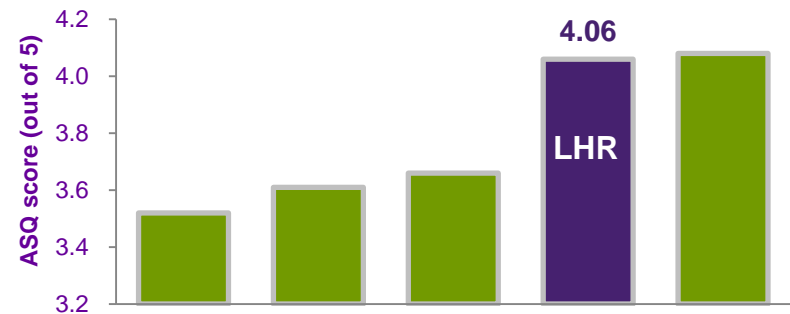
### Overall passenger satisfaction

Q4 2006 – Q1 2014



### Passenger satisfaction European competitors

Q1 2014



Terminal 5 – World's Best Airport Terminal  
Heathrow – World's Best Airport Shopping

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## 2. Significant business developments – passenger traffic

In the five months ended 31 May 2014, Heathrow traffic increased 2.2% to 28.5 million (2013: 27.9 million).

Heathrow's traffic performance reflects increases in aircraft size, load factors and numbers of flights. The average number of seats per passenger aircraft increased to 203.6 (2013: 201.2) and on average each aircraft was 73.2% full (2013: 73.0%). In addition, the number of passenger flights operated increased 0.7% to 191,071 (2013: 189,717).

Domestic traffic grew 8.6%, continuing to reflect the launch of UK domestic services by Virgin Atlantic Little Red in summer 2013. European traffic was 0.1% higher than last year reflecting a shift of slot usage to long haul services. Intercontinental traffic performed well in most regions, growing by 3.0%. North America benefitted from increased services from a number of airlines and traffic increased 2.7%. Traffic on routes serving the Middle East grew by 5.4% reflecting increased flights and higher load factors. Asia Pacific traffic grew by 3.2%, supported by new destinations including Chengdu in China and Manila in the Philippines as well as increased frequencies on existing routes. Latin American traffic grew 3.1% reflecting increased frequencies to Mexico and growth in Brazil.

Quarterly traffic data for Q1 2008 to Q1 2014 is set out in Appendix 1.

### Passenger traffic 5 months ended 31 May

Market served	2013 (m)	2014 (m)	Change <sup>(1)</sup>
UK	1.9	2.0	8.6%
Europe	11.6	11.6	0.1%
North America	6.1	6.3	2.7%
Asia Pacific	4.1	4.2	3.2%
Middle East	2.3	2.4	5.4%
Africa	1.4	1.4	-0.1%
Latin America	0.4	0.4	3.1%
<b>Total<sup>(1)</sup></b>	<b>27.9</b>	<b>28.5</b>	<b>2.2%</b>

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

## 2. Significant business developments – Terminal 2

Terminal 2: The Queen's Terminal successfully began operations on 4 June 2014. The first airline to move into the terminal was United Airlines, followed by Air Canada, Air China and All Nippon Airways on 18 June. By October this year, the terminal will be home to 26 airlines including all Star Alliance member airlines operating at Heathrow together with Aer Lingus, Virgin Atlantic Little Red and germanwings.

The £2.5 billion investment was opened on time and on budget and attained a high safety record during the construction phase, achieving 5.5 million consecutive hours RIDDOR<sup>(1)</sup> free.

The investment comprises a main terminal building and satellite building, together with a multi-storey short-stay car park and an energy centre supporting the Terminal 2 campus and the wider airport.

Her Majesty The Queen officially opened Terminal 2: The Queen's Terminal on 23 June 2014, accompanied by HRH the Duke of Edinburgh. The original Terminal 2 had been opened by Her Majesty The Queen in 1955. It was Heathrow's first terminal, originally named the 'Europa Building' and was designed to deal with 1.2 million passengers a year. The new Terminal 2 has the capacity to cater for up to 20 million passengers each year.



Her Majesty The Queen officially opening Terminal 2



Terminal 2 departure lounge

(1) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

## 2. Significant business developments – capital investment

Capital expenditure in 2014 is currently expected to be in the region of £800 million, materially lower than in recent years.

Investment in Heathrow's baggage infrastructure, the largest integrated baggage system in the world, continues in 2014. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational, with the ability to move 3,000 bags per hour via individual bag carriers travelling up to 20 miles per hour. Delivery of the Terminal 3 integrated baggage system, housed in a separate building, remains on track to start operation in 2015. The baggage building is now complete, systems are being tested and commissioned and operational trials have started.

Elsewhere, capital investment in 2014 will focus on areas such as refurbishment of tunnels, resurfacing of the northern runway, asset replacement and investment in operational resilience.

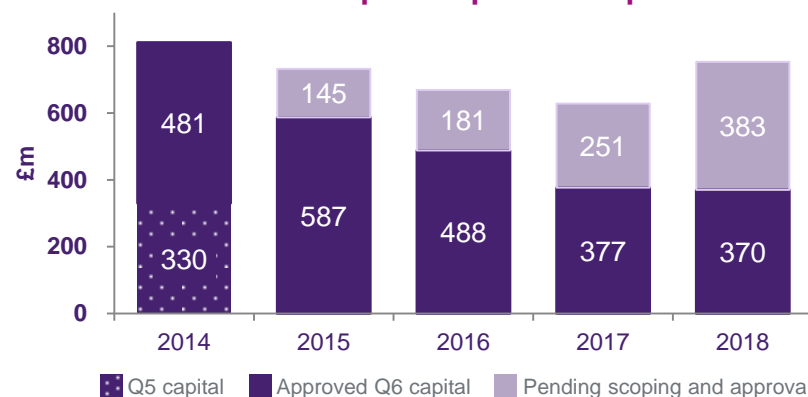
Planned capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.3 billion. The capital programme is materially lower than in the last two regulatory periods, and is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. The plan includes a £1 billion programme of asset management and replacement projects and a £350 million project to implement latest generation hold baggage screening equipment.

In line with the regulatory settlement, the capital programme may increase to up to £3.3 billion. This is subject to further scoping of the remaining individual projects and corresponding approval of the business cases.



Night time resurfacing of the northern runway

### Forecast capital expenditure profile





# 3. Significant regulatory and governmental developments

## **Regulatory period from April 2014: “Q6”**

The new regulatory period for economic regulation of Heathrow ('Q6') began on 1 April 2014 and will be in force until 31 December 2018. The Civil Aviation Authority ('CAA') set the price controls for the period, under which the annual change to the maximum allowable yield per passenger will be RPI minus 1.5%.

Heathrow's business plan for the Q6 period has been set to reflect the regulatory settlement. The business plan focuses on delivering operating efficiencies and commercial improvements, whilst sustaining passenger experience and operational resilience.

## **Airports Commission**

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

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

Heathrow has worked with local authorities, communities and other stakeholders to refine the runway option, including public consultation which took place through February and March. Heathrow's refreshed proposal was submitted to the Airports Commission in May 2014. This submission improves on the July 2013 submission with proposals for further reduction of noise impact, improved road capacity, reduced congestion impacts and faster delivery of hub capacity at a competitive world-class airport.

The CAA is currently consulting on the regulatory treatment of issues associated with airport capacity expansion. Heathrow will provide ongoing participation with the CAA, the Airports Commission and stakeholders on the proposals. A public consultation by the Airports Commission on evidence submitted is expected in the last quarter of 2014 and a report on final findings is expected in summer 2015.

## **Accounting Standards**

The current UK accounting standards used for the preparation of the Heathrow (SP) group accounts will be replaced by Financial Reporting Standard ('FRS') 100 from 1 January 2015. As allowed by FRS 100, the Heathrow (SP) group is expected to adopt full IFRS. To provide comparable historical financial information, it is expected that special purpose group financial statements will be prepared and published for the 3 years to 31 December 2014 in accordance with full IFRS.

## 4. Historic financial performance<sup>(1)</sup> (A)

### Turnover

In the three months ended 31 March 2014, Heathrow's turnover increased 10.8% to £576 million (2013: £520 million). This reflects an increase of 18.3% in aeronautical income, 0.9% in gross retail income and no significant change in other income.

The strong performance of aeronautical income reflects the increases in the headline tariffs for the 2013/14 regulatory year. In addition, the non-recurrence of yield dilution which occurred in the first three months of 2013, together with recovery of yield dilution in the 2011/12 regulatory year through the 'K' factor mechanism contributed to the increase.

In the first three months of the year, net retail income increased 1.0% to £102 million (2013: £101 million) with net retail income per passenger rising 0.5% to £6.36 (2013: £6.33). Car parking revenue was strong and grew by 9.5%. Bureaux de change generated lower income than last year due to timing of a change of supplier. Retail stores including duty and tax-free and luxury outlets performed flat to last year. This partly reflects work on a significant extension of the luxury retail space in Terminal 5 which is expected to cause some disruption to existing activities. As one of the key initiatives to further develop Heathrow's award winning retail activities in the new regulatory period, the extension should deliver growth in retail income. Performance was also likely to have been impacted by the strength of sterling relative to the same period last year and the shift in the Easter holiday peak demand from March in 2013 to April in 2014.

### Operating costs<sup>(2)</sup>

Performance in underlying operating costs improved. In the three months ended 31 March 2014, reported operating costs reduced 7.6% to £257 million (2013: £278 million). Stripping out one-off expenses from 2013, operating costs in the first three months of 2014 reduced by approximately 3.7%.

### Adjusted EBITDA<sup>(3)</sup>

Adjusted EBITDA for the three months ended 31 March 2014 increased 31.8% to £319 million (2013: £242 million). The significant increase in Adjusted EBITDA from 2013 principally reflects the increase in aeronautical income and the reduction in operating costs.

(1) For more detail, see results for three months ended 31 March 2014 issued on 28 April 2014

(2) Total operating costs excluding depreciation and exceptional items

(3) Adjusted EBITDA defined as earnings before interest, tax, depreciation and amortisation and exceptional items

## 4. Historic financial performance<sup>(1)</sup> (B)

### Interest payable

In the three months ended 31 March 2014, the Group's net interest payable was £180 million (2013: £604 million). Underlying net interest payable was £193 million (2013: £194 million), after adjusting for a fair value loss on financial instruments of £28 million (2013: £433 million loss), capitalised interest of £49 million (2013: £34 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £8 million (2013: £13 million).

### Interest paid

Net interest paid in the three months ended 31 March 2014 was £197 million (2013: £167 million). This consisted of £170 million (2013: £140 million) paid in relation to external debt and £27 million (2013: £27 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid on external debt largely reflects the timing of coupon payments which fell into April in 2013 and March in 2014.

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

The Security Group's nominal net debt at 31 March 2014 was £11,529 million, comprising £10,819 million outstanding under various bond issues, £25 million of drawings under revolving credit facilities, £207 million outstanding under other loan facilities, £485 million in index-linked derivative accretion and cash at bank and term deposits of £7 million. Nominal net debt comprised £10,104 million in senior (Class A) net debt and £1,425 million in junior (Class B) debt. The average cost of the Security Group's external gross debt at 31 March 2014 was 4.64% (31 December 2013: 4.53%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Security Group's average cost of debt at 31 March 2014 was 6.02% (31 December 2013: 6.01%).

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

Cash flow capital expenditure at Heathrow was £271 million in the three months ended 31 March 2014. Heathrow's RAB at the end of the Q5 regulatory period, 31 March 2014, was £14,848 million.<sup>(2)</sup>

### Financial ratios

At 31 March 2014, the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 68.0% for senior debt and 77.6% for junior debt, compared with respective trigger levels of 70.0% and 85.0%.

(1) For more detail, see results for three months ended 31 March 2014 issued on 28 April 2014

(2) Note reduction of £5 million from RAB figure included in results for three months ended 31 March 2014

## 5. 2014 traffic forecasts

For the year ending 31 December 2014, the passenger traffic forecast on which the financial forecasts in this document are based is 72.8 million passengers, an increase of 0.7% from 72.3 million in 2013.

Traffic forecasts are reviewed throughout the year using the most current information available. At 31 May 2014, Heathrow's traffic was up 2.2% year to date to 28.5 million and on a rolling 12 month basis had reached 72.9 million. These traffic trends suggest that the 72.8 million 2014 passenger forecast could be exceeded by up to 1%.

The growth expected in 2014 comes despite continued severe constraint on additional numbers of flights. It reflects a slight increase in the number of flights from 470,000 in 2013 and an assumption of larger average aircraft size. Given the expected increase in capacity, load factors are assumed to remain broadly constant.

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

## 6. 2014 financial forecasts

Heathrow (SP) financial forecasts for 2014 are summarized in the table opposite (see Appendices 2 and 3 for more detail). Highlights include:

- forecast £1,533 million 2014 Adjusted EBITDA representing annual growth of 7.9% versus 2013; and
- moving to being broadly cash flow neutral in 2014 after capital expenditure and external interest costs.

Aeronautical income is forecast to increase 11.2% driven by tariff increases, revenue recovery through the 'K factor' mechanism and higher passenger traffic. Retail income is expected to grow 2.6% in 2014 and forecast net retail income per passenger growth is 1.9%. Growth in duty and tax-free and airside specialist shops is expected to be modest, with growth in services driving the increase in retail income.

Operating costs in 2014 (excluding depreciation and exceptional items) are forecast to increase 9.0% to £1,148 million. Cost efficiencies will be delivered through 2014 as part of the Q6 business plan. These partially offset the increased costs in areas such as rent and rates, employment costs, utilities and general expenses that will be incurred as a result of Terminal 2 operations commencing.

The phasing of Adjusted EBITDA in 2014 will differ from the normal pattern partly as this year's tariff increase was deferred from April to July given the proximity of the CAA's final decision to the start of the new regulatory period. Further, operating costs are expected to increase from June 2014 due to the opening of Terminal 2. Reflecting these factors, a substantial proportion of 2014's forecast increase in Adjusted EBITDA versus 2013 has been delivered in the first quarter.

Heathrow's forecast capital expenditure for 2014 is approximately £800 million, over £500 million lower than in 2013, reflecting the move to a lower capital investment phase through the current regulatory period.

Average RPI used in the forecast for 2014 is 2.6%.

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

### Financial performance 2013 actual and 2014 forecast

Financials <sup>(1)</sup>	2013	2014	Change <sup>(2)</sup>
<i>(figures in £m unless otherwise stated)</i>			
<b>Revenue</b>	2,474	2,681	8.4%
<b>Adjusted EBITDA</b>	1,421	1,533	7.9%
<b>Cash flow from operations (adjusted)<sup>(3)</sup></b>	1,424	1,508	5.9%
<b>Cash flow for ICR calculation</b>	1,132	1,205	6.4%
<b>Capital expenditure<sup>(4)</sup></b>	1,337	811	-39.3%
<b>Total RAB</b>	14,585	15,122	3.7%
<b>Nominal net debt</b>			
Senior net debt	9,864	10,160	3.0%
Junior debt	1,400	1,675	19.6%
<b>Total nominal net debt</b>	<b>11,264</b>	<b>11,835</b>	5.1%
<b>Interest paid</b>			
Senior interest paid	368	423	15.0%
Junior interest paid	99	94	-4.2%
<b>Total interest paid</b>	<b>466</b>	<b>517</b>	10.9%
<b>Ratios<sup>(5)</sup></b>	<b>2013</b>	<b>2014</b>	<b>Trigger level</b>
Senior (Class A) RAR	67.6%	67.2%	70.0%
Junior (Class B) RAR	77.2%	78.3%	85.0%
Senior (Class A) ICR	3.08x	2.85x	1.40x
Junior (Class B) ICR	2.43x	2.33x	1.20x

(1) 2013 figures are in respect of Heathrow only except for cash flow and interest

(2) Percentage changes calculated using unrounded figures

(3) Adds back cash one-off items, non-recurring extraordinary items and exceptional items

(4) Gross balance sheet additions to tangible fixed assets: in 2014 the cash flow impact of capital expenditure is expected to be up to £200 million higher due to a reduction in capital creditors as Heathrow's investment programme reduces

(5) See Appendices 2 and 3 for the definitions and calculations of RAR and ICR ratios

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# 7. Acquisitions, disposals, joint ventures and outsourcing

## **Acquisitions, disposals and joint ventures**

There have been no material acquisitions, disposals or joint ventures related to any Obligor since the previous Investor Report was distributed on 19 December 2013.

## **Outsourcing**

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 19 December 2013.

## 8. Significant board and management changes

On 1 July 2014, John Holland-Kaye will become Chief Executive Officer of Heathrow replacing Colin Matthews. The appointment was announced on 8 May and followed a rigorous selection process by the shareholders and Board of Heathrow.

Colin Matthews joined Heathrow as Chief Executive Officer in March 2008. Under his leadership, the proportion of passengers rating their journey through Heathrow as very good or excellent has increased from below 50% to 80%. Terminal 5 has been voted by passengers as the world's best airport terminal for the past three years. Heathrow welcomed the world to Britain as the official gateway for the London 2012 Olympic and Paralympic Games and has now successfully constructed and opened the new Terminal 2.

John Holland-Kaye joined the company in May 2009 and has been responsible for delivering the £1 billion annual investment in transforming Heathrow, including the new Terminal 2: The Queen's Terminal, which opened to passengers on 4 June. He joined the company as Commercial Director and was responsible for the major growth in retail income and improved passenger experience during Q5. John was previously Divisional CEO with Taylor Wimpey PLC, Operations Director at Taylor Woodrow PLC and Divisional Managing Director at Bass Brewers Ltd.

In September 2014, Fidel Lopez, Commercial Director will leave the business, resigning as a member of the Heathrow Executive Committee and as director of Heathrow Airport Limited (HAL), LHR Airports Limited (LHR) and Heathrow Express Operating Company Limited. His successor will be announced in due course.

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 19 December 2013.

## 9. Financing matters (A)

### **New financing**

The current focus of the Group's financing activities is to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. Since the previous Investor Report was distributed on 19 December 2013, Heathrow successfully closed six debt financing transactions, raising over £1.1 billion.

Two public offerings raised approximately £750 million in the European and Canadian markets. This comprised a €600 million, 8 year bond with a fixed annual coupon of 1.875% in May and a C\$450 million, 7 year bond with a fixed semi-annual coupon of 3.0% in June.

In addition, four private placements were closed, raising an aggregate of nearly £400 million. This includes a £200 million private placement of index-linked bonds, with three tranches maturing in 2032, 2039 and 2049; a £100 million, 12 year private placement (expected to be drawn in September 2014); and two 20 year private placements of £50 million and €50 million, the latter transaction expected to be drawn in July 2014.

### **Loan facilities**

Since the previous Investor Report was distributed on 19 December 2013, Heathrow Airport Limited has:

- made scheduled EIB loan repayments of £19.6 million;
- put in place a £100 million Class B general purpose revolving credit facility maturing in April 2018 and reduced its existing Class B general purpose revolving credit facility maturing in June 2017 from £400 million to £350 million;
- reduced the Class A general purpose revolving credit facility by £425 million to £1,075 million and the working capital facility by £25 to £75 million; and
- put in place a £175 million Class A revolving credit facility maturing in December 2015.

### **Hedging**

At 31 May 2014, at least 81.8% and 67.6% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2018 and 31 December 2023 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

Since the previous Investor Report was distributed on 19 December 2013, Heathrow Funding has not entered into any additional index-linked swaps leaving the total notional value of such instruments at £5,266 million.

## 9. Financing matters (B)

### Liquidity

At 31 March 2014, the Group had approximately £2.1 billion in undrawn bank facilities and cash resources. Since 31 March 2014, the Group has completed over £1.1 billion in medium to long term financing as outlined on page 16. As a result, it has also taken the opportunity to cancel £300 million of the Class A tranche of its core revolving credit facility. Taking into account these transactions, the Group expects the headroom under its facilities, when combined with its cash resources and expected operating cash flows, to be sufficient to meet all its liquidity requirements, including repayment of maturing bond and bank debt, funding Heathrow's capital investment programme and payment of projected distributions outside the Group, until September 2016.

### Historic and future restricted payments

Since the previous Investor Report was distributed on 19 December 2013, there have been £150 million of restricted payments made by the Security Group, of which £92 million of restricted payments were made during 2014. This funded £27 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance, £15 million in interest payments on loan facilities at ADI Finance 2 Limited and £108 million of the aggregate £131 million in quarterly dividends paid to shareholders in December 2013 and February 2014.

In addition to the restricted payments of £92 million paid to date in 2014, approximately £260 million of restricted payments are expected to be paid in the remainder of 2014. Restricted payments will continue to 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.

# 10. Confirmation

27 June 2014

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

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

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

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

We also confirm that:

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



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



# Appendix 1 - Quarterly passenger traffic (2008 to 2014)

Heathrow passenger traffic <sup>(1)</sup>					
	Q1	Q2	Q3	Q4	Full year
<b>2008 (m)</b>	<b>15.4</b>	<b>17.1</b>	<b>18.6</b>	<b>15.9</b>	<b>66.9</b>
<i>change</i>	+0.6%	-1.3%	-1.2%	-3.6%	-1.4%
<b>2009 (m)</b>	<b>14.4</b>	<b>16.8</b>	<b>18.6</b>	<b>16.0</b>	<b>65.9</b>
<i>change</i>	-6.4%	-1.5%	+0.3%	+1.1%	-1.5%
<b>2010 (m)</b>	<b>14.6</b>	<b>15.5</b>	<b>19.5</b>	<b>16.1</b>	<b>65.7</b>
<i>change</i>	+1.6%	-7.9%	+4.4%	+0.7%	-0.2%
<b>2011 (m)</b>	<b>15.0</b>	<b>17.9</b>	<b>19.8</b>	<b>16.8</b>	<b>69.4</b>
<i>change</i>	+2.5%	+15.3%	+1.5%	+3.8%	+5.5%
<b>2012 (m)</b>	<b>15.7</b>	<b>17.9</b>	<b>19.4</b>	<b>17.0</b>	<b>70.0</b>
<i>change</i>	+4.4%	+0.4%	-2.0%	+1.6%	+0.9%
<b>2013 (m)</b>	<b>16.0</b>	<b>18.4</b>	<b>20.4</b>	<b>17.5</b>	<b>72.3</b>
<i>change</i>	+1.8%	+2.9%	+5.5%	+2.7%	+3.4%
<b>2014 (m)</b>	<b>16.0</b>				
<i>change</i>	+0.5%				

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

## Appendix 2 - Computation of Interest Cover Ratios<sup>(1)</sup> ('ICR')

<i>(See important notice on page 2 of this document)</i>	Trigger level	Year to 31 December 2013 <sup>(2)</sup> £m	Year to 31 December 2014 £m
Cashflow from Operations <sup>(3)</sup>		1,408	1,485
Add back: Cash one-off, non-recurring extraordinary or exceptional items		16	23
Cashflow from Operations (adjusted) <sup>(4)</sup>		1,424	1,508
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(292)	(302)
<b>Cash Flow (A)</b>		<b>1,132</b>	<b>1,205</b>
Interest and equivalent recurring charges paid on Senior Debt <sup>(5)(6)</sup>			
Interest paid – existing Class A bonds and swaps (closed prior to 20 June 2014)		351	410
Interest paid – existing Class A EIB facilities		2	2
Interest paid – other Class A debt		2	0
Commitment fees on liquidity and revolving credit facilities		12	11
<b>Total interest on Senior Debt (B)</b>		<b>368</b>	<b>423</b>
Interest and equivalent recurring charges paid on Junior Debt <sup>(5)(6)</sup>			
Class B debt		99	94
<b>Total interest on Junior Debt (C)</b>		<b>99</b>	<b>94</b>
<b>Total interest (D=B+C)</b>		<b>466</b>	<b>517</b>
<b>Senior ICR (A/B)<sup>(7)</sup></b>	<b>1.40x</b>	<b>3.08x</b>	<b>2.85x</b>
<b>Junior ICR (A/D)<sup>(7)</sup></b>	<b>1.20x</b>	<b>2.43x</b>	<b>2.33x</b>

(1) 2014 figures are forecasts; Values calculated on unrounded figures

(2) 2013 figures are in respect of Heathrow only except for cash flow and interest

(3) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 21

(4) Adds back cash one-off items, non-recurring extraordinary items and exceptional items

(5) Reconciliation of interest paid with interest payable is set out on page 21

(6) 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

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

## Appendix 2 - Computation of Interest Cover Ratios<sup>(1)</sup> – reconciling income statement to cash flow

<i>(See important notice on page 2 of this document)</i>	Year to 31 December 2013 <sup>(2)</sup>	Year to 31 December 2014
	£m	£m
<b>Income</b>		
Aeronautical income	1,523	1,693
Non-aeronautical income - retail	487	500
Non-aeronautical income - non-retail	464	488
<b>Total income</b>	<b>2,474</b>	<b>2,681</b>
<b>Operating expenses<sup>(3)</sup></b>	<b>1,053</b>	<b>1,148</b>
<b>Adjusted EBITDA</b>	<b>1,421</b>	<b>1,533</b>
<b>Working capital and cash one-off non-recurring extraordinary or exceptional items</b>		
Cash exceptional	(16)	(23)
Movement in capital expenditure creditors	0	0
Trade working capital	32	(4)
Pension	(29)	(22)
<b>Cashflow from operations</b>	<b>1,408</b>	<b>1,485</b>

	Year to 31 December 2014				Year to 31 December 2013
	Income statement incl amortisation <sup>(4)(5)</sup>	Less amortisation <sup>(4)</sup>	Less variation in accruals <sup>(4)</sup>	Cash flow	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps <sup>(6)</sup>	472	(55)	(7)	410	351
Interest paid – Class A EIB facilities	2	0	0	2	2
Interest paid – other Class A debt	20	(10)	(10)	0	2
Commitment fees on liquidity & revolving credit facilities	13	0	(2)	11	12
Interest paid - Class B debt	94	(2)	2	94	99
<b>Total interest</b>	<b>602</b>	<b>(68)</b>	<b>(17)</b>	<b>517</b>	<b>466</b>

(1) 2014 figures are forecasts; Values calculated on unrounded figures

(2) 2013 figures are in respect of Heathrow only except for cash flow and interest

(3) Operating expenses excluding depreciation and exceptional items; Values calculated on unrounded figures

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

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

(6) Excludes interest rate swap cancellations

# Appendix 3 - Computation of Regulatory Asset Ratios<sup>(1)</sup> ('RAR')

<i>(See important notice on page 2 of this document)</i>	Trigger level	At 31 December 2013 £m	At 31 December 2014 £m
<b>Closing Heathrow RAB (A)</b>		<b>14,585</b>	<b>15,122</b>
<b>Senior Debt</b>			
Class A Existing Bonds (closed prior to 20 June 2014)		9,214	9,709
Class A EIB facilities		215	176
Other Class A debt		80	140
RPI swap accretion		448	497
<b>Total Senior Debt (B)</b>		<b>9,957</b>	<b>10,522</b>
<b>Junior Debt</b>			
Class B debt		1,400	1,675
<b>Total Junior Debt (C)</b>		<b>1,400</b>	<b>1,675</b>
<b>Cash and cash equivalents (D)</b>		<b>(93)</b>	<b>(362)</b>
<b>Senior net debt (E=B+D)</b>		<b>9,864</b>	<b>10,160</b>
<b>Senior and junior net debt (F=B+C+D)</b>		<b>11,264</b>	<b>11,835</b>
<b>Senior RAR (E/A)<sup>(2)(3)</sup></b>	<b>70.0%</b>	<b>67.6%</b>	<b>67.2%</b>
<b>Junior RAR (F/A)<sup>(2)</sup></b>	<b>85.0%</b>	<b>77.2%</b>	<b>78.3%</b>

(1) Figures for 2014 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

# Appendix 4 – Nominal consolidated net debt of Obligors and Heathrow Funding Limited at 31 March 2014

		Amount		Amount and features of individual financings				
		(£m)		Local currency	S&P/Fitch rating		Maturity	
				(m)	(£m)			
<b>Senior (Class A)</b>								
Bonds	€750m 4.6%	513		750	513	A-/A-	2014/16	
	£300m 3.0%	300		300	300	A-/A-	2015/17	
	US\$500m 2.5%	319		500	319	A-/A-	2015/17	
	£300m 12.45%	300		300	300	A-/A-	2016/18	
	€500m 4.125%	434		500	434	A-/A-	2016/18	
	€700m 4.375%	584		700	584	A-/A-	2017/19	
	CHF400m 2.5%	272		400	272	A-/A-	2017/19	
	€750m 4.6%	510		750	510	A-/A-	2018/20	
	CAD\$400m 4%	250		400	250	A-/A-	2019/21	
	£250m 9.2%	250		250	250	A-/A-	2021/23	
	US\$1,000m 4.875%	621		1,000	621	A-/A-	2021/23	
	£180m RPI +1.65%	190		190	190	A-/A-	2022/24	
	£750m 5.225%	750		750	750	A-/A-	2023/25	
	£700m 6.75%	700		700	700	A-/A-	2026/28	
	£200m 7.075%	200		200	200	A-/A-	2028/30	
	£900m 6.45%	900		900	900	A-/A-	2031/33	
	€50m Zero Coupon	42		50	42	A-/A-	2032/34	
	€50m Zero Coupon (2)	42		50	42	A-/A-	2032/34	
	£200m RPI+ (3 bonds)	201		201	201	A-/A-	2032-49/34-51	
	£460m RPI +3.334%	541		541	541	A-/A-	2039/41	
	£750m 5.875%	750		750	750	A-/A-	2041/43	
	£750m 4.625%	750		750	750	A-/A-	2046/48	
<b>Total bonds</b>		<b>9,419</b>		<b>9,419</b>				
Loans	EIB Facilities	207		207	207	n/a	2014/22	
	Revolving/Working Capital Facilities	0		1,625	1,625	n/a	2015/17	
<b>Total loans</b>		<b>207</b>		<b>1,832</b>				
<b>Total senior debt</b>		<b>9,626</b>		<b>11,251</b>				
<b>Junior (Class B)</b>								
Bonds	£400m 6.25%	400		400	400	BBB/BBB	2018	
	£400m 6.0%	400		400	400	BBB/BBB	2020	
	£600m 7.125%	600		600	600	BBB/BBB	2024	
Loans		25		450	450	n/a	2017/18	
<b>Total junior debt</b>		<b>1,425</b>		<b>1,850</b>				
<b>Gross debt</b>		<b>11,051</b>		<b>13,101</b>				
<b>Cash</b>		<b>-7</b>						
<b>Index-linked derivative accretion</b>		<b>485</b>						
<b>Net debt</b>		<b>11,529</b>						

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 2013	As at or for year to 31 December 2014
		£m	£m
<b>Calculation of Group ICR<sup>(1)</sup></b>			
<b>Cash Flow (A)<sup>(1)</sup></b>		<b>1,132</b>	<b>1,205</b>
Interest			
Paid on Senior Debt (B) <sup>(1)</sup>		368	423
Paid on Junior Debt (C) <sup>(1)</sup>		99	94
Paid on Borrowings (D)		42	48
<b>Group Interest Paid (E=B+C+D)</b>		<b>509</b>	<b>565</b>
<b>Group ICR (A/E)</b>	<b>1.00x</b>	<b>2.22x</b>	<b>2.13x</b>
<b>Calculation of Group RAR<sup>(2)</sup></b>			
Total RAB (F) <sup>(2)</sup>		14,585	15,122
Net debt			
Senior Net Debt (G) <sup>(2)</sup>		9,864	10,160
Junior Debt (H) <sup>(2)</sup>		1,400	1,675
Borrower Net Debt (I)		761	763
<b>Group Net Debt (J=G+H+I)</b>		<b>12,025</b>	<b>12,598</b>
<b>Junior RAR ((G+H)/F)</b>	<b>82.0%</b>	<b>77.2%</b>	<b>78.3%</b>
<b>Group RAR (J/F)</b>	<b>90.0%</b>	<b>82.4%</b>	<b>83.3%</b>

(1) ICR or Interest Cover Ratio is defined on page 20

(2) RAR or Regulatory Asset Ratio is defined on page 22

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