



Heathrow (SP) Limited and Heathrow Finance plc

Investor Report

14 December 2017

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Making every journey better

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Basis of preparation

This Investor Report (other than Appendix 5) is being distributed by LHR Airports Limited (as 'Security Group Agent') on behalf of Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (AH) Limited and Heathrow (SP) Limited ('Heathrow SP'), (together the 'Obligors' or 'the Security Group'), pursuant to the Common Terms Agreement. Appendix 5 is being distributed by Heathrow Finance plc ('Heathrow Finance') pursuant to the terms of Heathrow Finance's facilities agreements and its bond issuance maturing in 2019, 2025 and 2027.

This Investor Report summarises the financial performance of Heathrow (SP) and its subsidiaries (the 'Group') for the period to 30 September 2017 and its passenger traffic for the period to 30 November 2017. It also contains forecast financial information derived from current management forecasts for Heathrow (SP) and its subsidiaries (the 'Group') for 2017 and 2018.

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

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

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1. Overview

This report sets out forecast financial performance and ratios for Heathrow (SP) in 2017 and 2018, together with key business highlights. Additional information specific to Heathrow Finance is set out in Appendix 5.

Heathrow's latest formal forecast for 2017 indicates revenue and Adjusted EBITDA of £2,872 million and £1,758 million respectively, representing upgrades from previously published forecasts driven by stronger than expected traffic and excellent retail performance. Outperformance against expectations has continued in the same areas since this forecast was produced, meaning there is scope for further upgrades to Heathrow's 2017 financial performance.

In 2018, further traffic growth, albeit at a slower pace than in 2017, is expected which, combined particularly with continued strong retail performance, where income per passenger is projected to rise 4.4% on the latest 2017 forecast to £8.81, is expected to result in total revenue of £2,945 million, a rise of 2.5% on 2017's projected outcome. With continued cost discipline, Adjusted EBITDA is forecast to rise 4.1% on 2017's latest forecast to £1,830 million. Cash interest costs are expected to maintain their current declining trend as recent lower cost debt financing continues to replace more expensive legacy debt.

All forecast financial ratios for 2017 and 2018 comply with Trigger Event ratios noting the Class A leverage trigger event will be 72.5% from 1 April 2018 as envisaged in the Common Terms Agreement.

Heathrow's expansion plans remain on track to deliver a boost for Britain's economy in a way that is affordable, financeable and in line with environmental commitments. The government re-affirmed its support for expansion and confirmed a final National Policy Statement ('NPS') will be submitted to a vote in Parliament in the first half of 2018. In the meantime, work continues with the CAA and Heathrow's airline community on defining the regulatory framework to support expansion.

2017 and 2018 forecast financial performance

(£m unless stated)	2017	2018	Change
Summary financials			
Revenue	2,872	2,945	2.5%
EBITDA ⁽¹⁾	1,758	1,830	4.1%
Cashflow from operations ⁽²⁾	1,750	1,803	3.0%
Regulatory Asset Base (RAB)	15,818	16,317	3.2%
Nominal net debt			
Senior net debt	10,675	11,313	6.0%
Junior net debt	1,747	1,352	(22.6)%
Consolidated net debt	12,422	12,665	2.0%
Interest paid			
Senior interest paid	394	388	(1.5)%
Junior interest paid	102	101	(1.0)%
Total interest paid	496	489	(1.4)%
Ratios⁽³⁾			Trigger
Senior (Class A) RAR ⁽⁴⁾	67.5%	69.3%	72.5%
Junior (Class B) RAR	78.5%	77.6%	85.0%
Senior (Class A) ICR	3.51x	3.59x	1.40x
Junior (Class B) ICR	2.79x	2.85x	1.20x

- (1) Pre exceptional earnings before interest, tax, depreciation and amortisation
- (2) Adds back cash one-off items, non-recurring extraordinary items & exceptional items
- (3) Ratios calculated using unrounded data. Ratio definitions and calculations in Appendices 2 and 3
- (4) The Class A trigger event ratio will move from 70.0% currently to 72.5% from 1 April 2018 as envisaged under the Common Terms Agreement

2. Business developments

Service Standards

Heathrow continues to deliver high quality passenger service with 81% of passengers rating their Heathrow experience as 'Excellent' or 'Very Good' in the third quarter of 2017. Heathrow also maintained a record service quality score for the third quarter of the year of 4.14 (out of 5.00) in the Airport Service Quality (ASQ) survey. Passengers voted Heathrow 'Best Airport in Western Europe' for the third year running and 'Best Airport for Shopping' globally for the eighth consecutive year at the 2017 Skytrax World Airport Awards and the world's best airport for security in the 2017 International Airport Review awards.

Focus on operational resilience has enabled improved punctuality with 80.9% (2016: 78.6%) of flights departing within 15 minutes of schedule in the first 9 months of 2017. Baggage performance also improved significantly with the misconnect rate down to 10 per 1,000 passengers (2016: 14 per 1,000). Heathrow earned a modest level of bonuses under the SQR scheme in the 12 months to 30 November 2017.

Traffic

Heathrow traffic increased 3.1% to 71.7 million (2016: 69.5 million) in the eleven months ended 30 November 2017. Fuller aircraft continued to drive traffic growth with average load factors over 2 percentage points above 2016.

Intercontinental traffic remained the key driver of growth, increasing 3.6%, with particularly robust performance on routes serving the Middle East and Asia Pacific. Middle East traffic was up 10.2%, reflecting more flights and larger aircraft, whilst Asia Pacific growth was driven by substantially higher load factors on existing routes serving Malaysia and new or increased services to Thailand, the Philippines and Vietnam. European traffic reflected increased flights on routes to Belgium, Portugal and Denmark whilst the UK continued to benefit from new Flybe services launched in March 2017.



Heathrow – Best Airport in Western Europe since 2015
Terminal 5 – World's Best Airport Shopping since 2010



Traffic and operating statistics

11 months to end November	2016	2017	Change
Traffic by market (m)			
			(%)
UK	4.3	4.4	3.0
Europe	29.3	30.0	2.4
North America	15.8	16.0	1.1
Asia Pacific	9.8	10.4	4.5
Middle East	6.3	6.9	10.2
Africa	2.9	2.9	(0.2)
Latin America	1.1	1.2	4.9
Total passengers (m)			
	69.5	71.7	3.1
ATM ('000)	436	436	0.0
Seats per aircraft	211	212	0.4
Load factor (%)	75.8	77.9	2.1pts

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

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2. Business developments

Capital investment

In 2017, Heathrow expects to invest over £700 million across the airport campus to improve the passenger experience and airport resilience, work through a broad asset replacement programme and continue developing expansion plans ahead of obtaining planning permission.

Passengers have started benefitting from the improvements delivered in Terminal 4 including increased space in the immigration hall to ease congestion. Heathrow also continues extending automation across the passenger journey with the deployment of further self-boarding gates in Terminal 5 to reduce boarding times. The installation of new combined body scanner/metal detectors should also enhance the transfer security experience in Terminal 5. Airfield improvements continue to meet increased A380 operations with taxiway widening projects and stand modifications now substantially completed.

Finally in 2017, passengers have started enjoying the new 'First Wing' in Terminal 5, offering a fast track route with dedicated security lanes to British Airways' lounge. Heathrow continues strengthening its retail proposition with the opening of a Gucci store marking the completion of the luxury retail redevelopment in Terminal 4 and the opening of Kurt Geiger and Dixons shops in Terminal 3.

Self-boarding gates extend automation across the passenger journey



2. Business developments

Heathrow expansion

Heathrow's expansion plans remain on track to deliver a boost for Britain's economy in a way that is affordable, financeable and in line with environmental commitments. The government re-affirmed its support for expansion and confirmed a final National Policy Statement ('NPS') will be submitted to a vote in Parliament in the first half of 2018.

The government continues consulting on the NPS with a focus on updated aviation demand forecasts and its final air quality plan. The transport select committee has convened and started its detailed scrutiny of the NPS consultation. The project remains well supported with over 70% cross party political support, in addition to ongoing backing from major business groups and unions.

In October 2017, the CAA acknowledged the progress made in Heathrow's engagement with airlines and it will provide a further update in its next interim assessment due to be published early next year. Potential savings have been identified through this work by looking at the location and configuration of future new terminal capacity along with different phasing options. Heathrow continues refining its plans and will release various options at its first planning consultation in the coming months.

Heathrow expects the capital expenditure related to expansion to amount to up to £90 million in 2017 and around £170 million in 2018 in addition to the £10 million per annum recoverable via aeronautical charges.

Next regulatory period

The CAA continues to consult on how Heathrow will be regulated through expansion. In June 2017, it issued its latest consultation document entitled 'Consultation on the core elements of the regulatory framework to support capacity expansion at Heathrow' for which responses, including by Heathrow, were made by 22 September 2017 and are now public.

The consultation included a decision to further extend the Q6 regulatory period by at least a year to the end of 2020 with the option to further extend later on depending on the overall expansion timetable. The CAA is yet to decide the basis for tariffs that will apply in 2020. The CAA indicated it will update its thinking on this matter in late 2017 with a final decision as soon as practicable in 2018.

With regards to the next regulatory period 'H7', the CAA confirmed the continued use of a single RAB based model and single till. The CAA also plans to consult further imminently on a range of topics including the applicable cost of capital in 2 and 3 runway scenarios, the use of RPI or CPI to calibrate the pricing formula and the basis for defining the cost of debt allowance. Given these recent developments, Heathrow expects to publish its initial H7 business plan in December 2018.

What an expanded Heathrow could look like



3. Historical financial performance

This section summarises the results for the Group for the nine months to 30 September 2017. A full description of performance is provided in the results published on 26 October 2017, available at the Investor Centre on heathrow.com.

Adjusted EBITDA

In the first nine months of 2017, Adjusted EBITDA increased 5.7% to £1,347 million (2016: £1,274 million).

Revenue

In the first nine months of 2017, revenue increased 3.2% to £2,161 million (2016: £2,093 million). This reflects an increase of 0.9% in aeronautical income, 9.6% in retail income and 3.5% in other income. Retail income, particularly in duty and tax-free and airside specialist shops, benefitted from increased passenger traffic and the depreciation of sterling since June 2016 although, as expected, there has been some moderation in this trend since the anniversary of the EU referendum.

Operating costs (excluding depreciation, amortisation and exceptional items)

In the first nine months of 2017, operating costs decreased 0.6% to £814 million (2016: £819 million). Savings were concentrated in operational and other costs. A combination of benefits from the renegotiated NATS contract, other efficiencies from third party suppliers and lower insurance costs in the year to date drove operational costs down. Other costs declined due to various efficiencies and also due to the fact that in relation to expansion, following the Government's decision in late 2016 to support Heathrow expansion, costs have started to be capitalized rather than being expensed.

Regulatory Asset Base (RAB) and financial ratios

At 30 September 2017, the RAB was £15,630 million (31 December 2016: £15,237 million). At 30 September 2017 the Regulatory Asset Ratios, measuring nominal net debt to RAB, were 67.9% for senior debt and 79.6% for junior debt (31 December 2016: 66.7% and 78.2% respectively) compared with respective trigger levels of 70.0% and 85.0%.

Interest payable and paid

In the first nine months of 2017, net finance costs before certain re-measurements were £619 million (2016: £547 million). Net external interest paid was £397 million (2016: £418 million).

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

At 30 September 2017, nominal net debt was £12,440 million (31 December 2016: £11,908 million), comprising £11,573 million in bond issues, £929 million in other term debt, £75 million outstanding under revolving credit facilities and £331 million in index-linked derivative accretion offset by £468 million in cash and term deposits. Nominal net debt consisted of £10,620 million in senior net debt and £1,820 million in junior debt.

4. Forecast financial performance

EBITDA

Heathrow's latest formal forecast for 2017 indicates Adjusted EBITDA of £1,758 million (2016: £1,682 million), representing an upgrade from the previously published forecast of £1,735 million. This upgrade was driven by stronger than expected traffic and excellent retail performance. Modest outperformance against expectations has continued in the same areas since this forecast was produced, meaning there is scope for further upgrades to Heathrow's 2017 financial performance.

In 2018, further traffic growth, albeit at a slower pace than in 2017, is expected which, combined with continued strong retail performance and continued cost discipline, is expected to see Adjusted EBITDA rise 4.1% on 2017's latest forecast to £1,830 million.

Traffic

In the 12 months to 30 November 2017, traffic was 77.8 million, compared to the 77.7 million calendar year 2017 forecast included in Heathrow's most recent formal financial forecast referred to above. For calendar year 2017, in the absence of disruption, traffic is therefore now expected to be close to 78.0 million passengers (2016: 75.7 million). 2017's strong performance has been enabled by strong load factor growth. Traffic in 2018 is forecast to grow to 78.8 million. Load factors are expected to stabilize after 2017's strong growth with a slight increase in air transport movements.

Revenue

Revenue in 2017 is forecast to grow 2.3% to £2,872 million, with aeronautical income up 0.4% to £1,706 million (2016: £1,699 million), retail income up 7.2% to £656 million (2016: £612 million) and other income up 2.8% to £510 million (2016: £496 million). Retail income in 2017 has benefitted from traffic growth, increased airside participation and spend per participating passenger supported by the impact of sterling's depreciation although this has moderated since the anniversary of the depreciation. 2018 revenue is forecast to rise 2.5% to £2,945 million, with higher aeronautical income driven by continued traffic growth and inflation and retail income once more growing robustly, up 5.8% on 2017.

Operating costs (excluding depreciation, amortisation and exceptional items)

Operating costs in 2017 are forecast to reduce 1.0% overall or 3.6% on a per passenger basis. Forecast savings outweigh the impact of cost inflation and expenditure to improve passenger experience and operational resilience. In 2018, there will be continued focus on operational efficiencies resulting in broadly flat operating costs compared to 2017 on a reported basis despite increased inflationary pressures. With Heathrow forecast to welcome around 1 million additional passengers, costs will be down 1.3% per passenger.

Regulatory Asset Base

At the end of 2017 and 2018, the RAB is forecast to be £15,818 million and £16,317 million respectively (2016: £15,237 million) which assumes £763 million and £882 million in capital expenditure in the 2 years. The forecast for 2018 also assumes average RPI of 3.2%. Note that the senior gearing trigger level increases from 70.0% to 72.5% with effect from 1 April 2018 as envisaged under the Common Terms Agreement.

Net debt and financial ratios

At 31 December 2017, nominal net debt is forecast to be £12,422 million (2016: £11,908 million) and is forecast to be £12,665 million at 31 December 2018. Net external interest paid is forecast to decline from £496 million in 2017 to £489 million in 2018 as recent lower cost debt financing continues to replace more expensive legacy debt.

At 31 December 2017, the Regulatory Asset Ratio (RAR) is forecast to be 67.5% for senior debt and 78.5% for junior debt (31 December 2016: 66.7% and 78.2%). At the end of 2018, RAR is forecast to be 69.3% for senior debt and 77.6% for junior debt.

For the year ending 31 December 2017, the Interest Cover Ratio (ICR) is forecast to be 3.51x for senior debt and 2.79x for junior debt (2016: 3.12x and 2.50x). For 2018, the ICR is forecast to be 3.59x for senior debt and 2.85x for junior debt.

All forecast financial ratios comply with Trigger Event ratios.

5. Financing matters

New financing and changes to facilities

Since the previous Investor Report was distributed on 27 June 2017, Heathrow successfully returned to the euro market with a €500 million 15 year Class A bond with a 1.875% coupon. In July 2017, Heathrow entered into a £100 million 7 year Class A term loan facility that is currently not expected to be drawn until July 2018.

Outside the Security Group, ADI Finance 2 Limited ('ADIF2') entered into a £75 million loan facility which will be drawn no later than April 2018. The loan will migrate to Heathrow Finance no later than 2019. Completion of the ADIF2 term loan facility and the Heathrow Finance £275 million bond issued in May 2017 will enable Heathrow to simplify its debt financing from 4 layers to 3 (see below).

Debt maturities and repayments

Since the previous Investor Report, Heathrow Airport has made scheduled EIB loan repayments of £7 million. In addition in June, Heathrow Finance temporarily repaid £275 million in loan facilities to optimise interest costs over the balance of 2017. In July, ADIF2 repaid £310 million of existing loan facilities as part of the simplification of Heathrow's debt structure.

Hedging

At 8 December 2017, the total notional value of index-linked swaps was £5,216 million, £100 million higher than was outstanding when the previous Investor Report was published on 27 June 2017.

At 30 November 2017, at least 78% and 58% of interest rate risk exposure on the Obligors' and Heathrow Funding's existing debt is hedged for the regulatory periods ending on 31 December 2020 and 31 December 2025 respectively. This is consistent with the requirement to hedge at least 75% and 50% of interest rate risk exposure over those periods.

5. Financing matters

Liquidity

The Security Group expects to have sufficient liquidity to meet all its obligations in full up to September 2019. The liquidity horizon takes into account obligations such as forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast is based on Heathrow having over £2.1 billion in undrawn loan facilities and term debt as well as and cash resources held at the Security Group, Heathrow Finance and ADIF2 at 30 November 2017, together with expected operating cash flow over the period.

Historical and future restricted payments

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

Since the previous Investor Report was distributed on 27 June 2017, there have been gross restricted payments of £817 million (net restricted payments of £467 million). These payments primarily funded the £187 million of quarterly dividends paid to the Security Group's ultimate shareholders in June and July 2017, interest payments of £32 million on the debenture between Heathrow (SP) and Heathrow Finance in September 2017, interest payments of £11 million on loan facilities at ADIF2 in June and July 2017, temporary repayment of £275 million of loan facilities at Heathrow Finance in June 2017 and repayment of £310 million of loan facilities at ADIF2 in July 2017.

In the remainder of 2017, approximately £235 million in restricted payments are expected to be made out of the Security Group to fund dividend payments to the Group's ultimate shareholders although this will be more than offset by the receipt of £275 million arising from redrawing the £275 million of Heathrow Finance loan facilities that were temporarily repaid earlier in 2017 as noted above. This will result in aggregate net restricted payments in 2017 being approximately £685 million.

Net restricted payments in 2018 are projected to be approximately £520 million, mainly comprising regular dividend payments to the Group's ultimate shareholders as well as interest payments on the debenture between Heathrow (SP) and Heathrow Finance and external debt held at ADIF2.

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

6. Corporate matters

Acquisitions, disposals and joint ventures

There have been no material acquisitions, disposals and joint ventures entered into related to any Obligor since the previous Investor Report was distributed on 27 June 2017.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 27 June 2017.

Board and Management changes

On 5 July 2017, Andrew Macmillan and Stephen Chambers were appointed as directors of Heathrow Express Operating Company Limited.

On 3 October 2017, Normand Boivin resigned as Heathrow's Chief Operating Officer and as a director of various Heathrow group companies including Heathrow Airport Limited, Heathrow Express Operating Company Limited and LHR Airports Limited. On the same date, Derek Provan was appointed as Heathrow's Interim Chief Operating Officer and as a director of Heathrow Airport Limited and LHR Airports Limited.

Other than those outlined above, there have not been any other board or relevant management changes related to the Obligors or Heathrow Airport Holdings Limited since the previous Investor Report was distributed on 27 June 2017.

7. Confirmation

14 December 2017

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

We confirm that each of the Ratios set out on page 4 has been calculated in respect of the Relevant Period or as at the Relevant Date for which it is required to be calculated under the Common Terms Agreement.

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

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

We also confirm that:

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

Javier Echave



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

Appendix 1 – Quarterly passenger traffic (2008 to 2017)

Heathrow passenger traffic and air transport movement evolution

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

Passengers (m)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Jan-Mar	15.4	14.4	14.6	15.0	15.7	16.0	16.0	16.4	16.8	17.2
Change %	0.6	(6.4)	1.6	2.5	4.4	1.8	0.5	2.0	2.6	2.2
Apr-Jun	17.1	16.8	15.5	17.9	17.9	18.4	19.0	19.2	18.9	20.0
Change %	(1.3)	(1.5)	(7.9)	15.3	0.4	2.9	3.2	0.7	(1.1)	5.4
Jul-Sep	18.6	18.6	19.5	19.8	19.4	20.4	20.6	21.4	21.6	21.9
Change %	(1.2)	0.3	4.4	1.5	(2.0)	5.5	0.7	3.9	0.9	1.7
Oct-Dec	15.9	16.0	16.1	16.8	17.0	17.5	17.7	18.0	18.4	18.4
Change %	(3.6)	1.1	0.7	3.8	1.6	2.7	1.3	1.9	1.8	0.0
Full year	66.9	65.9	65.7	69.4	70.0	72.3	73.4	75.0	75.7	75.7
Change %	(1.4)	(1.5)	(0.2)	5.5	0.9	3.4	1.4	2.2	1.0	0.0
ATM ('000)	473	460	449	476	471	470	471	472	473	473
Change %	(0.5)	(2.8)	(2.3)	6.0	(1.0)	(0.4)	0.2	0.3	0.2	0.0

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	Year to 31 December 2017	Year to 31 December 2018
		£m	£m
Cashflow from Operations ⁽²⁾		1,750	1,803
Add back: Cash one-off, non-recurring extraordinary or exceptional items			
Adjusted Cashflow from Operations		1,750	1,803
Less: corporation tax paid		(51)	(84)
Less: 2 per cent of Total RAB		(316)	(326)
Cash Flow (A)		1,383	1,393
Interest and equivalent recurring charges paid on Senior Debt ⁽³⁾⁽⁴⁾			
Interest paid – existing Class A bonds and swaps		373	354
Interest paid – existing Class A EIB facilities		1	0
Interest paid – other Class A debt		15	29
Commitment fees on liquidity and revolving credit facilities		5	5
Total interest on Senior Debt (B)		394	388
Interest and equivalent recurring charges paid on Junior Debt ⁽³⁾⁽⁴⁾			
Class B debt		102	101
Total interest on Junior Debt (C)		102	101
Total interest (D=B+C)		496	489
Senior ICR (A/B)⁽⁵⁾⁽⁶⁾	1.40x	3.51x	3.59x
Junior ICR (A/D)⁽⁵⁾⁽⁶⁾	1.20x	2.79x	2.85x

(1) 2017 and 2018 figures are forecasts

(2) Reconciliation of cash flow from operations with Adjusted EBITDA is set out on page 16

(3) Reconciliation of interest paid with interest payable is set out on page 16

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

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

(6) Ratios calculated using unrounded figures

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

<i>(See important notice on page 2 of this document)</i>	31 December 2017	31 December 2018
	£m	£m
Income		
Aeronautical income	1,706	1,730
Non-aeronautical income - retail	656	694
Non-aeronautical income - non-retail	510	521
Total income	2,872	2,945
Adjusted operating costs⁽²⁾	1,114	1,115
Adjusted EBITDA	1,758	1,830
Working capital and cash one-off non-recurring extraordinary or exceptional items		
Trade working capital	15	(5)
Pension	(23)	(23)
Cashflow from operations	1,750	1,802

	Year to 31 December 2018 ⁽¹⁾				Year to 31 December 2017
	Income statement incl amortisation ⁽³⁾⁽⁴⁾	Less amortisation ⁽³⁾	Less variation in accruals ⁽³⁾	Cash flow	Cash flow
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds and swaps	395	(54)	13	354	374
Interest paid – Class A EIB facilities	-	-	-	-	1
Interest paid and received – other Class A debt	36	(1)	(6)	29	14
Commitment fees on liquidity & RCFs ⁽⁵⁾	5	(1)	1	5	5
Interest paid - Class B debt	95	(2)	8	101	102
Total interest	531	(58)	16	489	496

(1) 2017 and 2018 figures are forecasts

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

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

(4) Includes amortisation of refinancing fees and excludes accretion on index-linked swaps and bonds

(5) RCFs: Revolving Credit Facilities

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

<i>(See important notice on page 2 of this document)</i>	Trigger level	At 31 December 2017	At 31 December 2018
		£m	£m
Closing Heathrow RAB (A)		15,818	16,317
Senior Debt			
Class A Existing Bonds (closed prior to 14 December 2017)		9,838	9,359
Class A EIB facilities		62	29
Other Class A debt		858	1,862
RPI swap accretion		385	460
Total Senior Debt (B)		11,143	11,710
Junior Debt			
Class B debt		1,747	1,352
Total Junior Debt (C)		1,747	1,352
Cash and cash equivalents (D)		(468)	(397)
Senior net debt (E=B+D)		10,675	11,313
Senior and junior net debt (F=B+C+D)		12,422	12,665
Senior RAR (E/A)⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	70.0%/72.5%	67.5%	69.3%
Junior RAR (F/A)⁽²⁾⁽⁴⁾	85.0%	78.5%	77.6%

(1) 2017 and 2018 figures are forecasts

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

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

(4) Ratios calculated using unrounded figures

(5) The Class A trigger level event will move from 70.0% currently to 72.5% from 1 April 2018 as envisaged in the Common Terms Agreement

Appendix 4 – Nominal consolidated net debt of Obligors, Heathrow Funding Limited and Heathrow Finance plc at 30 September 2017

Heathrow (SP) Limited	Amount	Available	Maturity
Senior debt	(£m)	(£m)	
€750m 4.6%	510	510	2018
C\$400m 4%	250	250	2019
£250m 9.2%	250	250	2021
C\$450m 3%	246	246	2021
US\$1,000m 4.875%	621	621	2021
£180m RPI +1.65%	205	205	2022
€600m 1.875%	490	490	2022
£750m 5.225%	750	750	2023
CHF400m 0.5%	277	277	2024
C\$500m 3.25%	266	266	2025
£700m 6.75%	700	700	2026
NOK1,000m 2.65%	84	84	2027
£200m 7.075%	200	200	2028
NOK1,000m 2.50%	91	91	2029
€750m 1.5%	566	566	2030
£900m 6.45%	900	900	2031
€50m Zero Coupon	42	42	2032
£75m RPI +1.366%	81	81	2032
€50m Zero Coupon	42	42	2032
€500m 1.875%	443	443	2032
£50m 4.171%	50	50	2034
€50m Zero Coupon	40	40	2034
£50m RPI +1.382%	54	54	2039
£460m RPI +3.334%	582	582	2039
£100m RPI +1.238%	107	107	2040
£750m 5.875%	750	750	2041
£750m 4.625%	750	750	2046
£75m RPI +1.372%	81	81	2049
£400m 2.75%	400	400	2049
Total senior bonds	9,828	9,828	
Term debt	929	1,029	Various
Index-linked derivative accretion	331	331	Various
Revolving/working capital facilities	0	900	2021
Total other senior debt	1,260	2,260	
Total senior debt	11,088	12,088	
Heathrow (SP) Limited cash	(468)		
Senior net debt	10,620		

Heathrow (SP) Limited	Amount	Available	Maturity
Junior debt	(£m)	(£m)	
£400m 6.25%	400	400	2018
£400m 6%	400	400	2020
£600m 7.125%	600	600	2024
£155m 4.221%	155	155	2026
£180m RPI +1.061%	190	190	2036
Total junior bonds	1,745	1,745	
Junior revolving credit facilities	75	250	2021
Total junior debt	1,820	1,995	
Heathrow (SP) Limited group net debt	12,440		

Heathrow Finance plc	Amount	Available	Maturity
	(£m)	(£m)	
£275m 5.375%	262	262	2019
£250m 5.75%	250	250	2025
£275m 3.875%	275	275	2027
Total bonds	787	787	
£75m	0	75	2020
£50m	0	50	2022
£75m	50	75	2024
£125m	50	125	2025
£50m	0	50	2026
£150m	150	150	2028
Total loans	250	525	
Total Heathrow Finance plc debt	1,037	1,312	
Heathrow Finance plc cash	(22)		
Heathrow Finance plc net debt	1,015		

Heathrow Finance plc group	Amount	Available
	(£m)	(£m)
Heathrow (SP) Limited senior debt	11,088	12,088
Heathrow (SP) Limited junior debt	1,820	1,995
Heathrow Finance plc debt	1,037	1,312
Heathrow Finance plc group debt	13,945	15,395
Heathrow Finance plc group cash	(490)	
Heathrow Finance plc group net debt	13,455	

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 31/12/2017 ⁽¹⁾	As at or for year to 31/12/2018 ⁽¹⁾
		£m	£m
Calculation of Group ICR⁽²⁾⁽³⁾			
Cash Flow (A)		1,383	1,393
Interest			
Paid on Senior Debt (B)		394	388
Paid on Junior Debt (C)		102	101
Paid on Borrowings (D)		52	58
Group Interest Paid (E=B+C+D)		548	547
Group ICR (A/E)	1.00x	2.52x	2.55x
Calculation of Group RAR⁽³⁾⁽⁴⁾			
Total RAB (F)		15,818	16,317
Net debt			
Senior Net Debt (G)		10,675	11,313
Junior Debt (H)		1,747	1,352
Borrower Net Debt (I)		1,307	1,382
Group Net Debt (J=G+H+I)		13,729	14,047
Junior RAR ((G+H)/F)⁽³⁾	82.0%	78.5%	77.6%
Group RAR (J/F)⁽³⁾	90.0%	86.8%	86.1%

(1) 2017 and 2018 figures are forecasts

(2) ICR or Interest Cover Ratio is defined on page 15

(3) Ratios calculated using unrounded figures

(4) RAR or Regulatory Asset Ratio is defined on page 16

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