Heathrow (SP) Limited and Heathrow Finance plc

Investor report

27 June 2013

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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, 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 airport. This Investor Report comments on the historic financial performance of the Security Group for the period up to 31 March 2013 and its historic passenger traffic for the period up to 31 May 2013. It also contains forecast financial information derived from current management forecasts for the Security Group for the whole of 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

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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 2012 and 2013. In particular it provides historic financial information for 2012 and forecast financial information for 2013 including financial ratios (RAR and ICR).

Stansted airport was sold in February 2013. As a result, the financial and operational commentary only relates to Heathrow airport.

The most recent forecasts for Heathrow (SP) Limited for 2013 indicate Adjusted EBITDA[(1)] will be £1,325 million, compared with £1,344 million in the original 2013 budget figure published in December 2012 and representing 13.3% growth versus 2012 actuals.

Heathrow's forecast of continued strong financial performance in 2013 reflects in particular:

- Passenger traffic to increase by 2.1% to 71.4 million
- Revenue growth of 10% to £2,446 million primarily reflecting increased aeronautical tariffs and traffic growth. This is supported by further growth in retail income per passenger.

Heathrow expects to invest around £1.4 billion in its capital programme in 2013 mainly on the construction of the new Terminal 2.

In the years to 31 December 2012 and 2013, all financial ratios have complied or 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	**66.2%**	**70.0%**
At 31 December 2013	**67.5%**	**70.0%**
Junior ratios		
At 31 December 2012	**76.7%**	**85.0%**
At 31 December 2013	**77.7%**	**85.0%**
Interest cover ratio (ICR)[(4)]		
Senior ratios		
For year to 31 December 2012	**2.62x**	**1.40x**
For year to 31 December 2013	**2.82x**	**1.40x**
Junior ratios		
For year to 31 December 2012	**2.30x**	**1.20x**
For year to 31 December 2013	**2.22x**	**1.20x**

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(2) 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) 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, as a key enabler to delivering cost efficiencies and strengthening Heathrow's competitive position.

Heathrow has maintained its position towards the top of the five major European hub airports for overall passenger satisfaction, according to Airports Council International's Airport Service Quality survey, achieving its highest score ever of 3.99 in the first quarter of 2013. This reflects the strong focus in recent years on improving service standards such as departure punctuality, baggage misconnect rates and security queuing times. It also reflects the benefit of new and refurbished infrastructure.

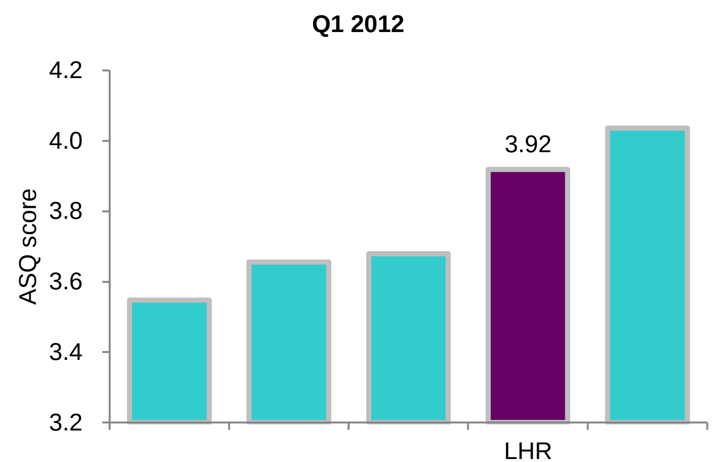
Heathrow was named Best Airport (airports with over 25 million passengers' category) in the 2013 ACI EUROPE Awards and Terminal 5 was named the world's best airport terminal for the second consecutive year in the 2013 SKYTRAX World Airport Awards, providing further significant endorsement of the transformational change in passengers' experience of Heathrow.

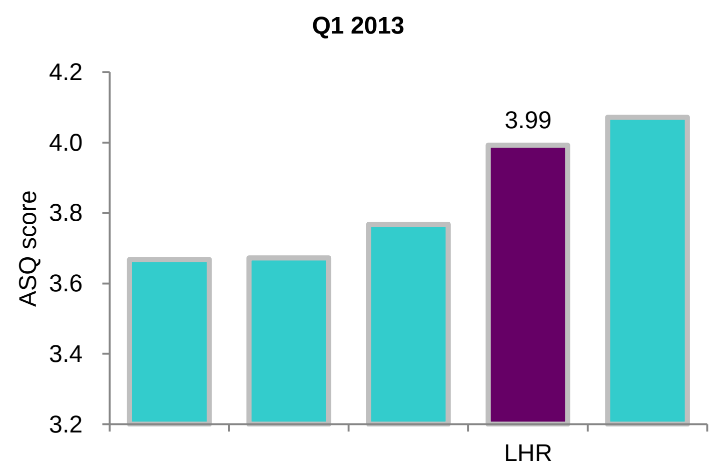
In addition, in the three months ended 31 March 2013:

- the proportion of aircraft departing within 15 minutes of schedule was 76% (2012: 81%) at Heathrow, due to adverse weather conditions in January and March 2013.
- the proportion of baggage not accompanying passengers on their journeys was 15 per 1,000 passengers (2012: 14 per 1,000).
- passengers passed through central security within periods prescribed under Heathrow's service quality rebate ('SQR') scheme 93% of the time (2012: 96%), compared with the 95% service standard.

In the 12 months to 31 March 2013, Heathrow rebated £11.8 million under the SQR scheme, mainly relating to security queuing.

Overall passenger satisfaction for 5 largest European airports





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2. Significant business developments – passenger traffic(1)

In the five months ended 31 May 2013, Heathrow traffic increased 1.9% to 27.9 million (2012: 27.3 million).

Heathrow's traffic performance reflects an acceleration of the recent trends of increasing load factors and larger aircraft.

Load factors increased to 73.0% (2012: 71.8%) and the average number of seats per passenger aircraft increased to 201.2 (2012: 195.9). These factors more than offset the decline in flight numbers to 189,710 (2012: 194,487) that partly reflect the 2012 leap year.

On a regional basis, performance in the period was driven by European traffic which increased 4.5% to 11.6 million passengers (2012: 11.1 million). Notably the integration of bmi routes into British Airways is driving increased volume. Middle East traffic also increased strongly, up 4.1% to 2.3 million passengers (2012: 2.2 million) with additional capacity and passenger growth from Emirates, Etihad, Qatar Airways and Saudi Airlines. North American and Asia Pacific traffic grew steadily, whilst African traffic declined and Latin American traffic remained flat. UK traffic declined 1.1% to 1.9 million passengers (2012: 1.9 million) partly reflecting airlines' focus on domestic service reductions during the adverse weather disruption in January 2013.

Quarterly traffic trends for Q1 2008 to Q1 2013 are set out in Appendix 1.

Passenger traffic

	5 months ended 31 May		
By market served	2012 (m)	2013 (m)	Change(2)
UK	1.9	1.9	-1.1%
Europe	11.1	11.6	4.5%
North America	6.1	6.1	1.0%
Asia Pacific	4.0	4.1	1.3%
Middle East	2.2	2.3	4.1%
Africa & Latin America	2.0	1.9	-8.0%
Total (2)	**27.3**	**27.9**	**1.9%**

(1) Monthly passenger traffic data is published at www.heathrowairport.com
(2) Percentage change and totals calculated using unrounded passenger numbers

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2. Significant business developments – capital investment

Heathrow’s current capital investment plan shows forecast outturn cost over the six years to 31 March 2014 of £5.8 billion. Over the five years to 31 March 2013, Heathrow has invested approximately £4.5 billion (in outturn cost) in its capital programme with an additional £1.3 billion forecast to be invested in the year to 31 March 2014.

Heathrow’s investment programme has maintained its recent focus on construction of the new Terminal 2, which is on track to be completed in late 2013 with operations starting on 4 June 2014. In addition, significant investment continues on Heathrow’s baggage infrastructure.

Terminal 2 and its satellite are now fitted out with walls, floors, ceilings, lighting and escalators and retail facilities have been handed over to retailers to allow fit out of the shops. The baggage system between the new building and Terminal 1 is now physically complete and testing is underway. Stands and taxiways that surround the buildings are currently being formed and services are being installed. In addition, the energy centre supporting the Terminal 2 campus is now in commissioning phase.

The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational. Terminal 3 integrated baggage system remains on track to enable operations in 2015. The building has been made weather-tight and the baggage system is now being assembled inside the building.

The major steps in Heathrow’s investment programme through to 2014 currently include:

- completing the construction of phase one of the new Terminal 2 during 2013, enabling it to become operational in 2014;
- re-locating the Star Alliance airlines from Terminals 1 and 3 to the new Terminal 2;
- developing baggage systems and improved connectivity within and between the airport’s terminals; and
- redeveloping Terminals 3 and 4 to improve the passenger experience.

3. Significant regulatory/governmental developments

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 sold Stansted airport in February 2013. Financial details of the disposal are provided on page 13.

Modernisation of economic regulation of UK airports

The CAA, as the economic regulator for UK airports, previously set price controls for Heathrow as a "designated" airport under the Airports Act 1986, including for Heathrow's current regulatory period that ends on 31 March 2014. The recently enacted Civil Aviation Act 2012 (the "Civil Aviation Act") sets out the new regulatory framework for airports in the UK and requires the CAA to licence those airports which are considered to have significant market power. Heathrow will require a licence which will include the price controls for the airport charges levied by Heathrow for the next regulatory period that commences on 1 April 2014.

Regulatory period from April 2014: "Q6"

The next regulatory period for Heathrow, "Q6", begins on 1 April 2014. Following constructive engagement with Heathrow's airline community during 2012, Heathrow proposed a Full Business Plan in January 2013 for the next regulatory period, setting out our operational and capital plan to continue the transformation of Heathrow, focusing on service delivery and improving the passenger experience, whilst delivering operating efficiencies and fair return on investment.

On 30 April 2013 the CAA published Initial Proposals for consultation proposing price controls and the draft licence. The CAA proposes the maximum yield per passenger to increase by RPI minus 1.3% per year; compared to Heathrow's Full Business Plan (FBP) of RPI plus 5.9%. The key differences are in the allowable cost of capital and in a greater reduction in operating expenses than proposed in the Full Business Plan. Heathrow responded to the Initial Proposals on 25 June 2013.

The CAA will publish its final proposals for consultation in early October 2013 with the publication of the final Q6 determination expected in December 2013 or January 2014.

Airports Commission

Reflecting increasing concern around how to maintain the UK's status as an international hub for aviation, in 2012 the government 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 and to report its full findings in 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.

In July 2013, Heathrow will submit options for the delivery of additional runway capacity at the airport, to the Airports Commission.

4. Historic financial performance[1] (A)

Turnover

In the three months ended 31 March 2013, Heathrow's turnover increased 6.1% to £520 million (2012: £490 million). This reflects an increase of 11.9% in aeronautical income, 2.9% in gross retail income and 4.3% decrease of other income.

The increase in aeronautical income reflects passenger traffic trends as well as the 12.7% headline increase in tariffs applicable from 1 April 2012. The retail business has continued to perform well. The growth was mainly driven by the increased passenger traffic supported by a 1.2% increase in net retail income per passenger.

Gross retail income increased 2.9% to £107 million (2012: £104 million) and net retail income increased 3.1% to £101 million (2012: £98 million) with net retail income per passenger rising to £6.33 (2012: £6.26) The rate of growth in NRI per passenger is likely to have been impacted by the shift in mix towards European traffic, as traditionally such passengers have a lower propensity to spend in Heathrow's retail outlets. It is also possible that the slower rate of growth in luxury retail, included within the airside specialist shops segment, mirrors the experience of some luxury retail brands reported early in the year. In addition, some short term issues affected retail income such as the closure of HMV stores following its administration. Two outlets have since reopened with replacement retailers and two will reopen shortly.

Operating costs[2]

In the three months ended 31 March 2013, operating costs increased 2.6% to £276 million (2012: £269 million). Employment costs were up 17.4%, with approximately half the increase due to one-off items including one-off pension costs arising from a restructuring programme and incentives in place to drive future cost efficiencies. A substantial part of the residual cost increase related to contractually agreed pay increases and the impact of higher non-cash pension charges. General expenses reduced by £5 million compared with last year. This reflects a decrease of approximately £7 million relating to a change in the way in which the recharge of intra-group services is recorded. The decrease is partially offset by additional costs incurred in ensuring operations were maintained during adverse weather in January.

Adjusted EBITDA[3]

Adjusted EBITDA for the three months ended 31 March 2013 increased 10.4% to £244 million (2012: £221 million). The significant increase in Adjusted EBITDA from 2012 reflects principally increased traffic and aeronautical tariffs.

(1) For more detail, see results for three months ended 31 March 2013 issued on 24 April 2013
(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[1] (B)

Interest payable

In the three months ended 31 March 2013, the Group's net interest payable was £173 million (2012: £183 million) excluding fair value adjustments on financial instruments. Underlying net interest payable was £194 million (2012: £187 million), after adjusting for £34 million (2012: £14 million) in capitalised interest and £13 million (2012: £10 million) in non-cash amortisation of financing fees and fair value adjustments of bonds. The non-cash, fair value loss on financial instruments recorded within interest payable was £433 million (2012: £22 million), principally due to the impact on the mark-to-market value of the index-linked swaps, of increased implied future inflation rates since December 2012, following the unexpected decision of the ONS not to alter the calculation methodology for the Retail Price Index.

Interest paid

Net interest paid in the three months ended 31 March 2013 was £167 million (2012: £89 million). This consisted of £140 million (2012: £69 million) paid in relation to external debt and £27 million (2012: £20 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid on external debt largely reflects the first time payment of coupons on bond issues completed in 2012. The increased interest paid on the debenture between Heathrow (SP) and Heathrow Finance is due primarily to an increase in the size of the debenture as a result of the new £275 million Heathrow Finance bond put in place in December 2012 partially offset by repayment of some of Heathrow Finance's loan facilities.

The difference between net interest paid and underlying net interest payable is largely accounted for by £53 million (2012: £53 million) non-cash accretion on index-linked instruments, partially offset by changes in accruals related to the first time coupon payments..

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

The Security Group's nominal debt at 31 March 2013 comprised £10,245 million outstanding under various bond issues, £296 million outstanding under loan facilities, £367 million in index-linked derivative accretion and cash at bank and term deposits of £339 million. Nominal net debt comprised £9,119 million in senior (Class A) net debt and £1,450 million in junior (Class B) debt. The average cost of the Security Group's external gross debt at 31 March 2013 was 4.24% (31 December 2012: 4.24%) 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 2013 was 5.83% (31 December 2012: 5.83%).

Capital expenditure and Regulatory Asset Base (RAB)

Cash flow capital expenditure at Heathrow was £272 million in the three months ended 31 March 2013.The RAB of Heathrow was £13,727 million at 31 March 2013.

Financial ratios

At 31 March 2013, senior and junior gearing ratios (net debt to RAB) were 66.4% and 77.0% respectively compared with trigger levels of 70.0% and 85.0%.

(1) For more detail, see results for three months ended 31 March 2013 issued on 24 April 2013

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5. 2013 traffic forecasts

For the year ending 31 December 2013, Heathrow's passenger traffic is forecast to increase to 71.4 million (an increase of 2.1% from 2012) despite one fewer day in 2013 given the leap year in 2012 (equivalent to close to 200,000 passengers).

The growth Heathrow in 2013 is forecast to be driven by the continued trend of larger aircraft size and higher load factors seen in the first 5 months of the year despite a small decrease in the expected number of flights from 471,341 in 2012 to approximately 469,000 in 2013.

Larger aircraft reflect, for example, Emirates moved from 3 of its 5 daily Heathrow services being operated by A380 aircraft at the beginning of 2012 to all 5 services in early 2013; it also reflects the introduction of A380 services by other airlines such as Malaysian Airlines, Thai Airways and British Airways. Similar trends are being seen in short haul services where, for example, the integration of bmi services into British Airways operations is resulting in upsizing aircraft including from Embraer to larger A319/A320 aircraft.

The 2013 traffic forecast does not include any allowance for disruptions or shocks. This is consistent with Heathrow's approach to traffic forecasting where short-term forecasts are driven principally by capacity and airline scheduling whilst medium or long term forecasts make an allowance for potential shocks given that they have historically impacted Heathrow's traffic by an average of close to 1.5%.

6. 2012 actual and 2013 financial forecasts

Heathrow (SP) Limited 2012 actual and 2013 forecast financial information is set out opposite (more detail is in Appendices 2 and 3). Highlights include:

- **forecast 2013 Heathrow Adjusted EBITDA up 13.3% to £1,325 million driven mainly by higher aeronautical income**
- **strengthened interest cover ratios**

Forecast growth in Heathrow aeronautical income reflects higher passenger traffic and headline tariffs increasing by 10.4% from 1 April 2013.

Net retail income is expected to grow 5.2% in 2013 with net retail income per passenger increasing 3.1%. Growth is expected across most categories including duty and tax-free, airside specialist shops, bureau and car parking.

2013 operating costs (excluding depreciation and exceptional items) are forecast to increase 6.4% to £1,120 million (2012: £1,053 million). Employment cost increases reflect a higher non-cash defined benefit pension scheme service charge as well as the impact of inflation on contractual terms of employment, these costs are partially offset by a senior management pay freeze. In addition, operating expenses growth relates to rises in third party contract and rates costs.

Forecast capital expenditure for 2013 is close to £1.4 billion.

All forecast financial ratios comply with Trigger Event ratios.

Financials	2012	2013	Change[1]
(figures in £m unless otherwise stated)			
Revenue	**2,464**	**2,446**	**-0.8%**
Revenue (Heathrow only)	2,222	2,446	10.0%
Adjusted EBITDA	**1,264**	**1,325**	**4.8%**
Adjusted EBITDA (Heathrow only)	1,170	1,325	13.3%
Cash flow from operations	**1,168**	**1,321**	**13.1%**
Cash flow for ICR calculation	**871**	**1,028**	**17.9%**
Capital expenditure	**1,157**	**1,383**	**19.5%**
Total RAB [2]	**14,814**	**14,666**	**-1.0%**
Nominal net debt[2]			
Senior net debt	**9,810**	**9,896**	**0.9%**
Junior debt	**1,550**	**1,500**	**-3.2%**
Total nominal net debt	**11,360**	**11,396**	**0.3%**
Interest paid[2]			
Senior interest paid	**333**	**365**	**9.8%**
Junior interest paid	**47**	**98**	**110.3%**
Total interest paid	**379**	**463**	**22.2%**

Ratios[2][3]	2012	2013	Trigger level
Senior RAR	**66.2%**	**67.5%**	**70.0%**
Junior RAR	**76.7%**	**77.7%**	**85.0%**
Senior ICR	**2.62x**	**2.82x**	**1.40x**
Junior ICR	**2.30x**	**2.22x**	**1.20x**

(1) Percentage changes calculated using unrounded figures
(2) 2013 RAB, net debt, interest paid and financial ratios reflect the Stansted sale price
(3) See Appendices 2 and 3 for the definition of rations (RAR and ICR) and their calculations

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7. Acquisitions, disposals, joint ventures and outsourcing

Acquisitions, disposals and joint ventures

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. As a result, Stansted was sold to Manchester Airports Group for £1,500 million in February 2013. £739 million of the net sale proceeds were used to repay debt within the Group. £300 million was distributed out of the Group and the remaining funds are being utilised for general corporate purposes and to meet disposal related costs.

Outsourcing

There have been no material outsourcing contracts entered into related to any Obligor since the previous Investor Report was distributed on 18 December 2012.

8. Significant board/management changes

On 20 December 2012, Richard Drouin and Wilfried Kaffenberger resigned as directors of Heathrow Airport Holdings Limited, and Jorge Gil Villen was appointed as a director. Ali Bouzarif and Akbar Abbas Al Baker were appointed as directors of the company on 14 January 2013. On 21 March 2013 Bing Hu resigned as a director and was replaced by Qing Zhang who was appointed as a director as at the same date.

On 25 January 2013, Fiona Rodford, HR Director, left the Heathrow business resigning as director of Heathrow Airport Limited (HAL) and LHR Airports Limited (LHR) and was replaced by Paula Stannett (formerly the HR Operations Director for Heathrow) who was appointed as director of HAL and LHR.

On 05 May 2013, Ben Harding resigned as a non-executive director of Heathrow Express Operating Company Limited and was replaced by Christopher Green from the same date.

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 18 December 2012.

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9. Financing matters (A)

Bond issues

Since the previous Investor Report was distributed on 18 December 2012, Heathrow Funding has not issued any bonds in the capital markets.

Loan facilities

Since the previous Investor Report was distributed on 18 December 2012:

- Heathrow Airport Limited has made scheduled EIB loan repayments of approximately £9 million; and
- Heathrow Airport Limited repaid the £639 million outstanding under the revolving credit facility as of 28 February 2013.
- Heathrow Finance put in place an £85 million term loan facility maturing in May 2016 and repaid the £50 million term loan facility maturing in November 2015.

Hedging

At 31 May 2013, at least 85% and 70% 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 18 December 2012, Heathrow Funding has not entered into any additional index-linked swaps leaving the total notional value of such instruments at £5,437 million.

9. Financing matters (B)

Liquidity
At 31 March 2013, the Group had approximately £2.3 billion in undrawn bank facilities and cash resources. As a result, the Group is currently in a very strong liquidity position.

Historic and future Restricted Payments
Since the previous Investor Report was distributed on 18 December 2012, there have been £500 million of restricted payments made by the Security Group. Of this amount, £300 million represents the equity generated on the disposal of Stansted airport which is expected to be utilised to repay part of the debt held at ADI Finance 1 Limited and make a return to shareholders on their historic investment in Stansted. The remaining £200 million included £27 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance and £138 million in dividends to fund £24 million interest on the facility held at ADI Finance 1 Limited and £114 million in quarterly dividends paid to shareholders in December 2012 and February 2013.

Regular quarterly dividend payments to the Security Group's ultimate shareholders are expected to total £255 million for 2013. 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.

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10. Confirmation

27 June 2013

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.

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

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Appendix 1 - Quarterly passenger traffic trends (2008 to 2013)

Heathrow passenger traffic evolution (1)	Q1	Q2	Q3	Q4	Full year
2008	**15.4**	**17.1**	**18.6**	**15.9**	**66.9**
change	*+0.6%*	*-1.3%*	*-1.2%*	*-3.6%*	***-1.4%***
2009	**14.4**	**16.8**	**18.6**	**16.0**	**65.9**
change	*-6.4%*	*-1.5%*	*+0.3%*	*+1.1%*	**-1.5%**
2010	**14.6**	**15.5**	**19.5**	**16.1**	**65.7**
change	*+1.6%*	*-7.9%*	*+4.4%*	*+0.7%*	***-0.2%***
2011	**15.0**	**17.9**	**19.8**	**16.8**	**69.4**
change	*+2.5%*	*+15.3%*	*+1.5%*	*+3.8%*	***+5.5%***
2012	**15.7**	**17.9**	**19.4**	**17.0**	**70.0**
change	*+4.4%*	*+0.4%*	*-2.0%*	*+1.6%*	***+0.9%***
2013	**16.0**				
change	*+1.8%*				

(1) Heathrow traffic only. Change versus same period in the previous year, calculated using unrounded 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]	Year to 31 December 2013[1]
		£m	£m
Cashflow from Operations[2]		1,168	1,321
Add back: Cash one-off, non-recurring extraordinary or exceptional items		0	0
Cashflow from Operations (before exceptional items)		1,168	1,321
Less: corporation tax paid		0	0
Less: 2 per cent of Total RAB		(296)	(293)
Cash Flow (A)		**871**	**1,028**
Interest and equivalent recurring charges paid on Senior Debt[3][4]			
Interest paid – existing Class A bonds		449	472
Interest paid – existing Class A EIB facilities		4	2
Interest paid – other Class A debt		8	1
Interest paid/(received) on swaps		(147)	(122)
Commitment fees on liquidity and revolving credit facilities		18	11
Total interest on Senior Debt (B)		**333**	**365**
Interest and equivalent recurring charges paid on Junior Debt[3][4]			
Class B debt		47	98
Total interest on Junior Debt (C)		**47**	**98**
Total interest (D=B+C)		**379**	**463**
Senior ICR (A/B)[5]	**1.40x**	**2.62x**	**2.82x**
Junior ICR (A/D)[5]	**1.20x**	**2.30x**	**2.22x**

(1) 2013 figures are forecasts
(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 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

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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	£m
Income		
Aeronautical income	1,413	1,493
Non-aeronautical income - retail	542	484
Non-aeronautical income - non-retail	509	469
Total income	**2,464**	**2,446**
Operating expenses(1)	1,200	1,120
Adjusted EBITDA	**1,264**	**1,325**
Working capital and similar items		
Net movements in working capital	(39)	22
Difference between pension charge and cash contributions	(57)	(26)
Cashflow from operations	**1,168**	**1,321**

	Year to 31 December 2013(2)(3)				Year to
	Income statement inc amortisation(4)	Income statement excl amortisation	Variation in accruals	Cash flow(5)	31 December 2012 Cash flow(5)
	£m	£m	£m	£m	£m
Interest paid – existing Class A bonds	480	453	4	472	449
Interest paid – Class A EIB facilities	2	2	0	2	4
Interest paid – other Class A debt	16	7	(6)	1	8
Interest paid/(received) on swaps(5)	(56)	(102)	(6)	(122)	(147)
Commitment fees on liquidity & revolving credit facilities	15	15	(0)	11	18
Interest paid - Class B debt	98	95	(1)	98	47
Total interest	**556**	**471**	**(8)**	**463**	**379**

(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		13,471	14,666
Stansted		1,343	0
Total forecast closing RAB (A)		**14,814**	**14,666**
Senior Debt			
Class A Existing Bonds		8,840	8,465
Class A EIB facilities		255	215
Other Class A debt		307	800
RPI swap accretion		445	483
Total Senior Debt (B)		**9,846**	**9,964**
Junior Debt			
Class B debt		1,550	1,500
Total Junior Debt (C)		**1,550**	**1,500**
Cash and cash equivalents (D)		**(36)**	**(67)**
Senior net debt (E=B+D)		**9,810**	**9,896**
Senior and junior net debt (F=B+C+D)		**11,360**	**11,396**
Senior RAR (E/A)[2][3]	**70.0%**	**66.2%**	**67.5%**
Junior RAR (F/A)[2]	**85.0%**	**76.7%**	**77.7%**

(1) Figures for 2013 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 £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 31 March 2013

		Amount	Amount and features of available facilities			
			Local currency		S&P/Fitch rating	Maturity
Senior (Class A)		**(£m)**	**(m)**	**(£m)**		
Bonds		396	396	396	A-/A-	2013/15
		513	750	513	A-/A-	2014/16
		300	300	300	A-/A-	2015/17
		319	500	319	A-/A-	2015/17
		300	300	300	A-/A-	2016/18
		434	500	434	A-/A-	2016/18
		584	700	584	A-/A-	2017/19
		272	400	272	A-/A-	2017/19
		510	750	510	A-/A-	2018/20
		250	400	250	A-/A-	2019/21
		250	250	250	A-/A-	2021/23
		621	1,000	621	A-/A-	2021/23
		185	185	185	A-/A-	2022/24
		750	750	750	A-/A-	2023/25
		700	700	700	A-/A-	2026/28
		200	200	200	A-/A-	2028/30
		900	900	900	A-/A-	2031/33
		42	50	42	A-/A-	2032/34
		42	50	42	A-/A-	2032/34
		527	527	527	A-/A-	2039/41
		750	750	750	A-/A-	2041/43
Total bonds		**8,845**		**8,845**		
Bank debt	EIB Facilities	246	246	246	n/a	2013/22
	Revolving/Working Capital Facilities	0	1,600	1,600	n/a	2017
Total bank debt		**246**		**1,846**		
Total senior debt		**9,091**		**10,691**		
Junior (Class B)						
Bonds		400	400	400	BBB/BBB	2018
		400	400	400	BBB/BBB	2020
		600	600	600	BBB/BBB	2024
Bank debt	Term Loan Facility	50	50	50	n/a	2014
	Revolving Facility	0	400	400	n/a	2017
Total junior debt		**1,450**		**1,850**		
Gross debt		**10,541**		**12,541**		
Cash		**(339)**				
Index-linked derivative accretion		**367**				
Net debt		**10,569**				

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

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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)		**871**	**1,028**
Interest			
Paid on Senior Debt (B) (see page 19)		333	365
Paid on Junior Debt (C) (see page 19)		47	98
Paid on Borrowings (D)		39	42
Group Interest Paid (G=B+C+D)		**418**	**505**
Group ICR (A/G)	**1.00x**	**2.08x**	**2.03x**
Calculation of Group RAR			
Total RAB (see page 21) (H)		14,814	14,666
Net debt			
Senior Net Debt (see page 21) (I)		9,810	9,896
Junior Debt (see page 21) (J)		1,550	1,500
Borrower Net Debt (K)		726	763
Group Net Debt (L=I+J+K)		**12,086**	**12,159**
Junior RAR ((I+J)/H)	**82.0%**	**76.7%**	**77.7%**
Group RAR (L/H)	**90.0%**	**81.6%**	**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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