

News Release

24 February 2014

Heathrow (SP) Limited

Results for the year ended 31 December 2013

Heathrow (SP) Limited (formerly BAA (SP) Limited) owns Heathrow airport and together with its subsidiaries is referred to as the Group. Heathrow Finance plc is the parent company of Heathrow (SP) Limited.

- **Passenger satisfaction at a record high with 75% rating their experience excellent or very good, compared to 48% in 2007**
- **Record 72.3 million passengers at Heathrow in 2013, up 3.4%**
- **Strong revenue (up 11.3% to £2.5 billion) and EBITDA performance (up 23.1% to £1.4 billion) supported record £1.3 billion capital investment**
- **Pre-tax profit of £426 million, including £292 million gain on sale of Stansted airport**
- **Terminal 2: The Queen's Terminal opening in June 2014, following on-time completion of construction phase**
- **Heathrow shortlisted by Airports Commission which confirmed there is a clear need for a new runway in the South East of England**

At or for year ended 31 December <i>(figures in £m unless otherwise stated)</i>	2013	2012	Change (%)
Revenue ⁽¹⁾	2,474	2,222	11.3
Adjusted EBITDA ⁽¹⁾⁽³⁾	1,421	1,154	23.1
Cash generated from operations ⁽¹⁾	1,403	1,080	29.9
Adjusted pre-tax profit ⁽²⁾⁽⁴⁾	329	47	nm
Pre-tax profit / (loss) ⁽²⁾	426	(33)	nm
Heathrow (SP) Limited consolidated net debt ⁽²⁾⁽⁵⁾	11,264	11,360	(0.8)
Heathrow Finance plc consolidated net debt ⁽²⁾⁽⁵⁾	12,025	12,086	(0.5)
Regulatory Asset Base ⁽⁶⁾	14,585	14,814	(1.5)
Passengers (m) ⁽¹⁾⁽⁷⁾	72.3	70.0	3.4
Net retail income per passenger ⁽¹⁾⁽⁷⁾	£6.37	£6.21	2.6

For notes (1) to (7) see Definitions and Notes on page 2.

Colin Matthews, Chief Executive Officer of Heathrow, said:

“Heathrow performed strongly in 2013 with passenger satisfaction reaching record levels. The construction phase of Terminal 2 was completed and the opening in June will be another major step in the transformation of Heathrow. We also welcomed the Airports Commission's interim report shortlisting our proposal for a third runway. We are now asking for views so we can refine our proposal to suit the needs of the UK and the needs of the local community.”

Definitions and notes

- (1) 2013 data is for continuing operations, i.e. Heathrow only. 2012 operating data restated as Heathrow only and includes restatement of certain pension related items from employment costs to interest
- (2) 2012 as originally reported, i.e. includes Stansted Adjusted EBITDA
- (3) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
- (4) Adjusted pre-tax profit/(loss) is before exceptional items, gains/losses on disposals and fair value adjustments
- (5) Nominal net debt excluding intra-group loans and including inflation-linked accretion
- (6) Regulatory Asset Base (RAB) at end 2012 includes Stansted. Heathrow-only RAB at end 2012 was £13,471 million
- (7) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

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There will be a presentation of the results today at 3.00 pm (UK time)/4.00 pm (Central European time)/10.00 am (Eastern Standard Time) for bondholders and bank lenders to the Group and Heathrow Finance plc and credit analysts. The presentation will be hosted by Colin Matthews, Chief Executive Officer and José Leo, Chief Financial Officer. Dial-in details for the call are: UK free phone: 0808 237 0030; US free phone: 1866 928 7517; UK local/standard international: +44 (0)20 3139 4830. Participant PIN code is 31089740#. The presentation can be viewed online during the event, using event password: 643808 at:

<https://arkadin-trial.webex.com/arkadin-trial/j.php?ED=12650428&UID=491373747&PW=NZjzkODAwNmU2&RT=MTgjMjE%3D>

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These materials contain statements that are not purely historical in nature, but are "forward-looking statements". These include, among other things, projections, forecasts, estimates of income, yield and return, and future performance targets. These forward-looking statements are based upon certain assumptions, not all of which are stated. Future events are difficult to predict and are beyond the Group's control. Actual future events may differ from those assumed. All forward-looking statements are based on information available on the date hereof and neither the Group nor any of its affiliates or advisers assumes any duty to update any forward-looking statements. Accordingly, there can be no assurance that estimated returns or projections will be realised, that forward-looking statements will materialise or that actual returns or results will not be materially lower than those presented.

Any reference to "Heathrow (SP)" or "the Group" will include any of its affiliated associated companies and their respective directors, representatives or employees and/or any persons connected with them.

Heathrow (SP) Limited

Consolidated results for the year ended 31 December 2013

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1. Basis of presentation of results

The commentary on operating and financial performance focuses on the Group's continuing business at Heathrow airport, unless otherwise indicated. This reflects completion of the sale of Stansted airport on 28 February 2013 for £1.5 billion and enables a more meaningful comparison of performance between 2012 and 2013.

The financial results of Stansted for the period to 28 February 2013 and the gain on its disposal are included within discontinued operations in the financial information set out in Appendix 1.

2 Key business developments

2.1 Key features of the year

2013 was a positive year for the business marked by a number of key milestones. Passenger satisfaction at Heathrow reached record levels and for the first time Heathrow welcomed over 72 million passengers to the airport. Strong financial performance underpinned the ongoing transformation of the airport, most notably marked by the completion on time of Terminal 2's construction phase. In 2013, Heathrow became the full focus of the business as Stansted airport was sold for £1.5 billion. The independent Airports Commission published its interim findings and shortlisted Heathrow's proposal for hub expansion, recognising the need for new airport capacity in the South East of England.

Heathrow continues to progress in making every journey better. A key independently measured score for passenger satisfaction beat its previous annual high with 75% of Heathrow's passengers rating their experience in 2013 as excellent or very good. Skytrax named Heathrow Terminal 5 the World's Best Airport Terminal for the second year running and declared Heathrow the World's Best Airport Shopping.

Airports Council International also named Heathrow as Europe's Best Airport with more than 25 million annual passengers.

Almost 470,000 flights departed and landed at Heathrow in 2013, 10,000 below the maximum permitted. Despite operating close to full capacity, Heathrow delivered a robust overall operational performance in 2013. On average, aircraft were larger and fuller than in previous years, which led to a growth in traffic of 3.4%, to a record 72.3 million passengers.

Heathrow continued to invest heavily in transforming the airport, spending £1.3 billion in 2013. The new Terminal 2 has been the cornerstone of investment, completing construction of a main terminal building, a satellite terminal building, a car park and an energy centre. It will be known as 'Terminal 2: The Queen's Terminal' in honour of Her Majesty Queen Elizabeth II, and will be home to 26 airlines. Operations begin on 4 June 2014 with United Airlines, followed by a phased move of airlines until November 2014.

The next regulatory period for Heathrow's economic regulation ('Q6') begins on 1 April 2014. Following constructive engagement with airlines, Heathrow developed a five-year business plan. The plan set out operational and capital programmes to continue the transformation of Heathrow, focusing on service delivery and improving the experiences of passengers, whilst delivering operating efficiencies.

Following two phases of consultation on the plan, the CAA gave notice in January 2014, of its intention to set a maximum allowable yield per passenger of RPI minus 1.5% per year, with an assumed capital plan of £2.8 billion. On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services and this will take effect from 1 April 2014. The CAA has set a tough settlement for Q6 which Heathrow is reviewing in detail.

At the end of 2012 the UK government established the Airports Commission to examine the requirement for additional airport capacity to maintain the UK's position as Europe's most important aviation hub. In December 2013 the Commission published its interim report and 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 airport was shortlisted.

This option would raise the capacity at Heathrow to 740,000 flights a year, from the current limit of 480,000. It would cater for 130 million passengers and allow the UK to compete with international rivals as well as providing capacity for the foreseeable future. With the proposed north west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This is due to its position further from London, quieter new generation aircraft and changes in operating procedures. The company welcomes the inclusion of Heathrow in the shortlist and has begun working with local authorities, communities and other stakeholders, to refine the runway option, including public consultation.

The Commission will explore all options on its shortlist in more detail ahead of its full report due by the summer of 2015.

2.2 Passenger traffic

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2013:

<i>(figures in millions unless otherwise stated)</i>	2013	2012	Change (%) ⁽¹⁾
UK	5.0	4.7	5.9
Europe	29.9	28.7	4.4
North America	16.7	16.3	2.4
Asia Pacific	10.3	9.8	5.3
Middle East	5.9	5.6	4.4
Africa	3.5	3.9	(10.2)
Latin America	1.1	1.0	5.7
Total passengers⁽¹⁾	72.3	70.0	3.4

(1) These figures have been calculated using unrounded passenger numbers

For the year ended 31 December 2013, Heathrow's traffic increased 3.4% to a record 72.3 million passengers (2012: 70.0 million), with an average load factor of 76.4% (2012: 75.6%) and 202.8 average seats per aircraft (2012: 197.4). The rate of growth in traffic was boosted by the non-recurrence of the dip in demand experienced during the Olympic Games in 2012, estimated at around 720,000 passengers. Taking this into account, the underlying rate of growth for the year was in the region of 2.3%.

On a regional basis, Europe generated the most significant increase in traffic, with over 1.2 million additional passengers. This in part reflects the dampened demand in 2012 caused by the Olympics, which was more pronounced in short haul traffic. The underlying growth in the region reflects the integration of bmi routes into British Airways. UK traffic grew by 5.9% to 5.0 million passengers (2012: 4.7 million) partly reflecting the launch of UK domestic services by Virgin Atlantic Little Red at the start of the summer.

Long haul traffic performed well in most regions. Asia Pacific traffic increased 5.3% to 10.3 million passengers (2012: 9.8 million), as airlines launched new routes and frequencies including growth in China and India. Middle East traffic increased 4.4% to 5.9 million passengers (2012: 5.6 million) with larger aircraft and passenger growth from Emirates, Etihad and Saudi Airlines. The Americas benefitted from fuller planes, with the rate of growth in North American traffic increasing through the year, leading to an overall rise in passengers of 2.4% and Latin American traffic increased 5.7% to 1.1 million passengers (2012: 1.0 million).

Note: Since the start of 2013, Heathrow has changed the reporting of traffic statistics by geographic segment to make it consistent with international practice. The changes are set out in Appendix 2.

2.3 Enhancing Heathrow's facilities

Heathrow's investment programme in 2013 continued the transformation of the airport, with principal focus on the construction of the new Terminal 2. The terminal is to be named Terminal 2: The Queen's Terminal in honour of Her Majesty Queen Elizabeth II who opened the original Terminal 2 sixty years ago. It will be home to all 23 Star Alliance airlines operating at Heathrow as well as Aer Lingus, Germanwings and Virgin Atlantic Little Red.

The £2.5 billion investment in Terminal 2 comprises a main terminal building and a satellite building, together with a multi-storey short-stay car park, as well as an energy centre that supports the Terminal 2 campus and the wider airport. 24 fully serviced and fuelled aircraft stands, including seven A380 compatible stands, have been constructed together with taxiways that surround the buildings. Services have been installed to the buildings and surrounding infrastructure. Remaining activities include commissioning lifts, escalators and fire alarms; completing non-passenger facing areas; and modifications due to the change in airline occupancy driven by the end of bmi operations following its acquisition by British Airways.

The project moved on time from the construction phase to the operational readiness phase in November 2013. Extensive trials and familiarisation activities are underway, to ensure operational readiness of the facility and of the 24,000 people from 160 different organisations that will work at Terminal 2. Operations start on 4 June 2014 with United Airlines, followed by a phased move of airlines into the terminal over the following six months.

In addition, significant investment continues on Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational. Delivery of the Terminal 3 integrated baggage system remains on track to start operation in 2015. The integrated baggage system is housed in a separate building and will provide Terminal 3 with an integrated departing and transferring baggage system. The building has been made weather-tight and the baggage system is now being assembled inside the building.

Heathrow's southern runway was resurfaced during 2013 with works carried out during night closures of the runway. The northern runway will be resurfaced in 2014.

2.4 Service standards

Heathrow's focus on transforming the experience of passengers travelling through the airport continued to receive significant endorsement from the travelling public in 2013.

In the 2013 Skytrax World Airport Awards, Terminal 5 was named the World's Best Airport Terminal for the second consecutive year and Heathrow was declared the World's Best Airport Shopping. Heathrow was also named among Skytrax top 10 global airports for the first time. Separately in June, Heathrow was named Best Airport in the 2013 ACI Europe Awards: Europe's Best Airport (with over 25 million annual passengers).

Underpinning these endorsements, in the independent Airport Service Quality survey, directed by Airports Council International (ACI), 75% of Heathrow passengers surveyed rated their experience as 'Excellent' or 'Very Good', beating the previous annual high of 73% in 2012. In addition, Heathrow achieved its highest ever overall passenger satisfaction score of 3.99 for the first two quarters of 2013 and 3.97 in the final quarter. As a result, Heathrow achieved a record overall performance of 3.97 in 2013, reflecting a notable improvement over last year (2012: 3.94).

In relation to individual service standards, during the year ended 31 December 2013, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 77% (2012: 78%). Heathrow's baggage misconnect rate was 14.5 per 1,000 passengers (2012: 15.0). On security queuing, passengers passed through central security within the five minute period prescribed under the service quality rebate scheme 90.9% of the time (2012: 92.8%) compared with a 95% service standard. The security queue experience remains a key priority of the business and a range of initiatives have been implemented to improve performance. In order to meet increased passenger volumes, additional security officers are being recruited and further security lanes are being introduced during 2014.

2.5 Heathrow's development for the next 5 years

The next regulatory period ('Q6') for economic regulation of Heathrow begins on 1 April 2014. Following constructive engagement with airlines, Heathrow proposed a five-year business plan in January 2013, which set out its operational and capital plan to continue the transformation of Heathrow, focusing on service delivery and improving the passenger experience, whilst delivering operating efficiencies and a fair return on investment. Following publication of the Business Plan, Heathrow has been engaged in the consultation process run by the CAA throughout 2013.

On 30 April 2013, the CAA published Initial Proposals for Q6 proposing price controls, a change to the maximum allowable yield per passenger of RPI minus 1.3% per year and a draft licence. In response to the Initial Proposals, Heathrow refreshed its plans which included increased efficiency savings of £427 million and updated passenger forecasts. The CAA published Final Proposals for Q6 on 3 October 2013 which proposed a change to the maximum allowable yield per passenger of RPI +0% per year and assumed a capital investment plan of £2.885 billion.

On 10 January 2014, the CAA gave notice of its proposed licence to Heathrow under the Civil Aviation Act 2012, under which the maximum allowable yield per passenger will be RPI minus 1.5% per year (RPI minus 1.2% per year on a five-year adjusted basis), with an assumed capital plan of £2.81 billion (£2.95 billion on a five-year adjusted basis). The main changes to the CAA's previous proposal were an increase of 5.7 million passengers to the traffic forecast and a 25 basis point reduction in the assumed cost of capital. In addition, the duration of the next regulatory period has been amended to 4 years and 9 months, to align the regulatory year with Heathrow's financial year.

On 13 February 2014, the CAA formally granted Heathrow's licence to charge fees for the provision of airport services and this will take effect from 1 April 2014, when the previous regulatory settlement will end. Heathrow and other parties with a qualifying interest have until 27 March 2014 to seek permission to appeal the decision on the price controls.

2.6 Airports Commission

At the end of 2012 the UK government established the Airports Commission, chaired by Sir Howard Davies. The Airports Commission was tasked with examining the requirement for additional airport capacity to maintain the UK's position as Europe's most important aviation hub. On 17 July 2013, Heathrow submitted three third runway options for the Airports Commission to consider. The options were located to the north west, south west or north of the existing airport.

On 17 December 2013, the Commission published its interim report on the steps needed to maintain the UK's global 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 and shortlisted potential sites for further analysis and assessment: 1) a 3,500 metre runway proposed by Heathrow to the north west of the airport; 2) a separate proposal by Heathrow Hub Limited to lengthen Heathrow's existing northern runway to 6,000 metres; and 3) a new runway at Gatwick Airport south of the existing runway. In addition, the Commission recommended short-term actions to improve the use of existing runway capacity in the next 5 years.

Heathrow's north west third runway option would raise the capacity at Heathrow to 740,000 flights a year, from the current limit of 480,000. It would cater for 130 million passengers annually compared to 80 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future and is designed to evolve to four runways if required.

The north west runway option is to the west of the short third runway proposal under the 2003 Air Transport White Paper. With a north west third runway there will be 15% fewer people within Heathrow's noise footprint in 2030 than today. This is due to its positioning further from London, quieter new generation aircraft and changes in operating procedures. The option maintains the principle of runway alternation to provide periods of respite from noise for all communities around Heathrow.

Construction of the new runway could be completed in six years with an estimated earliest operational date of 2026 at an estimated cost of £17 billion, of which £11 billion relates to airport infrastructure. The proposal is based on private funding of the core airport infrastructure, investment over approximately 15 years, on the basis of an appropriate regulatory regime in place to give long-term visibility of returns to investors commensurate with risk. The remaining £6 billion comprises £2 billion of surface access costs and £4 billion of environmental or community costs, which may be more appropriately funded by Government.

The company welcomes the inclusion of Heathrow in the shortlist and is reviewing the detail of the Commission's report. Heathrow has begun working with local authorities, communities and other stakeholders to refine the runway option, including a first public consultation which started on 3 February. A refined proposal will be submitted to the Airports Commission in May 2014. The Airports Commission is due to report its final findings in summer 2015.

3 Financial review

3.1 Basis of preparation

Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts and quarterly reports are prepared under UK GAAP. Audited consolidated financial information is set out in Appendix 1 in which Stansted is treated as a discontinued operation in the current and prior year operating financial information.

In order to provide a more meaningful comparison of performance between 2012 and 2013, the information presented in sections 3.2.2 to 3.2.6, 3.3.2 and 3.3.3 focuses on the Group's continuing operations by excluding Stansted from current and prior year operating financial information.

From 1 January 2013, the reporting of certain intra-group services has changed, impacting both reported turnover and costs. Prior to this date, the Group incurred the costs of providing certain services to the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'). The related intra-group

transactions were separately recorded by the Group firstly as Other Income for charges made by it to LHR Airports Limited ('LHR Airports'), the Heathrow Airport Holdings Group's shared services provider, and secondly as Intra-group charges made by LHR Airports for the part of the charges attributable to the Group's airports, including Heathrow. From 1 January 2013, only services provided to non-Heathrow airports are charged out, with the corresponding settlement reported in Other Income. Consequently the 2013 amounts for Other Income and General Expenses are not directly comparable with 2012 amounts.

From 1 January 2013, the classification in the profit and loss account of the financial return on the pension scheme assets has been reported in interest, where previously it was reported in employment costs. In order to reflect the change in accounting policy, employment costs, operating costs, Adjusted EBITDA, operating profit and net interest payable and similar charges have been restated. For 2012, the restatement removes a credit of £16 million related to the defined benefit pension scheme from employment costs and restates it as interest receivable. There is no impact on the balance sheet or cash flows of the Group from this change. See Appendix 1, General Information and Accounting Policies for further information.

3.2 Profit and loss account

3.2.1 Introduction

The profit and loss account below provides more detailed disclosure than the statutory format in Appendix 1 in order to enable a better understanding of the results of Heathrow's operations.

Year ended 31 December	2013	2012
	£m	£m
Group turnover – total	2,506	2,464
Group turnover – discontinued operations	(32)	(242)
Group turnover – continuing operations	2,474	2,222
Adjusted Operating Costs – continuing operations ⁽¹⁾	(1,053)	(1,068)
Adjusted EBITDA – continuing operations⁽²⁾	1,421	1,154
Operating costs – exceptional – pensions – continuing operations	(76)	(152)
Operating costs – exceptional – other – continuing operations	(38)	-
EBITDA – continuing operations	1,307	1,002
Depreciation – ordinary – continuing operations	(448)	(470)
Operating profit – continuing operations	859	532
Operating profit – discontinued operations	-	23
Operating profit – total	859	555
Impairment of fixed assets	-	(5)
Gain/(loss) on disposal of Stansted - discontinued operations	292	(4)
Net interest payable and similar charges	(644)	(691)
Fair value (loss)/gain on financial instruments	(81)	112
Total net interest payable and similar charges	(725)	(579)
Profit/(loss) on ordinary activities before taxation	426	(33)
Tax charge on profit/(loss) on ordinary activities	(37)	(8)
Profit/(loss) on ordinary activities after taxation	389	(41)

(1) Adjusted operating costs are stated before depreciation, amortisation and exceptional items

(2) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

3.2.2 Turnover

In the year ended 31 December 2013, Heathrow's turnover increased 11.3% to £2,474 million (2012: £2,222 million).

<i>Year ended 31 December</i>	2013 £m	2012 £m	Change (%)
Aeronautical income	1,523	1,280	19.0
Retail income	487	460	5.9
Other income	464	482	(3.7)
Total turnover	2,474	2,222	11.3

3.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 19.0% to £1,523 million (2012: £1,280 million). Average aeronautical income per passenger increased 15.1% to £21.06 (2012: £18.29).

The performance reflects passenger traffic growth and increases in headline tariffs. In addition, since the second quarter of 2013 the growth also reflects recovery of yield dilution in the 2011/12 regulatory year through the 'K' factor mechanism. This is combined with yield concentration in 2013 and the non-recurrence of substantial yield dilution experienced in 2012.

3.2.2.2 Retail income

In the year ended 31 December 2013, Heathrow's retail income increased 5.9% to £487 million (2012: £460 million). Net retail income ('NRI') grew 6.2% to £461 million (2012: £434 million) and NRI per passenger rose 2.6% to £6.37 (2012: £6.21).

<i>Year ended 31 December</i>	2013 £m	2012 £m	Change (%)
Car parking	91	82	11.0
Duty and tax-free	126	122	3.3
Airside specialist shops	96	92	4.3
Bureaux de change	45	44	2.3
Catering	39	38	2.6
Other retail income	90	82	9.8
Gross retail income	487	460	5.9
Retail expenditure	(26)	(26)	-
Net retail income	461	434	6.2

The main segments of growth in retail income in 2013 were car parking and car rental which generated an additional £12 million. Growth in airside specialist shops income was driven by luxury retail shops which strengthened during 2013, having experienced a soft start to the year, the growth helped to offset the impact from the unplanned closure of HMV stores which went into administration in early 2013.

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.

3.2.2.3 Other income

Increases in rail income, property rental and operational facilities and utilities income totalled £11 million. These increases were offset by a reduction of £29 million in other income which primarily related to a change in the way in which the recharge of intra-group services is recorded. See section 3.1 Basis of Preparation.

3.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2013, adjusted operating costs reduced by 1.4% to £1,053 million (2012: £1,068 million).

<i>Year ended 31 December</i>	2013 £m	2012 £m	Change (%)
Employment costs	392	381	2.9
Maintenance expenditure	164	154	6.5
Utility costs	85	87	(2.3)
Rents and rates	116	124	(6.5)
General expenses	270	296	(8.8)
Retail expenditure	26	26	-
Total	1,053	1,068	(1.4)

The main drivers of change in adjusted operating costs were higher employment costs and maintenance expenses, mainly offset by lower reported general expenses. On a comparable basis between 2013 and 2012, stripping out the one-off Olympic Games costs and aligning the basis of general expenses, underlying operating costs increased by approximately 3%.

Employment costs continue to be a focus for the business, and major restructuring activities are taking place to deliver Heathrow's business plan for the next five years and ongoing business efficiency. The Group achieved efficiencies in 2013 through management pay freezes and headcount savings, these partially offset contractually agreed pay increases and bonuses.

During the year Heathrow consolidated its baggage system maintenance contracts to a single supplier. The increase of £10 million in maintenance costs in part reflects a one-off charge relating to these contract changes. The contract has already started to deliver savings in employment costs and general expenses and is expected to deliver around £100 million savings through the next regulatory period.

General expenses were broadly flat on an underlying basis after removing the Olympic costs from 2012 and taking account of the change in the recharge of intra-group services following the disposal of Stansted airport. In 2013, extra costs were incurred in ensuring operations were maintained during adverse weather in January.

Other cost benefits were achieved when annual inflation-linked rises in property rates were offset by one-off credits awarded from recent rates valuation assessments.

3.2.4 Adjusted EBITDA

In the year ended 31 December 2013, Adjusted EBITDA increased 23.1% to £1,421 million (2012: £1,154 million), resulting in an Adjusted EBITDA margin of 57% (2012: 52%).

The increase in Adjusted EBITDA from 2012 principally reflects the increase in aeronautical income discussed in section 3.2.2.1.

In the year ended 31 December 2013, restructure charges incurred in delivering the operating efficiency programme and costs associated with Terminal 2 preparation are classified as exceptional items.

The restructure charges and Terminal 2 operational readiness costs will continue to be treated as exceptional items in 2014. The forecasts for Adjusted EBITDA that were published in December 2013 included these costs in operating expenses. Therefore this treatment will drive a higher Adjusted EBITDA in 2013 and 2014 than previously published whilst the impact is cash flow neutral.

3.2.5 Operating result

The Group recorded an operating profit for the year ended 31 December 2013 of £859 million (2012: £532 million). Reconciliation of Adjusted EBITDA and statutory operating result is provided below.

<i>Year ended 31 December</i>	2013 £m	2012 £m	Change (%)
Adjusted EBITDA	1,421	1,154	23.1
Depreciation	(448)	(470)	(4.7)
Exceptional items	(114)	(152)	(25.0)
Operating profit	859	532	61.5

3.2.6 Exceptional items

In the year ended 31 December 2013, there was a net exceptional pre-tax charge of £114 million (2012: £152 million) to the profit and loss account. The exceptional charge relates to pension scheme charges, restructure charges and preparation costs for the opening of Terminal 2.

<i>Year ended 31 December</i>	2013 £m	2012 £m
Pension	(76)	(152)
Restructure	(22)	-
Terminal 2 operational readiness	(16)	-
Exceptional pre-tax charge	(114)	(152)

A non-cash pension charge of £76 million (2012: £152 million) arose principally from Heathrow's share of the increase in liabilities under the LHR Airports Limited defined benefit pension scheme since 31 December 2012, driven by movements in actuarial assumptions.

A significant restructure of the organisation began in 2013 as part of the programme to deliver operational efficiencies during Heathrow's next regulatory period. In 2013, £22 million of restructure costs were incurred. Due to the size and nature of the programme, these charges are classified as exceptional operating items.

Terminal 2 operational readiness costs mainly relate to familiarisation, induction and training activities and the ramp up of operational costs following the move of Terminal 2 from the construction phase to the operational phase. In 2013 operational readiness costs of £16 million were incurred.

3.2.7 Taxation

The tax charge for the year ended 31 December 2013 results in an effective tax rate of 8.7%. This reflects the tax charge arising on ordinary activities of £65 million together with a tax credit of £28 million due to the impact on the deferred tax liabilities of the reductions in the main rate of UK corporation tax.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result the Group's deferred tax balances which were previously provided for at 23% have been re-measured at the rate of 20%. This has resulted in a reduction in the net deferred tax liability of £10 million with £28 million credited to the profit and loss account and £18 million charged to reserves.

The Group's disposal of Stansted Airport Limited has no associated tax charge as it qualifies for the Substantial Shareholding Exemption.

3.3 Cash flow

3.3.1 Summary cash flow

<i>Year ended 31 December</i>	2013	2012
	£m	£m
Net cash inflow from operating activities – continuing	1,403	1,080
Net cash inflow from operating activities – discontinued	5	84
Net cash inflow from operating activities – total	1,408	1,164
Net interest paid	(521)	(428)
Taxation – group relief paid	(28)	(28)
Cash flow after interest and tax	859	708
Net capital expenditure	(1,285)	(1,157)
Disposal of Stansted airport	1,410	(6)
Dividends paid	(661)	(436)
Net cash inflow/(outflow) before use of liquid resources and financing	323	(891)
Management of liquid resources	(43)	(12)
Cancellation and restructuring of derivatives	(3)	(76)
Settlement of accretion on index-linked swaps	(176)	(80)
Increase in amount owed to Heathrow Finance plc	4	270
Movement in borrowings and other financing flows	(92)	782
Increase/(decrease) in cash	13	(7)

3.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the year ended 31 December 2013 increased 29.9% to £1,403 million (2012: £1,080 million) which compares with Adjusted EBITDA of £1,421 million (2012: £1,154 million). The operating cash flow was £18 million lower than Adjusted EBITDA principally as a result of pension cash contributions being higher than pension service charges and a cash outflow relating to exceptional Terminal 2 operational readiness costs, partially offset by an increase in amounts due to LHR Airports Limited.

3.3.3 Capital expenditure

In the year ended 31 December 2013, the cash flow impact of capital investment was £1,285 million, of which £1,283 million related to Heathrow (2012: £1,157 million, including £1,141 million at Heathrow).

The most significant areas of capital expenditure at Heathrow were on the new main Terminal 2 building, the second phase of the satellite building for the new Terminal 2 and the new integrated baggage system for Terminal 3.

3.3.4 Restricted payments

In the year ended 31 December 2013, restricted payments of £716 million (2012: £485 million) were made out of the Group.

The Group's ultimate shareholders received £255 million in quarterly dividends (2012: £240 million). A further £300 million return was made to shareholders on their historic investment in Stansted airport following its disposal. These dividends were funded from restricted payments from the Group, except for £51 million which was funded from cash resources outside the Group.

A further £212 million in restricted payments were made relating to servicing of debt elsewhere in the FGP Topco Limited group ('FGP Topco Group') and rebalancing of debt at different levels of the FGP Topco Group's capital structure. This included funding £43 million in external interest payments on Heathrow Finance plc's ('Heathrow Finance') external debt, funded by £55 million (2012: £49 million) in interest payments on the debenture between Heathrow (SP) and Heathrow Finance. The remaining £169

million in restricted payments was utilised, together with £35 million in incremental debt raised at Heathrow Finance in the year, principally in the servicing or refinancing of debt held at ADI Finance 1 Limited ('ADIF1') and ADI Finance 2 Limited ('ADIF2'). This included £95 million used to repay part of the £600 million ADIF1 facility, which was replaced by facilities of £505 million at ADIF2 in July 2013.

3.4 Pension scheme

At 31 December 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £93 million (2012: £103 million) as measured under FRS 17, of which £81 million (2012: £92 million) was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. The decrease in the Group's share of the deficit is mainly due to cash contributions and the commutation payment related to the sale of Stansted airport, offset by an increase in the assumed inflation rate applied to future scheme liabilities.

3.5 Recent financing activity

The recent focus of the Group's financing activities has been to take advantage of attractive financing market conditions during 2013 to refinance existing debt, optimise the Group's long-term cost of debt and extend its debt maturity profile. This activity has further strengthened the long term financing platform established in recent years.

The Group completed nearly £1.0 billion of new debt financings in the year including in particular a £750 million 33 year Class A bond, which had the lowest coupon of any long dated sterling bond issue ever completed by the Group, at 4.625%.

Further, Heathrow completed £275 million of Class A and Class B revolving credit facilities (including £100 million of Class B facilities completed since the end of 2013) at lower cost than the equivalent tranches under its core revolving credit facilities. Also since the end of 2013, Heathrow Funding Limited placed £200 million in Class A index-linked bonds with 18, 25 and 35 year maturities with a single investor.

The Group has actively taken steps to repay relatively expensive debt as it has put in place more attractively priced new financing. It has taken advantage of the £275 million in new revolving credit facilities referred to above to reduce its more expensive core revolving credit facilities by £200 million since the beginning of 2014. In addition, Heathrow's previous Class B term loan facility due September 2014, which amounted to £150 million at the end of 2012, was repaid in full during 2013.

This financing activity has enabled the Group to increase the average life of its external debt from 10.1 years at 31 December 2012 to 11.4 years at 31 December 2013 with the amount of debt falling due within 3 years being £2.1 billion compared to £1.8 billion at the end of 2012.

As highlighted last year, the Group expects the scale of its funding requirements to remain relatively modest, at an average of less than £1.5 billion per annum, over the coming years. This reflects a reduced capital programme and continued increases in operating cash flow at Heathrow through its next regulatory period ending in 2018.

3.6 Financing position

3.6.1 Consolidated net debt and liquidity at Heathrow (SP) Limited

The analysis below focuses on the Group's external debt and excludes restricted cash and the debenture between Heathrow (SP) and its parent company, Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During 2013, the Group's nominal net debt decreased 0.8% to £11,264 million at 31 December 2013 from £11,360 million at 31 December 2012. The lower net debt reflects debt repayment from the proceeds of the sale of Stansted airport together with operating cash flow more than offsetting the very substantial capital investment at Heathrow during 2013, interest payments, accretion on the Group's index-linked swaps and bonds and restricted payments made out of the Group.

The Group's nominal net debt at 31 December 2013 comprised £10,614 million under bond issues, £80 million under the Group's revolving credit facilities, £215 million under other loan facilities, £448 million in index-linked derivative accretion and cash at bank and term deposits of £93 million. Nominal net debt comprised £9,864 million in senior net debt and £1,400 million in junior debt.

The accounting value (which includes £94 million balance sheet cash and current asset investments) of the Group's net debt at 31 December 2013 was £10,712 million (2012: £10,852 million).

The average cost of the Group's external gross debt at 31 December 2013 was 4.53% (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 Group's average cost of debt at 31 December 2013 was 6.01% (2012: 5.83%). The change in the average cost of debt is mainly due to an increase in the Group's proportion of fixed rate debt through the use of interest rate swaps.

At 31 December 2013, the Group had approximately £2.2 billion in undrawn loan facilities and cash resources. Since the beginning of 2014, the Group has completed further debt financings and repaid or partially cancelled existing debt facilities. Taking this into account, together with expected operating cash flow over the period, the Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, until early 2016.

3.6.2 Consolidated net debt at Heathrow Finance plc

Taking into account the Group's nominal net debt discussed in section 3.6.1, together with £763 million of gross debt and £2 million of cash held at Heathrow Finance, Heathrow Finance's consolidated nominal net debt at 31 December 2013 was £12,025 million, a decrease of 0.5% from £12,086 million at 31 December 2012.

3.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 31 December 2013 was £14,585 million compared to £13,471 million at 31 December 2012. Stansted's RAB at 31 December 2012, which was used in determining the Group's gearing at that date, was £1,343 million. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The increase in Heathrow's RAB during the year ended 31 December 2013 reflected the addition of approximately £1.3 billion in capital expenditure and indexation adjustments of around £370 million. The increases were partially offset by regulatory depreciation of around £585 million and a modest amount of asset disposals and RAB profiling adjustments.

3.6.4 Net interest payable and net interest paid

In the year ended 31 December 2013, the Group's net interest payable was £725 million (2012: £579 million) and net interest paid was £521 million (2012: £428 million). A reconciliation from interest payable on the profit and loss account to interest paid on the cash flow statement is provided below.

<i>Year ended 31 December</i>	2013	2012
	£m	£m
Net interest payable and similar charges	(725)	(579)
Fair value loss/(gain) on financial instruments	81	(112)
Amortisation of financing fees, discounts and fair value adjustments	39	45
Interest capitalised	(164)	(100)
Underlying net interest payable	(769)	(746)
Non-cash accretion on index-linked instruments	202	191
Other movements	46	127
Net interest paid	(521)	(428)

Underlying net interest payable was £769 million (2012: £746 million) after adjusting for the fair value loss on financial instruments of £81 million (2012: £112 million gain); capitalised interest of £164 million (2012: £100 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of bonds of £39 million (2012: £45 million).

The non-cash, fair value loss is principally due to changes in the mark-to-market value of index-linked swaps. The mark-to-market value of index-linked swaps had been positively impacted during 2012 by the expectation that the Office for National Statistics (ONS) would alter the calculation methodology for the Retail Price Index. The announcement by the ONS in early 2013 not to alter the methodology led to a reversion in 2013 to higher RPI expectations. The fair value loss on index-linked swaps in 2013 was partially offset by positive mark-to-market movements on interest-rate swaps arising from recent higher interest rate expectations and a greater amount of these swaps no longer being hedge accounted.

The difference between underlying net interest payable and net interest paid is primarily accounted for by non-cash accretion on index-linked instruments of £202 million (2012: £191 million).

Net interest paid in the period was £521 million (2012: £428 million) of which £466 million (2012: £379 million) was paid in relation to external debt. The increase in net interest paid on external debt partly reflects the first time payment of coupons on bond issues completed in 2012. In addition, the shift from floating rate loans to fixed rate bonds contributed to this increase. The remaining £55 million (2012: £49 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

3.6.5 Financial ratios

The Group and Heathrow Finance continue to operate comfortably within required financial ratios.

At 31 December 2013, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.6% and 77.2% respectively (2012: 66.2% and 76.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 82.4% (2012: 81.6%) compared to a covenant level of 90.0% under its financing agreements.

The disposal of Stansted and subsequent use of disposal proceeds resulted in a modest reduction in gearing. The net increase in Heathrow (SP)'s and Heathrow Finance's gearing since 31 December 2012 is therefore primarily due to the effect of the restricted payments linked to partial repayment of the previous loan facility at ADI Finance 1 Limited, referred to in section 3.3.4.

In the year ended 31 December 2013, the Group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 3.08x and 2.43x respectively (2012: 2.62x and 2.30x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.22x (2012: 2.08x) compared to a covenant level of 1.00x under its financing agreements. In 2012 and 2013 there were exceptional cash costs of £4 million and £16 million respectively.

3.7 Outlook

Heathrow expects continued growth in revenue, Adjusted EBITDA and operating cash flow in 2014, primarily driven by higher passenger traffic, increased aeronautical charges and operating efficiencies, which in combination will mitigate costs related to operating an additional terminal once Terminal 2 opens.

Traffic momentum in early 2014 has remained strong and the incremental change to the tariff formula for the regulatory period beginning 1 April 2014, recently announced by the CAA, does not materially impact previously published 2014 forecasts.

Therefore at this early stage in the year, other than Terminal 2 operational readiness costs now being classified as exceptional items, the outlook for 2014 remains consistent with the guidance set out in the December 2013 Investor Report.

Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2013

	Note	Audited Year ended 31 December 2013 £m	Restated ¹ Audited Year ended 31 December 2012 £m
Turnover – continuing operations	1	2,474	2,222
Turnover – discontinued operations	1	32	242
Total turnover	1	2,506	2,464
Operating costs – ordinary: continuing operations	2	(1,501)	(1,538)
Operating costs – ordinary: discontinued operations	2	(32)	(188)
Total operating costs - ordinary	2	(1,533)	(1,726)
Operating costs – exceptional: other continuing operations	3	(38)	-
Operating costs – exceptional: pensions continuing operations	3	(76)	(152)
Operating costs – exceptional: pensions discontinued operations	3	-	(31)
Total operating costs – exceptional	3	(114)	(183)
Total operating costs		(1,647)	(1,909)
Operating profit – continuing operations	1	859	532
Operating profit – discontinued operations	1	-	23
Total operating profit	1	859	555
Impairment of fixed assets	3	-	(5)
Gain/(loss) on disposal of Stansted	4	292	(4)
Interest receivable and similar income	5	236	266
Interest payable and similar charges	5	(880)	(957)
Fair value (loss)/gain on financial instruments	5	(81)	112
Net interest payable and similar charges	5	(725)	(579)
Profit/(loss) on ordinary activities before taxation		426	(33)
Tax charge on profit/(loss) on ordinary activities	6	(37)	(8)
Profit/(loss) on ordinary activities after taxation		389	(41)

¹ The presentation of turnover and operating profit has been restated following the completion of the disposal of Stansted airport on 28 February 2013. Comparative balances for the year ended 31 December 2012 have been restated as explained in the accounting policies note.

Heathrow (SP) Limited
Consolidated balance sheet
as at 31 December 2013

	Note	Audited 31 December 2013 £m	Audited 31 December 2012 £m
Fixed assets			
Tangible fixed assets		12,830	12,961
Financial assets – derivative financial instruments		165	306
Total fixed assets		12,995	13,267
Current assets			
Stocks		9	9
Debtors		352	313
Financial assets – derivative financial instruments		135	-
Current asset investments		75	32
Cash at bank and in hand		19	6
Total current assets		590	360
Current liabilities			
Creditors: amounts falling due within one year	7	(1,449)	(1,232)
Net current liabilities		(859)	(872)
Total assets less current liabilities		12,136	12,395
Creditors: amounts falling due after more than one year	7	(12,213)	(12,427)
Deferred tax		(148)	(103)
Provisions for liabilities		(127)	(122)
Net liabilities		(352)	(257)
Capital and reserves			
Called up share capital		11	11
Share premium reserve		499	499
Revaluation reserve		461	835
Merger reserve		(3,758)	(4,536)
Fair value reserve		(310)	(455)
Profit and loss reserve	8	2,745	3,389
Total shareholder's deficit		(352)	(257)

Heathrow (SP) Limited

**Consolidated summary cash flow statement
for the year ended 31 December 2013**

	Note	Audited Year ended 31 December 2013 £m	Restated ¹ Audited Year ended 31 December 2012 £m
Operating profit - continuing operations	1	859	532
<i>Adjustments for:</i>			
Depreciation		448	470
<i>Working capital changes:</i>			
Increase in stock and debtors		(19)	(25)
Increase/(decrease) in creditors		21	(10)
Net release of provisions		(4)	(4)
Increase in intercompany payable ²		51	-
Difference between pension charge and cash contributions		(29)	(35)
Exceptional pension charge		76	152
Net cash inflow from operating activities - continuing		1,403	1,080
Net cash inflow from operating activities - discontinued		5	84
Total net cash inflow from operating activities		1,408	1,164
Net interest paid		(521)	(428)
Taxation – group relief paid		(28)	(28)
Net capital expenditure		(1,285)	(1,157)
Disposal of Stansted Airport Limited		1,410	(6)
Dividends paid	8	(661)	(436)
Net cash inflow/(outflow) before use of liquid resources and financing		323	(891)
Management of liquid resources		(43)	(12)
Issuance of bonds	7	745	3,082
Repayment of bonds	7	(396)	(680)
Net (repayment)/drawdown of revolving credit facilities	7	(227)	307
Repayment of capital expenditure facility	7	-	(1,395)
Repayment of facilities and other financing items	7	(214)	(532)
Increase in amount owed to Heathrow Finance plc	7	4	270
Settlement of accretion on index-linked swaps		(177)	(80)
Cancellation and restructuring of derivatives		(2)	(76)
Net cash (outflow)/inflow from financing		(267)	896
Increase/(decrease) in cash		13	(7)

¹ Operating cash flow has been re-presented for 2012 to separately reconcile from operating profit of continuing operations to net cash inflow from operating activities - continuing. Operating cash flow has been restated for pension finance income as explained in accounting policies.

² Reflects an increased amount payable to LHR Airports for restructuring costs of £22 million, accruals of £28 million and other amounts in the ordinary course of business.

Heathrow (SP) Limited

General information and accounting policies

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2013 or 31 December 2012. The annual financial information presented herein for the year ended 31 December 2013 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2013. The auditors' report on the 2013 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2013.

Changes in accounting policies

Following a review of accounting policies it was considered appropriate to amend the presentation of the net of the interest cost and the expected return on assets relating to the defined benefit pension scheme in the profit and loss account. Previously the amount was presented as a component of employment costs, but it is considered it provides greater clarity and is consequently more appropriate for the amount to be included as a component of interest.

The prior year profit and loss account has been restated to reflect this change, increasing employment cost and reducing interest cost by £16 million compared to the amounts previously reported and reducing operating profit to £555 million from £571 million. The impact on the current year has been to increase employment costs and reduce interest cost and operating profit by £7 million. There has been no impact on the balance sheet or cash flows of the group from this change in presentation.

Discontinued operations

Stansted airport has been classified as discontinued operations due to the completion of its disposal on 28 February 2013. Where necessary, comparative balances have been restated in the consolidated profit and loss account, consolidated summary cash flow statement and associated notes.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

1 Segment information

The directors consider that following the completion of the disposal of Stansted the business has one segment 'Heathrow', Heathrow Airport together with Heathrow Express. All of the Group's turnover arises in the United Kingdom. Additional details of the turnover generated by each of the Group's key activities are given below:

Turnover	Audited Year ended 31 December 2013	Audited Year ended 31 December 2012
	£m	£m
Aeronautical income	1,523	1,280
Retail income	487	460
Operational facilities and utilities income	165	163
Property rental income	104	103
Rail income	124	116
Other income	71	100
Turnover – continuing operations	2,474	2,222
Turnover – discontinued operations	32	242
Total turnover	2,506	2,464

Reconciliation of Adjusted EBITDA and operating profit

Adjusted EBITDA has been used to provide a clearer indication of the performance of the Group and to assist better comparison with the prior period. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

Audited Year ended 31 December 2013	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	1,421	(114)	(448)	859
Stansted - discontinued operations	7	-	(7)	-
Total	1,428	(114)	(455)	859

Audited Year ended 31 December 2012	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	1,154	(152)	(470)	532
Stansted - discontinued operations	94	(31)	(40)	23
Total	1,248	(183)	(510)	555

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

2 Operating costs – ordinary

	Audited Year ended 31 December 2013	Restated ¹ Audited Year ended 31 December 2012
	£m	£m
Employment costs ²	392	381
Maintenance expenditure	164	154
Utility costs	85	87
Rents and rates	116	124
General expenses	270	296
Retail expenditure	26	26
Depreciation	448	470
Operating costs – ordinary: continuing operations	1,501	1,538
Operating costs – ordinary: discontinued operations	32	188
Total operating costs – ordinary	1,533	1,726

¹ The presentation of certain balances for the year ended 31 December 2012 has been restated and is explained in the accounting policies note.

² Employment costs include recharges from LHR Airports Limited for employee services to the Group's business.

3 Operating and non-operating exceptional items

Operating costs – exceptional: other

Costs associated with the Group's change programmes amounting to £22 million were charged in the year (2012: £nil). The charge relates to severance and pension payments associated with a restructuring programme being carried out in 2013 and 2014.

Operational readiness costs of £16 million are associated with managing the opening of Terminal 2 and primarily are for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 moves from the construction phase to the operational phase.

Operating costs – exceptional: pension

Under the Shared Services Agreement ('SSA') the current period service cost for the Heathrow Airport Holdings Limited group pension schemes are recharged to Heathrow Airport Limited ('HAL') and Heathrow Express Operating Company Limited ('HEX') on the basis of their pensionable salaries. This charge is included within Operating costs. Cash contributions are made directly by HAL and HEX to the LHR Airports Limited pension schemes.

Since August 2008, HAL and HEX have had an obligation under the SSA, to fund or benefit from their share of the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries. Movements in these provisions or assets are recorded as exceptional items due to their size and nature with a share of the net return on the pension deficit or surplus included within interest receivable or interest payable from 1 January 2013 and restated for the year ended 31 December 2012 to provide a meaningful comparison.

For the year ended 31 December 2013 an exceptional pension charge of £76 million was incurred relating to continuing operations (2012: £152 million). This represents HAL and HEX share of the movement in the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. The discontinued operations exceptional pension charge of £31 million in 2012 relates to Stansted airport's share of the movement in the LHR Airports Limited defined benefit pension scheme.

Impairment of fixed assets – exceptional

In the year ended 31 December 2012, an impairment of £5 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their sale which was completed in 2013.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

4 Disposal of Stansted airport

	Audited Year ended 31 December 2013 £m
Tangible fixed assets	1,207
Stocks	2
Debtors : due within one year	28
Cash at bank and in hand	31
Creditors : amounts falling due within one year	(28)
Deferred tax liabilities	(28)
Pension liability	(15)
Net assets disposed	1,197
Add disposal costs	23
Less pension gain	(12)
Carrying value of disposed operations	1,208
Consideration satisfied by cash	(1,500)
Gain on disposal of Stansted airport	292

Proceeds of £1,500 million were received on the disposal of Stansted airport on 28 February 2013 which were offset by payment of pension liabilities, cash disposed of with Stansted and transaction and separation costs relating to the disposal of £90 million. Net sale proceeds were used primarily to repay the Group's revolving credit facility and for general corporate purposes.. In the year ended 31 December 2012 disposal costs of £4 million were incurred.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

5 Net interest payable and similar charges

	Audited Year ended 31 December 2013 £m	Restated ¹ Audited Year ended 31 December 2012 £m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	227	250
Pension finance income ¹	7	16
Interest on money market and bank deposits	2	-
	236	266
Interest payable and similar charges		
Interest on borrowings:		
Bonds and related hedging instruments ²	(575)	(568)
Bank loans and overdrafts and related hedging instruments	(107)	(122)
Interest payable on derivatives not in hedge relationship ³	(290)	(294)
Facility fees and other charges	(16)	(20)
Interest on debenture payable to Heathrow Finance plc	(55)	(53)
Unwinding of discount on provisions	(1)	-
	(1,044)	(1,057)
Less capitalised interest ⁴	164	100
	(880)	(957)
Net interest payable before fair value (loss)/gain	(644)	(691)
Fair value (loss)/gain on financial instruments		
Interest rate swaps: cash flow hedge ⁵	23	(2)
Interest rate swaps: not in hedge relationship	54	-
Index-linked swaps: not in hedge relationship ⁶	(147)	109
Cross-currency swaps: cash flow hedge ⁵	2	2
Cross-currency swaps: fair value hedge ⁵	(14)	3
Fair value re-measurements of foreign exchange contracts and currency balances	1	-
	(81)	112
Net interest payable and similar charges	(725)	(579)

¹ The presentation of pension finance income has been restated and is explained in the accounting policies note.

² Includes accretion of £20 million (2012: £18 million) on index-linked bonds.

³ Includes accretion of £182 million (2012: £173 million) on index-linked swaps.

⁴ Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 6.04% (2012: 4.75%) to expenditure incurred on such assets.

⁵ Hedge ineffectiveness on derivatives in hedge relationship.

⁶ Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

6 Tax charge on profit/(loss) on ordinary activities

	Audited Year ended 31 December 2013 £m	Audited Year ended 31 December 2012 £m
Current tax charge on ordinary activities	(22)	(24)
Deferred tax charge on ordinary activities	(43)	(4)
Change in UK Corporation tax rate – impact on deferred tax	28	20
Total tax charge on profit/(loss) on ordinary activities	(37)	(8)

The tax charge for the year ended 31 December 2013 results in an effective tax rate of 8.7%, reflecting the tax charge arising on ordinary activities of £65 million and a tax credit of £28 million due to the reductions in the rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013 and as a result the Group's deferred tax balances have been re-measured during the year ended 31 December 2013 at a rate of 20%.

The Group's disposal of Stansted Airport Limited has no associated tax charge as it qualifies for the Substantial Shareholding Exemption.

For the year ended 31 December 2012, the negative effective tax rate for the year was 24.2%, reflecting the tax charge arising on ordinary activities of £28 million and a tax credit of £20 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

7 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £603 million and £2 million respectively (2012: £428 million and £39 million respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £11,073 million and £1,137 million respectively (2012: £11,329 million and £1,094 million respectively).

	Audited 31 December 2013 £m	Audited 31 December 2012 £m
Current borrowings		
Secured		
Bank loans	39	39
Bonds:		
5.850% £400 million due 2013	-	389
4.600% €750 million due 2014	564	-
Total current borrowings	603	428
Non-current borrowings		
Secured		
Revolving credit facility	80	290
Other bank loans	175	363
	255	653
Secured		
Bonds:		
4.600% €750 million due 2014	-	564
3.000% £300 million due 2015	299	299
2.500% US\$500 million due 2015	301	306
12.450% £300 million due 2016	332	344
4.125% €500 million due 2016	405	391
4.375% €700 million due 2017	581	566
2.500% CHF400 million due 2017	271	268
4.600% €750 million due 2018	576	552
6.250% £400 million due 2018	398	399
4.000% CAD 400 million due 2019	225	245
6.000% £400 million due 2020	396	395
9.200% £250 million due 2021	266	283
4.875% US\$1,000 million due 2021	612	661
1.650%+RPI £180 million due 2022	189	184
5.225% £750 million due 2023	640	632
7.125% £600 million due 2024	588	588
6.750% £700 million due 2026	691	690
7.075% £200 million due 2028	198	198
6.450% £900 million due 2031	845	864
Zero-coupon €50 million due January 2032	45	42
Zero-coupon €50 million due April 2032	45	42
3.334%+RPI £460 million due 2039	562	547
5.875% £750 million due 2041	740	749
4.625% £750 million due 2046	742	-
	9,947	9,809
Unsecured		
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	871	867
Total non-current borrowings	11,073	11,329
Total borrowings	11,676	11,757

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2013

8 Dividends

During the year ended 31 December 2013, Heathrow (SP) Limited paid dividends to Heathrow Finance plc, which funded £204 million in quarterly dividends to Heathrow (SP) Limited's ultimate shareholders, a £300 million one-off return relating to the sale of Stansted and £157 million related to the servicing of external debt at Heathrow (SP) Limited's holding companies and rebalancing the amount of external debt between Heathrow (SP) Limited's holding companies and subsidiaries. These dividends, totalling £661 million, comprised: £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £43 million on 20 December 2013 (2012: Heathrow (SP) Limited paid dividends of £436 million to Heathrow Finance plc, being £395 million on 15 March 2012, £20 million on 21 June 2012 and £21 million on 10 August 2012).

An additional £65 million was declared on 20 February 2014 and subsequently paid on 21 February 2014.

Appendix 2

Change in reporting of passenger traffic by geographic segment

Heathrow now reports passenger traffic performance in the following geographic segments: UK, Europe, North America, Asia Pacific, Africa, Middle East and Latin America. For the purposes of quarterly press releases Africa and Latin America are aggregated into a single segment.

The key changes from previous reporting are the disaggregation of 'Other Long Haul' into four segments and the inclusion of North Africa charter traffic in Africa (previously Europe).

New geographic segments

UK: England, Scotland and Northern Ireland.

Europe: Austria, Azerbaijan, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Montenegro & Kosovo, Spain, Sweden, Switzerland, Turkey and Ukraine.

North America: USA and Canada.

Asia Pacific: Central Asia, South Asia, East Asia and Oceania.

Middle East: Bahrain, Iran, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Africa: Algeria, Angola, Egypt, Ethiopia, Ghana, Kenya, Liberia, Libya, Mauritius, Morocco, Nigeria, South Africa, Tanzania, Tunisia, Uganda and Zambia.

Latin America: Mexico, the continent of South America and the Caribbean.

Note: Countries listed above reflect existing operations.