

# News Release

21 October 2013

## Heathrow (SP) Limited

### Results for the nine months ended 30 September 2013

Heathrow (SP) Limited (formerly BAA (SP) Limited) owns Heathrow airport. Throughout this document, Heathrow (SP) Limited and its subsidiaries are referred to as the Group. Heathrow Finance plc is the parent company of Heathrow (SP) Limited.

- **Adjusted EBITDA up 22.1% funding record rate of investment at Heathrow**
- **Strong passenger satisfaction and traffic performance, up 3.6% to 54.8 million passengers**
- **Terminal 2: The Queen's Terminal is on track. Operational trials begin in November, first flight in June 2014**
- **Formal response to CAA Final Proposals for next regulatory period due by 4 November**

| At or for nine months ended 30 September                      | 2013          | 2012   | Change (%) |
|---|---------------|--------|------------|
| <i>(figures in £m unless otherwise stated)</i>                |               |        |            |
| Revenue <sup>(1)</sup>  | <b>1,836</b>  | 1,658  | 10.7       |
| Adjusted EBITDA <sup>(1)(2)</sup>                             | <b>1,035</b>  | 848    | 22.1       |
| Cash generated from operations <sup>(1)</sup>                 | <b>1,002</b>  | 775    | 29.3       |
| Adjusted pre-tax profit <sup>(3)</sup>                        | <b>211</b>    | 7      | n/a        |
| Pre-tax profit  | <b>266</b>    | 112    | n/a        |
| <hr/>   |               |        |            |
| Heathrow (SP) Limited consolidated net debt <sup>(4)(5)</sup> | <b>11,159</b> | 11,360 | -1.8       |
| Heathrow Finance plc consolidated net debt <sup>(4)(5)</sup>  | <b>11,916</b> | 12,086 | -1.4       |
| Regulatory Asset Base <sup>(5)</sup>                          | <b>14,318</b> | 14,814 | -3.3       |
| <hr/>   |               |        |            |
| Passengers (m) <sup>(1)(6)</sup>                              | <b>54.8</b>   | 53.0   | 3.6        |
| Net retail income per passenger <sup>(1)(6)</sup>             | <b>£6.18</b>  | £6.02  | 2.6        |

(1) Figures are for continuing operations, i.e. Heathrow only

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

(3) Adjusted pre-tax profit/(loss) is before exceptional items, gains/losses on disposals and fair value adjustments

(4) Nominal net debt excluding intra-group loans and including inflation-linked accretion

(5) 2012 net debt and RAB figures are as at 31 December 2012

(6) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

Colin Matthews, Chief Executive Officer of Heathrow, said:

“Strong passenger satisfaction and passenger numbers have driven strong growth in cash flows, funding current investment of almost £4 million a day in improving the airport for passengers and airlines. But progress is jeopardised by the CAA’s final proposals for Q6, which reduce returns to below the level at which Heathrow’s shareholders have said they are willing to invest. We are now carefully considering our investment plans before responding to the CAA.”

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There will be a conference call 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 to discuss the results for the nine months ended 30 September 2013. The call will be hosted by 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 83269500#. It will also be possible to view online the presentation (using event password: 642551) as it is used during the call at:

<https://arkadin-trial.webex.com/arkadin-trial/j.php?ED=274092647&UID=491373747&PW=NZDhhOTk3YjFI&RT=MTqjMjE%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 nine months ended 30 September 2013**

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Appendix 1 Unaudited consolidated financial information for Heathrow (SP) Limited

Appendix 2 Change in reporting of passenger traffic by geographic segment

**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 Passenger traffic

Heathrow's passenger traffic by geographic segment for the nine months ended 30 September 2013:

| <i>(figures in millions unless otherwise stated)</i> | <b>2013</b> | 2012 | Change (%) <sup>(1)</sup> |
|--|-------------|------|---------------------------|
| UK   | <b>3.7</b>  | 3.6  | 4.4                       |
| Europe   | <b>22.8</b> | 21.6 | 5.7                       |
| North America  | <b>12.7</b> | 12.5 | 1.7                       |
| Asia Pacific   | <b>7.8</b>  | 7.4  | 5.5                       |
| Middle East  | <b>4.4</b>  | 4.2  | 4.6                       |
| Africa and Latin America                             | <b>3.4</b>  | 3.7  | (8.3)                     |
| <b>Total passengers<sup>(1)</sup></b>                | <b>54.8</b> | 53.0 | 3.6                       |

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

In the nine months ended 30 September 2013, Heathrow's passenger traffic increased 3.6% to 54.8 million passengers (2012: 53.0 million), with an average load factor of 77.0% (2012: 75.8%) and an average of 202.3 seats per aircraft (2012: 196.6).

The rate of growth in traffic was boosted in the summer by the non-recurrence of the dip in demand experienced during the Olympic Games in 2012. The impact on 2012 traffic was estimated at around 720,000 passengers. Taking this into account, the underlying rate of growth for the year to date is in the region of 2.2%.

The dampened demand due to the Olympics was particularly pronounced in short haul traffic and European growth in the third quarter this year is boosted by non-recurrence of this. For the nine months ended 30 September 2013, European traffic increased 5.7% to 22.8 million passengers (2012: 21.6 million). Underlying growth in the region reflects the integration of bmi routes into British Airways. UK traffic grew by 4.4% to 3.7 million passengers (2012: 3.6 million), partly reflecting the launch of UK domestic services by Virgin Little Red at the start of the summer.

Long haul traffic performed well in most regions, Asia Pacific traffic increased 5.5% to 7.8 million passengers (2012: 7.4 million), as airlines launched new routes and frequencies including growth in China and India. Middle East traffic increased 4.6% to 4.4 million passengers (2012: 4.2 million) with larger aircraft and passenger growth from Emirates, Etihad and Saudi Airlines. North American traffic has grown at a slower rate through the year.

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.

## 2.2 Enhancing Heathrow's facilities

Heathrow's investment programme in 2013 has focused on the construction of the new Terminal 2. The terminal is to be named Terminal 2: The Queen's Terminal and will be home to 26 airlines, including all Star Alliance carriers.

The construction phase has comprised delivery of a main terminal building and a satellite building, together with a multi-storey car park and an energy centre supporting the Terminal 2 campus and the wider airport. Stands and taxiways that surround the buildings have been formed. Services have been installed to the buildings and surrounding infrastructure. Remaining activities include commissioning of lifts and escalators, completing floors, walls and ceilings and completion of other non-passenger facing areas and modifications reflecting change in occupancy following cessation of bmi operations.

The project moves from the construction phase to the operational readiness phase in November 2013, building on early stage operational readiness trials that began in the summer. Operations start on 4 June 2014 with United Airlines, followed by a phased move of airlines into the terminal over the following five 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 building has been made weather-tight and the baggage system is now being assembled inside the building.

Resurfacing Heathrow's southern runway began in March 2013 and was completed in September 2013. Works were carried out during night closures of the runway. The northern runway will be resurfaced in 2014.

### 2.3 Service standards

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

In June, Heathrow was named Best Airport in the 2013 ACI Europe Awards: Best Airport (with over 25 million passengers). This builds on the 2013 SKYTRAX World Airport Awards where Heathrow was, for the first time, named among the top 10 airports globally, and where Terminal 5 was named the world's best airport terminal for the second consecutive year.

Supporting these achievements, Heathrow achieved its highest ever overall passenger satisfaction score of 3.99 in the independent Airport Service Quality survey, directed by Airports Council International (ACI) for the first two quarters this year and in the third quarter scored 3.94. As a result, Heathrow's year to date performance of 3.97 reflects a notable improvement over the same period last year (2012: 3.93).

In relation to individual service standards, during the nine months ended 30 September 2013, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 78% (2012: 79%), principally caused by adverse weather conditions in January and March. Heathrow's baggage misconnect rate was 15 per 1,000 passengers (2012: 14). On security queuing, passengers passed through central security within the five minute periods prescribed under the service quality rebate scheme 91.2% of the time (2012: 96.0%) compared with a 95% service standard.

### 2.4 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 Heathrow's airline community during 2012, Heathrow proposed a Full Business Plan for Q6 in January 2013, setting 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. On 30 April 2013 the CAA published Initial Proposals for Q6 proposing price controls and a draft licence and proposed a change to the maximum allowable yield per passenger of RPI minus 1.3% per year.

In response to the Initial Proposals, Heathrow refreshed its plans which included increased efficiency savings of £427 million and updated passenger forecasts. Two plans were provided to the CAA, firstly a Revised Business Plan, with a reduced capital investment plan of £2 billion, to reflect the CAA's proposed lower level of returns. Secondly an Alternative Business Plan which included a £3 billion capital investment plan. Heathrow aspires to deliver the Alternative Business Plan.

The CAA published Final Proposals for Q6 on 3 October 2013. The CAA proposes a change to the maximum allowable yield per passenger of RPI +0% per year and assumes a capital investment plan of £2.885 billion. The CAA's proposed pre-tax, real cost of capital of 5.6% underestimates equity risk and does not adequately recognise the costs of embedded and new debt associated with one of the UK's largest private sector investment programmes.

Continuing to invest in Heathrow will further improve passengers' experience of the airport, keep Heathrow competitive against other European hubs, and help the UK compete as an international centre for business and trade.

Heathrow is reviewing the detail of the Final Proposals and carefully considering its investment plans before responding to the CAA by the 4 November deadline. The final determination is expected to be published by the CAA on 9 January 2014.

## 2.5 Airports Commission

The UK government has formed the Airports Commission, chaired by Sir Howard Davies, to determine how to maintain the UK's status as an international hub for aviation. The Commission has been established to assess options for meeting the UK's international connectivity needs, recommend the optimum approach and to ensure any need is met as expeditiously as practicable.

There is a compelling case for growth at Heathrow and on 17 July 2013, Heathrow submitted options for a third runway to be located to the north-west, south-west or north of the existing airport; all three options have been designed to evolve to four runways if required. Passengers will benefit from a third runway by having a greater choice of destinations, airlines, and connections with UK regions. A third runway at Heathrow would deliver more economic benefits to the UK than any other option for new runway capacity. It will create jobs, facilitate trade, boost spending in the wider economy and improve public finances. Heathrow estimates that benefits of £100 billion present value would accrue to the UK from expansion.

Quieter planes, quieter operating procedures, noise mitigation, and operating restrictions will continue to reduce the impact of aircraft noise at Heathrow even with a third runway. A third runway at Heathrow is consistent with meeting EU climate change targets. Public transport infrastructure including Crossrail, the Piccadilly Line upgrade, Western Rail Access, High Speed 2 and Southern Rail Access could allow more passengers to access Heathrow on public transport than ever before, driving over 50% of passengers to use public transport.

A third runway at Heathrow is the fastest, most cost effective and most practical route to meeting the UK's international connectivity needs. A third runway could increase Heathrow's capacity to 740,000 flights and 130 million passengers per year.

A third runway can be delivered for less cost than building a new hub airport. The options are estimated to cost between £14 billion and £18 billion, of which approximately £9-11 billion relates to the development of the airport infrastructure, and £5-7 billion relates to surface access, environmental and community funding. The development of the airport infrastructure would deliver a third runway, additional taxiways, further passenger terminal capacity and connectivity with the existing infrastructure including track transit and baggage infrastructure.

The proposals are based on private funding of the core airport infrastructure, with phased investment over approximately 15 years, if the right regulatory regime is in place to give long-term visibility of returns to investors commensurate with risk. The submission encourages the Airports Commission to consult on what role public funding or government guarantees should play in total funding for the different alternatives.

As input to the Commission's review process, Heathrow submitted a response in September on other parties' proposals for safeguarding the UK's connectivity in the short, medium and long term. Heathrow reiterated that only a single hub can fulfill the UK's connectivity needs in the long term, and that Heathrow is the most cost effective and best option.

In a speech on 7 October, the chair of the Airports Commission, Sir Howard Davies, said the Commission's emerging thinking was that there was a need for new runway capacity in the south-east of England.

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.



### 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. Unaudited 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.

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 all the Heathrow Airport Holdings group (the 'HAH 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 HAH 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.

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.

#### 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.

| <i>Nine months ended 30 September</i>                            | <b>2013</b>  | 2012  |
|--|--------------|-------|
|  | <b>£m</b>    | £m    |
| <b>Group turnover – total</b>                                    | <b>1,868</b> | 1,844 |
| Group turnover – discontinued operations                         | (32)         | (186) |
| <b>Group turnover – continuing operations</b>                    | <b>1,836</b> | 1,658 |
| Adjusted operating costs – continuing operations <sup>(1)</sup>  | (801)        | (810) |
| <b>Adjusted EBITDA – continuing operations<sup>(2)</sup></b>     | <b>1,035</b> | 848   |
| Operating costs – exceptional – pensions – continuing operations | (78)         | (121) |
| <b>EBITDA – continuing operations</b>                            | <b>957</b>   | 727   |
| Depreciation – ordinary – continuing operations                  | (339)        | (349) |
| <b>Operating profit – continuing operations</b>                  | <b>618</b>   | 378   |
| Operating profit – discontinued operations                       | -            | 20    |
| <b>Operating profit – total</b>                                  | <b>618</b>   | 398   |
| <b>Gain on disposal of Stansted – discontinued operations</b>    | <b>292</b>   | -     |
| Net interest payable and similar charges                         | (485)        | (537) |
| Fair value (loss)/gain on financial instruments                  | (159)        | 251   |
| Total net interest payable and similar charges                   | (644)        | (286) |
| <b>Profit on ordinary activities before taxation</b>             | <b>266</b>   | 112   |
| Tax credit on profit on ordinary activities                      | 7            | 17    |
| <b>Profit on ordinary activities after taxation</b>              | <b>273</b>   | 129   |

(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 nine months ended 30 September 2013, Heathrow's turnover increased 10.7% to £1,836 million (2012: £1,658 million).

| <i>Nine months ended 30 September</i> | <b>2013</b><br>£m | 2012<br>£m   | Change (%)  |
|---------------------------------------|-------------------|--------------|-------------|
| Aeronautical income                   | <b>1,130</b>      | 955          | 18.3        |
| Retail income                         | <b>358</b>        | 338          | 5.9         |
| Other income                          | <b>348</b>        | 365          | (4.7)       |
| <b>Total</b>                          | <b>1,836</b>      | <b>1,658</b> | <b>10.7</b> |

#### 3.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 18.3% to £1,130 million (2012: £955 million). Average aeronautical income per passenger increased 14.3% to £20.60 (2012: £18.03).

The performance reflects passenger traffic growth and the headline increase in 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 nine months ended 30 September 2013, Heathrow's retail income increased 5.9% to £358 million (2012: £338 million).

| <i>Nine months ended 30 September</i> | <b>2013</b><br>£m | 2012<br>£m | Change (%) |
|---------------------------------------|-------------------|------------|------------|
| Car parking                           | <b>66</b>         | 60         | 10.0       |
| Duty and tax-free                     | <b>91</b>         | 88         | 3.4        |
| Airside specialist shops              | <b>70</b>         | 68         | 2.9        |
| Bureaux de change                     | <b>35</b>         | 32         | 9.4        |
| Catering                              | <b>29</b>         | 28         | 3.6        |
| Other retail income                   | <b>67</b>         | 62         | 8.1        |
| <b>Total</b>                          | <b>358</b>        | <b>338</b> | <b>5.9</b> |

Net retail income ('NRI') grew 6.3% to £339 million (2012: £319 million), reflecting a combination of growth in traffic and an increase in NRI per passenger of 2.6% to £6.18 (2012: £6.02). The rate of growth through the year 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. Bureaux de change, car rental and car parking have been the main contributors to growth overall.

#### 3.2.2.3 Other income

Gains in rail income and operational facilities and utilities income totalled £8 million. On a reported basis, these gains were offset by a reduction of £20 million primarily relating 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 nine months ended 30 September 2013, adjusted operating costs reduced by 1.1% to £801 million (2012: £810 million).

| <i>Nine months ended 30 September</i> | <b>2013</b><br><b>£m</b> | 2012<br>£m | Change (%)   |
|---------------------------------------|--------------------------|------------|--------------|
| Employment costs                      | <b>298</b>               | 279        | 6.8          |
| Maintenance expenditure               | <b>123</b>               | 122        | 0.8          |
| Utility costs                         | <b>67</b>                | 67         | -            |
| Rents and rates                       | <b>95</b>                | 92         | 3.3          |
| General expenses                      | <b>200</b>               | 232        | (13.8)       |
| Retail expenditure                    | <b>19</b>                | 19         | -            |
| Disposal of fixed assets              | <b>(1)</b>               | (1)        | -            |
| <b>Total</b>                          | <b>801</b>               | <b>810</b> | <b>(1.1)</b> |

The main drivers of change in adjusted operating costs were higher employment costs and increased rent and rates, mainly offset by lower general expenses.

Employment costs for the first nine months of 2013 increased £19 million, including £10 million one-off expenses related to restructuring and incentives to drive future cost efficiencies. Approximately £13 million related to an increase in non-cash pension service charges. The residual change is a combination of efficiencies achieved through senior management pay freezes and headcount savings, offsetting other movements, including contractually agreed pay rises.

Maintenance expenses in 2012 included the majority of costs related to preparations for the 2012 Olympic and Paralympic Games. The underlying increase in maintenance costs in part relates to one-off baggage contract costs, which are expected to yield ongoing cost benefits through the next regulatory period.

Increases in rent and rates were primarily driven by annual inflation-linked rises in property rates. General expenses reduced by £32 million, mainly reflecting the change in the way in which the recharge of intra group services is recorded as a result of the disposal of Stansted Airport. The remaining movement in general expenses reflects non-recurrence of costs associated with preparation for the Olympic Games partially offset by additional costs incurred in ensuring operations were maintained during adverse weather in January.

### 3.2.4 Adjusted EBITDA

In the nine months ended 30 September 2013, Adjusted EBITDA increased 22.1% to £1,035 million (2012: £848 million), resulting in an Adjusted EBITDA margin of 56% (2012: 51%).

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

### 3.2.5 Operating result

The Group recorded an operating profit for the nine months ended 30 September 2013 of £618 million (2012: £378 million). A reconciliation between Adjusted EBITDA and statutory operating result is provided below.

| <i>Nine months ended 30 September</i> | <b>2013<br/>£m</b> | 2012<br>£m | Change (%) |
|---------------------------------------|--------------------|------------|------------|
| Adjusted EBITDA                       | <b>1,035</b>       | 848        | 22.1       |
| Depreciation – ordinary               | <b>(339)</b>       | (349)      | (2.9)      |
| Exceptional items – pensions          | <b>(78)</b>        | (121)      | (35.5)     |
| <b>Operating profit</b>               | <b>618</b>         | 378        | 63.5       |

### 3.2.6 Exceptional items

In the nine months ended 30 September 2013, there was a net exceptional £78 million pre-tax charge (2012: £121 million) to the profit and loss account, relating to a non-cash pension charge arising principally from Heathrow's share of the increase in liabilities under the LHR Airports Limited Defined Benefit Pension Scheme since 31 December 2012.

### 3.2.7 Taxation

The tax credit for the nine months ended 30 September 2013 results in a negative effective tax rate of 2.6% (30 September 2012: negative effective tax rate 15.1%), reflecting the tax charge arising on ordinary activities of £21 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 nine months ended 30 September 2013.

The charge is calculated by applying the forecast annual effective tax rate for each entity to the results for the nine months ended 30 September 2013. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 23.25% (2012: 24.5%) due to seasonality and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

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

|  | <b>2013</b>  | 2012  |
|--|--------------|-------|
| <i>Nine months ended 30 September</i>                                  | <b>£m</b>    | £m    |
| Net cash inflow from operating activities – continuing                 | <b>1,002</b> | 775   |
| Net cash inflow from operating activities – discontinued               | <b>5</b>     | 61    |
| Net cash inflow from operating activities – total                      | <b>1,007</b> | 836   |
| Net interest paid  | <b>(458)</b> | (332) |
| Taxation – group relief paid   | <b>(20)</b>  | (14)  |
| Cash flow after interest and tax                                       | <b>529</b>   | 490   |
| Net capital expenditure  | <b>(948)</b> | (833) |
| Disposal of Stansted airport   | <b>1,407</b> | (1)   |
| Dividends paid   | <b>(618)</b> | (436) |
| Net cash inflow/(outflow) before use of liquid resources and financing | <b>370</b>   | (780) |
| Management of liquid resources   | <b>(119)</b> | (23)  |
| Cancellation and restructuring of derivatives                          | <b>(2)</b>   | (57)  |
| Settlement of accretion on index-linked swaps                          | <b>(138)</b> | -     |
| Increase in amount owed to Heathrow Finance plc                        | <b>3</b>     | 168   |
| (Decrease)/increase in borrowings and other financing flows            | <b>(108)</b> | 701   |
| Increase in cash   | <b>6</b>     | 9     |

#### 3.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the nine months ended 30 September 2013 increased 29.3% to £1,002 million (2012: £775 million) which compares with Adjusted EBITDA of £1,035 million (2012: £848 million). The operating cash flow was £33 million lower than Adjusted EBITDA principally as a result of pension cash contributions being higher than pension service charges and a modest working capital outflow.

#### 3.3.3 Capital expenditure

In the nine months ended 30 September 2013, the cash flow impact of capital investment was £948 million, of which £946 million related to Heathrow (2012: £833 million, including £819 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 nine months ended 30 September 2013, restricted payments of £673 million were made out of the Group comprising £618 million in dividend payments by Heathrow (SP) and £55 million in interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc ('Heathrow Finance').

Of the total amount, £476 million was paid to the Group's ultimate shareholders, comprising the previously reported £300 million one-off return on their historic investment in Stansted following its disposal; and £176 million of the £191 million in quarterly dividends paid in 2013, with the remaining £15 million funded from cash resources elsewhere in the HAH Group.

The balance of £197 million in restricted payments related to servicing of debt elsewhere in the HAH Group and rebalancing of debt at different levels of the HAH Group's capital structure.

This included £107 million in dividends which was partly utilised to fund interest on the £600 million loan facility previously held at ADI Finance 1 Limited ('ADIF1'). The loan was recently refinanced primarily through new loan facilities at ADI Finance 2 Limited ('ADIF2') totalling £505 million (see section 3.5). The residual amount of the £107 million mainly covered funding required to complete the refinancing of the ADIF1 loan facility, given the smaller size of the new ADIF2 loan facilities, and fees payable in relation to the new ADIF2 loan facilities.

Restricted payments of £55 million funded interest on the debenture between Heathrow (SP) and Heathrow Finance that was principally used to make interest payments on Heathrow Finance's external debt.

### 3.4 Pension scheme

At 30 September 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £137 million as measured under FRS 17, of which £120 million was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. This compares with a scheme deficit of £103 million at 31 December 2012 of which £92 million was attributable to the Group. The increase in the scheme deficit is mainly due to an increase in future inflation expectations partially offset by an increase in the discount rate and the impact of the Stansted disposal.

### 3.5 Recent financing activity

There has been limited new financing activity for the Group during 2013, largely reflecting the use of proceeds from the disposal of Stansted. However, these proceeds have now been utilised and therefore the Group is considering a return to the capital markets in the near future.

Elsewhere in the HAH Group, the refinancing of the £600 million loan facility at ADIF1 was completed in July 2013, primarily utilising the proceeds from £505 million in new 7 and 9 year term loan facilities put in place at ADIF2. The balance of the ADIF1 facility was repaid utilising the proceeds from a combination of the increase in May 2013 in Heathrow Finance's £50 million loan facility to £85 million and part of one of the restricted payments out of the Group (see section 3.3.4). The new ADIF2 facilities were secured with margins below 6% compared to the 7% margin on the previous ADIF1 facility.

### 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 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 the nine months ended 30 September 2013, the Group's nominal net debt decreased 1.8% from £11,360 million to £11,159 million. The decrease in net debt primarily reflects repayment of debt using Stansted disposal proceeds together with strong operating cash flows, offset by three main factors: funding of Heathrow's capital investment programme, restricted payments referred to in section 3.3.4; and accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 30 September 2013 comprised £10,256 million outstanding under bond issues, £623 million outstanding under loan facilities, £444 million in index-linked derivative accretion and cash at bank and term deposits of £164 million. Nominal net debt comprised £9,709 million in senior (Class A) net debt and £1,450 million in junior (Class B) debt.

The accounting value of the Group's net debt at 30 September 2013 was £10,666 million (31 December 2012: £10,852 million).

The average cost of the Group's external gross debt at 30 September 2013 was 4.26% (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 Group's average cost of debt at 30 September 2013 was 5.86% (31 December 2012: 5.83%).

At 30 September 2013, the Group had approximately £1.8 billion in undrawn loan facilities and cash resources. As a result, the Group is currently in a very strong liquidity position.

### 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 £6 million of cash held at Heathrow Finance, Heathrow Finance's consolidated net debt at 30 September 2013 was £11,916 million, a decrease of 1.4% from £12,086 million at 31 December 2012.

### 3.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 30 September 2013 was £14,318 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 nine months ended 30 September 2013 reflected the addition of approximately £1 billion in capital expenditure and indexation adjustments of around £285 million. The increases were partially offset by regulatory depreciation of around £440 million and a modest amount of asset disposals and RAB profiling adjustments.

### 3.6.4 Net interest payable and net interest paid

In the nine months ended 30 September 2013, the Group's net interest payable was £485 million (2012: £537 million) excluding fair value adjustments on financial instruments. Underlying net interest payable was £570 million (2012: £573 million) after adjusting for £116 million (2012: £70 million) in capitalised interest and £31 million (2012: £35 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 net interest payable and similar charges is £159 million (2012: £251 million gain). The fair value loss is principally due to the impact on the mark-to-market value of 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. The fair value loss on the index-linked swaps was partially offset principally by positive mark-to-market movements on interest-rate swaps arising from recent higher interest rate expectations.

Net interest paid in the period was £458 million (2012: £332 million). This consisted of £403 million (2012: £283 million) paid in relation to external debt and £55 million (2012: £48 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid on external debt largely reflects two factors: the first time payment of coupons on bond issues completed in 2012; and timing differences that led to certain coupon payments falling in the third quarter this year and the fourth quarter last year. 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 £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 £154 million (2012: £146 million) non-cash accretion on index-linked instruments.

### 3.6.5 Financial ratios

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

At 30 September 2013, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.8% and 77.9% respectively (31 December 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 83.2% (31 December 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 gearing since 31 December 2012 is primarily due to the weighting of net interest payments in the first nine months of 2013 against that expected for the full year; together with the effect of the restricted payment of £83 million linked to the rebalancing of debt across the HAH Group referred to in section 3.3.4.

### 3.7 Outlook

Given continued positive trading conditions, the Group expects to exceed the 2013 full year Adjusted EBITDA forecast of £1,325 million provided in the latest Investor Report by 3-4%.



## Appendix 1 – Financial information

### Heathrow (SP) Limited

#### Consolidated profit and loss account for the nine months ended 30 September 2013

|   | Note | Unaudited<br>Nine<br>months ended<br>30 September<br>2013<br>£m | Restated <sup>1</sup><br>Unaudited<br>Nine<br>months ended<br>30 September<br>2012<br>£m | Restated <sup>1</sup><br>Audited<br>Year ended<br>31 December 2012<br>£m |
|---|------|---|--|--|
| Turnover – continuing operations                                | 1    | 1,836   | 1,658  | 2,222  |
| Turnover – discontinued operations                              | 1    | 32  | 186  | 242  |
| <b>Total turnover</b>   | 1    | <b>1,868</b>  | 1,844  | 2,464  |
| Operating costs – ordinary: continuing operations               | 2    | (1,140)   | (1,159)  | (1,522)  |
| Operating costs – ordinary: discontinued operations             | 2    | (32)  | (141)  | (188)  |
| Total operating costs - ordinary                                | 2    | (1,172)   | (1,300)  | (1,710)  |
| Operating costs – exceptional: pensions continuing operations   | 3    | (78)  | (121)  | (152)  |
| Operating costs – exceptional: pensions discontinued operations | 3    | -   | (25)   | (31)   |
| Total operating costs – exceptional: pensions                   | 3    | (78)  | (146)  | (183)  |
| Total operating costs   |      | (1,250)   | (1,446)  | (1,893)  |
| Operating profit – continuing operations                        | 1    | 618   | 378  | 548  |
| Operating profit – discontinued operations                      | 1    | -   | 20   | 23   |
| <b>Total operating profit</b>                                   | 1    | <b>618</b>  | 398  | 571  |
| Impairment of fixed assets                                      | 3    | -   | -  | (5)  |
| Gain/(loss) on disposal of Stansted                             | 4    | 292   | -  | (4)  |
| Interest receivable and similar income                          | 5    | 181   | 184  | 250  |
| Interest payable and similar charges                            | 5    | (666)   | (721)  | (957)  |
| Fair value (loss)/gain on financial instruments                 | 5    | (159)   | 251  | 112  |
| Net interest payable and similar charges                        |      | (644)   | (286)  | (595)  |
| <b>Profit/(loss) on ordinary activities before taxation</b>     |      | <b>266</b>  | 112  | (33)   |
| Tax credit/(charge) on profit/(loss) on ordinary activities     | 6    | 7   | 17   | (8)  |
| <b>Profit/(loss) on ordinary activities after taxation</b>      |      | <b>273</b>  | 129  | (41)   |

<sup>1</sup> The presentation of turnover and operating profit/(loss) has been restated following the completion of the disposal of Stansted airport on 28 February 2013.

**Heathrow (SP) Limited**  
**Consolidated balance sheet**  
**as at 30 September 2013**

|   | Note | Unaudited<br>30 September<br>2013<br>£m | Unaudited<br>30 September<br>2012<br>£m | Audited<br>31 December 2012<br>£m |
|---|------|---|---|-----------------------------------|
| <b>Fixed assets</b>                                     |      |   |   |                                   |
| Tangible fixed assets                                   |      | 12,534                                  | 12,735                                  | 12,961                            |
| Financial assets – derivative financial instruments     |      | 310                                     | 343                                     | 306                               |
| <b>Total fixed assets</b>                               |      | <b>12,844</b>                           | <b>13,078</b>                           | <b>13,267</b>                     |
| <b>Current assets</b>                                   |      |   |   |                                   |
| Stocks  |      | 9                                       | 9                                       | 9                                 |
| Debtors   |      | 319                                     | 311                                     | 313                               |
| Current asset investments                               |      | 151                                     | 44                                      | 32                                |
| Restricted cash   |      | 39                                      | -                                       | -                                 |
| Cash at bank and in hand                                |      | 12                                      | 21                                      | 6                                 |
| <b>Total current assets</b>                             |      | <b>530</b>                              | <b>385</b>                              | <b>360</b>                        |
| <b>Current liabilities</b>                              |      |   |   |                                   |
| Creditors: amounts falling due within one year          | 7    | (1,841)                                 | (832)                                   | (1,232)                           |
| <b>Net current liabilities</b>                          |      | <b>(1,311)</b>                          | <b>(447)</b>                            | <b>(872)</b>                      |
| <b>Total assets less current liabilities</b>            |      | <b>11,533</b>                           | <b>12,631</b>                           | <b>12,395</b>                     |
| Creditors: amounts falling due after more than one year | 7    | (11,755)                                | (12,554)                                | (12,427)                          |
| Deferred tax  |      | (101)                                   | (93)                                    | (103)                             |
| Provisions for liabilities                              |      | (170)                                   | (108)                                   | (122)                             |
| <b>Net liabilities</b>                                  |      | <b>(493)</b>                            | <b>(124)</b>                            | <b>(257)</b>                      |
| <b>Capital and reserves</b>                             |      |   |   |                                   |
| Called up share capital                                 |      | 11                                      | 11                                      | 11                                |
| Share premium reserve                                   |      | 499                                     | 499                                     | 499                               |
| Revaluation reserve                                     |      | 429                                     | 818                                     | 835                               |
| Merger reserve  |      | (3,759)                                 | (4,536)                                 | (4,536)                           |
| Fair value reserve                                      |      | (345)                                   | (476)                                   | (455)                             |
| Profit and loss reserve                                 | 8    | 2,672                                   | 3,560                                   | 3,389                             |
| <b>Total shareholder's deficit</b>                      |      | <b>(493)</b>                            | <b>(124)</b>                            | <b>(257)</b>                      |

## Heathrow (SP) Limited

### Consolidated summary cash flow statement for the nine months ended 30 September 2013

|   | Note | Unaudited<br>Nine<br>months ended<br>30 September<br>2013<br>£m | Restated <sup>1</sup><br>Unaudited<br>Nine<br>months ended<br>30 September<br>2012<br>£m | Restated <sup>1</sup><br>Audited<br>Year ended<br>31 December 2012<br>£m |
|---|------|---|--|--|
| Operating profit - continuing operations                                      | 1    | 618   | 379  | 548  |
| <i>Adjustments for:</i>   |      |   |  |  |
| Depreciation  |      | 339   | 349  | 470  |
| Gain on disposal of fixed assets  |      | (1)   | (1)  | -  |
| <i>Working capital changes:</i>   |      |   |  |  |
| Increase in stock and debtors   |      | (40)  | (18)   | (25)   |
| Increase/(decrease) in creditors  |      | 27  | (23)   | (10)   |
| Net release of provisions   |      | (2)   | (6)  | (4)  |
| Difference between pension charge and cash contributions                      |      | (17)  | (26)   | (50)   |
| Exceptional pension charge  |      | 78  | 121  | 151  |
| Net cash inflow from operating activities - continuing                        |      | 1,002   | 775  | 1,080  |
| Net cash inflow from operating activities - discontinued                      |      | 5   | 61   | 84   |
| <b>Total net cash inflow from operating activities</b>                        |      | <b>1,007</b>  | <b>836</b>   | <b>1,164</b>   |
| Net interest paid   |      | (458)   | (332)  | (428)  |
| Taxation – group relief paid  |      | (20)  | (14)   | (28)   |
| Net capital expenditure   |      | (948)   | (833)  | (1,157)  |
| Disposal of Stansted Airport Limited  |      | 1,407   | (1)  | (6)  |
| Dividends paid  | 8    | (618)   | (436)  | (436)  |
| <b>Net cash inflow/(outflow) before use of liquid resources and financing</b> |      | <b>370</b>  | <b>(780)</b>   | <b>(891)</b>   |
| Management of liquid resources  |      | (119)   | (23)   | (12)   |
| Issuance of bonds   | 7    | -   | 3,082  | 3,082  |
| Repayment of bonds  | 7    | -   | (680)  | (680)  |
| Net drawdown of revolving credit facility                                     | 7    | 40  | 140  | 307  |
| Repayment of capital expenditure facility                                     | 7    | -   | (1,395)  | (1,395)  |
| Repayment of facilities and other financing items                             | 7    | (148)   | (446)  | (532)  |
| Increase in amount owed to Heathrow Finance plc                               | 7    | 3   | 168  | 270  |
| Settlement of accretion on index-linked swaps                                 |      | (138)   | -  | (80)   |
| Cancellation and restructuring of derivatives                                 |      | (2)   | (57)   | (76)   |
| <b>Net cash (outflow)/inflow from financing</b>                               |      | <b>(245)</b>  | <b>812</b>   | <b>896</b>   |
| <b>Increase/(decrease) in cash</b>  |      | <b>6</b>  | <b>9</b>   | <b>(7)</b>   |

<sup>1</sup> 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.

## 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 2012 or any other period. Statutory financial statements for the year ended 31 December 2012 have been filed with the Registrar of Companies on 15 March 2013. The annual financial information presented herein for the year ended 31 December 2012 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2012. The auditors' report on the 2012 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 2012 with the exception of tax accounting (see note 6) which is in accordance with the United Kingdom Accounting Standards Board's Statement : 'Half-Yearly Financial Reports'.

##### Changes in accounting policies and disclosures

Comparative balances for the nine months ended 30 September 2012 and year ended 31 December 2012 have been rounded to the nearest million. This treatment varies from the nine months ended 30 September 2012 and year ended 31 December 2012 where balances were presented using millions rounded to one decimal place. This has resulted in some immaterial rounding differences.

##### *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 nine months ended 30 September 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                                    | Unaudited<br>Nine<br>months ended<br>30 September<br>2013<br>£m | Unaudited<br>Nine<br>months ended<br>30 September<br>2012<br>£m | Audited<br>Year ended<br>31 December 2012<br>£m |
|---|---|---|---|
| Aeronautical income                         | 1,130   | 955   | 1,280   |
| Retail income                               | 358   | 338   | 460   |
| Operational facilities and utilities income | 124   | 121   | 163   |
| Property rental income                      | 78  | 78  | 103   |
| Rail income                                 | 91  | 86  | 116   |
| Other income                                | 55  | 80  | 100   |
| Turnover – continuing operations            | 1,836   | 1,658   | 2,222   |
| Turnover – discontinued operations          | 32  | 186   | 242   |
| <b>Total turnover</b>                       | <b>1,868</b>  | <b>1,844</b>  | <b>2,464</b>                                    |

#### 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, amortisation and exceptional items.

| Unaudited<br>Nine months ended 30 September<br>2013 | Adjusted<br>EBITDA<br>£m | Operating<br>exceptional items<br>£m | Depreciation<br>£m | Operating<br>profit<br>£m |
|---|--------------------------|--------------------------------------|--------------------|---------------------------|
| Heathrow - continuing operations                    | 1,035                    | (78)                                 | (339)              | 618                       |
| Stansted - discontinued operations                  | 7                        | -                                    | (7)                | -                         |
| <b>Total</b>  | <b>1,042</b>             | <b>(78)</b>                          | <b>(346)</b>       | <b>618</b>                |
| Unaudited<br>Nine months ended 30 September<br>2012 | Adjusted<br>EBITDA<br>£m | Operating<br>exceptional items<br>£m | Depreciation<br>£m | Operating<br>profit<br>£m |
| Heathrow - continuing operations                    | 848                      | (121)                                | (349)              | 378                       |
| Stansted - discontinued operations                  | 75                       | (25)                                 | (30)               | 20                        |
| <b>Total</b>  | <b>923</b>               | <b>(146)</b>                         | <b>(379)</b>       | <b>398</b>                |
| Audited<br>Year ended 31 December 2012              | Adjusted<br>EBITDA<br>£m | Operating<br>exceptional items<br>£m | Depreciation<br>£m | Operating<br>profit<br>£m |
| Heathrow - continuing operations                    | 1,170                    | (152)                                | (470)              | 548                       |
| Stansted - discontinued operations                  | 94                       | (31)                                 | (40)               | 23                        |
| <b>Total</b>  | <b>1,264</b>             | <b>(183)</b>                         | <b>(510)</b>       | <b>571</b>                |

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the nine months ended 30 September 2013

#### 2 Operating costs – ordinary

|   | Unaudited<br>Nine<br>months ended<br>30 September<br>2013<br>£m | Restated <sup>1</sup><br>Unaudited<br>Nine<br>months ended<br>30 September<br>2012<br>£m | Restated <sup>1</sup><br>Audited<br>Year ended<br>31 December 2012<br>£m |
|---|---|--|--|
| Employment costs <sup>2</sup>                       | 298   | 279  | 365  |
| Maintenance expenditure                             | 123   | 122  | 154  |
| Utility costs                                       | 67  | 67   | 87   |
| Rents and rates                                     | 95  | 92   | 124  |
| General expenses                                    | 200   | 232  | 297  |
| Retail expenditure                                  | 19  | 19   | 26   |
| Disposal of fixed assets                            | (1)   | (1)  | (1)  |
| Depreciation  | 339   | 349  | 470  |
| Operating costs – ordinary: continuing operations   | 1,140   | 1,159  | 1,522  |
| Operating costs – ordinary: discontinued operations | 32  | 141  | 188  |
| <b>Total operating costs – ordinary</b>             | <b>1,172</b>  | <b>1,300</b>   | <b>1,710</b>   |

<sup>1</sup> The presentation of certain balances for the nine months ended 30 September 2012 and year ended 31 December 2012 has been restated to be consistent with current period disclosures.

<sup>2</sup> 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: pension**

Under the Shared Services Agreement ('SSA') the current period service cost for the Heathrow Airport Holdings Limited group ('Heathrow 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 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 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.

For the nine months ended 30 September 2013 an exceptional pension charge of £85 million was incurred relating to continuing operations (nine months ended 30 September 2012: £121 million; year ended 31 December 2012: £152 million charge). This includes HAL and HEX share of the movement in the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities. The discontinued operations exceptional pension charge for the nine months ended 30 September 2012 of £25 million and for the year ended 31 December 2012 of £31 million relate 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 nine months ended 30 September 2013

#### 4 Disposal of Stansted airport

|   | Unaudited<br>Nine months ended<br>30 September 2013<br>£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)  |
| <b>Net assets disposed</b>                      | <b>1,212</b>  |
| Add disposal costs                              | 23  |
| Less pension gain                               | (12)  |
| Less release of pension liability               | (15)  |
| Carrying value of disposed operations           | 1,208   |
| Consideration satisfied by cash                 | (1,500)   |
| <b>Gain on disposal of Stansted airport</b>     | <b>292</b>  |

On 28 February 2013 the Group sold Stansted for cash consideration of £1,500 million. Sale proceeds were used primarily to repay the Group's revolving credit facility and for general corporate purposes. At 30 September 2013, £39 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the LHR Airports Limited defined benefit pension scheme once the final number of Stansted employees who choose to join their new employer's scheme is determined. Further sale proceeds will be used to meet transaction related costs including derivative restructuring costs, legal, other advisory fees and directly attributable separation costs.

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the nine months ended 30 September 2013

#### 5 Net interest payable and similar charges

|  | Unaudited<br>Nine<br>months ended<br>30 September 2013<br>£m | Unaudited<br>Nine<br>months ended<br>30 September 2012<br>£m | Audited<br>Year ended<br>31 December 2012<br>£m |
|--|--|--|---|
| <b>Interest receivable and similar income</b>                                  |  |  |   |
| Interest receivable on derivatives not in hedge relationship                   | 174  | 184  | 250   |
| Pensions finance income  | 6  | -  | -   |
| Interest on money market and bank deposits                                     | 1  | -  | -   |
|  | <b>181</b>   | 184  | 250   |
| <b>Interest payable and similar charges</b>                                    |  |  |   |
| Interest on borrowings:  |  |  |   |
| Bonds and related hedging instruments <sup>1</sup>                             | (426)  | (420)  | (568)   |
| Bank loans and overdrafts and related hedging instruments                      | (80)   | (92)   | (122)   |
| Interest payable on derivatives not in hedge relationship <sup>2</sup>         | (223)  | (223)  | (294)   |
| Facility fees and other charges  | (11)   | (16)   | (20)  |
| Interest on debenture payable to Heathrow Finance plc                          | (41)   | (40)   | (53)  |
| Unwinding of discount charged and capitalised                                  | (1)  | -  | -   |
|  | <b>(782)</b>   | (791)  | (1,057)   |
| Less capitalised interest <sup>3</sup>   | 116  | 70   | 100   |
|  | <b>(666)</b>   | (721)  | (957)   |
| <b>Net interest payable before fair value (loss)/gain</b>                      | <b>(485)</b>   | (537)  | (707)   |
| <b>Fair value (loss)/gain on financial instruments</b>                         |  |  |   |
| Interest rate swaps: cash flow hedge <sup>4</sup>                              | 20   | 6  | (2)   |
| Interest rate swaps: not in hedge relationship                                 | 21   | -  | -   |
| Index-linked swaps: not in hedge relationship <sup>5</sup>                     | (196)  | 244  | 109   |
| Cross-currency swaps: cash flow hedge <sup>4</sup>                             | (1)  | 1  | 2   |
| Cross-currency swaps: fair value hedge <sup>4</sup>                            | (4)  | -  | 3   |
| Fair value re-measurements of foreign exchange contracts and currency balances | 1  | -  | -   |
|  | <b>(159)</b>   | 251  | 112   |
| <b>Net interest payable and similar charges</b>                                | <b>(644)</b>   | (286)  | (595)   |

<sup>1</sup> Includes accretion of £16 million (nine months ended 30 September 2012: £11 million; year ended 31 December 2012: £18 million) on index-linked bonds.

<sup>2</sup> Includes accretion of £138 million (nine months ended 30 September 2012: £135 million; year ended 31 December 2012: £173 million) on index-linked swaps.

<sup>3</sup> Following the significant refinancing activity during 2012, the Group reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to the increase in the capitalised interest rate to 6.02% (nine months ended 30 September 2012: 4.38%; year ended 31 December 2012: 4.75%).

<sup>4</sup> Hedge ineffectiveness on derivatives in hedge relationship.

<sup>5</sup> 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 nine months ended 30 September 2013

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

|  | Unaudited<br>Nine<br>months ended<br>30 September 2013 | Unaudited<br>Nine<br>months ended<br>30 September 2012 | Audited<br>Year ended<br>31 December 2012 |
|--|--|--|---|
|  | £m   | £m   | £m  |
| Current tax (charge)/credit on ordinary activities                     | (17)   | 85   | (24)                                      |
| Deferred tax credit/(charge) on ordinary activities                    | (4)  | (88)   | (4)                                       |
| Change in UK Corporation tax rate – impact on deferred tax liabilities | 28   | 20   | 20  |
| <b>Total tax credit/(charge)</b>                                       | <b>7</b>   | <b>17</b>  | <b>(8)</b>                                |

The tax credit for the nine months ended 30 September 2013 results in a negative effective tax rate of 2.6%, reflecting the tax charge arising on ordinary activities of £21 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 nine months ended 30 September 2013. The tax charge is calculated by applying the forecast annual effective tax rate for each entity to the results for the nine months ended 30 September 2013.

For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 23.25% (2012: 24.5%) due to seasonality and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

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

For the nine months ended 30 September 2012 the negative effective tax rate for the period was 15.1%, reflecting the tax charge arising on ordinary activities of £3 million and a tax credit of £20 million due to the reductions in the rate of corporation tax from 25% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013.

For the year ended 31 December 2012, the negative effective tax rate for the period 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. The tax charge for the year is more than the credit implied by the statutory tax rate of 24.5% primarily due to permanent differences arising from non-qualifying depreciation.

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the nine months ended 30 September 2013

#### 7 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £1,054 million and £29 million respectively (30 September 2012: £39 million and £nil respectively; 31 December 2012: £428 million and £40 million respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £10,646 million and £1,106 million respectively (30 September 2012: £11,492 million and £1,062 million respectively; 31 December 2012: £11,329 million and £1,094 million respectively).

|   | Unaudited<br>30 September 2013<br>£m | Unaudited<br>30 September<br>2012<br>£m | Audited<br>31 December 2012<br>£m |
|---|--------------------------------------|---|-----------------------------------|
| <b>Current borrowings</b>                                       |                                      |   |                                   |
| <b>Secured</b>  |                                      |   |                                   |
| Bank loans  | 89                                   | 39                                      | 39                                |
| Bonds:  |                                      |   |                                   |
| 5.850% £400 million due 2013                                    | 395                                  | -                                       | 389                               |
| 4.600% €750 million due 2014                                    | 570                                  | -                                       | -                                 |
| <b>Total current borrowings</b>                                 | <b>1,054</b>                         | <b>39</b>                               | <b>428</b>                        |
| <b>Non-current borrowings</b>                                   |                                      |   |                                   |
| <b>Secured</b>  |                                      |   |                                   |
| Revolving credit facility                                       | 332                                  | 122                                     | 290                               |
| Capital expenditure facility                                    |                                      |   | -                                 |
| Other bank loans  | 186                                  | 448                                     | 363                               |
|   | <b>518</b>                           | <b>570</b>                              | <b>653</b>                        |
| <b>Secured</b>  |                                      |   |                                   |
| Bonds:  |                                      |   |                                   |
| 5.850% £400 million due 2013                                    | -                                    | 387                                     | -                                 |
| 4.600% €750 million due 2014                                    | -                                    | 554                                     | 564                               |
| 3.000% £300 million due 2015                                    | 299                                  | 299                                     | 299                               |
| 2.500% US\$500 million due 2015                                 | 308                                  | 308                                     | 306                               |
| 12.450% £300 million due 2016                                   | 335                                  | 348                                     | 344                               |
| 4.125% €500 million due 2016                                    | 406                                  | 382                                     | 391                               |
| 4.375% €700 million due 2017                                    | 583                                  | 555                                     | 566                               |
| 2.500% CHF400 million due 2017                                  | 272                                  | 262                                     | 268                               |
| 4.600% €750 million due 2018                                    | 577                                  | 538                                     | 552                               |
| 6.250% £400 million due 2018                                    | 399                                  | 398                                     | 399                               |
| 4.000% CAD 400 million due 2019                                 | 238                                  | 249                                     | 245                               |
| 6.000% £400 million due 2020                                    | 396                                  | 395                                     | 395                               |
| 9.200% £250 million due 2021                                    | 271                                  | 283                                     | 283                               |
| 4.875% US\$1,000 million due 2021                               | 628                                  | 673                                     | 661                               |
| 1.650%+RPI £180 million due 2022                                | 188                                  | 182                                     | 184                               |
| 5.225% £750 million due 2023                                    | 638                                  | 630                                     | 632                               |
| 7.125% £600 million due 2024                                    | 588                                  | 588                                     | 588                               |
| 6.750% £700 million due 2026                                    | 690                                  | 690                                     | 690                               |
| 7.075% £200 million due 2028                                    | 198                                  | 198                                     | 198                               |
| 6.450% £900 million due 2031                                    | 851                                  | 863                                     | 864                               |
| Zero-coupon €50 million due January 2032                        | 45                                   | 41                                      | 42                                |
| Zero-coupon €50 million due April 2032                          | 44                                   | 41                                      | 42                                |
| 3.334%+RPI £460 million due 2039                                | 560                                  | 543                                     | 547                               |
| 5.875% £750 million due 2041                                    | 743                                  | 749                                     | 749                               |
|   | <b>9,257</b>                         | <b>10,156</b>                           | <b>9,809</b>                      |
| <b>Unsecured</b>  |                                      |   |                                   |
| Heathrow (SP) Limited debenture payable to Heathrow Finance plc | 871                                  | 766                                     | 867                               |
| <b>Total non-current borrowings</b>                             | <b>10,646</b>                        | <b>11,492</b>                           | <b>11,329</b>                     |
| <b>Total borrowings</b>   | <b>11,700</b>                        | <b>11,531</b>                           | <b>11,757</b>                     |

## **Heathrow (SP) Limited**

### **Notes to the consolidated financial information for the nine months ended 30 September 2013**

#### **8 Dividends**

During the period ended 30 September 2013, Heathrow (SP) Limited paid dividends of £618 million to Heathrow Finance plc, being £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 and £48 million on 18 September 2013 (30 September 2012 and 31 December 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).

## 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.