Heathrow
Making every journey better

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News release

29 October 2014

Heathrow (SP) Limited

Results for the nine months ended 30 September 2014

Heathrow (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.

- **Heathrow delivers three quarters of record passenger satisfaction**
- **Strong traffic performance with 55.7 million passengers using Heathrow, growth of 1.5% driven by intercontinental traffic**
- **Revenue up 8.2% to £1,986 million and EBITDA up 12.4% to £1,172 million**
- **Successful transition of 26 airlines to the new £2.5 billion Terminal 2: The Queen's Terminal**
- **Increasing support for Heathrow as the best solution to the UK's hub capacity crisis as the Airports Commission launches its national consultation on airport expansion**

At or for nine months ended 30 September	**2014**	2013[1]	Change (%)
(figures in £m unless otherwise stated)			
Revenue	**1,986**	1,836	8.2
Adjusted EBITDA [2]	**1,172**	1,043	12.4
Cash generated from operations	**1,112**	1,002	11.0
Adjusted pre-tax profit [3]	**194**	219	(11.4)
Pre-tax profit	**58**	266	n.m
Heathrow (SP) Limited consolidated net debt[4]	**11,762**	11,264	4.4
Heathrow Finance plc consolidated net debt[4]	**12,517**	12,025	4.1
Regulatory Asset Base[4]	**14,844**	14,585	1.8
Passengers (m) [5]	**55.7**	54.8	1.5
Net retail income per passenger [5]	**£6.34**	£6.24	1.7

For notes (1) to (5) see Definitions and notes on page 2.

John Holland-Kaye, Chief Executive Officer of Heathrow, said:

"Heathrow continues to deliver against key targets, with more passengers than ever choosing to use Heathrow and record passenger satisfaction numbers at the UK's only hub airport. We successfully completed the transition of 26 airlines into Terminal 2: The Queen's Terminal, with over 40,000 passengers enjoying the world class facility every day.

With the Airports Commission launching its national consultation on airport capacity expansion imminently, Heathrow expansion is increasingly being seen as not only the best option to keep Britain at the heart of the global economy, but also as politically deliverable, with growing support from local communities, politicians and businesses across the UK."

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Definitions and notes

(1) Heathrow only data, with the exception of Adjusted pre-tax profit and Pre-tax profit which include discontinued operations
(2) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(3) Adjusted pre-tax profit is before exceptional items, gains/losses on disposals and fair value adjustments
(4) 2013 net debt and RAB figures at 31 December 2013. Nominal net debt excluding intra-group loans and including inflation-linked accretion
(5) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

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Heathrow

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A conference call will be held for creditors and credit analysts on Wednesday 29 October 2014 at 3.00pm (UK time)/4.00pm (Central European time)/10.00 am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and José Leo, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 25042936#.
The presentation can be viewed online during the event, using event password: 650836 at: https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=m2f01976916b6942a1d854d28d2d6330e

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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.

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Heathrow (SP) Limited

Consolidated results for the nine months ended 30 September 2014

Contents

1 Key business developments

1.1 Passenger traffic

Heathrow's passenger traffic by geographic segment for the nine months ended 30 September 2014:

(figures in millions unless otherwise stated)	**2014**	2013	Change (%)[(1)]
UK	**3.9**	3.7	5.6
Europe	**22.8**	22.8	0.0
North America	**12.9**	12.7	1.6
Asia Pacific	**7.9**	7.8	2.1
Middle East	**4.6**	4.4	3.7
Africa	**2.7**	2.6	0.8
Latin America	**0.8**	0.8	5.4
Total passengers[(1)]	**55.7**	54.8	1.5

(1) Calculated using unrounded passenger figures

For the nine months ended 30 September 2014, Heathrow's traffic rose 1.5% to 55.7 million passengers (2013: 54.8 million). The average load factor rose to 77.2% (2013: 77.0%), the average number of seats per passenger aircraft increased to 204.0 (2013: 202.3) and the airport operated at 98.1% of its maximum flight capacity (2013: 97.8%).

Intercontinental routes performed well in most regions with traffic up 2.1%. North America benefitted from new destinations and increased frequencies on existing routes, resulting in traffic increasing 1.6%. Traffic on routes serving the Middle East grew by 3.7% reflecting increased flights and higher load factors. Traffic to and from Asia Pacific destinations grew by 2.1%, supported by new Asian destinations as well as increased frequencies on existing Asian routes. Latin American traffic grew 5.4% reflecting a new route to Colombia, increased flights to Mexico and growth in Brazil.

New routes and additional flights have been launched to emerging market and other long haul destinations despite capacity constraints, these are made possible by the unique passenger catchment and sophisticated freight handling facilities provided by a hub airport. New destinations include Manila, Chengdu, Mexico City, Bogota and Austin, Texas, with British Airways announcing the start of a new service to Kuala Lumpur. In addition, Air China has consolidated all its London operation into Heathrow.

European traffic was flat year on year, retaining the step change in traffic that these markets experienced in 2013. Domestic traffic was up 5.6%.

With over a quarter of UK exports passing through Heathrow, cargo volume at Heathrow increased a further 5.3% to 1.1 million metric tonnes in the first nine months of 2014, with notable increases on China, Japan, Brazil and USA.

1.2 Service standards

Heathrow's quality of service and facilities continue to receive strong endorsement. At the 2014 Skytrax World Airport Awards Terminal 5 was named the world's 'Best Airport Terminal' for the third year in a row and Heathrow was named the 'Best Airport for Shopping' for the fifth consecutive year. The Skytrax World Airport Awards are independent of any airport input and assess customer service and facilities across 388 airports providing an impartial benchmark of airport excellence and quality.

Heathrow has continued to achieve strong recognition from the travelling public for service performance. In the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI), 78% of passengers surveyed in 2014 rated their experience as 'Excellent' or 'Very Good'.

Heathrow achieved its highest ever overall passenger satisfaction in the ASQ survey for the first nine months of 2014, averaging 4.04 out of 5.00 (Q1: 4.06, Q2 4.02, Q3 4.04). The score reflects strong overall operational performance, record levels of punctuality and strong levels of satisfaction across key passenger service attributes.

In relation to individual service standards, during the nine months ended 30 September 2014, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 79% (2013: 78%). Heathrow's baggage misconnect rate was 19 per 1,000 passengers (2013: 15), mainly reflecting service interruptions to the baggage systems in June. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 95.8% of the time (2013: 91.2%) compared with a 95% service standard.

For Heathrow's current regulatory period, the CAA has raised standards for certain elements of the service quality scheme to build on improvements made through the last regulatory period. The standards for measuring security queues will move to a 'per passenger' basis once queue measurement automation is introduced. The standard will require 99% of passengers to pass through security within 10 minutes.

1.3 Terminal 2: The Queen's Terminal

Terminal 2: The Queen's Terminal successfully began operations on 4 June 2014 with United Airlines.

Her Majesty the Queen officially opened the terminal on 23 June 2014, accompanied by HRH the Duke of Edinburgh. The original Terminal 2, opened by Her Majesty the Queen in 1955, was Heathrow's first terminal and was designed to deal with 1.2 million passengers a year. The new terminal has the capacity to cater for up to 20 million passengers a year. Airlines and passengers benefit from a £2.5 billion investment in state of the art facilities that include main terminal and satellite buildings, a multi-storey short-stay car park and an energy centre supporting the Terminal 2 campus and the wider airport. The terminal and satellite buildings include 24 aircraft stands of which 7 stands are capable of handling the increasing number of A380 aircraft operating at Heathrow.

The terminal is now home to 23 Star Alliance member airlines operating at Heathrow together with Aer Lingus, Virgin Atlantic Little Red and germanwings. The phased transition of airlines into the terminal began on 4 June and completed on 23 October with approximately 350 daily arrivals and departures now being handled by the new facilities. The success of the opening phase of the terminal's operation is reflected in it achieving a 4.26 ASQ score in the third quarter of 2014.

Co-location of the Star Alliance airlines at Heathrow provides the opportunity to enhance efficiencies through use of common facilities, processes and personnel. It also enhances the scope for closer commercial co-operation between alliance members by, for example, capitalising on competitive minimum connection times to attract greater volumes of transfer passengers. Both these features will further strengthen Heathrow's competitive position.

The opening of Terminal 2 is the culmination of an £11 billion capital investment at Heathrow over the last decade that has transformed Heathrow's infrastructure and positioned it strongly to continue its role as a leading global hub airport for the benefit of the whole of the UK in the coming decades.

1.4 Heathrow's business plan

Heathrow's business plan for the latest period of economic regulation ('Q6') which began on 1 April 2014 and runs until 31 December 2018 focuses on delivering a noticeably better passenger experience, ensuring a continued focus on improved resilience and capacity availability and delivering a competitive cost of airport operation.

The price controls set by the CAA for Q6 permit an annual change to the maximum allowable yield per passenger of RPI minus 1.5%. The settlement assumes modest traffic growth of around 1% per annum, averaging 73 million annual passengers, after allowance for demand shocks. Given the constraint on capacity at Heathrow, growth in passengers is expected to be supported by larger and fuller aircraft.

Over £600 million of operating efficiencies are planned to be delivered and a programme of initiatives to reduce costs is underway which has seen early delivery of supplier efficiencies, corporate centre restructuring, a management pay freeze, union pay deals, revisions to terms and conditions for new employees and improved productivity.

A portfolio of initiatives to grow commercial revenue includes the redevelopment of the luxury retail area in Terminal 5 which will open from November 2014, the recent improved and extended agreement with World Duty Free, improving terms with other retailers and increasing commercial initiatives in areas such as car parking.

1.5 Investing in Heathrow

Following the £11 billion investment programme over the last 10 years, capital expenditure in 2014 will be lower than in recent years. Investment for the year is expected to be in the region of £700 million, around £100 million lower than previously expected due to a slower than expected mobilisation of projects in the new regulatory period. Capital expenditure in cash terms will be significantly higher than £700 million reflecting the timing difference between completion of assets in 2013 and supplier payments.

The final major stage in the substantial investment in Terminal 2 occurred through the first half of the year prior to its opening in June 2014. Investment in Heathrow's baggage infrastructure, the largest integrated baggage system in the world, continues in 2014. Development of the Terminal 3 integrated baggage system continues with the baggage building now complete, systems being tested and commissioned and operational trials underway. The system remains on track to begin operations in 2015.

Elsewhere, capital investment in 2014 will focus on areas such as refurbishment of tunnels to the Central Terminal Area, improving passenger experience, asset replacement and investment in operational resilience. Night-time resurfacing of the northern runway took place over the summer and completed on time at the end of September.

The capital programme for the Q6 regulatory period from 1 April 2014 to 31 December 2018 currently comprises £2.3 billion of committed investment. In line with the regulatory settlement, the capital programme can increase to up to £3.3 billion, subject to further scoping of individual projects through the regulatory period and approval of corresponding business cases.

The programme is materially lower than in the last two regulatory periods, and is primarily focused on maintenance and compliance related projects, together with improving Heathrow's resilience and enhancing the passenger experience. The plan includes a £1 billion programme of asset management and replacement projects and a £350 million project to implement latest generation hold baggage screening equipment.

1.6 Airports Commission

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

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

Heathrow has worked with local authorities, communities and other stakeholders to refine the runway option, including a first public consultation in February and March 2014 before a refreshed proposal was submitted to the Airports Commission in May 2014. This proposal improved on the July 2013 plan with further reduction of noise impact, improved road capacity, reduced congestion impacts and faster delivery of hub capacity at a competitive world-class airport. Engagement with all stakeholders has continued since May including consultation on appropriate noise and property compensation schemes for those who would be most affected by expansion. In addition, local feedback has helped improve Heathrow's plan still further and minimise the impacts of proposed infrastructure changes on local communities.

On 23 October the CAA began a consultation on its draft policy statement for the economic regulation of new runway capacity. The deadline for responses is 19 December 2014 and the CAA is expected to make a final policy statement in the first quarter of 2015. In early November, a national consultation will be launched by the Airports Commission. The Airports Commission is expected to consult on the robustness and accuracy of its appraisals of the need for aviation capacity. The consultation is expected to include one public evidence session for each of Heathrow and Gatwick. A report on the Airports Commission's final findings is expected in summer 2015.

1.7 Chief Financial Officer

On 1 October 2014, Heathrow announced that José Leo will stand down as Chief Financial Officer in March 2015 after over eight years at the company. José joined Heathrow in 2006 and has successfully transformed Heathrow's finances, implementing Heathrow's long-term financing platform, raising well over £11 billion of funding and establishing a strong reputation in global markets for transparent financial management of the business.

José will remain as Chief Financial Officer until March 2015 by when his successor is expected to be in place, ensuring a smooth transition.

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2 Financial review

2.1 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. Stansted is treated as a discontinued operation in the prior year operating financial information.

From 1 January 2015, the current UK accounting standards used for the preparation of the Heathrow (SP) consolidated accounts will be replaced by Financial Reporting Standard ('FRS') 100. As allowed by FRS 100, the Heathrow (SP) group is expected to adopt full IFRS for the year ending 31 December 2014. To provide comparable historical financial information, restated financial information in accordance with IFRS will be reported with the publication of the full year 2014 results. On adoption of IFRS the restated net assets of the Heathrow (SP) group are expected to reduce significantly because of new deferred tax liabilities that are required to be recognised under IFRS. These principally relate to the disallowance of a significant portion of capital spend that is treated as a permanent difference under existing UK GAAP and upon which no deferred tax is currently recognised but upon which IFRS requires a deferred tax liability to be booked. The impact of higher deferred tax liabilities is offset to some extent by the upwards revaluation of certain assets. These adjustments have not yet been audited.

From 1 January 2014, retail income includes fees paid by retailers for secure logistics services provided at the airport, which were previously reported in other income. Retail income and other income in 2013 have been restated to provide appropriate comparisons. The fees totalled £3 million in each of the nine months to 30 September 2013 and 2014.

For the nine months ended 30 September 2013, £8 million associated with managing the opening of Terminal 2 were incurred and primarily relate to familiarisation, induction and training and operational costs as Terminal 2 moved from the construction phase to the operational phase. These were presented in September 2013 within ordinary operating costs, but subsequently presented as exceptional within the 31 December 2013 financial results. Consequently the amounts have been restated as exceptional in the September 2013 results.

2.2 Profit and loss account

2.2.1 Introduction

In the nine months to 30 September 2014 the Group earned an operating profit of £661 million (2013: £618 million) and a profit after tax of £20 million (2013: £273 million).

Nine months ended 30 September	**2014** **£m**	2013[1] £m
Group turnover	**1,986**	1,836
Adjusted operating costs[2]	**(814)**	(793)
Adjusted EBITDA[3]	**1,172**	1,043
Exceptional items	**(122)**	(86)
EBITDA	**1,050**	957
Depreciation	**(389)**	(339)
Operating profit	**661**	618

Profit and loss (continued)

Operating profit	**661**	618
Gain on disposal of Stansted - discontinued operations	**3**	292
Net interest payable and similar charges	**(589)**	(485)
Fair value loss on financial instruments	**(17)**	(159)
Total net interest payable and similar charges	**(606)**	(644)
Profit on ordinary activities before taxation	**58**	266
Tax (charge)/credit on profit on ordinary activities	**(38)**	7
Profit on ordinary activities after taxation	**20**	273

(1) Continuing operations only from Group turnover through to Operating profit
(2) Adjusted operating costs are stated before depreciation, amortisation and exceptional items
(3) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

2.2.2 Turnover

In the nine months ended 30 September 2014, Heathrow's turnover increased 8.2% to £1,986 million (2013: £1,836 million).

Nine months ended 30 September	**2014 £m**	2013 £m	Change (%)
Aeronautical income	**1,261**	1,130	11.6
Retail income	**371**	361	2.8
Other income	**354**	345	2.6
Total turnover	**1,986**	1,836	8.2

2.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 11.6% to £1,261 million (2013: £1,130 million). Average aeronautical income per passenger increased 10.0% to £22.66 (2013: £20.60).

The strong performance in 2014 reflects a combination of factors. Over a quarter of the growth reflects the increase in the headline tariffs for the 2013/14 regulatory year for the first quarter. A substantial proportion of the increase reflects recovery of previous yield dilution through the K factor, which given the change in regulatory year the recovery for 2014 has been concentrated into the last six months of 2014. The remainder of the increase is driven by passenger traffic growth, the new tariff implemented in July 2014, the non-recurrence of yield dilution which occurred in the first six months of 2013, partially offset by yield dilution in 2014, and the absence of capital triggers in the 2014 regulatory year.

2.2.2.2 Retail income

In the nine months ended 30 September 2014, Heathrow's retail income increased 2.8% to £371 million (2013: £361 million). Net retail income ('NRI') grew 3.2% to £353 million (2013: £342 million) and NRI per passenger rose 1.7% to £6.34 (2013: £6.24).

Nine months ended 30 September	**2014 £m**	2013 £m	Change (%)
Car parking	**73**	66	10.6
Duty and tax-free	**94**	91	3.3
Airside specialist shops	**68**	70	(2.9)
Bureaux de change	**32**	35	(8.6)
Catering	**29**	29	-
Other retail income	**75**	70	7.1
Gross retail income	**371**	361	2.8
Retail expenditure	**(18)**	(19)	(5.3)
Net retail income	**353**	342	3.2

Car parking revenue led the growth in retail income and in the first nine months of 2014 grew by 10.6%. The growth reflects commercial initiatives which have driven improved yield and higher take-up of the product range, these include upselling, tariff revision and enhanced product offerings. Bureaux de change generated lower income than last year mainly due to the change of supplier where an interim arrangement was in place from late 2013 to March 2014.

In October, Heathrow extended its agreement with World Duty Free by six and a half years. The revised agreement delivers benefit in 2014 and is forecast to deliver substantial benefit over the current regulatory period. Income from airside specialist shops decreased by 2.9% over the nine months to September 2014. A number of factors contributed to the reduction, including the increased impact through the summer of works on the Terminal 5 luxury retail improvements. In addition, as anticipated the airline moves associated with the Terminal 2 opening have impacted retail revenue as well as the strength of sterling relative to last year.

Growth in other retail income came primarily from media and advertising income, up almost £3 million compared to last year. This is a result of better performance across the airport and the introduction of new advertising sites. Terminal 2 is also forecast to generate media growth for the remainder of 2014.

See section 2.1 relating to the reclassification of secure logistics services from other income to retail income (included in other retail income above).

2.2.2.3 Other income

In the nine months ended 30 September 2014, other income totalled £354 million (2013: £345 million), the increase was driven primarily by growth in rail income and utility charges and higher property rental income following the opening of Terminal 2.

See section 2.1 relating to the reclassification of secure logistics services from other income to retail income.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the nine months ended 30 September 2014, adjusted operating costs increased 2.6% to £814 million (2013: £793 million).

Nine months ended 30 September	**2014 £m**	2013 £m	Change (%)
Employment costs	**286**	294	(2.7)
Maintenance expenditure	**128**	123	4.1
Utility costs	**70**	66	6.1
Rents and rates	**98**	95	3.2
General expenses	**214**	197	8.6
Retail expenditure	**18**	19	(5.3)
Disposal of fixed assets	**-**	(1)	-
Total	**814**	793	2.6

Operating cost performance continues to be robust. As previously forecast, the start of operations at Terminal 2 has driven higher operating costs as a result of running an additional terminal. This is estimated to total an additional £24 million between June and September 2014.

In addition to Terminal 2 costs, maintenance costs rose as systems are delivered to support operational planning and resilience, as well as costs associated with a new energy demand management project. Changes in a major baggage contract implemented in the final quarter of 2013 are delivering benefits in employment costs and general expenses, partially offset by an increase in maintenance costs.

With the increase in activities to win approval for expansion at Heathrow, around £5 million of associated costs have been incurred in general expenses in 2014. Other increases in general expenses include the provision of noise insulation for local residents as part of our ongoing commitment to the local community.

Employment costs continue to be a focus for the business. As well as a major restructure of Heathrow's corporate centre which is delivering benefit, Heathrow has agreed a two-year pay agreement with employees represented under the company's collective bargaining agreement. The agreement will deliver a below-inflation increase after previous periods of above inflation increases. It is expected to deliver around £30 million over the regulatory period towards cost efficiency targets.

See section 2.1 relating to the reclassification of operating costs relating to Terminal 2.

2.2.4 Adjusted EBITDA

In the nine months ended 30 September 2014, Adjusted EBITDA increased 12.4% to £1,172 million (2013: £1,043 million), resulting in an Adjusted EBITDA margin of 59% (2013: 57%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income.

2.2.5 Operating result

The Group recorded an operating profit for the nine months ended 30 September 2014 of £661 million (2013: £618 million). Reconciliation of Adjusted EBITDA and statutory operating result is provided below.

Nine months ended 30 September	**2014 £m**	2013 £m	Change (%)
Adjusted EBITDA	**1,172**	1,043	12.4
Depreciation	**(389)**	(339)	14.7
Exceptional items	**(122)**	(86)	nm
Operating profit	**661**	618	7.0

The increase in depreciation reflects the start of depreciation of the new Terminal 2 once it became available for use, as defined by the accounting standards, in May 2014.

2.2.6 Exceptional items

In the nine months ended 30 September 2014, there was a net exceptional pre-tax charge of £122 million (2013: £86 million) to the profit and loss account.

Nine months ended 30 September	**2014 £m**	2013 £m
Pensions	**(104)**	(78)
Terminal 2 operational readiness	**(18)**	(8)
Exceptional pre-tax charge	**(122)**	(86)

The £104 million non-cash pension charge (2013: £78 million) relates to the Group's share of the actuarial losses under the LHR Airports Limited defined benefit pension scheme since 31 December 2013.

In the nine months ended 30 September 2014, Terminal 2 operational readiness costs of £18 million were incurred (2013: £8 million). These are costs which cannot be capitalised and mainly relate to familiarisation, induction and training activities together with operating costs incurred prior to the start of operations.

2.2.7 Taxation

The tax charge for the Group for the nine months ended 30 September 2014 was £38 million based on a profit before tax of £58 million. The tax charge has been calculated by applying the forecast annual effective tax rate for each entity to the results for the nine months ended 30 September 2014.

The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% due to seasonality and permanent differences mainly 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 where those proportions change.

2.3 Cash flow

2.3.1 Summary cash flow

Nine months ended 30 September	**2014** **£m**	2013 £m
Net cash inflow from operating activities – total	**1,112**	1,007
Net interest paid	**(471)**	(458)
Taxation – group relief paid	**(10)**	(20)
Cash flow after interest and tax	**631**	529
Net capital expenditure	**(689)**	(948)
Disposal of Stansted airport	**(2)**	1,407
Dividends paid	**(295)**	(618)
Net cash (outflow)/inflow before use of liquid resources and financing	**(355)**	370
Management of liquid resources	**(190)**	(119)
Issuance of bonds	**1,276**	-
Repayment of bonds	**(513)**	-
Issuance of term note	**100**	-
Cancellation and restructuring of derivatives	**-**	(2)
Settlement of accretion on index-linked swaps	**-**	(138)
Increase in amount owed to Heathrow Finance plc	**-**	3
Movement in borrowings and other financing flows	**(92)**	(108)
Increase in cash	**226**	6

2.3.2 Cash flow from operating activities

Net cash flow from continuing operations in the nine months ended 30 September 2014 increased 11.0% to £1,112 million (2013 continuing operations: £1,002 million) which compares with Adjusted EBITDA of £1,172 million (2013: £1,043 million).

2.3.3 Capital expenditure

The most significant areas of capital expenditure at Heathrow in the first nine months of 2014 were on remaining work on Terminal 2 and the new integrated baggage system for Terminal 3.

In the nine months ended 30 September 2014, the cash flow impact of capital investment at Heathrow was £689 million (2013 continuing operations: £946 million) with lower gross balance sheet additions to fixed assets in the period of £539 million.

The higher level of cash capital investment reflects the reversal of the trend seen from the end of 2013 through to the completion of Terminal 2 when higher gross balance sheet additions than supplier payments were being incurred. As expected, with a materially lower capital programme in 2014 this trend has reversed and the unwinding of capital creditors is expected to continue for the rest of the year.

2.3.4 Restricted payments

In the nine months ended 30 September 2014, restricted payments of £350 million were made by the Group which funded £194 million of the £203 million in quarterly dividends paid to the Group's ultimate shareholders; £16 million of interest payments at ADI Finance 2 Limited and £55 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc whilst £85 million has been retained within the Heathrow Airport Holdings Limited group ('HAH Group') (2013: £673 million including £176 million in quarterly dividends; £197 million related to interest payments on debt at Heathrow Finance plc and ADI Finance 1 Limited and rebalancing of debt at different levels of the HAH Group's capital structure; and £300 million related to the sale of Stansted).

2.4 Pension scheme

At 30 September 2014, the LHR Airports Limited defined benefit pension scheme had a deficit of £179 million (31 December 2013: £93 million) as measured under FRS 17, of which £159 million (31 December 2013: £81 million) was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. The increase in the Group's share of the deficit is mainly due to a reduction in the discount rate applied to the defined benefit scheme obligation, partially offset by asset returns.

2.5 Recent financing activity

The focus of the Group's financing activities through 2014 has been to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. Since the beginning of 2014, Heathrow has successfully closed nine debt financing transactions, raising over £1.6 billion. Through the year the Group has also repaid £593 million of debt, a €750 million (£513 million) bond maturity on 30 September and a net £83 million reduction in loan drawings.

Three public offerings raised close to £1 billion. In May, a €600 million, 8 year bond with a fixed annual coupon of 1.875% successfully extended Heathrow's curve in the Euro market. In June, a return to the Canadian market with a C$450 million, 7 year bond with a fixed semi-annual coupon of 3.0% established Heathrow as a repeat issuer in the Maple market. Finally, in October Heathrow Finance completed a £250 million, 10.5 year bond with a fixed semi-annual coupon of 5.75% substantially extending Heathrow's maturity profile at this level in its debt capital structure.

In addition, six private placements have been completed in 2014, raising over £600 million. These included £300 million of Class A index-linked bonds raised in two separate transactions. In addition, a £100 million, 12 year Class A private placement was completed. Two 20 year transactions also closed, one of £50 million with a 4.17% annual coupon and the other a €50 million bond with a 4.31% cost in sterling terms. Finally a £155 million 12 year Class B private placement was priced in two tranches with an average 4.16% semi-annual yield.

The Group has also begun the process of refinancing its core revolving credit and liquidity facilities, targeting aggregate facilities of £2,150 million comprising £1,400 revolving credit and £750 million liquidity facilities, similar to the current size of the existing facilities.

2.6 Financing position

2.6.1 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 the nine months ended 30 September 2014, the Group's nominal net debt increased 4.4% to £11,762 million from £11,264 million at 31 December 2013.

The Group's nominal net debt at 30 September 2014 comprised £11,400 million under bond issues, £25 million of drawings under the Group's revolving credit facilities, £287 million under various term debt facilities, £558 million in index-linked derivative accretion and £508 million of cash at bank and term deposits. Nominal net debt comprised £10,182 million in senior net debt and £1,580 million in junior debt.

The accounting value of the Group's net debt at 30 September 2014 was £10,939 million (31 December 2013: £10,712 million), which includes £510 million of cash and current asset investments on the balance sheet.

The average cost of the Group's external gross debt at 30 September 2014 was 4.57% (31 December 2013: 4.53%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 September 2014 was 5.75% (31 December 2013: 6.01%).

At 30 September 2014, the Group had £2.3 billion in undrawn loan facilities and cash resources. 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, up to December 2016.

2.6.2 Consolidated net debt at Heathrow Finance plc

Taking into account the Group's nominal net debt discussed in section 2.6.1, together with £763 million of gross debt and £8 million of cash held at Heathrow Finance, Heathrow Finance's consolidated nominal net debt at 30 September 2014 was £12,517 million, an increase of 4.1% from £12,025 million at 31 December 2013. Since 30 September 2014, Heathrow Finance has raised a further £250 million in debt with the proceeds retained within the business.

2.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 30 September 2014 was £14,844 million (31 December 2013: £14,585 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 2014 reflected the addition of approximately £540 million in capital expenditure and around £245 million of indexation adjustments. The increases were partially offset by regulatory depreciation of around £490 million. In addition, the CAA disallowed £32 million of the £5.9 billion capital investment during the Q5 regulatory period which was deducted from the RAB from the beginning of the new regulatory period.

2.6.4 Net interest payable and net interest paid

In the nine months ended 30 September 2014, the Group's net interest payable was £606 million (2013: £644 million) and net interest paid was £471 million (2013: £458 million). A reconciliation from interest payable on the profit and loss account to interest paid on the cash flow statement is provided below.

Nine months ended 30 September	**2014 £m**	2013 £m
Net interest payable and similar charges	**606**	644
Fair value loss on financial instruments	**(17)**	(159)
Amortisation of financing fees and fair value adjustments	**(27)**	(31)
Amortisation on bond redemption	**(61)**	-
Interest capitalised	**80**	116
Underlying net interest payable	**581**	570
Non-cash accretion on index-linked instruments	**(128)**	(154)
Other movements	**18**	42
Net interest paid	**471**	458

Underlying net interest payable was £581 million (2013: £570 million) after adjusting for the fair value loss on financial instruments of £17 million (2013: £159 million); capitalised interest of £80 million (2013: £116 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £88 million (2013: £31 million).

Within interest payable and similar charges is a one-off non-cash amortisation charge of £61 million, recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedging relationship.

The difference between underlying net interest payable and net interest paid is mainly accounted for by non-cash accretion on index-linked instruments of £128 million (2013: £154 million).

Net interest paid in the period was £471 million (2013: £458 million) of which £416 million (2013: £403 million) was paid in relation to external debt. The remaining £55 million (2013: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

2.6.5 Financial ratios

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

At 30 September 2014, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.6% and 79.2% respectively (31 December 2013: 67.6% and 77.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 84.3% (31 December 2013: 82.4%) compared to a covenant level of 90.0% under its financing agreements.

2.7 Outlook

Given current traffic trends, traffic for the year is now expected to reach 73.4 million passengers, an increase of 1.5% versus 2013. This compares with the previous forecast of 72.8 million passengers.

As a result of this and the continued strong operational and financial performance since the beginning of 2014, the Group now expects turnover and Adjusted EBITDA for 2014 to be approximately £2.69 billion and £1.56 billion respectively.

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Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated profit and loss account for the nine months ended 30 September 2014

	Note	**Unaudited Nine months ended 30 September 2014**	Restated[1] Unaudited Nine months ended 30 September 2013	Audited Year ended 31 December 2013
		£m	£m	£m
Turnover – continuing operations		**1,986**	1,836	2,474
Turnover – discontinued operations		**-**	32	32
Total turnover	1	**1,986**	1,868	2,506
Operating costs – ordinary: continuing operations		**(1,203)**	(1,132)	(1,501)
Operating costs – ordinary: discontinued operations		**-**	(32)	(32)
Total operating costs – ordinary	2	**(1,203)**	(1,166)	(1,533)
Operating costs – exceptional: other continuing operations		**(18)**	(8)	(38)
Operating costs – exceptional: pensions continuing operations		**(104)**	(78)	(76)
Total operating costs – exceptional	3	**(122)**	(86)	(114)
Total operating costs		**(1,325)**	(1,250)	(1,647)
Operating profit – continuing operations		**661**	618	859
Operating profit – discontinued operations		**-**	-	-
Total operating profit	1	**661**	618	859
Gain on disposal of Stansted		**3**	292	292
Interest receivable and similar income		**182**	181	236
Interest payable and similar charges		**(771)**	(666)	(880)
Fair value loss on financial instruments		**(17)**	(159)	(81)
Net interest payable and similar charges	4	**(606)**	(644)	(725)
Profit on ordinary activities before taxation		**58**	266	426
Tax (charge)/credit on profit on ordinary activities	5	**(38)**	7	(37)
Profit on ordinary activities after taxation		**20**	273	389

[1] The presentation of operating costs for the nine months ended 30 September 2013 has been restated, £8 million of costs relating to the opening of Terminal 2 have been presented as exceptional to be consistent with the year ended 31 December 2013.

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Heathrow (SP) Limited

Consolidated balance sheet
as at 30 September 2014

	Note	**Unaudited 30 September 2014 £m**	Unaudited 30 September 2013 £m	Audited 31 December 2013 £m
Fixed assets				
Tangible fixed assets		**13,111**	12,534	12,830
Financial assets – derivative financial instruments		**123**	310	165
Total fixed assets		**13,234**	12,844	12,995
Current assets				
Stocks		**9**	9	9
Debtors		**317**	319	352
Financial assets – derivative financial instruments		**-**	-	135
Current asset investments		**265**	151	75
Restricted cash		**-**	39	-
Cash at bank and in hand		**245**	12	19
Total current assets		**836**	530	590
Current liabilities				
Creditors: amounts falling due within one year	6	**(1,298)**	(1,841)	(1,449)
Net current liabilities		**(462)**	(1,311)	(859)
Total assets less current liabilities		**12,772**	11,533	12,136
Creditors: amounts falling due after more than one year	6	**(12,963)**	(11,755)	(12,213)
Deferred tax		**(177)**	(101)	(148)
Provisions for liabilities		**(195)**	(170)	(127)
Net liabilities		**(563)**	(493)	(352)
Capital and reserves				
Called up share capital		**11**	11	11
Share premium reserve		**499**	499	499
Revaluation reserve		**512**	429	461
Merger reserve		**(3,758)**	(3,758)	(3,758)
Fair value reserve		**(297)**	(345)	(310)
Profit and loss reserve	7	**2,470**	2,671	2,745
Total shareholder's deficit		**(563)**	(493)	(352)

Heathrow (SP) Limited

Consolidated summary cash flow statement
for the nine months ended 30 September 2014

	Note	**Unaudited Nine months ended 30 September 2014 £m**	Unaudited Nine months ended 30 September 2013 £m	Audited Year ended 31 December 2013 £m
Operating profit - continuing operations	1	**661**	618	859
Adjustments for:				
Depreciation		**389**	339	448
Gain on disposal of fixed assets		**-**	(1)	-
Working capital changes:				
Decrease/(increase) in stock and debtors		**6**	(40)	(19)
(Decrease)/increase in creditors		**(27)**	27	72
Net utilisation of provisions		**(3)**	(2)	(4)
Difference between pension charge and cash contributions		**(18)**	(17)	(29)
Exceptional pension charge		**104**	78	76
Net cash inflow from operating activities - continuing		**1,112**	1,002	1,403
Net cash inflow from operating activities - discontinued		**-**	5	5
Total net cash inflow from operating activities		**1,112**	1,007	1,408
Net interest paid		**(471)**	(458)	(521)
Taxation – group relief paid		**(10)**	(20)	(28)
Net capital expenditure		**(689)**	(948)	(1,285)
Disposal of Stansted Airport Limited		**(2)**	1,407	1,410
Dividends paid	7	**(295)**	(618)	(661)
Net cash (outflow)/inflow before use of liquid resources and financing		**(355)**	370	323
Management of liquid resources		**(190)**	(119)	(43)
Issuance of bonds	6	**1,276**	-	745
Repayment of bonds	6	**(513)**	-	(396)
Issuance of term note	6	**100**	-	-
Net (repayment)/drawdown of revolving credit facilities	6	**(55)**	40	(227)
Repayment of facilities and other financing items	6	**(37)**	(148)	(214)
Increase in amount owed to Heathrow Finance plc	6	**-**	3	4
Settlement of accretion on index-linked swaps		**-**	(138)	(177)
Cancellation and restructuring of derivatives		**-**	(2)	(2)
Net cash inflow/(outflow) from financing		**771**	(245)	(267)
Increase in cash		**226**	6	13

Heathrow (SP) Limited

General information and accounting policies for the nine months ended 30 September 2014

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 any other period. Statutory financial statements for the year ended 31 December 2013 have been filed with the Registrar of Companies on 18 March 2014. 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 with the exception of tax accounting (see note 5) which is in accordance with the United Kingdom Accounting Standards Board's Statement: 'Half-Yearly Financial Reports'.

Change in accounting policy
Discontinued operations
Stansted airport has been classified as discontinued operations due to the completion of its disposal on 28 February 2013.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2014

1 Segment information

The directors consider that 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 Nine months ended 30 September 2014 £m**	Restated[1] Unaudited Nine months ended 30 September 2013 £m	Restated[1] Audited Year ended 31 December 2013 £m
Aeronautical income	**1,261**	1,130	1,523
Retail income	**371**	361	491
Operational facilities and utilities income	**128**	124	165
Property rental income	**80**	78	104
Rail income	**94**	91	124
Other income	**52**	52	67
Turnover – continuing operations	**1,986**	1,836	2,474
Turnover – discontinued operations	**-**	32	32
Total turnover	**1,986**	1,868	2,506

[1] The presentation of retail income and other income for the nine months ended 30 September 2013 and the year ended 31 December 2013 has been restated to be consistent with the current reporting period.

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.

Unaudited Nine months ended 30 September 2014	**Adjusted EBITDA £m**	**Operating exceptional items £m**	**Depreciation £m**	**Operating profit £m**
Heathrow	**1,172**	**(122)**	**(389)**	**661**

Restated[2] Unaudited Nine months ended 30 September 2013	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	1,043	(86)	(339)	618
Stansted - discontinued operations	7	-	(7)	-
Total	1,050	(86)	(346)	618

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

[2] The presentation of operating costs for the nine months ended 30 September 2013 has been restated, £8 million of costs relating to the opening of Terminal 2 have been presented as exceptional to be consistent with the year ended 31 December 2013.

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Notes to the consolidated financial information for the nine months ended 30 September 2014

2 Operating costs – ordinary

	Unaudited Nine months ended 30 September 2014 £m	Restated[1] Unaudited Nine months ended 30 September 2013 £m	Audited Year ended 31 December 2013 £m
Employment costs	**286**	294	392
Maintenance expenditure	**128**	123	164
Utility costs	**70**	66	85
Rents and rates	**98**	95	116
General expenses	**214**	197	270
Retail expenditure	**18**	19	26
Disposal of fixed assets	**-**	(1)	-
Depreciation	**389**	339	448
Operating costs – ordinary: continuing operations	**1,203**	1,132	1,501
Operating costs – ordinary: discontinued operations	**-**	32	32
Total operating costs – ordinary	**1,203**	1,164	1,533

[1] The presentation of operating costs for the nine months ended 30 September 2013 has been restated, £8 million of costs relating to the opening of Terminal 2 have been presented as exceptional to be consistent with the year ended 31 December 2013.

3 Operating exceptional items

Operating costs – exceptional: other

Operational readiness costs of £18 million (nine months ended 30 September 2013: £8 million; year ended 31 December 2013: £16 million) are associated with managing the opening of Terminal 2 and were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

Costs associated with the Group's change programmes amounting to £22 million were charged in the year ended 31 December 2013. The charge related to severance and pension payments associated with a restructuring programme.

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.

For the nine months ended 30 September 2014 an exceptional pension charge of £104 million was incurred relating to continuing operations (nine months ended 30 September 2013: £78 million; year ended 31 December 2013: £76 million).

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2014

4 Net interest payable and similar charges

	Unaudited Nine months ended 30 September 2014 £m	Unaudited Nine months ended 30 September 2013 £m	Audited Year ended 31 December 2013 £m
Interest receivable and similar income			
Interest receivable on derivatives not in hedge relationship	**171**	174	227
Pension finance income	**9**	6	7
Interest on deposits	**2**	1	2
	182	181	236
Interest payable and similar charges			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(445)**	(426)	(575)
Loans and overdrafts and related hedging instruments	**(47)**	(80)	(107)
Amortisation on bond redemption[2]	**(61)**	-	-
Interest payable on derivatives not in hedge relationship[3]	**(245)**	(223)	(290)
Facility fees and other charges	**(11)**	(11)	(16)
Interest on debenture payable to Heathrow Finance plc	**(41)**	(41)	(55)
Unwinding of discount on provisions	**(1)**	(1)	(1)
	(851)	(782)	(1,044)
Less capitalised interest[4]	**80**	116	164
	(771)	(666)	(880)
Net interest payable before fair value gain/(loss)	**(589)**	(485)	(644)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: cash flow hedge[5]	**2**	20	23
Interest rate swaps: not in hedge relationship	**(74)**	21	54
Index-linked swaps: not in hedge relationship[6]	**48**	(196)	(147)
Cross-currency swaps: cash flow hedge[5]	**4**	(1)	2
Cross-currency swaps: fair value hedge[5]	**2**	(4)	(14)
Fair value re-measurements of foreign exchange contracts and currency balances	**1**	1	1
	(17)	(159)	(81)
Net interest payable and similar charges	**(606)**	(644)	(725)

1 Includes accretion of £18 million (nine months ended 30 September 2013: £16 million; year ended 31 December 2013: £20 million) on index-linked bonds.
2 Within interest payable and similar charges is a one-off non-cash £61 million amortisation charge recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedging relationship. A deferred tax credit of £12 million relating to the amortisation charge has been recognised within the tax charge.
3 Includes accretion of £110 million (nine months ended 30 September 2013: £138 million; year ended 31 December 2013: £182 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 5.89% (nine months ended 30 September 2013: 6.02%; year ended 31 December 2013: 6.04%) 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 nine months ended 30 September 2014

5 Tax (charge)/credit on profit on ordinary activities

	Unaudited Nine months ended 30 September 2014 £m	Unaudited Nine months ended 30 September 2013 £m	Audited Year ended 31 December 2013 £m
Current tax charge on ordinary activities	**(13)**	(17)	(22)
Deferred tax charge on ordinary activities	**(25)**	(4)	(43)
Change in UK Corporation tax rate – impact on deferred tax	**-**	28	28
Total tax (charge)/credit on profit on ordinary activities	**(38)**	7	(37)

The tax charge for the nine months ended 30 September 2014 results in an effective tax rate of 64.9%, reflecting the tax charge arising on ordinary activities of £38 million. The tax charge has been calculated by applying the forecast annual effective tax rate for each entity to the results for the nine months ended 30 September 2014. The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% due to seasonality and permanent differences mainly 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 where those proportions change.

For the nine months ended 30 September 2013, the effective tax rate was 2.6% negative, reflecting the tax credit arising on ordinary activities of £7 million. The effective tax rate for the period differed from the statutory rate of corporation tax of 23.25% due to seasonality, permanent differences mainly arising from non-qualifying depreciation and the fact that the Group's disposal of Stansted Airport Limited had no corporation tax charge as it qualified for the Substantial Shareholding Exemption.

For the year ended 31 December 2013, the effective tax rate was 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 were re-measured during the year ended 31 December 2013 at a rate of 20%. As above, the disposal of Stansted Airport Limited had no corporation tax charge as it qualified for the Substantial Shareholding Exemption.

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Notes to the consolidated financial information for the nine months ended 30 September 2014

6 Borrowings and financial derivatives

	Unaudited 30 September 2014 £m	Unaudited 30 September 2013 £m	Audited 31 December 2013 £m
Current borrowings			
Secured			
Loans	**39**	89	39
Bonds:			
5.850% £400 million due 2013	**-**	395	-
4.600% €750 million due 2014	**-**	570	564
3.000% £300 million due 2015	**300**	-	-
2.500% US$500 million due 2015	**308**	-	-
Total current borrowings	**647**	1,054	603
Non-current borrowings			
Secured			
Revolving credit facilities	**25**	332	80
Term note due 2026	**100**	-	-
Other loans	**147**	186	175
	272	518	255
Secured			
Bonds:			
3.000% £300 million due 2015	**-**	299	299
2.500% US$500 million due 2015	**-**	308	301
12.450% £300 million due 2016	**322**	335	332
4.125% €500 million due 2016	**381**	406	405
4.375% €700 million due 2017	**543**	583	581
2.500% CHF400 million due 2017	**257**	272	271
4.600% €750 million due 2018	**543**	577	576
6.250% £400 million due 2018	**398**	399	398
4.000% C$400 million due 2019	**218**	238	225
6.000% £400 million due 2020	**396**	396	396
9.200% £250 million due 2021	**269**	271	266
3.000% C$450 million due 2021	**243**	-	-
4.875% US$1,000 million due 2021	**630**	628	612
1.650%+RPI £180 million due 2022	**193**	188	189
1.875% €600 million due 2022	**477**	-	-
5.225% £750 million due 2023	**647**	638	640
7.125% £600 million due 2024	**589**	588	588
4.221% £155 million due 2026	**155**	-	-
6.750% £700 million due 2026	**691**	690	691
7.075% £200 million due 2028	**198**	198	198
6.450% £900 million due 2031	**847**	851	845
Zero-coupon €50 million due January 2032	**44**	45	45
1.366%+RPI £75 million due 2032	**76**	-	-
Zero-coupon €50 million due April 2032	**43**	44	45
4.171% £50 million due 2034	**50**	-	-
Zero-coupon €50 million due 2034	**39**	-	-
1.382%+RPI £50 million due 2039	**51**	-	-
3.334%+RPI £460 million due 2039	**572**	560	562
1.238%+RPI £100 million due 2040	**100**	-	-
5.875% £750 million due 2041	**740**	743	740
4.625% £750 million due 2046	**742**	-	742
1.372%+RPI £75 million due 2049	**76**	-	-
	10,530	9,257	9,947
Unsecured			
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	**871**	871	871
Total non-current borrowings	**11,673**	10,646	11,073
Total borrowings	**12,320**	11,700	11,676

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2014

6 Borrowings and financial derivatives *continued*

Within Creditors: amounts falling due within one year are financial derivatives of £12 million (30 September 2013: £29 million; 31 December 2013: £2 million). Within Creditors: amounts falling due after more than one year are financial derivatives of £1,287 million (30 September 2013: £1,106 million; 31 December 2013: £1,137 million).

7 Dividends

During the period ended 30 September 2014, Heathrow (SP) Limited paid dividends of £295 million to Heathrow Finance plc, being £65 million on 28 February 2014, £79 million on 27 June 2014 and £66 million on 24 July 2014 as part of the quarterly dividend programme to the ultimate shareholders and servicing of external debt at Heathrow (SP) Limited's holding companies and £85 million on 23 September 2014 which was retained within the Heathrow Airport Holdings Limited group. (31 December 2013: Heathrow (SP) Limited paid dividends 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).