Heathrow
Making every journey better

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News Release

29 October 2012

Heathrow (SP) Limited

Results for the nine months ended 30 September 2012

Heathrow (SP) Limited (formerly BAA (SP) Limited) owns Heathrow and Stansted airports. Throughout this document, Heathrow (SP) Limited and its subsidiaries are referred to as the Group.

- **Heathrow passengers up 0.6% to 53.0 million, with combined Heathrow and Stansted passengers down 0.5% to 66.4 million**
- **8.2% revenue increase supports 9.6% Adjusted EBITDA growth**
- **Capital investment increases by over 25% from 2011 as activity on Terminal 2 fit out intensifies**
- **Strong operational performance during Olympics drives passenger satisfaction to record levels**
- **Stansted disposal process underway**

At or for nine months ended 30 September	**2012**	2011	Change (%)
(figures in £m unless otherwise stated)			
Revenue	**1,843.6**	1,703.3	8.2
Adjusted EBITDA(1)	**922.9**	842.2	9.6
Cash generated from operations	**835.9**	799.9	4.5
Adjusted pre-tax profit/(loss)(2)	**6.7**	(100.0)	n/a
Pre-tax profit/(loss)(3)	**111.8**	(147.3)	n/a
Heathrow (SP) Limited consolidated net debt(4)(5)	**11,282.6**	10,442.6	8.0
Heathrow Finance plc consolidated net debt(4)(5)(6)	**11,848.6**	10,992.2	7.8
Regulatory Asset Base(5)	**14,518.9**	13,849.7	4.8
Passengers (m)(7)	**66.4**	66.7	(0.5)
Net retail income per passenger(7)(8)	**£5.68**	£5.42	4.7

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(2) Adjusted pre-tax profit/(loss) is before exceptional items, loss on disposals, impairment of fixed assets and fair value adjustments
(3) Pre-tax profit reflects particularly the impact of reduced inflation expectations on the fair value of index-linked derivatives
(4) Nominal net debt excluding intra-group loans and including index-linked accretion
(5) 2011 net debt and Regulatory Asset Base figures are as at 31 December 2011
(6) Heathrow Finance plc (formerly BAA (SH) plc) is the parent company of Heathrow (SP) Limited
(7) Changes in passengers and net retail income per passenger are calculated using unrounded data
(8) See section 2.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of Heathrow, said:

"Heathrow continues to report a strong operating and financial performance. It received its highest ever passenger satisfaction scores during a period which included the London 2012 Olympic and Paralympic Games. Our large and sustained capital investment programme is creating jobs throughout the UK and improving passengers' experience of Heathrow. We are on track to invest more than £1 billion by the end of 2012, with the next major milestone being the opening of the new Terminal 2 in 2014."

For further information please contact

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There will be a conference call today at 3.00 pm (UK 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 2012. The call will be hosted by Jose Leo, Chief Financial Officer. Dial-in details for the call are: UK free phone: 0800 368 1950; US free phone: 1866 928 6049; UK local/standard international: +44 (0)20 3140 0668. Participant PIN code is 720122#. It will also be possible to view online the presentation (using event password: 387068) as it is used during the call at:

https://arkadin-trial.webex.com/arkadin-trial/j.php?ED=224511297&UID=491373747&PW=NYzQzZmE0NmQ5&RT=MiMyMQ%3D%3D

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This material contains certain tables and other statistical analyses (the "Statistical Information") which have been prepared in reliance on publicly available information and may be subject to rounding. Numerous assumptions were used in preparing the Statistical Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Statistical Information. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context; nor as to whether the Statistical Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions nor should any information herein be relied upon as legal, tax, financial or accounting advice. The Group does not make any representation or warranty as to the accuracy or completeness of the Statistical Information.

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
Making every journey better

Heathrow (SP) Limited

Consolidated results for the nine months ended 30 September 2012

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1 Key business developments

1.1 Change of name

On 15 October 2012, it was announced that the BAA name would cease to be used. This change was implemented for a number of reasons including the fact that Heathrow will account for more than 95% of the former BAA group once Stansted is sold. As a result, whilst the brands and related legal entity names (such as Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited) of individual operating businesses are being retained, the names of many of the holding companies in the business assumed the Heathrow brand.

The change saw BAA Limited become Heathrow Airport Holdings Limited. In relation to companies more relevant to the operation and financing of the London airports, BAA Funding Limited became Heathrow Funding Limited, BAA (SH) plc became Heathrow Finance plc, BAA (SP) Limited became Heathrow (SP) Limited and BAA (AH) Limited became Heathrow (AH) Limited. In addition, BAA Airports Limited, the shared services provider and sponsor of the group defined benefit pension scheme, became LHR Airports Limited.

1.2 Passenger traffic

Passenger traffic for the nine months ended 30 September 2012 at the Group's airports is analysed below:

(figures in millions unless otherwise stated)	**2012**	2011	Change (%)[1]
Passengers by airport			
Heathrow	53.0	52.6	0.6
Stansted	13.5	14.1	(4.6)
Total passengers[1]	66.4	66.7	(0.5)
Passengers by market served			
UK	4.5	4.7	(3.9)
Europe[2]	33.8	34.2	(1.0)
Long haul	28.1	27.9	0.7
Total passengers[1]	66.4	66.7	(0.5)

(1) These figures have been calculated using un-rounded passenger numbers
(2) Includes North African charter traffic

In the nine months ended 30 September 2012, combined passenger traffic at Heathrow and Stansted declined 0.5% to 66.4 million (2011: 66.7 million) with moderate 0.6% growth at Heathrow more than offset by a 4.6% decline at Stansted.

Underlying demand at Heathrow has been firm through 2012 with an all-time record in reported traffic for the first nine months of the year. However, there have been fluctuations in reported performance through the year with robust year on year growth in the first quarter reflecting partly the leap year and the change in the timing of Easter. Conversely the second quarter saw a modest decline due particularly to boosts to prior year traffic from both the timing of Easter and the Royal Wedding. In the third quarter, Heathrow's traffic was impacted in July and August by over 400,000 passengers compared to the same period of 2011 by the London 2012 Olympics, which resulted in UK based travellers staying in the country to enjoy the Games and non-UK travellers avoiding travelling to the UK due to concerns over disruption caused by the Games. However, in September traffic trends normalised with an all-time record for that month recorded.

On a regional basis, Heathrow's performance has continued to be driven by North Atlantic traffic which increased 3.9% to 12.5 million passengers (2011: 12.0 million). Traffic to other long haul destinations declined modestly, down 0.3% to 15.3 million (2011: 15.4 million). Strength in services with Brazil (due to increased services), the Middle East (due partially to recovery in key markets from the unrest in the region that impacted 2011) and the Far East (due partly to recovery from 2011's Japanese tsunami) was offset particularly by weakness in African and Indian traffic due to airlines reducing or ceasing services.

Heathrow's European traffic also declined marginally, down 0.4% to 21.6 million passengers (2011: 21.7 million), principally due to Olympics related weakness, with significant variances in performance between markets, reflecting the macro-economic environment across Europe. There was strong performance in markets such as Norway, Czech Republic and Romania offset by weakness in markets such as Italy, Poland and Finland. Domestic traffic was up marginally, by 0.1% to 3.6 million passengers (2011: 3.6 million), with performance improving since the first quarter, due primarily to passing the first anniversary (in March 2012) of the cessation of bmi's Glasgow service, and traffic less impacted than other markets during the Olympics.

Stansted's traffic declined 4.6% to 13.5 million passengers (2011: 14.1 million) with the Olympics having only a modest adverse effect on performance. Stansted's core European scheduled market saw traffic decline 1.8% to 10.8 million passengers (2011: 11.0 million) which partly reflected easyJet moving 3 Stansted based aircraft to Southend. Declines in traffic in other markets were driven mostly by cessation of a limited number of services, such as Prestwick and Newcastle in the domestic market and Kuala Lumpur (Air Asia X) in the long haul market. As in 2011, Stansted has continued to experience robust load factors that were 81.1% in the first nine months of 2012 (2011: 81.3%), suggesting limited deterioration in demand dynamics.

1.3 Investment in modern airport facilities

Heathrow continues to be the focus of the capital investment programme, a key enabler of the Group's strategic objective of enhancing Heathrow's leading position in the global aviation industry and particularly its long-standing role as the UK's gateway to the world. The investment programme's current focus is on the construction of the new Terminal 2, which remains on budget with construction due to be completed in late 2013 and operations due to commence in 2014. In addition, significant investment continues on Heathrow's baggage infrastructure.

Over £800 million was invested at Heathrow in the first nine months of 2012. Fit-out within the main Terminal 2 building is proceeding at pace and is approximately 30% complete, with the installation of the internal walls, glass wall linings and floor tiles well underway. The first of 39 communications rooms which will house the data switches and systems to support the terminal IT network has been completed and handed over for IT fit out. Work on the Vertical Passenger Movement (VPM) building, which will take passengers down to the underground walkway to Terminal 2's satellite building, is also progressing well. Specialist baggage contractors are working to ensure that the baggage system is integrated successfully into the new building and available for end to end testing with the Terminal 1 baggage system.

The second phase of the satellite Terminal 2B was made weather-tight on schedule during the third quarter of 2012. Fit-out has continued to make good progress with recent highlights including the successful installation of some of the longest escalators at Heathrow that will carry passengers between the satellite building and the underground walkway connection to the main Terminal 2 building.

Good progress is being made at both the main terminal and the satellite in erecting the structural steelwork for the ‘nodes’ which connect the terminal buildings to the air bridges through which passengers board or leave aircraft. On the apron next to these nodes, concrete is being laid and services are being installed.

Construction of Terminal 2’s multi-storey car park is progressing at speed with the main access ramp leading up to the car park’s upper level being well on the way to completion, forming the connection between the new car park and the existing road network.

In Heathrow’s baggage investment programme, the superstructure for the building to house Terminal 3’s new integrated baggage system is nearly completed. Good progress is now being made on the external cladding of the building and roof panels have been installed. The main elements of the baggage system are being delivered to Heathrow and installation has been started.

The refurbishment works in Terminal 4’s departure lounge are expected to be completed by the end of 2012.

1.4 Service standards

The Group’s focus on delivering transformational change in passengers’ experience of its airports continues to receive significant endorsement from the travelling public, demonstrating that passengers are noticing the improvements made by the airports.

In April 2012 Heathrow Terminal 5 was named the world’s best airport terminal in the 2012 SKYTRAX World Airport Awards. Stansted was named as the world’s best airport for low cost airlines in the same awards. Most recently, Heathrow achieved an all-time record overall passenger satisfaction score of 3.96 in the Airport Service Quality survey (produced by Airports Council International) for the third quarter of 2012. This reflected in particular the success of the airport and other organisations that planned and delivered a warm and efficient journey through Heathrow for passengers during the Olympic and Paralympic games. This success built on Heathrow having achieved what were, prior to the third quarter, its two highest ever overall passenger satisfaction scores in the same survey in the first and second quarters of 2012.

Individual service standards continue to perform robustly at Heathrow and Stansted. On punctuality, the proportion of aircraft departing within 15 minutes of schedule during the nine months ended 30 September 2012 was 79% (2011: 80%) at Heathrow and 89% (2011: 88%) at Stansted. Further, Heathrow’s baggage misconnect rate was 14 per 1,000 passengers (2011: 15).

On security queuing, passengers passed through central security within periods prescribed under service quality rebate schemes 96.0% (2011: 97.0%) of the time at Heathrow and 98.0% (2011: 97.6%) of the time at Stansted during the nine months ended 30 September 2012. This compares with 95.0% service standards.

1.5 Competition Commission process

Having carefully considered the Court of Appeal’s recent ruling, it was decided not to appeal to the Supreme Court in relation to the Competition Commission’s requirement that the Group disposes of Stansted airport. As a result, the Stansted airport disposal process has commenced.

1.6 Tariff setting process for next regulatory period

On 30 July 2012 Heathrow distributed to the airline community and the Civil Aviation Authority (‘CAA’) its initial business plan for the next five year regulatory period due to commence on 1 April 2014. Formal consultation by the CAA on the review of price regulation is expected in early 2013 once the current constructive engagement process is completed, Heathrow publishes its final business plan in January 2013 and the CAA has completed its own research and analysis. It is currently expected that the CAA’s final price cap proposals will be published in September 2013 and the CAA's decision on licence conditions will be published in January 2014.

2 Financial review

2.1 Basis of preparation

Heathrow (SP) Limited is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts are prepared under UK GAAP. Consolidated financial information is set out in Appendix 1. A detailed analysis of turnover and operating costs both by airport and activity is set out in Appendix 2.

2.2 Profit and loss account

2.2.1 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 the Group's operations.

Nine months ended 30 September	**2012 £m**	2011 £m
Group turnover	**1,843.6**	1,703.3
Adjusted operating costs(1)	**(920.7)**	(861.1)
Adjusted EBITDA(2)	**922.9**	842.2
Operating (costs)/gain – exceptional – pensions(3)	**(145.6)**	36.6
EBITDA	**777.3**	878.8
Depreciation – ordinary	**(378.7)**	(356.8)
Depreciation and impairment – exceptional(3)	**-**	(11.0)
Operating profit	**398.6**	511.0
Loss on airport disposals	**(0.2)**	-
Net interest payable and similar charges	**(537.5)**	(585.4)
Fair value gain/(loss) on financial instruments	**250.9**	(72.9)
Total net interest payable and similar charges	**(286.6)**	(658.3)
Profit/(loss) on ordinary activities before taxation	**111.8**	(147.3)
Tax credit on profit/(loss) on ordinary activities	**16.8**	51.7
Profit/(loss) on ordinary activities after taxation	**128.6**	(95.6)

(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) See section 2.2.6 for further discussion of exceptional items

2.2.2 Turnover

In the nine months ended 30 September 2012, turnover increased 8.2% to £1,843.6 million (2011: £1,703.3 million). This reflects increases of 10.5%, 4.3% and 6.4% in aeronautical, retail and other income respectively.

Nine months ended 30 September	**2012 £m**	2011 £m	Change (%)
Aeronautical income	**1,057.3**	956.7	10.5
Retail income	**401.5**	385.0	4.3
Other income	**384.8**	361.6	6.4
Total	**1,843.6**	1,703.3	8.2

2.2.2.1 Aeronautical income

Aeronautical income by airport

Nine months ended 30 September	**2012 £m**	2011 £m	Change (%)
Heathrow	**955.2**	858.8	11.2
Stansted	**102.1**	97.9	4.3
Total	**1,057.3**	956.7	10.5

In the nine months ended 30 September 2012, aeronautical income increased 10.5% to £1,057.3 million (2011: £956.7 million). At Heathrow, the growth primarily reflects the headline 12.2% and 12.7% increases in its tariffs from 1 April 2011 and 1 April 2012 respectively supported by the modest increase in passenger traffic. This has been partially offset by lower than expected yields particularly due to factors such as more quieter aircraft, a higher proportion of transfer passengers and a lower contribution from aircraft parking charges than assumed when tariffs for the relevant regulatory years were determined. These factors led to aeronautical income being approximately £25 million lower than expected during the nine months ended 30 September 2012. This shortfall (or yield dilution) will be recovered through the 'K factor' true-up mechanism in the years commencing 1 April 2013 and 1 April 2014.

At Stansted, growth in aeronautical income reflects the headline 6.33% and 6.83% increase in its tariffs from 1 April 2011 and 1 April 2012 respectively together with reduced tariff discounts, partially offset by a decline in traffic.

With the level of the UK retail price index for August 2012 now known, the headline maximum allowable yields at Heathrow and Stansted will increase by 10.4% and 4.53% respectively from 1 April 2013.

2.2.2.2 Retail income

The Group's retail business has continued to perform well with reported growth in retail income of 4.3% to £401.5 million (2011: £385.0 million) boosted to approximately 5% after taking into account the effect of one-off benefits at Heathrow of approximately £5 million in the second quarter of 2011 and £2 million (Olympics related) in the third quarter of 2012.

Reported net retail income ('NRI') per passenger increased 4.7% to £5.68 (2011: £5.42) in the nine months ended 30 September 2012, led by Heathrow where NRI per passenger was up 4.8%. The year on year increase in NRI per passenger was 8.9% in the third quarter (or slightly over 7% after adjusting for the one-off Olympics benefit discussed above).

Net retail income per passenger by airport[(1)]

Nine months ended 30 September	**2012 £**	2011 £	Change (%)
Heathrow	**6.04**	5.76	4.8
Stansted	**4.27**	4.17	2.5
Total	**5.68**	5.42	4.7

(1) These figures have been calculated using un-rounded numbers

At Heathrow, retail income increased 5.8% to £338.4 million (2011: £319.9 million) and NRI per passenger increased 4.8% to £6.04 (2011: £5.76). The underlying growth in Heathrow's net retail income per passenger was approximately 6% after adjusting for the two one-off factors described above.

Heathrow's duty and tax-free and airside specialist shops continue to see increases in the average spend of passengers purchasing items in the in-terminal retail facilities. This is being driven by factors including an increased proportion of higher spending non-EU passengers, the major refurbishment of Terminal 3's airside specialist shops and the new walk through area in the World Duty Free store in Terminal 3. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments.

A strong performance in bureaux de change at Heathrow was due primarily to improvements in contract terms with business partners. Catering income grew well ahead of passenger growth due to rebalancing of the portfolio towards premium outlets, enhanced contractual terms and a general focus on speed and quality of service. Finally in advertising, income growth primarily reflected Olympics related sales.

Stansted's retail income decreased 3.1% to £63.1 million (2011: £65.1 million), outperforming the 4.6% decline in Stansted's passenger traffic. Combined with retail expenditure reducing to £5.6 million (2011: £6.3 million), this resulted in NRI per passenger increasing 2.5% to £4.27 (2011: £4.17). Airside specialist shops, advertising, catering and other retail income increased year on year although this was more than offset by declines elsewhere, particularly in car parking, due to reduced usage, fewer passengers and a decrease in the length of stay, and duty and tax-free.

2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 6.4% to £384.8 million (2011: £361.6 million). This partly reflects rail income increasing 5.3% to £85.8 million (2011: £81.5 million) due to fare increases from 1 January 2012, additional Crossrail income and increased passenger volumes on the Piccadilly line extension to Terminal 5, offsetting the loss in revenue from the 2.7% fall in Heathrow Express passenger numbers to 4.5 million (2011: 4.6 million). Operational facilities and utilities income increased 11.0% to £129.1 million (2011: £116.3 million) due mainly to higher demand, back billing and increases in tariffs for electricity.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the nine months ended 30 September 2012, adjusted operating costs increased 6.9% to £920.7 million (2011: £861.1 million), with cost increases moderating to 4.7% in the third quarter.

Nine months ended 30 September	**2012 £m**	2011 £m	Change (%)
Employment costs	**279.0**	248.8	12.1
Maintenance expenditure	**115.5**	99.9	15.6
Utility costs	**82.6**	84.9	(2.7)
Rents and rates	**107.6**	99.2	8.5
General expenses	**192.2**	176.2	9.1
Retail expenditure	**24.3**	23.1	5.2
Intra-group charges/other	**119.5**	129.0	(7.4)
Total	**920.7**	861.1	6.9

The main drivers of the increased adjusted operating costs were higher employment costs, maintenance expenditure, rents and rates and general expenses.

Employment costs were up 12.1% reflecting principally budgeted pay rises and an increase in the defined benefit pension scheme service charge. The increase in maintenance expenditure was mainly due to the costs of the temporary Olympic terminal at Heathrow together with the impact of the adverse winter weather in early February 2012. Increases in rents and rates were driven primarily by inflation-linked increases in property rates as well as additional rateable property (such as Terminal 5C that opened in June 2011). The growth in general expenses reflected increases across a range of cost categories including air traffic control, insurance, cleaning and Olympics. In the nine months ended 30 September 2012, the Group incurred a net £14.3 million in costs in relation to the 2012 Olympic and Paralympic Games.

Appendix 2 provides an analysis of adjusted operating costs for Heathrow and Stansted.

2.2.4 Adjusted EBITDA

In the nine months ended 30 September 2012, Adjusted EBITDA increased 9.6% to £922.9 million (2011: £842.2 million), resulting in an Adjusted EBITDA margin of 50.1% (2011: 49.4%).

The increase in Adjusted EBITDA from 2011 reflects the fact that increases in aeronautical and retail income per passenger meant that turnover grew faster than adjusted operating costs.

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 10.2% to £847.9 million (2011: £769.5 million). The significant increase in Heathrow's Adjusted EBITDA reflects the factors referred to above in relation to the growth in the Group's Adjusted EBITDA. Stansted's Adjusted EBITDA increased 3.2% to £75.0 million (2011: £72.7 million) due principally to higher tariffs and increases in other non-retail income streams partially offset principally by reduced retail income and increased employment costs and maintenance expenditure.

2.2.5 Operating profit

The Group recorded an operating profit for the nine months ended 30 September 2012 of £398.6 million (2011: £511.0 million). The difference between Adjusted EBITDA and operating profit results from £378.7 million in depreciation (2011: £356.8 million) and a £145.6 million exceptional charge (2011: £25.6 million credit). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

Nine months ended 30 September	**2012 £m**	2011 £m	Change (%)
Adjusted EBITDA	**922.9**	842.2	9.6
Depreciation – ordinary	**(378.7)**	(356.8)	6.1
Exceptional items – pensions	**(145.6)**	36.6	n/a
Impairment – exceptional	**-**	(11.0)	n/a
Operating profit	**398.6**	511.0	(22.0)

2.2.6 Exceptional items

In the nine months ended 30 September 2012, there was an exceptional £145.6 million pre-tax charge (2011: £25.6 million credit) to the profit and loss account. This reflected a non-cash pension related charge arising principally from the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme from a surplus to a deficit. See section 2.4 for further discussion of the movement in the defined benefit pension scheme deficit.

2.2.7 Taxation

The tax credit for the nine months ended 30 September 2012 results in an effective tax credit rate for the period of -15.0% (2011: 35.1%). This reflects a tax charge arising on ordinary activities of £3.6 million (2011: £27.7 million credit) and a tax credit of £20.4 million (2011: £24.0 million) due to the further reduction in the rate of corporation tax from 1 April 2012 and 1 April 2013.

The tax charge for the nine months ended 30 September 2012 on ordinary activities results in an effective tax rate of 3.2% (2011: 18.8%). This charge is calculated by applying the forecast estimated annual effective tax rate for each entity to the results for the nine months ended 30 September 2012. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 24.5% primarily due to the impact of phasing results through the year 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.

On 21 March 2012, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. Both the reductions in the corporation tax rate have been substantively enacted at the reporting date and as a result the Group's deferred tax balances, which were previously provided at 25%, were re-measured at the rate of 23%. This has resulted in a reduction in the net deferred tax liability of £9.8 million, with £20.4 million credited to the profit and loss account and £10.6 million charged to reserves.

2.3 Cash flow

2.3.1 Summary cash flow

Nine months ended 30 September	**2012 £m**	2011 £m
Net cash inflow from operating activities	**835.9**	799.9
Net interest paid	**(332.3)**	(309.4)
Taxation – group relief paid	**(13.7)**	(22.7)
Cash flow after interest and tax	**489.9**	467.8
Net capital expenditure	**(832.8)**	(659.9)
Disposal of subsidiaries	**(1.2)**	(5.6)
Dividends paid	**(436.0)**	(24.8)
Net cash outflow before use of liquid resources and financing	**(780.1)**	(222.5)
Management of liquid resources	**(23.0)**	(23.8)
Cancellation and restructuring of derivatives	**(57.4)**	(53.1)
Increase in amount owned to Heathrow Finance plc	**168.5**	31.8
Movement in borrowings and other financing flows	**700.9**	264.0
Increase/(decrease) in cash	**8.9**	(3.6)

2.3.2 Cash flow from operating activities

Net cash inflow from operations in the nine months ended 30 September 2012 increased 4.5% to £835.9 million (2011: £799.9 million) which compares with Adjusted EBITDA of £922.9 million (2011: £842.2 million). The conversion of Adjusted EBITDA to operating cash flow primarily reflects the cash contributions to the defined benefit pension scheme being in excess of the net service charge and adverse movements in working capital.

2.3.3 Capital expenditure

In the nine months ended 30 September 2012, the cash flow impact of the Group's capital investment programme was £832.8 million (2011: £659.9 million) with £818.8 million (2011: £645.1 million) at Heathrow and £14.0 million (2011: £14.8 million) at Stansted.

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.

2.3.4 Restricted payments/dividends

In the nine months ended 30 September 2012, there was a net £343.7 million of restricted payments made out of the Group. Of this amount, £37.0 million was utilised to make interest payments on Heathrow Finance plc's ('Heathrow Finance') external debt financing and £295.0 million to make distributions beyond Heathrow Finance which, together with other cash within the Heathrow Airport Holdings Limited (formerly BAA Limited) group, was utilised in paying both accrued and current interest on the facility held at ADI Finance 1 Limited and making the first three quarterly dividend payments (totalling £180.0 million) to the Group's ultimate shareholders since it was acquired by the Ferrovial-led consortium in 2006. The remainder of the £343.7

million of restricted payments has been either retained at Heathrow Finance or used to meet its financing related costs.

A significant part of the distributions out of the Group were implemented by £436.0 million in dividend payments made in March 2012, June 2012 and September 2012. Of this amount, at 30 September 2012 £141.0 million had been lent back to the Group.

2.4 Pension scheme

At 30 September 2012, the LHR Airports Limited defined benefit pension scheme had a deficit of £92.1 million as measured under IAS 19, of which £82.1 million was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. The scheme deficit had barely changed from 30 June 2012 (when it was £89.9 million) but contrasted with the position at 31 December 2011 when there was a scheme surplus of £38.7 million.

2.5 Future financing themes

In the first half of 2012, the Group raised over £3 billion in the debt capital markets and put in place new £2.75 billion 5 year revolving credit and liquidity facilities. This marked the culmination of a financing programme that has seen well over £7 billion raised since late 2009 by the Group and Heathrow Finance.

This programme has transformed the financing position of the Group, enabling the repayment of £6 billion of short dated term loans, materially extending the average life of its debt, diversifying its sources of funding in the bond markets from two currencies to five and providing the stability to commence dividend payments.

The Group expects the scale and focus of its capital markets activities to evolve going forward. In particular, it expects funding requirements to moderate materially, to an average of less than £1.5 billion per annum, over the coming years reflecting the repayment of loan facilities referred to above as well as an expectation of both a more moderate capital programme and continued increases in operating cash flow through to the end of the next regulatory period. The expected proceeds from the sale of Stansted will reduce financing needs even further over the next 12 months.

Nevertheless, the Group will continue to focus on maintaining its presence in its different currency markets, including through primary market activity whilst having a stronger focus on relative value. It will also seek to combine public syndicated transactions with the use of private placements and taps of existing bonds and consider pursuing other initiatives that enable it to more actively manage its debt maturity profile.

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 the debenture between Heathrow (SP) Limited ('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 2012, the Group's nominal net debt increased 8.0% from £10,442.6 million to £11,282.6 million. The increase in net debt primarily reflects three factors: funding of capital investment at Heathrow; making the restricted payments/dividend payments referred to in section 2.3.4; and inflation accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 30 September 2012 comprised £10,233.1 million outstanding under bond issues, £140.0 million outstanding under the Group's revolving credit facility, £490.4 million outstanding under other loan facilities, £483.9 million in index-linked derivative accretion and cash at bank and term deposits of £64.8 million (compared with cash and current asset investments of £65.1 million shown on the balance sheet). Nominal net debt comprised £9,657.6 million in senior (Class A) net debt and £1,625.0 million in junior (Class B) debt.

The accounting value of the Group's net debt at 30 September 2012 was £10,699.9 million (31 December 2011: £10,254.4 million).

The average cost of the Group's external gross debt at 30 September 2012 was 4.31% (31 December 2011: 4.17%) 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 2012 was 6.05% (31 December 2011: 6.45%). The increase in the average cost of debt excluding accretion is the result of a number of factors including increases in the proportion of fixed rate debt and Class B debt.

As at 30 September 2012, there was £1,860 million undrawn under the Group's revolving credit and working capital facilities, sufficient to provide liquidity until around the end of 2014. Proceeds from the sale of Stansted airport will extend the Group's liquidity horizon further.

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 £577.5 million of gross debt and £11.5 million of cash held at Heathrow Finance, Heathrow Finance's consolidated net debt at 30 September 2012 was £11,848.6 million, an increase of 7.8% from £10,992.2 million at 31 December 2011.

2.6.3 Regulatory Asset Base ('RAB')

Set out below are RAB figures for Heathrow and Stansted at 31 December 2011 and 30 September 2012. RAB figures are utilised in calculating gearing ratios under the Group's and Heathrow Finance's financing agreements.

	Heathrow £m	**Stansted £m**	**Total £m**
31 December 2011	12,490.2	1,359.5	13,849.7
30 September 2012	13,173.8	1,345.1	14,518.9

The increase in the total RAB during the nine months ended 30 September 2012 reflected the addition of approximately £865 million in capital expenditure; indexation adjustment of around £280 million; offset by regulatory depreciation of around £450 million; RAB profiling adjustments of around £25 million and a modest amount of disposals.

2.6.4 Net interest payable and net interest paid

In the nine months ended 30 September 2012, the Group's net interest payable was £537.5 million (2011: £585.4 million) excluding fair value gains and losses on financial instruments. Underlying net interest payable was £572.5 million (2011: £566.6 million), after adjusting for £69.5 million (2011: £21.5 million) in capitalised interest and £34.5 million (2011: £40.3 million) in non-cash amortisation of financing fees and bond fair value adjustments.

Within interest payable is also recorded a non-cash net fair value gain on financial instruments of £250.9 million (2011: £72.9 million loss).

Net interest paid in the nine months ended 30 September 2012 was £332.3 million (2011: £309.4 million). This consisted of £283.6 million (2011: £268.3 million) paid in relation to external debt and £48.7 million (2011: £41.1 million) paid under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid is due primarily to the overall increase in net debt, timing differences and the increase in the average cost of debt.

The difference between net interest paid and net interest payable is largely accounted for by: an amortisation charge of £38.4 million (2011: £48.0 million) in net interest payable relating to prepayments of derivative interest made in earlier periods; £145.7 million (2011: £179.3 million) non-cash accretion on index-linked instruments; the non-cash amortisation of financing fees and bond fair value adjustments and movement in interest accruals; partially offset by capitalised interest.

2.6.5 Financial ratios

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

At 30 September 2012, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 66.5% and 77.7% respectively (31 December 2011: 68.0% and 75.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 81.6% (31 December 2011: 79.4%) compared to a covenant level of 90.0% under its financing agreements. The increase in the Group's junior gearing ratio and Heathrow Finance's gearing ratio since 31 December 2011 is due to the increase in net debt described in section 2.6.1.

2.7 Outlook

In its June 2012 investor report, the Group indicated that its Adjusted EBITDA for 2012 was expected to be approximately £1.27 billion.

Developments since then, particularly the previously reported weaker than expected Heathrow passenger traffic through the peak summer months of July and August, suggest that Adjusted EBITDA for 2012 may be marginally lower than the guidance provided in June.

Prospects for further good growth in Adjusted EBITDA in 2013 are supported by the tariff increases taking effect from 1 April 2013. The Group will provide more detailed guidance on expected performance for next year in its investor report due to be published in December 2012.

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Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated profit and loss account for the nine months ended 30 September 2012

	Note	**Unaudited Nine months ended 30 September 2012 £m**	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Turnover	*1*	**1,843.6**	1,703.3	2,280.0
Operating costs – ordinary		**(1,299.4)**	(1,217.9)	(1,656.8)
Operating (costs)/gain – exceptional: pensions	*2*	**(145.6)**	36.6	(40.3)
Operating costs – exceptional: other	*2*	**-**	(11.0)	(10.8)
Total operating costs		**(1,445.0)**	(1,192.3)	(1,707.9)
Total operating profit	*1*	**398.6**	511.0	572.1
(Loss)/gain on disposal of airports	*2*	**(0.2)**	-	7.9
Interest receivable and similar income	*3*	**184.1**	161.0	220.4
Interest payable and similar charges	*3*	**(721.6)**	(746.4)	(1,010.3)
Fair value gain/(loss) on financial instruments	*3*	**250.9**	(72.9)	(45.9)
Net interest payable and similar charges		**(286.6)**	(658.3)	(835.8)
Profit/(loss) on ordinary activities before taxation		**111.8**	(147.3)	(255.8)
Tax credit on profit/(loss) on ordinary activities	*4*	**16.8**	51.7	64.3
Profit/(loss) on ordinary activities after taxation		**128.6**	(95.6)	(191.5)

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Heathrow (SP) Limited

Consolidated balance sheet
as at 30 September 2012

	Note	**Unaudited 30 September 2012 £m**	Unaudited 30 September 2011 £m	Audited 31 December 2011 £m
Fixed assets				
Tangible fixed assets		**12,734.6**	12,034.9	12,160.5
Financial assets – derivative financial instruments		**342.6**	394.2	369.1
Total fixed assets		**13,077.2**	12,429.1	12,529.6
Current assets				
Stocks		**8.8**	6.9	8.0
Debtors		**311.5**	394.4	305.9
Financial assets – derivative financial instruments		**-**	195.0	170.9
Current asset investments		**44.0**	64.8	21.0
Cash at bank and in hand		**21.1**	2.5	12.2
Total current assets		**385.4**	663.6	518.0
Current liabilities				
Creditors: amounts falling due within one year	*5*	**(831.5)**	(1,474.3)	(1,553.2)
Net current liabilities		**(446.1)**	(810.7)	(1,035.2)
Total assets less current liabilities		**12,631.1**	11,618.4	11,494.4
Creditors: amounts falling due after more than one year	*5*	**(12,553.7)**	(11,032.2)	(11,096.0)
Deferred tax		**(92.7)**	(173.6)	(123.1)
Provisions for liabilities and charges		**(108.6)**	(37.5)	(33.8)
Net liabilities		**(123.9)**	375.1	241.5
Capital and reserves				
Called up share capital		**11.0**	11.0	11.0
Share premium reserve		**499.0**	499.0	499.0
Revaluation reserve		**818.0**	1,499.1	1,514.4
Merger reserve		**(4,535.6)**	(4,535.6)	(4,535.6)
Fair value reserve		**(475.9)**	(343.4)	(396.3)
Profit and loss reserve	*6*	**3,559.6**	3,245.0	3,149.0
Total shareholder's funds		**(123.9)**	375.1	241.5

Heathrow
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Heathrow (SP) Limited

Consolidated summary cash flow statement
for the nine months ended 30 September 2012

	Note	**Unaudited Nine months ended 30 September 2012 £m**	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Operating profit		**398.6**	511.0	572.1
Adjustments for:				
Depreciation (including impairment)		**378.7**	367.8	519.9
Gain on disposal of tangible fixed assets		**(0.4)**	(0.3)	(0.3)
Working capital changes:				
Increase in stock and debtors		**(25.9)**	(11.3)	(34.6)
(Decrease)/increase in creditors		**(23.3)**	3.7	30.6
Net release of provisions		**(6.2)**	(7.3)	(7.3)
Difference between pension charge and cash contributions		**(31.2)**	(27.1)	(35.7)
Exceptional pension charge/(credit)		**145.6**	(36.6)	40.3
Exceptional working capital settlement of intercompany balance		-	-	47.2
Net cash inflow from operating activities		**835.9**	799.9	1,132.2
Net interest paid		**(332.3)**	(309.4)	(388.8)
Taxation – group relief paid		**(13.7)**	(22.7)	(27.2)
Net capital expenditure		**(832.8)**	(659.9)	(864.7)
Disposal of subsidiaries – disposal costs		**(1.2)**	(5.6)	(6.1)
Dividends paid	*6*	**(436.0)**	(24.8)	(24.8)
Net cash outflow before use of liquid resources and financing		**(780.1)**	(222.5)	(179.4)
Management of liquid resources		**(23.0)**	(23.8)	20.0
Issuance of bonds	*5*	**3,081.9**	1,507.9	1,507.9
Repayment of bonds	*5*	**(680.2)**	-	-
Drawdown of revolving credit facility	*5*	**140.0**	-	-
(Repayment)/drawdown of capital expenditure facility	*5*	**(1,395.0)**	100.0	95.0
Repayment of facilities and other items	*5*	**(445.8)**	(1,328.9)	(1,339.8)
Increase in amount owed to Heathrow Finance plc	*5*	**168.5**	31.8	31.8
Settlement of accretion on index-linked swaps		-	(15.0)	(15.0)
Cancellation and restructuring of derivatives		**(57.4)**	(53.1)	(114.4)
Net cash inflow from financing		**812.0**	242.7	165.5
Increase/(decrease) in cash		**8.9**	(3.6)	6.1

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 2011 or any other period. Statutory financial statements for the year ended 31 December 2011 have been filed with the Registrar of Companies on 28 February 2012. The annual financial information presented herein for the year ended 31 December 2011 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group'), formerly known as BAA (SP) Limited, for the year ended 31 December 2011. The auditors' report on the 2011 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 2011 with the exception of tax accounting (see note 4) which is in accordance with the United Kingdom Accounting Standards Board's Statement : 'Half-Yearly Financial Reports'. Unless otherwise stated, amounts all relate to continuing operations.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2012

1 Segment information

The Group's primary reporting format is business segments. The operating businesses are primarily the individual airports, which are organised and managed separately. All turnover originated in the UK.

Turnover	**Unaudited Nine months ended 30 September 2012 £m**	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Heathrow	**1,658.3**	1,522.1	2,045.6
Stansted	**185.3**	181.2	234.4
Total	**1,843.6**	1,703.3	2,280.0

Operating profit	**Unaudited Nine months ended 30 September 2012 £m**	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Heathrow	**374.2**	458.1	526.8
Stansted	**20.2**	48.3	39.4
Other entities and adjustments[1]	**4.2**	4.6	5.9
Total	**398.6**	511.0	572.1

Net assets	**Unaudited 30 September 2012 £m**	Unaudited 30 September 2011 £m	Audited 31 December 2011 £m
Heathrow	**1,489.2**	1,565.9	1,452.0
Stansted	**876.8**	919.1	887.6
Other entities and adjustments[1]	**(2,489.9)**	(2,109.9)	(2,098.1)
Total	**(123.9)**	375.1	241.5

[1] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, Heathrow Funding Limited, Heathrow (AH) Limited and the parent company Heathrow (SP) Limited.

Reconciliation of Adjusted EBITDA and operating profit

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

Unaudited Nine months ended 30 September 2012	**Adjusted EBITDA £m**	**Operating exceptional items £m**	**Depreciation[1] £m**	**Operating profit £m**
Heathrow	**843.4**	**(120.6)**	**(348.6)**	**374.2**
Stansted	**75.0**	**(24.7)**	**(30.1)**	**20.2**
Other entities and adjustments[2]	**4.5**	**(0.3)**	**-**	**4.2**
Total	**922.9**	**(145.6)**	**(378.7)**	**398.6**
Unaudited Nine months ended 30 September 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	765.0	19.5	(326.4)	458.1
Stansted	72.7	6.0	(30.4)	48.3
Other entities and adjustments[2]	4.5	0.1	-	4.6
Total	842.2	25.6	(356.8)	511.0
Audited Year ended 31 December 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation[1] £m	Operating profit £m
Heathrow	1,039.2	(44.1)	(468.3)	526.8
Stansted	87.0	(7.1)	(40.5)	39.4
Other entities and adjustments[2]	5.9	0.1	(0.1)	5.9
Total	1,132.1	(51.1)	(508.9)	572.1

[1] Depreciation excluding impairment which is included within operating exceptional items.
[2] The 'Other entities and adjustments' business segment includes Heathrow Express Operating Company Limited, Heathrow Funding Limited, Heathrow (AH) Limited and the parent company Heathrow (SP) Limited.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2012

2 Operating and non-operating exceptional items

	Unaudited Nine months ended 30 September 2012 £m	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Operating costs – exceptional: pension			
Pension (charge)/credit	**(145.6)**	36.6	(40.3)
Operating costs – exceptional: other			
Impairment	**-**	(11.0)	(11.0)
Reorganisation credit	**-**	-	0.2
Total operating exceptional items	**(145.6)**	25.6	(51.1)
(Loss)/gain on disposal of airports	**(0.2)**	-	7.9
Total non-operating exceptional items	**(0.2)**	-	7.9
Taxation on exceptional items	**33.5**	(9.2)	10.0
Total exceptional items after tax	**(112.3)**	16.4	(33.2)

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 the Group's airports 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 the Group's airports to the LHR Airports Limited pension schemes on behalf of LHR Airports Limited.

The Group's airports and HEX have had an obligation since August 2008 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 under the SSA. 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.

For the nine months ended 30 September 2012 an exceptional pension charge of £145.6 million (nine months ended 30 September 2011: £36.6 million credit; year ended 31 December 2011: £40.3 million charge) was incurred. This reflects the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme from a surplus to a deficit.

Operating costs – exceptional: other
The impairment charge of £11.0 million in both the nine months ended 30 September 2011 and year ended 31 December 2011 was in relation to the Airtrack rail project which the Group has decided not to pursue.

Non-operating exceptional items – continuing and discontinued operations
As at 30 September 2012, £0.2 million of disposal costs was incurred, £0.1 million of which was Gatwick related and £0.1 million Stansted related.

Non-operating exceptional items – discontinued operations
During the last quarter of 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account. This related to costs expected to be associated with the disposal including legal fees and other separation costs.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2012

3 Net interest payable and similar charges

	Unaudited Nine months ended 30 September 2012 £m	Unaudited Nine months ended 30 September 2011 £m	Audited Year ended 31 December 2011 £m
Interest receivable and similar income			
Interest receivable on derivatives not in hedge relationship	**183.8**	160.8	220.0
Interest on bank deposits	**0.3**	0.2	0.4
	184.1	161.0	220.4
Interest payable and similar charges			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(420.5)**	(337.2)	(462.2)
Bank loans and overdrafts and related hedging instruments	**(91.7)**	(121.5)	(157.6)
Interest payable on derivatives not in hedge relationship[2]	**(223.4)**	(255.0)	(347.4)
Facility fees and other charges	**(15.9)**	(17.7)	(23.3)
Interest on debenture payable to Heathrow Finance plc	**(39.6)**	(36.5)	(46.9)
	(791.1)	(767.9)	(1,037.4)
Less capitalised interest[3]	**69.5**	21.5	27.1
	(721.6)	(746.4)	(1,010.3)
Net interest payable before fair value gain/(loss)	**(537.5)**	(585.4)	(789.9)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: cash flow hedge[4]	**5.8**	2.6	3.1
Index-linked swaps: not in hedge relationship[5]	**244.4**	(91.5)	(88.7)
Cross-currency swaps: cash flow hedge[4]	**0.8**	10.5	12.2
Cross-currency swaps: fair value hedge[4]	**-**	8.7	30.8
Fair value re-measurements of foreign exchange contracts and currency balances	**(0.1)**	(3.2)	(3.3)
	250.9	(72.9)	(45.9)
Net interest payable and similar charges	**(286.6)**	(658.3)	(835.8)

[1] Includes accretion of £11.0 million (nine months ended 30 September 2011: £10.6 million; year ended 31 December 2011: £15.4 million) on index-linked bonds.
[2] Includes accretion of £134.7 million (nine months ended 30 September 2011: £168.7 million; year ended 31 December 2011: £231.8 million) on index-linked swaps.
[3] 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 4.38% (nine months ended 30 September 2011: 2.21%; year ended 31 December 2011: 2.08%) to expenditure incurred on such assets. Following the significant refinancing activity for the Group in the first half of 2012, the Group reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to an increase in the capitalised interest rate as at 30 September 2012 to 4.16% compared to 31 December 2011 and 30 September 2011.
[4] Hedge ineffectiveness on derivatives in hedge relationship.
[5] Reflects the impact on the valuation of movements in implied future inflation and interest rates.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2012

4 Tax credit on profit/(loss) on ordinary activities

The tax credit for the nine months ended 30 September 2012 results in an effective tax credit rate for the period of -15.0%. This reflects a tax charge arising on ordinary activities of £3.6 million and a tax credit of £20.4 million due to the further reduction in the rate of corporation tax from 1 April 2012 and 1 April 2013.

For the nine months ended 30 September 2011 the effective tax credit rate was 35.1%, reflecting the tax credit arising on ordinary activities of £27.7 million and a tax credit of £24.0 million due to the reduction in the rate of corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012.

For the year ended 31 December 2011 the effective tax credit rate was 25.1%, reflecting the tax credit arising on ordinary activities of £40.3 million and a tax credit of £24.0 million due to the reduction in the rate of corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012.

The tax charge for the nine months ended 30 September 2012 on ordinary activities results in an effective tax rate of 3.2% (nine months ended 30 September 2011: 18.8%; year ended 31 December 2011: 15.8%). This charge is calculated by applying the forecast estimated annual effective tax rate for each entity to the results for the nine months ended 30 September 2012. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 24.5% due to the impact of phasing results through the year 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.

On 21 March 2012, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. Both the reductions in the corporation tax rate have been substantively enacted at the reporting date and as a result the Group's deferred tax balances, which were previously provided at 25%, were re-measured at the rate of 23%. This has resulted in a reduction in the net deferred tax liability of £9.8 million, with £20.4 million credited to the profit and loss account and £10.6 million charged to reserves.

For the nine months ended 30 September 2011 and the year ended 31 December 2011, the reduction in the corporation tax rate from 27% to 25% resulted in a reduction in the net deferred tax liability of £20.1 million, with £24.0 million credited to the profit and loss account and £3.9 million charged to reserves.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2012

5 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £39.1 million and £nil respectively (30 September 2011: £890.0 million and £0.1 million respectively; 31 December 2011: £871.7 million and £nil respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £11,492.0 million and £1,061.6 million respectively (30 September 2011: £10,061.6 million and £969.3 million respectively; 31 December 2011: £10,013.5 million and £1,081.6 million respectively).

	Unaudited 30 September 2012 £m	Unaudited 30 September 2011 £m	Audited 31 December 2011 £m
Current borrowings			
Secured			
Loan facilities	**39.1**	39.1	39.1
Bonds:			
3.975% €1,000 million due 2012	**-**	850.9	832.6
Total current borrowings	**39.1**	890.0	871.7
Non-current borrowings			
Secured			
Revolving credit facility	**121.9**	-	-
Capital expenditure facility	**-**	1,400.0	1,395.0
Other loan facilities	**447.8**	880.0	870.0
	569.7	2,280.0	2,265.0
Secured			
Bonds:			
5.850% £400 million due 2013	**387.4**	378.3	379.9
4.600% €750 million due 2014	**554.1**	596.4	588.8
3.000% £300 million due 2015	**298.5**	-	-
2.500% US$500 million due 2015	**308.2**	-	-
12.450% £300 million due 2016	**347.5**	359.1	356.3
4.125% €500 million due 2016	**382.3**	420.2	398.5
4.375% €700 million due 2017	**555.3**	-	-
2.500% CHF400 million due 2017	**262.2**	-	-
4.600% €750 million due 2018	**537.7**	575.6	559.8
6.250% £400 million due 2018	**398.5**	397.0	397.1
4.000% CAD 400 million due 2019	**249.1**	-	-
6.000% £400 million due 2020	**395.4**	-	-
9.200% £250 million due 2021	**282.6**	281.1	280.6
4.875% US$1,000 million due 2021	**673.1**	676.7	683.3
1.650%+RPI £180 million due 2022	**182.4**	-	-
5.225% £750 million due 2023	**630.5**	623.1	624.9
7.125% £600 million due 2024	**587.6**	-	-
6.750% £700 million due 2026	**690.1**	689.7	689.8
7.075% £200 million due 2028	**197.5**	197.5	197.5
6.450% £900 million due 2031	**862.8**	840.5	840.8
Zero-coupon €50 million due January 2032	**41.0**	-	-
Zero-coupon €50 million due April 2032	**40.7**	-	-
3.334%+RPI £460 million due 2039[1] (30 September 2011: £365 million, 31 December 2011: £365 million)	**542.7**	411.5	416.3
5.875% £750 million due 2041	**749.0**	737.3	737.3
	10,156.2	7,184.0	7,150.9
Unsecured			
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	**766.1**	597.6	597.6
Total non-current borrowings	**11,492.0**	10,061.6	10,013.5
Total borrowings	**11,531.1**	10,951.6	10,885.2

[1] The existing index-linked bond was re-opened, generating proceeds of £118.6 million in March 2012 and £154.3 million in May 2011.

6 Dividends

During the period ended 30 September 2012, Heathrow (SP) Limited paid dividends of £436.0 million to Heathrow Finance plc, being £21.0 million on 10 August 2012, £20.0 million on 21 June 2012 and £395.0 million on 15 March 2012. During the second half of 2011, Heathrow (SP) Limited paid a dividend of £24.8 million. The dividend was paid on 10 August 2011.

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Appendix 2

Analysis of turnover and operating costs for the nine months ended 30 September 2012

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	955.2	-	**955.2**	102.1	**1,057.3**
Retail income	338.4	-	**338.4**	63.1	**401.5**
Car parking	60.4	-	60.4	26.3	86.7
Duty and tax-free	88.2	-	88.2	8.3	96.5
Airside specialist shops	67.5	-	67.5	5.2	72.7
Bureaux de change	32.0	-	32.0	6.2	38.2
Catering	27.9	-	27.9	7.5	35.4
Landside shops and bookshops	15.5	-	15.5	3.6	19.1
Advertising	22.5	-	22.5	1.9	24.4
Car rental	10.1	-	10.1	1.8	11.9
Other	14.3	-	14.3	2.3	16.6
Operational facilities and utilities income	121.4	-	**121.4**	7.7	**129.1**
Property rental income	77.7	-	**77.7**	6.8	**84.5**
Rail income	85.8	-	**85.8**	0.0	**85.8**
Other income	75.3	-	**75.3**	5.6	**80.9**
HEX inter-company elimination	(44.6)	49.1	**4.5**	-	**4.5**
Total income	1,609.2	49.1	**1,658.3**	185.3	**1,843.6**
Operating costs					
Employment costs	220.5	16.8	**237.3**	41.7	**279.0**
Maintenance expenditure	94.6	12.4	**107.0**	8.5	**115.5**
Utility costs	66.2	1.7	**67.9**	14.7	**82.6**
Rents and rates	94.6	1.2	**95.8**	11.8	**107.6**
General expenses	159.1	10.7	**169.8**	22.4	**192.2**
Retail expenditure	18.7	-	**18.7**	5.6	**24.3**
Intra-group charges/other	161.7	1.8	**163.5**	5.5	**169.0**
(Gain)/loss on disposal of fixed assets	(0.5)	-	**(0.5)**	0.1	**(0.4)**
HEX inter-company elimination	(49.1)	-	**(49.1)**	-	**(49.1)**
Adjusted operating costs	765.8	44.6	**810.4**	110.3	**920.7**
Depreciation	348.6	-	**348.6**	30.1	**378.7**
Exceptional items	120.6	0.3	**120.9**	24.7	**145.6**
Total operating costs	1,235.0	44.9	**1,279.9**	165.1	**1,445.0**
Adjusted EBITDA	843.4	4.5	**847.9**	75.0	**922.9**

Heathrow
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Analysis of turnover and operating costs for the nine months ended 30 September 2011

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	858.8	-	**858.8**	97.9	**956.7**
Retail income	319.9	-	**319.9**	65.1	**385.0**
Car parking	58.9	-	58.9	27.9	86.8
Duty and tax-free	82.2	-	82.2	8.9	91.1
Airside specialist shops	61.7	-	61.7	5.1	66.8
Bureaux de change	29.0	-	29.0	6.5	35.5
Catering	26.5	-	26.5	7.4	33.9
Landside shops and bookshops	15.7	-	15.7	3.6	19.3
Advertising	20.7	-	20.7	1.8	22.5
Car rental	10.2	-	10.2	1.8	12.0
Other	15.0	-	15.0	2.1	17.1
Operational facilities and utilities income	109.0	-	**109.0**	7.3	**116.3**
Property rental income	76.3	-	**76.3**	6.1	**82.4**
Rail income	81.5	-	**81.5**	-	**81.5**
Other income	72.1	-	**72.1**	4.8	**76.9**
HEX inter-company elimination	(43.5)	48.0	**4.5**	-	**4.5**
Total income	1,474.1	48.0	**1,522.1**	181.2	**1,703.3**
Operating costs					
Employment costs	192.7	15.9	**208.6**	40.2	**248.8**
Maintenance expenditure	80.2	12.4	**92.6**	7.3	**99.9**
Utility costs	68.6	1.6	**70.2**	14.7	**84.9**
Rents and rates	87.0	1.0	**88.0**	11.2	**99.2**
General expenses	143.9	10.9	**154.8**	21.4	**176.2**
Retail expenditure	16.8	-	**16.8**	6.3	**23.1**
Intra-group charges/other	168.1	1.7	**169.8**	7.5	**177.3**
Gain on disposal of fixed assets	(0.2)	-	**(0.2)**	(0.1)	**(0.3)**
HEX inter-company elimination	(48.0)	-	**(48.0)**	-	**(48.0)**
Adjusted operating costs	709.1	43.5	**752.6**	108.5	**861.1**
Depreciation	326.4	-	**326.4**	30.4	**356.8**
Exceptional items	(19.5)	(0.1)	**(19.6)**	(6.0)	**(25.6)**
Total operating costs	1,016.0	43.4	**1,059.4**	132.9	**1,192.3**
Adjusted EBITDA	765.0	4.5	**769.5**	72.7	**842.2**