

# News Release

24 July 2013

## Heathrow (SP) Limited

### Results for the six months ended 30 June 2013

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

- **Record passenger satisfaction and solid delivery of service standards**
- **Strong traffic performance, up 2.4% to 34.4 million passengers, revenue up 9.2%**
- **Adjusted EBITDA up 18.0% supporting investment at Heathrow**
- **Terminal 2 on track for opening on 4 June 2014, to be named the Queen's Terminal**
- **Q6 discussion ongoing, CAA Initial Proposals disappointing**
- **Three options for a third runway at Heathrow submitted to the Airports Commission - all cheaper and quicker than building a new hub airport**

At or for six months ended 30 June	2013	2012	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenue <sup>(1)</sup>	<b>1,149</b>	1,052	9.2
Adjusted EBITDA <sup>(1)(2)</sup>	<b>610</b>	517	18.0
Cash generated from operations <sup>(1)</sup>	<b>583</b>	503	15.9
Adjusted pre-tax profit/(loss) <sup>(3)</sup>	<b>44</b>	(70)	n/a
Pre-tax profit/(loss)	<b>186</b>	(51)	n/a
Heathrow (SP) Limited consolidated net debt <sup>(4)(5)</sup>	<b>10,868</b>	11,360	(4.3)
Heathrow Finance plc consolidated net debt <sup>(4)(5)</sup>	<b>11,595</b>	12,086	(4.1)
Regulatory Asset Base <sup>(5)</sup>	<b>13,985</b>	14,814	(5.6)
Passengers (m) <sup>(1)(6)</sup>	<b>34.4</b>	33.6	2.4
Net retail income per passenger <sup>(1)(6)</sup>	<b>£6.22</b>	£6.10	1.9

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

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

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

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

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

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

Colin Matthews, Chief Executive Officer of Heathrow, said:

"Performance at Heathrow this year is encouraging. The number of passengers using the airport increased, passenger satisfaction hit record levels and we maintained solid delivery of our service standards. Our earnings support the investment made in Heathrow and that continues with the new Terminal 2: The Queen's Terminal opening in June next year. We want to build on our achievements and continue that progress over the next five years, which is why we've submitted fresh plans to the CAA for a further £3 billion of investment, if returns to investors are fair and competitive."

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There will be a presentation and conference call today at 3.00 pm (UK time)/4.00 pm (Central European time)/10.00 am (Eastern standard time) for bondholders and bank lenders to the Group and Heathrow Finance plc and credit analysts to discuss the results for the six months ended 30 June 2013. The presentation will be hosted by Colin Matthews, Chief Executive Officer and José Leo, Chief Financial Officer. Dial-in details for the call are: UK free phone: 0808 237 0030; US free phone: 1866 928 7517; UK local/standard international: +44 (0)20 3139 4830. Participant PIN code is 83947807#. It will also be possible to view online the presentation (using event password: 639153) as it is used during the call at:

<https://arkadin-trial.webex.com/arkadin-trial/j.php?ED=254131597&UID=491373747&PW=NZDdkMzAwNjZm&RT=MTgjMjE%3D>

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

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

## Heathrow (SP) Limited

### Consolidated results for the six months ended 30 June 2013

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

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#### 1. Basis of presentation of results

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

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

#### 2. Key business developments

##### 2.1 Passenger traffic

Heathrow's passenger traffic by geographic segment for the six months ended 30 June 2013:

<i>(figures in millions unless otherwise stated)</i>	<b>2013</b>	2012	Change (%) <sup>(1)</sup>
UK	<b>2.3</b>	2.3	0.4
Europe	<b>14.3</b>	13.7	4.9
North America	<b>7.8</b>	7.7	1.3
Asia Pacific	<b>4.9</b>	4.8	2.2
Middle East	<b>2.8</b>	2.7	4.0
Africa and Latin America	<b>2.2</b>	2.4	(7.8)
<b>Total passengers<sup>(1)</sup></b>	<b>34.4</b>	33.6	2.4

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

In the six months ended 30 June 2013, Heathrow's passenger traffic increased 2.4% to 34.4 million passengers (2012: 33.6 million).

Heathrow's strong traffic performance in the first half of 2013 reflected ongoing trends of increasing load factors and larger aircraft. Load factors reached 74.4% (2012: 73.2%) for the first half whilst, on average there were 201.4 seats (2012: 196.1) per passenger aircraft. These factors more than offset the decline in the number of flights to 229.5k (2012: 234.0k) that in part reflects the leap year in 2012.

Heathrow's performance was driven by European traffic which increased 4.9% to 14.3 million passengers (2012: 13.7 million). The integration of bmi routes into British Airways is driving increased volume. UK traffic grew modestly by 0.4% to 2.3 million passengers (2012: 2.3 million), boosted by a 3.7% increase in the second quarter, when Virgin launched Little Red, its UK domestic service.

Long haul traffic performed well in all regions except Africa, which decreased against last year reflecting a reduction in capacity. Middle East traffic increased strongly, up 4.0% to 2.8 million passengers (2012: 2.7 million) with larger aircraft and passenger growth from Emirates, Etihad and Saudi Airlines. North American, Latin American and Asia Pacific traffic have seen growth accelerate in the second quarter, following additional seat capacity added.

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

## 2.2 Enhancing Heathrow's facilities

Heathrow's investment programme has continued to focus on the construction of the new Terminal 2, to be named the Queen's Terminal, which is on track to be completed in late 2013 with operations starting on 4 June 2014.

Terminal 2 and its satellite are now fitted out with walls, floors, ceilings, lighting and escalators. The retail facilities are being handed over to retailers to allow fit out of shops. The baggage system between the new building and Terminal 1 is now physically complete and testing is underway. Stands and taxiways that surround the buildings are currently being formed and services are being installed. The energy centre supporting the Terminal 2 campus is in commissioning phase and is providing energy to the Terminal 2 buildings. Early stage operational readiness trials have begun, with full operational readiness trials to start at the end of the year when construction is complete.

In addition, significant investment continues on Heathrow's baggage infrastructure. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational. Delivery of the Terminal 3 integrated baggage system remains on track to enable operations in 2015. The building has been made weather-tight and the baggage system is now being assembled inside the building.

Resurfacing of Heathrow's southern runway began in March 2013 and is on track for completion by early autumn. The works are being carried out during night closures of the runway. The northern runway will be resurfaced in 2014. Capital investment for 2013 is forecast to be up to £1.4 billion

## 2.3 Service standards

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

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

Supporting these achievements, Heathrow achieved its highest ever overall passenger satisfaction score of 3.99 in the Airport Service Quality survey (directed by Airports Council International) for two

consecutive quarters this year, beating the previous best score of 3.96 achieved in the third quarter of 2012.

In relation to individual service standards, during the six months ended 30 June 2013, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 78% (2012: 79%), principally caused by adverse weather conditions in January and March. Heathrow's baggage misconnect rate was 15 per 1,000 passengers (2012: 14). On security queuing, passengers passed through central security within periods prescribed under service quality rebate schemes 93.3% of the time (2012: 96.1%) compared with a 95% service standard.

## 2.4 Defining Heathrow's development for the next 5 years

The next regulatory period ('Q6') for economic regulation of Heathrow begins on 1 April 2014. Following constructive engagement with Heathrow's airline community during 2012, Heathrow proposed a Full Business Plan for Q6 in January 2013, setting out its operational and £3 billion capital plan to continue the transformation of Heathrow, focusing on service delivery and improving the passenger experience, whilst delivering operating efficiencies and a fair return on investment.

On 30 April 2013 the CAA published Initial Proposals proposing price controls and a draft licence. The CAA proposes that the maximum allowable yield per passenger will increase by RPI minus 1.3% per year; compared to Heathrow's Full Business Plan of RPI plus 5.9%.

Heathrow believes the CAA Initial Proposals materially underestimate Heathrow's cost of capital and propose unrealistic cost reduction targets, the result of which is a failure to adequately incentivise investment to the detriment of passenger experience.

The proposed allowable pre-tax cost of capital of 5.35% understates equity risk and fails to recognise the appropriate costs of embedded and new debt associated with one of the UK's largest private sector investments. The CAA's proposed efficiency target over Q6 of a 15% reduction in operating expenditure is unrealistic and threatens to undermine the passenger experience. Passengers value Heathrow and surveys confirm a willingness to pay for service improvements.

On 25 June 2013 Heathrow responded on the Initial Proposals, presenting the CAA with clear evidence on how the Initial Proposals do not appropriately balance incentives, and are not transparent, robust or proportionate.

As part of the response, Heathrow submitted a Revised Business Plan in line with the CAA's Initial Proposals and based on a reduced £2 billion capital investment plan. The revised capital plan aims to sustain and selectively enhance the passenger experience, rather than deliver more noticeable passenger experience and resilience improvements previously planned.

On 19 July 2013 Heathrow submitted to the CAA its Alternative Business Plan. This provided updates to the original Full Business Plan, including a refined £3 billion capital plan, £427 million of operational savings, a slightly higher passenger forecast, and a revised profile for the maximum allowable yield per passenger of RPI plus 4.6% per year. Delivery of the Alternative Business Plan by Heathrow is conditional on fair and reasonable final proposals from the CAA.

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

The CAA will publish its final proposals for consultation on 4 October 2013 with the publication of the final Q6 determination expected on 9 January 2014.

## 2.5 Airports Commission

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

There is a compelling case for growth at Heathrow and on 17 July 2013, Heathrow submitted options for a third runway to be located to the north-west, south-west or north of the existing airport; all three options have been designed to evolve to four runways if required.

Passengers will benefit from a third runway by having a greater choice of destinations, airlines, and connections with UK regions. A third runway at Heathrow would deliver more economic benefits to the UK than any other option for new runway capacity. It will create jobs, facilitate trade, boost spending in the wider economy and improve public finances. Heathrow estimates that benefits of £100 billion present value would accrue to the UK from the expansion.

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

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

A third runway can be delivered for less cost than building a new hub airport. The options are estimated to cost between £14 billion and £17 billion, of which approximately £9-11 billion relates to the development of the airport infrastructure, and £5-7 billion relates to surface access, environmental and community funding. The development of the airport infrastructure would deliver a third runway, additional taxiways, further passenger terminal capacity and connectivity with the existing infrastructure including track transit and baggage infrastructure.

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

The Commission is expected to produce an interim report by the end of 2013 and to report its full findings in summer 2015. However, the lead times to implement any recommendations in terms of new runways are expected to be significant even if immediate political consensus in support of the recommendations is achieved.

## 3 Financial review

### 3.1 Basis of preparation

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



From 1 January 2013, the reporting of certain intra-group services has changed, impacting both reported turnover and costs. Prior to this date, the Group incurred the costs of providing certain services to all the Heathrow Airport Holdings group (the 'HAH Group'). The related intra-group transactions were separately recorded by the Group firstly as Other Income for charges made by it to LHR Airports Limited ('LHR Airports'), the HAH Group's shared services provider, and secondly as Intra-group charges made by LHR Airports for the part of the charges attributable to the Group's airports, including Heathrow. From 1 January 2013, only services provided to non-Heathrow airports are charged out, with the corresponding settlement reported in Other Income. Consequently the 2013 amounts for Other Income and General Expenses are not directly comparable with 2012 amounts.

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

### 3.2 Profit and loss account

#### 3.2.1 Introduction

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

<i>Six months ended 30 June</i>	<b>2013</b> £m	2012 £m
<b>Group turnover – total</b>	<b>1,181</b>	<b>1,164</b>
Group turnover – discontinued operations	<b>(32)</b>	(112)
<b>Group turnover – continuing operations</b>	<b>1,149</b>	<b>1,052</b>
Adjusted operating costs – continuing operations <sup>(1)</sup>	<b>(539)</b>	(535)
<b>Adjusted EBITDA – continuing operations<sup>(2)</sup></b>	<b>610</b>	<b>517</b>
Operating costs – exceptional – pensions – continuing operations	<b>(9)</b>	(110)
<b>EBITDA – continuing operations</b>	<b>601</b>	<b>407</b>
Depreciation – ordinary – continuing operations	<b>(228)</b>	(235)
<b>Operating profit – continuing operations</b>	<b>373</b>	<b>172</b>
Operating profit/(loss) – discontinued operations	<b>15</b>	(4)
<b>Operating profit – total</b>	<b>388</b>	<b>168</b>
<b>Gain on disposal of Stansted – discontinued operations</b>	<b>279</b>	-
Net interest payable and similar charges	<b>(338)</b>	(371)
Fair value (loss)/gain on financial instruments	<b>(143)</b>	152
Total net interest payable and similar charges	<b>(481)</b>	(219)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>186</b>	(51)
Tax credit on profit/(loss) on ordinary activities	<b>9</b>	55
<b>Profit on ordinary activities after taxation</b>	<b>195</b>	4

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

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

### 3.2.2 Turnover

In the six months ended 30 June 2013, Heathrow's turnover increased 9.2% to £1,149 million (2012: £1,052 million).

<i>Six months ended 30 June</i>	<b>2013</b> <b>£m</b>	2012 £m	Change (%)
Aeronautical income	<b>693</b>	599	15.7
Retail income	<b>227</b>	217	4.6
Other income	<b>229</b>	236	(3.0)
<b>Total</b>	<b>1,149</b>	<b>1,052</b>	<b>9.2</b>

#### 3.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 15.7% to £693 million (2012: £599 million). Average aeronautical income per passenger increased 13.0% to £20.15 (2012: £17.83).

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

#### 3.2.2.2 Retail income

In the six months ended 30 June 2013, Heathrow's retail income increased 4.6% to £227 million (2012: £217 million).

<i>Six months ended 30 June</i>	<b>2013</b> <b>£m</b>	2012 £m	Change (%)
Car parking	<b>43</b>	41	4.9
Duty and tax-free	<b>58</b>	56	3.6
Airside specialist shops	<b>45</b>	44	2.3
Bureaux de change	<b>22</b>	21	4.8
Catering	<b>19</b>	18	5.6
Other retail income	<b>40</b>	37	8.1
<b>Total</b>	<b>227</b>	<b>217</b>	<b>4.6</b>

Net retail income ('NRI') grew 4.4% to £214 million (2012: £205 million), reflecting a combination of growth in traffic and an increase in NRI per passenger of 1.9% to £6.22 (2012: £6.10). The rate of growth in NRI per passenger accelerated in the second quarter relative to the first quarter. Retail income per passenger is likely to have been impacted by the shift in mix towards European traffic, as traditionally such passengers have a lower propensity to spend in Heathrow's retail outlets.

Duty free, car parking and bureaux de change have been the main contributors to growth overall. Retail income experienced some one-off impacts such as closure for refurbishment of certain stores and the closure of HMV stores following its administration.

#### 3.2.2.3 Other income

Gains in rail income and operational facilities and utilities income totalled £6 million. On a reported basis, these gains were offset by a reduction of £13 million primarily relating to a change in the way in which the recharge of intra-group services is recorded. See section 3.1 Basis of Preparation.



### 3.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the six months ended 30 June 2013, adjusted operating costs increased 0.7% to £539 million (2012: £535 million).

<i>Six months ended 30 June</i>	<b>2013</b> £m	2012 £m	Change (%)
Employment costs	<b>202</b>	183	10.4
Maintenance expenditure	<b>79</b>	84	(6.0)
Utility costs	<b>45</b>	45	0.0
Rents and rates	<b>64</b>	61	4.9
General expenses	<b>137</b>	151	(9.3)
Retail expenditure	<b>13</b>	12	8.3
Disposal of fixed assets	<b>(1)</b>	(1)	0.0
<b>Total</b>	<b>539</b>	535	<b>0.7</b>

The main drivers of change in adjusted operating costs were higher employment costs and increased rent and rates, mainly offset by lower general expenses. Costs in the first six months of 2013 include approximately £10 million one-off employment expenses related to restructuring and incentives to drive future cost efficiencies. This compares with the first six months of 2012 which included one-off costs of approximately £11 million related to preparations for the 2012 Olympic and Paralympic Games, for which Heathrow was the main arrival and departure point for participants.

Employment costs for the first six months of 2013 increased by 10.4%, with over half the increase related to one-off costs. The remainder of the rise is accounted for by an increase to non-cash pension service charges. Other movements, including contractually agreed pay rises and savings from a reduction in headcount broadly offset each other. Increases in rent and rates were primarily driven by annual inflation-linked rises in property rates. General expenses reduced by £14 million, mainly reflecting the change in the way in which the recharge of intra group services is recorded as a result of the disposal of Stansted Airport. This reduction is partially offset by other cost movements including additional costs incurred in ensuring operations were maintained during adverse weather in January.

### 3.2.4 Adjusted EBITDA

In the six months ended 30 June 2013, Adjusted EBITDA increased 18.0% to £610 million (2012: £517 million), resulting in an Adjusted EBITDA margin of 53% (2012: 49%).

The increase in Adjusted EBITDA from 2012 principally reflects increased traffic and aeronautical tariffs.

### 3.2.5 Operating result

The Group recorded an operating profit for the six months ended 30 June 2013 of £373 million (2012: £172 million). A reconciliation between Adjusted EBITDA and statutory operating result is provided below.

<i>Six months ended 30 June</i>	<b>2013</b> <b>£m</b>	2012 £m	Change (%)
Adjusted EBITDA	<b>610</b>	517	18.0
Depreciation – ordinary	<b>(228)</b>	(235)	(3.0)
Exceptional items – pensions	<b>(9)</b>	(110)	(91.8)
<b>Operating profit</b>	<b>373</b>	172	116.9

Beyond Adjusted EBITDA, the improvement in operating profit is driven by the substantially reduced exceptional charge associated with the pension deficit, relative to 2012.

### 3.2.6 Exceptional items

In the six months ended 30 June 2013, there was a net exceptional £9 million pre-tax charge (2012: £110 million) to the profit and loss account, relating to a non-cash pension charge arising principally from Heathrow's share of the increase in liabilities under the LHR Airports Limited Unfunded Retirement Benefit Scheme since 31 December 2012.

### 3.2.7 Taxation

The tax credit for the six months ended 30 June 2013 results in an effective tax rate of 4.8% (30 June 2012: 107.8%) reflecting the tax credit arising on ordinary activities of £9 million.

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

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

On 20 March 2013, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013. As a result, the Group's deferred tax balances, which are currently provided at 23%, will be remeasured for the year ended 31 December 2013.

### 3.3 Cash flow

#### 3.3.1 Summary cash flow

<i>Six months ended 30 June</i>	<b>2013</b> <b>£m</b>	2012 £m
Net cash inflow from operating activities – continuing	<b>583</b>	503
Net cash inflow from operating activities – discontinued	<b>5</b>	32
Net cash inflow from operating activities – total	<b>588</b>	535
Net interest paid	<b>(295)</b>	(215)
Taxation – group relief paid	<b>(13)</b>	(10)
Cash flow after interest and tax	<b>280</b>	310
Net capital expenditure	<b>(609)</b>	(554)
Disposal of Stansted airport	<b>1,409</b>	(1)
Dividends paid	<b>(487)</b>	(415)
Net cash inflow/(outflow) before use of liquid resources and financing	<b>593</b>	(660)
Management of liquid resources	<b>(200)</b>	21
Cancellation and restructuring of derivatives	<b>(2)</b>	(12)
Settlement of accretion on index-linked swaps	<b>(136)</b>	-
Increase in amount owed to Heathrow Finance plc	<b>3</b>	228
(Decrease)/increase in borrowings and other financing flows	<b>(257)</b>	415
Increase/(decrease) in cash	<b>1</b>	(8)

#### 3.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the six months ended 30 June 2013 increased 15.9% to £583 million (2012: £503 million) which compares with Adjusted EBITDA of £610 million (2012: £517 million). The operating cash flow was £27 million lower than Adjusted EBITDA principally as a result of pension cash contributions being higher than pension service charges and a modest working capital outflow.

#### 3.3.3 Capital expenditure

In the six months ended 30 June 2013, the cash flow impact of capital investment was £609 million, including £606 million at Heathrow (2012: £554 million, including £544 million at Heathrow).

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

#### 3.3.4 Restricted payments

In the six months ended 30 June 2013, restricted payments of £513 million were made out of the Group. As previously reported, of this amount, £300 million represents a return to the Group's ultimate shareholders on their historic investment in Stansted following its disposal. The remaining £213 million included £27 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc ('Heathrow Finance') and £151 million in dividends, which funded £24 million interest on the facility held at ADI Finance 1 Limited and £127 million in quarterly shareholder dividends.

### 3.4 Pension scheme

At 30 June 2013, the LHR Airports Limited defined benefit pension scheme had a deficit of £62 million as measured under FRS 17, of which £54 million was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. This compares with a scheme deficit of £103 million at 31 December 2012 of which £92 million was attributable to the Group. The reduction in the scheme deficit is

mainly due to an increase in the discount rate, changes to future inflation expectations and the impact of the Stansted disposal.

### 3.5 Recent financing activity

Following completion of the disposal of Stansted on 28 February 2013, the Group utilised the proceeds to repay £639 million in drawings under its revolving credit facility and £100 million of its Class B loan. The remainder of the proceeds were used to make restricted payments related to the Stansted disposal referred to in section 3.3.4, for general corporate purposes, or still held in cash on the Group's balance sheet at the period end. Separately, in May 2013 the Heathrow Finance £50 million loan facility due in November 2015 was replaced by an £85 million loan facility, with a reduced margin maturing in May 2016.

### 3.6 Financing position

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

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

During the six months ended 30 June 2013, the Group's nominal net debt decreased 4.3% from £11,360 million to £10,868 million. The decrease in net debt primarily reflects repayment of debt using Stansted disposal proceeds primarily offset by three factors: funding of Heathrow's capital investment programme, the restricted payments referred to in section 3.3.4; and accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 30 June 2013 comprised £10,251 million outstanding under bond issues, £445 million outstanding under loan facilities, £411 million in index-linked derivative accretion and cash at bank and term deposits of £239 million. Nominal net debt comprised £9,418 million in senior (Class A) net debt and £1,450 million in junior (Class B) debt.

The accounting value of the Group's net debt at 30 June 2013 was £10,500 million (31 December 2012: £10,852 million).

The average cost of the Group's external gross debt at 30 June 2013 was 4.26% (31 December 2012: 4.24%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 June 2013 was 5.86% (31 December 2012: 5.83%).

At 30 June 2013, the Group had approximately £2.1 billion in undrawn bank facilities and cash resources. As a result, the Group is currently in a very strong liquidity position.

#### 3.6.2 Consolidated net debt at Heathrow Finance plc

Taking into account the Group's nominal net debt discussed in section 3.6.1, together with £763 million of gross debt and £36 million of cash held at Heathrow Finance, Heathrow Finance's consolidated net debt at 30 June 2013 was £11,595 million, a decrease of 4.1% from £12,086 million at 31 December 2012.

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

Heathrow's RAB at 30 June 2013 was £13,985 million compared to £13,471 million at 31 December 2012. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The increase in RAB during the six months ended 30 June 2013 reflected the addition of approximately £650 million in capital expenditure and indexation adjustments of around £160 million. The increases were partially offset by regulatory depreciation of around £290 million and a modest amount of asset disposals and RAB profiling adjustments.

#### 3.6.4 Net interest payable and net interest paid

In the six months ended 30 June 2013, the Group's net interest payable was £338 million (2012: £371 million) excluding fair value adjustments on financial instruments. Underlying net interest payable was £391 million (2012: £385 million), after adjusting for £74 million (2012: £39 million) in capitalised interest and £21 million (2012: £25 million) in non-cash amortisation of financing fees and fair value adjustments of bonds.

The non-cash, fair value loss on financial instruments recorded within interest payable is £143 million (2012: £152 million gain). The fair value loss is principally due to the impact on the mark-to-market value of index-linked swaps. These were negatively impacted by increased implied future inflation rates since December 2012, following the unexpected decision of the ONS not to alter the calculation methodology for the Retail Price Index. The fair value loss on the index-linked swaps was partially offset principally by positive mark-to-market movements on interest-rate swaps arising from higher interest rates.

Net interest paid in the period was £295 million (2012: £215 million). This consisted of £268 million (2012: £195 million) paid in relation to external debt and £27 million (2012: £20 million) under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid on external debt largely reflects the first time payment of coupons on bond issues completed in 2012. The increased interest paid on the debenture between Heathrow (SP) and Heathrow Finance is due primarily to an increase in the size of the debenture as a result of the new £275 million Heathrow Finance bond put in place in December 2012, partially offset by repayment of some of Heathrow Finance's loan facilities.

The difference between net interest paid and underlying net interest payable is largely accounted for by £116 million (2012: £106 million) non-cash accretion on index-linked instruments.

#### 3.6.5 Financial ratios

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

At 30 June 2013, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.3% and 77.7% respectively (31 December 2012: 66.2% and 76.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 82.9% (31 December 2012: 81.6%) compared to a covenant level of 90.0% under its financing agreements.

The disposal of Stansted and subsequent use of disposal proceeds resulted in a modest reduction in gearing. The net increase in gearing since 31 December 2012 is primarily due to the impact on net debt of higher interest payments and seasonally lower cash flows falling into the first half of the year and on the RAB of modest inflation indexation in the period.

#### 3.7 Outlook

Given recent positive trading conditions we now expect to slightly exceed the full year revenue and EBITDA forecasts of £2,446 million and £1,325 million provided in the latest Investor Report.

## Appendix 1 – Financial information

### Heathrow (SP) Limited

#### Consolidated profit and loss account for the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June 2013 £m	Restated <sup>1</sup> Unaudited Six months ended 30 June 2012 £m	Restated <sup>1</sup> Audited Year ended 31 December 2012 £m
Turnover – continuing operations	1	1,149	1,052	2,222
Turnover – discontinued operations	1	32	112	242
<b>Total turnover</b>	1	<b>1,181</b>	1,164	2,464
Operating costs – ordinary: continuing operations	2	(767)	(770)	(1,522)
Operating costs – ordinary: discontinued operations	2	(32)	(93)	(188)
Total operating costs - ordinary	2	(799)	(863)	(1,710)
Operating costs – exceptional: pensions continuing operations	3	(9)	(110)	(152)
Operating income/(costs) – exceptional: pensions discontinued operations	3	15	(23)	(31)
Total operating income/(costs) – exceptional: pensions	3	6	(133)	(183)
Total operating costs		(793)	(996)	(1,893)
Operating profit – continuing operations	1	373	172	548
Operating profit/(loss) – discontinued operations	1	15	(4)	23
<b>Total operating profit</b>	1	<b>388</b>	168	571
Impairment of fixed assets	3	-	-	(5)
Gain/(loss) on disposal of Stansted	4	279	-	(4)
Interest receivable and similar income	5	124	123	250
Interest payable and similar charges	5	(462)	(494)	(957)
Fair value (loss)/gain on financial instruments	5	(143)	152	112
Net interest payable and similar charges		(481)	(219)	(595)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>186</b>	(51)	(33)
Tax credit/(charge) on profit/(loss) on ordinary activities	6	9	55	(8)
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>195</b>	4	(41)

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



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

	Note	Unaudited 30 June 2013 £m	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
<b>Fixed assets</b>				
Tangible fixed assets		12,249	12,520	12,961
Financial assets – derivative financial instruments		429	330	306
<b>Total fixed assets</b>		<b>12,678</b>	<b>12,850</b>	<b>13,267</b>
<b>Current assets</b>				
Stocks		9	8	9
Debtors		315	290	313
Financial assets – derivative financial instruments		2	-	-
Current asset investments		232	-	32
Restricted cash		39	-	-
Cash at bank and in hand		7	4	6
<b>Total current assets</b>		<b>604</b>	<b>302</b>	<b>360</b>
<b>Current liabilities</b>				
Creditors: amounts falling due within one year	7	(1,300)	(731)	(1,232)
<b>Net current liabilities</b>		<b>(696)</b>	<b>(429)</b>	<b>(872)</b>
<b>Total assets less current liabilities</b>		<b>11,982</b>	<b>12,421</b>	<b>12,395</b>
<b>Long-term liabilities</b>				
Creditors: amounts falling due after more than one year	7	(12,317)	(12,444)	(12,427)
Deferred tax		(94)	(64)	(103)
Provisions for liabilities		(93)	(108)	(122)
<b>Net liabilities</b>		<b>(522)</b>	<b>(195)</b>	<b>(257)</b>
<b>Capital and reserves</b>				
Called up share capital		11	11	11
Share premium reserve		499	499	499
Revaluation reserve		433	807	835
Merger reserve		(3,759)	(4,536)	(4,536)
Fair value reserve		(349)	(431)	(455)
Profit and loss reserve	8	2,643	3,455	3,389
<b>Total shareholder's deficit</b>		<b>(522)</b>	<b>(195)</b>	<b>(257)</b>

## Heathrow (SP) Limited

### Consolidated summary cash flow statement for the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June 2013 £m	Restated <sup>1</sup> Unaudited Six months ended 30 June 2012 £m	Restated <sup>1</sup> Audited Year ended 31 December 2012 £m
Operating profit - continuing operations	1	373	172	548
<i>Adjustments for:</i>				
Depreciation		228	235	470
Gain on disposal of fixed assets		(1)	-	-
<i>Working capital changes:</i>				
(Increase)/decrease in stock and debtors		(8)	22	(25)
Decrease in creditors		(4)	(15)	(10)
Net release of provisions		(1)	(4)	(4)
Difference between pension charge and cash contributions		(13)	(17)	(50)
Exceptional pension charge		9	110	151
Net cash inflow from operating activities - continuing		583	503	1,080
Net cash inflow from operating activities - discontinued		5	32	84
<b>Total net cash inflow from operating activities</b>		<b>588</b>	<b>535</b>	<b>1,164</b>
Net interest paid		(295)	(215)	(428)
Taxation – group relief paid		(13)	(10)	(28)
Net capital expenditure		(609)	(554)	(1,157)
Disposal of Stansted Airport Limited		1,409	(1)	(6)
Dividends paid	8	(487)	(415)	(436)
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>		<b>593</b>	<b>(660)</b>	<b>(891)</b>
Management of liquid resources		(200)	21	(12)
Issuance of bonds	7	-	2,835	3,082
Repayment of bonds	7	-	(680)	(680)
(Repayment)/drawdown of revolving credit facility	7	(147)	-	307
Repayment of capital expenditure facility	7	-	(1,286)	(1,395)
Repayment of facilities and other financing items	7	(110)	(454)	(532)
Increase in amount owed to Heathrow Finance plc	7	3	228	270
Settlement of accretion on index-linked swaps		(136)	-	(80)
Cancellation and restructuring of derivatives		(2)	(12)	(76)
<b>Net cash (outflow)/inflow from financing</b>		<b>(392)</b>	<b>631</b>	<b>896</b>
<b>Increase/(decrease) in cash</b>		<b>1</b>	<b>(8)</b>	<b>(7)</b>

<sup>1</sup> Operating cash flow has been re-presented for 2012 to separately reconcile from operating profit of continuing operations to net cash inflow from operating activities - continuing.

## Heathrow (SP) Limited

### General information and accounting policies

#### General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2012 or any other period. Statutory financial statements for the year ended 31 December 2012 have been filed with the Registrar of Companies on 15 March 2013. The annual financial information presented herein for the year ended 31 December 2012 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2012. The auditors' report on the 2012 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

#### Accounting policies

##### Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2012 with the exception of tax accounting (see note 6) which is in accordance with the United Kingdom Accounting Standards Board's Statement : 'Half-Yearly Financial Reports'.

##### Changes in accounting policies and disclosures

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

##### *Discontinued operations*

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

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

#### 1 Segment information

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

Turnover	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Aeronautical income	693	599	1,280
Retail income	227	217	460
Operational facilities and utilities income	83	79	163
Property rental income	52	52	103
Rail income	60	58	116
Other income	34	47	100
Turnover – continuing operations	1,149	1,052	2,222
Turnover – discontinued operations	32	112	242
<b>Total turnover</b>	<b>1,181</b>	<b>1,164</b>	<b>2,464</b>

#### Reconciliation of Adjusted EBITDA and operating profit

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

Unaudited Six months ended 30 June 2013	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	610	(9)	(228)	373
Stansted - discontinued operations	7	15	(7)	15
<b>Total</b>	<b>617</b>	<b>6</b>	<b>(235)</b>	<b>388</b>
Unaudited Six months ended 30 June 2012	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	517	(110)	(235)	172
Stansted - discontinued operations	39	(23)	(20)	(4)
<b>Total</b>	<b>556</b>	<b>(133)</b>	<b>(255)</b>	<b>168</b>
Audited Year ended 31 December 2012	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	1,170	(152)	(470)	548
Stansted - discontinued operations	94	(31)	(40)	23
<b>Total</b>	<b>1,264</b>	<b>(183)</b>	<b>(510)</b>	<b>571</b>

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

#### 2 Operating costs – ordinary

	Unaudited Six months ended 30 June 2013 £m	Restated <sup>1</sup> Unaudited Six months ended 30 June 2012 £m	Restated Audited Year ended 31 December 2012 £m
Employment costs <sup>2</sup>	202	183	365
Maintenance expenditure	79	84	154
Utility costs	45	45	87
Rents and rates	64	61	124
General expenses	137	151	297
Retail expenditure	13	12	26
Disposal of fixed assets	(1)	(1)	(1)
Depreciation	228	235	470
Operating costs – ordinary: continuing operations	767	770	1,522
Operating costs – ordinary: discontinued operations	32	93	188
<b>Total operating costs – ordinary</b>	<b>799</b>	<b>863</b>	<b>1,710</b>

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

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

#### 3 Operating and non-operating exceptional items

##### **Operating costs – exceptional: pension**

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

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

For the six months ended 30 June 2013 an exceptional pension charge of £9 million was incurred relating to continuing operations while £15 million credit related to discontinued operations (six months ended 30 June 2012: £110 million and £23 million charge; year ended 31 December 2012: £152 million and £31 million charge respectively). This includes HAL and HEX share of the movement in the LHR Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

##### **Impairment of fixed assets – exceptional**

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

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

#### 4 Disposal of Stansted airport

	Unaudited Six months ended 30 June 2013 £m
Tangible fixed assets	1,207
Stocks	2
Debtors : due within one year	28
Cash at bank and in hand	31
Creditors : amounts falling due within one year	(28)
Deferred tax liabilities	(28)
<b>Net assets disposed</b>	<b>1,212</b>
Add disposal costs	21
Less pension gain	(12)
Carrying value of disposed operations	1,221
Consideration satisfied by cash	(1,500)
<b>Gain on disposal of Stansted airport</b>	<b>279</b>

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



## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

#### 5 Net interest payable and similar charges

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
<b>Interest receivable and similar income</b>			
Interest receivable on derivatives not in hedge relationship	119	123	250
Pensions finance income	4	-	-
Interest on money market and bank deposits	1	-	-
	<b>124</b>	<b>123</b>	<b>250</b>
<b>Interest payable and similar charges</b>			
Interest on borrowings:			
Bonds and related hedging instruments <sup>1</sup>	(287)	(272)	(568)
Bank loans and overdrafts and related hedging instruments	(54)	(66)	(122)
Interest payable on derivatives not in hedge relationship <sup>2</sup>	(161)	(158)	(294)
Facility fees and other charges	(7)	(12)	(20)
Interest on debenture payable to Heathrow Finance plc	(27)	(25)	(53)
	<b>(536)</b>	<b>(533)</b>	<b>(1,057)</b>
Less capitalised interest <sup>3</sup>	74	39	100
	<b>(462)</b>	<b>(494)</b>	<b>(957)</b>
<b>Net interest payable before fair value (loss)/gain</b>	<b>(338)</b>	<b>(371)</b>	<b>(707)</b>
<b>Fair value (loss)/gain on financial instruments</b>			
Interest rate swaps: cash flow hedge <sup>4</sup>	17	3	(2)
Interest rate swaps: not in hedge relationship	18	-	-
Index-linked swaps: not in hedge relationship <sup>5</sup>	(185)	144	109
Cross-currency swaps: cash flow hedge <sup>4</sup>	(2)	1	2
Cross-currency swaps: fair value hedge <sup>4</sup>	8	4	3
Fair value re-measurements of foreign exchange contracts and currency balances	1	-	-
	<b>(143)</b>	<b>152</b>	<b>112</b>
<b>Net interest payable and similar charges</b>	<b>(481)</b>	<b>(219)</b>	<b>(595)</b>

<sup>1</sup> Includes accretion of £12 million (six months ended 30 June 2012: £7 million; year ended 31 December 2012: £18 million) on index-linked bonds.

<sup>2</sup> Includes accretion of £104 million (six months ended 30 June 2012: £99 million; year ended 31 December 2012: £173 million) on index-linked swaps.

<sup>3</sup> Following the significant refinancing activity during 2012, the Group reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to the increase in the capitalised interest rate to 6.06% (six months ended 30 June 2012: 3.39%; year ended 31 December 2012: 4.75%).

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

<sup>5</sup> Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion.

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

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

	Unaudited Six months ended 30 June 2013 £m	Unaudited Six months ended 30 June 2012 £m	Audited Year ended 31 December 2012 £m
Current tax (charge)/credit on ordinary activities	(3)	73	(24)
Deferred tax credit/(charge) on ordinary activities	12	(28)	(4)
Change in UK Corporation tax rate – impact on deferred tax liabilities	-	10	20
<b>Total tax credit/(charge)</b>	<b>9</b>	<b>55</b>	<b>(8)</b>

The tax credit for the six months ended 30 June 2013 results in an effective tax rate of 4.8%, reflecting the tax credit arising on ordinary activities of £9 million. The credit is calculated by applying the forecast annual effective tax rate for each entity to the results for the six months ended 30 June 2013. For the six months ended 30 June 2012 the effective tax rate was 107.8%, reflecting the tax credit arising on ordinary activities of £45 million and a tax credit of £10 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012. For each entity, the effective tax rate for the period differs from the UK statutory rate of corporation tax of 23.25% (2012: 24.5%) due to seasonality and permanent differences arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary as those proportions change.

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

For the year ended 31 December 2012, the negative effective tax rate was 24.2%, reflecting the tax charge arising on ordinary activities of £28 million and a tax credit of £20 million due to the reduction in the rate of corporation tax from 25% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013. The tax charge for the year was more than the credit implied by the statutory tax rate of 24.5% primarily due to permanent differences arising from non-qualifying depreciation.

On 20 March 2013, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013. As a result, the Group's deferred tax balances, which are currently provided at 23%, will be re-measured for the year ended 31 December 2013.

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the six months ended 30 June 2013

#### 7 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £432 million and £27 million respectively (30 June 2012: £39 million and £nil respectively; 31 December 2012: £428 million and £40 million respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £11,217 million and £1,097 million respectively (30 June 2012: £11,329 million and £1,115 million respectively; 31 December 2012: £11,329 million and £1,094 million respectively).

	Unaudited 30 June 2013 £m	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
<b>Current borrowings</b>			
<b>Secured</b>			
Bank loans	39	39	39
Bonds:			
5.850% £400 million due 2013	393	-	389
<b>Total current borrowings</b>	<b>432</b>	<b>39</b>	<b>428</b>
<b>Non-current borrowings</b>			
<b>Secured</b>			
Revolving credit facility	144	-	290
Capital expenditure facility	-	109	-
Other bank loans	245	456	363
	<b>389</b>	<b>565</b>	<b>653</b>
<b>Secured</b>			
Bonds:			
5.850% £400 million due 2013	-	385	-
4.600% €750 million due 2014	590	561	564
3.000% £300 million due 2015	299	299	299
2.500% US\$500 million due 2015	328	318	306
12.450% £300 million due 2016	338	350	344
4.125% €500 million due 2016	415	386	391
4.375% €700 million due 2017	597	562	566
2.500% CHF400 million due 2017	277	267	268
4.600% €750 million due 2018	589	542	552
6.250% £400 million due 2018	398	396	399
4.000% CAD 400 million due 2019	248	-	245
6.000% £400 million due 2020	396	395	395
9.200% £250 million due 2021	274	278	283
4.875% US\$1,000 million due 2021	665	693	661
1.650%+RPI £180 million due 2022	187	181	184
5.225% £750 million due 2023	636	629	632
7.125% £600 million due 2024	588	587	588
6.750% £700 million due 2026	690	690	690
7.075% £200 million due 2028	198	198	198
6.450% £900 million due 2031	853	853	864
Zero-coupon €50 million due January 2032	45	41	42
Zero-coupon €50 million due April 2032	45	41	42
3.334%+RPI £460 million due 2039	557	541	547
5.875% £750 million due 2041	744	745	749
	<b>9,957</b>	<b>9,938</b>	<b>9,809</b>
<b>Unsecured</b>			
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	871	826	867
<b>Total non-current borrowings</b>	<b>11,217</b>	<b>11,329</b>	<b>11,329</b>
<b>Total borrowings</b>	<b>11,649</b>	<b>11,368</b>	<b>11,757</b>

## **Heathrow (SP) Limited**

### **Notes to the consolidated financial information for the six months ended 30 June 2013**

#### **8 Dividends**

During the period ended 30 June 2013, Heathrow (SP) Limited paid dividends of £487 million to Heathrow Finance plc, being £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013 and £64 million on 27 June 2013. An additional £83 million was declared on 27 June 2013 and subsequently paid on 11 July 2013 (31 December 2012: Heathrow (SP) Limited paid dividends of £436 million to Heathrow Finance plc, being £395 million on 15 March 2012, £20 million on 21 June 2012 and £21 million on 10 August 2012).

## Appendix 2

### Change in reporting of passenger traffic by geographic segment

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

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

#### New geographic segments

UK: England, Scotland and Northern Ireland.

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

North America: USA and Canada.

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

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

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

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

Note: Countries listed above reflect existing operations.