

# News release

24 April 2015

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## Heathrow (SP) Limited

### Results for the three months ended 31 March 2015

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

- Demand to use Heathrow continues to rise, with traffic up 2.0% to 16.4 million passengers. Vietnam Airlines is the latest airline to move its London operations from Gatwick to Heathrow
- Heathrow delivers a strong first quarter financial performance with revenue increasing 8.0% to £622 million and EBITDA up 7.2% to £342 million
- Strong global demand to invest in Heathrow, with £850 million of funding raised to date in 2015
- Heathrow named the 'Best airport in Western Europe' by Skytrax for the first time
- Heathrow announced new measures to boost domestic connectivity and connect the whole of the UK to global growth markets

At or for three months ended 31 March	2015	2014	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenue	<b>622</b>	576	8.0
Adjusted EBITDA <sup>(1)</sup>	<b>342</b>	319	7.2
Cash generated from operations	<b>316</b>	317	(0.3)
Cash flow after investment and interest <sup>(2)</sup>	<b>(53)</b>	(151)	n.m.
Pre-tax profit/(loss)	<b>71</b>	(10)	n.m.
Heathrow (SP) Limited consolidated net debt <sup>(3)</sup>	<b>11,793</b>	11,653	1.2
Heathrow Finance plc consolidated net debt <sup>(3)</sup>	<b>12,695</b>	12,560	1.1
Regulatory Asset Base <sup>(3)</sup>	<b>14,790</b>	14,860	(0.5)
Passengers (m) <sup>(4)</sup>	<b>16.4</b>	16.0	2.0
Net retail income per passenger <sup>(4)</sup>	<b>£6.78</b>	£6.42	5.6

For notes (1) to (4) see Definitions and notes on page 2.

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

"Heathrow is a fantastic airport and a great front door for Britain. We're a business that's delivering an unrivalled passenger experience in western Europe, we've got over 30 airlines knocking on our door waiting to serve the UK's hub, our world-class shareholders are lined up to privately fund expansion and with an additional runway we will create 40,000 new skilled and well-paid jobs for the local community.

We are ready to deliver the only runway that can connect all of Britain to global growth. All we need is a quick decision, so let's get on with it."

#### Definitions and notes

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
- (2) Cash flow after investment and interest is net cash generated from operations after purchase of property, plant and equipment and other assets and net interest paid
- (3) 2014 net debt and RAB figures at 31 December 2014. Nominal net debt excluding intra-group loans and including inflation-linked accretion
- (4) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

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A conference call will be held for creditors and credit analysts on Friday 24 April 2015 at 3.00pm (UK time)/4.00pm (Central European time)/10.00 am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and Andrew Efiang, Interim Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 26399116#.

The presentation can be viewed online during the event, using event password: 655397 at: <https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=m79d1e22f081c804b7c219a94f98345ff>

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**Heathrow (SP) Limited**

**Consolidated results for the three months ended 31 March 2015**

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**1 Key business developments**

**1.1 Passenger traffic**

Heathrow's passenger traffic by geographic segment for the three months ended 31 March 2015:

<i>(figures in millions unless otherwise stated)</i>	<b>2015</b>	2014	Change (%) <sup>(1)</sup>
UK	<b>1.2</b>	1.2	3.9%
Europe	<b>6.5</b>	6.5	1.0%
North America	<b>3.5</b>	3.3	4.4%
Asia Pacific	<b>2.5</b>	2.5	-0.6%
Middle East	<b>1.5</b>	1.4	5.6%
Africa	<b>0.8</b>	0.9	-3.4%
Latin America	<b>0.3</b>	0.3	12.6%
<b>Total passengers<sup>(1)</sup></b>	<b>16.4</b>	16.0	2.0%

(1) Calculated using unrounded passenger figures

For the three months ended 31 March 2015, Heathrow's traffic increased 2.0% to 16.4 million passengers (2014: 16.0 million). The increase in traffic primarily reflects the shift in the timing of Easter and increased seat capacity as well as the maturing of new destinations and frequencies started during 2014.

The average load factor rose to 71.2% (2014: 70.7%) whilst the average number of seats per passenger aircraft increased to 206.8 (2014: 203.2). During the first twelve month period of the current regulatory period there were 73.7 million passengers, above the annual average of 73.0 million assumed by the settlement, on a shocked demand basis.

Intercontinental traffic rose 2.6%, with North America benefitting from the new destinations and increased frequencies on existing routes announced last year, resulting in a rise of 4.4%. Traffic on routes serving the Middle East grew by 5.6% reflecting increased flights and larger aircraft. Asia Pacific traffic decreased by 0.6% partly reflecting reduced overall capacity. Latin American traffic grew 12.6% reflecting Avianca's new route to Colombia; increased frequencies to Mexico and traffic growth in Brazil. Most recently, Vietnam Airlines has moved its entire London operations from Gatwick airport to Heathrow, following in the footsteps of Air China who made the switch last year.

European traffic was up 1.0% largely reflecting increased seat capacity by British Airways. Domestic traffic grew strongly with an increase of 3.9%.

With over a quarter of UK exports passing through Heathrow, cargo volume at Heathrow increased a further 4.5% to 371 thousand metric tonnes in the first three months of 2015, with notable increases on India, Hong Kong and North America.

## 1.2 Transforming customer service

Heathrow was named 'Best Airport in Western Europe' for the first time at the 2015 Skytrax World Airport Awards. The prestigious award, voted for globally by passengers, came in addition to Terminal 5 being voted the world's 'Best Airport Terminal' for the fourth year in a row and Heathrow being voted 'Best Airport for Shopping' for the sixth consecutive year. The Skytrax World Airport Awards are independent of any airport input and assess customer service and facilities across 388 airports providing an impartial benchmark of airport excellence and quality. Heathrow Terminal 2 (together with Star Alliance) was also named 'Airport of the Year' at the Air Transport World Annual Awards.

Heathrow delivered its best ever passenger service in the first three months of 2015 and 82% (2014: 80%) of passengers surveyed rated their experience as 'Excellent' or 'Very Good'. In the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI) Heathrow smashed its previous high score of 4.08 out of 5.00 and attained a score of 4.12. This puts Heathrow well ahead of European hub airports and meaningfully moves Heathrow towards the major global rankings. The score reflects strong overall operational performance, good punctuality and strong levels of satisfaction across key passenger service attributes.

As part of the focus on increasing the resilience of operations, Heathrow is the world's first airport to introduce a system to separate arriving aircraft by time rather than distance. The system will improve airport resilience on windy days enabling a more complete schedule, improved punctuality and fewer disrupted passengers. Initial operations of the £0.5 billion Terminal 3 Integrated Baggage facility started in March 2015. The facility will improve the reliability of baggage connections as well as enable earlier bag check-in for passengers.

Heathrow achieved strong levels of service performance in the first quarter and maintained these through the busiest ever Easter period. In relation to individual service standards, in the first three months of 2015, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 81% (2014: 84%). Heathrow's baggage misconnect rate was 19 per 1,000 passengers (2014: 14), with high winds impacting arrivals punctuality and corresponding baggage transfers. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.6% of the time (2014: 95.9%) compared with a 95% service standard.

## 1.3 Beating the plan

At the same time as transforming customer service, Heathrow is focused on delivering an ambitious programme of efficiencies and increased revenue over the 2014-2018 period. This programme aims to enhance Heathrow's competitive position and deliver an appropriate return for Heathrow's financial stakeholders. In 2014, Heathrow moved at pace and by year end had secured cost efficiencies expected to be worth £280 million over the business plan period, as well as £100 million in revenue enhancements.

Momentum has been maintained in 2015 and initiatives are being delivered to meaningfully build on the £280 million secured in 2014. Improvements to key supplier contracts have been made and a voluntary redundancy programme within the security operation has been launched and Heathrow Express office activities are being co-located at Heathrow. Airline moves have been taking place which enable the closure of Terminal 1 by the end of June bringing forward the closure plans by four months. Finally, following discussions with members of Heathrow's defined benefit scheme to align the costs of the scheme with those of the defined contribution scheme, a proposal has been developed and will be put to formal consultation in May.

#### 1.4 Investing in Heathrow

Heathrow invested £128 million in the first three months of 2015 on a variety of programmes to improve the passenger experience and improve airport resilience.

In March 2015, Heathrow began operation of the Terminal 3 Integrated Baggage facility. The £0.5 billion facility is the world's most sophisticated baggage system and combines process enhancements with advancements in technology to create an integrated, efficient and user friendly operation. It further strengthens Heathrow's hub capability and is a key step in moving Heathrow towards the goal of fully integrated and inter-connected baggage facilities across all terminals. Airlines will transition onto the system through to May 2016. Once fully operational the facility will provide increased baggage handling capacity for Terminal 3, reduced misconnection rates, faster transfers between Terminal 3 and Terminal 5 and improved working conditions for handling baggage. Passengers will benefit from early bag check-in with capacity for almost 5,000 early bags.

There have also been improvements on the airfield and in the terminals in the first quarter. In order to meet increased airline demand for operating A380 aircraft at Heathrow, part of the apron at Terminal 4 has been reconfigured and two stands have been increased in size to accommodate increased A380 operations of airlines at Terminal 4.

The programme of work to increase throughput in security continued and new 'parallel loading' capable security lanes have been installed in both Terminal 4 and Terminal 5. The lanes improve the process for passengers moving through security and as a result, all SQR standards for security were met in March even when Terminal 5 had its busiest day ever with 53,900 departing passengers.

The new 800 space Terminal 5 Business Car Park was opened in February and has been trading successfully since. The new car park further extends Heathrow's transport offering providing passengers with increased choice.

Finally, following last year's successful transition of 26 airlines into Terminal 2, The Queen's Terminal, the relocation of the remaining airlines in Terminal 1 has been underway since the start of the year and will facilitate the early closure of Terminal 1 in June 2015.

#### 1.5 Winning support for expansion

The Airports Commission is due to make its recommendation for the expansion of airport capacity in summer 2015.

Heathrow's proposal is best for Britain as only Heathrow can connect the whole of the UK with the growing markets of the world. The Airports Commission puts the economic benefit of expanding Heathrow at up to £211 billion, creating 180,000 jobs with as much as £114 billion of economic benefits spread across Scotland, Wales, Northern Ireland and the English regions outside of the south east.

Heathrow is by far the largest wholly-privately funded airport in the world. Heathrow has successfully attracted global investors to fund £11 billion of investment over the last decade and expansion is expected to involve an investment in 2014 prices of £16 billion over 15 years.

Demand continues to outstrip supply with 30 airlines waiting for slots at Heathrow. Vietnam Airlines recently moved its entire London operations from Gatwick, following in the recent steps of Air China. easyJet confirmed its support for an expanded Heathrow, which it believes provides the greatest benefits for passengers and the economy.

Heathrow is the country's biggest port, handling over a quarter of exports by value, including British-made pharmaceuticals, high tech components for Formula 1 cars and high quality fresh salmon exported to China. It connects British exporters to global markets and makes it easier for UK inward investment. To retain the UK's position as a hub for international trade, Heathrow's plans include overhauling cargo facilities, doubling the capacity.

As part of Heathrow's commitment to making sure business across Britain can benefit from connections to the growth markets that only a hub can provide, it has made a proposal to cut passenger charges for domestic services by a third from 2016. This aims to drive the exports, tourism and the foreign direct investment that support economic growth across the whole of the UK.

Businesses, politicians, industry groups and individuals across Britain are backing Heathrow. The expansion plan has more support than any other option, including 30 chambers of commerce and most recently the influential business group London First confirmed a resounding majority support in its membership for expanding Heathrow over Gatwick.

Heathrow's expansion takes a new approach, putting the local community at its heart. A new and generous noise insulation scheme has been proposed, aiming to reduce the impact of noise and treat local people fairly. The noise insulation offer goes above and beyond UK policy requirements, expands on Heathrow's previous proposals and is comparable to those offered by other European hub airports. In total, Heathrow estimates that over £700 million could be spent through this insulation offer. The scheme is subject to government policy support and regulatory approval by the CAA.

Britain cannot afford to fall further behind in its global connectivity, especially with the scale of economic value that could be generated. Heathrow is ready to expand and it is crucial that the new Government makes a swift decision later in 2015.

## **1.6 Key management changes**

Michael Uzielli will join Heathrow as Chief Financial Officer on 1 June 2015. Michael is currently Finance Director at British Gas where he has helped drive revenue growth, championed a cost focus to increase efficiency, restructured the company's pension schemes and led a highly engaged finance team. His work has also involved building strong relationships with the Government and energy industry regulators. Michael has experience of the aviation industry having previously worked for British Airways and he has also previously worked at Schroders.

## 2 Financial review

### 2.1 Basis of presentation of financial results

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 Heathrow (SP) consolidated accounts are prepared under International Financial Reporting Standards ('IFRS'). As explained in the basis of preparation in Appendix 1, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement.

### 2.2 Income statement

#### 2.2.1 Overview

In the three months ended 31 March 2015 the Group earned an operating profit before certain re-measurements of £177 million (2014: £168 million) and a profit after tax of £49 million (2014: £9 million loss).

Three months ended 31 March	2015 £m	2014 £m
Group revenue	622	576
Adjusted operating costs <sup>(1)</sup>	(280)	(257)
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>342</b>	319
Exceptional items	-	(41)
Depreciation and amortisation	(165)	(110)
Operating profit before certain re-measurements	177	168
Fair value gain on investment properties (certain re-measurements)	33	5
<b>Operating profit</b>	<b>210</b>	173
Net finance costs before certain re-measurements	(158)	(155)
Fair value gain/(loss) on financial instruments	19	(28)
Net finance costs	(139)	(183)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>71</b>	(10)
Tax (charge)/credit on profit/(loss) on ordinary activities	(22)	1
<b>Profit/(loss) after taxation</b>	<b>49</b>	(9)

(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

#### 2.2.2 Revenue

In the three months ended 31 March 2015, Heathrow's revenue increased 8.0% to £622 million (2014: £576 million).

Three months ended 31 March	2015 £m	2014 £m	Change (%)
Aeronautical income	389	356	9.3
Retail income	116	109	6.4
Other income	117	111	5.4
<b>Total revenue</b>	<b>622</b>	576	8.0

#### 2.2.2.1 Aeronautical income

In the three months ended 31 March 2015, Heathrow's aeronautical income increased 9.3% to £389 million (2014: £356 million) and the average aeronautical income per passenger increased 7.1% to £23.78 (2014: £22.20).

Around £17 million of the growth in aeronautical income reflects tariff changes and increased traffic. The remainder mainly relates to the absence, in the period, of rebates such as capital triggers, compared to the first quarter of 2014; this is partially offset by the non-recurrence of significant revenue recovery through the K factor mechanism that occurred in 2014.

#### 2.2.2.2 Retail income

In the three months ended 31 March 2015, Heathrow's retail income increased 6.4% to £116 million (2014: £109 million). Net retail income ('NRI') grew 7.8% to £111 million (2014: £103 million) and NRI per passenger rose 5.6% to £6.78 (2014: £6.42).

Three months ended 31 March	2015 £m	2014 £m	Change (%)
Car parking	25	23	8.7
Duty and tax-free	27	27	-
Airside specialist shops	22	21	4.8
Bureaux de change	11	8	37.5
Catering	10	9	11.1
Other retail income	21	21	-
<b>Gross retail income</b>	<b>116</b>	<b>109</b>	<b>6.4</b>
Retail expenditure	(5)	(6)	(16.7)
<b>Net retail income</b>	<b>111</b>	<b>103</b>	<b>7.8</b>

Car parking revenue continued to perform well. The growth reflects increased car parking capacity, including the award-winning Terminal 2 multi-storey car park and the brand new 800-space Terminal 5 Business car park opened in February 2015. In addition, continued yield management and a broader product offering have contributed to the growth.

Growth in airside specialist shops was strong, with double-digit growth in luxury store income following the successful opening before Christmas of the redeveloped luxury retail stores in Terminal 5. Brands including Louis Vuitton, Cartier, Rolex, Fortnum and Mason and Bottega Veneta joined the Heathrow offering and further strengthened Heathrow's unrivalled airport shopping experience. In addition, the innovative personal shopper lounge in Terminal 2 is a world first and is helping to drive additional income.

Growth in duty and tax free stores is moderated in part by an extensive refurbishment in Terminal 5. The refurbished store will further enhance the shopping experience at Heathrow. The growth in bureaux de change reflects the bounce back from the transition between suppliers which adversely impacted revenue in the first quarter of 2014.

#### 2.2.2.3 Other income

In the three months ended 31 March 2015, other income totalled £117 million (2014: £111 million). The increase was driven by growth in utility charges and higher property rental income following the opening of Terminal 2.



### 2.2.3 Adjusted operating costs

In the three months ended 31 March 2015, adjusted operating costs increased 8.9% to £280 million (2014: £257 million). Adjusted operating costs exclude depreciation, amortisation and exceptional items.

Three months ended 31 March	2015 £m	2014 £m	Change (%)
Employment costs	96	93	3.2
Maintenance expenditure	44	40	10.0
Utility costs	26	23	13.0
Rent and rates	33	31	6.5
General expenses	76	64	18.8
Retail expenditure	5	6	(16.7)
<b>Total</b>	<b>280</b>	<b>257</b>	<b>8.9</b>

Underlying costs rose by £2 million, an increase of 0.8%. Overall costs reflect £16 million related to the operation of an additional terminal since the opening of Terminal 2 and £5 million incurred in activities on the planning for expansion of Heathrow.

Underlying performance reflects continued focus on employment costs, with increased productivity being achieved within operations, as well as the benefit of lower overall headcount compared to last year. These efficiencies are partially offset by increased non-cash pension costs.

As with Terminal 2, the opening of the Terminal 3 Integrated Baggage facility drives an increase in utilities, rent and rates. In the first quarter operational readiness costs also impacted general expenses.

Cost control will continue through 2015, reflecting the benefits of the efficiencies being delivered and the exit costs from the early closure of Terminal 1 at the end of June.

### 2.2.4 Operating result

The Group recorded an operating profit before certain re-measurements for the three months ended 31 March 2015 of £177 million (2014: £168 million). A reconciliation of Adjusted EBITDA and operating profit before certain re-measurements is provided below.

Three months ended 31 March	2015 £m	2014 £m	Change (%)
Adjusted EBITDA	342	319	7.2
Depreciation	(165)	(110)	50.0
Exceptional items	-	(41)	n.m.
<b>Operating profit before certain re-measurements</b>	<b>177</b>	<b>168</b>	<b>5.4</b>

In the three months ended 31 March 2015, Adjusted EBITDA increased 7.2% to £342 million (2014: £319 million), resulting in an Adjusted EBITDA margin of 55% (2014: 55%).

Depreciation increased 50% to £165 million (2014: £110 million). The increase in depreciation mostly reflects the start of depreciation of the new Terminal 2, along with increased depreciation of Terminal 1 and the new Terminal 3 Integrated Baggage facility.

### 2.2.5 Exceptional items

In the three months ended 31 March 2015, there were no exceptional charges (2014: £41 million) to the income statement.

Three months ended 31 March	2015 £m	2014 £m
Pension	-	(33)
Terminal 2 operational readiness	-	(8)
<b>Exceptional pre-tax charge</b>	<b>-</b>	<b>(41)</b>

As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the HAH Group's defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement.

### 2.2.6 Taxation

The tax charge for the three months ended 31 March 2015 results in an effective tax rate of 31.0%, reflecting the tax charge arising on ordinary activities of £22 million based on a profit before tax of £71 million. The effective tax rate for the period differs from the UK statutory rate of 20.25% primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

## 2.3 Cash flow

### 2.3.1 Summary cash flow

In the three months ended 31 March 2015 the Group increased cash and cash equivalents by £116 million, compared with a reduction in 2014 of £86 million. At 31 March 2015, the Group had £382 million of cash and cash equivalents compared with £266 million at 31 December 2014.

Three months ended 31 March	2015 £m	2014 £m
Cash generated from operations	316	317
Net cash from operating activities	326	312
Purchase of property, plant and equipment and other assets	(161)	(271)
Increase in term deposits	(375)	-
Increase in group deposits	(40)	-
Net cash used in investing activities	(576)	(271)
Dividends paid	(123)	(65)
Proceeds from issuance of bonds	560	200
Drawdown of revolving credit facilities	75	-
Repayment of facilities and other financing items	(13)	(65)
Increase in amount owed to Heathrow Finance plc	75	-
Net interest paid	(208)	(197)
Net cash from/(used in) financing activities	366	(127)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>116</b>	<b>(86)</b>
Net cash generated from operations less capital investment and net interest paid	(53)	(151)

### **2.3.2 Cash flow from operating activities**

Net cash flow from operations in the three months ended 31 March 2015 decreased 0.3% to £316 million (2014: £317 million) which compares with Adjusted EBITDA of £342 million (2014: £319 million).

### **2.3.3 Capital expenditure**

In the three months ended 31 March 2015, the cash flow impact of capital investment at Heathrow was £161 million (2014: £271 million) with lower gross additions to fixed assets in the period of £128 million (2014: £336 million).

The higher level of cash capital investment reflects the timing differences between the completion of assets and supplier payments.

### **2.3.4 Restricted payments**

The financing arrangements of the Group and Heathrow Finance restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital; any redemptions or repurchase of share capital; and payments of fees, interest or principal on any intercompany loans.

In the three months ended 31 March 2015, net restricted payments of £79 million (gross restricted payments £154 million) were made by the Group which mainly funded £43 million of the £75 million in quarterly dividends paid to the Group's ultimate shareholders and £31 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance. (2014: £92 million which funded £65 million of the £68 million in quarterly dividends paid to the Group's ultimate shareholders and £27 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance).

## **2.4 Pension scheme**

At 31 March 2015, the HAH Group defined benefit pension scheme deficit was £286 million as measured under IAS19(R) (31 December 2014: £199 million). The majority of the increase in the deficit is due to a reduction in the discount rate applied to the defined benefit scheme obligation. This increase was partially offset by asset returns and cash contributions.

## **2.5 Recent financing activity**

Heathrow continues to focus on optimising the Group's long-term cost of debt as well as building further duration, diversification and resilience into its debt financing platform.

Since the start of 2015 Heathrow has raised £850 million in term debt financing. In February, a highly successful, €750 million, 15 year public bond with a fixed rate coupon of 1.5% was issued, significantly extending Heathrow's maturity profile in the Euro market. Heathrow has also raised over £200 million of long-term private placements from non-sterling sources, this includes £150 million with 15 to 20 year maturities, which will be drawn later in 2015; and a transaction for NOK1 billion with a 12.5 year maturity and a fixed coupon of 2.65% which takes the number of currency markets Heathrow has accessed to six. Finally, Heathrow Finance entered into a £50 million, 10 year loan facility in April 2015 to be drawn by July 2015.

Heathrow has also completed a bond repurchase programme, buying back Heathrow Finance 2017 and 2019 notes with a nominal value of £32 million and £12 million respectively, at a cash cost of £49 million.

## 2.6 Financing position

### 2.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt was £11,793 million at 31 March 2015 an increase of 1.2% since the end of 2014 (31 December 2014: £11,653 million), comprising £11,967 million in bond issues, £342 million in loan facilities, £411 million in index-linked derivative accretion and cash at bank and term deposits of £927 million. Nominal net debt consisted of £10,163 million in senior net debt and £1,630 million in junior debt.

The average cost of the Group's nominal gross debt at 31 March 2015 was 4.35% (31 December 2014: 4.59%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 March 2015 was 5.40% (31 December 2014: 5.70%). The reduction in the average cost of debt since the end of 2014 is mainly due the lower cost of debt raised in the first quarter of 2015 and lower inflation at 31 March 2015 than at the end of 2014.

Nominal debt excludes any restricted cash and the debenture between Heathrow (SP) and Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

The accounting value of the Group's net debt was £11,108 million at 31 March 2015 (31 December 2014: £11,064 million). This includes £927 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

Heathrow expects to have sufficient liquidity to meet all its obligations in full up to January 2017. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account around £2.5 billion in undrawn loan facilities and cash resources at 31 March 2015; £399 million in committed term debt financing to be drawn after 31 March 2015; and the expected operating cash flow over the period.

### 2.6.2 Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance was £12,695 million at 31 March 2015, an increase of 1.1% since the end of 2014 (31 December 2014: £12,560 million). This comprises the Group's nominal net debt of £11,793 million, together with £962 million of gross debt and £60 million of cash held at Heathrow Finance.

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

Heathrow's RAB at 31 March 2015 was £14,790 million compared to £14,860 million at 31 December 2014. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The decrease in Heathrow's RAB during the three months ended 31 March 2015 primarily reflects a net reduction in assets of approximately £40 million reflecting increased depreciation and lower capital expenditure; together with a £30 million reduction reflecting the change in inflation since December 2014.

#### 2.6.4 Net finance costs and net interest paid

In the three months ended 31 March 2015, the Group's net finance costs before certain re-measurements, from operations, were £158 million (2014: £155 million) and net interest paid was £208 million (2014: £197 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Three months ended 31 March	2015 £m	2014 £m
Net finance costs before certain re-measurements	158	155
Amortisation of financing fees and fair value adjustments	(5)	(8)
Borrowing costs capitalised	6	49
<b>Underlying net finance costs</b>	<b>159</b>	<b>196</b>
Non-cash accretion on index-linked instruments	1	(43)
Other movements	48	44
<b>Net interest paid</b>	<b>208</b>	<b>197</b>

Underlying net finance costs were £159 million (2014: £196 million) after adjusting for capitalised borrowing costs of £6 million (2014: £49 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £5 million (2014: £8 million). The reduced underlying net finance costs reflect lower index linked accretion due to low inflation in the period.

Net interest paid in the period was £208 million (2014: £197 million) of which £177 million (2014: £170 million) related to external debt. The remaining £31 million (2014: £27 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

Net interest paid is higher than underlying net finance costs primarily due to timing differences between the payment of interest and the accruals for interest with the first quarter of the year characterised by relatively high interest payments.

#### 2.6.5 Financial ratios

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

At 31 March 2015, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.7% and 79.7% respectively (31 December 2014: 68.0% and 78.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 85.8% (31 December 2014: 84.5%) compared to a covenant level of 90.0% under its financing agreements.

The increase in gearing since 31 December 2014 reflects a combination of seasonality, with the first quarter being characterised by lower cash flow and relatively high interest payments and distributions; and low inflation.

## 2.7 Outlook

Given early trading conditions, there is the potential for outperformance of the traffic, revenue and EBITDA guidance given for 2015.

## Appendix 1 – Financial information

### Heathrow (SP) Limited Consolidated income statement for the three months ended 31 March 2015

	Note	Unaudited three months ended 31 March 2015			Unaudited three months ended 31 March 2014			Audited year ended 31 December 2014			
		Before certain re-measurements £m	Certain re-measurements <sup>a</sup> £m	Total £m	Before certain re-measurements £m	Certain re-measurements <sup>a</sup> £m	Total £m	Before certain re-measurements £m	Certain re-measurements <sup>a</sup> £m	Total £m	
<b>Continuing operations</b>											
Revenue	1	622	-	622	576	-	576	2,692	-	2,692	
Operating costs	2	(445)	-	(445)	(408)	-	(408)	(1,899)	-	(1,899)	
Other operating items											
Fair value gains on investment properties		-	33	33	-	5	5	-	46	46	
<b>Operating profit</b>		<b>177</b>	<b>33</b>	<b>210</b>	<b>168</b>	<b>5</b>	<b>173</b>	<b>793</b>	<b>46</b>	<b>839</b>	
<i>Analysed as:</i>											
Operating profit before exceptional items		177	33	210	209	5	214	995	46	1,041	
Exceptional items	3	-	-	-	(41)	-	(41)	(202)	-	(202)	
<b>Financing</b>											
Finance income		58	-	58	57	-	57	234	-	234	
Finance costs		(216)	-	(216)	(212)	-	(212)	(1,038)	-	(1,038)	
Fair value gain/(loss) on financial instruments	4	-	19	19	-	(28)	(28)	-	(154)	(154)	
		<b>(158)</b>	<b>19</b>	<b>(139)</b>	<b>(155)</b>	<b>(28)</b>	<b>(183)</b>	<b>(804)</b>	<b>(154)</b>	<b>(958)</b>	
<b>Profit/(loss) before tax</b>		<b>19</b>	<b>52</b>	<b>71</b>	<b>13</b>	<b>(23)</b>	<b>(10)</b>	<b>(11)</b>	<b>(108)</b>	<b>(119)</b>	
<b>Taxation</b>	5	<b>(12)</b>	<b>(10)</b>	<b>(22)</b>	<b>(4)</b>	<b>5</b>	<b>1</b>	<b>7</b>	<b>14</b>	<b>21</b>	
<b>Profit/(loss) for the period from continuing operations</b>		<b>7</b>	<b>42</b>	<b>49</b>	<b>9</b>	<b>(18)</b>	<b>(9)</b>	<b>(4)</b>	<b>(94)</b>	<b>(98)</b>	
Profit from discontinued operations <sup>b</sup>		-	-	-	-	-	-	3	-	3	
<b>Consolidated profit/(loss) for the period</b>		<b>7</b>	<b>42</b>	<b>49</b>	<b>9</b>	<b>(18)</b>	<b>(9)</b>	<b>(1)</b>	<b>(94)</b>	<b>(95)</b>	

<sup>a</sup> Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.

<sup>b</sup> Represents the release of a provision no longer required on the disposal of Stansted airport.

**Heathrow (SP) Limited**

**Consolidated statement of comprehensive income  
for the three months ended 31 March 2015**

	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
<b>Profit/(loss) for the period</b>	<b>49</b>	<b>(9)</b>	<b>(95)</b>
<i>Items that will not be subsequently reclassified to the consolidated income statement:</i>			
Tax relating to retirement benefits	-	-	(4)
Tax relating to indexation of operating land	-	-	1
Net actuarial losses on retirement benefit schemes	<b>(71)</b>	-	-
<i>Items that may be subsequently reclassified to the consolidated income statement:</i>			
Cash flow hedges:			
Losses taken to equity	<b>(81)</b>	<b>(44)</b>	<b>(174)</b>
Transferred to income statement	<b>91</b>	<b>44</b>	<b>163</b>
<b>Other comprehensive loss for the period net of tax</b>	<b>(61)</b>	<b>-</b>	<b>(14)</b>
<b>Total comprehensive loss for the period<sup>a</sup></b>	<b>(12)</b>	<b>(9)</b>	<b>(109)</b>

<sup>a</sup> Attributable to owners of the parent.

**Heathrow (SP) Limited**  
**Consolidated statement of financial position**  
**as at 31 March 2015**

<i>Note</i>	Unaudited 31 March 2015 £m	Unaudited <sup>1</sup> 31 March 2014 £m	Audited <sup>1</sup> 31 December 2014 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11,320	11,438	11,349
Investment properties	2,093	1,968	2,054
Intangible assets	107	100	114
Derivative financial instruments	150	117	172
Trade and other receivables	23	35	23
	<b>13,693</b>	<b>13,658</b>	<b>13,712</b>
<b>Current assets</b>			
Inventories	10	9	10
Trade and other receivables	833	237	460
Current income tax assets	-	-	18
Derivative financial instruments	18	132	2
Cash and cash equivalents	382	8	268
	<b>1,243</b>	<b>386</b>	<b>758</b>
<b>Total assets</b>	<b>14,936</b>	<b>14,044</b>	<b>14,470</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	6 (12,155)	(11,198)	(11,877)
Derivative financial instruments	(1,395)	(1,234)	(1,328)
Deferred income tax liabilities	(1,018)	(1,025)	(1,023)
Retirement benefit obligations <sup>1</sup>	(316)	-	-
Provisions	(12)	(8)	(10)
Trade and other payables	(2)	(3)	(2)
	<b>(14,898)</b>	<b>(13,468)</b>	<b>(14,240)</b>
<b>Current liabilities</b>			
Borrowings	6 (1,166)	(767)	(933)
Derivative financial instruments	(38)	(3)	(1)
Provisions <sup>1</sup>	(1)	(143)	(232)
Current income tax liabilities	(4)	-	-
Trade and other payables	(354)	(573)	(454)
	<b>(1,563)</b>	<b>(1,486)</b>	<b>(1,620)</b>
<b>Total liabilities</b>	<b>(16,461)</b>	<b>(14,954)</b>	<b>(15,860)</b>
<b>Net liabilities</b>	<b>(1,525)</b>	<b>(910)</b>	<b>(1,390)</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	11	11	11
Share premium	499	499	499
Merger reserve	(3,758)	(3,758)	(3,758)
Cash flow hedge reserve	(311)	(310)	(321)
Retained earnings	2,034	2,648	2,179
<b>Total shareholder's equity</b>	<b>(1,525)</b>	<b>(910)</b>	<b>(1,390)</b>

<sup>1</sup> As explained in the basis of preparation section, liabilities relating to retirement benefits are now presented as an external obligation. Previously they were treated as an intercompany liability.



**Heathrow (SP) Limited**

**Consolidated statement of changes in equity  
for the three months ended 31 March 2015**

	Attributable to owners of the Company						Total equity £m
	Note	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	
1 January 2014		11	499	(3,758)	(310)	2,722	(836)
Comprehensive income:							
Loss for the period		-	-	-	-	(9)	(9)
<b>Total comprehensive income</b>		-	-	-	-	(9)	(9)
Transaction with owners:							
Dividends paid		-	-	-	-	(65)	(65)
<b>Total transaction with owners</b>		-	-	-	-	(65)	(65)
31 March 2014		11	499	(3,758)	(310)	2,648	(910)
<b>1 January 2015</b>		<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(321)</b>	<b>2,179</b>	<b>(1,390)</b>
<b>Comprehensive income:</b>							
Profit for the period		-	-	-	-	49	49
<b>Other comprehensive income:</b>							
Fair value gains on cash flow hedges net of tax		-	-	-	10	-	10
Net actuarial losses on retirement benefit schemes		-	-	-	-	(71)	(71)
<b>Total comprehensive income</b>		-	-	-	10	(22)	(12)
Transaction with owners:							
Dividends paid		-	-	-	-	(123)	(123)
<b>Total transaction with owners</b>		-	-	-	-	(123)	(123)
<b>31 March 2015</b>		<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(311)</b>	<b>2,034</b>	<b>(1,525)</b>

**Heathrow (SP) Limited**

**Consolidated statement of cash flows  
for the three months ended 31 March 2015**

<i>Note</i>	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	316	317	1,525
Group relief received/(paid)	10	(5)	(19)
<b>Net cash from operating activities</b>	<b>326</b>	<b>312</b>	<b>1,506</b>
<b>Cash flows from investing activities</b>			
Purchase of:			
Property, plant and equipment	(155)	(261)	(744)
Investment properties	(6)	(10)	(78)
Intangible assets	-	-	(31)
Increase in term deposits	(375)	-	(170)
Increase in group deposits	(40)	-	-
Disposal proceeds and investing activities of discontinued operations	-	-	(2)
<b>Net cash used in investing activities</b>	<b>(576)</b>	<b>(271)</b>	<b>(1,025)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	7	(65)	(445)
Proceeds from issuance of bonds	560	200	1,276
Repayment of bonds	-	-	(513)
Issuance of term note	-	-	100
Drawdown of revolving credit facilities	75	-	-
Repayment of revolving credit facilities	-	-	(80)
Repayment of facilities and other financing items	(13)	(65)	(54)
Increase in amount owed to Heathrow Finance plc	75	-	165
Settlement of accretion on index-linked swaps	-	-	(185)
Interest paid	(209)	(197)	(575)
Interest received	1	-	2
<b>Net cash from/(used in) financing activities</b>	<b>366</b>	<b>(127)</b>	<b>(309)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>116</b>	<b>(86)</b>	<b>172</b>
Cash and cash equivalents at beginning of period	266	94	94
<b>Cash and cash equivalents at end of period</b>	<b>382</b>	<b>8</b>	<b>266</b>
Represented by:			
Cash and cash equivalents – continuing operations	382	8	268
Overdrafts – continuing operations	-	-	(2)
<b>Cash and cash equivalents at end of period</b>	<b>382</b>	<b>8</b>	<b>266</b>

## Heathrow (SP) Limited

### General information and accounting policies for the three months ended 31 March 2015

#### General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2014 or any other period. Statutory financial statements for the year ended 31 December 2014 have been filed with the registrar of Companies on 20 March 2015. The annual financial information presented herein for the year ended 31 December 2014 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2014. The auditors' report on the 2014 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 in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

These interim financial reports have been prepared and approved by the directors in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the 'IASB' and as adopted by the EU. The financial statements include components such as a consolidated income statement and consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and a consolidated statement of cash flows. These are the first interim financial reports in compliance with IAS 34 and therefore include a reconciliation of equity and reconciliation of total comprehensive income at, and for the period ending, 31 March 2014 from UK GAAP, the previous accounting regime under which the Heathrow (SP) Limited group used to report. Further reconciliations from previous GAAP to IFRS for comparative periods and as at transition are available in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014. 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 2014.

##### *Pension accounting*

From 1 January 2015, the Group has changed the method of accounting for retirement benefit schemes. In the prior year, the Group recorded its share of the liability on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit schemes ('the schemes'). This was recognised as an intercompany payable to the legal sponsor of the schemes, being LHR Airports Limited. Additionally, the Group recorded its share of the actuarial gains/losses on the schemes and presented this within exceptional items in the income statement.

Following the disposal of Aberdeen, Glasgow and Southampton by the HAH group, in December 2014, the directors have reassessed the Group's relationship with the legal sponsor of the schemes given that the HAH Group's sole operating business is now Heathrow. The directors have determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that the Group now acts as principal in relation to these schemes. As a result, the Group now recognises an external liability, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit obligations and no longer records an intercompany payable to LHR Airports Limited. Additionally, it is now considered appropriate for the Group to record actuarial gains/losses on the external scheme within other comprehensive income. This differs from the prior year where the Group recorded a share of the actuarial gains/losses, treated as an intercompany recharge, as an exceptional item in the Group's income statement. There is no impact on cash or net assets as a result of this change.

## Heathrow (SP) Limited

### Notes to the consolidated financial information for the three months ended 31 March 2015

#### 1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the relevant Board for allocating resources and assessing performance. These segments relate to the operations of Heathrow and Heathrow Express.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income), and other products and services (including rail income), and this information is also provided to the Board on a monthly basis.

Table (a) details total revenue from external customers for the three months ended 31 March 2015 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis, and a reconciliation to the consolidated profit for the period.

Table (b) and table (c) detail comparative information to table (a) for the three months ended 31 March 2014 and the year ended 31 December 2014 respectively.

Table (a) Unaudited Three months ended 31 March 2015	Segment revenue					Total external revenue £m	EBITDA		
	Aero- nautical £m	Retail £m	Property & facilities £m	Other £m	Pre exceptional items £m		Operating exceptional items £m	Post exceptional items £m	
	Heathrow	389	116	70	17		592	323	-
Heathrow Express	-	-	-	30	30	19	-	19	
<b>Continuing operations</b>	<b>389</b>	<b>116</b>	<b>70</b>	<b>47</b>	<b>622</b>	<b>342</b>	<b>-</b>	<b>342</b>	
<b>Reconciliation to statutory information</b>									
<b>Unallocated income and expenses</b>									
Depreciation and amortisation									(165)
<b>Operating profit (before certain re-measurements)</b>									<b>177</b>
Fair value gain on investment properties (certain re-measurements)									33
<b>Operating profit</b>									<b>210</b>
Finance income									58
Finance costs									(216)
Fair value gain on financial instruments (certain re-measurements)									19
<b>Profit before tax</b>									<b>71</b>
Taxation before certain re-measurements									(12)
Taxation (certain re-measurements)									(10)
<b>Taxation</b>									<b>(22)</b>
<b>Consolidated profit for the period</b>									<b>49</b>

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**1 Segment information *continued***

Table (b) Unaudited Three months ended 31 March 2014	Segment revenue					EBITDA		
	Aero- nautical	Retail	Property & facilities	Other	Total external revenue	Pre exceptional items	Operating exceptional items	Post exceptional items
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Heathrow</b>	356	109	66	15	546	303	(41)	262
<b>Heathrow Express</b>	-	-	-	30	30	16	-	16
<b>Continuing operations</b>	356	109	66	45	576	319	(41)	278
<b>Reconciliation to statutory information</b>								
<b>Unallocated income and expenses</b>								
Depreciation and amortisation								(110)
<b>Operating profit (before certain re-measurements)</b>								168
Fair value gain on investment properties (certain re-measurements)								5
<b>Operating profit</b>								173
Finance income								57
Finance costs								(212)
Fair value loss on financial instruments (certain re-measurements)								(28)
<b>Loss before tax</b>								(10)
Taxation before certain re-measurements								(4)
Taxation (certain re-measurements)								5
<b>Taxation</b>								1
<b>Consolidated loss for the period</b>								(9)

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**1 Segment information *continued***

Table (c) Audited Year ended 31 December 2014	Segment revenue					EBITDA		
	Aero- nautical £m	Retail £m	Property & facilities £m	Other £m	Total external revenue £m	Pre exceptional items £m	Operating exceptional items £m	Post exceptional items £m
<b>Heathrow</b>	1,706	503	285	69	2,563	1,493	(202)	1,291
<b>Heathrow Express</b>	-	-	-	129	129	74	-	74
<b>Continuing operations</b>	1,706	503	285	198	2,692	1,567	(202)	1,365
<b>Reconciliation to statutory information</b>								
<b>Unallocated income and expenses</b>								
Depreciation and amortisation								(572)
<b>Operating profit (before certain re-measurements)</b>								793
Fair value gain on investment properties (certain re-measurements)								46
<b>Operating profit</b>								839
Finance income								234
Finance costs								(1,038)
Fair value loss on financial instruments (certain re-measurements)								(154)
<b>Loss before tax</b>								(119)
Taxation before certain re-measurements								7
Taxation (certain re-measurements)								14
<b>Taxation</b>								21
Loss for the year – continuing operations								(98)
Profit from discontinued operations								3
<b>Consolidated loss for the year</b>								(95)

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**2 Operating costs – ordinary**

	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
Employment costs	96	93	391
Maintenance expenditure	44	40	178
Utility costs	26	23	95
Rent and rates	33	31	132
General expenses	76	64	305
Retail expenditure	5	6	24
<b>Total adjusted operating costs</b>	<b>280</b>	<b>257</b>	<b>1,125</b>
Depreciation and amortisation	165	110	572
Exceptional costs (Note 3)	-	41	202
<b>Total operating costs</b>	<b>445</b>	<b>408</b>	<b>1,899</b>

**3 Operating exceptional items**

	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
Pension	-	33	176
Terminal 2 operational readiness	-	8	18
Restructure	-	-	8
<b>Total operating exceptional items</b>	<b>-</b>	<b>41</b>	<b>202</b>

**Operating costs – exceptional: other**

From 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the Group's defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement. As explained in the basis of preparation.

Previously, movements in the Group's share of pension obligations were recorded as exceptional items. For the three months ended 31 March 2014 and the year ended 31 December 2014 a non-cash pension charge was recorded of £33 million and £176 million respectively.

Operational readiness costs were associated with managing the opening of Terminal 2. Costs for the three months ended 31 March 2014 were £8 million and for the year ended 31 December 2014 were £18 million. These costs were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

Costs associated with the Group's change programmes were £8 million in the year ended 31 December 2014. The charge related to severance and pension payments associated with a restructuring programme.

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**4 Financing**

	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
<b>Finance income</b>			
Interest receivable on derivatives not in hedge relationship	57	57	231
Interest on deposits	1	-	3
	<b>58</b>	<b>57</b>	<b>234</b>
<b>Finance costs</b>			
Interest on borrowings:			
Bonds and related hedging instruments <sup>1</sup>	(141)	(145)	(592)
Bank loans and overdrafts and related hedging instruments	(12)	(18)	(75)
Amortisation on bond redemption <sup>2</sup>	-	-	(62)
Interest payable on derivatives not in hedge relationship <sup>3</sup>	(49)	(81)	(323)
Facility fees and other charges	(2)	(4)	(14)
Net pension finance costs	(2)	-	(3)
Interest on debenture payable to Heathrow Finance plc	(16)	(13)	(57)
Unwinding of discount on provisions	-	-	(1)
	<b>(222)</b>	<b>(261)</b>	<b>(1,127)</b>
Less: capitalised borrowing costs <sup>4</sup>	6	49	89
	<b>(216)</b>	<b>(212)</b>	<b>(1,038)</b>
<b>Net finance costs before certain re-measurements</b>	<b>(158)</b>	<b>(155)</b>	<b>(804)</b>
<b>Fair value gain/(loss) on financial instruments</b>			
Interest rate swaps: ineffective portion of cash flow hedges	(8)	2	3
Interest rate swaps: not in hedge relationship	(38)	(29)	(196)
Index-linked swaps: not in hedge relationship <sup>5</sup>	82	(4)	26
Cross-currency swaps: ineffective portion of cash flow hedges	(14)	2	9
Cross-currency swaps: ineffective portion of fair value hedges	(3)	1	3
Fair value re-measurements of foreign exchange contracts and currency balances	-	-	1
	<b>19</b>	<b>(28)</b>	<b>(154)</b>
<b>Net finance costs</b>	<b>(139)</b>	<b>(183)</b>	<b>(958)</b>

<sup>1</sup> Includes accretion gain of £2 million (three months ended 31 March 2014: £6 million loss; year ended 31 December 2014: £20 million loss) on index-linked bonds.

<sup>2</sup> Amortisation on bond redemption includes a one-off non-cash £61 million amortisation charge recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedging relationship. A deferred tax credit of £12 million relating to the amortisation charge has been recognised within the tax charge.

<sup>3</sup> Includes accretion of £3 million (three months ended 31 March 2014: £37 million; year ended 31 December 2014: £139 million) on index-linked swaps.

<sup>4</sup> Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.56% (three months ended 31 March 2014: 6.06%; year ended 31 December 2014: 5.87%) to expenditure incurred on such assets.

<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 three months ended 31 March 2015**

**5 Taxation**

	Unaudited Three months ended 31 March 2015 £m	Unaudited Three months ended 31 March 2014 £m	Audited Year ended 31 December 2014 £m
<b>UK corporation tax</b>			
Current tax at 20.25% (2014: 21.5%)	(12)	-	13
Deferred tax			
Current year	(10)	1	8
<b>Taxation (charge)/credit for the period</b>	<b>(22)</b>	<b>1</b>	<b>21</b>

The tax charge for the three months ended 31 March 2015 results in an effective tax rate of 31.0%, reflecting the tax charge arising on ordinary activities of £22 million based on a profit before tax of £71 million. The effective tax rate for the period differs from the UK statutory rate of 20.25% primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

For the three months ended 31 March 2014, the effective tax rate was 10.0%, reflecting the tax credit arising on ordinary activities of £1 million based on a loss before tax of £10 million. The effective tax rate for the period differs from the UK statutory rate of 21.5% due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

The tax credit for the year ended 31 December 2014 resulted in an effective tax rate of 17.6%, reflecting the tax credit arising on ordinary activities of £21 million based on a loss before tax of £119 million. The effective tax rate for the period differs from the UK statutory rate of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation, non-deductible expenses and the release of a provision.

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**6 Borrowings**

	Unaudited 31 March 2015 £m	Unaudited 31 March 2014 £m	Audited 31 December 2014 £m
<b>Current borrowings</b>			
<b>Secured</b>			
Loans	39	39	39
Bonds:			
4.600% €750 million due 2014	-	555	-
3.000% £300 million due 2015	300	-	300
2.500% US\$500 million due 2015	337	-	320
12.450% £300 million due 2016	315	-	-
	<b>991</b>	594	659
<b>Unsecured</b>			
Bank overdrafts	-	-	2
<b>Total current (excluding interest payable)</b>	<b>991</b>	594	661
Interest payable – external	169	169	251
Interest payable – owed to group undertakings	6	4	21
<b>Total current</b>	<b>1,166</b>	767	933
<b>Non-current borrowings</b>			
<b>Secured</b>			
Bonds:			
3.000% £300 million due 2015	-	299	-
2.500% US\$500 million due 2015	-	299	-
12.450% £300 million due 2016	-	329	318
4.125% €500 million due 2016	355	403	381
4.375% €700 million due 2017	505	576	542
2.500% CHF400 million due 2017	276	270	257
4.600% €750 million due 2018	507	574	545
6.250% £400 million due 2018	399	398	398
4.000% C\$400 million due 2019	211	215	219
6.000% £400 million due 2020	397	396	397
9.200% £250 million due 2021	275	268	275
3.000% C\$450 million due 2021	246	-	248
4.875% US\$1,000 million due 2021	714	612	670
1.650%+RPI £180 million due 2022	192	190	193
1.875% €600 million due 2022	452	-	485
5.225% £750 million due 2023	651	643	649
7.125% £600 million due 2024	589	589	589
4.221% £155 million due 2026	154	-	155
6.750% £700 million due 2026	691	691	691
7.075% £200 million due 2028	198	198	198
1.500% €750 million due 2030	541	-	-
6.450% £900 million due 2031	856	847	855
Zero-coupon €50 million due January 2032	42	45	44
1.366%+RPI £75 million due 2032	76	75	76
Zero-coupon €50 million due April 2032	41	45	44
4.171% £50 million due 2034	50	-	50
Zero-coupon €50 million due 2034	37	-	39
1.382%+RPI £50 million due 2039	51	50	51
3.334%+RPI £460 million due 2039	574	566	575
1.238%+RPI £100 million due 2040	100	-	100
5.875% £750 million due 2041	743	741	743
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	76	75	76
	<b>10,741</b>	10,136	10,605

**Heathrow (SP) Limited**

**Notes to the consolidated financial information  
for the three months ended 31 March 2015**

**6 Borrowings *continued***

	Unaudited 31 March 2015 £m	Unaudited 31 March 2014 £m	Audited 31 December 2014 £m
<b>Secured <i>continued</i></b>			
Revolving credit facilities	75	25	-
Other loans	128	166	136
Term note: 3.77% £100 million due 2026	100	-	100
<b>Unsecured</b>			
Debenture payable to Heathrow Finance plc	1,111	871	1,036
<b>Total loans</b>	<b>1,414</b>	<b>1,062</b>	<b>1,272</b>
<b>Total non-current</b>	<b>12,155</b>	<b>11,198</b>	<b>11,877</b>
<b>Total borrowings (excluding interest payable)</b>	<b>13,146</b>	<b>11,792</b>	<b>12,538</b>

**7 Dividends**

During the period ended 31 March 2015, Heathrow (SP) Limited paid dividends of £123 million to Heathrow Finance plc being £43 million on 27 February 2015 and £80 million on 4 March 2015 (31 December 2014: Heathrow (SP) Limited paid dividends of £445 million to Heathrow Finance plc, being £65 million on 21 February 2014, £79 million on 27 June 2014, £66 million on 25 July 2014, £85 million on 23 September 2014 and £150 million on 18 December 2014 to fund £261 million in quarterly dividends and a further £135 million to the Group's ultimate shareholders and £49 million for the servicing of external debt at Heathrow (SP) Limited's holding companies and for general corporate purposes).

### Reconciliation of equity

The Heathrow (SP) Limited group transitioned to IFRS on 1 January 2012. A reconciliation of equity on this date of transition and for the year ended 31 December 2014 along with further details on the nature of the adjustments is also presented in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014.

	31 March 2014					
	Group under UK GAAP £m	Present- ational adjustments £m	FV uplift on operational land £m	FV movement on investment property AICC £m	Deferred tax £m	Group under IFRS £m
<b>Assets</b>						
<b>Non-current assets</b>						
Property, plant and equipment	13,117	(2,039)	360	-	-	11,438
Investment properties	-	1,939	-	29	-	1,968
Intangible assets	-	100	-	-	-	100
Derivative financial instruments	117	-	-	-	-	117
Trade and other receivables	-	35	-	-	-	35
	<b>13,234</b>	<b>35</b>	<b>360</b>	<b>29</b>	<b>-</b>	<b>13,658</b>
<b>Current assets</b>						
Inventories	9	-	-	-	-	9
Trade and other receivables	272	(35)	-	-	-	237
Derivative financial instruments	132	-	-	-	-	132
Cash and cash equivalents	8	-	-	-	-	8
	<b>421</b>	<b>(35)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>386</b>
<b>Total assets</b>	<b>13,655</b>	<b>-</b>	<b>360</b>	<b>29</b>	<b>-</b>	<b>14,044</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Borrowings	(11,198)	-	-	-	-	(11,198)
Derivative financial instruments	(1,234)	-	-	-	-	(1,234)
Deferred income tax liabilities	(150)	-	(32)	-	(843)	(1,025)
Provisions	(151)	143	-	-	-	(8)
Trade and other payables	(3)	-	-	-	-	(3)
	<b>(12,736)</b>	<b>143</b>	<b>(32)</b>	<b>-</b>	<b>(843)</b>	<b>(13,468)</b>
<b>Current liabilities</b>						
Borrowings	(594)	(173)	-	-	-	(767)
Derivative financial instruments	(3)	-	-	-	-	(3)
Provisions	-	(143)	-	-	-	(143)
Trade and other payables	(746)	173	-	-	-	(573)
	<b>(1,343)</b>	<b>(143)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,486)</b>
<b>Total liabilities</b>	<b>(14,079)</b>	<b>-</b>	<b>(32)</b>	<b>-</b>	<b>(843)</b>	<b>(14,954)</b>
<b>Net (liabilities)/assets</b>	<b>(424)</b>	<b>-</b>	<b>328</b>	<b>29</b>	<b>(843)</b>	<b>(910)</b>
<b>Equity</b>						
<b>Capital and reserves</b>						
Share capital	11	-	-	-	-	11
Share premium	499	-	-	-	-	499
Revaluation reserves	473	(473)	-	-	-	-
Merger reserve	(3,758)	-	-	-	-	(3,758)
Cash flow hedge reserves	(310)	-	-	-	-	(310)
Retained earnings	2,661	473	328	29	(843)	2,648
<b>Total shareholder's equity</b>	<b>(424)</b>	<b>-</b>	<b>328</b>	<b>29</b>	<b>(843)</b>	<b>(910)</b>

**Reconciliation of total comprehensive income**

Three months ended 31 March 2014

	Group under UK GAAP £m	Fair value movement on investment properties £m	Retirement benefits £m	Deferred tax £m	Group under IFRS £m
<b>Continuing operations</b>					
Revenue	576	-	-	-	576
Operating costs	(411)	-	3	-	(408)
Other operating items					
Fair value gain on investment properties	-	5	-	-	5
<b>Operating profit</b>	<b>165</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>173</b>
Analysed as:					
Operating profit before exceptional items	209	5	-	-	214
Exceptional items	(44)	-	3	-	(41)
<b>Financing</b>					
Finance income	60	-	(3)	-	57
Finance costs	(212)	-	-	-	(212)
Fair value loss on financial instruments	(28)	-	-	-	(28)
	<b>(180)</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>(183)</b>
<b>(Loss)/profit before tax</b>	<b>(15)</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>(10)</b>
<b>Taxation</b>	<b>(4)</b>	<b>(1)</b>	<b>-</b>	<b>6</b>	<b>1</b>
<b>(Loss)/profit for the period from continuing operations</b>	<b>(19)</b>	<b>4</b>	<b>-</b>	<b>6</b>	<b>(9)</b>
Profit from discontinued operations	-	-	-	-	-
<b>Consolidated (loss)/profit for the period</b>	<b>(19)</b>	<b>4</b>	<b>-</b>	<b>6</b>	<b>(9)</b>
<b>Other comprehensive income</b>					
<b>Total comprehensive loss for the period</b>	<b>(19)</b>	<b>4</b>	<b>-</b>	<b>6</b>	<b>(9)</b>