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News Release

28 April 2014

Heathrow (SP) Limited

Results for the three months ended 31 March 2014

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

- **Best ever passenger satisfaction, reflecting steady operational improvement**
- **Traffic growth year on year of 0.5% reflects later timing of Easter in 2014**
- **Revenue up 10.8% to £576 million and EBITDA up 31.8% to £319 million providing strong position to start new regulatory period**
- **Terminal 2: The Queen's Terminal remains on track for its first flight on 4 June 2014**
- **Heathrow will submit refined proposals on its third runway to the Airports Commission reflecting input from public consultations**

At or for three months ended 31 March	2014	2013	Change (%)
(figures in £m unless otherwise stated)			
Revenue(1)	**576**	520	10.8
Adjusted EBITDA(1)(2)	**319**	242	31.8
Cash generated from operations(1)	**317**	265	19.6
Adjusted pre-tax profit/(loss)(3)	**57**	(45)	n/m
Pre-tax loss	**(15)**	(196)	n/m
Heathrow (SP) Limited consolidated net debt(4)(5)	**11,529**	11,264	2.4
Heathrow Finance plc consolidated net debt(4)(5)	**12,288**	12,025	2.2
Regulatory Asset Base(5)	**14,853**	14,585	1.8
Passengers (m)(1)(6)	**16.0**	16.0	0.5
Net retail income per passenger(1)(6)	**£6.36**	£6.33	0.5

For notes (1) to (6) see Definitions and Notes on page 2.

Colin Matthews, Chief Executive Officer of Heathrow, said:

"Heathrow performed well in the first quarter. Financial performance was strong and passenger satisfaction ratings were at their highest ever level, reflecting steady operational improvement. Terminal 2 is on time and on budget and will further improve Heathrow's passenger satisfaction ratings when it opens on 4 June. Long-term prospects are also bright and our submission to the Airports Commission in May will set out the case for building on Heathrow's strength as a global hub that can connect all of the UK to the world's fastest growing markets."

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Definitions and notes

(1) 2013 data is 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) 2013 net debt and RAB figures as at 31 December 2013
(6) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

For further information please contact

Heathrow

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A conference call to present the results to creditors and credit analysts will be held on Monday 28 April 2014 at 3.00 pm (UK time)/4.00 pm (Central European time)/10.00 am (Eastern Standard Time). The call will be hosted by José Leo, Chief Financial Officer. Dial-in details for the call are: UK free phone: 0808 237 0030; US free phone: 1866 928 7517; UK local/standard international: +44 (0)20 3139 4830. Participant PIN code is 34857581#. The presentation can be viewed online during the event, using event password: 647558 at:

https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=m089e3382a7aef7f67f61cfabbace7fb3

Heathrow (SP) Limited

Consolidated results for the three months ended 31 March 2014

Contents

1 Key business developments

1.1 Passenger traffic

Heathrow's passenger traffic by geographic segment for the three months ended 31 March 2014:

(figures in millions unless otherwise stated)	**2014**	2013	Change (%)[1]
UK	1.2	1.1	7.8
Europe	6.5	6.6	(1.4)
North America	3.3	3.3	1.6
Asia Pacific	2.5	2.5	1.0
Middle East	1.4	1.4	2.2
Africa	0.9	0.9	(3.6)
Latin America	0.3	0.2	4.8
Total passengers[1]	16.0	16.0	0.5

(1) Calculated using unrounded passenger numbers

For the three months ended 31 March 2014, Heathrow's traffic rose 0.5% to 16.0 million passengers (2013: 16.0 million), with an average load factor of 70.7% (2013: 71.9%). Traffic and load factors were impacted by the timing of Easter which shifted the holiday demand peak from March in 2013 to April in 2014. Taking into account the movement in the timing of Easter, the underlying rate of growth for the first three months of 2014 is estimated to be in the region of 2%.

Airlines continue to operate larger planes with 203.2 seats on average per aircraft (2013: 199.9 seats). Overall air traffic movements increased by 0.6%, with a shift to more intercontinental services.

Domestic traffic grew 7.8%, continuing to reflect the launch of UK domestic services by Virgin Atlantic Little Red in summer 2013. European traffic was 1.4% lower than last year in part impacted by Easter timing and also reflecting a shift of slot usage to long haul services. Intercontinental traffic performed well in most regions, growing by 1.0%. North America benefitted from increased services from a number of airlines and traffic increased 1.6%. Other intercontinental regions also grew, with the exclusion of Africa which mainly reflects the withdrawal of routes previously operated by bmi.

1.2 Service standards

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

Heathrow has continued to achieve strong recognition from the travelling public for service performance. In the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI), a record 80% of passengers surveyed in the first three months of 2014 rated their experience as 'Excellent' or 'Very Good'. This surpasses the levels of improvement attained in 2013.

Heathrow achieved record overall passenger satisfaction in the ASQ survey for the first quarter of 2014, with an ASQ score of 4.06 out of 5.00. The score reflects a strong operational performance, record levels of punctuality and an overall improvement in passenger experience in security and immigration.

In relation to individual service standards, during the three months ended 31 March 2014, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 83.6% (2013: 75.7%). Heathrow's baggage misconnect rate was 14 per 1,000 passengers (2013: 15).

The security queue experience remains a key priority of the business and a range of initiatives have been implemented which have begun to yield improvements. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 95.9% of the time (2013: 92.9%) compared with a 95% service standard.

For Heathrow's new regulatory period that commenced on 1 April 2014 new Service Quality Conditions are being implemented and are designed to safeguard performance improvement in passenger satisfaction. These include implementation of new security queue measurements on a per passenger basis, with a requirement for 99% of passengers to pass through security within 10 minutes; delivery of passenger experience standards such as cleanliness of facilities and way-finding; and the availability of airfield equipment to enable efficient flight operations. For each element a baseline performance level has been set by the CAA.

1.3 Investing in Heathrow

Terminal 2: The Queen's Terminal is on schedule for operations to begin on 4 June 2014. Extensive trials of the facility and familiarisation activities for the 24,000 staff that will work at Terminal 2 are underway. Two major end-to-end proving trials have taken place, with two further major trials scheduled. Over 4,000 volunteers acting as passengers together with staff from the 160 different organisations that will work at Terminal 2, have participated in the end-to-end trials.

The £2.5 billion investment comprises a main terminal building and a satellite building, together with a multi-storey short-stay car park and an energy centre that supports the Terminal 2 campus and the wider airport. The terminal will ultimately cater for up to 20 million passengers each year and will be home to all 23 Star Alliance airlines operating at Heathrow together with Aer Lingus, Virgin Atlantic Little Red and germanwings. United Airlines will be the first to operate at Terminal 2 from 4 June, followed by a phased move of airlines into the terminal over the following five months. Most new terminal openings worldwide face challenges. As well as the extensive trials and familiarisation activities taking place, the phased transition of airlines moving into the terminal should reduce the impact of any challenges that arise. The transition builds from 17 daily departures on day one to 176 daily departures once all airlines have moved in.

Investment in Heathrow's baggage infrastructure continues in 2014. The underground automated baggage system between Terminal 3 and Terminal 5 is now fully operational. Delivery of the Terminal 3 integrated baggage system remains on track to start operation in 2015. The integrated baggage system is housed in a separate building and will provide Terminal 3 with an integrated departing and transferring baggage system. The baggage building is now complete, the systems are being tested and commissioned and operational readiness trials have started.

Elsewhere, capital investment in 2014 will focus on areas such as refurbishment of tunnels, refurbishment of the northern runway, asset replacement and investment in operational resilience.

1.4 Heathrow's business plan

The new regulatory period for economic regulation of Heathrow ('Q6') began on 1 April 2014 and will be in force until 31 December 2018. The CAA set the price controls for the period, under which the annual change to the maximum allowable yield per passenger will be RPI minus 1.5%. On 28 March 2014, the CAA formally confirmed that no party sought permission to appeal the decision on the price controls at Heathrow.

Heathrow's business plan for the Q6 period has been refined, taking into account the regulatory settlement. The plan is challenging and the business is focussed on delivering operating efficiencies and commercial improvements, whilst sustaining passenger experience and operational resilience.

1.5 Airports Commission

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

Heathrow has since worked with local authorities, communities and other stakeholders to refine the runway option, including public consultation which took place through February and March.

Heathrow's expansion proposal would raise the capacity at Heathrow to 740,000 flights a year, from the current limit of 480,000. It would cater for up to 130 million passengers annually compared with up to 80 million today, allowing the UK to compete with international rivals and providing capacity for the foreseeable future. Refinements to Heathrow's proposal will be submitted to the Airports Commission on 14 May 2014 and Heathrow will continue to work with the Airports Commission and stakeholders on the proposals. The Airports Commission is due to report its final findings in summer 2015.

1.6 Significant management changes

On 1 April it was announced that Colin Matthews will be standing down as Chief Executive Officer of Heathrow later this year.

Colin Matthews joined Heathrow in March 2008. Under his leadership the proportion of passengers rating their journey through Heathrow as very good or excellent has increased from less than 50% to 80%. Terminal 5 has been voted by passengers as the world's best airport terminal for the past three years. Heathrow has constructed a brand new Terminal 2, which is set to open to passengers in June. The airport successfully welcomed the world to Britain as the official gateway for the London 2012 Olympic and Paralympic Games.

Heathrow has commenced a search for a successor for Colin Matthews with the aim of having a new Chief Executive in place later this year and after Terminal 2: The Queen's Terminal has opened. Colin Matthews will remain as Chief Executive until his successor is in place to ensure a smooth transition.

2 Financial review

2.1 Basis of preparation

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

2.2 Profit and loss account

2.2.1 Introduction

Three months ended 31 March	**2014 £m**	2013 £m
Group turnover – total	**576**	552
Group turnover – discontinued operations	**-**	(32)
Group turnover – continuing operations	**576**	520
Adjusted Operating Costs – continuing operations[1]	**(257)**	(278)
Adjusted EBITDA – continuing operations[2]	**319**	242
Operating costs – exceptional – pensions – continuing operations	**(36)**	(12)
Operating costs – exceptional – other – continuing operations	**(8)**	-
EBITDA – continuing operations	**275**	230
Depreciation – ordinary – continuing operations	**(110)**	(116)
Operating profit – continuing operations	**165**	114
Operating profit – discontinued operations	**-**	-
Operating profit – total	**165**	114
Gain on disposal of Stansted - discontinued operations	**-**	294
Net interest payable and similar charges	**(152)**	(171)
Fair value loss on financial instruments	**(28)**	(433)
Total net interest payable and similar charges	**(180)**	(604)
Loss on ordinary activities before taxation	**(15)**	(196)
Tax (charge)/credit on loss on ordinary activities	**(4)**	108
Loss on ordinary activities after taxation	**(19)**	(88)

(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 Turnover

In the three months ended 31 March 2014, Heathrow's turnover increased 10.8% to £576 million (2013: £520 million).

Three months ended 31 March	**2014 £m**	2013 £m	Change (%)
Aeronautical income	**356**	301	18.3
Retail income	**108**	107	0.9
Other income	**112**	112	0.0
Total turnover	**576**	520	10.8

2.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 18.3% to £356 million (2013: £301 million). Average aeronautical income per passenger increased 17.6% to £22.20 (2013: £18.87).

The strong performance reflects the increases in the headline tariffs for the 2013/14 regulatory year. In addition, the non-recurrence of yield dilution which occurred in the first three months of 2013, together with recovery of yield dilution in the 2011/12 regulatory year through the 'K' factor mechanism contribute to the increase.

2.2.2.2 Retail income

In the three months ended 31 March 2014, Heathrow's retail income increased 0.9% to £108 million (2013: £107 million). Net retail income ('NRI') grew 1.0% to £102 million (2013: £101 million) and NRI per passenger rose 0.5% to £6.36 (2013: £6.33).

Three months ended 31 March	**2014 £m**	2013 £m	Change (%)
Car parking	**23**	21	9.5
Duty and tax-free	**27**	27	0.0
Airside specialist shops	**21**	21	0.0
Bureaux de change	**8**	11	(27.3)
Catering	**9**	9	0.0
Other retail income	**20**	18	11.1
Gross retail income	**108**	107	0.9
Retail expenditure	**(6)**	(6)	0.0
Net retail income	**102**	101	1.0

Car parking revenue continued to be strong in the first three months of 2014, growing by 9.5%. Bureaux de change generated lower income than last year, the underperformance relates to the timing in a change of supplier, where an interim arrangement has been in place since late 2013. The new supplier terms are expected to yield benefits from April onwards.

Retail stores including duty and tax-free and luxury outlets performed flat to last year. This partly reflects the commencement of a significant extension of the luxury retail space in Terminal 5 which is expected to cause some disruption to existing activities. As one of the key initiatives to further develop Heathrow's award winning retail activities in the new regulatory period, the extension should deliver growth in retail income. Performance was also likely to have been impacted by the strength of sterling relative to the same period last year and the shift in the Easter holiday peak demand from March in 2013 to April in 2014.

2.2.2.3 Other income

Other income totalled £112 million in the three months ended 31 March 2014 and was unchanged from the same period last year. Gains in income from rail, property rental and operational facilities, were broadly offset by a reduction in income from provision of utilities.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the three months ended 31 March 2014, adjusted operating costs reduced by 7.6% to £257 million (2013: £278 million).

Three months ended 31 March	**2014 £m**	2013 £m	Change (%)
Employment costs	**93**	103	(9.7)
Maintenance expenditure	**40**	42	(4.8)
Utility costs	**23**	25	(8.0)
Rents and rates	**31**	33	(6.1)
General expenses	**64**	69	(7.2)
Retail expenditure	**6**	6	0.0
Total	**257**	**278**	**(7.6)**

Performance in underlying operating costs continues to improve. Costs in the first three months of 2013 were impacted by one-off employment expenses of around £7 million and costs to maintain operations during adverse weather. Stripping out the one-off expenses from 2013, operating costs in the first three months of 2014 reduced by approximately 3.7%.

Employment costs continue to be a focus for the business and major restructuring of Heathrow's corporate centre is mainly complete and delivering benefit. Changes in a major baggage contract implemented in the final quarter of 2013 are delivering benefits in employment costs and general expenses.

Underlying efficiencies in operating costs will continue through 2014, these partially offset the increased costs in rent and rates, utilities and general expenses that will be incurred when operations begin at Terminal 2.

2.2.4 Adjusted EBITDA

In the three months ended 31 March 2014, Adjusted EBITDA increased 31.8% to £319 million (2013: £242 million), resulting in an Adjusted EBITDA margin of 55% (2013: 47%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income and the reduction in operating costs.

2.2.5 Operating result

The Group recorded an operating profit for the three months ended 31 March 2014 of £165 million (2013: £114 million). Reconciliation of Adjusted EBITDA and statutory operating result is provided below.

Three months ended 31 March	**2014 £m**	2013 £m	Change (%)
Adjusted EBITDA	**319**	242	31.8
Depreciation	**(110)**	(116)	(5.2)
Exceptional items	**(44)**	(12)	n/m
Operating profit	**165**	114	44.7

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2.2.6 Exceptional items

In the three months ended 31 March 2014, there was a net exceptional pre-tax charge of £44 million (2013: £12 million) to the profit and loss account.

Three months ended 31 March	**2014** **£m**	2013 £m
Pension	**36**	12
Terminal 2 operational readiness	**8**	-
Exceptional pre-tax charge	**44**	12

A non-cash pension charge of £36 million (2013: £12 million) arose principally from Heathrow's share of the increase in liabilities under the LHR Airports Limited defined benefit pension scheme since 31 December 2013.

In the three months ended 31 March 2014, Terminal 2 operational readiness costs of £8 million were incurred (2013: nil). These are costs which cannot be capitalised and mainly relate to familiarisation, induction and training activities together with operating costs incurred prior to the start of operations.

2.2.7 Taxation

The tax charge for the Group for the three months ended 31 March 2014 was £4 million based on a loss before tax of £15 million. The tax charge has been calculated by applying the forecast annual effective tax rate for each entity to the results for the three months ended 31 March 2014. The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% due to seasonality and permanent differences mainly arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary where those proportions change.

2.3 Cash flow

2.3.1 Summary cash flow

Three months ended 31 March	**2014** **£m**	2013 £m
Net cash inflow from operating activities – continuing	**317**	265
Net cash inflow from operating activities – discontinued	**-**	5
Net cash inflow from operating activities – total	**317**	270
Net interest paid	**(197)**	(167)
Taxation – group relief paid	**(5)**	(6)
Cash flow after interest and tax	**115**	97
Net capital expenditure	**(271)**	(275)
Disposal of Stansted airport	**-**	1,423
Dividends paid	**(65)**	(423)
Net cash (outflow)/inflow before use of liquid resources and financing	**(221)**	822
Management of liquid resources	**75**	(297)
Settlement of accretion on index-linked swaps	**-**	(124)
Movement in borrowings and other financing flows	**135**	(397)
(Decrease)/increase in cash	**(11)**	4

2.3.2 Cash flow from operating activities

Net cash inflow from continuing operations in the three months ended 31 March 2014 increased 19.6% to £317 million (2013: £265 million) which compares with Adjusted EBITDA of £319 million (2013: £242 million).

2.3.3 Capital expenditure

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

In the three months ended 31 March 2014, the cash flow impact of capital investment at Heathrow was £271 million (2013: £275 million of which £3 million related to Stansted). Gross balance sheet additions to fixed assets in the period were £336 million, meaning that £65 million was added to capital creditors. This reflects timing differences between work undertaken on assets and supplier payments. The current high level of capital creditors associated with the completion of Terminal 2 is expected to unwind over 2014.

2.3.4 Restricted payments

In the three months ended 31 March 2014, restricted payments of £92 million were made 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 plc (2013: £450 million including £64 million in quarterly dividends, £51 million to fund interest payments at Heathrow Finance plc and ADI Finance 1 Limited and £300 million related to the sale of Stansted).

2.4 Pension scheme

At 31 March 2014, the LHR Airports Limited defined benefit pension scheme had a deficit of £121 million (31 December 2013: £93 million) as measured under FRS 17, of which £108 million (31 December 2013: £81 million) was attributable to the Group under the Group's shared services agreement with LHR Airports Limited. The increase in the Group's share of the deficit is mainly due to a reduction in the discount rate partially offset by asset returns.

2.5 Recent financing activity

The current focus of the Group's financing activities is to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. Since the start of 2014, Heathrow has closed a £200 million private placement of index-linked bonds, with three tranches maturing in 2032, 2039 and 2049.

As highlighted last year, the Group expects the scale of its funding requirements over the coming years to be an average of less than £1.5 billion per annum. This reflects a reduced capital programme and continued increases in operating cash flow at Heathrow through the new regulatory period ending in 2018.

The Group's funding target for the remainder of 2014 is in the region of £850 million. Proceeds will be used primarily to repay the €750 million bond maturity in September 2014. With Heathrow's new regulatory period now underway, subject to market conditions, the Group intends to return to the debt capital markets in the coming months.

2.6 Financing position

2.6.1 Consolidated net debt and liquidity at Heathrow (SP) Limited

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

During the three months ended 31 March 2014, the Group's nominal net debt increased 2.4% to £11,529 million from £11,264 million at 31 December 2013.

The Group's nominal net debt at 31 March 2014 comprised £10,819 million under bond issues, £25 million of drawings under the Group's revolving credit facilities, £207 million under other loan facilities, £485 million in index-linked derivative accretion and cash at bank and term deposits of £7 million. Nominal net debt comprised £10,104 million in senior net debt and £1,425 million in junior debt.

The accounting value of the Group's net debt at 31 March 2014 was £10,913 million (31 December 2013: £10,712 million), which includes £8 million of cash on the balance sheet.

The average cost of the Group's external gross debt at 31 March 2014 was 4.64% (31 December 2013: 4.53%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 March 2014 was 6.02% (31 December 2013: 6.01%).

At 31 March 2014, the Group had approximately £2.1 billion in undrawn loan facilities and cash resources which, together with expected operating cash flow over the period, is expected to provide sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and distributions, until early 2016.

2.6.2 Consolidated net debt at Heathrow Finance plc

Taking into account the Group's nominal net debt discussed in section 2.6.1, together with £763 million of gross debt and £4 million of cash held at Heathrow Finance, Heathrow Finance's consolidated nominal net debt at 31 March 2014 was £12,288 million, an increase of 2.2% from £12,025 million at 31 December 2013.

2.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 31 March 2014 was £14,853 million compared to £14,585 million at 31 December 2013. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The increase in Heathrow's RAB during the three months ended 31 March 2014 reflected the addition of approximately £340 million in capital expenditure and indexation adjustments of around £80 million. The increases were partially offset by regulatory depreciation of around £150 million.

Of the £5.9 billion capital investment added to the RAB during the Q5 regulatory period, the CAA has disallowed £32 million from being included in the RAB. This will be reflected in RAB figures published for June 2014 onwards.

2.6.4 Net interest payable and net interest paid

In the three months ended 31 March 2014, the Group's net interest payable was £180 million (2013: £606 million) and net interest paid was £197 million (2013: £167 million). A reconciliation from interest payable on the profit and loss account to interest paid on the cash flow statement is provided below.

Three months ended 31 March	**2014 £m**	2013 £m
Net interest payable and similar charges	**180**	606
Fair value loss on financial instruments	**(28)**	(433)
Amortisation of financing fees and fair value adjustments	**(8)**	(13)
Interest capitalised	**49**	34
Underlying net interest payable	**193**	**194**
Non-cash accretion on index-linked instruments	**(43)**	(53)
Other movements	**47**	26
Net interest paid	**197**	**167**

Underlying net interest payable was £193 million (2013: £194 million) after adjusting for the fair value loss on financial instruments of £28 million (2013: £433 million loss); capitalised interest of £49 million (2013: £34 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £8 million (2013: £13 million).

The difference between underlying net interest payable and net interest paid is primarily accounted for by non-cash accretion on index-linked instruments of £43 million (2013: £53 million) offset by other movements.

Net interest paid in the period was £197 million (2013: £167 million) of which £170 million (2013: £140 million) was paid in relation to external debt. The increase in net interest paid on external debt mainly reflects timing of coupon payments which fell into April in 2013 and March in 2014. The remaining £27 million (2013: £27 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

2.6.5 Financial ratios

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

At 31 March 2014, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.0% and 77.6% respectively (31 December 2013: 67.6% and 77.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 82.7% (31 December 2013: 82.4%) compared to a covenant level of 90.0% under its financing agreements.

2.7 Outlook

The Group delivered a strong operational and financial performance in the first quarter of 2014.

Since the CAA published its final decision for the regulatory period that commenced on 1 April 2014, the Group has reassessed the outlook for 2014 including trading in the early months, the impact of the change in the regulatory year-end from 31 March to 31 December and finalising plans to meet the regulatory settlement.

As a result the Group now expects Adjusted EBITDA for 2014 to be slightly higher on a like for like basis to the figure disclosed in the December 2013 investor report which would have been £1,513 million after reclassifying the forecast Terminal 2 operational readiness costs as exceptional items.

As previously highlighted, the phasing of Adjusted EBITDA in 2014 will differ from the normal pattern partly as this year's tariff increase has been deferred from April to July given the proximity of the CAA's final decision to the start of the new regulatory period. Further, Terminal 2 is due to open in June 2014 from when the Group's operating costs will increase. Reflecting these factors, a substantial proportion of 2014's forecast increase in Adjusted EBITDA versus 2013 has been delivered in the first quarter with the remainder expected to fall largely in the second half of the year.

Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated profit and loss account for the three months ended 31 March 2014

	Note	**Unaudited Three months ended 31 March 2014 £m**	Restated[1,2] Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Turnover – continuing operations		**576**	520	2,474
Turnover – discontinued operations		**-**	32	32
Total turnover	*1*	**576**	552	2,506
Operating costs – ordinary: continuing operations		**(367)**	(394)	(1,501)
Operating costs – ordinary: discontinued operations		**-**	(32)	(32)
Total operating costs - ordinary	*2*	**(367)**	(426)	(1,533)
Operating costs – exceptional: other continuing operations		**(8)**	-	(38)
Operating costs – exceptional: pensions continuing operations		**(36)**	(12)	(76)
Total operating costs – exceptional	*3*	**(44)**	(12)	(114)
Total operating costs		**(411)**	(438)	(1,647)
Operating profit – continuing operations		**165**	114	859
Operating profit – discontinued operations		**-**	-	-
Total operating profit	*1*	**165**	114	859
Gain on disposal of Stansted		**-**	294	292
Interest receivable and similar income		**60**	62	236
Interest payable and similar charges		**(212)**	(233)	(880)
Fair value loss on financial instruments		**(28)**	(433)	(81)
Net interest payable and similar charges	*4*	**(180)**	(604)	(725)
(Loss)/profit on ordinary activities before taxation		**(15)**	(196)	426
Tax (charge)/credit on (loss)/profit on ordinary activities	*5*	**(4)**	108	(37)
(Loss)/profit on ordinary activities after taxation		**(19)**	(88)	389

[1] Operating costs and interest receivable and similar income for the three months ended 31 March 2013 have been restated following a change in accounting policy as explained in the accounting policies note.

[2] For the three months ended 31 March 2013, an amount relating to Stansted airport's share of the Group's pension obligations has been re-presented as gain on disposal from operating costs – exceptional: pensions discontinued.

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Consolidated balance sheet
as at 31 March 2014

	Note	**Unaudited 31 March 2014 £m**	Unaudited 31 March 2013 £m	Audited 31 December 2013 £m
Fixed assets				
Tangible fixed assets		**13,117**	11,974	12,830
Financial assets – derivative financial instruments		**117**	403	165
Total fixed assets		**13,234**	12,377	12,995
Current assets				
Stocks		**9**	8	9
Debtors		**272**	317	352
Financial assets – derivative financial instruments		**132**	1	135
Current asset investments		**-**	329	75
Restricted cash		**-**	39	-
Cash at bank and in hand		**8**	10	19
Total current assets		**421**	704	590
Current liabilities				
Creditors: amounts falling due within one year	*6*	**(1,343)**	(1,213)	(1,449)
Net current liabilities		**(922)**	(509)	(859)
Total assets less current liabilities		**12,312**	11,868	12,136
Creditors: amounts falling due after more than one year	*6*	**(12,435)**	(12,531)	(12,213)
Deferred tax		**(150)**	-	(148)
Provisions for liabilities		**(151)**	(106)	(127)
Net liabilities		**(424)**	(769)	(352)
Capital and reserves				
Called up share capital		**11**	11	11
Share premium reserve		**499**	499	499
Revaluation reserve		**473**	428	461
Merger reserve		**(3,758)**	(3,758)	(3,758)
Fair value reserve		**(310)**	(454)	(310)
Profit and loss reserve	*7*	**2,661**	2,505	2,745
Total shareholder's deficit		**(424)**	(769)	(352)

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Consolidated summary cash flow statement for the three months ended 31 March 2014

	Note	**Unaudited Three months ended 31 March 2014 £m**	Restated Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Operating profit - continuing operations	*1*	**165**	114	859
Adjustments for:				
Depreciation		**110**	116	448
Working capital changes:				
Decrease/(increase) in stock and debtors		**46**	10	(19)
(Decrease)/increase in creditors		**(35)**	16	72
Net utilisation of provisions		**(1)**	(1)	(4)
Difference between pension charge and cash contributions		**(4)**	(2)	(29)
Exceptional pension charge		**36**	12	76
Net cash inflow from operating activities - continuing		**317**	265	1,403
Net cash inflow from operating activities - discontinued		**-**	5	5
Total net cash inflow from operating activities		**317**	270	1,408
Net interest paid		**(197)**	(167)	(521)
Taxation – group relief paid		**(5)**	(6)	(28)
Net capital expenditure		**(271)**	(275)	(1,285)
Disposal of Stansted Airport Limited		**-**	1,423	1,410
Dividends paid	*7*	**(65)**	(423)	(661)
Net cash (outflow)/inflow before use of liquid resources and financing		**(221)**	822	323
Management of liquid resources		**75**	(297)	(43)
Issuance of bonds	*6*	**200**	-	745
Repayment of bonds	*6*	**-**	-	(396)
Net repayment of revolving credit facilities	*6*	**(55)**	(307)	(227)
Repayment of facilities and other financing items	*6*	**(10)**	(90)	(214)
Increase in amount owed to Heathrow Finance plc	*6*	**-**	-	4
Settlement of accretion on index-linked swaps		**-**	(124)	(177)
Cancellation and restructuring of derivatives		**-**	-	(2)
Net cash inflow/(outflow) from financing		**135**	(521)	(267)
(Decrease)/increase in cash		**(11)**	4	13

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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 2013 or any other period. Statutory financial statements for the year ended 31 December 2013 have been filed with the Registrar of Companies on 18 March 2014. The annual financial information presented herein for the year ended 31 December 2013 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2013. The auditors' report on the 2013 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation
The consolidated financial statements of Heathrow (SP) Limited have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2013 with the exception of tax accounting (see note 5) which is in accordance with the United Kingdom Accounting Standards Board's : 'Half-Yearly Financial Reports'.

Change in accounting policy
For the 31 December 2013 year end financial statements it was considered appropriate to amend the presentation of the net of the interest cost and the expected return on assets relating to the defined benefit pension scheme in the profit and loss account. Previously the amount was presented as a component of employment costs, but it was considered to provide greater clarity and was consequently more appropriate for the amount to be included as a component of interest.

The profit and loss account for the three months ended 31 March 2013 has been restated to reflect this change, increasing employment costs and reducing interest cost by £2 million compared to the amounts previously reported and reducing operating profit to £114 million from £116 million. The impact on the three months ended 31 March 2014 has been to increase employment costs and reduce interest cost and operating profit by £3 million. Similarly the impact on the year ended 31 December 2013 was to increase employment costs and reduce interest cost by £7 million. There has been no impact on the balance sheet or cash flows of the Group from this change in presentation.

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

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2014

1 Segment information

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

Turnover	**Unaudited Three months ended 31 March 2014 £m**	Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Aeronautical income	**356**	301	1,523
Retail income	**108**	107	487
Operational facilities and utilities income	**40**	42	165
Property rental income	**26**	25	104
Rail income	**30**	29	124
Other income	**16**	16	71
Turnover – continuing operations	**576**	520	2,474
Turnover – discontinued operations	**-**	32	32
Total turnover	**576**	552	2,506

Reconciliation of Adjusted EBITDA and operating profit

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

Unaudited Three months ended 31 March 2014	**Adjusted EBITDA £m**	**Operating exceptional items £m**	**Depreciation £m**	**Operating profit £m**
Heathrow	**319**	**(44)**	**(110)**	**165**

Restated Unaudited Three months ended 31 March 2013	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	242	(12)	(116)	114
Stansted - discontinued operations	7	-	(7)	-
Total	249	(12)	(123)	114

Audited Year ended 31 December 2013	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow - continuing operations	1,421	(114)	(448)	859
Stansted - discontinued operations	7	-	(7)	-
Total	1,428	(114)	(455)	859

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2014

2 Operating costs – ordinary

	Unaudited Three months ended 31 March 2014 £m	Restated Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Employment costs	**93**	103	392
Maintenance expenditure	**40**	42	164
Utility costs	**23**	25	85
Rents and rates	**31**	33	116
General expenses	**64**	69	270
Retail expenditure	**6**	6	26
Depreciation	**110**	116	448
Operating costs – ordinary: continuing operations	**367**	394	1,501
Operating costs – ordinary: discontinued operations	**-**	32	32
Total operating costs – ordinary	**367**	426	1,533

3 Operating and non-operating exceptional items

Operating costs – exceptional: other

Operational readiness costs of £8 million (three months ended 31 March 2013: £nil; year ended 31 December 2013: £16 million) are associated with managing the opening of Terminal 2 and primarily are for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 moves from the construction phase to the operational phase.

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

Operating costs – exceptional: pension

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

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

For the three months ended 31 March 2014 an exceptional pension charge of £36 million was incurred relating to continuing operations (three months ended 31 March 2013: £12 million; year ended 31 December 2013: £76 million).

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Notes to the consolidated financial information for the three months ended 31 March 2014

4 Net interest payable and similar charges

	Unaudited Three months ended 31 March 2014 £m	Restated Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Interest receivable and similar income			
Interest receivable on derivatives not in hedge relationship	**57**	60	227
Pension finance income	**3**	2	7
Interest on money market and bank deposits	**-**	-	2
	60	62	236
Interest payable and similar charges			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(145)**	(142)	(575)
Bank loans and overdrafts and related hedging instruments	**(18)**	(30)	(107)
Interest payable on derivatives not in hedge relationship[2]	**(81)**	(77)	(290)
Facility fees and other charges	**(4)**	(4)	(16)
Interest on debenture payable to Heathrow Finance plc	**(13)**	(14)	(55)
Unwinding of discount on provisions	**-**	-	(1)
	(261)	(267)	(1,044)
Less capitalised interest[3]	**49**	34	164
	(212)	(233)	(880)
Net interest payable before fair value loss	**(152)**	(171)	(644)
Fair value loss on financial instruments			
Interest rate swaps: cash flow hedge[4]	**2**	4	23
Interest rate swaps: not in hedge relationship	**(29)**	1	54
Index-linked swaps: not in hedge relationship[5]	**(4)**	(437)	(147)
Cross-currency swaps: cash flow hedge[4]	**2**	(3)	2
Cross-currency swaps: fair value hedge[4]	**1**	1	(14)
Fair value re-measurements of foreign exchange contracts and currency balances	**-**	1	1
	(28)	(433)	(81)
Net interest payable and similar charges	**(180)**	(604)	(725)

1 Includes accretion of £6 million (three months ended 31 March 2013: £5 million; year ended 31 December 2013: £20 million) on index-linked bonds.

2 Includes accretion of £37 million (three months ended 31 March 2013: £48 million; year ended 31 December 2013: £182 million) on index-linked swaps.

3 Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 6.06% (three months ended 31 March 2013: 5.86%; year ended 31 December 2013: 6.04%) to expenditure incurred on such assets.

4 Hedge ineffectiveness on derivatives in hedge relationship.

5 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 2014

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

	Unaudited Three months ended 31 March 2014 £m	Unaudited Three months ended 31 March 2013 £m	Audited Year ended 31 December 2013 £m
Current tax credit/(charge) on ordinary activities	**-**	9	(22)
Deferred tax (charge)/credit on ordinary activities	**(4)**	99	(43)
Change in UK Corporation tax rate – impact on deferred tax	**-**	-	28
Total tax (charge)/credit on (loss)/profit on ordinary activities	**(4)**	108	(37)

The tax charge for the three months ended 31 March 2014 results in a negative effective tax rate of 28.8%, reflecting the tax charge arising on ordinary activities of £4 million. The tax charge has been calculated by applying the forecast annual effective tax rate for each entity to the results for the three months ended 31 March 2014. The effective tax rate for the period differs from the UK statutory rate of corporation tax of 21.5% due to seasonality and permanent differences mainly arising from non-qualifying depreciation. The effective tax rate for the Group reflects the proportionate contribution of each entity's results in each interim accounting period and will vary where those proportions change.

For the three months ended 31 March 2013, the effective tax rate was 55.1%, reflecting the tax credit arising on ordinary activities of £108 million.

For the year ended 31 December 2013, the effective tax rate was 8.7%, reflecting the tax charge arising on ordinary activities of £65 million and a tax credit of £28 million due to the reductions in the rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These reductions were enacted in the Finance Act 2013 on 17 July 2013 and as a result the Group's deferred tax balances were re-measured during the year ended 31 December 2013 at a rate of 20%.

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

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2014

6 Borrowings and financial derivatives

	Unaudited 31 March 2014 £m	Unaudited 31 March 2013 £m	Audited 31 December 2013 £m
Current borrowings			
Secured			
Bank loans	**39**	39	39
Bonds:			
5.850% £400 million due 2013	**-**	391	-
4.600% €750 million due 2014	**555**	-	564
Total current borrowings	**594**	430	603
Non-current borrowings			
Secured			
Revolving credit facilities	**25**	-	80
Other bank loans	**166**	255	175
	191	255	255
Secured			
Bonds:			
4.600% €750 million due 2014	**-**	584	-
3.000% £300 million due 2015	**299**	299	299
2.500% US$500 million due 2015	**299**	328	301
12.450% £300 million due 2016	**329**	341	332
4.125% €500 million due 2016	**403**	408	405
4.375% €700 million due 2017	**576**	588	581
2.500% CHF400 million due 2017	**270**	276	271
4.600% €750 million due 2018	**574**	578	576
6.250% £400 million due 2018	**398**	400	398
4.000% CAD 400 million due 2019	**215**	256	225
6.000% £400 million due 2020	**396**	396	396
9.200% £250 million due 2021	**268**	283	266
4.875% US$1,000 million due 2021	**612**	702	612
1.650%+RPI £180 million due 2022	**190**	185	189
5.225% £750 million due 2023	**643**	634	640
7.125% £600 million due 2024	**589**	588	588
6.750% £700 million due 2026	**691**	690	691
7.075% £200 million due 2028	**198**	198	198
6.450% £900 million due 2031	**847**	866	845
Zero-coupon €50 million due January 2032	**45**	44	45
1.366%+RPI £75 million due 2032	**75**	-	-
Zero-coupon €50 million due April 2032	**45**	44	45
3.334%+RPI £460 million due 2039	**566**	552	562
1.382%+RPI £50 million due 2039	**50**	-	-
5.875% £750 million due 2041	**741**	750	740
4.625% £750 million due 2046	**742**	-	742
1.372%+RPI £75 million due 2049	**75**	-	-
	10,136	9,990	9,947
Unsecured			
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	**871**	868	871
Total non-current borrowings	**11,198**	11,113	11,073
Total borrowings	**11,792**	11,543	11,676

Within Creditors: amounts falling due within one year are financial derivatives of £3 million (31 March 2013: £41 million; 31 December 2013: £2 million). Within Creditors: amounts falling due after more than one year are financial derivatives of £1,234 million (31 March 2013: £1,415 million; 31 December 2013: £1,137 million).

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2014

7 Dividends

During the period ended 31 March 2014, Heathrow (SP) Limited paid a dividend of £65 million to Heathrow Finance plc on 21 February 2014 (31 December 2013: Heathrow (SP) Limited paid dividends which funded £204 million in quarterly dividends to Heathrow (SP) Limited's ultimate shareholders, a £300 million one-off return relating to the sale of Stansted and £157 million related to the servicing of external debt at Heathrow (SP) Limited's holding companies and rebalancing the amount of external debt between Heathrow (SP) Limited's holding companies and subsidiaries. These dividends, totalling £661 million, comprised: £24 million on 24 January 2013, £99 million on 14 February 2013, £300 million on 15 March 2013, £64 million on 27 June 2013, £83 million on 11 July 2013, £48 million on 18 September 2013 and £43 million on 20 December 2013).