

News release

28 October 2015

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Heathrow (SP) Limited

Results for the nine months ended 30 September 2015

- Demand at Heathrow continues to grow with traffic up 2.3% to a record 56.9 million passengers
- Service quality well ahead of other European hubs during a record summer with five separate days where Heathrow welcomed over a quarter of a million passengers per day
- Robust financial results with revenue up 4.1% to £2.1 billion and EBITDA up 4.4% to £1.2 billion
- Continued focus on delivering operating efficiencies: successful consultation on pension changes has reduced costs, enabling continuation of final salary scheme
- Strong momentum for expansion. Heathrow is ready to get on quickly to deliver economic growth and jobs for Britain

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

Nine months ended 30 September	2015	2014	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	2,068	1,986	4.1
Adjusted EBITDA ⁽¹⁾	1,224	1,172	4.4
Cash generated from operations	1,156	1,112	4.0
Cash flow after investment and interest ⁽²⁾	177	(48)	n.m
Pre-tax profit	552	73	n.m
Heathrow (SP) Limited consolidated net debt ⁽³⁾	11,720	11,653	0.6
Heathrow Finance plc consolidated net debt ⁽³⁾	12,720	12,560	1.3
Regulatory Asset Base ⁽³⁾	14,891	14,860	0.2
Passengers (m) ⁽⁴⁾	56.9	55.7	2.3
Net retail income per passenger ⁽⁴⁾	6.66	6.34	5.0

Notes (1) to (4) see page 2.

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

“Expansion at Heathrow fills the gap in the UK’s long-term economic plan, by connecting all of Britain to global growth.

“Today’s strong set of results demonstrates that we’re moving closer to our goal of giving passengers the best airport service in the world and that we’re well-placed to make the private investment to fund expansion. Let’s make it happen.”

Notes

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items
- (2) Cash flow after investment and interest is cash generated from operations after net capital expenditure 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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Heathrow

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A conference call will be held for creditors and credit analysts on 28 October 2015 at 3.00pm (UK time), 4.00pm (Central European time), 11.00am (Eastern Standard Time), hosted by Michael Uzielli, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077.
Participant PIN code: 93545870#

The presentation can be viewed at the Heathrow Investor Centre at heathrow.com and online during the event, using event password: 655462 at: <https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=m1300b0f341b255dcae00de7fd1ec493a>

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Any reference to "Heathrow" means Heathrow (SP) Limited (a company registered in England and Wales, with company number 6458621) and will include its parent company, subsidiaries and subsidiary undertakings from time to time, and their respective directors, representatives or employees and/or any persons connected with them.

Heathrow (SP) Limited

Consolidated results for the nine months ended 30 September 2015

Contents

1	Key business developments.....	3
1.1	Passenger traffic.....	3
1.2	Transforming customer service	4
1.3	Beating the plan.....	5
1.4	Investing in Heathrow	5
1.5	Responsible Heathrow	6
1.6	Winning support for expansion	6
2	Financial review.....	8
2.1	Basis of presentation of financial results	8
2.2	Income statement	8
2.3	Cash flow	11
2.4	Pension scheme	13
2.5	Recent financing activity.....	13
2.6	Financing position.....	13
2.7	Outlook	15
	Appendix 1 – Financial information	16
	Consolidated income statement	16
	Consolidated statement of comprehensive income	17
	Consolidated statement of financial position	18
	Consolidated statement of changes in equity.....	19
	Consolidated statement of cash flows.....	20
	General information and accounting policies	21
	Notes to the consolidated financial information.....	22

1 Key business developments

1.1 Passenger traffic

Heathrow's passenger traffic by geographic segment for the nine months ended 30 September 2015:

<i>(Millions)</i>	2015	2014	Change (%) ⁽¹⁾
UK	4.0	3.9	0.8
Europe	23.7	22.8	4.0
North America	13.1	12.9	1.4
Asia Pacific	7.9	7.9	(0.4)
Middle East	4.8	4.6	5.5
Africa	2.5	2.7	(6.6)
Latin America	0.9	0.8	8.9
Total passengers⁽¹⁾	56.9	55.7	2.3

(1) Calculated using unrounded data

For the nine months ended 30 September 2015, traffic grew 2.3% to 56.9 million passengers (2014: 55.7 million). There was a 2.0% increase in the average number of seats per aircraft to 208.1 (2014: 204.0). The average load factor was 76.9% (2014: 77.2%), reflecting the increase in seat capacity. The summer period was particularly strong and, in the three months ended 30 September 2015, 21.4 million passengers used Heathrow, a rise of 3.9% compared with the same period last year.

European traffic accounts for a significant proportion of the growth in 2015, with almost one million more passengers than in the first nine months of 2014. The increase is largely driven by British Airways' success in filling its substantially increased short haul seat capacity. Domestic traffic increased 0.8%.

Intercontinental traffic was up 1.0%, with more flights operated and on average more seats per flight. A380 long haul aircraft now account for over 20 arrivals and departures per day by eight airlines. Traffic on routes serving the Middle East grew 5.5% reflecting more flights and larger aircraft, whilst increased North American frequencies led to 1.4% more traffic. Latin American traffic grew 8.9% mainly reflecting Avianca's new route to Colombia. The slight reduction on Asia Pacific routes partly reflects the impact of competition from other international hubs, although there was significant growth on routes serving China and Hong Kong, where traffic increased 7.3%. In March, Vietnam Airlines moved its London operations from Gatwick to Heathrow, following Air China's switch last year.

Over a quarter of UK exports by value pass through Heathrow. Cargo volume passing through Heathrow was 1.1 million metric tonnes, in line with last year. Growth in cargo from routes serving North America offset reductions from the Middle East and Asia Pacific regions.

1.2 Transforming customer service

In 2015, Heathrow has delivered its best ever passenger service with 81% of passengers surveyed rating their overall experience as 'Excellent' or 'Very Good' (2014: 77%). For a seventh consecutive quarter Heathrow has achieved a service quality score above 4.00 whilst increasing passenger numbers. The independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI) puts Heathrow well ahead of major European hub airports. The result reflects strong overall operational performance and high levels of satisfaction across key passenger service attributes.

Heathrow continues to be recognised for its high standards, most recently receiving the '2015 Airport of the Year' award at the Independent Travel Awards. The Independent Travel Awards combined thousands of public votes and an expert panel of judges to select the winners. In March 2015, Heathrow was named 'Best Airport in Western Europe' for the first time at the Skytrax World Airport Awards. The 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. Heathrow was also awarded ACI Europe's prestigious Best Airport Award for the second time.

Improvements have been made to ease passengers' journeys through the airport with significant capital investment in security and baggage to ease the flow of passengers and facilitate seamless transfers between terminals. In immigration, 15 new generation biometric electronic passport gates have been installed across Heathrow, enabling a more efficient and secure clearance through Border Control.

As part of the focus on increasing the resilience of operations, the first two of four new enhanced Instrument Landing Systems (eILS) have been implemented at Heathrow, the first UK airport to adopt the new system. The eILS is based on new navigation technology and provides Heathrow with the capability to increase the number of aircraft that can land in low visibility giving improved safety, resilience and punctuality to airfield operations. Heathrow is also the world's first airport to introduce a system to separate arriving aircraft by time rather than distance. This system improves the airport's performance on windy days enabling a more complete schedule, better punctuality and fewer disrupted passengers.

Heathrow has had its busiest days ever in 2015 and achieved strong levels of service performance in the first nine months of the year. In relation to individual service standards, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 77.2% (2014: 79.2%) and the baggage misconnect rate was 19 per 1,000 passengers (2014: 19). The main challenges for punctuality during the period were restrictions and delays in European airspace. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.4% of the time (2014: 95.8%) compared with a 95% service standard.

1.3 Beating the plan

At the same time as transforming customer service, Heathrow is focused on beating the business plan for the 2014-2018 regulatory period by delivering an ambitious programme of efficiencies and increased revenue. This programme aims to enhance Heathrow's competitive position and deliver an appropriate return for its financial stakeholders.

Heathrow has performed well in the regulatory period to date, making a fast start in implementing efficiency and revenue initiatives. By the end of 2014, Heathrow had secured cost efficiencies expected to be worth £280 million over the settlement period out of a target of over £600 million and revenue initiatives forecast to generate an additional £100 million over the period.

Progress has continued in 2015 including the early closure of Terminal 1, improvements to pension costs, enhancements to security productivity and initiatives to improve energy consumption. In April, Heathrow entered into a 10 year strategic partnership agreement with NATS to incentivise improved resilience, noise and punctuality performance whilst reducing costs. A voluntary severance scheme and revised new entrant pay levels within the security operations were introduced in 2015. At the end of October over 250 security officers will have left Heathrow as part of this initiative.

Following consultation, changes were implemented to the terms of the company's defined benefit pension scheme which reduce ongoing costs and enable the scheme to remain open. The changes, which apply to the scheme's active members, include introduction of an annual cap on future increases to pensionable pay, a lower benefit accrual rate and a cap on annual increases to pension payments at retirement.

Taking these initiatives into account, the cost efficiencies secured for the regulatory period are estimated to be almost £400 million, which is strong progress towards the £600 million target. However, given the pressure on revenues from the low inflation environment, Heathrow is driving for further efficiencies across all areas of its business to achieve its objective of beating the plan.

1.4 Investing in Heathrow

Heathrow invested £450 million in the first nine months of 2015 on programmes to improve the passenger experience and airport resilience, as part of the £650 million capital expenditure plan for 2015.

For passengers, the focus has been on delivering faster and smoother journeys through the airport. The Terminal 3 Integrated Baggage facility continues to transition airline baggage operations onto the system through to May 2016. Passengers will benefit from increased baggage connection reliability and the ability to check bags in earlier and it is a key step in moving Heathrow towards the goal of fully integrated and inter-connected baggage facilities across all terminals. Heathrow completed its introduction of parallel loading security lanes in Terminals 4 and 5 and has increased the number of body scanners. These enhancements speed up the time to pass through security.

The retail offer in Terminal 5 has been enhanced, giving passengers even greater choice, with new luxury outlets including Louis Vuitton and Bottega Veneta. This project received the award for Best Retail Architecture in London at the UK Property Awards.

On the airfield, improvements have been made to meet increased airline demand for operating A380 aircraft at Heathrow. In June, further taxiways were opened to A380 aircraft and work to widen additional taxiways to the north of the airfield is due for completion at the end of the year. This investment will drive significant improvement in taxi times and reduce emissions and congestion. A significant programme is in progress to refurbish and enhance the passenger road access tunnels into the central terminal area. Works largely take place overnight and will be complete in late 2016. The programme includes further strengthening of the tunnels as well as improved lighting and more efficient ventilation.

1.5 Responsible Heathrow

Responsible Heathrow 2020 sets the ambition for Heathrow to become one of the most responsible airports in the world. Heathrow has made significant progress in recent years and in June Heathrow was awarded the Eco-Innovation Award by ACI Europe. This award commended Heathrow for the progress made in reducing emissions from the airport. The award also recognises Heathrow for having the world's largest single-site car sharing scheme, the UK's first publicly accessible hydrogen refuelling site and an unrivalled public transport system linking passengers to surrounding communities and central London.

Heathrow's Blueprint for Reducing Emissions sets out a ten-point plan for working with partners to reduce emissions from aircraft, vehicles and buildings, as well as being a catalyst for meeting EU and UK Government air quality limits in the local area around Heathrow. Over the last five years, Heathrow has reduced total nitrogen oxides (NOx) emissions by 16% and Heathrow is leading the way for the airport community by cutting emissions from its own fleet vehicles, changing diesel pool cars to full battery electric cars and installing electric vehicle infrastructure in 2015. In September 2015, Heathrow signed an open letter calling for governments to support the aviation industry approach to climate change, including improved efficiency in air traffic management, accelerating research for alternative fuels and new technology. Heathrow continues to drive down energy demand and costs through energy efficient technology and building management systems while developing innovative, high performance low cost and carbon energy supply options for Heathrow's future.

Heathrow's Blueprint for Noise Reduction sets the challenge for Heathrow and its partners to collaborate to be quieter, sooner. In 2015, over 99% of movements were operated by the quietest category of aircraft. Revenue from fines for aircraft breaching noise levels is invested in local communities via the Heathrow Community Fund. In September 2015, trials began for aircraft to operate a steeper approach angle at Heathrow. This requires no modifications to aircraft equipment or specific pilot training. The trial is approved by the CAA and is planned to run until March 2016. Recent experience at Frankfurt airport has indicated that slightly steeper approach angles may reduce noise for people living nearby.

1.6 Winning support for expansion

On 1 July 2015, the Airports Commission clearly and unanimously recommended Heathrow's new North West runway plan, following three years of extensive and robust consultation, evidence gathering and analysis. It recognises the unique role that Heathrow plays as Britain's only hub airport. The Commission recommended that Heathrow expansion is the only solution to help British businesses compete for global growth and support a truly national recovery built on exports, skills and investment. The Commission also confirmed that Heathrow's new plan can be delivered while reducing its local and environmental impacts. It confirmed that it can be delivered within carbon and air quality limits and with significantly fewer people impacted by aircraft noise than today.

Support for Heathrow's expansion continues to grow. More people in the twelve constituencies local to the airport (Populus August 2015) support expansion than oppose expansion, as do local authorities Spelthorne and Slough and over 100,000 members of the campaign group Back Heathrow. British business strongly supports expansion at Heathrow, including the British Chambers of Commerce, more than 30 local Chambers of Commerce from across the whole of the UK as well as high profile UK business groups including the Confederation of British Industry, Institute of Directors, CityUK, Federation of Small Business and London First.

Only Heathrow can connect the whole of the UK with the growing markets of the world. Today, Heathrow has 82 long-haul connections, one of only six airports in the world that have regular flights to over 50 long-haul destinations. With expansion, Heathrow can support up to 40 new long-haul connections to emerging growth markets around the world. The economic benefit to the UK of expanding Heathrow is up to £211 billion, creating 180,000 jobs nationally, 40,000 new jobs locally and double the number of apprenticeships to 10,000 opportunities.

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 Heathrow's expansion proposal is expected to involve privately funded investment of £16 billion. Heathrow intends to fund the expansion as an integral part of the existing business through its established and scalable financing platform and intends to target its current investment grade credit ratings. The major funding requirement is not expected until planning consent is obtained, which is expected by 2020, with the new runway operational from 2025.

The CAA has published a note on its current thinking with respect to regulatory issues of airport expansion, reflecting the long-term nature of capacity expansion and the need to provide an appropriate degree of regulatory certainty. Following a clear indication from Government that capacity expansion will take place at Heathrow, the CAA will first seek to consult with stakeholders on any developments to the current regulatory structure, before engaging in statutory consultation on any necessary changes to provide longer term certainty.

Heathrow is preparing to deliver expansion. Local surveys of road traffic have started and the potential supply chain has been engaged to identify current and future skills requirements. Heathrow will continue to work with communities, airlines and all stakeholders to build on the Airports Commission's clear recommendation for Heathrow's expansion.

The Government is reviewing the Airports Commission's recommendation and is expected to respond by the end of the year.

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').

Heathrow (SP) consolidated accounts are prepared under International Financial Reporting Standards ('IFRS'). From 1 January 2015 the Group changed its treatment of actuarial gains and losses on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit pension scheme. Net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement. See Basis of preparation in Appendix 1 for further information.

2.2 Income statement

2.2.1 Overview

In the nine months ended 30 September 2015 the Group earned a £419 million profit after tax (2014: £49 million).

Nine months ended 30 September	2015 £m	2014 £m
Revenue	2,068	1,986
Operating costs before depreciation and amortisation	(844)	(814)
Adjusted EBITDA⁽¹⁾	1,224	1,172
Exceptional items	232	(111)
Depreciation and amortisation	(513)	(387)
Operating profit before certain re-measurements	943	674
Fair value gain on investment properties (certain re-measurements)	62	16
Operating profit	1,005	690
Net finance costs before certain re-measurements	(525)	(600)
Fair value gain/(loss) on financial instruments	72	(17)
Net finance costs	(453)	(617)
Profit before taxation	552	73
Taxation	(133)	(24)
Profit after taxation	419	49

(1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items

2.2.2 Revenue

In the nine months ended 30 September 2015, revenue totalled £2,068 million (2014: £1,986 million).

Nine months ended 30 September	2015 £m	2014 £m	Change (%)
Aeronautical income	1,299	1,261	3.0
Retail income	393	371	5.9
Other income	376	354	6.2
Total revenue	2,068	1,986	4.1

2.2.2.1 Aeronautical income

In the nine months ended 30 September 2015, aeronautical income increased 3.0% to £1,299 million (2014: £1,261 million) and the average aeronautical income per passenger increased 0.7% to £22.82 (2014: £22.66).

Traffic growth contributed £29 million to the increase in aeronautical income and tariff changes contributed £16 million. The non-recurrence of the significant K factor recovery in the second half of last year largely offset the non-repeat of capital triggers and rebates in the first half of last year.

The rate of growth slowed in the third quarter reflecting the delay in tariff changes at the start of the regulatory period, which resulted in nine months of tariff changes being collected over the final six months of 2014, together with the absence of the significant K factor recovery of last year.

2.2.2.2 Retail income

In the nine months ended 30 September 2015, retail income increased 5.9% to £393 million (2014: £371 million). Net retail income ('NRI') grew 7.4% to £379 million (2014: £353 million) and NRI per passenger rose 5.0% to £6.66 (2014: £6.34).

Nine months ended 30 September	2015 £m	2014 £m	Change (%)
Car parking	80	73	9.6
Duty and tax-free	93	94	(1.1)
Airside specialist shops	75	68	10.3
Bureaux de change	37	32	15.6
Catering	34	29	17.2
Other retail income	74	75	(1.3)
Gross retail income	393	371	5.9
Retail expenditure	(14)	(18)	(22.2)
Net retail income	379	353	7.4

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

Growth in airside specialist shops has been strong throughout 2015, with double-digit growth in luxury store income following the successful opening of the redeveloped luxury retail stores in Terminal 5. Brands including Louis Vuitton, Cartier, Rolex, Fortnum & Mason, Bottega Veneta and Hermes further strengthen Heathrow's unrivalled airport shopping experience. Performance in duty and tax free stores was impacted in part by the store redevelopment in Terminal 5 which, now open, will deliver benefit through the remainder of 2015.

Catering has performed strongly, driven mainly by enhancements in Terminal 5 and the strong offering in Terminal 2 which includes The Perfectionists' Café, created by multi-award winning chef Heston Blumenthal, and YO! Sushi.

2.2.2.3 Other income

In the nine months ended 30 September 2015, other income increased 6.2% to £376 million (2014: £354 million). The increase was driven by growth in utility charges and higher property rental income following the opening of Terminal 2. In addition, Heathrow Express is stimulating demand through an increased product range including advance purchase tickets and promotions such as 'Kids Go Free'.

2.2.3 Adjusted operating costs

In the nine months ended 30 September 2015, adjusted operating costs increased 3.7% to £844 million (2014: £814 million). Adjusted operating costs exclude depreciation, amortisation and exceptional items.

Nine months ended 30 September	2015 £m	2014 £m	Change (%)
Employment costs	291	286	1.7
Maintenance expenditure	140	128	9.4
Utility costs	69	70	(1.4)
Rent and rates	104	98	6.1
General expenses	226	214	5.6
Retail expenditure	14	18	(22.2)
Total	844	814	3.7

Cost control has been strong in 2015, with a small decrease in underlying costs. Overall costs reflect around £46 million related to the incremental operation of Terminal 2 and the start of Terminal 3 baggage facility operations, offset by over £20 million of savings from the wind-down of Terminal 1. A net £7 million was also incurred on expansion planning activities.

Underlying performance reflects ongoing focus on employment costs, with increased productivity achieved within operations, as well as the benefit of lower overall headcount compared to last year. These efficiencies are partially offset by inflation, as well as higher pension costs which are due to reduce with the agreed changes to the defined benefit pension scheme. Maintenance and engineering costs continue to benefit from the new consolidated baggage systems operations and maintenance agreement, which is delivering substantial benefit over the regulatory period.

The downward trend in underlying costs is expected to continue as the full benefit flows through from recently completed initiatives.

2.2.4 Operating result

For the nine months ended 30 September 2015, the Group recorded an operating profit before certain re-measurements of £943 million (2014: £674 million).

Nine months ended 30 September	2015 £m	2014 £m	Change (%)
Adjusted EBITDA	1,224	1,172	4.4
Depreciation and amortisation	(513)	(387)	32.6
Exceptional items	232	(111)	n.m.
Operating profit before certain re-measurements	943	674	39.9

In the nine months ended 30 September 2015, Adjusted EBITDA increased 4.4% to £1,224 million (2014: £1,172 million), resulting in an Adjusted EBITDA margin of 59.2% (2014: 59.0%).

Depreciation increased substantially to £513 million (2014: £387 million). The increase in depreciation mostly reflects the start of depreciation of Terminal 2, the new Terminal 3 Integrated Baggage facility, along with increased depreciation of Terminal 1.

2.2.5 Exceptional items

In the nine months ended 30 September 2015, there was a net exceptional credit of £232 million (2014: £111 million charge) to the income statement.

Nine months ended 30 September	2015 £m	2014 £m
Pension scheme: changes to terms	236	-
Pension scheme: actuarial gains and losses	-	(93)
Restructuring	(4)	-
Terminal 2 operational readiness	-	(18)
Exceptional pre-tax charge	232	(111)

During the period, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members. The change results in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the income statement. There is no immediate cash flow impact as a result of these changes. As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the defined benefit pension scheme and no longer reports these as an exceptional item in the income statement.

2.2.6 Taxation

The tax charge arising on ordinary activities for the nine months ended 30 September 2015 was £133 million based on a profit before tax of £552 million. The charge results in an effective tax rate for the period of 24.1% compared to the UK statutory rate of 20.25%. The difference is primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

Legislation was substantively enacted on 26 October 2015 that the standard rate of corporation tax in the UK would change from 20% to 19% with effect from 1 April 2017 and to 18% from 1 April 2020.

2.3 Cash flow

2.3.1 Summary cash flow

In the nine months ended 30 September 2015, there was an increase of £15 million in cash and cash equivalents compared with an increase in 2014 of £416 million.

At 30 September 2015, the Group had £281 million of cash and cash equivalents compared with £266 million at 31 December 2014, and term deposits of £450 million (31 December 2014: £170 million).

Nine months ended 30 September	2015 £m	2014 £m
Cash generated from operations	1,156	1,112
Net cash from operating activities	1,160	1,102
Purchase of property, plant and equipment and other assets	(474)	(689)
Net increase in term deposits	(280)	-
Increase in group deposits	(27)	-
Disposal of Stansted airport	-	(2)
Net cash used in investing activities	(781)	(691)

Summary cash flow continued

Dividends paid	(289)	(295)
Proceeds from issuance of bonds	1,022	1,276
Repayment of bonds	(619)	(513)
Issuance of term note	80	100
Net repayment of revolving credit facilities	-	(55)
Repayment of facilities and other financing items	(33)	(37)
Increase in amount owed to Heathrow Finance plc	125	-
Settlement of accretion on index-linked swaps	(145)	-
Net interest paid	(505)	(471)
Net cash (used in)/from financing activities	(364)	5
Net increase in cash and cash equivalents	15	416
<hr/>		
Cash generated from operations after capital expenditure and net interest paid	177	(48)

The lower increase in cash and cash equivalents in part reflects a £280 million increase in term deposits, compared to no increase in the same period last year.

2.3.2 Cash flow from operating activities

In the nine months ended 30 September 2015, cash flow from operating activities increased 4.0% to £1,156 million (2014: £1,112 million). The following reconciles Adjusted EBITDA to cash flow from operating activities.

Nine months ended 30 September	2015 £m	2014 £m
Adjusted EBITDA	1,224	1,172
Exceptional: Restructuring	(4)	-
Exceptional: Terminal 2 operational readiness	-	(18)
(Increase)/decrease in receivables	(19)	6
Decrease in payables	(24)	(27)
Decrease in provisions	(2)	(3)
Difference between pension charge and contributions	(19)	(18)
Cash flow from operating activities	1,156	1,112

2.3.3 Capital expenditure

In the nine months ended 30 September 2015, the cash impact of capital investment was £474 million (2014: £689 million) consistent with gross additions to fixed assets of £437 million (2014: £539 million).

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 nine months ended 30 September 2015, net restricted payments of £229 million (gross restricted payments £354 million) were made by the Group which principally funded £143 million of the £225 million in quarterly dividends paid to the Group's ultimate shareholders, £16 million of interest payments at ADI Finance 2 Limited ('ADIF2') and £65 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc (2014: £350 million including £194 million in quarterly dividends, £55 million of interest payments on the debenture, £16 million to fund interest payments at ADIF2 and £85 million cash retained elsewhere in the HAH Group).

2.4 Pension scheme

The HAH Group operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. Following consultation with members in current service, changes were implemented to the terms of the scheme which reduce liabilities and enable the scheme to remain open. The changes, which only apply to the scheme's active members, include the introduction of an annual cap of 2% on future increases to pensionable pay, a change to the annual benefit accrual rate from 1/54th to 1/60th of pensionable pay and a cap of 2.5% on annual increases to pension payments at retirement.

At 30 September 2015, taking into account the above changes effective from 1 October 2015, the defined benefit pension scheme had a surplus of £165 million (31 December 2014: £199 million deficit), as measured under IAS19. The movement is principally due to a reduction of £236 million in past service benefit as a result of the introduction of the annual cap of 2% on future increases in pensionable pay. The remaining movement mainly reflects the scheme's receipt of a £50 million commutation payment following the sale of the HAH Group's non-Heathrow airports at the end of 2014 and net actuarial gains exceeding current service costs and the interest expense.

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.

Since the start of 2015 Heathrow has raised over £1.2 billion in term debt. In February, a €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. In May, a C\$500 million, 10 year public bond with a fixed rate coupon of 3.25% was issued, deepening Heathrow's presence in the Canadian market.

Heathrow has also raised £300 million of long-term private placements. This includes £150 million of 15 and 20 year sterling funding, of which £80 million was drawn in July 2015 and £70 million in October 2015. At the end of 2014, Heathrow raised a £115 million, 21 year Class B private placement, which was drawn in September 2015. This private placement has since been increased by £65 million, which will be drawn during 2016. The NOK1 billion transaction completed earlier in the year, with a 12.5 year maturity and a fixed coupon of 2.65%, takes the number of currency markets Heathrow has accessed to six.

During this year, £100 million has been raised at Heathrow Finance, consisting of £50 million in a 10 year loan facility which was drawn in July 2015 and a £50 million loan facility to 2020, which was agreed in September and will be drawn in March 2016.

In June 2015, a £300 million bond and a US\$500 million (£319 million) bond issued by Heathrow Funding Limited in 2012 matured and were repaid. Heathrow 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 £11,720 million at 30 September 2015, an increase of 0.6% since the end of 2014 (31 December 2014: £11,653 million), comprising £11,821 million in bond issues, £328 million in term notes and loan facilities, £302 million in index-linked derivative accretion and cash at bank and term deposits of £731 million. Nominal net debt consisted of £10,050 million in senior net debt and £1,670 million in junior debt.

The average cost of the Group's nominal gross debt at 30 September 2015 was 4.40% (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 30

September 2015 was 4.91% (31 December 2014: 5.70%). The reduction in the average cost of debt since the end of 2014 is mainly due to the lower cost of debt raised in 2015 and lower inflation at 30 September 2015.

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 £10,782 million at 30 September 2015 (31 December 2014: £10,792 million). This includes £281 million of cash and cash equivalents and £450 million of 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 March 2017. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account nearly £2.3 billion in undrawn loan facilities and cash resources at 30 September 2015, £185 million in committed term debt financing to be drawn after 30 September 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 £12,720 million at 30 September 2015, an increase of 1.3% since the end of 2014 (31 December 2014: £12,560 million). This comprises the Group's nominal net debt of £11,720 million, Heathrow Finance's gross debt of £1,009 million and cash held at Heathrow Finance of £9 million.

2.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 30 September 2015 was £14,891 million compared to £14,860 million at 31 December 2014. RAB figures are used in calculating the gearing ratios under the Group's financing agreements.

2.6.4 Net finance costs and net interest paid

In the nine months ended 30 September 2015, the Group's net finance costs before certain re-measurements were £525 million (2014: £600 million) and net interest paid was £505 million (2014: £471 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Nine months ended 30 September	2015 £m	2014 £m
Net finance costs before certain re-measurements	525	600
Amortisation of financing fees and other items	(11)	(27)
Amortisation on bond redemption	-	(61)
Borrowing costs capitalised	14	80
Underlying net finance costs	528	592
Non-cash accretion on index-linked instruments	(49)	(128)
Other movements	26	7
Net interest paid	505	471

Underlying net finance costs were £528 million (2014: £592 million) after adjusting for capitalised borrowing costs of £14 million (2014: £80 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £11 million (2014: £27 million). The reduced underlying net finance costs mainly reflect lower index-linked accretion due to low inflation.

Net interest paid in the period was £505 million (2014: £471 million) of which £440 million (2014: £416 million) related to external debt. The remaining £65 million (2014: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

2.6.5 Financial ratios

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

At 30 September 2015, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 67.5% and 78.7% 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 85.4% (31 December 2014: 84.5%) compared to a covenant level of 90.0% under its financing agreements. The increase in Heathrow Finance gearing since 31 December 2014 principally reflects the effects of the recent low inflation environment on Heathrow's RAB.

2.7 Outlook

Heathrow expects EBITDA in 2015 to be £1.6 billion. Following the strong traffic performance in the summer, Heathrow annual traffic for 2015 is now expected to be around 75 million passengers, which would lead to a small outperformance in EBITDA performance.

Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated income statement for the nine months ended 30 September 2015

	Note	Unaudited Nine months ended 30 September 2015			Unaudited Nine months ended 30 September 2014			Audited Year ended 31 December 2014			
		Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	
Continuing operations											
Revenue	1	2,068	-	2,068	1,986	-	1,986	2,692	-	2,692	
Operating costs	2	(1,125)	-	(1,125)	(1,312)	-	(1,312)	(1,899)	-	(1,899)	
Other operating items											
Fair value gains on investment properties			62	62		16	16		46	46	
Operating profit		943	62	1,005	674	16	690	793	46	839	
<i>Analysed as:</i>											
Operating profit before exceptional items		711	62	773	785	16	801	995	46	1,041	
Exceptional items	3	232	-	232	(111)		(111)	(202)	-	(202)	
Financing											
Finance income		178	-	178	173	-	173	234	-	234	
Finance costs		(703)	-	(703)	(773)	-	(773)	(1,038)	-	(1,038)	
Fair value gain/(loss) on financial instruments			72	72		(17)	(17)		(154)	(154)	
Net finance costs	4	(525)	72	(453)	(600)	(17)	(617)	(804)	(154)	(958)	
Profit/(loss) before tax		418	134	552	74	(1)	73	(11)	(108)	(119)	
Taxation	5	(106)	(27)	(133)	(24)	-	(24)	7	14	21	
Profit/(loss) for the period from continuing operations		312	107	419	50	(1)	49	(4)	(94)	(98)	
Profit from discontinued operations		-	-	-	3	-	3	3	-	3	
Profit/(loss) for the period		312	107	419	53	(1)	52	(1)	(94)	(95)	

^a Certain re-measurements consist of: fair value gains and losses on investment property revaluations; gains and losses arising on the re-measurement 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.

Heathrow (SP) Limited

**Consolidated statement of comprehensive income
for the nine months ended 30 September 2015**

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Profit/(loss) for the period	419	52	(95)
<i>Items that will not be subsequently reclassified to the consolidated income statement:</i>			
Tax relating to retirement benefits	(13)	-	(4)
Tax relating to indexation of operating land	-	1	1
Net actuarial gain on retirement benefit schemes	65	-	-
<i>Items that may be subsequently reclassified to the consolidated income statement:</i>			
Cash flow hedges:			
Loss taken to equity	(118)	(149)	(174)
Transferred to income statement	148	162	163
Other comprehensive profit/(loss) for the period net of tax	82	14	(14)
Total comprehensive profit/(loss) for the period^a	501	66	(109)

^a Attributable to owners of the parent.

Heathrow (SP) Limited
Consolidated statement of financial position
as at 30 September 2015

	Note	Unaudited 30 September 2015 £m	Unaudited ¹ 30 September 2014 £m	Audited ¹ 31 December 2014 £m
Assets				
Non-current assets				
Property, plant and equipment		11,287	11,386	11,349
Investment properties		2,124	1,989	2,054
Intangible assets		107	96	114
Retirement benefit surplus ¹		165	-	-
Derivative financial instruments		164	123	172
Trade and other receivables		23	34	23
		13,870	13,628	13,712
Current assets				
Inventories		11	9	10
Trade and other receivables		296	283	290
Current income tax assets		-	-	18
Derivative financial instruments		-	-	2
Term deposits		450	170	170
Cash and cash equivalents		281	340	268
		1,038	802	758
Total assets		14,908	14,430	14,470
Liabilities				
Non-current liabilities				
Borrowings	6	(12,590)	(11,673)	(11,877)
Derivative financial instruments		(1,247)	(1,287)	(1,328)
Deferred income tax liabilities		(1,120)	(1,043)	(1,023)
Retirement benefit obligation ¹		(30)	-	-
Provisions		(2)	(1)	(10)
Trade and other payables		(12)	(3)	(2)
		(15,001)	(14,007)	(14,240)
Current liabilities				
Borrowings	6	(612)	(908)	(933)
Derivative financial instruments		(30)	(12)	(1)
Current income tax liabilities		(43)	-	-
Provisions ¹		-	(194)	(232)
Trade and other payables		(400)	(378)	(454)
		(1,085)	(1,492)	(1,620)
Total liabilities		(16,086)	(15,499)	(15,860)
Net liabilities		(1,178)	(1,069)	(1,390)
Equity				
Capital and reserves				
Share capital		11	11	11
Share premium		499	499	499
Merger reserve		(3,758)	(3,758)	(3,758)
Cash flow hedge reserve		(291)	(297)	(321)
Retained earnings		2,361	2,476	2,179
Total shareholder's deficit		(1,178)	(1,069)	(1,390)

¹ As explained in the basis of preparation section, liabilities or assets relating to retirement benefits are now presented as an external obligation or surplus, previously they were treated as an intercompany liability.

Heathrow (SP) Limited

**Consolidated statement of changes in equity
for the nine months ended 30 September 2015**

	Attributable to owners of the Company (unaudited)					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2014	11	499	(3,758)	(310)	2,722	(836)
Comprehensive income:						
Profit for the period					49	49
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				13		13
Total comprehensive income				13	49	62
Transaction with owners:						
Dividends paid					(295)	(295)
Total transaction with owners					(295)	(295)
30 September 2014	11	499	(3,758)	(297)	2,476	(1,069)
1 January 2015	11	499	(3,758)	(321)	2,179	(1,390)
Comprehensive income:						
Profit for the period					419	419
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				30		30
Net actuarial gains on retirement benefit schemes					52	52
Total comprehensive income				30	471	501
Transaction with owners:						
Dividends paid					(289)	(289)
Total transaction with owners					(289)	(289)
30 September 2015	11	499	(3,758)	(291)	2,361	(1,178)

Heathrow (SP) Limited

**Consolidated statement of cash flows
for the nine months ended 30 September 2015**

	Note	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Cash flows from operating activities				
Cash generated from operations	8	1,156	1,112	1,525
Taxation ¹		4	(10)	(19)
Net cash from operating activities		1,160	1,102	1,506
Cash flows from investing activities				
Net capital expenditure		(474)	(689)	(853)
Net increase in term deposits		(280)	-	(170)
Increase in group deposits		(27)	-	-
Disposal of Stansted Airport Limited		-	(2)	(2)
Net cash used in investing activities		(781)	(691)	(1,025)
Cash flows from financing activities				
Dividends paid	7	(289)	(295)	(445)
Proceeds from issuance of bonds		1,022	1,276	1,276
Repayment of bonds		(619)	(513)	(513)
Issuance of term notes		80	100	100
Net repayment of revolving credit facilities		-	(55)	(80)
Payment of facilities and other items		(33)	(37)	(54)
Increase in amount owed to Heathrow Finance plc		125	-	165
Settlement of accretion on index-linked swaps		(145)	-	(185)
Net interest paid		(505)	(471)	(573)
Net cash (used in)/from financing activities		(364)	5	(309)
Net increase in cash and cash equivalents				
		15	416	172
Cash and cash equivalents at beginning of period		266	94	94
Cash and cash equivalents at end of period		281	510	266
Represented by:				
Cash and cash equivalents		281	510	268
Overdrafts		-	-	(2)
Cash and cash equivalents at end of period		281	510	266

¹ Includes group relief received of £18 million (nine months ended 30 September 2014: £10 million paid; year ended 31 December 2014: £19 million paid).

Heathrow (SP) Limited

General information and accounting policies for the nine months ended 30 September 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. These are the third interim financial reports in compliance with IAS 34 and therefore do not include a reconciliation of equity and reconciliation of total comprehensive income at, and for the period ending, 30 September 2014 from UK GAAP, the previous accounting regime under which the Group used to report. 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 and in the first interim financial reports in compliance with IAS 34 for the period ended 31 March 2015. 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. Before 31 December 2014, 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 a provision payable to the legal sponsor of the schemes, being LHR Airports Limited. Additionally, the Group recorded its share of the actuarial gains and losses on the schemes and presented this within exceptional items in the income statement.

Following the disposal of Aberdeen, Glasgow and Southampton airports 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 asset or liability, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit surplus or Retirement benefit obligation and no longer records an intercompany provision to LHR Airports Limited. Additionally, it is now considered appropriate for the Group to record actuarial gains and losses on the external scheme within other comprehensive income. This differs from the prior periods where the Group recorded a share of the actuarial gains and losses, 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.

During the period, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members. The changes result in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the income statement. There is no immediate cash flow impact as a result of these changes. As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the defined benefit pension scheme and no longer reports these as an exceptional item in the income statement.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 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 comprising 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 nine months ended 30 September 2015 and is broken down into 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 nine months ended 30 September 2014 and the year ended 31 December 2014 respectively.

Table (a) Unaudited Nine months ended 30 September 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	1,299	393	226	54	1,972	1,168	232	1,400	
Heathrow Express				96	96	56	-	56	
Continuing operations	1,299	393	226	150	2,068	1,224	232	1,456	
Reconciliation to statutory information									
Unallocated income and expenses									
Depreciation and amortisation								(513)	
Operating profit (before certain re-measurements)								943	
Fair value gain on investment properties (certain re-measurements)									62
Operating profit									1,005
Finance income									178
Finance costs									(703)
Fair value gain on financial instruments (certain re-measurements)									72
Profit before tax									552
Taxation before certain re-measurements									(106)
Taxation (certain re-measurements)									(27)
Taxation									(133)
Profit for the period									419

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2015**

1 Segment information *continued*

Table (b) Unaudited Nine months ended 30 September 2014	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	1,261	371	208	52	1,892	1,119	(111)	1,008	
Heathrow Express				94	94	53	-	53	
Continuing operations	1,261	371	208	146	1,986	1,172	(111)	1,061	
Reconciliation to statutory information									
Unallocated income and expenses									
Depreciation and amortisation								(387)	
Operating profit (before certain re-measurements)								674	
Fair value gain on investment properties (certain re-measurements)								16	
Operating profit								690	
Finance income								173	
Finance costs								(773)	
Fair value gain on financial instruments (certain re-measurements)								(17)	
Profit before tax								73	
Taxation before certain re-measurements								(24)	
Taxation (certain re-measurements)								-	
Taxation								(24)	
Profit for the period								49	
Profit from discontinued operations								3	
Consolidated profit for the period								52	

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 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
Heathrow	1,706	503	285	69	2,563	1,493	(202)	1,291
Heathrow Express				129	129	74	-	74
Continuing operations	1,706	503	285	198	2,692	1,567	(202)	1,365
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(572)
Operating profit (before certain re-measurements)								793
Fair value gain on investment properties (certain re-measurements)								46
Operating profit								839
Finance income								234
Finance costs								(1,038)
Fair value loss on financial instruments (certain re-measurements)								(154)
Loss before tax								(119)
Taxation before certain re-measurements								7
Taxation (certain re-measurements)								14
Taxation								21
Loss for the year – continuing operations								(98)
Profit from discontinued operations								3
Consolidated loss for the year								(95)

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2015

2 Operating costs – ordinary

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Employment costs	291	286	391
Maintenance expenditure	140	128	178
Utility costs	69	70	95
Rent and rates	104	98	132
General expenses	226	214	305
Retail expenditure	14	18	24
Total adjusted operating costs	844	814	1,125
Depreciation and amortisation	513	387	572
Exceptional items (Note 3)	(232)	111	202
Total operating costs	1,125	1,312	1,899

3 Operating exceptional items

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Pension credit: change to terms	(236)	-	-
Pension charge: actuarial losses	-	93	176
Terminal 2 operational readiness	-	18	18
Restructure	4	-	8
Total operating exceptional items	(232)	111	202

Operating costs – exceptional: other

During the period, the Company agreed changes to the HAH Group's defined benefit pension scheme effective from 1 October 2015. The changes include the introduction of an annual cap of 2% on future increases to pensionable pay for active members. The changes result in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and is classified as an exceptional item in the income statement. There is no immediate cash flow impact as a result of these changes. As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the defined benefit pension scheme and no longer reports these as an exceptional item in the income statement.

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 nine months ended 30 September 2014 and the year ended 31 December 2014 a non-cash pension charge was recorded of £93 million and £176 million respectively.

Operational readiness costs were associated with managing the opening of Terminal 2. Costs for the nine months ended 30 September 2014 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 opening on 4 June 2014.

Costs associated with the Group's change programmes were £4 million in the nine months ended 30 September 2015 and £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 nine months ended 30 September 2015**

4 Financing

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	175	171	231
Interest on deposits	3	2	3
	178	173	234
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(431)	(445)	(592)
Bank loans and overdrafts and related hedging instruments	(37)	(47)	(75)
Amortisation on bond redemption ²	-	(61)	(62)
Interest payable on derivatives not in hedge relationship ³	(186)	(245)	(323)
Facility fees and other charges	(6)	(11)	(14)
Net pension finance costs	(5)	(2)	(3)
Interest on debenture payable to Heathrow Finance plc	(52)	(41)	(57)
Unwinding of discount on provisions	-	(1)	(1)
	(717)	(853)	(1,127)
Less: capitalised borrowing costs ⁴	14	80	89
	(703)	(773)	(1,038)
Net finance costs before certain re-measurements	(525)	(600)	(804)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: ineffective portion of cash flow hedges	(8)	2	3
Interest rate swaps: not in hedge relationship	2	(74)	(196)
Index-linked swaps: not in hedge relationship ⁵	61	48	26
Cross-currency swaps: ineffective portion of cash flow hedges	(13)	4	9
Cross-currency swaps: ineffective portion of fair value hedges	30	2	3
Fair value re-measurements of foreign exchange contracts and currency balances	-	1	1
	72	(17)	(154)
Net finance costs	(453)	(617)	(958)

¹ Includes accretion of £6 million (nine months ended 30 September 2014: £18 million; year ended 31 December 2014: £20 million) on index-linked bonds.

² 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.

³ Includes accretion of £43 million (nine months ended 30 September 2014: £110 million; year ended 31 December 2014: £139 million) on index-linked swaps.

⁴ Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.28% (nine months ended 30 September 2014: 5.89%; year ended 31 December 2014: 5.87%) to expenditure incurred on such assets.

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 nine months ended 30 September 2015**

5 Taxation

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
UK corporation tax			
Current tax at 20.25% (2014: 21.5%)	(56)	(4)	13
Deferred tax			
Current year	(77)	(20)	8
Taxation (charge)/credit for the period	(133)	(24)	21

The tax charge for the nine months ended 30 September 2015 results in an effective tax rate of 24.1%, reflecting the tax charge arising on ordinary activities of £133 million based on a profit before tax of £552 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 nine months ended 30 September 2014, the effective tax rate was 32.8%, reflecting the tax charge arising on ordinary activities of £24 million based on a profit before tax of £73 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 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.

Legislation was substantively enacted on 26 October 2015 that the standard rate of corporation tax in the UK would change from 20% to 19% with effect from 1 April 2017 and to 18% from 1 April 2020. Deferred tax assets and liabilities are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been substantively enacted by the balance sheet date. The Heathrow (SP) Limited consolidated net deferred tax liabilities as at 31 December 2014 were £1,023 million and a 1% change in the tax rate would result in a £51 million reduction in this balance.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2015**

6 Borrowings

	Unaudited 30 September 2015 £m	Unaudited 30 September 2014 £m	Audited 31 December 2014 £m
Current borrowings			
Secured			
Loans	39	39	39
Bonds:			
3.000% £300 million due 2015	-	300	300
2.500% US\$500 million due 2015	-	308	320
12.450% £300 million due 2016	309	-	-
	348	647	659
Unsecured			
Bank overdrafts	-	-	2
Total current (excluding interest payable)	348	647	661
Interest payable – external	257	256	251
Interest payable – owed to group undertakings	7	5	21
Total current	612	908	933
Non-current borrowings			
Secured			
Bonds:			
12.450% £300 million due 2016	-	322	318
4.125% €500 million due 2016	365	381	381
4.375% €700 million due 2017	516	543	542
2.500% CHF400 million due 2017	271	257	257
4.600% €750 million due 2018	526	543	545
6.250% £400 million due 2018	399	398	398
4.000% C\$400 million due 2019	196	218	219
6.000% £400 million due 2020	397	396	397
9.200% £250 million due 2021	274	269	275
3.000% C\$450 million due 2021	226	243	248
4.875% US\$1,000 million due 2021	695	630	670
1.650%+RPI £180 million due 2022	194	193	193
1.875% €600 million due 2022	453	477	485
5.225% £750 million due 2023	655	647	649
7.125% £600 million due 2024	590	589	589
3.250% C\$500 million due 2025	249	-	-
4.221% £155 million due 2026	154	155	155
6.750% £700 million due 2026	691	691	691
2.650% NOK1,000 million due 2027	77	-	-
7.075% £200 million due 2028	198	198	198
1.500% €750 million due 2030	508	-	-
6.450% £900 million due 2031	855	847	855
Zero-coupon €50 million due January 2032	44	44	44
1.366%+RPI £75 million due 2032	77	76	76
Zero-coupon €50 million due April 2032	43	43	44
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	38	39	39
1.061%+RPI £115 million due 2036	115	-	-
1.382%+RPI £50 million due 2039	51	51	51
3.334%+RPI £460 million due 2039	574	572	575
1.238%+RPI £100 million due 2040	100	100	100
5.875% £750 million due 2041	741	740	743
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	77	76	76
	11,141	10,530	10,605

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2015

6 Borrowings *continued*

	Unaudited 30 September 2015 £m	Unaudited 30 September 2014 £m	Audited 31 December 2014 £m
Secured <i>continued</i>			
Revolving credit facilities	-	25	-
Other loans	108	147	136
Term note: £100 million due 2026	100	100	100
Term note: £80 million due 2030	80	-	-
Unsecured			
Debenture payable to Heathrow Finance plc	1,161	871	1,036
Total loans	1,449	1,143	1,272
Total non-current	12,590	11,673	11,877
Total borrowings (excluding interest payable)	12,938	12,320	12,538

7 Dividends

During the period ended 30 September 2015, Heathrow (SP) Limited paid dividends of £289 million to Heathrow Finance plc being £43 million on 27 February 2015, £80 million on 4 March 2015, £91 million on 30 June 2015 and £75 million on 24 July 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).

8 Cash generated from operations

	Unaudited Nine months ended 30 September 2015 £m	Unaudited Nine months ended 30 September 2014 £m	Audited Year ended 31 December 2014 £m
Operating activities			
Profit/(loss) before tax	552	73	(119)
<i>Adjustments for:</i>			
Net finance costs	453	617	958
Depreciation, amortisation and impairment	513	387	572
Fair value gains on investment properties	(62)	(16)	(46)
<i>Working capital changes:</i>			
(Increase)/decrease in inventories and trade and other receivables	(19)	6	13
Decrease in trade and other payables	(24)	(27)	(4)
Release and utilisation of provisions	(2)	(3)	(3)
Difference between pension charge and cash contributions	(19)	(18)	(22)
Exceptional pension credit: change to terms	(236)	-	-
Exceptional pension charge	-	93	176
Cash generated from operations	1,156	1,112	1,525