

News Release

18 February 2013

Heathrow (SP) Limited

Results for the year ended 31 December 2012

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

- **Record Heathrow passenger satisfaction and passenger numbers**
- **8.1% revenue increase supports 11.6% Adjusted EBITDA growth**
- **Heathrow investment increased over 30% to £1.1 billion as Terminal 2 nears completion**
- **Completed transformation of financing with over £3 billion in bond issues during 2012**
- **Process for defining Heathrow's development in next regulatory period reaching key stage**
- **Successful £1.5 billion sale of Stansted announced**

At or for year ended 31 December	2012	2011	Change (%)
<i>(figures in £m unless otherwise stated)</i>			
Revenue	2,464.0	2,280.0	8.1
Adjusted EBITDA ⁽¹⁾	1,263.9	1,132.1	11.6
Cash generated from operations	1,163.7	1,132.2	2.8
Adjusted pre-tax profit/(loss) ⁽²⁾	46.4	(166.7)	n/a
Pre-tax loss	(32.8)	(255.8)	(87.2)
Heathrow (SP) Limited consolidated net debt ⁽³⁾	11,359.5	10,442.6	8.8
Heathrow Finance plc consolidated net debt ⁽³⁾⁽⁴⁾	12,085.8	10,992.2	9.9
Regulatory Asset Base	14,813.7	13,849.7	7.0
Passengers (m) ⁽⁵⁾	87.4	87.4	0.0
Net retail income per passenger ⁽⁵⁾⁽⁶⁾	£5.82	£5.58	4.4

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

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

(3) Nominal net debt excluding intra-group loans and including index-linked accretion

(4) Heathrow Finance plc (formerly BAA (SH) plc) is the parent company of Heathrow (SP) Limited

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

(6) See section 2.2.2.2 for calculation of net retail income per passenger

Colin Matthews, Chief Executive Officer of Heathrow, said:

"2012 was an historic year for Heathrow. We gave a warm welcome and a smooth journey to thousands of Olympic and Paralympic athletes, and greeted a record 70 million passengers over the twelve months. We also achieved record customer satisfaction levels, with three quarters of people saying they had a 'very good' or 'excellent' experience at Heathrow. Our capital investment programme continued, with over a billion pounds spent on improving the airport, mainly on the new Terminal 2 which opens next year. We also completed our refinancing programme, successfully issuing another £3 billion of bonds to put us on a stable, long term financial footing."

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Heathrow

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There will be a conference call today at 3.00 pm (UK time)/10.00 am (Eastern standard time) for bondholders and bank lenders to the Group and Heathrow Finance plc and credit analysts to discuss the results for the year ended 31 December 2012. The call will be hosted by Colin Matthews and Jose Leo, Chief Executive Officer and Chief Financial Officer respectively. 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 664023#. It will also be possible to view online the presentation (using event password: 635780) as it is used during the call at:

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=706385590>

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

Heathrow (SP) Limited

Consolidated results for the year ended 31 December 2012

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1 Key business developments

1.1 Key features of the year

2012 saw significant progress across a wide range of important issues for the business. This included another year of record passenger satisfaction for Heathrow, as well as delivering an outstanding welcome for thousands of Olympic and Paralympic athletes. This was particularly notable as it was achieved whilst managing record passenger traffic at one of the world's busiest airports.

The year was also notable for progress in the UK hub airport capacity debate, the importance of which is underlined by the fact that in 2012 Heathrow once again operated close to its maximum permitted annual flight numbers. The hub airport model used by Heathrow and its competitors uses transfer passengers to support flights to long haul destinations which would not be viable using local demand alone. But unlike its rivals in France, Germany, the Netherlands and Dubai, Heathrow is full and its capacity constraints prevent any meaningful increase in the numbers of flights and routes. This means the country's ability to trade with emerging economies is constrained, with potential long term consequences for UK trade, jobs and economic growth.

At the start of 2012, whilst the importance of hub airport capacity was beginning to be accepted by the UK government, a third runway at Heathrow was not one of the options under consideration. However, the year ended with the establishment of an independent commission tasked with looking at options for maintaining the UK's status as an international aviation hub. The Group will make submissions to the Airports Commission during 2013.

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million.

Given the Group's focus on Heathrow and the increasing proportion of the business it represents, in 2012 it was announced that the BAA name would cease being used. The operating businesses in the Group are now focused on utilising their distinctive and valuable individual brands.

Work intensified through the year both within Heathrow and in consultation with its airline community and the Civil Aviation Authority on defining how the airport will develop during the next five year regulatory period (Q6), which begins on 1 April 2014. In particular, constructive engagement with Heathrow's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The regulatory engagement process to date culminated with publication since the year end of Heathrow's full business plan for Q6. This period is expected to see Heathrow delivering further significant enhancements to the passenger experience, whilst delivering improved value for money through greater efficiency and productivity and driving further real growth in its commercial offering.

The Group continued to invest significantly in Heathrow's transformation with over £1 billion spent at the airport during 2012. The centrepiece of the investment programme continued to be the construction of the new Terminal 2. Work will intensify during 2013 on fit-out and operational readiness with operations due to commence in little over a year from now. The scale of investment at Heathrow in recent years is underlined by Terminal 2 being the airport's second new terminal in recent years after a gap of over 20 years between the opening of Terminals 4 and 5.

The Group's financing position was transformed in 2012 with over £3 billion raised in multiple capital markets transactions and the successful refinancing of the Group's core revolving credit and liquidity facilities. This marked the culmination of a programme that has seen the Group raise nearly £7 billion since late 2009, enabling full repayment of loan facilities put in place in the 2008 refinancing and putting the Group in its strongest liquidity position for many years. In addition, the Group continued to attract investment from leading global equity investors with a 30% shareholding in the business purchased by Qatar Holding (20%) and China Investment Corporation (10%), the Qatari and Chinese sovereign wealth funds.

At the same time as all the critical initiatives outlined above were delivered, the Group produced a robust financial performance despite the enduring challenges of subdued economic growth and continued pressure on consumer and business confidence in the world's developed economies.

It was against this background, together with the stabilisation of its financing position outlined above, that the Group was able to continue investing in the business with confidence and commence dividend payments to its ultimate shareholders for the first time since it was acquired by the Ferrovial-led consortium in 2006.

1.2 Passenger traffic

Passenger traffic for the year ended 31 December 2012 at the Group's airports is analysed below:

<i>Year ended 31 December</i>	2012	2011	Change (%) ⁽¹⁾
Passengers by airport (millions)			
Heathrow	70.0	69.4	0.9
Stansted	17.5	18.0	(3.2)
Total passengers⁽¹⁾	87.4	87.4	0.0
Passengers by market served (millions)			
UK	5.9	6.2	(3.6)
Europe ⁽²⁾	44.5	44.5	0.1
Long haul	37.0	36.8	0.5
Total passengers⁽¹⁾	87.4	87.4	0.0

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

(2) Includes North African charter traffic

In the year ended 31 December 2012, the Group's passenger traffic was flat at 87.4 million. Adjusting for the fact that 2012 was a leap year, there was a modest year on year decline of 0.3%. The performance was driven by Heathrow where passenger traffic was up 0.9% to 70.0 million (2011: 69.4 million), its second successive calendar year traffic record.

Heathrow's traffic in 2012 was characterised by record load factors (75.6% versus 75.2% in 2011) and more seats per passenger aircraft (197.4 versus 194.8 in 2011). These are the key drivers of the modest growth that can be expected in Heathrow's traffic for as long as it operates with its current capacity constraints where there is negligible opportunity to increase flight numbers which, whilst falling marginally to 471,341 compared to 476,197 in 2011, are very close to the cap of 480,000 flights per annum. The proportion of transfer traffic at Heathrow was 35% (2011: 35%).

Whilst underlying demand at Heathrow was firm through 2012, reported performance fluctuated through the year. There was year on year growth in the first quarter but a modest decline in the second quarter, partly reflecting issues such as the leap year and the different timing of Easter relative to 2011. In the third quarter, Heathrow's traffic was impacted in July and August by over 400,000 passengers compared to the same period of 2011 by the London 2012 Olympics, which resulted in UK based travellers staying in the country to enjoy the Games and non-UK travellers avoiding travel to the UK due to concerns over disruption caused by the Games. After that traffic growth resumed with monthly records in September, November and December.

On a regional basis, Heathrow's performance was led by North Atlantic traffic which increased 3.2% to 16.3 million passengers (2011: 15.8 million). Traffic with other long haul destinations declined marginally, down 0.4% to 20.3 million passengers (2011: 20.4 million). Strength in services with Brazil (due to increased services), the Middle East (due partially to recovery from the unrest in the region that impacted 2011) and the Far East (due partly to recovery from 2011's Japanese tsunami) was offset particularly by weakness in African and Indian traffic due to airlines reducing or ceasing services.

Heathrow's European traffic increased modestly, up 0.5% to 28.6 million passengers (2011: 28.5 million), with significant variances in performance between markets, reflecting the macro-economic environment across Europe. There was good performance in markets such as Germany, Norway, the Netherlands and Belgium offset by weakness in markets such as Italy, Greece and Portugal. Domestic traffic was up slightly, by 0.5% at 4.7 million passengers (2011: 4.7 million).

Stansted's traffic declined 3.2% to 17.5 million passengers (2011: 18.0 million). The year was notable for a return to growth after the summer following several years of consistent declines. This is reflected in a traffic decline of 4.6% in the nine months to 30 September 2012 turning into an increase of 1.8% in the fourth quarter. This was due to year on year capacity additions by Ryanair for the current winter season. Stansted's core European scheduled market saw traffic decline only 0.3% to 14.1 million passengers (2011: 14.1 million), with 5.3% growth in the fourth quarter. Traffic declines in other markets were driven mostly by cessation of a limited number of services. Stansted's 2012 average load factor was 81.0% (2011: 80.8%).

1.3 Transforming the Group's airports

The Group's key strategic objective is for Heathrow to become the UK's direct connection to the world and Europe's hub of choice by making every journey better. A key enabler in delivering these objectives is Heathrow's continued focus on transforming passengers' and airlines' experience of using the airport through both investment in modern terminal facilities and related infrastructure and improving service standards. This will ensure customers enjoy a superior airport experience relative to competitors, encouraging greater utilisation of Heathrow and supporting its long-term growth ambitions.

Significant further progress was made in 2012 in both the transformation of Heathrow's infrastructure and further improving service standards.

The current centrepiece of Heathrow's infrastructure transformation is the construction of the new Terminal 2, which is due to open in mid-2014. Once open, more than 60% of passengers using Heathrow will enjoy some of the newest airport facilities in the world.

Alongside the transformation of Heathrow's infrastructure, there was further clear progress in improving service standards during 2012 with record overall passenger satisfaction achieved, a particularly notable achievement given the Olympics, record traffic volumes and the challenges of building the new Terminal 2 in the live operating environment of one of the world's busiest airports. In addition, Terminal 5 was voted the world's best airport terminal.

1.3.1 Investment in modern airport facilities

Heathrow's capital investment programme achieved a number of significant milestones in 2012 with the main projects including construction work on Terminal 2 as well as the development of baggage systems and a major refurbishment programme at Terminal 4. As expected, investment at Heathrow increased significantly in 2012 (over £1.1 billion) compared to 2011 (over £800 million). The level of investment is expected to continue at an elevated level in 2013 as progress is made towards opening Terminal 2.

The new Terminal 2 building was made weather-tight in early 2012. This enabled significant progress on the terminal fit-out to be completed during the year. By the year end, installation of the internal walls, glass wall linings and conglomerate floor was well underway. In addition, delivery of terminal systems, including outbound baggage systems, escalators and lifts, was making good progress with commissioning of certain elements of the systems underway by year end. Installation of the information control system is now progressing, with IT systems cabling having commenced on all levels of the building and hand over of communications rooms IT fit-out underway.

The second phase of the satellite Terminal 2B was made weather-tight in September 2012. Fit-out is progressing with the creation of internal walls, glass wall linings and the wooden linings to the arrivals corridor and installation of escalators, lifts and travelators. March 2012 saw excavation completed for the extensive basement and tunnel structures to house the tracked transit train and baggage systems that will connect the satellite to the main building once the main terminal's second phase is constructed. The passenger tunnel linking the main building with the satellite is formed with work underway on its fit-out.

Good progress is being made in constructing the 'nodes' to connect the main terminal and satellite buildings to air bridges through which passengers board or leave aircraft.

There has also been significant progress on Terminal 2's multi-storey car park. The main access ramp to the car park's upper level is substantially in place, connecting the car park and existing road network. The structure of the western section of the car park is completed and the eastern section is progressing to plan. The structures for the car park's lifts and staircases as well as passenger walkways between the car park and the terminal building are under construction.

Terminal 2's construction is expected to be completed in late 2013 with operations commencing in mid-2014.

In Heathrow's baggage investment programme, the new underground automated baggage transfer system between Terminals 3 and 5 became operational. Elsewhere, the superstructure, roof and cladding for the building to house Terminal 3's new integrated baggage system are virtually complete. Baggage and IT systems are now being installed with the overall system expected to become operational in 2015.

Refurbishment works in Terminal 4's departure lounge were completed in 2012. The project has renewed floor tiling, refurbished gate areas, provided new seating, decluttered signage and provided a feature ceiling with LED lighting reducing energy consumption whilst enhancing the lounge area.

Refurbishment (including resurfacing) of Heathrow's southern runway will start in Spring 2013. The works will be carried out during night closures of the runway. The northern runway will be refurbished in 2014.

1.3.2 Service standards

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

In April 2012, Heathrow Terminal 5 was named the world's best airport terminal in the 2012 SKYTRAX World Airport Awards. More recently, Heathrow achieved an all-time record overall passenger satisfaction score of 3.96 in the Airport Service Quality ('ASQ') survey (produced by Airports Council International) for the third quarter of 2012. This reflected in particular the success of the airport in delivering an outstanding welcome for thousands of Olympic and Paralympic athletes. Over 2012 as a whole, Heathrow also achieved its highest ever average score of 3.94 (2011: 3.88) in the quarterly ASQ surveys.

In relation to individual service standards, punctuality remained at historically high levels in 2012 with 78% (2011: 79%) of aircraft departing within 15 minutes of schedule at Heathrow and 88% (2011: 88%) at Stansted. Further, Heathrow's baggage misconnect rate was 15 per 1,000 passengers (2011: 15).

On security queuing, in 2012 passengers passed through central security within periods prescribed under service quality rebate schemes 92.8% (2011: 96.9%) of the time at Heathrow and 98.0% (2011: 97.9%) of the time at Stansted. This compares with 95% service standards..

1.4 Sale of Stansted airport

After challenging for a number of years the proportionality of the disposal remedies imposed by the Competition Commission resulting from its inquiry into the supply of UK airport services by the Group, a disposal process for Stansted airport commenced in August 2012 which led to the announcement since the year end that the airport is being sold to Manchester Airports Group for £1,500 million. The sale is expected to complete by the end of February 2013.

Proceeds from the disposal are expected to be used principally to repay debt within the Group.

1.5 Regulatory and governmental developments

1.5.1 UK aviation policy developments

The main development in UK aviation policy in the last year related to the debate on hub airport capacity, the importance of which is underlined by the fact that in 2012 Heathrow, the UK's only hub airport, once again operated close to its maximum permitted annual flight numbers. The hub airport model used by Heathrow and its competitors uses transfer passengers to support flights to long haul destinations which would not be viable using local demand alone. But unlike its rivals in France, Germany, the Netherlands and Dubai, Heathrow is full and its capacity constraints prevent any meaningful increase in the numbers of flights and routes. This means the country's ability to trade with emerging economies is constrained, with potential long term consequences for UK trade, jobs and economic growth.

At the start of 2012, whilst the importance of hub airport capacity was beginning to be accepted by the UK government, a third runway at Heathrow was being excluded as a potential solution. However, during the year the government established the independent Airports Commission, chaired by Sir Howard Davies, which has been tasked with identifying and recommending the options for maintaining the UK's status as an international aviation hub. It is expected to do this by assessing the UK's international connectivity needs and recommending the optimum approach for meeting these.

The Commission is expected to produce an interim report by the end of 2013 which will set out its assessment of the evidence on the nature, scale and timing of the steps needed to maintain the UK's global hub status; and its recommendations for immediate actions to improve the use of existing runway capacity in the next five years consistent with credible long term options. A final report is then expected by summer 2015 which will set out the Commission's assessment of the options for meeting the UK's international connectivity needs, including their economic, social and environmental impact and its recommended solution.

The Group will make submissions to the Airports Commission during 2013.

1.5.2 Defining Heathrow's development for the next 5 years

Work intensified through the year within Heathrow and in consultation with its airline community and the Civil Aviation Authority ('CAA') on defining how the airport will develop during the next five year regulatory period (Q6), which begins on 1 April 2014.

In particular, constructive engagement with Heathrow's airline community assessed key themes such as capital investment, traffic forecasts, operating costs and commercial revenue opportunities. The regulatory process also included publication in July 2012 of the airport's initial business plan for Q6, the content of

which has been superseded since the year end by the publication of an updated full business plan. Since publication of the initial business plan, Heathrow has reduced the expected cost of airlines operating at Heathrow during Q6 primarily by identifying further opportunities to enhance efficiencies and productivity. This is reflected in a proposed tariff profile, assuming no initial adjustment for the significantly lower than forecast passenger numbers at the end of the current regulatory period, of RPI+5.9% compared to RPI+6.8% in the initial business plan.

The next regulatory period is expected to see Heathrow delivering further significant enhancements to the passenger experience, whilst delivering improved value for money through greater efficiency and productivity and driving further real growth in its commercial offering.

Heathrow's full business plan includes a traffic forecast consistent with that in the July 2012 initial business plan showing modestly increasing passenger traffic over the next regulatory period that, after an allowance for shocks, averages around the airport's current un-shocked traffic performance. Heathrow believes it is essential to properly reflect the likely impact on passenger traffic over any medium or long-term horizon from potential shocks given that historically they have impacted its traffic by an average of close to 1.5%.

The full business plan also outlines Heathrow's proposed capital investment plan ('CIP') for 2014-2019. The CIP is aligned to Heathrow's masterplan that envisages the continuation of the process of building terminal and satellite capacity perpendicular to the airport's two runways that started with construction of Terminal 5 and is currently also being implemented in the new Terminal 2. The CIP foresees continued passenger experience improvements, ensuring there are sufficient facilities to handle expected growth in passenger numbers and aircraft size and enabling a competitive cost of operation at Heathrow based on a capital spend over the 5 years of approximately £3 billion (in 2011/12 prices).

The key elements of the CIP relate to the new Terminal 2, the Terminal 3 integrated baggage system, Heathrow's financial contribution to Crossrail (subject to regulatory approval), installation of new baggage screening technology required by 2018 and upgrades and resurfacing of runways and taxiways.

Terminal 2 is expected to open in the early months of Q6 and will involve a significant number of airline moves. In the first part of Q6, it is expected that the pier that currently connects Terminal 1 to the Terminal 2 satellite building will be demolished, opening up the taxiway between Terminal 2 and its satellite building. This will also enable two extra pier served stands to be added to the satellite building.

Towards the end of Q6, the CIP assumes that work will commence on design, site clearance and enabling works for phase 2 of Terminal 2. This phase is expected ultimately to involve the demolition of Terminal 1, extension of the main terminal building, construction of a new satellite Terminal 2C, installation of a terminal baggage system and completion of tracked transit train and baggage facilities linking the main terminal building with the satellites.

Following publication of the full business plan, the next steps in the regulatory review process are for the CAA to complete its own research and analysis, following which it is expected to publish its initial price cap proposals in April 2013 for consultation. Final price cap proposals are expected to be published in October 2013.

1.5.3 Modernising the economic regulation of UK airports

The new Civil Aviation Act 2012 ('the Act') became law at the end of 2012 when it received Royal Assent and replaced the Airports Act 1986 as the key piece of legislation relating to the economic regulation of UK airports. The Act introduces a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. This primary duty is supported by various supplementary duties including to ensure an efficient airport operator is able to finance the activities that are subject to the relevant licence obligations.

The Act will also bring into effect an economic licensing regime for airports similar to the regulatory framework in place in certain other regulated sectors such as water and energy. As a regulated airport, Heathrow will require a licence and initial licences will be issued by the CAA.

The licensing regime is currently being developed, with Heathrow's initial draft licence due to be published by the CAA in April 2013 for consultation alongside its publication of initial price cap proposals for Q6. The licence is expected to include scope for financial penalties, for example, in the event of a breach of certain licence conditions. Heathrow is also expected to be obliged to consult stakeholders on future plans for investment and operation of the airport, to report on environmental performance, to comply with service standards and other conditions and measures designed to ensure the effective economic regulation of the airport.

The licensing regime is also expected to include conditions relating to licensed airports' financial resilience, for example a minimum credit rating requirement, consistent with the themes proposed by the Department for Transport in 2009.

2 Financial review

2.1 Basis of preparation

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

2.2 Profit and loss account

2.2.1 Introduction

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

<i>Year ended 31 December</i>	2012 £m	2011 £m
Group turnover	2,464.0	2,280.0
Adjusted operating costs ⁽¹⁾	(1,200.1)	(1,147.9)
Adjusted EBITDA⁽²⁾	1,263.9	1,132.1
Exceptional items – pensions ⁽³⁾	(182.3)	(40.3)
Exceptional items – other ⁽³⁾	-	0.2
EBITDA	1,081.6	1,092.0
Depreciation – ordinary	(510.5)	(508.9)
Depreciation and impairment – exceptional ⁽³⁾	-	(11.0)
Operating profit	571.1	572.1
Impairment of fixed assets – exceptional	(5.1)	-
(Loss)/gain on disposal of airports	(4.2)	7.9
Net interest payable and similar charges	(707.0)	(789.9)
Fair value gain/(loss) on financial instruments	112.4	(45.9)
Total net interest payable and similar charges	(594.6)	(835.8)
Loss on ordinary activities before taxation	(32.8)	(255.8)
Tax (charge)/credit on loss on ordinary activities	(8.1)	64.3
Loss on ordinary activities after taxation	(40.9)	(191.5)

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

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

(3) See section 2.2.6 for further discussion of exceptional items

2.2.2 Turnover

In the year ended 31 December 2012, turnover increased 8.1% to £2,464.0 million (2011: £2,280.0 million). This reflects increases of 10.7%, 4.5% and 5.0% in aeronautical, retail and other income respectively.

<i>Year ended 31 December</i>	2012 £m	2011 £m	Change (%)
Aeronautical income	1,413.0	1,276.4	10.7
Retail income	541.7	518.6	4.5
Other income	509.3	485.0	5.0
Total turnover	2,464.0	2,280.0	8.1

2.2.2.1 Aeronautical income

Aeronautical income by airport

<i>Year ended 31 December</i>	2012 £m	2011 £m	Change (%)
Heathrow	1,279.7	1,149.6	11.3
Stansted	133.3	126.8	5.1
Total	1,413.0	1,276.4	10.7

In the year ended 31 December 2012, aeronautical income increased 10.7% to £1,413.0 million (2011: £1,276.4 million). At Heathrow, the growth primarily reflected the headline 12.2% and 12.7% tariff increases from 1 April 2011 and 1 April 2012 respectively supported by the modest increase in passenger traffic. This has been partially offset by lower than expected yields particularly due to factors such as more quieter aircraft, a higher proportion of transfer passengers and a lower contribution from aircraft parking charges than assumed when tariffs were set. These factors led to aeronautical income being approximately £40 million lower than expected in the year ended 31 December 2012. This shortfall (or yield dilution) will be recovered through the 'K factor' true-up mechanism in the years commencing 1 April 2013 and 1 April 2014.

At Stansted, growth in aeronautical income reflected the headline 6.33% and 6.83% tariff increases from 1 April 2011 and 1 April 2012 respectively together with reduced tariff discounts, partially offset by lower traffic.

The headline maximum allowable yield at Heathrow will increase by 10.4% from 1 April 2013.

2.2.2.2 Retail income

The Group's retail business enjoyed another good year in 2012 with a 4.4% increase in net retail income per passenger to £5.82 (2011: £5.58) driving 4.5% growth in retail income to £541.7 million (2011: £518.6 million).

Net retail income per passenger by airport⁽¹⁾

<i>Year ended 31 December</i>	2012 £	2011 £	Change (%)
Heathrow	6.21	5.95	4.4
Stansted	4.27	4.16	2.8
Total	5.82	5.58	4.4

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

Heathrow's retail income increased 5.7% to £460.1 million (2011: £435.4 million) and NRI per passenger increased 4.4% to £6.21 (2011: £5.95). The underlying growth in Heathrow's net retail income per passenger was slightly higher (around 5.5%) after adjusting for one-off benefits and Olympic-related income.

Heathrow's duty and tax-free and airside specialist shops continued to see increases in the average spend of passengers purchasing items in the in-terminal retail facilities. This was driven by factors including an increased proportion of higher spending non-EU passengers, refurbishment of Terminal 3's airside shops and enhancements to World Duty Free's stores in Terminals 3 and 4. In airside specialist shops, trading was particularly buoyant in the luxury and fashion segments.

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

Stansted's retail income decreased 1.9% to £81.6 million (2011: £83.2 million), outperforming the 3.2% decline in its passenger traffic. Combined with retail expenditure reducing to £7.0 million (2011: £8.2 million), this resulted in NRI per passenger increasing 2.8% to £4.27 (2011: £4.16). Catering, landside shops and bookshops and other retail income increased year on year although this was more than offset by declines elsewhere, particularly in car parking and duty and tax-free.

2.2.2.3 Other income

Income from activities other than aeronautical and retail increased 5.0% to £509.3 million (2011: £485.0 million). This was driven particularly by operational facilities and utilities income increasing 9.6% to £173.0 million (2011: £157.8 million) due mainly to higher demand, back billing and increases in tariffs for electricity. The increase in other income also reflected rail income increasing 4.4% to £116.0 million (2011: £111.1 million) and recovery of Olympics baggage related costs.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items.

In the year ended 31 December 2012, adjusted operating costs increased 4.5% to £1,200.1 million (2011: £1,147.9 million).

<i>Year ended 31 December</i>	2012 £m	2011 £m	Change (%)
Employment costs	369.5	339.1	9.0
Maintenance expenditure	149.5	137.0	9.1
Utility costs	109.0	110.8	(1.6)
Rents and rates	143.6	129.4	11.0
General expenses	246.0	232.7	5.7
Retail expenditure	32.8	31.0	5.8
Intra-group charges/other	149.7	167.9	(10.8)
Total	1,200.1	1,147.9	4.5

On an underlying basis, there was strong discipline in controllable costs given the impact on reported adjusted operating costs of Olympic-related activities, higher pension-related charges and the full year effect of additional infrastructure (Terminal 5C). In addition, the Group had to absorb contractual inflation adjustments to the cost of provision to the business of various services.

There were approximately £25 million in Olympic-related costs (approximately £16 million net of revenue benefits) such as the costs of Heathrow's temporary Olympic terminal, professional consultants, baggage, uniforms and staff bonuses and overtime costs.

Whilst reported employment costs were up 9.0%, adjusting for factors such as higher non-cash defined benefit pension service charges and one-off costs related to the Olympics, they increased by around 5%. Increased maintenance expenditure was mainly due to the cost of the temporary Olympic terminal at Heathrow and the impact of adverse winter weather in February 2012. Increases in rents and rates were driven primarily by inflation-linked increases in property rates and additional rateable property such as Terminal 5C that was only open for part of the comparative period. The growth in general expenses reflected increases across a range of areas including air traffic control, insurance, cleaning, service quality rebates and the Olympics. Partially offsetting these increases were reduced intra-group charges, particularly reflecting success in reducing central services costs.

The year on year increase in adjusted operating costs moderated significantly through the year with an 8.1% increase at the half year turning into a 4.5% increase for the full year. Outturn costs for the year were also

lower than earlier expectations. These trends reflected particularly larger than expected reductions in intra-group charges.

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

2.2.4 Adjusted EBITDA

In the year ended 31 December 2012, Adjusted EBITDA increased 11.6% to £1,263.9 million (2011: £1,132.1 million), resulting in an Adjusted EBITDA margin of 51.3% (2011: 49.7%).

The significant increase in Adjusted EBITDA from 2011 reflects the effect of achieving turnover growth of 8.1% whilst limiting the increase in adjusted operating costs to 4.5%.

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 11.9% to £1,169.7 million (2011: £1,045.1 million). The significant increase in Heathrow's Adjusted EBITDA reflects the factors referred to above in relation to the growth in the Group's Adjusted EBITDA. Stansted's Adjusted EBITDA increased 8.3% to £94.2 million (2011: £87.0 million) due principally to increased aeronautical income, driven by higher tariffs partially offset by reduced passenger traffic, resulting in an overall increase in its revenues whilst operating costs were held flat year on year.

2.2.5 Operating profit

The Group recorded an operating profit for the year ended 31 December 2012 of £571.1 million (2011: £572.1 million). The difference between Adjusted EBITDA and operating profit results from £510.5 million in depreciation (2011: £508.9 million) and a £182.3 million exceptional charge (2011: £51.1 million). A reconciliation between Adjusted EBITDA and statutory operating profit is provided below.

<i>Year ended 31 December</i>	2012 £m	2011 £m	Change (%)
Adjusted EBITDA	1,263.9	1,132.1	11.6
Depreciation – ordinary	(510.5)	(508.9)	0.3
Exceptional items – pensions	(182.3)	(40.3)	352.4
Exceptional items - impairment	-	(11.0)	n/a
Exceptional items – other	-	0.2	n/a
Operating profit	571.1	572.1	(0.2)

2.2.6 Exceptional items

In the year ended 31 December 2012, there was an exceptional £182.3 million charge (2011: £51.1 million) to operating profit. This reflected a non-cash pension charge arising principally from the Group's share of the movement from an accounting surplus to a deficit of LHR Airports Limited's defined benefit pension scheme. See section 2.4 for further discussion of the movement in the defined benefit pension scheme deficit. There were further exceptional charges below operating profit. These included a £5.1 million impairment as a result of a change in the expected future use of automated immigration systems at Heathrow. There was also a £4.2 million loss on disposal of airports that related primarily to legal fees and other separation costs at Stansted. In the year ended 31 December 2011, there was a £7.9 million exceptional gain related to the prior Gatwick disposal.

2.2.7 Taxation

The tax charge for the year ended 31 December 2012 results in a negative effective tax rate for the period of 24.7% (2011: effective tax rate of 25.1%). This reflects a tax charge arising on ordinary activities of £28.5 million (2011: £40.3 million credit) and a tax credit of £20.4 million (2011: £24.0 million) due to the impact on deferred tax liabilities of the reductions in the main rate of UK corporation tax.

The tax charge for the year ended 31 December 2012 on ordinary activities results in a negative effective tax rate of 86.9% (2011: effective tax rate of 15.8%). The tax charge for the year is more than the credit implied

by the statutory rate of 24.5% (2011: 26.5%) primarily due to permanent differences arising from non-qualifying depreciation.

The Finance Act 2012 enacted a reduction in the main rate of UK corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. As a result, the Group's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23%. This has resulted in a reduction in the net deferred tax liability of £9.8 million, with £20.4 million credited to the profit and loss account and £10.6 million charged to reserves.

2.3 Cash flow

2.3.1 Summary cash flow

<i>Year ended 31 December</i>	2012 £m	2011 £m
Net cash inflow from operating activities	1,163.7	1,132.2
Net interest paid	(427.9)	(388.8)
Taxation – group relief paid	(28.3)	(27.2)
Cash flow after interest and tax	707.5	716.2
Net capital expenditure	(1,157.0)	(864.7)
Disposal of subsidiaries	(5.3)	(6.1)
Dividends paid	(436.0)	(24.8)
Net cash outflow before use of liquid resources and financing	(890.8)	(179.4)
Management of liquid resources	(11.5)	20.0
Cancellation and restructuring of derivatives	(75.9)	(114.4)
Settlement of accretion on index-linked swaps	(80.0)	(15.0)
Increase in amount owned to Heathrow Finance plc	269.9	31.8
Movement in borrowings and other financing flows	781.7	263.1
(Decrease)/increase in cash	(6.6)	6.1

2.3.2 Cash flow from operating activities

Net cash inflow from operations in the year ended 31 December 2012 increased 2.8% to £1,163.7 million (2011: £1,132.2 million) which compares with Adjusted EBITDA of £1,263.9 million (2011: £1,132.1 million). The reduced conversion of Adjusted EBITDA to operating cash flow compared to 2011 reflects three factors: the absence of the exceptional £47.2 million working capital benefit recorded in 2011, a larger difference between the cash contributions to the defined benefit pension scheme and the net service charge to the profit and loss account and a stronger underlying working capital performance in 2011.

2.3.3 Capital expenditure

In the year ended 31 December 2012, the cash flow impact of the Group's capital investment programme was £1,157.0 million (2011: £864.7 million) with £1,141.0 million (2011: £843.8 million) at Heathrow and £16.0 million (2011: £20.9 million) at Stansted.

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

2.3.4 Restricted payments/dividends

In the year ended 31 December 2012, there was a net of restricted payments made out of the Group. This was implemented by £436.0 million in dividend payments, other inter-company loan interest of £48.7 million with the remaining cash of £99.0 million returned back to the Group. Of £385.7 million, £39.4 million was

utilised to make interest payments on Heathrow Finance plc's ('Heathrow Finance') external debt financing and £346.3 million to make distributions beyond Heathrow Finance which, together with other cash within the Heathrow Airport Holdings Limited (formerly BAA Limited) group, was utilised in paying both accrued and current interest on the facility held at ADI Finance 1 Limited and making £240.0 million in dividend payments to the Group's ultimate shareholders.

2.4 Pension scheme

At 31 December 2012, the LHR Airports Limited defined benefit pension scheme had a deficit of £103.3 million as measured under FRS 17, of which £92.0 million was attributable to the Group under its shared services agreement with LHR Airports Limited. This compares with a scheme surplus of £38.7 million at 31 December 2011, of which £32.5 million was attributable to the Group. The change from a scheme surplus to a deficit is due principally to a fall in the net discount rate applied to the scheme liabilities.

2.5 Recent financing activity

The Group's financing position was transformed in 2012 with over £3 billion raised in multiple capital markets transactions and the successful refinancing of the Group's core revolving credit and liquidity facilities. This marked the culmination of a programme that has seen the Group raise nearly £7 billion since late 2009, enabling full repayment of loan facilities put in place in the 2008 refinancing and putting the Group in its strongest liquidity position for many years.

Eleven capital markets transactions were completed by the Group in 2012 across a range of currencies, ratings levels and formats with highlights including £1 billion in Class B issuance through two transactions – a £600 million twelve year bond and a £400 million eight year bond. There were also debut offerings in both Swiss francs (CHF400 million five year Class A bond) and Canadian dollars (C\$400 million seven year Class A bond). Other notable Class A transactions included a €700 million five year bond, a £180 million ten year index-linked single investor private placement and a US\$500 million three year bond that builds on the Group's presence in the US market established in 2011.

In 2012, the Group also completed the refinancing of its revolving credit and liquidity facilities. The new facilities were well oversubscribed with approximately £4 billion of commitments from 17 existing and new relationship banks from across the globe. This enabled the size of the new facilities to be increased to £2.75 billion. They comprise a £2.0 billion revolving credit facility (split £1.5 billion Class A and £400 million Class B general purposes facilities; and £100 million Class A working capital facility); and £750 million standby liquidity facilities. The new facilities mature in June 2017 and the Class A and B tranches of the revolving credit facility carry margins of 150 basis points and 225 basis points respectively.

The financing programme implemented over the last 3 years has transformed the financing position of the Group. Recent progress is evident from the fact that between 31 December 2011 and 31 December 2012, the Group has diversified its sources of funding in the bond markets from three currencies to five, increased the average life of its external debt from 9.8 years to 10.1 years and reduced the amount of debt falling due within 3 years from £3.7 billion to £1.8 billion.

The Group expects the scale and focus of its capital markets activities to evolve going forward. In particular, it expects funding requirements to moderate materially, to an average of less than £1.5 billion per annum, over the coming years. This reflects the repayment of loan facilities referred to above as well as an expectation of both a more moderate capital programme and continued increases in operating cash flow at Heathrow through to the end of its next regulatory period in 2019. The proceeds from the sale of Stansted will reduce financing needs even further over the next 12 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 the debenture between Heathrow (SP) Limited ('Heathrow (SP)') and its parent company, Heathrow Finance. It includes all the components used in calculating gearing ratios under the Group's financing agreements including index-linked accretion.

During 2012, the Group's nominal net debt increased 8.8% to £11,359.5 million at 31 December 2012 from £10,442.6 million at 31 December 2011. The increase in net debt primarily reflects three factors: funding of capital investment at Heathrow; making payments referred to in section 2.3.4; and inflation accretion on the Group's index-linked swaps and bonds.

The Group's nominal net debt at 31 December 2012 comprised £10,239.8 million under bond issues, £307.0 million under the Group's revolving credit facility, £404.5 million under other loan facilities, £444.7 million in index-linked derivative accretion and cash at bank and term deposits of £36.5 million (compared with cash and current asset investments of £38.1 million shown on the balance sheet). Nominal net debt comprised £9,809.5 million in senior net debt and £1,550.0 million in junior debt.

The accounting value of the Group's net debt at 31 December 2012 was £10,852.1 million (2011: £10,254.4 million).

The average cost of the Group's external gross debt at 31 December 2012 was 4.24% (2011: 4.17%) taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2012 was 5.83% (2011: 6.45%). The decrease in the average cost of debt (including index-linked accretion) is mainly due to lower inflation at 31 December 2012 than at 31 December 2011.

At 31 December 2012, the Group had approximately £1.7 billion in undrawn bank facilities and cash resources. Since the beginning of 2013, the Group has announced the sale of Stansted airport which is expected to generate significant net proceeds to the Group. Taking this into account, together with expected operating cashflow over the period, the Group expects to have sufficient liquidity to meet all its obligations in full, including capital investment, debt service costs, debt maturities and restricted payments, until mid-2015.

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 £727.5 million of gross debt and £1.2 million of cash held at Heathrow Finance, Heathrow Finance's consolidated net debt at 31 December 2012 was £12,085.8 million, an increase of 9.9% from £10,992.2 million at 31 December 2011.

2.6.3 Regulatory Asset Base ('RAB')

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

	Heathrow £m	Stansted £m	Total £m
31 December 2011	12,490.2	1,359.5	13,849.7
31 December 2012	13,471.0	1,342.7	14,813.7

The increase in the total RAB during the year ended 31 December 2012 reflected capital expenditure of approximately £1,180 million; inflation indexation of around £435 million; offset by regulatory depreciation of around £605 million; RAB profiling adjustments of around £45 million; and a modest amount of disposals.

2.6.4 Net interest payable and net interest paid

In the year ended 31 December 2012, the Group's net interest payable was £707.0 million (2011: £789.9 million) excluding fair value gains and losses on financial instruments. Underlying net interest payable was £761.9 million (2011: £764.6 million), after adjusting for £100.0 million (2011: £27.1 million) in capitalised interest and £45.1 million (2011: £52.4 million) in non-cash amortisation of financing fees and bond fair value adjustments. The slight decrease in underlying interest payable in 2012 primarily reflected lower accretion on

index-linked instruments due to lower inflation and increased interest receivable due to a higher average amount of index-linked swaps largely offset by the effect of the increase in net debt.

Within interest payable is also recorded a non-cash net fair value gain on financial instruments of £112.4 million (2011: £45.9 million loss).

Net interest paid in the year ended 31 December 2012 was £427.9 million (2011: £388.8 million). This consisted of £379.2 million (2011: £347.2 million) paid in relation to external debt and £48.7 million (2011: £41.6 million) paid under the debenture between Heathrow (SP) and Heathrow Finance. The increase in net interest paid is due primarily to the overall increase in net debt and timing differences.

Net interest paid is lower than net interest payable primarily due to an amortisation charge of £38.3 million (2011: £62.1 million) in net interest payable relating to prepayments of derivative interest made in earlier periods and a £190.6 million (2011: £247.2 million) non-cash charge relating to accretion on index-linked instruments. This is partially offset by the net effect of capitalised interest and the non-cash amortisation of financing fees and bond fair value adjustments.

2.6.5 Financial ratios

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

At 31 December 2012, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 66.2% and 76.7% respectively (2011: 68.0% and 75.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 81.6% (2011: 79.4%) compared to a covenant level of 90.0% under its financing agreements. The increase in the Group's junior and Heathrow Finance's gearing ratios since 31 December 2011 was primarily due to the increase in net debt discussed in section 2.6.1.

In the year ended 31 December 2012, the Group's senior and junior interest cover ratios (the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.62x and 2.30x respectively (2011: 2.76x and 2.34x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.08x (2011: 2.17x) compared to a covenant level of 1.00x under its financing agreements. Cash exceptional items excluded in determining 2011 interest cover ratios included a one-off working capital benefit of £47.2 million. In addition, in 2011 and 2012 there were reorganisation cash costs of £4.7 million and £3.9 million respectively.

2.7 Outlook

This year is expected to see strong growth in Heathrow's turnover, Adjusted EBITDA and operating cash flow driven principally by increased aeronautical tariffs. Heathrow also intends to make significant progress in completing the new Terminal 2 with construction due to be complete by the end of 2013 and the terminal becoming operational in mid-2014.

Passenger traffic in early 2013 has been consistent with expectations with record traffic at Heathrow in January. Therefore at this early stage of the year, the outlook for the Group's financial performance in 2013 remains consistent with guidance in the Investor Report issued in December 2012.

Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated profit and loss account for the year ended 31 December 2012

	Note	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Turnover	1	2,464.0	2,280.0
Operating costs – ordinary		(1,710.6)	(1,656.8)
Operating costs – exceptional: pensions	2	(182.3)	(40.3)
Operating costs – exceptional: other	2	-	(10.8)
Total operating costs		(1,892.9)	(1,707.9)
Total operating profit	1	571.1	572.1
Impairment of fixed assets – exceptional	2	(5.1)	-
(Loss)/gain on disposal of airports	2	(4.2)	7.9
Interest receivable and similar income	3	249.7	220.4
Interest payable and similar charges	3	(956.7)	(1,010.3)
Fair value gain/(loss) on financial instruments	3	112.4	(45.9)
Net interest payable and similar charges	3	(594.6)	(835.8)
Loss on ordinary activities before taxation		(32.8)	(255.8)
Tax (charge)/credit on loss on ordinary activities	4	(8.1)	64.3
Loss on ordinary activities after taxation		(40.9)	(191.5)

Heathrow (SP) Limited
Consolidated balance sheet
as at 31 December 2012

	Note	Audited 31 December 2012 £m	Audited 31 December 2011 £m
Fixed assets			
Tangible fixed assets		12,961.1	12,160.5
Financial assets – derivative financial instruments		305.8	369.1
Total fixed assets		13,266.9	12,529.6
Current assets			
Stocks		8.9	8.0
Debtors		312.9	305.9
Financial assets – derivative financial instruments		0.4	170.9
Current asset investments		32.5	21.0
Cash		5.6	12.2
Total current assets		360.3	518.0
Current liabilities			
Creditors: amounts falling due within one year	5	(1,231.3)	(1,553.2)
Net current liabilities		(871.0)	(1,035.2)
Total assets less current liabilities		12,395.9	11,494.4
Creditors: amounts falling due after more than one year	5	(12,427.4)	(11,096.0)
Deferred tax		(103.3)	(123.1)
Provisions for liabilities and charges		(121.7)	(33.8)
Net (liabilities)/assets	0	(256.5)	241.5
Capital and reserves			
Called up share capital		11.0	11.0
Share premium reserve		499.0	499.0
Revaluation reserve		835.4	1,514.4
Merger reserve		(4,535.6)	(4,535.6)
Fair value reserve		(455.3)	(396.3)
Profit and loss reserve	6	3,389.0	3,149.0
Total shareholder's (deficit)/funds		(256.5)	241.5

Heathrow (SP) Limited

Consolidated summary cash flow statement for the year ended 31 December 2012

	Note	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Operating profit		571.1	572.1
<i>Adjustments for:</i>			
Depreciation (including exceptional operating costs)		510.5	519.9
Gain on disposal of tangible fixed assets		(0.4)	(0.3)
<i>Working capital changes:</i>			
Increase in stock and debtors		(27.8)	(34.6)
(Decrease)/increase in creditors		(11.0)	30.6
Net release of provisions		(4.4)	(7.3)
Difference between pension charge and cash contributions		(56.6)	(35.7)
Exceptional pension charge		182.3	40.3
Exceptional working capital settlement of intercompany balance		-	47.2
Net cash inflow from operating activities		1,163.7	1,132.2
Net interest paid		(427.9)	(388.8)
Taxation – group relief paid		(28.3)	(27.2)
Net capital expenditure		(1,157.0)	(864.7)
Disposal of subsidiaries – disposal costs		(5.3)	(6.1)
Dividends paid	6	(436.0)	(24.8)
Net cash outflow before use of liquid resources and financing		(890.8)	(179.4)
Management of liquid resources		(11.5)	20.0
Issuance of bonds	5	3,081.9	1,507.9
Repayment of bonds	5	(680.2)	-
Drawdown of revolving credit facility	5	307.0	-
(Repayment)/drawdown of capital expenditure facility	5	(1,395.0)	95.0
Repayment of facilities and other items	5	(532.0)	(1,339.8)
Increase in amount owed to Heathrow Finance plc	5	269.9	31.8
Settlement of accretion on index-linked swaps		(80.0)	(15.0)
Cancellation and restructuring of derivatives		(75.9)	(114.4)
Net cash inflow from financing		895.7	165.5
(Decrease)/increase in cash		(6.6)	6.1

Heathrow (SP) Limited

General information and accounting policies

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2012 or 31 December 2011. The annual financial information presented herein for the year ended 31 December 2012 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2012. The auditors' report on the 2012 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments, in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2012. Unless otherwise stated, amounts all relate to continuing operations.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2012

1 Segment information

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

Turnover	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Heathrow	2,222.5	2,045.6
Stansted	241.5	234.4
Total	2,464.0	2,280.0

Operating profit	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Heathrow	542.5	526.8
Stansted	23.0	39.4
Other entities and adjustments ¹	5.6	5.9
Total	571.1	572.1

Net assets/(liabilities)	Audited 31 December 2012 £m	Audited 31 December 2011 £m
Heathrow	1,363.0	1,452.0
Stansted	875.4	887.6
Other entities and adjustments ¹	(2,494.9)	(2,098.1)
Total	(256.5)	241.5

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

Reconciliation of Adjusted EBITDA and operating profit

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

Audited Year ended 31 December 2012	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation £m	Operating profit £m
Heathrow	1,163.8	(151.3)	(470.0)	542.5
Stansted	94.2	(30.7)	(40.5)	23.0
Other entities and adjustments ¹	5.9	(0.3)	-	5.6
Total	1,263.9	(182.3)	(510.5)	571.1

Audited Year ended 31 December 2011	Adjusted EBITDA £m	Operating exceptional items £m	Depreciation ² £m	Operating profit £m
Heathrow	1,039.2	(44.1)	(468.3)	526.8
Stansted	87.0	(7.1)	(40.5)	39.4
Other entities and adjustments ¹	5.9	0.1	(0.1)	5.9
Total	1,132.1	(51.1)	(508.9)	572.1

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

² Depreciation excluding £11.0 million Airtrack rail exceptional costs which are included within operating exceptional items.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2012

2 Operating and non-operating exceptional items

	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Operating costs – exceptional: pension		
Pension charge	(182.3)	(40.3)
Operating costs – exceptional: other	-	(10.8)
Total operating exceptional items	(182.3)	(51.1)
Non-operating exceptional items		
Exceptional impairment of fixed assets	(5.1)	-
(Loss)/gain on disposal of airports	(4.2)	7.9
Total non-operating exceptional items	(9.3)	7.9
Taxation on exceptional items	43.1	10.0
Total exceptional items after tax	(148.5)	(33.2)

Operating costs – exceptional: pension

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

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

During 2012 there was a net exceptional pension charge of £182.3 million (2011: £40.3 million). This includes the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Operating costs – exceptional: other

For the year ended 31 December 2011 operating exceptional costs of £10.8 million were incurred, £11.0 million in relation to the Airtrack rail project which the Group decided not to pursue and a £0.2 million reorganisation credit.

Non-operating exceptional items

Exceptional impairment of fixed assets

In the year ended 31 December 2012, an impairment of £5.1 million was recognised at Heathrow as a result of a change in the expected future use of automated immigration systems in advance of their anticipated sale. This accounting charge is not expected to have an impact on these costs remaining in the airport's regulatory asset base.

(Loss)/gain on disposal of airports

In the year ended 31 December 2012, £4.2 million of disposal costs were incurred, £0.1 million of which were Gatwick related and £4.1 million Stansted related. Stansted disposal costs related to legal fees and other separation costs. During 2011, £7.9 million excess provisions for Gatwick disposal costs were released to the profit and loss account and related to legal fees and other separation costs.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2012

3 Net interest payable and similar charges

	Audited Year ended 31 December 2012	Audited Year ended 31 December 2011
	£m	£m
Interest receivable and similar income		
Interest receivable on derivatives not in hedge relationship	249.4	220.0
Interest on bank deposits	0.3	0.4
	249.7	220.4
Interest payable and similar charges		
Interest on borrowings:		
Bonds and related hedging instruments ¹	(567.8)	(462.2)
Bank loans and overdrafts and related hedging instruments	(121.5)	(157.6)
Interest payable on derivatives not in hedge relationship ²	(294.2)	(347.4)
Facility fees and other charges	(19.9)	(23.3)
Interest on debenture payable to Heathrow Finance plc	(53.3)	(46.9)
	(1,056.7)	(1,037.4)
Less capitalised interest ³	100.0	27.1
	(956.7)	(1,010.3)
Net interest payable before fair value gain/(loss)	(707.0)	(789.9)
Fair value gain/(loss) on financial instruments		
Interest rate swaps: cash flow hedge ⁴	(1.6)	3.1
Index-linked swaps: not in hedge relationship ⁵	109.3	(88.7)
Cross-currency swaps: cash flow hedge ⁴	2.1	12.2
Cross-currency swaps: fair value hedge ⁴	2.4	30.8
Fair value re-measurements of foreign exchange contracts and currency balances	0.2	(3.3)
	112.4	(45.9)
Net interest payable and similar charges	(594.6)	(835.8)

¹ Includes accretion of £17.6 million (2011: £15.4 million) on index-linked bonds.

² Includes accretion of £173.0 million (2011: £231.8 million) on index-linked swaps.

³ Following the significant refinancing activity during the year, the Group has reassessed the applicable pool of general borrowing costs upon which interest has been capitalised. This has led to an increase in the capitalised interest rate to 4.75% compared to 2.08% for the previous year.

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 year ended 31 December 2012

4 Tax on loss on ordinary activities

	Audited Year ended 31 December 2012 £m	Audited Year ended 31 December 2011 £m
Current tax charge on ordinary activities	(24.0)	(15.1)
Deferred tax (charge)/credit on ordinary activities	(4.5)	55.4
Change in UK Corporation tax rate – impact on deferred tax	20.4	24.0
Total tax (charge)/credit	(8.1)	64.3

The tax charge for the year ended 31 December 2012 on ordinary activities results in a negative effective tax rate of 86.9%. The tax charge for the year is more than the credit implied by the statutory rate of 24.5% primarily due to permanent differences arising from non-qualifying depreciation.

The tax credit for the year ended 31 December 2011 on ordinary activities results in an effective tax rate of 15.8%. The tax credit for the year is less than the credit implied by the statutory rate of 26.5% primarily due to permanent differences arising from non-qualifying depreciation.

The Finance Act 2012 enacted a reduction in the main rate of UK corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013. As a result the Group's deferred tax balances, which were previously provided at 25%, have been re-measured at the rate of 23%. This has resulted in a credit to the profit and loss account of £20.4 million.

For the year ended 31 December 2011, the Finance Act 2011 enacted a reduction in the main rate of UK corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012. As a result, the Group's deferred tax balances, which were provided at 27%, were re-measured at the rate of 25%. This resulted in a credit to the profit and loss account of £24.0 million.

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2012

5 Borrowings

Within Creditors: amounts falling due within one year are borrowings and financial derivatives of £428.4 million and £39.7 respectively (2011: £871.7 million and £nil respectively).

Within Creditors: amounts falling due after more than one year are borrowings and financial derivatives of £11,329.2 million and £1,094.0 million respectively (2011: £10,013.5 million and £1,081.6 million respectively).

	Audited 31 December 2012 £m	Audited 31 December 2011 £m
Current borrowings		
Secured		
Bank loans	39.1	39.1
Bonds:		
3.975% €1,000 million due 2012	-	832.6
5.850% £400 million due 2013	389.3	-
Total current borrowings	428.4	871.7
Non-current borrowings		
Secured		
Revolving credit facility	289.9	-
Capital expenditure facility	-	1,395.0
Other bank loans	362.9	870.0
	652.8	2,265.0
Secured		
Bonds:		
5.850% £400 million due 2013	-	379.9
4.600% €750 million due 2014	563.5	588.8
3.000% £300 million due 2015	298.6	-
2.500% US\$500 million due 2015	306.4	-
12.450% £300 million due 2016	344.6	356.3
4.125% €500 million due 2016	391.0	398.5
4.375% €700 million due 2017	566.2	-
2.500% CHF400 million due 2017	267.8	-
4.600% €750 million due 2018	551.6	559.8
6.250% £400 million due 2018	398.8	397.1
4.000% CAD400 million due 2019	244.8	-
6.000% £400 million due 2020	395.5	-
9.200% £250 million due 2021	282.8	280.6
4.875% US\$1,000 million due 2021	661.0	683.3
1.650% RPI £180 million due 2022	184.3	-
5.225% £750 million due 2023	632.4	624.9
7.125% £600 million due 2024	587.8	-
6.750% £700 million due 2026	690.2	689.8
7.075% £200 million due 2028	197.6	197.5
6.450% £900 million due 2031	863.6	840.8
Zero-coupon €50 million due January 2032	42.2	-
Zero-coupon €50 million due April 2032	41.9	-
3.334%+RPI £460 million (2011: £365 million) due 2039 ¹	547.3	416.3
5.875% £750 million due 2041	749.0	737.3
	9,808.9	7,150.9
Unsecured		
Heathrow (SP) Limited debenture payable to Heathrow Finance plc	867.5	597.6
Total non-current borrowings	11,329.2	10,013.5
Total borrowings	11,757.6	10,885.2

¹ This index-linked bond was re-opened, generating proceeds of £118.6 million in March 2012 (2011: £154.3 million in May 2011).

6 Dividends

During the year ended 31 December 2012, Heathrow (SP) Limited paid dividends of £436.0 million to Heathrow Finance plc, being £395.0 million on 15 March 2012, £20.0 million on 21 June 2012 and £21.0 million on 10 August 2012 (2011: Heathrow (SP) Limited paid a dividend of £24.8 million on 10 August 2011).

Appendix 2

Analysis of turnover and operating costs for the year ended 31 December 2012

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	1,279.7	-	1,279.7	133.3	1,413.0
Retail income	460.1	-	460.1	81.6	541.7
Car parking	81.6	-	81.6	33.7	115.3
Duty and tax-free	122.4	-	122.4	11.1	133.5
Airside specialist shops	92.0	-	92.0	6.6	98.6
Bureaux de change	43.6	-	43.6	8.0	51.6
Catering	38.3	-	38.3	9.7	48.0
Landside shops and bookshops	20.5	-	20.5	4.7	25.2
Advertising	29.9	-	29.9	2.4	32.3
Car rental	12.7	-	12.7	2.3	15.0
Other	19.1	-	19.1	3.1	22.2
Operational facilities and utilities income	162.9	-	162.9	10.1	173.0
Property rental income	102.5	-	102.5	8.9	111.4
Rail income	116.0	-	116.0	0.0	116.0
Other income	95.4	-	95.4	7.6	103.0
HEX inter-company elimination	(59.0)	64.9	5.9	-	5.9
Total income	2,157.6	64.9	2,222.5	241.5	2,464.0
Operating costs					
Employment costs	291.3	22.6	313.9	55.6	369.5
Maintenance expenditure	120.9	16.5	137.4	12.1	149.5
Utility costs	87.5	2.0	89.5	19.5	109.0
Rents and rates	126.3	1.7	128.0	15.6	143.6
General expenses	202.1	13.8	215.9	30.1	246.0
Retail expenditure	25.8	-	25.8	7.0	32.8
Intra-group charges/other	205.3	2.4	207.7	7.3	215.0
(Gain)/loss on disposal of fixed assets	(0.5)	-	(0.5)	0.1	(0.4)
HEX inter-company elimination	(64.9)	-	(64.9)	-	(64.9)
Adjusted operating costs	993.8	59.0	1,052.8	147.3	1,200.1
Depreciation	470.0	-	470.0	40.5	510.5
Exceptional items	151.3	0.3	151.6	30.7	182.3
Total operating costs	1,615.1	59.3	1,674.4	218.5	1,892.9
Adjusted EBITDA	1,163.8	5.9	1,169.7	94.2	1,263.9

Analysis of turnover and operating costs for the year ended 31 December 2011

	Heathrow Airport Ltd	HEX Opco	Total Heathrow	Stansted	Total
	£m	£m	£m	£m	£m
Turnover					
Aeronautical income	1,149.6	-	1,149.6	126.8	1,276.4
Retail income	435.4	-	435.4	83.2	518.6
Car parking	79.3	-	79.3	35.1	114.4
Duty and tax-free	114.3	-	114.3	11.6	125.9
Airside specialist shops	85.2	-	85.2	6.6	91.8
Bureaux de change	39.5	-	39.5	8.2	47.7
Catering	36.0	-	36.0	9.5	45.5
Landside shops and bookshops	21.2	-	21.2	4.6	25.8
Advertising	27.9	-	27.9	2.4	30.3
Car rental	13.0	-	13.0	2.4	15.4
Other	19.0	-	19.0	2.8	21.8
Operational facilities and utilities income	148.0	-	148.0	9.8	157.8
Property rental income	102.1	-	102.1	8.2	110.3
Rail income	111.1	-	111.1	-	111.1
Other income	93.5	-	93.5	6.4	99.9
HEX inter-company elimination	(57.9)	63.8	5.9	-	5.9
Total income	1,981.8	63.8	2,045.6	234.4	2,280.0
Operating costs					
Employment costs	262.1	21.5	283.6	55.5	339.1
Maintenance expenditure	110.6	16.5	127.1	9.9	137.0
Utility costs	89.1	1.8	90.9	19.9	110.8
Rents and rates	113.2	1.4	114.6	14.8	129.4
General expenses	188.8	14.4	203.2	29.5	232.7
Retail expenditure	22.8	-	22.8	8.2	31.0
Intra-group charges/other	218.7	2.3	221.0	9.7	230.7
Gain on disposal of fixed assets	(0.2)	-	(0.2)	(0.1)	(0.3)
HEX inter-company elimination	(62.5)	-	(62.5)	-	(62.5)
Adjusted operating costs	942.6	57.9	1,000.5	147.4	1,147.9
Depreciation	468.3	0.1	468.4	40.5	508.9
Exceptional items	44.1	(0.1)	44.0	7.1	51.1
Total operating costs	1,455.0	57.9	1,512.9	195.0	1,707.9
Adjusted EBITDA	1,039.2	5.9	1,045.1	87.0	1,132.1