

News release

23 February 2015

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Heathrow (SP) Limited

Results for the year ended 31 December 2014

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

- **Highest passenger satisfaction of all European hub airports in 2014 and strong operational performance**
- **Busiest year ever, with 73.4 million passengers served, up 1.4%, but no real growth in flights**
- **Strong financial performance, revenue up 8.8% to £2.7 billion and EBITDA up 10.3% to £1.57 billion**
- **Completed £11 billion transformation programme with the successful opening of Terminal 2: The Queen's Terminal, on time and on budget**
- **Moving into a more modest investment period, generating cash after capital investment and interest for the first time in over a decade**
- **With Heathrow full, Britain is falling behind in direct flights to growth markets – that's why calls for Heathrow expansion are growing from all parts of the UK**

| At or for year ended 31 December | 2014 | 2013 | Change (%) |
|--|---------------|--------|------------|
| <i>(figures in £m unless otherwise stated)</i> | | | |
| Revenue | 2,692 | 2,474 | 8.8 |
| Adjusted EBITDA ⁽¹⁾ | 1,567 | 1,421 | 10.3 |
| Cash generated from operations | 1,525 | 1,403 | 8.7 |
| Cash flow after investment and interest ⁽²⁾ | 99 | (403) | n.m. |
| Pre-tax (loss)/profit | (119) | 202 | n.m. |
| Heathrow (SP) Limited consolidated net debt ⁽³⁾ | 11,653 | 11,264 | 3.5 |
| Heathrow Finance plc consolidated net debt ⁽³⁾ | 12,560 | 12,025 | 4.4 |
| Regulatory Asset Base | 14,860 | 14,585 | 1.9 |
| Passengers (m) ⁽⁴⁾ | 73.4 | 72.3 | 1.4 |
| Net retail income per passenger ⁽⁴⁾ | £6.53 | £6.43 | 1.5 |

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

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

“Heathrow performed very well in 2014, with record levels of passenger service and numbers of passengers served. The successful opening of Terminal 2 means the nation now has a world class front door and passengers rate us the best hub airport in Europe. But with Heathrow full, Britain is falling behind European rivals in the race for growth. An expanded hub airport is best for Britain and backed by Britain. We have made Heathrow better - now it is time to make it bigger, and connect all of Britain to global growth.”

Definitions and notes

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

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A conference call will be held for creditors and credit analysts on Monday 23 February 2015 at 3.00pm (UK time)/4.00pm (Central European time)/10.00 am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and José Leo, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 29707764#.

The presentation can be viewed online during the event, using event password: 652636 at: <https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=m1d6e2733de951316c15a2cf511b642cc>

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

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

Heathrow (SP) Limited

Consolidated results for the year ended 31 December 2014

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1 Key business developments

1.1 Review of the year

Heathrow performed strongly in 2014 delivering a solid financial performance and achieving the highest passenger satisfaction of all major European airports whilst handling more passengers than ever.

In July 2014, John Holland-Kaye became Chief Executive Officer and set out his ambition for Heathrow to become one of the best airports in the world. Heathrow took an important step in 2014, with passengers ranking Heathrow the number one major European airport. Passenger satisfaction hit a record high and 78% of passengers in 2014 rated their experience with the airport as ‘Excellent’ or ‘Very Good’ recognising the improvements delivered through the year including the opening of Terminal 2 and increased security lanes in Terminal 5 from December. Despite operating at full capacity, departure punctuality improved through the year with 78% of flights departing within 15 minutes of schedule as operational procedures improved across all stakeholders. As part of a programme to build greater operational resilience, a centralised airport operations control centre was opened in late 2014. The centre is focused on improving the flow of passengers, aircraft and bags through the end to end journey. The centre enhances operational awareness and collaboration and is leading to improved performance of the airport operation.

These achievements were all the more significant, as Heathrow welcomed a record 73.4 million passengers in 2014, over a million more than in 2013. New routes and additional flights were launched to mature and emerging long haul markets benefiting from the strength of efficient hub facilities. New destinations include Manila, Chengdu, Bogota and Austin, Texas and Air China consolidated its London operations into Heathrow.

By the end of 2014, Heathrow had more airlines operating Boeing 787s than any other airport globally, whilst the number of airlines operating Airbus 380s increased to seven, benefiting from the direct demand to use Heathrow and the hub capabilities for efficient transfers.

2014 was a milestone year in the transformation of Heathrow, with the opening of Terminal 2: The Queen's Terminal in June. The terminal is home to 26 airlines including Star Alliance airlines at Heathrow. The terminal provides the ability for airlines to operate with low minimum connecting times for transfer passengers, benefiting from the hub infrastructure. Together with Terminal 5, which has been the winner of the Skytrax World's Best Airport Terminal for three successive years, Heathrow now has two world-class terminals, giving the UK a world-class entry point.

A new period of economic regulation started in April and the business launched its five year plan to further improve the passenger experience and increase operational resilience whilst delivering a competitive cost of operation. The regulatory settlement is based on the delivery of £600 million of cost efficiencies between 2014 and 2018. A strong start has been made and the cost efficiencies secured in 2014 are projected to deliver approximately £280 million in savings for the period of the plan. In addition, revenue initiatives forecast to generate around £100 million have already been implemented.

Strategically, there was significant focus in 2014 on developing the proposals for expanding Heathrow. Heathrow is the UK's only hub airport and together with its unique catchment area, airlines choose to operate 80% of the UK's scheduled long haul traffic at Heathrow. The airport is full and opportunities for airlines to start new routes to fast growing markets are constrained, with airlines often looking elsewhere in Europe rather than in the UK to build routes, resulting in important traffic flows bypassing the UK in turn undermining the UK's ability to access key emerging markets. Support for expanding Heathrow is growing locally and nationally and at the launch of its national consultation, the Airports Commission estimated that Heathrow expansion could bring benefits of up to £211 billion across the UK economy. These benefits include a combination of new trade opportunities and markets, supply chain employment, business creation and jobs across the UK. In the summer of 2015, the Airports Commission will make a final recommendation for expansion.

1.2 Passenger traffic

Heathrow's passenger traffic by geographic segment for the year ended 31 December 2014:

| <i>(figures in millions unless otherwise stated)</i> | 2014 | 2013 | Change (%) ⁽¹⁾ |
|--|-------------|------|---------------------------|
| UK | 5.3 | 5.0 | 5.5 |
| Europe | 30.0 | 29.9 | 0.2 |
| North America | 17.0 | 16.7 | 1.7 |
| Asia Pacific | 10.4 | 10.3 | 1.5 |
| Middle East | 6.0 | 5.9 | 3.4 |
| Africa | 3.5 | 3.5 | (0.2) |
| Latin America | 1.1 | 1.1 | 6.3 |
| Total passengers⁽¹⁾ | 73.4 | 72.3 | 1.4 |

(1) Calculated using unrounded passenger figures

For the year ended 31 December 2014, Heathrow's traffic increased 1.4% to 73.4 million passengers (2013: 72.3 million). The average load factor rose to 76.6% (2013: 76.4%), the average number of seats per passenger aircraft increased to 204.5 (2013: 202.8) and the airport operated at 98.1% of its maximum flight capacity (2013: 97.8%).

New routes and additional flights have been launched to emerging markets and other long haul destinations. Despite capacity constraints, these are made possible by the unique passenger catchment together with the modern infrastructure to enable smooth connections. New destinations include Manila, Chengdu, Bogota and Austin, Texas and Air China consolidated all its London operation into Heathrow. In addition, British Airways announced the start of a new service to Kuala Lumpur and Vietnam Airlines

announced that it will move its entire London operations from Gatwick airport to Heathrow and increase frequencies in 2015.

Long haul demand grew in most regions with intercontinental traffic up 1.9%. North America benefited from new destinations and increased frequencies on existing routes, resulting in a rise of 1.7%. Traffic on routes serving the Middle East grew by 3.4% reflecting increased flights and higher load factors. Traffic to and from Asia Pacific destinations grew by 1.5%, supported by increased frequencies on existing Asian routes. Latin American traffic grew 6.3% reflecting the new route to Colombia, increased flights to Mexico and growth in Brazil.

European traffic was up 0.2% year on year, retaining the step change in traffic that these markets experienced in 2013. Domestic traffic grew strongly with an increase of 5.5%.

With over a quarter of UK exports passing through Heathrow, cargo volume at Heathrow increased a further 5.3% to 1.5 million metric tonnes in 2014, with notable increases on China, Hong Kong, Brazil and USA.

1.3 Service standards

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

Heathrow achieved its highest ever overall passenger satisfaction in the independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI), averaging 4.04 (2013: 3.97) out of 5.00 and the first year in which passenger satisfaction was above 4.00 in every quarter. The score reflects strong overall operational performance, near-record levels of punctuality and strong levels of satisfaction across key passenger service attributes. In addition, 78% of passengers surveyed in 2014 rated their experience as 'Excellent' or 'Very Good'.

In relation to individual service standards, in 2014, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 78% (2013: 77%). Heathrow's baggage misconnect rate was 19 per 1,000 passengers (2013: 14), in part reflecting service interruptions to the baggage systems in the summer. A full review of baggage systems and processes has been conducted and an action plan has begun.

Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 96.1% of the time (2013: 90.9%) compared with a 95% service standard. For Heathrow's current regulatory period, the Civil Aviation Authority ('CAA') has raised standards for certain elements of the service quality scheme to build on improvements made through the last regulatory period. The standards for measuring security queues will move to a 'per passenger' basis once queue measurement automation is introduced. The standard will require 99% of passengers to pass through security within 10 minutes.

As part of a programme to build greater operational resilience, a centralised airport operations control centre was opened in late 2014. The centre is focused on improving the flow of passengers, aircraft and bags through the end to end journey. The centre enhances operational awareness and collaboration and is leading to improved performance of the airport operation.

1.4 Terminal 2: The Queen's Terminal

Heathrow delivered the latest stage in its transformation, with the opening of the multi-billion pound Terminal 2: The Queen's Terminal in June 2014.

Her Majesty the Queen officially opened the terminal on 23 June 2014, accompanied by HRH the Duke of Edinburgh. The original Terminal 2, opened by Her Majesty the Queen in 1955, was Heathrow's first terminal and was designed to deal with 1.2 million passengers a year. The new multi-billion pound terminal has the capacity to cater for up to 20 million passengers a year. Airlines and passengers benefit from state of the art facilities that include main terminal and satellite buildings, a multi-storey short-stay car park and an energy centre supporting Terminal 2 and the wider airport. The terminal and satellite buildings include 24 aircraft stands of which seven stands are capable of handling the increasing number of A380 aircraft operating at Heathrow.

The terminal is now home to 23 Star Alliance member airlines operating at Heathrow together with Aer Lingus, Virgin Atlantic Little Red and Germanwings. The phased transition of airlines into the terminal began on 4 June and completed on-time on 23 October with approximately 350 daily arrivals and departures now being handled by the new facilities. Co-location of the Star Alliance airlines at Heathrow provides the opportunity to enhance efficiencies through use of common facilities, processes and personnel. It also enhances the scope for closer commercial co-operation between alliance members by, for example, capitalising on competitive minimum connection times to attract greater volumes of transfer passengers. Both these features will further strengthen Heathrow's competitive position.

The success of the opening phase of the terminal's operation is reflected in it achieving an average 4.23 ASQ score in the second half of 2014. This score would place Heathrow Terminal 2 as the best airport in Europe if it were a standalone airport.

Together with Terminal 5, Heathrow now has two world-class terminals, giving a world-class entry point to the UK. The opening of Terminal 2 is the culmination of an £11 billion capital investment at Heathrow over the last decade that has transformed Heathrow's infrastructure and positioned it strongly to continue its role as a leading global hub airport for the benefit of the whole of the UK in the coming decades.

1.5 Heathrow's business plan

Heathrow's business plan for the latest period of economic regulation ('Q6') which began on 1 April 2014 and runs until 31 December 2018 focuses on delivering a noticeably better passenger experience, ensuring a continued focus on improved resilience and capacity availability and delivering a competitive cost of airport operation.

The price controls set by the CAA for Q6 permit an annual change to the maximum allowable yield per passenger of RPI minus 1.5%. The settlement assumes modest traffic growth of around 1% per annum, averaging 73 million annual passengers, after allowance for demand shocks. Given the constraint on capacity at Heathrow, growth in passengers is expected to be supported by larger and fuller aircraft.

Building on 2014, in nominal terms, for the four years from 2015 to 2018, revenue is forecast to rise at a compound annual growth rate of around 2% whilst operating costs remain broadly flat resulting in approximately 4% compound annual growth in Adjusted EBITDA.

The settlement for the Q6 period assumes delivery of £600 million of cost efficiencies between 2014 and 2018. Plans are in place to deliver around half of the savings from employment costs; these include corporate centre headcount reductions, slower wage growth, provision of more sustainable pension benefits, increased productivity and broader market-alignment of employment terms. Most of the remainder of the savings will be delivered through improved supplier terms across the airport operation and corporate centre.

In 2014, the business has focused on securing early sustainable savings and revenue growth. The cost efficiencies secured to date are projected to deliver approximately £280 million in savings for the period of

the plan, these include approximately £80 million in employment cost efficiencies and initiatives totalling around £200 million with suppliers.

Revenue initiatives secured to date are forecast to generate around £100 million. These include successful car park revenue management with the introduction of a wider product range, together with yield and demand management. Retail concessions are being negotiated on an on-going basis and in October Heathrow extended agreements with World Duty Free by six and a half years which deliver immediate benefit.

1.6 Investing in Heathrow

Building on the £11 billion investment programme over the last 10 years, Heathrow invested close to £730 million in 2014. Capital expenditure in cash terms was £853 million and reflects the timing difference between completion of assets in 2013 and corresponding supplier payments in 2014.

Completion of Terminal 2 accounted for a third of capital expenditure in 2014. The remainder included investment in Heathrow's baggage infrastructure, the refurbishment of tunnels to the Central Terminal Area, asset replacement and investment in operational resilience. Night-time resurfacing of the northern runway took place over the summer and completed on time at the end of September. Improvements to passenger experience included the expansion of security lanes in Terminal 5 and a new designer retail offering in Terminal 5, strengthening its position as an unrivalled airport shopping experience.

In March 2015 the £0.5 billion Terminal 3 Integrated Baggage facility will start initial operations and will be fully operational in May 2016. The automated baggage handling facility combines process enhancements with advancements in technology to create an integrated, efficient and user friendly operation for Terminal 3. It is a key step in moving Heathrow towards the goal of fully integrated and inter-connected baggage facilities across all terminals. Once fully operational the facility will provide increased baggage handling capacity for Terminal 3, reduced misconnection rates, faster transfers between Terminal 3 and Terminal 5 and improved working conditions for handling baggage. Passengers will benefit from early bag check-in with capacity for almost 5,000 early bags.

Capital expenditure for the Q6 regulatory period from 1 April 2014 to 31 December 2018 is currently forecast to be £2.6 billion. In line with the regulatory settlement, the capital programme may increase to up to £3.3 billion. This is subject to further scoping of the remaining individual projects and approval of the corresponding business cases. The capital programme is primarily focused on maintenance and compliance related projects, together with sustaining and improving the passenger experience. As well as Terminal 3 Integrated Baggage, the capital plan also includes a £1 billion programme of asset management and replacement projects and a £320 million project to implement latest generation hold baggage screening equipment to comply with EU directives. Capital spend in 2015 is forecast to be in the region of £580 million.

1.7 Airports Commission

At the end of 2013, the Airports Commission chaired by Sir Howard Davies published its interim report stating that there is a clear case for at least one net additional runway in London and the South East by 2030. Heathrow's proposal for a third runway to the north west of the existing airport facilities is shortlisted for further appraisal along with another option at Heathrow and one at Gatwick.

Heathrow's expansion proposal raises the airport's capacity to 740,000 flights a year, from the current limit of 480,000, catering for up to 130 million passengers annually. Expansion would allow the UK to compete with international rivals and provide capacity for the foreseeable future. Heathrow expects expansion to involve an investment of £16 billion over 15 years.

During 2014 Heathrow held public consultations and worked with local authorities, communities and other stakeholders and submitted a refreshed proposal to the Airports Commission reflecting input received. This proposal improved on the July 2013 plan with further reduction of noise impact, improved road

capacity, reduced congestion impacts and faster delivery of hub capacity at a competitive world-class airport. On-going consultation with stakeholders has led to further refinements of the proposal. In February 2015, Heathrow unveiled plans to provide noise insulation to homes if the Government gives planning approval for a third runway and subject to CAA approval. The noise insulation offer goes above and beyond UK policy requirements, expands on Heathrow's previous proposals and is comparable to those offered by other European hub airports. In total, Heathrow estimates that over £700 million could be spent, an increase of over £450 million from that previously offered by Heathrow in its May 2014 submission to the Airports Commission, and an increase of over £610 million from previous proposals for a third runway.

Following detailed independent assessments that indicated expansion at Heathrow would result in up to £211 billion of economic benefit and create 180,000 jobs across the UK, the Airports Commission launched a 12-week national consultation on 11 November 2014. The consultation invited views and conclusions in respect of the three short-listed options; comments on the Commission's appraisal and overall approach; and comments on how the Commission carried out its appraisal of 16 specific topics.

At the close of the Commission's national consultation, Heathrow saw wide-ranging support from across Britain for its expansion plans, including 32 chambers of commerce representing every UK region, together with unions Unite and GMB, leading businesses and local residents. The Commission will now take account of responses in its final report which is expected in Summer 2015.

1.8 Key management changes

On 1 July 2014, John Holland-Kaye became Chief Executive Officer of Heathrow replacing Colin Matthews. John was responsible for delivering the £1 billion annual investment in transforming Heathrow, including the new Terminal 2: The Queen's Terminal. John joined the company in May 2009 as Commercial Director and was responsible for the major growth in retail income and improved passenger experience during the last regulatory period. John was previously Divisional CEO with Taylor Wimpey PLC, Operations Director at Taylor Woodrow PLC and Divisional Managing Director at Bass Brewers Limited.

In his first month as CEO John set out his ambition for Heathrow to become one of the world's best airports and set out four strategic priorities. The first is to 'beat the settlement', instilling a culture to deliver to plan and stretch for more; the second is to 'transform customer service', improving the experience for all users of Heathrow; the third is to 'win support for expansion' the case becomes increasingly urgent and the decision is critical to the UK. The final strategic aim is known as 'mojo', the aim of which is to make the company a place where people are proud to work, where there are diverse career opportunities for people working at Heathrow and for Heathrow to become an aspirational place to work for future generations.

On 1 October 2014, Heathrow announced that José Leo will stand down as Chief Financial Officer in March 2015 after over eight years at the company. José joined Heathrow in 2006 and has successfully transformed Heathrow's finances, implementing Heathrow's long-term financing platform, raising well over £11 billion of funding and establishing a strong reputation in global markets for transparent financial management of the business. José will remain as Chief Financial Officer until March 2015.

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

2 Financial review

2.1 Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts and quarterly reports are now prepared under International Financial Reporting Standards ('IFRS').

As a result of the Financial Reporting Council's on-going project to harmonise accounting standards in the UK, from 1 January 2015, the previous UK accounting standards used for the preparation of the Heathrow (SP) consolidated accounts will be replaced by Financial Reporting Standard ('FRS') 100. This must be reflected in Heathrow (SP)'s reporting for the year ending 31 December 2015. As allowed by FRS 100, the Heathrow (SP) group has moved from reporting under UK GAAP to adopting full IFRS. In order to provide comparable historical financial information, restated financial information in accordance with IFRS has been provided. Audited consolidated financial information is set out in Appendix 1. An audited reconciliation from UK GAAP to IFRS of the key financial statements is set out in Appendix 2.

From 1 January 2014, retail income includes fees paid by retailers for secure logistics services provided at the airport, which were previously reported in other income. Retail income and other income in 2013 have been restated to provide appropriate comparisons. The fees totalled £4 million in each of the years to 31 December 2013 and 2014.

2.2 Income statement

2.2.1 Overview

In the year ended 31 December 2014 the Group earned an operating profit before certain re-measurements of £793 million (2013: £871 million) and a loss after tax of £95 million (2013: £775 million profit).

| Year ended 31 December | 2014 £m | 2013 £m |
|--|--------------|--------------|
| Group revenue | 2,692 | 2,474 |
| Adjusted operating costs ⁽¹⁾ | (1,125) | (1,053) |
| Adjusted EBITDA⁽²⁾ | 1,567 | 1,421 |
| Exceptional items | (202) | (104) |
| Depreciation and amortisation | (572) | (446) |
| Operating profit before certain re-measurements | 793 | 871 |
| Fair value gain on investment properties (certain re-measurements) | 46 | 62 |
| Operating profit | 839 | 933 |
| Net finance costs before certain re-measurements | (804) | (650) |
| Fair value loss on financial instruments | (154) | (81) |
| Net finance costs | (958) | (731) |
| (Loss)/profit on ordinary activities before taxation | (119) | 202 |
| Tax credit on profit on ordinary activities | 21 | 117 |
| (Loss)/profit on ordinary activities after taxation | (98) | 319 |
| Profit on discontinued operations | 3 | 456 |
| Consolidated (loss)/profit for the year | (95) | 775 |

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

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

2.2.2 Revenue

In the year ended 31 December 2014, Heathrow's revenue increased 8.8% to £2,692 million (2013: £2,474 million).

| Year ended 31 December | 2014 £m | 2013 £m | Change (%) |
|------------------------|--------------|--------------|---------------|
| Aeronautical income | 1,706 | 1,523 | 12.0 |
| Retail income | 503 | 491 | 2.4 |
| Other income | 483 | 460 | 5.0 |
| Total revenue | 2,692 | 2,474 | 8.8 |

2.2.2.1 Aeronautical income

Heathrow's aeronautical income increased 12.0% to £1,706 million (2013: £1,523 million) and the average aeronautical income per passenger increased 10.4% to £23.25 (2013: £21.06).

The strong performance in 2014 reflects a combination of factors. A third of the growth is due to the increase in headline tariffs in 2014. Almost 40% of the increase came from the net increase in the recovery of previous yield dilution through the K factor mechanism and the absence of capital trigger payments in 2014. The remainder of the increase is driven by passenger traffic growth and non-recurrence of factors which drove yield dilution in 2013, particularly in the first quarter of the year.

2.2.2.2 Retail income

In the year ended 31 December 2014, Heathrow's retail income increased 2.4% to £503 million (2013: £491 million). Net retail income ('NRI') grew 3.0% to £479 million (2013: £465 million) and NRI per passenger rose 1.5% to £6.53 (2013: £6.43).

| Year ended 31 December | 2014 £m | 2013 £m | Change (%) |
|----------------------------|------------|------------|---------------|
| Car parking | 99 | 91 | 8.8 |
| Duty and tax-free | 128 | 126 | 1.6 |
| Airside specialist shops | 93 | 96 | (3.1) |
| Bureaux de change | 44 | 45 | (2.2) |
| Catering | 40 | 39 | 2.6 |
| Other retail income | 99 | 94 | 5.3 |
| Gross retail income | 503 | 491 | 2.4 |
| Retail expenditure | (24) | (26) | (7.7) |
| Net retail income | 479 | 465 | 3.0 |

Car parking revenue led the growth in retail income and in 2014 increased 8.8%. The growth reflects commercial initiatives which have driven improved yield and higher take-up of the product range, these include product upselling, tariff revision and enhanced product offerings.

Growth from shops overall was broadly flat in 2014 reflecting factors including the strength of sterling relative to last year, the impact of works through the summer on Terminal 5 luxury retail improvements and as anticipated the moves associated with the Terminal 2 opening impacted retail revenue.

A number of activities have taken place in 2014 to deliver benefit through the regulatory period. Heathrow extended its agreement in 2014 with World Duty Free by six and a half years. In addition, the redeveloped luxury retail space in Terminal 5 was opened in late 2014 and Louis Vuitton, Cartier, Rolex, Fortnum & Mason and Bottega Veneta have joined the line-up at Terminal 5, strengthening its position as an unrivalled airport shopping experience.

Growth in other retail income came primarily from media and advertising income. This is a result of better performance across the airport and the introduction of new advertising sites.

See section 2.1 relating to the reclassification of secure logistics services from other income to retail income (included in other retail income above).

2.2.2.3 Other income

In the year ended 31 December 2014, other income totalled £483 million (2013: £460 million). The increase was driven by increased demand for Heathrow's VIP service, together with growth in utility charges and higher property rental income following the opening of Terminal 2.

See section 2.1 relating to the reclassification of secure logistics services from other income to retail income.

2.2.3 Adjusted operating costs

Adjusted operating costs exclude depreciation, amortisation and exceptional items. In the year ended 31 December 2014, adjusted operating costs increased 6.8% to £1,125 million (2013: £1,053 million).

| Year ended 31 December | 2014 £m | 2013 £m | Change (%) |
|-------------------------|--------------|--------------|---------------|
| Employment costs | 391 | 392 | (0.3) |
| Maintenance expenditure | 178 | 164 | 8.5 |
| Utility costs | 95 | 85 | 11.8 |
| Rent and rates | 132 | 116 | 13.8 |
| General expenses | 305 | 270 | 13.0 |
| Retail expenditure | 24 | 26 | (7.7) |
| Total | 1,125 | 1,053 | 6.8 |

As expected, operating costs in 2014 were impacted by the start of Terminal 2 operations in June 2014. Taking into account the incremental cost of Terminal 2, partially offset by the wind down of activity in Terminal 1, underlying operating costs rose by around £30 million compared with 2013, equivalent to around a 3.0% increase. This reflects delivery of cost efficiencies that offset inflationary and other cost pressures.

Employment costs remain a key priority and on an underlying basis reduced by over £10 million when taking into account the net impact of Terminals 1 and 2, reflecting strong management focus on delivering a sustainable cost of employment. A major restructure of Heathrow's corporate centre delivered benefit through the year and a two-year pay agreement with employees represented under the company's collective bargaining agreement is expected to deliver around £30 million towards cost efficiency targets for the regulatory period. In addition, security officers have been recruited to work at Terminal 2 with modern terms and conditions, ensuring a competitive cost of operation. Discussions started in late 2014 to broadly align the cost of funding the company's Defined Benefit pension scheme, which closed to new members in 2008, with that of the Defined Contribution pension scheme.

The cost of maintenance, utilities, rent and rates increased £40 million in aggregate of which over half related to operating Terminal 2.

The £35 million increase in general expenses reflects a number of factors, including £7 million of costs associated with operating Terminal 2. In aggregate around £17 million relates to activities to win approval for expansion of Heathrow; increased spend on insulation for residents impacted by noise; operational readiness activities in preparation for the start of Terminal 3 Integrated baggage facility and general inflation. In addition, following the sale of the regional airports in December, around £5 million of corporate centre cost has been consolidated into Heathrow operating expenses.

Operating costs in 2015 are forecast to increase 3.3%. The main contributing factor is the incremental cost of operating Terminal 2 for a whole year, which is partially offset by closure of Terminal 1, budgeted for October 2015. Taken together these add around £25 million to operating costs. Overall cost increases are expected to be partially offset by further efficiencies in employment and supplier costs.

2.2.4 Adjusted EBITDA

In the year ended 31 December 2014, Adjusted EBITDA increased 10.3% to £1,567 million (2013: £1,421 million), resulting in an Adjusted EBITDA margin of 58% (2013: 57%). The increase in Adjusted EBITDA principally reflects the increase in aeronautical income.

2.2.5 Operating profit

The Group recorded an operating profit before certain re-measurements for the year ended 31 December 2014 of £793 million (2013: £871 million). A reconciliation of Adjusted EBITDA and operating profit before certain re-measurements is provided below.

| Year ended 31 December | 2014 £m | 2013 £m | Change (%) |
|--|------------|------------|---------------|
| Adjusted EBITDA | 1,567 | 1,421 | 10.3 |
| Depreciation | (572) | (446) | 28.3 |
| Exceptional items | (202) | (104) | n.m. |
| Operating profit before certain re-measurements | 793 | 871 | (9.0) |

The increase in depreciation mostly reflects the start of depreciation of the new Terminal 2 once it became available for use in May 2014, along with depreciation beginning on other projects completed in 2014.

2.2.6 Exceptional items

In the year ended 31 December 2014, there was an exceptional pre-tax charge of £202 million (2013: £104 million) to the income statement.

| Year ended 31 December | 2014 £m | 2013 £m |
|-----------------------------------|--------------|--------------|
| Pensions | (176) | (66) |
| Restructure | (8) | (22) |
| Terminal 2 operational readiness | (18) | (16) |
| Exceptional pre-tax charge | (202) | (104) |

The £176 million non-cash pension charge (2013: £66 million) relates to the Group's share of the actuarial losses under the Heathrow Airport Holdings Limited group's ('HAH Group') pension schemes since 31 December 2013.

In the year ended 31 December 2014, Terminal 2 operational readiness costs of £18 million were incurred (2013: £16 million). These costs mainly relate to familiarisation, induction and training activities together with operating costs incurred prior to the start of operations.

2.2.7 Taxation

The tax credit for the year ended 31 December 2014 results 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 corporation tax of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation, non-deductible expenses and the release of a provision.

The tax credit for the year ended 31 December 2013 resulted in an effective tax rate of negative 57.9%, reflecting the tax credit arising of £117 million based on a profit before tax of £202 million.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were provided at 23% at 1 January 2013, were re-measured at the rate of 20% in the year ended 31

December 2013. For the year ended 31 December 2013, this resulted in a reduction in the net deferred tax liability of £141 million, with £152 million credited to the income statement and £11 million charged to equity.

Excluding the impact of the change in tax rate, the tax charge recognised for the year ended 31 December 2013 of £35 million resulted in an effective tax rate of 17.3%. The tax charge was less than implied by the statutory rate of 23.25% primarily due to non-taxable income.

2.3 Cash flow

2.3.1 Summary cash flow

In the year ended 31 December 2014 the Group increased cash and cash equivalents by £172 million, compared with an increase in 2013 of £56 million. At 31 December 2014, the Group had £266 million of cash and cash equivalents compared with £94 million at 31 December 2013.

| Year ended 31 December | 2014 £m | 2013 £m |
|--|----------------|------------|
| Cash generated from continuing operations | 1,525 | 1,403 |
| Net cash from operating activities | 1,506 | 1,380 |
| Purchase of property, plant and equipment and other assets | (853) | (1,285) |
| Proceeds on disposal of property, plant and equipment | - | 4 |
| Increase in term deposits | (170) | - |
| Disposal of Stansted Airport | (2) | 1,406 |
| Net cash (used in)/from investing activities | (1,025) | 125 |
| Dividends paid | (445) | (661) |
| Proceeds from issuance/(repayment) of bonds, term note, facilities and other financing items | 809 | 135 |
| Net repayment of revolving credit facilities | (80) | (227) |
| Increase in amount owed to Heathrow Finance plc | 165 | 4 |
| Cancellation and restructuring of derivatives | - | (2) |
| Settlement of accretion on index-linked swaps | (185) | (177) |
| Net interest paid | (573) | (521) |
| Net cash used in financing activities | (309) | (1,449) |
| Net increase in cash and cash equivalents | 172 | 56 |
| Net cash generated from continuing operations less capital investment and net interest paid | 99 | (403) |

2.3.2 Cash flow from operating activities

Net cash flow from continuing operations in the year ended 31 December 2014 increased 8.3% to £1,525 million (2013: £1,403 million) which compares with Adjusted EBITDA of £1,567 million (2013: £1,421 million).

2.3.3 Capital expenditure

The most significant areas of capital expenditure at Heathrow in 2014 were on remaining work on Terminal 2 and the new integrated baggage system for Terminal 3.

In the year ended 31 December 2014, the cash flow impact of capital investment at Heathrow was £853 million (2013: £1,283 million) with lower gross additions to fixed assets in the period of approximately £725 million.

The higher level of cash capital investment reflects the reversal of the trend seen from the end of 2013 through to the completion of Terminal 2 when higher gross balance sheet additions than supplier payments were being incurred. As expected, with a materially lower capital programme in 2014 this trend has reversed through 2014.

2.3.4 Restricted payments

In the year ended 31 December 2014, restricted payments of £500 million were made by the Group which funded £261 million of the £270 million in quarterly dividends paid to the Group's ultimate shareholders; £33 million of interest payments at ADI Finance 2 Limited and £55 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance. The restricted payments made by the Group in the year also funded a further £135 million distributed to shareholders in December 2014, making Heathrow's capital structure broadly consistent with its medium term target. The balance of the restricted payments is reflected in the cash held at Heathrow Finance at year end. (2013: £716 million including £176 million in quarterly dividends; £219 million related to interest payments on debt at Heathrow Finance and ADI Finance 1 Limited and rebalancing of debt at different levels of the Heathrow Airport Holdings Limited group's ('HAH Group') capital structure; and £300 million related to the sale of Stansted).

2.4 Pension scheme

At 31 December 2014, the HAH Group defined benefit pension scheme deficit was £199 million as measured under IAS19(R) (2013: £93 million). The majority of the increase in the deficit is due to a reduction in the discount rate applied to the defined benefit scheme obligation, as well as the impact of aligning mortality assumptions with the basis of the latest triennial valuation. These increases were partially offset by asset returns. A smaller proportion of the increase relates to the disposal of the HAH Group's regional airports in December 2014, which resulted in a transfer of their share of the deficit into the Group.

In January 2015, the trustee of the HAH Group defined benefit pension scheme concluded the triennial valuation of the scheme. The valuation was carried out as at 30 September 2013 and indicated a scheme deficit of £300 million calculated using the trustee's actuarial assumptions. LHR Airports Limited agreed an increase to its annual deficit recovery payment from £24 million to £27 million until 2023. In respect of future accrual of benefits LHR Airports Limited will contribute approximately 33% of basic salary and shift pay, which is estimated to be £46 million in 2015.

2.5 Recent financing activity

The focus of Heathrow's financing activities through 2014 was to take advantage of attractive financing market conditions to optimise the Group's long-term cost of debt and extend its debt maturity profile. During 2014, Heathrow successfully closed eleven term debt financing transactions, raising over £1.8 billion. Through the year Heathrow also repaid external debt, primarily comprising a €750 million (£513 million) bond maturity on 30 September and a net £119 million reduction in loan drawings.

Three public fixed rate bonds raised close to £1 billion. The first of which was issued in May, a €600 million, 8 year bond with a coupon of 1.875% payable annually, successfully extending Heathrow's maturity profile in the Euro market. In June, a C\$450 million, 7 year bond was issued with a coupon of 3.0% payable semi-annually, establishing Heathrow as a repeat issuer in the Canadian bond market. Finally, in October Heathrow Finance completed a £250 million, 10.5 year bond with a fixed semi-annual coupon of 5.75% substantially extending Heathrow's maturity profile at this level in its debt capital structure.

Seven private placements were completed in 2014, raising over £750 million. These included £300 million of Class A index-linked bonds raised in two separate transactions. In addition, a £100 million, 12 year Class A private placement was completed. Two 20 year Class A transactions also closed, one of £50

million with a 4.17% coupon payable semi-annually and the other of €50 million with a 4.34% annualised cost in sterling terms. In Class B format, a £155 million 12 year private placement was priced in two tranches with an average 4.16% yield payable semi-annually. Finally, a £115 million 21 year Class B index-linked transaction with a cost of RPI+1.061% has priced and will be drawn in September 2015.

In late 2014, Heathrow Finance entered into £75 million of 5 and 7 year loan facilities which will be drawn by March 2015.

Heathrow also successfully refinanced its core revolving credit and liquidity facilities. The new facilities will provide strong support over the next few years for Heathrow's investment programme and extensive capital markets issuance activities. The facilities were significantly oversubscribed with £3.5 billion of commitments from 22 existing and new relationship banks from across the world. The new facilities total £2.15 billion, comprising £1.1 billion Class A and £300 million Class B revolving credit facilities and £750 million in standby liquidity facilities. The revolving credit facilities mature in November 2019 and were secured at substantially lower cost than the facilities they replace.

Since the beginning of 2015, Heathrow has completed a €750 million, 15 year bond with a coupon of 1.500% payable annually, materially extending Heathrow's debt maturity profile further in the Euro market.

2.6 Financing position

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

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

The Group's nominal net debt increased 3.4% from £11,264 million at 31 December 2013 to £11,653 million at 31 December 2014 and comprised £11,402 million under bond issues, £276 million in term debt, £411 million in index-linked derivative accretion and cash at bank and term deposits of £436 million. Nominal net debt comprised £10,098 million in senior net debt and £1,555 million in junior debt.

The accounting value (which includes £438 million of cash and cash equivalents and term deposits reflected in the statement of financial position) of the Group's net debt excluding accrued interest was £11,064 million at 31 December 2014 (2013: £10,712 million).

The average cost of the Group's external gross debt at 31 December 2014 was 4.59% (2013: 4.53%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 31 December 2014 was 5.70% (2013: 6.01%). The reduction in the average cost of debt since the end of 2013 is mainly due to lower inflation at the end of 2014.

At 31 December 2014, the Group had approximately £2.0 billion in undrawn loan facilities and cash resources. Taking this into account, together with financings entered into in 2014 but due to be drawn during 2015, recent financing in 2015 and the expected operating cash flow 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 distributions, up to December 2016.

2.6.2 Consolidated net debt at Heathrow Finance plc

Taking into account the Group's nominal net debt discussed in section 2.6.1, together with £924 million of gross debt and £17 million of cash held at Heathrow Finance, the consolidated nominal net debt at 31 December 2014 of Heathrow Finance was £12,560 million, an increase of 4.4% from £12,025 million at 31 December 2013.

2.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 31 December 2014 was £14,860 million (2013: £14,585 million). RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

The increase in Heathrow's RAB during the year ended 31 December 2014 reflected the addition of approximately £725 million in capital expenditure and around £240 million of indexation adjustments. The increases were partially offset by regulatory depreciation of around £660 million. In addition, the CAA disallowed £32 million of the £5.9 billion capital investment during the Q5 regulatory period which was deducted from the RAB from the beginning of the new regulatory period.

2.6.4 Net finance costs and net interest paid

In the year ended 31 December 2014, the Group's net finance costs before certain re-measurements, from continuing operations, were £804 million (2013: £650 million) and net interest paid was £573 million (2013: £521 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

| Year ended 31 December | 2014 £m | 2013 £m |
|---|------------|------------|
| Net finance costs before certain re-measurements | 804 | 650 |
| Amortisation of financing fees and fair value adjustments | (49) | (36) |
| Amortisation on bond redemption | (62) | - |
| Borrowing costs capitalised | 89 | 164 |
| Underlying net finance costs | 782 | 778 |
| Non-cash accretion on index-linked instruments | (159) | (202) |
| Other movements | (50) | (55) |
| Net interest paid | 573 | 521 |

Underlying net finance costs were £782 million (2013: £778 million) after adjusting for capitalised borrowing costs of £89 million (2013: £164 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £111 million (2013: £36 million).

Within net finance costs before certain re-measurements is a one-off non-cash amortisation charge of £61 million, 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.

Net interest paid in the year was £573 million (2013: £521 million) of which £518 million (2013: £466 million) related to external debt. The remaining £55 million (2013: £55 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

Net interest paid is lower than underlying net finance costs primarily due to a £159 million (2013: £202 million) non-cash charge relating to accretion on index-linked instruments.

2.6.5 Financial ratios

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

At 31 December 2014, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.0% and 78.4% respectively (2013: 67.6% and 77.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 84.5% (2013: 82.4%) compared to a covenant level of 90.0% under its financing agreements.

In the year ended 31 December 2014, the Group's senior and junior interest cover ratios (the ratio of cash flow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid) were 2.98x and 2.43x respectively (2013: 3.08x and 2.43x respectively) compared to trigger levels of

1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.23x (2013: 2.22x) compared to a covenant level of 1.00x under its financing agreements. In 2013 and 2014 there were exceptional cash costs of £16 million and £18 million respectively.

2.7 Outlook

Revenue in 2015 is expected to grow 1.3% to £2.73 billion. Expectations of growth are driven by an assumed traffic increase of 0.7% to 73.9 million passengers, an aeronautical tariff increase of 1.0% and by continued growth of non-aeronautical revenue.

Adjusted EBITDA in 2015 is consistent with the guidance set out in the December 2014 Investor Report and is forecast to be broadly the same as in 2014. This principally reflects the non-recurrence of £50 million of aeronautical income recovery in 2014 and the incremental cost of operating an additional terminal for the whole year, which offset underlying improvements in revenue and costs.

Appendix 1 – Financial information

Heathrow (SP) Limited Consolidated income statement for the year ended 31 December 2014

| | Note | Audited Year ended 31 December 2014 | | | Audited Year ended 31 December 2013 | | |
|--|------|---|---|--------------|---|---|-------------|
| | | Before certain re-measurements £m | Certain re-measurements ¹ £m | Total £m | Before certain re-measurements £m | Certain re-measurements ¹ £m | Total £m |
| Continuing operations | | | | | | | |
| Revenue | 1 | 2,692 | - | 2,692 | 2,474 | - | 2,474 |
| Operating costs | 2 | (1,899) | - | (1,899) | (1,603) | - | (1,603) |
| Other operating items | | | | | | | |
| Fair value gain on investment properties | | - | 46 | 46 | - | 62 | 62 |
| Operating profit | | 793 | 46 | 839 | 871 | 62 | 933 |
| <i>Analysed as:</i> | | | | | | | |
| Operating profit before exceptional items | | 995 | 46 | 1,041 | 975 | 62 | 1,037 |
| Exceptional items | 3 | (202) | - | (202) | (104) | - | (104) |
| Financing | | | | | | | |
| Finance income | | 234 | - | 234 | 229 | - | 229 |
| Finance costs | | (1,038) | - | (1,038) | (879) | - | (879) |
| Fair value loss on financial instruments | | - | (154) | (154) | - | (81) | (81) |
| | 4 | (804) | (154) | (958) | (650) | (81) | (731) |
| (Loss)/profit before tax | | (11) | (108) | (119) | 221 | (19) | 202 |
| Taxation before change in tax rate | | 7 | 14 | 21 | (17) | (18) | (35) |
| Change in tax rate | | - | - | - | 134 | 18 | 152 |
| Taxation | 5 | 7 | 14 | 21 | 117 | - | 117 |
| (Loss)/profit for the year from continuing operations² | | (4) | (94) | (98) | 338 | (19) | 319 |
| Profit from discontinued operations ^{2,3} | | 3 | - | 3 | 456 | - | 456 |
| Consolidated (loss)/profit for the year² | | (1) | (94) | (95) | 794 | (19) | 775 |

¹ Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.

² Attributable to owners of the parent.

³ Represents the results and profit on disposal of Stansted airport.

Heathrow (SP) Limited
Consolidated statement of financial position
as at 31 December 2014

| | <i>Note</i> | Audited 31 December 2014 £m | Audited 31 December 2013 £m |
|-----------------------------------|-------------|-----------------------------------|-----------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 11,349 | 11,201 |
| Investment properties | | 2,054 | 1,918 |
| Intangible assets | | 114 | 107 |
| Derivative financial instruments | | 172 | 165 |
| Trade and other receivables | | 23 | 37 |
| | | 13,712 | 13,428 |
| Current assets | | | |
| Inventories | | 10 | 9 |
| Trade and other receivables | | 460 | 315 |
| Current income tax assets | | 18 | - |
| Derivative financial instruments | | 2 | 135 |
| Cash and cash equivalents | | 268 | 94 |
| | | 758 | 553 |
| Total assets | | 14,470 | 13,981 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 6 | (11,877) | (11,073) |
| Derivative financial instruments | | (1,328) | (1,137) |
| Deferred income tax liabilities | | (1,023) | (1,028) |
| Provisions | | (10) | (12) |
| Trade and other payables | | (2) | (3) |
| | | (14,240) | (13,253) |
| Current liabilities | | | |
| Borrowings | 6 | (933) | (872) |
| Derivative financial instruments | | (1) | (2) |
| Provisions | | (232) | (115) |
| Current income tax liabilities | | - | (14) |
| Trade and other payables | | (454) | (561) |
| | | (1,620) | (1,564) |
| Total liabilities | | (15,860) | (14,817) |
| Net liabilities | | (1,390) | (836) |
| Equity | | | |
| Capital and reserves | | | |
| Share capital | | 11 | 11 |
| Share premium | | 499 | 499 |
| Merger reserve | | (3,758) | (3,758) |
| Cash flow hedge reserve | | (321) | (310) |
| Retained earnings | | 2,179 | 2,722 |
| Total shareholder's equity | | (1,390) | (836) |

Heathrow (SP) Limited

**Consolidated statement of cash flows
for the year ended 31 December 2014**

| | Note | Audited Year ended 31 December 2014 £m | Audited Year ended 31 December 2013 £m |
|---|------|---|---|
| Cash flows from operating activities | | | |
| Cash generated from continuing operations | | 1,525 | 1,403 |
| Group relief paid | | (19) | (28) |
| Cash generated from discontinued operations | | - | 5 |
| Net cash from operating activities | | 1,506 | 1,380 |
| Cash flows from investing activities | | | |
| Purchase of: | | | |
| Property, plant and equipment | | (744) | (1,208) |
| Investment properties | | (78) | (31) |
| Intangible assets | | (31) | (46) |
| Proceeds on disposal of: | | | |
| Property, plant and equipment | | - | 4 |
| Increase in term deposits | | (170) | - |
| Disposal proceeds and investing activities of discontinued operations | | (2) | 1,406 |
| Net cash (used in)/from investing activities | | (1,025) | 125 |
| Cash flows from financing activities | | | |
| Dividends paid | 7 | (445) | (661) |
| Proceeds from issuance of bonds | | 1,276 | 745 |
| Repayment of bonds | | (513) | (396) |
| Issuance of term note | | 100 | - |
| Net repayment of revolving credit facilities | | (80) | (227) |
| Repayment of facilities and other financing items | | (54) | (214) |
| Increase in amount owed to Heathrow Finance plc | | 165 | 4 |
| Cancellation and restructuring of derivatives | | - | (2) |
| Settlement of accretion on index-linked swaps | | (185) | (177) |
| Interest paid | | (575) | (523) |
| Interest received | | 2 | 2 |
| Net cash used in financing activities | | (309) | (1,449) |
| Net increase in cash and cash equivalents | | 172 | 56 |
| Cash and cash equivalents at beginning of year | | 94 | 38 |
| Cash and cash equivalents at end of year | | 266 | 94 |
| Represented by: | | | |
| Cash and cash equivalents – continuing operations | | 268 | 94 |
| Overdrafts – continuing operations | | (2) | - |
| Cash and cash equivalents at end of year | | 266 | 94 |

Heathrow (SP) Limited

General information and accounting policies for the year ended 31 December 2014

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 31 December 2013. 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 IASB and as adopted by the 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. 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.

Transition to IFRS

The consolidated financial statements were prepared by the directors in accordance with IFRS for the first time. The Group has early-adopted IFRS with a transition date of 1 January 2012. The previous financial reporting framework was United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). IFRS 1 'First-time Adoption of International Financial Reporting Standards' grants elections and certain exemptions from its full requirements when preparing the first financial statements that conform to IFRS.

Change in accounting policy

Discontinued operations

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

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2014

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 Board for allocating resources and assessing performance. These segments relate to the operations of Heathrow and Heathrow Express.

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

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

Table (a) details total revenue from external customers for the year ended 31 December 2014 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2013.

| Table (a) Audited Year ended 31 December 2014 | Segment revenue | | | | | EBITDA | | |
|---|-------------------|------------|--------------------------|------------|------------------------------|-----------------------------|-----------------------------------|------------------------------|
| | Aero- nautical | Retail | Property & facilities | Other | Total external revenue | Pre exceptional items | Operating exceptional items | Post exceptional items |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Heathrow | 1,706 | 503 | 285 | 69 | 2,563 | 1,561 | (202) | 1,359 |
| Heathrow Express | - | - | - | 129 | 129 | 6 | - | 6 |
| 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 year ended 31 December 2014**

1 Segment information *continued*

| Table (b) Audited Year ended 31 December 2013 | Segment revenue | | | | | EBITDA | | |
|---|-------------------|--------|--------------------------|-------|------------------------------|-----------------------------|-----------------------------------|------------------------------|
| | Aero- nautical | Retail | Property & facilities | Other | Total external revenue | Pre exceptional items | Operating exceptional items | Post exceptional items |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Heathrow | 1,523 | 491 | 269 | 67 | 2,350 | 1,415 | (104) | 1,311 |
| Heathrow Express | - | - | - | 124 | 124 | 6 | - | 6 |
| Continuing operations | 1,523 | 491 | 269 | 191 | 2,474 | 1,421 | (104) | 1,317 |
| Reconciliation to statutory information | | | | | | | | |
| Unallocated income and expenses | | | | | | | | |
| Depreciation and amortisation | | | | | | | | (446) |
| Operating profit (before certain re-measurements) | | | | | | | | 871 |
| Fair value gain on investment properties (certain re-measurements) | | | | | | | | 62 |
| Operating profit | | | | | | | | 933 |
| Finance income | | | | | | | | 229 |
| Finance costs | | | | | | | | (879) |
| Fair value loss on financial instruments (certain re-measurements) | | | | | | | | (81) |
| Profit before tax | | | | | | | | 202 |
| Taxation before certain re-measurements | | | | | | | | 117 |
| Taxation (certain re-measurements) | | | | | | | | - |
| Taxation | | | | | | | | 117 |
| Profit for the year – continuing operations | | | | | | | | 319 |
| Profit from discontinued operations | | | | | | | | 456 |
| Consolidated profit for the year | | | | | | | | 775 |

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the year ended 31 December 2014**

2 Operating costs – ordinary

| | Audited Year ended 31 December 2014 £m | Audited Year ended 31 December 2013 £m |
|---------------------------------------|---|---|
| Employment costs | 391 | 392 |
| Maintenance expenditure | 178 | 164 |
| Utility costs | 95 | 85 |
| Rents and rates | 132 | 116 |
| General expenses | 305 | 270 |
| Retail expenditure | 24 | 26 |
| Total adjusted operating costs | 1,125 | 1,053 |
| Depreciation and amortisation | 572 | 446 |
| Exceptional costs (Note 3) | 202 | 104 |
| Total operating costs | 1,899 | 1,603 |

3 Operating exceptional items

| | Audited Year ended 31 December 2014 £m | Audited Year ended 31 December 2013 £m |
|--|---|---|
| Pension charge | (176) | (66) |
| Restructure | (8) | (22) |
| Terminal 2 operational readiness | (18) | (16) |
| Total operating exceptional items | (202) | (104) |

Operating costs – exceptional: other

Operational readiness costs of £18 million (2013: £16 million) are associated with managing the opening of Terminal 2 and were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its operational phase opening on 4 June 2014.

Costs associated with the Group's change programmes were £8 million (2013: £22 million). The charge related to severance and pension payments associated with a restructuring programme.

Operating costs – exceptional: pension

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

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

For the year ended 31 December 2014 a £176 million non-cash pension charge (2013: £66 million) which related primarily to the Group's share of the actuarial losses under the HAH Group's defined benefit pension scheme since 31 December 2013.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the year ended 31 December 2014**

4 Financing

| | Audited Year ended 31 December 2014 £m | Audited Year ended 31 December 2013 £m |
|--|---|---|
| Finance income | | |
| Interest receivable on derivatives not in hedge relationship | 231 | 227 |
| Interest on deposits | 3 | 2 |
| | 234 | 229 |
| Finance costs | | |
| Interest on borrowings: | | |
| Bonds and related hedging instruments ¹ | (592) | (575) |
| Bank loans and overdrafts and related hedging instruments | (75) | (103) |
| Amortisation on bond redemption ² | (62) | - |
| Interest payable on derivatives not in hedge relationship ³ | (323) | (290) |
| Facility fees and other charges | (14) | (16) |
| Net pension finance costs | (3) | (3) |
| Interest on debenture payable to Heathrow Finance plc | (57) | (55) |
| Unwinding of discount on provisions | (1) | (1) |
| | (1,127) | (1,043) |
| Less: capitalised borrowing costs ⁴ | 89 | 164 |
| | (1,038) | (879) |
| Net finance costs before certain re-measurements | (804) | (650) |
| Fair value gain/(loss) on financial instruments | | |
| Interest rate swaps: ineffective portion of cash flow hedges | 3 | 23 |
| Interest rate swaps: not in hedge relationship | (196) | 54 |
| Index-linked swaps: not in hedge relationship ⁵ | 26 | (147) |
| Cross-currency swaps: ineffective portion of cash flow hedges | 9 | 2 |
| Cross-currency swaps: ineffective portion of fair value hedges | 3 | (14) |
| Fair value re-measurements of foreign exchange contracts and currency balances | 1 | 1 |
| | (154) | (81) |
| Net finance costs | (958) | (731) |

¹ Includes accretion of £20 million (2013: £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 £139 million (2013: £182 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 5.87% (2013: 6.04%) 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 year ended 31 December 2014**

5 Taxation

| | Audited Year ended 31 December 2014 £m | Audited Year ended 31 December 2013 £m |
|---|---|---|
| UK corporation tax | | |
| Current tax at 21.5% (2013: 23.25%) | 9 | (20) |
| Over/(under) provision in respect of prior years | 4 | (2) |
| Deferred tax | | |
| Current year | 12 | (17) |
| Prior year | (4) | 4 |
| Change in UK corporation tax rate - impact on deferred tax assets and liabilities | - | 152 |
| Taxation credit for the year | 21 | 117 |

The tax credit for the year ended 31 December 2014 results 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 corporation tax of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation, non-deductible expenses and the release of a provision.

The tax credit for the year ended 31 December 2013 resulted in an effective tax rate of negative 57.9%, reflecting the tax credit arising of £117 million based on a profit before tax of £202 million.

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result, the Group's deferred tax balances, which were provided at 23% at 1 January 2013, were re-measured at the rate of 20% in the year ended 31 December 2013. For the year ended 31 December 2013, this resulted in a reduction in the net deferred tax liability of £141 million, with £152 million credited to the income statement and £11 million charged to equity.

Excluding the impact of the change in tax rate, the tax charge recognised for the year ended 31 December 2013 of £35 million resulted in an effective tax rate of 17.3%. The tax charge was less than implied by the statutory rate of 23.25% primarily due to non-taxable income.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the year ended 31 December 2014**

6 Borrowings

| | Audited 31 December 2014 £m | Audited 31 December 2013 £m |
|---|-----------------------------------|-----------------------------------|
| Current borrowings | | |
| Secured | | |
| Loans | 39 | 39 |
| Bonds: | | |
| 4.600% €750 million due 2014 | - | 564 |
| 3.000% £300 million due 2015 | 300 | - |
| 2.500% US\$500 million due 2015 | 320 | - |
| | 659 | 603 |
| Unsecured | | |
| Bank overdrafts | 2 | - |
| Total current (excluding interest payable) | 661 | 603 |
| Interest payable – external | 251 | 251 |
| Interest payable – owed to group undertakings | 21 | 18 |
| Total current | 933 | 872 |
| Non-current borrowings | | |
| Secured | | |
| Bonds: | | |
| 3.000% £300 million due 2015 | - | 299 |
| 2.500% US\$500 million due 2015 | - | 301 |
| 12.450% £300 million due 2016 | 318 | 332 |
| 4.125% €500 million due 2016 | 381 | 405 |
| 4.375% €700 million due 2017 | 542 | 581 |
| 2.500% CHF400 million due 2017 | 257 | 271 |
| 4.600% €750 million due 2018 | 545 | 576 |
| 6.250% £400 million due 2018 | 398 | 398 |
| 4.000% C\$400 million due 2019 | 219 | 225 |
| 6.000% £400 million due 2020 | 397 | 396 |
| 9.200% £250 million due 2021 | 275 | 266 |
| 3.000% C\$450 million due 2021 | 248 | - |
| 4.875% US\$1,000 million due 2021 | 670 | 612 |
| 1.650%+RPI £180 million due 2022 | 193 | 189 |
| 1.875% €600 million due 2022 | 485 | - |
| 5.225% £750 million due 2023 | 649 | 640 |
| 7.125% £600 million due 2024 | 589 | 588 |
| 4.221% £155 million due 2026 | 155 | - |
| 6.750% £700 million due 2026 | 691 | 691 |
| 7.075% £200 million due 2028 | 198 | 198 |
| 6.450% £900 million due 2031 | 855 | 845 |
| Zero-coupon €50 million due January 2032 | 44 | 45 |
| 1.366%+RPI £75 million due 2032 | 76 | - |
| Zero-coupon €50 million due April 2032 | 44 | 45 |
| 4.171% £50 million due 2034 | 50 | - |
| Zero-coupon €50 million due 2034 | 39 | - |
| 1.382%+RPI £50 million due 2039 | 51 | - |
| 3.334%+RPI £460 million due 2039 | 575 | 562 |
| 1.238%+RPI £100 million due 2040 | 100 | - |
| 5.875% £750 million due 2041 | 743 | 740 |
| 4.625% £750 million due 2046 | 742 | 742 |
| 1.372%+RPI £75 million due 2049 | 76 | - |
| | 10,605 | 9,947 |

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the year ended 31 December 2014**

6 Borrowings continued

| | Audited 31 December 2014 £m | Audited 31 December 2013 £m |
|--|-----------------------------------|-----------------------------------|
| Secured continued | | |
| Revolving credit facilities | - | 80 |
| Other loans | 136 | 175 |
| Term note: 3.77% £100 million due 2026 | 100 | - |
| Unsecured | | |
| Debenture payable to Heathrow Finance plc | 1,036 | 871 |
| Total loans | 1,272 | 1,126 |
| Total non-current | 11,877 | 11,073 |
| Total borrowings (excluding interest payable) | 12,538 | 11,676 |

7 Dividends

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

Appendix 2 – Impact of the transition to IFRS

Basis of preparation

Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group'). The Group's statutory accounts and quarterly reports are now prepared under International Financial Reporting Standards ('IFRS').

As a result of the Financial Reporting Council's ongoing project to harmonise accounting standards in the UK, from 1 January 2015, the previous UK accounting standards used for the preparation of the Heathrow (SP) consolidated accounts will be replaced by Financial Reporting Standard ('FRS') 100. This must be reflected in Heathrow (SP)'s reporting for the year ending 31 December 2015. As allowed by FRS 100, the Heathrow (SP) group has moved from reporting under UK GAAP to adopting full IFRS. In order to provide comparable historical financial information, restated financial information in accordance with IFRS has been provided. Audited consolidated financial information is set out in Appendix 1. An audited reconciliation from UK GAAP to IFRS of the key financial statements is set out in Appendix 2.

Primary financial statements format

The primary financial statements are presented in accordance with IAS 1. A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:

- i. fair value gains and losses on investment property revaluations and disposals;
- ii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; and
- iii. the associated tax impacts of the items in (i) and (ii) above and similar cumulative prior year items.

Under UK GAAP, FRS 3 'Reporting Financial Performance' requires a statement of total recognised gains and losses and a reconciliation of movements in shareholder's funds. Under IFRS these have been replaced by a statement of comprehensive income and a statement of changes in equity resulting in certain presentational differences.

Statement of cash flows

The Group's underlying cash position is unaffected by the transition to IFRS. However, there are a number of presentational and classification differences arising in the cash flows reported under IAS 7 'Statement of Cash Flows' where movements in cash and cash equivalents are reconciled. Under UK GAAP current asset investments were classified as management of liquid resources but under IFRS they are considered to be part of cash and cash equivalents.

Cash flows from discontinued operations are shown separately under IFRS in each of the three categories of cash flows that are available under IFRS.

Other disclosures provided under UK GAAP are not required in IFRS, such as the reconciliation to net debt. However IFRS requires a reconciliation of cash and cash equivalents in the statement of cash flows to the cash reported in the statement of financial position.

Segment information (IFRS 8 'Operating Segments')

The Group's operating segments are Heathrow and Heathrow Express, which are reported to the Board on a monthly basis for the purposes of resource allocation and assessment of segment performance.

Reconciliation of equity

31 December 2014

| | Group under UK GAAP £m | Present- ational adjustments £m | FV uplift on operational land £m | FV movement on investment property AICC £m | Deferred tax £m | Group under IFRS £m |
|-----------------------------------|------------------------------|--|---|---|-----------------------|---------------------------|
| | Note A | Note B | Note D, F | Note E, F | Note F | |
| Assets | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | 13,153 | (2,164) | 360 | - | - | 11,349 |
| Investment properties | - | 2,050 | - | 4 | - | 2,054 |
| Intangible assets | - | 114 | - | - | - | 114 |
| Derivative financial instruments | 172 | - | - | - | - | 172 |
| Trade and other receivables | - | 23 | - | - | - | 23 |
| | 13,325 | 23 | 360 | 4 | - | 13,712 |
| Current assets | | | | | | |
| Inventories | 10 | - | - | - | - | 10 |
| Trade and other receivables | 313 | 147 | - | - | - | 460 |
| Current income tax assets | 18 | - | - | - | - | 18 |
| Derivative financial instruments | 2 | - | - | - | - | 2 |
| Current asset investments | 238 | (238) | - | - | - | - |
| Cash and cash equivalents | 200 | 68 | - | - | - | 268 |
| | 781 | (23) | - | - | - | 758 |
| Total assets | 14,106 | - | 360 | 4 | - | 14,470 |
| Liabilities | | | | | | |
| Non-current liabilities | | | | | | |
| Borrowings | (11,877) | - | - | - | - | (11,877) |
| Derivative financial instruments | (1,328) | - | - | - | - | (1,328) |
| Deferred income tax liabilities | (151) | - | (30) | (1) | (841) | (1,023) |
| Provisions | (242) | 232 | - | - | - | (10) |
| Trade and other payables | (2) | - | - | - | - | (2) |
| | (13,600) | 232 | (30) | (1) | (841) | (14,240) |
| Current liabilities | | | | | | |
| Borrowings | (661) | (272) | - | - | - | (933) |
| Derivative financial instruments | (1) | - | - | - | - | (1) |
| Provisions | - | (232) | - | - | - | (232) |
| Trade and other payables | (726) | 272 | - | - | - | (454) |
| | (1,388) | (232) | - | - | - | (1,620) |
| Total liabilities | (14,988) | - | (30) | (1) | (841) | (15,860) |
| Net (liabilities)/assets | (882) | - | 330 | 3 | (841) | (1,390) |
| Equity | | | | | | |
| Capital and reserves | | | | | | |
| Share capital | 11 | - | - | - | - | 11 |
| Share premium | 499 | - | - | - | - | 499 |
| Revaluation reserves | 540 | (540) | - | - | - | - |
| Merger reserve | (3,758) | - | - | - | - | (3,758) |
| Cash flow hedge reserves | (321) | - | - | - | - | (321) |
| Retained earnings | 2,147 | 540 | 330 | 3 | (841) | 2,179 |
| Total shareholder's equity | (882) | - | 330 | 3 | (841) | (1,390) |

Reconciliation of equity continued

31 December 2013

| | Group under UK GAAP £m | Present- ational adjustments £m | FV uplift on operational land £m | FV movement on investment property AICC £m | Deferred tax £m | Group under IFRS £m |
|-----------------------------------|------------------------------|--|---|---|-----------------------|---------------------------|
| | Note A | Note B | Note D, F | Note E, F | Note F | |
| Assets | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | 12,830 | (1,989) | 360 | - | - | 11,201 |
| Investment properties | - | 1,882 | - | 36 | - | 1,918 |
| Intangible assets | - | 107 | - | - | - | 107 |
| Derivative financial instruments | 165 | - | - | - | - | 165 |
| Trade and other receivables | - | 37 | - | - | - | 37 |
| | 12,995 | 37 | 360 | 36 | - | 13,428 |
| Current assets | | | | | | |
| Inventories | 9 | - | - | - | - | 9 |
| Trade and other receivables | 352 | (37) | - | - | - | 315 |
| Derivative financial instruments | 135 | - | - | - | - | 135 |
| Current asset investments | 75 | (75) | - | - | - | - |
| Cash and cash equivalents | 19 | 75 | - | - | - | 94 |
| | 590 | (37) | - | - | - | 553 |
| Total assets | 13,585 | - | 360 | 36 | - | 13,981 |
| Liabilities | | | | | | |
| Non-current liabilities | | | | | | |
| Borrowings | (11,073) | - | - | - | - | (11,073) |
| Derivative financial instruments | (1,137) | - | - | - | - | (1,137) |
| Deferred income tax liabilities | (148) | - | (32) | (7) | (841) | (1,028) |
| Provisions | (127) | 115 | - | - | - | (12) |
| Trade and other payables | (3) | - | - | - | - | (3) |
| | (12,488) | 115 | (32) | (7) | (841) | (13,253) |
| Current liabilities | | | | | | |
| Borrowings | (603) | (269) | - | - | - | (872) |
| Derivative financial instruments | (2) | - | - | - | - | (2) |
| Provisions | - | (115) | - | - | - | (115) |
| Current income tax liabilities | (14) | - | - | - | - | (14) |
| Trade and other payables | (830) | 269 | - | - | - | (561) |
| | (1,449) | (115) | - | - | - | (1,564) |
| Total liabilities | (13,937) | - | (32) | (7) | (841) | (14,817) |
| Net (liabilities)/assets | (352) | - | 328 | 29 | (841) | (836) |
| Equity | | | | | | |
| Capital and reserves | | | | | | |
| Share capital | 11 | - | - | - | - | 11 |
| Share premium | 499 | - | - | - | - | 499 |
| Revaluation reserves | 461 | (461) | - | - | - | - |
| Merger reserve | (3,758) | - | - | - | - | (3,758) |
| Cash flow hedge reserves | (310) | - | - | - | - | (310) |
| Retained earnings | 2,745 | 461 | 328 | 29 | (841) | 2,722 |
| Total shareholder's equity | (352) | - | 328 | 29 | (841) | (836) |

Reconciliation of equity continued

| | 1 January 2012 | | | | |
|-----------------------------------|------------------------|------------------------------------|-------------------------------------|----------------|---------------------|
| | Group under UK GAAP | Present- ational adjustments | FV uplift on operational land | Deferred tax | Group under IFRS |
| | £m | £m | £m | £m | £m |
| | Note A | Note B | Note D, F | Note F | |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 12,161 | (2,336) | 360 | - | 10,185 |
| Investment properties | - | 2,282 | - | - | 2,282 |
| Intangible assets | - | 54 | - | - | 54 |
| Derivative financial instruments | 369 | - | - | - | 369 |
| | 12,530 | - | 360 | - | 12,890 |
| Current assets | | | | | |
| Inventories | 8 | - | - | - | 8 |
| Trade and other receivables | 306 | - | - | - | 306 |
| Derivative financial instruments | 171 | - | - | - | 171 |
| Current asset investments | 21 | (21) | - | - | - |
| Cash and cash equivalents | 12 | 21 | - | - | 33 |
| | 518 | - | - | - | 518 |
| Total assets | 13,048 | - | 360 | - | 13,408 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | (10,014) | - | - | - | (10,014) |
| Derivative financial instruments | (1,082) | - | - | - | (1,082) |
| Deferred income tax liabilities | (123) | - | (43) | (1,314) | (1,480) |
| Provisions | (34) | 29 | - | - | (5) |
| Trade and other payables | (1) | - | - | - | (1) |
| | (11,254) | 29 | (43) | (1,314) | (12,582) |
| Current liabilities | | | | | |
| Borrowings | (872) | (206) | - | - | (1,078) |
| Provisions | - | (29) | - | - | (29) |
| Current income tax liabilities | (24) | - | - | - | (24) |
| Trade and other payables | (657) | 206 | - | - | (451) |
| | (1,553) | (29) | - | - | (1,582) |
| Total liabilities | (12,807) | - | (43) | (1,314) | (14,164) |
| Net assets/(liabilities) | 241 | - | 317 | (1,314) | (756) |
| Equity | | | | | |
| Capital and reserves | | | | | |
| Share capital | 11 | - | - | - | 11 |
| Share premium | 499 | - | - | - | 499 |
| Revaluation reserves | 1,514 | (1,514) | - | - | - |
| Merger reserve | (4,536) | - | - | - | (4,536) |
| Cash flow hedge reserves | (396) | - | - | - | (396) |
| Retained earnings | 3,149 | 1,514 | 317 | (1,314) | 3,666 |
| Total shareholder's equity | 241 | - | 317 | (1,314) | (756) |

Reconciliation of profit and loss

Year ended 31 December 2014

| | Group under UK GAAP £m | Discontinued operations £m | Fair value movement on investment properties £m | Retirement benefits £m | Deferred tax £m | Group under IFRS £m |
|--|------------------------------|----------------------------------|---|------------------------------|-----------------------|---------------------------|
| | Note A | Note C | Note E, F | Note G | Note F | |
| Continuing operations | | | | | | |
| Revenue | 2,692 | - | - | - | - | 2,692 |
| Operating costs | (1,915) | - | 2 | 14 | - | (1,899) |
| Other operating items | | | | | | |
| Fair value gain on investment properties | - | - | 46 | - | - | 46 |
| Operating profit | 777 | - | 48 | 14 | - | 839 |
| Analysed as: | | | | | | |
| Operating profit before exceptional items | 993 | - | 48 | - | - | 1,041 |
| Exceptional items | (216) | - | - | 14 | - | (202) |
| Profit on disposal of Stansted | 3 | (3) | - | - | - | - |
| Financing | | | | | | |
| Finance income | 246 | - | - | (12) | - | 234 |
| Finance costs | (1,036) | - | - | (2) | - | (1,038) |
| Fair value loss on financial instruments | (154) | - | - | - | - | (154) |
| | (944) | - | - | (14) | - | (958) |
| (Loss)/profit before tax | (164) | (3) | 48 | - | - | (119) |
| Taxation before change in tax rate | 14 | - | (17) | - | 24 | 21 |
| Change in tax rate | - | - | - | - | - | - |
| Taxation | 14 | - | (17) | - | 24 | 21 |
| (Loss)/profit for the year from continuing operations | (150) | (3) | 31 | - | 24 | (98) |
| Profit from discontinued operations | - | 3 | - | - | - | 3 |
| Consolidated (loss)/profit for the year | (150) | - | 31 | - | 24 | (95) |

Reconciliation of profit and loss continued

Year ended 31 December 2013

| | Group under UK GAAP £m | Held-for-sale adjustments £m | Fair value movement on investment properties £m | Retirement benefits £m | Deferred tax £m | Group under IFRS £m |
|---|------------------------------|------------------------------------|---|------------------------------|-----------------------|---------------------------|
| | Note A | Note C | Note E, F | Note G | Note F | |
| Continuing operations | | | | | | |
| Revenue | 2,506 | (32) | - | - | - | 2,474 |
| Operating costs | (1,647) | 32 | 2 | 10 | - | (1,603) |
| Other operating items | | | | | | |
| Fair value gain on investment properties | - | - | 62 | - | - | 62 |
| Operating profit | 859 | - | 64 | 10 | - | 933 |
| Analysed as: | | | | | | |
| Operating profit before exceptional items | 973 | - | 64 | - | - | 1,037 |
| Exceptional items | (114) | - | - | 10 | - | (104) |
| Profit on disposal of Stansted | 292 | (292) | - | - | - | - |
| Financing | | | | | | |
| Finance income | 236 | - | - | (7) | - | 229 |
| Finance costs | (880) | 3 | - | (2) | - | (879) |
| Fair value loss on financial instruments | (81) | - | - | - | - | (81) |
| | (725) | 3 | - | (9) | - | (731) |
| Profit before tax | 426 | (289) | 64 | 1 | - | 202 |
| Taxation before change in tax rate | (65) | 4 | (1) | - | 27 | (35) |
| Change in tax rate | 28 | - | 19 | - | 105 | 152 |
| Taxation | (37) | 4 | 18 | - | 132 | 117 |
| Profit for the year from continuing operations | 389 | (285) | 82 | 1 | 132 | 319 |
| Profit from discontinued operations | - | 274 | - | - | 182 | 456 |
| Consolidated profit for the year | 389 | (11) | 82 | 1 | 314 | 775 |

Reconciliation of profit and loss continued

Year ended 31 December 2012

| | Group under UK GAAP £m | Held-for-sale adjustments £m | Fair value movement on investment properties £m | Retirement benefits £m | Deferred tax £m | Group under IFRS £m |
|--|------------------------------|------------------------------------|---|------------------------------|-----------------------|---------------------------|
| | Note A | Note C | Note E, F | Note G | Note F | |
| Continuing operations | | | | | | |
| Revenue | 2,464 | (242) | - | - | - | 2,222 |
| Operating costs | (1,909) | 219 | - | 13 | - | (1,677) |
| Other operating items | | | | | | |
| Fair value gain on investment properties | - | - | 50 | - | - | 50 |
| Operating profit | 555 | (23) | 50 | 13 | - | 595 |
| Analysed as: | | | | | | |
| Operating profit before exceptional items | 738 | (54) | 50 | 3 | - | 737 |
| Exceptional items | (183) | 31 | - | 10 | - | (142) |
| Exceptional impairment | (5) | - | - | - | - | (5) |
| Loss on disposal of Stansted | (4) | 4 | - | - | - | - |
| Financing | | | | | | |
| Finance income | 266 | - | - | (13) | - | 253 |
| Finance costs | (957) | 15 | - | - | - | (942) |
| Fair value gain on financial instruments | 112 | (4) | - | - | - | 108 |
| | (579) | 11 | - | (13) | - | (581) |
| (Loss)/profit before tax | (33) | (8) | 50 | - | - | 9 |
| Taxation before change in tax rate | (28) | 8 | (1) | - | 28 | 7 |
| Change in tax rate | 20 | (18) | 19 | - | 84 | 105 |
| Taxation | (8) | (10) | 18 | - | 112 | 112 |
| (Loss)/profit for the year from continuing operations | (41) | (18) | 68 | - | 112 | 121 |
| Profit from discontinued operations | - | 29 | (9) | - | - | 20 |
| Consolidated (loss)/profit for the year | (41) | 11 | 59 | - | 112 | 141 |

Explanation of transition adjustments

Note A

These balances are as presented in the statutory annual report and financial statements of the Group under UK GAAP but aligned with IFRS headings prior to presentational adjustments required to comply with IFRS.

Note B

Presentational adjustments to the statement of financial position on transition to IFRS

On transition to IFRS, the Group has reclassified the following items:

- investment properties – in accordance with IFRS all land and buildings that are owned by but not in use within the Group and are held to earn rentals and/or for capital appreciation are separately classified and therefore not included within property, plant and equipment;
- software – IFRS requires that software costs are capitalised as intangible assets and separately classified from property, plant and equipment;
- current asset investments – under IFRS, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts. Balances reported under UK GAAP as current asset investments have therefore been reclassified as cash and cash equivalents;
- non-current and current assets and liabilities – IFRS requires all assets and liabilities to be presented on a non-current and current basis. Balances reported under UK GAAP such as the following have been reclassified accordingly:
 - within current assets, debtors due after more than one year; and
 - within creditors falling due after more than one year, provisions payable within one year;
- interest accruals – under IFRS, this is included within current borrowings and not separately within creditors under UK GAAP;
- revaluation reserves – fair value gains and losses on investment properties are recorded in the income statement under IFRS in contrast to the revaluation reserves under UK GAAP. As a result, all revaluation reserves have been reclassified to retained earnings under IFRS.

Note C

Held-for-sale adjustments to the income statement on transition to IFRS

Under UK GAAP, the presentation of discontinued operations are only shown separately in the profit and loss account in the year of disposal or before the earlier of three months after the year end and the date when the financial statements are signed. As a minimum, the results of discontinued operations from revenue to operating profit continues to be shown on the face of the profit and loss account. The concept of 'held-for-sale' does not exist.

Under IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', discontinued operations represent components of the Group that have been classified as held-for-sale or disposed of during the year. Classification as held-for-sale is dependent on the operations being available for immediate sale, with the sale being highly probable and expected to occur within one year from the date of classification. The sale is considered to be highly probable once there is a board approval and an expectation of the disposal has been raised in those directly affected by the disposal. When these conditions are met, the net assets of the discontinued operations are carried at the lower of carrying value and fair value less costs to sell and no depreciation is charged following the classification as held-for-sale. The results and cash flows of discontinued operations are reported separately from the performance of continuing operations at each reporting date, at the foot of the income statement, within current assets and current liabilities in the statement of financial position and at the end of each section in the statement of cash flows.

Following transition to IFRS, Stansted airport was reclassified as held-for-sale in 2012 in line with the treatment followed in the other FGP Topco Limited group financial statements prepared under IFRS at the time. During the year ended 31 December 2012 this resulted in £18 million profit after tax being transferred to the discontinued operations category and a further gain due to the reversal of a net £11 million of depreciation and tax that had been charged under UK GAAP. During the year ended 31 December 2013 £456 million profit after tax was transferred to the discontinued operations category. This related mainly to the profit on disposal on the sale of Stansted.

Note D

As noted above, the deemed cost of certain operational land on transition to IFRS has been taken as the fair value of that land at 1 January 2012. Operational land comprised land underlying Group occupied assets and included the terminals and airfields. It did not relate to land under investment properties or land held for future non-operational development and it also excluded land under Terminal 5. The valuation was carried out by CBRE Limited, Chartered Surveyors, and was prepared in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual, having regard to comparable market evidence. The methodology used was based on an alternative use, income-based approach for a gross area of approximately 1,895 acres, a 50/50 split between commercial and residential development, a 25 year timeframe and a discount rate of 10%. This resulted in a one-off valuation uplift in the value of airfield assets in property, plant and equipment of £360 million.

Note E

Under UK GAAP, Statement of Standard Accounting Practice ('SSAP') 19 'Accounting for investment properties' requires fair value movements on investment properties to be recorded through reserves. It also excludes from within its scope interests in land and/or buildings for which construction work and development has not been completed.

However under IFRS, IAS 40 'Investment Property' requires fair value movements to be recorded in the income statement and its scope specifically includes property that is being constructed or developed for future use as investment property.

Explanation of transition adjustments continued

Note E continued

Following transition to IFRS, this change resulted in a fair value gain of £50 million being recorded in the income statement for continuing operations, £47 million of which was previously recognised under UK GAAP in reserves and an additional £3 million relating to assets in the course of construction. In addition, a £9 million fair value loss was recorded in the income statement for discontinued operations, all of which had been previously recognised under UK GAAP in reserves. For the year ended 31 December 2013, a fair value gain of £64 million was recorded in the income statement for continuing operations, £29 million of which was previously recognised under UK GAAP in reserves, £33 million related to assets in the course of construction and £2 million related to impairments on investment properties that had previously been reported within depreciation in operating costs. For the year ended 31 December 2014, a fair value gain of £48 million was recorded in the income statement; £80 million was recognised under UK GAAP in reserves, a £34 million loss related to assets in the course of construction and £2 million related to impairments previously reported within depreciation in operating costs.

Note F

Under UK GAAP, deferred tax is recognised on timing differences arising in the income statement. Timing differences arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the financial statements.

Under IFRS, IAS 12 'Income Taxes' requires full provision for all taxable temporary differences unless specifically exempted. IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the statement of financial position by applying the appropriate tax rate to the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements.

On transition to IFRS, deferred income tax was recognised for items that were not required under UK GAAP such as operational land, investment properties and the abolition of Industrial Buildings Allowance. The total increase in deferred income tax liabilities on transition was £1,357 million, of which £43 million related to the fair value uplift on operational land, £318 million related to deferred income tax on investment property revaluation surpluses and £996 million related to the effect of the abolition of Industrial Buildings Allowance. At 31 December 2013, the total increase in deferred income tax liabilities was £880 million, of which £32 million related to the fair value uplift on operational land, £184 million related to deferred income tax on investment property revaluation surpluses and £664 million related to the effect of the abolition of Industrial Buildings Allowance. At 31 December 2014, the total increase in deferred income tax liabilities was £872 million, of which £30 million related to the fair value uplift on operational land, £202 million related to deferred income tax on investment property revaluation surpluses and £640 million related to the effect of the abolition of Industrial Buildings Allowance. For deferred income tax purposes the operational land has been treated as one asset. The deferred tax liability has been calculated as the valuation less the indexed base cost.

Movements in deferred income tax in each of the above have been reflected both in the income statement and in equity, and also include the impact of the change in the corporation tax rate from 25% at 1 January 2012 to 23% at 31 December 2012 and to 20% at 31 December 2013.

In terms of the income statement, for the year ended 31 December 2014, an additional £7 million credit was recorded in the income statement for continuing operations, resulting in an overall £21 million credit.

For the year ended 31 December 2013, an additional £154 million credit was recorded in the income statement for continuing operations resulting in an overall £117 million credit. The resulting £117 million credit can be split between a tax charge on ordinary activities of £35 million and change in tax rate giving rise to a credit of £152 million. In addition in this year there was an adjustment to the profit on disposal from discontinued operations for tax of £182 million reflecting additional deferred tax liabilities on an IFRS basis.

For the year ended 31 December 2012, an additional £120 million credit was recorded in the income statement for continuing operations resulting in an overall £112 million credit. The resulting £112 million credit can be split between a tax credit of £7 million on ordinary activities and change in tax rate giving rise to a credit of £105 million.

Note G

Under UK GAAP, the Group recognised its share of the net interest cost and expected return on plan assets relating to the LHR Airports Limited defined benefit pension scheme. The interest receivable on the plan assets was recognised based on the long-term expected rates of return on the plan assets. A different rate, the discount rate, was used to unwind the defined benefit obligation.

Under IFRS, IAS 19 'Employee Benefits (2011)' a net discount rate is used to unwind the net defined benefit obligation.

Following the transition to IFRS, the lower expected return on assets reduced the level of pension income that was recognised within finance costs in the income statement for the year ended 31 December 2012 by £13 million. The amount charged to exceptional operating costs and ordinary operating costs for pensions fell by £10 million and £3 million respectively. During the year ended 31 December 2013, the reduced level of pension income recognised within finance costs was £9 million and the amount charged to exceptional operating costs reduced by £10 million. During the year ended 31 December 2014, the reduced level of pension income recognised within finance costs was £14 million and the amount charged to exceptional operating costs reduced by £14 million.

There was no change in the statement of financial position or cash flow as a result of this change.

Under UK GAAP, FRS 3 'Reporting Financial Performance' requires a statement of total recognised gains and losses and a reconciliation of movements in shareholder's funds. Under IFRS these have been replaced by a statement of comprehensive income and a statement of changes in equity resulting in certain presentational differences.