

News release

24 July 2018

Heathrow
Making every journey better
 Heathrow (SP) Limited
 The Compass Centre, Nelson Road,
 Hounslow, Middlesex TW6 2GW
 T: +44 (0)20 8745 7224
 E: heathrowmediacentre@heathrow.com
 W: heathrow.com

Heathrow (SP) Limited Results for the six months ended 30 June 2018

- **Heathrow flies to busiest first half ever in 2018** – Strong passenger satisfaction scores pushed up demand to fly from the UK’s hub to an all-time high of 38.1 million passengers (+2.5%), with growth across all markets. Four new connections to China in 2018 helped trade through Heathrow grow 2.2% to 841,449 tonnes of cargo
- **Summer getaway pushes sales higher** – As the summer getaway gets into full-swing, passengers are spending more in Heathrow’s shops pushing retail growth 4.8% higher. Sunglasses have proved particularly popular, with over 700 pairs sold each day so far this year. Strong retail spend helps support lower airport charges which fell around 1%
- **Healthy financial growth** – Strong retail sales and continued passenger growth pushed revenues up 2.3% to £1,405 million and increased Adjusted EBITDA by 1.6% to £848 million. Heathrow continues to invest responsibly in improving the passenger experience, with operating costs increasing slightly after investments to boost resilience, security and service. Heathrow is proud to have been given a “Good” accessibility rating by the CAA
- **Strong appetite to invest in Heathrow** – Nearly £1 billion in global financing raised in 2018 to invest in the UK’s hub airport, demonstrating Heathrow’s attractiveness to global investors
- **Heathrow goes electric** – After a nearly £6 million investment, Heathrow has installed over 116 electric vehicle charging points – with another 11 planned for the second half of 2018 – boosting sustainable transport options and giving Heathrow the densest electric charging network in Europe
- **Expansion takes off** – In June, an overwhelming political mandate in Parliament propelled Heathrow’s expansion project forward. Heathrow is now reviewing over 100 fresh ideas from UK businesses and entrepreneurs to help deliver the project more innovatively, sustainably and affordably. This is in addition to finalising visits to 65 UK sites bidding to help build the project through large-scale offsite manufacturing

At or for six months ended 30 June	2017	2018	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	1,374	1,405	2.3
Adjusted EBITDA ⁽¹⁾	835	848	1.6
EBITDA ⁽²⁾	909	887	(2.4)
Cash generated from operations	820	847	3.3
Cash flow after investment and interest ⁽³⁾	200	194	(3.0)
Pre-tax profit ⁽⁴⁾	102	95	(6.9)
Heathrow (SP) Limited consolidated net debt ⁽⁵⁾	12,372	12,453	0.7
Heathrow Finance plc consolidated net debt ⁽⁵⁾	13,674	13,749	0.5
Regulatory Asset Base ⁽⁵⁾	15,786	15,952	1.1
Passengers (million) ⁽⁶⁾	37.1	38.1	2.5
Retail revenue per passenger (£) ⁽⁶⁾	8.43	8.62	2.2

Notes 1-6: see page 2

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

“2018 will be a year for the record books – England’s footballers have made the nation proud, we’ve had the best summer sunshine in years and Parliament voted overwhelmingly to expand Heathrow. We’re proud to be the front door of a nation flying high, and we’ll continue delivering a great passenger service and the global trading links that will keep the UK thriving for decades to come.”

Notes

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items
- (2) EBITDA is earnings before interest, tax, depreciation and amortisation
- (3) Cash flow after investment and interest is cash generated from operations after net capital expenditure and net interest paid
- (4) Pre-tax profit before exceptional items and certain re-measurements
- (5) 2017 net debt and RAB figures at 31 December 2017. Nominal net debt excluding intra-group loans and including inflation-linked accretion
- (6) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

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.

Investor enquiries

Christelle Lubin
+44 7764 805761

Media enquiries

Weston Macklem
+44 7525 825516

Creditors and credit analysts conference call hosted by John Holland-Kaye, CEO and Javier Echave, Chief Financial Officer

24 July 2018

3.00pm (UK time – Central European Time), 10.00am (Eastern Standard Time)

UK: +44 (0)33 3300 0804

North America: +1 631 9131 422

[Dial in access list](#)

Participant PIN code: 40649147#

The [presentation](#) can be accessed online or through the [webcast](#) password: 301222407

Disclaimer

These materials contain certain statements regarding the financial condition, results of operations, business and future prospects of Heathrow. All statements, other than statements of historical fact are, or may be deemed to be, "forward-looking statements". These forward-looking statements are statements of future expectations and include, among other things, projections, forecasts, estimates of income, yield and return, pricing, industry growth, other trend projections and future performance targets. These forward-looking statements are based upon management's current assumptions (not all of which are stated), expectations and beliefs and, by their nature are subject to a number of known and unknown risks and uncertainties which may cause the actual results, prospects, events and developments of Heathrow to differ materially from those assumed, expressed or implied by these forward-looking statements. Future events are difficult to predict and are beyond Heathrow's control, accordingly, these forward-looking statements are not guarantees of future performance. 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.

All forward-looking statements are based on information available at the date of this document, accordingly, except as required by any applicable law or regulation, Heathrow and its advisers expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained in these materials to reflect any changes in events, conditions or circumstances on which any such statement is based and any changes in Heathrow's assumptions, expectations and beliefs.

These materials contain certain information which has been prepared in reliance on publicly available information (the "Public Information"). Numerous assumptions may have been used in preparing the Public Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Public Information. As such, no assurance can be given as to the Public Information's accuracy, appropriateness or completeness in any particular context, or as to whether the Public Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. The Public Information should not be construed as either projections or predictions nor should any information herein be relied upon as legal, tax, financial or accounting advice. Heathrow does not make any representation or warranty as to the accuracy or completeness of the Public Information.

All information in these materials is the property of Heathrow and may not be reproduced or recorded without the prior written permission of Heathrow. Nothing in these materials constitutes or shall be deemed to constitute an offer or solicitation to buy or sell or to otherwise deal in any securities, or any interest in any securities, and nothing herein should be construed as a recommendation or advice to invest in any securities.

This document has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Heathrow nor any person who controls it (nor any director, officer, employee not agent of it or affiliate or adviser of such person) accepts any liability or responsibility whatsoever in respect of the difference between the document sent to you in electronic format and the hard copy version available to you upon request from Heathrow.

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

Strategic priorities

MOJO

We are committed to making Heathrow a great place to work by providing an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In the first half of 2018, 196 colleagues were promoted and 552 colleagues attended training to advance their managerial skills.

Continuously improving our Health and Safety credentials, culture and behaviour remains a significant drive in achieving great results and preventing or reducing the likelihood of incidents occurring. In the first half of 2018, our lost time injuries metric improved to 0.42 (2017: 0.49). In addition to tracking our performance, our 'Plan, Do, Check and Act' cycle ensures the effectiveness of our policies, processes and standards is also continuously monitored.

In 2018, we have stepped up our focus on our safety culture and behaviour. We launched a safety conversation campaign 'safe and unsafe act' ('SUSA') aiming to engage more colleagues and raise awareness on what risks their role may entail, what we are doing well and what we can improve. In May, we also held our semi-annual 'Airside Safety Week' roadshow in conjunction with the Airport Operator's Association and various partner organisations. During the week, over 4,000 airside colleagues from Team Heathrow attended the roadshow, which focussed on promoting core safety behaviours, correct reporting of incidents and personal health and wellbeing.

TRANSFORM CUSTOMER SERVICE

Passengers benefited from our uncompromising focus and investment in resilience via planning, training and equipment when the UK was hit by one of the worst winters in the early part of the year. Britain's hub remained open and operations ran as usual with a minimal number of flight cancellations and a limited impact on departure punctuality and baggage connection.

The quality of Heathrow's service also received strong endorsement at the 2018 Skytrax World Airport Awards. Terminal 2 was voted for the first time ever the world's 'Best Airport Terminal', Heathrow was named the 'Best Airport in Western Europe' for the fourth year in a row as well as the 'Best Airport in the world for Shopping' for the ninth consecutive year.

During the first half of the year, Heathrow continue to rank ahead of European hubs in the ASQ survey. In the second quarter of 2018, we achieved a score of 4.15 out of 5.00 compared 4.16 in the same period last year. In addition, 81% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2017: 83%) illustrating the strength and resilience of our operations despite some challenges in security and immigration. Over the period, our service standards remained strong and operations ran with limited disruption despite harsh winter conditions in the first quarter and air traffic control strikes later on.

Service standards (1)	2017	2018
ASQ	4.16	4.17
Baggage connection	98.9%	98.8%
Departure punctuality	83.2%	79.9%
Security queuing	97.7%	97.6%

(1) For the six months ended 30 June

Improving our accessibility services

We continue working to transform the airport experience of over one million passengers requiring additional assistance when they travel through Heathrow. In 2017, we agreed new service levels and launched a plan to better monitor and report our performance and passengers' satisfaction and engage with disability groups going forward. In July 2018, the CAA recognised these improvements and upgraded our rating to "Good". To further enhance our services, we also launched the first of six Heathrow Open Days in July 2018, to provide our passengers with a forum where they can discover accessibility support available at each stage of their journey, while we can listen to their feedback on how to further improve our services.

Investing in Heathrow

Heathrow invested £354 million in the first half of 2018 (2017: £318 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to develop our plans for expanding Heathrow for which investments amounted to around £60 million in the period. We expect expansion-related capital investment to be approximately £160 million in 2018.

Work continues to improve the passenger experience through automation across the passenger journey. 13 self-service bag drops were installed in Terminal 2. As one of the first passenger touch points, self-service bag drop is a key part of our automation strategy, giving passengers choice and control. It can also unlock capacity and improve

punctuality to support our continued growth. The next few months will see the project gather pace as we complete the roll out in Terminal 2 and begin work in Terminal 3. The second tranche of self-boarding gates have been installed in Terminal 5.

Oyster and contactless payment facilities have been installed for passengers travelling by train between Heathrow and London with the arrival of four Crossrail trains per hour between Heathrow and Paddington in May 2018. The full Crossrail services between Heathrow and east London will commence in December 2019. As part of an agreement with the UK Government, Heathrow will pay around £77 million to ensure the provision of this service.

Terminal 3's Flight Connections Centre began trials in May signalling the final phase of the 3-year project which will reduce passenger walking times, give access to more facilities and improve the connecting journey. Spread over 3 floors and containing over 70 information screens and 46 service desks with both pre and post security ticketing capability, it will also include a brand new retail space. Various projects will also contribute to driving incremental commercial revenue. This includes hotel developments across the campus such as the Aerotel in Terminal 3 and the Regus Express business lounge.

Finally, Heathrow continued to invest in Electric Vehicle ('EV') charging stations to promote and enable the adoption of zero emission road and ramp vehicles. Over 116 electric vehicle charging points have been installed so far with another 11 planned for the second half of 2018.

BEAT THE PLAN

New intercontinental routes

Heathrow announced new direct services to the cities of Wuhan and Sanya in May 2018. The airport's connection to Sanya is a first for Europe. The routes will allow for 6,000 metric tonnes of additional cargo capacity and over 110,000 new seats for passengers annually.

Record passenger traffic

Heathrow welcomed a record 38.1 million passengers in the first half of 2018. Aircraft were fuller with load factors increasing by just over one percentage point to 76.9% while the average number of seats per passenger aircraft also increased to 213.3 (2017: 212.1).

Intercontinental and short-haul traffic growths were balanced, reflecting the success of our pricing strategy aiming to boost domestic connectivity with an additional 50% discount on airport charges for domestic flights.

Intercontinental traffic was up 2.5% while short-haul including domestic traffic volumes were up 2.6% in the period. Long haul traffic was primarily boosted on routes to North America and Asia including additional flights to Boston, Mumbai and Istanbul. East Asian traffic benefited from new services to Hainan and Tianjin in China. European traffic recorded further growth in load factors, especially on routes to Istanbul, Rome, Amsterdam and Barcelona. Domestic traffic was boosted by additional Flybe services to Scotland.

(Millions)	2017	2018	Var % ⁽¹⁾
UK	2.3	2.4	2.6
Europe	15.5	15.9	2.6
North America	8.2	8.4	2.5
Asia Pacific	5.4	5.5	1.8
Middle East	3.6	3.6	1.2
Africa	1.5	1.6	6.3
Latin America	0.6	0.7	6.2
Total passengers	37.1	38.1	2.5

(1) Calculated using unrounded passenger figures

Other traffic metrics	2017	2018
Passenger ATM	230,983	232,203
Load factors (%)	75.8%	76.9%
Seats per ATM	212.1	213.3
Cargo tonnage ('000)	823	841

SUSTAINABLE GROWTH

Heathrow 2.0

As part of our Heathrow 2.0 plan for sustainable growth, we have established the Heathrow Centre of Excellence for Sustainability to create a forum for collaboration. Initially focussing on three core themes of circular economy, advanced materials and social wellbeing, the Centre began a programme of applied research, pilots and engagement in February 2018. One of its first initiatives was to launch a sustainable innovation prize. Open to both small businesses with innovative solutions based on the Centre's three themes, and Heathrow colleagues with ideas for research, the prize has awarded £40,000 worth of research funding to the winning entries.

In May, we launched the Heathrow Emissions Strategy which sets out our plans to reduce emissions to tackle concerns relating to both local air quality and global climate change. The plan details how we will improve the efficiency of operations to minimise fuel use and employ the latest technologies to ensure that we are at the forefront of developments in aviation.

Between May and June, we ran a public consultation on Heathrow's draft 2019-2023 Noise Action Plan which sets out how Heathrow plans to manage and reduce the impact of aircraft noise. Some of the actions proposed include the implementation of our Quiet Night Charter, a new noise insulation strategy and a review of our charging structure that provides incentives to our airlines. Feedback gathered via the consultation will inform the final version of the Noise Action Plan which will be submitted to Government by the end of August.

In March, Heathrow published its first gender pay gap report. The report shows that we're making good progress in improving the diversity and inclusiveness of Heathrow with nearly 75% of roles evenly split between men and women. Our gender pay gap is significantly below the national average although we still have work to do to get more women into the top 25% of roles at Heathrow.

Expansion - Heathrow developments

On 25 June 2018, Parliament overwhelmingly backed Heathrow's expansion by voting in favour of the Airports National Policy Statement ('NPS'). The Secretary of State for Transport designated the NPS the following day, clearing the way for Heathrow to submit a development consent order application for the project. Parliament's historic vote is the culmination of a rigorous, evidence-based selection process – including review by the independent Airports Commission and the Government – which determined not only that expanding Heathrow offers the greatest benefit to all of the UK, but that it can be done sustainably.

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. Heathrow is also committed to maintaining its existing strong investment grade credit ratings throughout expansion. We are confident that we can expand the airport whilst keeping passenger charges close to 2016 levels – which represents significant value for money for consumers. Expanding Heathrow will unlock billions of pounds in growth, create tens of thousands of new skilled jobs across the UK, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations. Over the next 12 months alone, we expect to sign £150 million worth of contracts with British businesses, creating 900 new jobs and 200 new apprenticeships.

Heathrow is continuing its strong engagement with businesses across the UK in 2018. We have already

hosted 6 of 10 Business Summits at various locations across the UK to increase the number of SMEs in the airport's multi-billion-pound supply chain. By the end of July, Heathrow will also have visited all 65 longlisted Logistics Hubs sites which will help deliver expansion efficiently by pioneering large-scale offsite manufacturing. After reviewing all sites, Heathrow will draw up a shortlist of sites which will be invited to formal tender in 2019. Earlier this year Heathrow also announced an Innovation Partnership programme calling for members of the public to bring forward innovative ideas to deliver the airport's expansion plans more affordably and sustainably. Over 100 entries have been submitted which Heathrow is reviewing. The list of those being taken forward will be announced in late August and, from there, remaining potential innovation partners will be invited to submit a business case and implementation plan demonstrating the feasibility of their idea.

Heathrow is currently preparing to hold a second public consultation on its plans before submitting a development consent order application to the Planning Inspectorate, kick-starting an approval process expected to take 18 months. If Heathrow is granted development consent, construction would begin in 2021 ahead of the new runway opening in 2026.

Expansion - Regulatory developments

The CAA continues progressing its thinking on the next regulatory period (H7) framework with a new consultation launched in April 2018: 'Economic regulation of capacity expansion at Heathrow: policy update and consultation'. Responses to this consultation, including Heathrow's, were provided by 29 June 2018.

The CAA's fundamental objective in developing the H7 regulatory framework is to strike an appropriate balance between affordability and financeability. The CAA states that its objective of protecting consumers interests cannot be simplified to a policy intent that delivers the lowest possible cost when expanding Heathrow. In addition, the CAA clarifies its approach to assessing financeability by confirming a "twin track" approach considering moderate and higher levels of gearing and updating the debt credit metrics that will be monitored. The consultation also reports on the regulator's initial assessment of affordability and financeability of Heathrow expansion. On that front, the CAA's early view is that there are credible assumptions that could lead to a path of prices that is broadly affordable and financeable.

On other issues related to financeability, the CAA doesn't provide any new evidence on the cost of capital. It

re-iterates that PwC's analysis presented in the December 2017 consultation is preliminary and that there should be no expectation that the actual cost of capital should be either the lower end of the range indicated by PwC or even within said range. Regarding the determination of the cost of debt for the H7 period, the CAA confirms its intention to move towards an indexation approach. Nevertheless, the CAA confirms that the index would only be used for new debt issuance and the retention of a fixed allowance for embedded debt (i.e. "part indexation"). The CAA will develop its thinking regarding the mechanics to implement debt indexation over the next 12 months.

The CAA continues exploring alternative delivery mechanisms in H7. It welcomed and supports Heathrow's initiative launched in April 2018 to encourage potential delivery partners to share innovative ideas on how expansion could be delivered in a sustainable, affordable and financeable way. The CAA also expressed interest in Heathrow and the airlines exploring a commercially negotiated, longer-term path of prices.

The consultation makes further progress on the extension the current regulatory period (Q6) confirming that a further extension to the end of 2021 is the CAA's preferred option. This step will be taken to better align the start of H7 with the statutory process and commencement of the expansion construction programme. In terms of economics beyond 2019, the CAA reiterates its intention to roll forward the existing Q6 headline tariff of RPI -1.5% while resetting some of the underlying building blocks such as passenger forecast, operating costs, commercial revenues, and observable components of the cost of capital such as cost of new debt and corporation tax. A regulatory adjustment is expected to reflect the difference between the selected price path and underlying revenue requirement. The CAA expects to finalise the economic terms of the extension beyond 2019 over the next 12 months with a formal license modification scheduled for the last quarter of 2019.

Finally, the CAA confirms its support to start incurring early category C costs related to land acquisition, surveying, design or very early construction work before planning permission is granted. The regulator also provides further details on the governance processes that will apply to different type of projects. Heathrow expects these costs to amount to several hundred million pounds between 2018 and 2021 or when DCO approval is granted.

The CAA plans to provide additional clarity on the regulatory framework in Q3 2018 when it publishes its next consultation papers.

Brexit

We are encouraged by the progress made by the government in its Brexit negotiations. As the UK charts its new path outside the European Union as an outward looking nation, it remains particularly important that the country secures continued access to the single European aviation market with around 35% of Heathrow's traffic to and from European Union member countries. In addition, Heathrow will continue to advocate a deal that maintains efficient flows of both people and goods that will ensure continued access to skills and efficient immigration and cargo processing.

Financial review

Basis of presentation of financial results

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

Income statement

In the six months ended 30 June 2018, the Group's operating profit before certain re-measurements was £491 million (2017: £503 million) and its profit after tax was £232 million (2017: £246 million).

6 months ended 30 June	2017 £m	2018 £m
Excluding certain re-measurements		
Revenue	1,374	1,405
Adjusted operating costs	(539)	(557)
Adjusted EBITDA⁽¹⁾	835	848
Depreciation and amortisation	(332)	(357)
Adjusted operating profit	503	491
Net finance costs	(401)	(396)
Adjusted profit before tax	102	95
Including certain re-measurements		
Fair value gain on investment properties	74	39
Fair value gain on financial instruments	135	155
Statutory profit before tax	311	289
Tax charge on profit before certain re-measurements	(30)	(24)
Tax charge on certain re-measurements	(35)	(33)

Tax charge	(65)	(57)
-------------------	------	-------------

Profit after tax	246	232
-------------------------	-----	------------

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, certain re-measurements and exceptional items. Management uses Adjusted EBITDA to monitor the performance of the segments as it believes it more accurately reflects the underlying financial performance of the Group's operations. For the six months ended 30 June 2018, Adjusted EBITDA was £848 million and EBITDA was £887 million. For the six months ended 30 June 2017, Adjusted EBITDA was £835 million and EBITDA was £909 million.

Revenue

In the six months ended 30 June 2018, revenue increased 2.3% to £1,405 million (2017: £1,374 million).

6 months ended 30 June	2017 £m	2018 £m	Var. %
Aeronautical	814	828	1.7
Retail	313	328	4.8
Other	247	249	0.8
Total revenue	1,374	1,405	2.3

Aeronautical income was boosted by strong traffic growth and increased headline tariffs offset by some recoverable yield dilution as more cleaner and quieter aircraft fly through Heathrow. We continued delivering value for passengers and airlines in the period with average aeronautical revenue per passenger decreasing 0.8% to £21.75 (2017: £21.92).

6 months ended 30 June	2017 £m	2018 £m	Var. %
Retail concessions	142	148	4.2
Catering	26	29	11.5
Other retail	54	58	7.4
Car parking	58	62	6.9
Other services	33	31	(6.1)
Total retail revenue	313	328	4.8

Retail revenue growth, led by retail concessions and catering reflected the strong traffic performance and longer dwell due to our call to gate initiative. Retail concessions were boosted by higher transaction value per participating passenger. Catering benefited from the redevelopment of Terminal 5 catering outlets. Other retail reflects an upside in advertising income from an enhanced utilisation of spaces. Retail revenue per passenger rose 2.2% to £8.62 (2017: £8.43).

6 months ended 30 June	2017 £m	2018 £m	Var. %
Other regulated charges	113	118	4.4
Heathrow Express	63	61	(3.2)
Property and other	71	70	(1.4)

Total other revenue	247	249	0.8
----------------------------	-----	------------	-----

Other revenue was higher driven by other regulated charges where consumption of utilities increased. Heathrow Express revenue declined as passenger volumes softened with the arrival of TfL trains.

Operating costs

Operating costs excluding depreciation, amortisation and exceptional items increased to £557 million (2017: £539 million). Operating costs before depreciation and amortisation increased 0.8% on a per passenger basis at £14.63 (2017: £14.52), primarily driven by increased investment in resilience, security, passenger experience and expansion costs.

Cost efficiencies in people-related areas were offset by increased pension charges and managing higher passenger numbers whilst maintaining service and resilience. Higher expansion and security costs and increased investment in our special assistance services pushed operational costs higher. In the early part of the year, we also spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years which impacted both maintenance and other costs. The cold winter also impacted utilities costs. Business rates declined as a result of a rates review.

Overall, cost efficiencies across a range of areas have offset the impacts of higher passenger numbers and inflation.

6 months ended 30 June	2017 £m	2018 £m	Var. %
Employment	180	183	1.7
Operational	122	134	9.8
Maintenance	83	89	7.2
Rates	64	60	(6.3)
Utilities and Other	90	91	1.1
Total operating costs	539	557	3.3

Adjusted operating profit

For the six months ended 30 June 2018, the Group recorded an operating profit before certain re-measurements of £491 million (2017: £503 million). Adjusted EBITDA increased 1.6% to £848 million (2017: £835 million), resulting in an Adjusted EBITDA margin of 60.4% (2017: 60.8%). Depreciation and amortisation increased to £357 million (2017: £332 million).

6 months ended 30 June	2017 £m	2018 £m
Adjusted EBITDA	835	848
Depreciation and amortisation	(332)	(357)
Adjusted operating profit	503	491

Taxation

The tax charge for the period, before certain re-measurements, was £24 million (2017: £30 million) resulting in an effective tax rate of 25.3% (2017: 29.4%), compared to the UK statutory rate of 19% (2017: 19.25%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge for the period ended 30 June 2018 was £57 million (2017: £65 million). For the period ended 30 June 2018, Heathrow (SP) Limited paid £24 million (2017: £18 million) in corporation tax.

Cash flow

In the six months ended 30 June 2018, there was a decrease of £468 million in cash and cash equivalents compared with a decrease of £64 million in the six months ended 30 June 2017.

At 30 June 2018, the Group had £45 million (31 December 2017: £525 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £45 million (31 December 2017: £513 million).

Cash generated from operations

In the six months ended 30 June 2018, cash generated from operations increased 3.3% to £847 million (2017: £820 million). The following table reconciles Adjusted EBITDA to cash from operations.

6 months ended 30 June	2017 £m	2018 £m
Adjusted EBITDA	835	848
(Increase)/decrease in receivables and inventories ¹	(11)	8
Increase in payables	13	5
Decrease in provisions	(7)	(5)
Difference between pension charge and cash contributions	(10)	(9)
Cash generated from operations	820	847

(1) Excludes movement in group deposits

Restricted payments

In the six months ended 30 June 2018, Heathrow's ultimate shareholders received £228 million (2017: £188 million) in

dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow (SP) Limited in the period amounted to £183 million (net) or £258 million (gross). Other than the £212 million payment made by Heathrow (SP) to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £46 million (2017: £35 million) of interest on the debenture between Heathrow (SP) and Heathrow Finance and the £75 million proceeds received from a loan at ADIF2.

RECENT FINANCING ACTIVITY

Heathrow has raised close to £1 billion of debt financing globally in 2018 further strengthening our liquidity position and providing additional duration and diversification to our £13.7 billion debt portfolio. Our 2018 financing activities have so far included close to £600 million in Class A debt and £381 million in Class B debt that will be drawn in 2020.

Following Heathrow's return to the Canadian public and US private placements markets in the first quarter of 2018 which jointly provided over £350 million of Class A debt, we continued developing our footprint in private markets with a £160 million 40-year inflation-linked bond in May and a £55 million 25-year nominal private placement from non-sterling sources in June that will be drawn in September 2018. Also in June, Heathrow issued a £126 million Class B inflation-linked bond that will be drawn in March 2020. The transaction includes two tranches with 15- and 18-year maturities respectively.

After the period end, Heathrow raised another £255 million of Class B private placements to be drawn in March 2020. They included a £150 million inflation-linked transaction with 15-year and 25-year tranches and a £105 million fixed-rate coupon bond maturing in 2038.

In line with our debt financing strategy, we continue to focus on ensuring our relatively limited funding requirements for the balance of the year are targeted at maintaining our presence in existing public markets whilst capitalising selectively on private placement opportunities.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 June 2018, the Group's nominal net debt was £12,453 million (31 December 2017: £12,372 million). It comprised £11,480 million in bond issues, £631 million in other term debt and £387 million in index-linked derivative accretion offset by £45 million in cash and term deposits.

Nominal net debt comprised £10,704 million in senior net debt and £1,749 million in junior debt.

The average cost of the Group's nominal gross debt at 30 June 2018 was 3.79% (31 December 2017: 3.92%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 June 2018 was 5.70% (31 December 2017: 5.87%). The reduction in the average cost of debt excluding index-linked accretion since the end of 2017 is mainly due to the replacement in 2018 of relatively high cost maturing legacy debt with newer lower cost debt. The decrease in the average cost of debt including index-linked accretion since the end of 2017 has been driven by recent moves in inflation with the retail price index ('RPI') inflation falling from a high of 3.9% in September 2017 to 3.3% in March 2018. The average life of the Group's gross debt as at 30 June 2018 was 12 years.

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

The accounting value of the Group's net debt was £12,220 million at 30 June 2018 (31 December 2017: £12,311 million). This includes £45 million of cash and cash equivalents as reflected in the statement of financial position and excludes accrued interest.

Heathrow expects to have sufficient liquidity to meet all its obligations in full until March 2020. The obligations include forecast capital investment (including expected investment over the period related to potential expansion), debt service costs, debt maturities and distributions. This liquidity position takes into account £1.9 billion in undrawn loan facilities and term debt as well as cash resources at 30 June 2018 together with expected operating cash flow over the period.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance to £13,749 million (31 December 2017: £13,674 million). This comprises the Group's £12,453 million nominal net debt, Heathrow Finance's gross debt of £1,312 million and cash held at Heathrow Finance of £16 million.

Net finance costs and net interest paid

In the six months ended 30 June 2018, the Group's net finance costs before certain re-measurements from operations were £396 million (2017: £401 million) and net

interest paid was £299 million (2017: £302 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

6 months ended 30 June	2017 £m	2018 £m
Net finance costs before certain re-measurements	401	396
Amortisation of financing fees and other items	(14)	(11)
Borrowing costs capitalised	27	26
Underlying net finance costs	414	411
Non-cash accretion on index-linked instruments	(121)	(113)
Other movements	9	1
Net interest paid	302	299

Underlying net finance costs were £411 million (2017: £414 million) after adjusting for capitalised borrowing costs of £26 million (2017: £27 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £11 million (2017: £14 million).

Net interest paid was £299 million (2017: £302 million) of which £253 million (2017: £267 million) related to external debt. The remaining £46 million (2017: £35 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 non-cash accretion on index-linked instruments.

Included within certain re-measurements is a £155 million fair value gain on financial instruments (2017: £135 million) driven primarily by average decrease through the GBP-RPI 20-year curve and further positive impact caused by an increase in 6 month Libor interest rates.

Financial ratios

The Group and Heathrow Finance continue to operate comfortably within required financial ratios. Gearing ratios under the Group's financing agreements are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB') value.

At 30 June 2018, Heathrow's RAB was £15,952 million (31 December 2017: £15,786 million). The Group's senior (Class A) and junior (Class B) gearing ratios were 67.1% and 78.1% respectively (31 December 2017: 67.3% and 78.4% respectively). Heathrow Finance's gearing ratio was 86.2% (31 December 2017: 86.6%).

PENSION SCHEME

Heathrow operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. At 30 June 2018, the defined benefit pension scheme, as measured under IAS 19, was funded at 102.7% (31 December 2017: 97.1%). This translated into a surplus of £103 million (31 December 2017: £124 million deficit). The £227 million increase in the year is primarily due to net actuarial gains of £219 million, attributable to an increase in the net discount rate of 0.4% offset by asset returns being lower than expected. In 2018, Heathrow contributed £24 million (31 December 2017: £49 million) into the defined benefit pension scheme including £12 million (31 December 2017: £23 million) in deficit repair contributions.

As at 24 May 2018, the Scheme entered into an insurance annuity contract with L&G in respect of a proportion of its current pensioners to de-risk the position of the Scheme members. The price of the annuity contract was £325 million and the IAS19 value of the underlying obligations of the insured population was £303 million as at the transaction date. This resulted in an asset accounting loss of £22 million which was included within the overall loss on plan assets for the period.

OUTLOOK

The outlook for Heathrow's Adjusted EBITDA performance for 2018 remains broadly in line with the forecast set out in the Investor Report published on 27 June 2018. Heathrow also forecast to maintain a comfortable headroom to covenants.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June 2018			Unaudited Six months ended 30 June 2017			Audited Year ended 31 December 2017			
		Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	
Continuing operations											
Revenue	1	1,405	-	1,405	1,374	-	1,374	2,884	-	2,884	
Operating costs	2	(914)	-	(914)	(871)	-	(871)	(1,815)	-	(1,815)	
Other operating items											
Fair value gain on investment properties		-	39	39	-	74	74	-	149	149	
Operating profit		491	39	530	503	74	577	1,069	149	1,218	
Financing											
Finance income		98		98	101	-	101	201	-	201	
Finance costs		(494)		(494)	(502)	-	(502)	(1,053)	-	(1,053)	
Fair value gain on financial instruments		-	155	155	-	135	135	-	213	213	
Net finance cost	3	(396)	155	(241)	(401)	135	(266)	(852)	213	(639)	
Profit before tax		95	194	289	102	209	311	217	362	579	
Taxation charge	4	(24)	(33)	(57)	(30)	(35)	(65)	(48)	(47)	(95)	
Profit for the period		71	161	232	72	174	246	169	315	484	

^a Certain re-measurements consist of: fair value gain 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.

Heathrow (SP) Limited

Consolidated statement of comprehensive income for the six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Profit for the period	232	246	484
Items that will not be subsequently reclassified to the consolidated income statement:			
Actuarial gain/(loss) on pensions net of tax:			
(Loss)/gain on plan assets	(87)	(36)	62
Decrease/(increase) in scheme liabilities	269	(43)	(116)
Tax relating to indexation of operational land	-	-	2
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
Losses taken to equity	(151)	(76)	(105)
Transferred to income statement	172	80	121
Other comprehensive income/(loss) for the period net of tax	203	(75)	(36)
Total comprehensive income for the period ^a	435	171	448

^a Attributable to owners of the parent.

Heathrow (SP) Limited

Consolidated statement of financial position as at 30 June 2018

<i>Note</i>	Unaudited 30 June 2018 £m	Unaudited 30 June 2017 £m	Audited 31 December 2017 £m
Assets			
Non-current assets			
Property, plant and equipment	11,370	11,348	11,307
Investment properties	2,390	2,274	2,350
Intangible assets	159	119	175
Retirement benefit surplus	103	-	-
Derivative financial instruments	422	480	444
Trade and other receivables	15	23	18
	14,459	14,244	14,294
Current assets			
Inventories	11	11	11
Trade and other receivables	251	282	258
Derivative financial instruments	-	147	170
Term deposits	-	12	12
Cash and cash equivalents	45	216	513
	307	668	964
Total assets	14,766	14,912	15,258
Liabilities			
Non-current liabilities			
Borrowings	5 (13,740)	(13,298)	(13,567)
Derivative financial instruments	(1,302)	(1,410)	(1,459)
Deferred income tax liabilities	(941)	(867)	(870)
Retirement benefit obligations	(34)	(199)	(158)
Provisions	(8)	(9)	(8)
Trade and other payables	(8)	(9)	(7)
	(16,033)	(15,792)	(16,069)
Current liabilities			
Borrowings	5 (657)	(897)	(1,363)
Derivative financial instruments	(9)	-	(7)
Provisions	(1)	(6)	(6)
Current income tax liabilities	(34)	(44)	(30)
Trade and other payables	(447)	(447)	(418)
	(1,148)	(1,394)	(1,824)
Total liabilities	(17,181)	(17,186)	(17,893)
Net liabilities	(2,415)	(2,274)	(2,635)
Equity			
Capital and reserves			
Share capital	11	11	11
Share premium	499	499	499
Merger reserve	(3,758)	(3,758)	(3,758)
Cash flow hedge reserve	(231)	(264)	(252)
Retained earnings	1,064	1,238	865
Total shareholder's equity	(2,415)	(2,274)	(2,635)

Heathrow (SP) Limited

Consolidated statement of changes in equity for the six months ended 30 June 2018

	Attributable to owners of the Company (Unaudited)					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2017	11	499	(3,758)	(268)	1,537	(1,979)
Comprehensive income:						
Profit for the period					246	246
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				4		4
Actuarial gain on pension net of tax:						
Loss on plan assets					(36)	(36)
Increase in scheme liabilities					(43)	(43)
Total comprehensive income	-	-	-	4	167	171
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(466)	(466)
Total transaction with owners	-	-	-	-	(466)	(466)
30 June 2017	11	499	(3,758)	(264)	1,238	(2,274)
1 January 2018 (previously reported)	11	499	(3,758)	(252)	865	(2,635)
Adjustment in respect of:						
Transition to IFRS 15					(1)	(1)
Transition to IFRS 9					(2)	(2)
1 January 2018 (re-stated)	11	499	(3,758)	(252)	862	(2,638)
Comprehensive income:						
Profit for the period					232	232
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				21		21
Actuarial gain on pension net of tax:						
Loss on plan assets					(87)	(87)
Decrease in scheme liabilities					269	269
Total comprehensive income	-	-	-	21	414	435
Transaction with owners:						
Dividends paid to Heathrow Finance plc					(212)	(212)
Total transaction with owners					(212)	(212)
30 June 2018	11	499	(3,758)	(231)	1,064	(2,415)

Heathrow (SP) Limited

Consolidated statement of cash flows for the six months ended 30 June 2018

	<i>Note</i>	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Cash flows from operating activities				
Cash generated from continuing operations	6	847	820	1,733
Taxation:				
Corporation tax paid		(24)	(18)	(53)
Group relief paid		-	-	(12)
Net cash from operating activities		823	802	1,668
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(344)	(309)	(669)
Investment properties		(2)	-	(1)
Intangible assets		(8)	(9)	(17)
Decrease in term deposits ¹		-	368	368
Decrease in group deposits ²		12	-	11
Interest received		1	3	5
Net cash used in investing activities		(341)	53	(303)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc		(212)	(466)	(1,104)
Increase/(decrease) in amount owed to Heathrow Finance plc		75	(140)	485
Proceeds from issuance of bonds		385	-	443
Repayment of bonds		(510)	(856)	(856)
Proceeds from issuance of other term debt		145	518	518
Drawdown of revolving credit facilities		-	360	-
Repayment of facilities and other financing items		(435)	(20)	(41)
Settlement of accretion on index-linked swaps		(98)	(10)	(10)
Interest paid		(300)	(305)	(567)
Net cash used in financing activities		(950)	(919)	(1,132)
Net (decrease)/increase in cash and cash equivalents		(468)	(64)	233
Cash and cash equivalents at beginning of period		513	280	280
Cash and cash equivalents at end of period		45	216	513

¹ Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited and Heathrow (AH) Limited.

² Group deposits are amounts settled with LHR Airports Limited during the period under the terms of the Shared Services Agreement.

Heathrow (SP) Limited

General information and accounting policies for the six months ended 30 June 2018

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2017 or any other period. Statutory financial statements for the year ended 31 December 2017 have been filed with the registrar of Companies on 22 February 2018. The annual financial information presented herein for the year ended 31 December 2017 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2017. The auditors' report on the 2017 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

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 2017, with the exception of new financial reporting standards which have been applied from 1 January 2018 as follows:

IFRS 15 Revenue *from Contracts with Customers*

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption is recognised in retained earnings as of 1 January 2018 and that comparatives are not restated. The adoption of IFRS 15 resulted in an amount of £1 million charged to retained earnings at 1 January 2018.

IFRS 9 *Financial instruments*

The Group adopted IFRS 9 on 1 January 2018, and has reviewed its financial assets and liabilities and there is no change in relation to its financial liabilities which is the same under IAS 39. The financial assets under the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39.

The adoption of IFRS 9 has resulted in an ECL impairment provision of £2 million in relation to the Group's trade receivables, as at 1 January 2018, which was charged to retained earnings at that date.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2018

1 Segment information

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

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

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

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Unaudited Year ended 31 December 2017 £m
Segment Revenue			
Under IFRS 15			
Aeronautical			
Landing charges	240	232	470
Parking charges	32	31	63
Departing charges	556	551	1,183
Total Aeronautical revenue	828	814	1,716
Other regulated charges	118	113	240
Other revenue	124	126	260
Rail Income			
Heathrow Express	61	63	127
Other	6	5	9
<i>Revenue reported under IFRS 15</i>	1,137	1,121	2,352
Under IAS 17			
Retail (lease-related income)	268	253	532
Total revenue	1,405	1,374	2,884
Revenue recognised at a point in time	1,008	995	2,096
Revenue recognised over time	129	126	256
Total revenue reported under IFRS 15	1,137	1,121	2,352
Adjusted EBITDA			
Heathrow	817	828	1,688
Heathrow Express	31	7	72
Total adjusted EBITDA	848	835	1,760
Reconciliation to statutory information:			
Unallocated income and expense			
Depreciation and amortisation	(357)	(332)	(691)
Operating profit (before certain re-measurements)	491	503	1,069
Fair value gain on investment properties (certain re-measurements)	39	74	149
Operating profit	530	577	1,218
Finance income	98	101	201
Finance costs	(494)	(502)	(1,053)
Fair value gain on financial instruments (certain re-measurements)	155	135	213
Profit before tax	289	311	579
Taxation before certain re-measurements	(24)	(30)	(48)
Taxation (certain re-measurements)	(33)	(35)	(47)
Taxation charge	(57)	(65)	(95)
Profit for the period	232	246	484

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2018

2 Operating costs – ordinary

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Employment	183	180	374
Operational	134	122	252
Maintenance	89	83	176
Rates	60	64	126
Utilities	45	44	86
Other	46	46	110
Total operating costs before depreciation and amortisation	557	539	1,124
Depreciation and amortisation	357	332	691
Total operating costs	914	871	1,815

3 Financing

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	97	99	198
Interest on deposits	1	2	3
	98	101	201
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(229)	(244)	(574)
Bank loans and overdrafts and related hedging instruments	(63)	(70)	(61)
Interest payable on derivatives not in hedge relationship ²	(167)	(178)	(382)
Facility fees and other charges	(4)	(4)	(7)
Net pension finance costs	(2)	(2)	(3)
Interest on debenture payable to Heathrow Finance plc	(55)	(31)	(71)
Unwinding of discount on provisions	-	-	(1)
	(520)	(529)	(1,099)
Less: capitalised borrowing costs ³	26	27	46
	(494)	(502)	(1,053)
Net finance costs before certain re-measurements	(396)	(401)	(852)
Fair value gain on financial instruments			
Interest rate swaps: not in hedge relationship	82	51	61
Index-linked swaps: not in hedge relationship	65	72	134
Cross-currency swaps: ineffective portion of cash flow hedges	(2)	2	4
Cross-currency swaps: ineffective portion of fair value hedges	10	10	14
	155	135	213
Net finance costs	(241)	(266)	(639)

¹ Includes accretion of £19 million (six months ended 30 June 2017: £22 million; year ended 31 December 2017: £48 million) on index-linked bonds.

² Includes accretion of £94 million (six months ended 30 June 2017: £99 million; year ended 31 December 2017: £222 million) on index-linked swaps.

³ Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.67% (six months ended 30 June 2017: 5.12%; year ended 31 December 2017: 5.37%) to expenditure incurred on such assets.



Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2018

4 Taxation

	Unaudited Six months ended 30 June 2018			Unaudited Six months ended 30 June 2017			Audited Year ended 31 December 2017		
	Before certain re- measurements	Certain re- measurements	Total	Before certain re- measurements	Certain re- measurements	Total	Before certain re- measurements	Certain re- measurements	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK corporation tax									
Current tax charge at 19% (2017: 19.25%)	(28)	-	(28)	(32)	-	(32)	(63)	(2)	(65)
Deferred tax:									
Current year credit	4	(33)	(29)	2	(35)	(33)	3	(54)	(51)
Prior year charge	-	-	-	-	-	-	12	9	21
Taxation charge for the period	(24)	(33)	(57)	(30)	(35)	(65)	(48)	(47)	(95)

For the six months ended 30 June 2018, the profit before tax and certain re-measurements of £95 million (2017: £102 million) resulted in a tax charge of £24 million (2017: £30 million). This results in an effective tax rate of 25.3% (2017: 29.4%), compared to the UK statutory rate of 19% (2017: 19.25%). The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge recognised was £57 million (2017: £65 million) based on the profit before tax of £289 million (2017: £311 million), which includes the impact of certain re-measurements.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further 1% reduction in the main rate of corporation tax to 17% from 1 April 2020. The effects of these rate reductions were reflected in the deferred tax balances in the 2016 financial statements.

Legislation was enacted, in November 2017, which, limits the deductibility of interest expense for UK corporation tax payers with effect from 1 April 2017. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). The legislation applies a fixed ratio rule which limits a group's UK tax deductions for net interest expense to 30 per cent of UK "tax-based" EBITDA. The legislation also contains a group ratio rule to allow groups that are highly leveraged for commercial reasons to obtain a higher level of net interest deductions, up to a limit in line with the group's overall external gearing position, and a public infrastructure exemption aimed at ensuring that any restriction does not impede the provision of external finance used to fund taxable UK public infrastructure. The Group expects to be largely protected from any disallowance as a result of the Group making a public infrastructure exemption election.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2018

5 Borrowings

	Unaudited 30 June 2018 £m	Unaudited 30 June 2017 £m	Audited 31 December 2017 £m
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	28	33	33
Heathrow Funding Limited bonds:			
4.600% €750 million due 2018	-	650	665
6.250% £400 million due 2018	400	-	399
Total current (excluding interest payable)	428	683	1,097
Interest payable – external	194	195	239
Interest payable – owed to group undertakings	35	19	27
Total current	657	897	1,363
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds			
6.250% £400 million due 2018	-	399	-
4.000% C\$400 million due 2019	230	236	235
6.000% £400 million due 2020	399	398	398
9.200% £250 million due 2021	263	269	266
3.000% C\$450 million due 2021	254	266	260
4.875% US\$1,000 million due 2021	751	789	748
1.650%+RPI £180 million due 2022	210	203	206
1.875% €600 million due 2022	541	540	545
5.225% £750 million due 2023	687	680	683
7.125% £600 million due 2024	592	591	592
0.500% CHF400 million due 2024	292	310	293
3.250% C\$500 million due 2025	278	295	286
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	693	692	693
2.650% NOK1,000 million due 2027	91	91	90
7.075% £200 million due 2028	198	198	198
3.400% C\$400 million due 2028	233	-	-
2.500% NOK1,000 million due 2029	81	81	81
1.500% €750 million due 2030	613	609	624
6.450% £900 million due 2031	852	850	851
Zero-coupon €50 million due January 2032	57	55	57
1.366%+RPI £75 million due 2032	83	80	82
Zero-coupon €50 million due April 2032	56	55	56
1.875% €500 million due 2032	440	-	442
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	49	48	49
1.061%+RPI £180 million due 2036	193	186	191
1.382%+RPI £50 million due 2039	55	53	55
3.334%+RPI £460 million due 2039	615	597	608
1.238%+RPI £100 million due 2040	109	105	107
5.875% £750 million due 2041	738	739	738
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	83	80	82
2.750% £400 million due 2049	392	392	392
0.147%+RPI £160 million due 2058	160	-	-
	11,235	10,834	10,855

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2018

5 Borrowings *continued*

	Unaudited 30 June 2018 £m	Unaudited 30 June 2017 £m	Audited 31 December 2017 £m
Non-current borrowings <i>continued</i>			
Secured <i>continued</i>			
Heathrow Airport Limited debt:			
Revolving credit facilities	-	360	-
Term notes due 2026-2037	584	439	439
Loans	18	462	445
Unsecured			
Debenture payable to Heathrow Finance plc	1,903	1,203	1,828
Total non-current	13,740	13,298	13,567
Total borrowings (excluding interest payable)	14,168	13,981	14,664

6 Cash generated from operations

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 December 2017 £m
Operating activities			
Profit before tax	289	311	579
<i>Adjustments for:</i>			
Fair value gain on financial instruments	(155)	(135)	(213)
Finance costs	494	502	1,053
Finance income	(98)	(101)	(201)
Depreciation and amortisation	357	332	691
Fair value gain on investment properties	(39)	(74)	(149)
<i>Working capital changes:</i>			
Decrease/(increase) in inventories and trade and other receivables	8	(11)	(6)
Increase in trade and other payables	5	13	8
Decrease in provisions	(5)	(7)	(7)
Difference between pension charge and cash contributions	(9)	(10)	(22)
Cash generated from operations	847	820	1,733

Glossary

ADI Finance 2 Limited – ‘ADIF2’

Air Transport Movement ‘ATM’ – means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights, cargo flights but it does not include empty positioning flights, and private non-commercial flights

Airport Service Quality ‘ASQ’ - quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5

Baggage connection – numbers of bags connected per 1,000 passengers

Departure punctuality – percentage of flights departing within 15 minutes of schedule

Gearing ratios - under the Group's financing agreements are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB') value

Regulatory asset ratio 'RAR' is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%

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

Security queuing – percentage of passengers passing through central security within five-minute period prescribed under Service Quality Rebate 'SQR' scheme