

1 May 2018

Heathrow (SP) Limited
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Heathrow (SP) Limited Results for the three months ended 31 March 2018

- **Record start to the year** – Passengers and trade flowing through Heathrow soared to record highs, as Heathrow climbed the global airport rankings coming in as the seventh best airport in the world and retaining the top spot in Western Europe for the fourth year running at the annual Skytrax Awards
- **Better service at lower cost** – Passenger satisfaction with Heathrow is at its highest level, supported in Q1 by Heathrow’s investments in winter resilience which kept the UK’s hub open during one of the worst winters in recent years while delivering lower operating costs per passenger
- **Robust financial health** – Lower operating costs per passenger and higher retail spending resulted in strong revenue growth of 3.8% to £680 million and increased Adjusted EBITDA by 5.2% to £402 million. Underpinned by a successful financing strategy that raised over £350 million in global markets
- **Phasing out single-use plastics** – Heathrow is aiming to lead the aviation industry in cutting single-use plastics, the first step of which is Heathrow’s plan to recycle up to 13.5 million of the single-use coffee cups used at the airport annually
- **Milestone moment for expansion** – As Heathrow begins to design its preferred expansion masterplan, the airport called for the public to submit innovative ideas on how to further improve the project. The move follows the backing of the northwest runway by the Transport Select Committee and thousands of people participating in Heathrow’s first planning consultation. Parliament is expected to vote on expanding Heathrow this summer, with the latest polling showing 75% of MPs back the project

At or for three months ended 31 March	2017	2018	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	655	680	3.8
Adjusted EBITDA ⁽¹⁾	382	402	5.2
EBITDA ⁽²⁾	416	403	(3.1)
Cash generated from operations	394	405	2.8
Cash flow after investment and interest ⁽³⁾	38	63	65.8
Pre-tax profit ⁽⁴⁾	27	33	22.2
Heathrow (SP) Limited consolidated net debt ⁽⁵⁾	12,372	12,409	0.3
Heathrow Finance plc consolidated net debt ⁽⁵⁾	13,674	13,693	0.1
Regulatory Asset Base ⁽⁵⁾	15,786	15,773	-0.1
Passengers (million) ⁽⁶⁾	17.2	17.7	3.1
Retail revenue per passenger (£) ⁽⁶⁾	8.62	8.82	2.3

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

“We’re delighted that passengers are choosing Heathrow in record numbers – it’s a strong signal that we’re delivering value for money. We’re within touching distance of Parliament voting on expanding Heathrow and now more than ever we’re committed to developing and delivering a hub airport that Britain can be proud of for generations to come.”

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation and 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.

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Creditors and credit analysts conference call hosted by Javier Echave, Chief Financial Officer

1 May 2018

3.00pm (UK time), 4.00pm (Central European time), 10.00am (Eastern Standard Time)

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Strategic priorities

MOJO

We are committed to making Heathrow a great place to work by providing an environment where colleagues feel 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 quarter, 91 colleagues were promoted and 321 colleagues attended training to advance their managerial skills.

Health and Safety are at the heart of how we run the airport. In the first quarter, we held 'King's Cross smouldering' fire safety workshops for colleagues to challenge attitudes towards safety. We will continue focusing on getting the basics right with the aim of attaining the International Safety Standard ISO45001 accreditation in 2019.

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 recent years. 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 quarter, Heathrow achieved its highest ever overall passenger satisfaction reaching a record ASQ score of 4.20. This outstanding result is underpinned by a strong overall operational performance and strong levels of satisfaction across several key service attributes. In addition, 84% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very Good' (2017: 82%).

Service standards	2017	2018
ASQ	4.16	4.20
Baggage connection	99.0%	98.7%
Departure punctuality	83.4%	80.4%
Security queuing	97.4%	97.8%

Heathrow Express

Heathrow Express rail service has been confirmed to at least 2028 under a new agreement that will enhance rail service connections for passengers and contribute to delivering an integrated transport hub at Heathrow. It will also critically help ensure that at least 50% of our air passengers travel by public transport by 2030, one of the key priorities of our sustainability agenda.

The agreement has been approved by the Department for Transport and will see Heathrow Express retaining the commercial aspects including marketing, ticket pricing and revenue, while FirstGroup's Great Western Railway subsidiary will manage the day-to-day operations of the Heathrow Express service under a management contract from later this year.

BEAT THE PLAN

New intercontinental routes

In March, Heathrow became the first European airport directly connecting to Australia with Qantas' inaugural service to Perth. In addition, Beijing Capital Airlines started two direct flights a week to Qingdao, with additional direct flights to other major Chinese cities coming later this year opening new trade links for Great Britain.

Record passenger traffic

A record 17.7 million passengers travelled through Heathrow. Our traffic growth was primarily driven by an increase in the number of flights, up 0.8% and reflecting the benefits of the scheme we launched in late 2017, strong load factors and an early Easter getaway.

Intercontinental traffic was the key geographic driver of our traffic growth increasing 3.5%, with notable growth in Asia Pacific on routes serving Mumbai, Tokyo and Guangzhou. Middle Eastern traffic remained healthy, in particular on routes to Saudi Arabia and Israel. European traffic saw notable growth on routes to Madrid, Barcelona and Istanbul. Domestic traffic continues to perform well, reflecting the benefits of Heathrow's discount on domestic flights and Flybe's additional services to Scotland. Cargo also had another robust quarter recording a 4.3% growth driven by increased trade with the USA, Spain and China.

(Millions)	2017	2018	Var % ⁽¹⁾
UK	1.1	1.1	2.7
Europe	6.9	7.2	2.5
North America	3.6	3.6	2.3
Asia Pacific	2.7	2.8	3.9
Middle East	1.8	1.9	3.6

Africa	0.8	0.8	6.5
Latin America	0.3	0.3	6.9
Total passengers	17.2	17.7	3.1

(1) Calculated using unrounded numbers

Other traffic metrics	2017	2018
Passenger ATM	110,723	111,593
Load factors (%)	73.0	74.1
Cargo tonnage ('000)	399	417
Seats per ATM	212.4	213.9

SUSTAINABLE GROWTH

Heathrow 2.0

As one of the world's global transport hubs, Heathrow is aiming to use its unique position to lead the aviation industry in phasing out single-use plastics. The first step on this journey will see the airport bring together all of its suppliers and business partners to recycle as many as possible of the 13.5 million single-use coffee cups used annually at the airport. The move follows a successful trial at Heathrow's head office and could see the number of single-use coffee cups recycled in the UK increase by 200%. The UK uses 2.5 billion disposable coffee cups a year, yet it is estimated that only 0.25% are recycled. Heathrow is also looking at ways to reduce consumption of other single-use plastic products, such as bottles, stirrers and straws, as well as working with its retail partners to ensure reusable crockery is available for all sit-in restaurant customers. The progress on plastics is part of Heathrow's wider sustainability leadership strategy Heathrow 2.0 that aims to create a sustainable future for aviation.

Expansion - Heathrow developments

Our first planning consultation for Heathrow's expansion concluded on 28 March 2018. The 10-week engagement with the public saw thousands of residents visit 40 events held in local communities neighbouring the airport and across London, Surrey and the Thames Valley. Communities were encouraged to provide their feedback on options to deliver an expanded airport and on a selection of principles for new airspace design. Building on the feedback collected during these events, we recently invited interested UK businesses, entrepreneurs and leaders to share their innovative ideas on how to deliver expansion. The new initiative could ultimately see candidates partner with Heathrow to deliver a variety of infrastructure at the airport. All ideas will be expected to focus on opportunities that further improve customer service, drive cost efficiency, grow commercial revenues and deliver against sustainability targets. Pitches will also need to demonstrate how they meet the commitments outlined in the Government's draft Airports National Policy

Statement ('NPS'). Any organisation or individual that can bring significant value to the nation's most critical infrastructure project, could be in the frame to become a future commercial development partner. The feedback collected through both processes will enable us to develop a preferred masterplan for expansion that seeks to balance the needs of all our stakeholders. Heathrow will consult on its preferred masterplan in 2019 if the Airports National Policy Statement is approved by Parliament in the coming months.

Heathrow is continuing its strong engagement with businesses across the UK in 2018 with its expanded Business Summit programme and search for Logistics Hubs which will help deliver expansion through pioneering use of offsite manufacturing. Heathrow will host 10 Business Summits across the UK this year, aiming to increase the number of SMEs in the airport's multi-billion pound supply chain. Heathrow Chairman Lord Deighton launched a nationwide tour of potential Logistics Hubs sites in February and Heathrow will have visited all 65 longlisted sites by the end of July before compiling a shortlist of sites to be invited to formal tender in 2019.

Expansion - Government developments

In March, the Transport Select Committee accepted the strategic case to expand Heathrow following a period of comprehensive scrutiny including public evidence sessions. The Committee endorsed the Government's plan to expand the airport and made several recommendations for the Government to consider before the NPS is put to a vote in Parliament this summer. While it is for the Government to consider the Committee's recommendations, Heathrow will continue to work with stakeholders to improve our plans and ensure that expansion is delivered in a way that is sustainable, affordable and financeable and maintains the UK's position as a global trading powerhouse.

Expanding Heathrow remains widely supported, particularly in Parliament, with the latest polling showing that 75% of MPs back the project.

Expansion - Regulatory developments

The CAA continues developing the expansion regulatory framework. On 30 April 2018, the regulator published a new consultation entitled 'Economic regulation of capacity expansion at Heathrow: policy update and consultation'. Responses are due by 29 June 2018.

Financial review

FINANCIAL RESULTS

Adjusted EBITDA

Adjusted EBITDA grew 5.2% to £402 million (2017: £382 million) in the period as a result of strong traffic performance, robust cost control and continued retail performance.

Revenue

Revenue was up 3.8% driven by strong traffic performance and continued momentum in retail income growth.

3 months ended 31 March	2017 £m	2018 £m	Var. %
Aeronautical	389	401	3.1
Retail	148	156	5.4
Other	118	123	4.2
Total revenue	655	680	3.8

Aeronautical income was boosted by strong traffic growth and increased headline tariffs while Heathrow continued delivering value for passengers and airlines with average aeronautical revenue per passenger remaining flat at £22.67 (2017: £22.67).

3 months ended 31 March	2017 £m	2018 £m	Var. %
Retail concessions	67	71	6.0
Catering	12	14	16.7
Other retail	26	25	(3.8)
Car parking	28	31	10.7
Other services	15	15	-
Total retail revenue	148	156	5.4

Retail revenue growth, led by retail concessions and catering, reflected the strong traffic performance and higher participation. Retail concessions were also boosted by higher retail spend per participating passenger. Catering also saw benefit from redevelopment of Terminal 5 catering outlets. Retail revenue per passenger rose 2.3% to £8.82 (2017: £8.62).

Other revenue rose primarily driven by other regulated charges and property rents, higher consumption of utilities, the new Qantas Lounge and the independent award-winning Plaza Premium. Heathrow Express revenue was flat year on year as we transition from a yield to a volume strategy.

Operating expenses

Operating costs before depreciation and amortisation increased 1.8% primarily driven by higher winter resilience costs as we spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years. Other costs were higher as we ramped up expansion-related costs. Operating costs before depreciation and amortisation declined 1.2% on a per passenger basis at £15.72 (2017: £15.91) despite these costs pressures.

3 months ended 31 March	2017 £m	2018 £m	Var. %
Employment	93	90	(3.2)
Operational	62	67	8.1
Maintenance	43	45	4.7
Rates	32	31	(3.1)
Utilities and Other	43	45	4.7
Total operating costs	273	278	1.8

Taxation

The tax charge for the period, before certain re-measurements, was £9m (2017: £12m) resulting in an effective tax rate of 27.3% (2017: 44.4%), compared to the UK statutory rate of 19% (2017: 19.25%). The total tax charge was £42m (2017: £31m).

For the period ended 31 March 2018, Heathrow (SP) Limited paid £14m (2017: £7m) in corporation tax.

Cash flow generated from operations

Cash generated from operations increased 2.8% to £405 million (2017: £394 million).

Capital expenditure

Heathrow invested £152 million (2017: £160 million) in the first quarter on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continued to develop our plans for expanding Heathrow for which investments were over £25 million in the first quarter.

Restricted payments

In the three months ended 31 March 2018, ultimate shareholders received £114 million (2017: £94 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow (SP) Limited amounted to £84 million (net) or £159 million (gross). Other than the £113 million payment made by Heathrow (SP) to fund dividends to ultimate shareholders, net restricted payments related 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.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

Nominal net debt increased to £12,409 million (31 December 2017: £12,372 million). It comprised £11,308 million in bonds, £913 million in other term debt, and £334 million in index-linked derivative accretion offset by £146 million in cash and term deposits. Nominal net debt comprised £10,661 million in senior net debt and £1,748 million in junior debt.

The average cost of the Group's nominal gross debt at 31 March 2018 was 3.76% (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 31 March 2018 was 5.64% (31 December 2017: 5.75%).

Heathrow expects to have sufficient liquidity to meet all its obligations in full until February 2020. The average life of debt was 11.6 years. This liquidity position takes into account £1.5 billion in undrawn loan facilities and term debt as well as cash resources at 31 March 2018 together with expected operating cash flow over the period.

Debt at Heathrow Finance

The consolidated group nominal net debt increased to £13,693 million (31 December 2017: £13,674 million). This comprised Heathrow (SP) Limited's nominal net debt of £12,409 million, Heathrow Finance's gross debt of £1,312 million and cash of £28 million held at Heathrow Finance.

Financial ratios

Heathrow's RAB was £15,773 million at 31 March 2018 (31 December 2017: £15,786 million). The Group's senior (Class A) and junior (Class B) gearing ratios were 67.6% and 78.7% respectively (31 December 2017: 67.3% and 78.4% respectively). Heathrow Finance's gearing ratio was 86.8% (31 December 2017: 86.6%).

Recent financing activity

In March 2018, Heathrow successfully returned to the Canadian bond market raising CAD 400 million in a 10-year public bond with a fixed rate coupon of 3.4%. Additionally, an 18-year £145 million US private placement was signed and will be drawn in June 2018.

In April 2018, an existing £418 million Class A term loan facility was amended to extend its maturity from March 2020 to October 2021.

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

OUTLOOK

Heathrow's traffic in the year to date has been in line with expectations with rolling annual traffic exceeding 78 million at the end of March. On this basis, full year traffic and financial forecasts are expected to be in line with Heathrow's investor report published in December 2017.

2018 should also see several developments in relation to Heathrow's expansion including further regulatory updates and a Parliamentary vote on the NPS expected by the summer.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the three months ended 31 March 2018

	Note	Unaudited Three months ended 31 March 2018			Unaudited Three months ended 31 March 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	680	-	680	655	-	655	2,884	-	2,884
Operating costs	2	(460)	-	(460)	(443)	-	(443)	(1,815)	-	(1,815)
Other operating items										
Fair value gain on investment properties		-	1	1		34	34	-	149	149
Operating profit		220	1	221	212	34	246	1,069	149	1,218
Financing										
Finance income		46	-	46	50	-	50	201	-	201
Finance costs		(233)	-	(233)	(235)	-	(235)	(1,053)	-	(1,053)
Fair value gain on financial instruments		-	195	195		73	73	-	213	213
Net finance income/(costs)	3	(187)	195	8	(185)	73	(112)	(852)	213	(639)
Profit before tax		33	196	229	27	107	134	217	362	579
Taxation charge	4	(9)	(33)	(42)	(12)	(19)	(31)	(48)	(47)	(95)
Profit for the period		24	163	187	15	88	103	169	315	484

^a 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, the effects of the changes in tax rate and the associated tax impact of these and similar cumulative prior year items.

Heathrow (SP) Limited

**Consolidated statement of comprehensive income
for the three months ended 31 March 2018**

	Unaudited Three months ended 31 March 2018 £m	Unaudited Three months ended 31 March 2017 £m	Audited Year ended 31 December 2017 £m
Profit for the period	187	103	484
<i>Items that will not be subsequently reclassified to the consolidated income statement:</i>			
Actuarial gain/(loss) on pensions net of tax:			
(Loss)/gain on plan assets	(24)	76	62
Decrease/(increase) in scheme liabilities	102	(7)	(116)
Tax relating to indexation of operational land	-	-	2
<i>Items that may be subsequently reclassified to the consolidated income statement:</i>			
Cash flow hedges:			
Losses taken to equity	(163)	(76)	(105)
Transferred to income statement	172	82	121
Other comprehensive income/(loss) for the period net of tax	87	75	(36)
Total comprehensive income for the period^a	274	178	448

^a Attributable to owners of the parent.

Heathrow (SP) Limited
Consolidated statement of financial position
as at 31 March 2018

<i>Note</i>	Unaudited 31 March 2018 £m	Unaudited 31 March 2017 £m	Audited 31 December 2017 £m
Assets			
Non-current assets			
Property, plant and equipment	11,317	11,318	11,307
Investment properties	2,351	2,233	2,350
Intangible assets	178	115	175
Retirement benefit surplus	-	8	-
Derivative financial instruments	338	474	444
Trade and other receivables	18	25	18
	14,202	14,173	14,294
Current assets			
Inventories	11	11	11
Trade and other receivables	235	248	258
Derivative financial instruments	-	129	170
Term deposits	-	295	12
Cash and cash equivalents	146	22	513
	392	705	964
Total assets	14,594	14,878	15,258
Liabilities			
Non-current liabilities			
Borrowings	5 (13,735)	(13,148)	(13,567)
Derivative financial instruments	(1,256)	(1,393)	(1,459)
Deferred income tax liabilities	(920)	(879)	(870)
Retirement benefit obligations	(61)	(35)	(158)
Provisions	(9)	(9)	(8)
Trade and other payables	(8)	(8)	(7)
	(15,989)	(15,472)	(16,069)
Current liabilities			
Borrowings	5 (615)	(840)	(1,363)
Derivative financial instruments	-	-	(7)
Provisions	(1)	(9)	(6)
Current income tax liabilities	(26)	(39)	(30)
Trade and other payables	(440)	(404)	(418)
	(1,082)	(1,292)	(1,824)
Total liabilities	(17,071)	(16,764)	(17,893)
Net liabilities	(2,477)	(1,886)	(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	(243)	(262)	(252)
Retained earnings	1,014	1,624	865
Total shareholder's equity	(2,477)	(1,886)	(2,635)

Heathrow (SP) Limited

**Consolidated statement of changes in equity
for the three months ended 31 March 2018**

	Attributable to owners of the Company (Unaudited)					Total equity £m
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	
1 January 2017	11	499	(3,758)	(268)	1,537	(1,979)
Comprehensive income:						
Profit for the period	-	-	-	-	103	103
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax	-	-	-	6	-	6
Actuarial gain on pension net of tax:						
Gain on plan assets	-	-	-	-	76	76
Increase in scheme liabilities	-	-	-	-	(7)	(7)
Total comprehensive income	-	-	-	6	172	178
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(85)	(85)
Total transaction with owners	-	-	-	-	(85)	(85)
31 March 2017	11	499	(3,758)	(262)	1,624	(1,886)
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	-	-	-	-	187	187
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax	-	-	-	9	-	9
Actuarial gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(24)	(24)
Decrease in scheme liabilities	-	-	-	-	102	102
Total comprehensive income	-	-	-	9	265	274
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(113)	(113)
Total transaction with owners	-	-	-	-	(113)	(113)
31 March 2018	11	499	(3,758)	(243)	1,014	(2,477)

Heathrow (SP) Limited

**Consolidated statement of cash flows
for the three months ended 31 March 2018**

	Note	Unaudited Three months ended 31 March 2018 £m	Unaudited Three months ended 31 March 2017 £m	Audited Year ended 31 December 2017 £m
Cash flows from operating activities				
Cash generated from continuing operations	6	405	394	1,733
Taxation:				
Corporation tax paid		(14)	(7)	(53)
Group relief paid		-	-	(12)
Net cash from operating activities		391	387	1,668
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(149)	(156)	(669)
Investment properties		-	-	(1)
Intangible assets		(3)	(4)	(17)
Decrease in term deposits ¹		12	85	368
Decrease in group deposits ²		-	-	11
Interest received		1	1	5
Net cash used in investing activities		(139)	(74)	(303)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc		(113)	(85)	(1,104)
Increase/(decrease) in amount owed to Heathrow Finance plc		75	(140)	485
Proceeds from issuance of bonds		226	-	443
Repayment of bonds		(510)	(856)	(856)
Proceeds from issuance of other term debt		-	418	518
Drawdown of revolving credit facilities		-	305	-
Repayment of facilities and other financing items		(8)	(11)	(41)
Settlement of accretion on index-linked swaps		(98)	(5)	(10)
Interest paid		(191)	(197)	(567)
Net cash used in financing activities		(619)	(571)	(1,132)
Net (decrease)/increase in cash and cash equivalents		(367)	(258)	233
Cash and cash equivalents at beginning of period		513	280	280
Cash and cash equivalents at end of period		146	22	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 year under the terms of the SSA.

Heathrow (SP) Limited

General information and accounting policies for the three months ended 31 March 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 three months ended 31 March 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.

Table (a) details total revenue from external customers for the three months ended 31 March 2018 and is broken down into aeronautical, retail, ORCs 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 Adjusted EBITDA and a reconciliation to the consolidated profit for the period.

Table (b) and table (c) detail comparative information to table (a) for the three months ended 31 March 2017 and the year ended 31 December 2017 respectively.

Table (a) Three months ended 31 March 2018	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	401	156	58	35	650	387	
Heathrow Express				30	30	15	
Continuing operations	401	156	58	65	680	402	

Reconciliation to statutory information:

Unallocated income and expense

Depreciation and amortisation (182)

Operating profit (before certain re-measurements) 220

Fair value gain on investment properties (certain re-measurements) 1

Operating profit 221

Finance income 46

Finance costs (233)

Fair value gain on financial instruments (certain re-measurements) 195

Profit before tax 229

Taxation before certain re-measurements (9)

Taxation (certain re-measurements) (33)

Taxation charge (42)

Profit for the period 187

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the three months ended 31 March 2018**

1 Segment information *continued*

Table (b) Three months ended 31 March 2017	Segment revenue				Total external revenue £m	Adjusted EBITDA £m
	Aeronautical £m	Retail £m	ORCs £m	Other £m		
Heathrow	389	148	54	34	625	366
Heathrow Express				30	30	16
Continuing operations	389	148	54	64	655	382

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation	(170)
Operating profit (before certain re-measurements)	212
Fair value gain on investment properties (certain re-measurements)	34
Operating profit	246
Finance income	50
Finance costs	(235)
Fair value gain on financial instruments (certain re-measurements)	73
Profit before tax	134
Taxation before certain re-measurements	(12)
Taxation (certain re-measurements)	(19)
Taxation charge	(31)
Profit for the period	103

Table (c) Audited Year ended 31 December 2017	Segment revenue				Total external revenue £m	Adjusted EBITDA £m
	Aeronautical £m	Retail £m	ORCs £m	Other £m		
Heathrow	1,716	659	240	142	2,757	1,688
Heathrow Express				127	127	72
Continuing operations	1,716	659	240	269	2,884	1,760

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation	(691)
Operating profit (before certain re-measurements)	1,069
Fair value gain on investment properties (certain re-measurements)	149
Operating profit	1,218
Finance income	201
Finance costs	(1,053)
Fair value gain on financial instruments (certain re-measurements)	213
Profit before tax	579
Taxation before certain re-measurements	(48)
Taxation (certain re-measurements)	(47)
Taxation charge	(95)
Profit for the period	484

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the three months ended 31 March 2018**

2 Operating costs – ordinary

	Unaudited Three months ended 31 March 2018 £m	Unaudited Three months ended 31 March 2017 £m	Audited Year ended 31 December 2017 £m
Employment	90	93	374
Operational	67	62	252
Maintenance	45	43	176
Rates	31	32	126
Utilities	23	23	86
Other	22	20	110
Total operating costs before depreciation and amortisation	278	273	1,124
Depreciation and amortisation	182	170	691
Total operating costs	460	443	1,815

3 Financing

	Unaudited Three months ended 31 March 2018 £m	Unaudited Three months ended 31 March 2017 £m	Audited Year ended 31 December 2017 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	45	49	198
Interest on deposits	1	1	3
	46	50	201
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(111)	(117)	(574)
Bank loans and overdrafts and related hedging instruments	(32)	(35)	(61)
Interest payable on derivatives not in hedge relationship ²	(71)	(77)	(382)
Facility fees and other charges	(2)	(1)	(7)
Net pension finance costs	(1)	(1)	(3)
Interest on debenture payable to Heathrow Finance plc	(28)	(17)	(71)
Unwinding of discount on provisions	-	-	(1)
	(245)	(248)	(1,099)
Less: capitalised borrowing costs ³	12	13	46
	(233)	(235)	(1,053)
Net finance costs before certain re-measurements	(187)	(185)	(852)
Fair value gain on financial instruments			
Interest rate swaps: not in hedge relationship	53	8	61
Index-linked swaps: not in hedge relationship	133	70	134
Cross-currency swaps: ineffective portion of cash flow hedges	6	(2)	4
Cross-currency swaps: ineffective portion of fair value hedges	3	(3)	14
	195	73	213
Net finance income/(costs)	8	(112)	(639)

¹ Includes accretion of £6 million (three months ended 31 March 2017: £6 million; year ended 31 December 2017: £48 million) on index-linked bonds.

² Includes accretion of £41 million (three months ended 31 March 2017: £37 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 5.68% (three months ended 31 March 2017: 5.11%; year ended 31 December 2017: 5.37%) to expenditure incurred on such assets.

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2018

4 Taxation

	Unaudited Three months ended 31 March 2018			Unaudited Three months ended 31 March 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%)	(10)	-	(10)	(16)	-	(16)	(63)	(2)	(65)
Deferred tax:									
Current year (charge)/credit	1	(33)	(32)	4	(19)	(15)	3	(54)	(51)
Prior year charge	-	-	-	-	-	-	12	9	21
Taxation charge for the period	(9)	(33)	(42)	(12)	(19)	(31)	(48)	(47)	(95)

For the three months ended 31 March 2018, the profit before tax and certain re-measurements of £33 million (2017: £27 million) resulted in a tax charge of £9 million (2017: £12 million). This results in an effective tax rate of 27.3% (2017: 44.4%), 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 £42 million (2017: £31 million) based on the profit before tax of £229 million (2017: £134 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 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 three months ended 31 March 2018**

5 Borrowings

	Unaudited 31 March 2018 £m	Unaudited 31 March 2017 £m	Audited 31 December 2017 £m
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	33	34	33
Heathrow Funding Limited bonds:			
4.600% €750 million due 2018	-	629	665
6.250% £400 million due 2018	399	-	399
Total current (excluding interest payable)	432	663	1,097
Interest payable – external	174	172	239
Interest payable – owed to group undertakings	9	5	27
Total current	615	840	1,363
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds			
6.250% £400 million due 2018	-	399	-
4.000% C\$400 million due 2019	221	239	235
6.000% £400 million due 2020	398	398	398
9.200% £250 million due 2021	264	271	266
3.000% C\$450 million due 2021	244	273	260
4.875% US\$1,000 million due 2021	710	816	748
1.650%+RPI £180 million due 2022	208	201	206
1.875% €600 million due 2022	537	527	545
5.225% £750 million due 2023	682	671	683
7.125% £600 million due 2024	592	591	592
0.500% CHF400 million due 2024	285	311	293
3.250% C\$500 million due 2025	267	304	286
4.221% £155 million due 2026	155	154	155
6.750% £700 million due 2026	693	692	693
2.650% NOK1,000 million due 2027	88	93	90
7.075% £200 million due 2028	198	198	198
3.400% C\$400 million due 2028	224	-	-
2.500% NOK1,000 million due 2029	79	83	81
1.500% €750 million due 2030	608	597	624
6.450% £900 million due 2031	851	850	851
Zero-coupon €50 million due January 2032	56	53	57
1.366%+RPI £75 million due 2032	82	79	82
Zero-coupon €50 million due April 2032	55	52	56
1.875% €500 million due 2032	437	-	442
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	49	46	49
1.061%+RPI £180 million due 2036	192	184	191
1.382%+RPI £50 million due 2039	55	53	55
3.334%+RPI £460 million due 2039	610	589	608
1.238%+RPI £100 million due 2040	108	104	107
5.875% £750 million due 2041	738	738	738
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	82	79	82
2.750% £400 million due 2049	393	392	392
	10,953	10,829	10,855

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the three months ended 31 March 2018**

5 Borrowings continued

	Unaudited 31 March 2018 £m	Unaudited 31 March 2017 £m	Audited 31 December 2017 £m
Non-current borrowings continued			
Secured continued			
Heathrow Airport Limited debt:			
Revolving credit facilities	-	305	-
Term notes due 2026-2037	439	339	439
Loans	440	472	445
Unsecured			
Debenture payable to Heathrow Finance plc	1,903	1,203	1,828
Total non-current	13,735	13,148	13,567
Total borrowings (excluding interest payable)	14,167	13,811	14,664

6 Cash generated from operations

	Unaudited Three months ended 31 March 2018 £m	Unaudited Three months ended 31 March 2017 £m	Audited Year ended 31 December 2017 £m
Operating activities			
Profit before tax	229	134	579
<i>Adjustments for:</i>			
Fair value gain on financial instruments	(195)	(73)	(213)
Finance costs	233	235	1,053
Finance income	(46)	(50)	(201)
Depreciation and amortisation	182	170	691
Fair value gain on investment properties	(1)	(34)	(149)
<i>Working capital changes:</i>			
Decrease/(increase) in inventories and trade and other receivables	22	25	(6)
(Decrease)/increase in trade and other payables	(10)	(5)	8
Decrease in provisions	(4)	(3)	(7)
Difference between pension charge and cash contributions	(5)	(5)	(22)
Cash generated from operations	405	394	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