News release

Heathrow (SP) Limited
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22 July 2016

Heathrow (SP) Limited

Results for the six months ended 30 June 2016

- **A record Airport Service Quality score of 4.16 reflecting Heathrow's high service standards. Heathrow is recognised as the leading airport in Europe, receiving for the third time ACI Europe's 'Best Major Airport' award**
- **35.7 million passengers used Heathrow in first six months, up 0.6%. Cargo volumes increased 1.7% with Heathrow's links to fast-growing economies boosting British businesses**
- **Strong financial performance with revenue up 1.0% to £1,320 million and Adjusted EBITDA up 4.4% to £781 million reflecting lower costs and better value**
- **While EU referendum result may create some short-term economic uncertainty, Heathrow is a resilient hub with a unique and compelling market position**
- **Heathrow to meet or exceed conditions in Airports Commission's recommendation for expansion which also has overwhelming parliamentary support**

At or for six months ended 30 June	**2016**	2015	Change (%)
(£m unless otherwise stated)			
Revenue	**1,320**	1,307	1.0
Adjusted EBITDA(1)	**781**	748	4.4
Cash generated from operations	**700**	729	(4.0)
Cash flow after investment and interest(2)	**76**	88	(13.6)
Pre-tax profit(3)	**75**	69	8.7
Heathrow (SP) Limited consolidated net debt(4)	**11,857**	11,745	1.0
Heathrow Finance plc consolidated net debt(4)	**12,804**	12,670	1.1
Regulatory Asset Base(4)	**15,007**	14,921	0.6
Passengers (m)(5)	**35.7**	35.5	0.6
Retail revenue per passenger (£)(5)	**7.84**	7.32	7.1

Notes 1-5: see page 2

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

"Heathrow has been named the best major airport in Europe for the third time and I am very proud of the work our colleagues do every day while giving better value to passengers.

"As the UK's biggest port, we are supporting businesses from every corner of Britain to get their products to global markets, with cargo volumes up by almost 2%.

"Now Britain needs a positive post-Brexit plan and only Heathrow expansion will help Britain to be one of the world's leading trading nations – connecting all of Britain to global growth. Heathrow has a new plan for expansion, allowing the Prime Minister to make the right choice in the national interest."

Heathrow
Making every journey better

Notes
(1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items
(2) Cash flow after investment and interest is cash generated from operations after net capital expenditure and net interest paid
(3) Pre-tax profit before exceptional items and certain re-measurements
(4) 2015 net debt and RAB figures at 31 December 2015. Nominal net debt excluding intra-group loans and including inflation-linked accretion
(5) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger data

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.

For further information please contact

Heathrow

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Conference call to be held for creditors and credit analysts on 22 July 2016 at 2.30pm (UK time), 3.30pm (Central European time), 9.30am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and Javier Echave, Acting Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 60670883#

The presentation can be viewed at the Investor Centre at heathrow.com and online during the event at:
https://arkadin-event.webex.com/arkadin-event/onstage/g.php?d=708434309&t=a
using event password: 669329

Heathrow (SP) Limited

Consolidated results for the six months ended 30 June 2016

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Heathrow
Making every journey better

1 Key business developments

1.1 Passenger traffic

In the six months ended 30 June 2016, traffic rose 0.6% to 35.7 million (2015: 35.5 million).

(Millions)	**2016**	2015	Change (%)
UK	**2.2**	2.5	(12.5)
Europe	**15.0**	14.7	1.9
North America	**8.1**	8.1	0.3
Asia Pacific	**5.2**	5.0	2.6
Middle East	**3.2**	3.0	6.0
Africa	**1.5**	1.6	(6.6)
Latin America	**0.6**	0.6	3.9
Total passengers(1)	**35.7**	35.5	0.6

(1) Calculated using unrounded passenger figures

For the six months ended 30 June 2016, traffic grew 0.6% to 35.7 million passengers (2015: 35.5 million). The average number of seats per passenger aircraft increased 1.5% to 210.6 (2015: 207.4) and the average load factor was slightly lower than last year at 73.1% (2015: 73.8%). The impact of the leap year contributed around 0.5% to growth. Underlying traffic increased in the early part of the year but softened in the second quarter reflecting a more uncertain macro-economic environment.

Long haul traffic increased 1.4%, principally from routes serving the Middle East and Asia Pacific regions. Passengers benefitted from larger aircraft on Middle East routes and new airlines serving Asia including Vietnam Airways. In March, Garuda Airlines became the latest airline to move services from Gatwick to Heathrow. Increased services to North America supported continued traffic growth with this region although geopolitical and macro-economic factors saw traffic soften as the year progressed. African traffic was lower partly reflecting Virgin Atlantic's schedule changes in 2015. Short haul traffic was marginally down year on year with growth in European traffic driven by British Airways increasing seat capacity broadly offset by reduced UK traffic principally due to Virgin Little Red ending operations in 2015.

Cargo volume passing through Heathrow increased 1.7% in the first six months of 2016, with growth accelerating in the second quarter following the 0.4% increase reported in the first quarter. There were particularly notable increases in cargo volumes on Hong Kong, China and Vietnam.

1.2 Transforming customer service

Heathrow continued to deliver its best ever passenger service, with a record service quality score of 4.16 in the second quarter of 2016. 82% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very Good', with strong recognition in areas such as security waiting times and the courtesy and helpfulness of Heathrow staff.

Heathrow has once again received recognition for high service standards, being named the 'Best Airport in Western Europe' for the second consecutive year at the Skytrax World Airport Awards. The award, voted for globally by passengers, came in addition to Terminal 5 being voted the world's 'Best Airport Terminal' and Heathrow 'Best Airport for Shopping' for the fifth and seventh consecutive years respectively. For the first time, Heathrow received the prestigious award of 'Europe's Best Airport' (with over 40 million passengers) in the 2016 ASQ Awards. Finally, Heathrow was also named ACI Europe's Best Airport Award for the third time.

Improvements to passengers' journeys through the airport continue. An additional escalator was opened in Terminal 5, improving operational flexibility and resilience. Passengers are experiencing improvements to security queuing and passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.7% of the time (2015: 97.7%) compared with a 95% service standard.

Punctuality improved and in the first six months of 2016, 80.6% of flights departed within 15 minutes of schedule (2015: 79.8%), reflecting investment to improve operational resilience, including introducing time-based aircraft separation on windy days in 2015. This year, further work on widening taxiways to support increasing A380 operations is enabling more efficient airfield use. Baggage performance continues to be a focus and the baggage misconnect rate in the first half of the year was 13 per 1,000 passengers (2015: 17). Terminal 3's integrated, automated baggage facility is now fully operational contributing to improved baggage reliability.

1.3 Beating the plan

Heathrow's business plan for the 2014-2018 period improves Heathrow's customer service, strengthens operational resilience and delivers an ambitious programme of cost efficiencies and revenue growth. Work continues to secure cost efficiencies and well over £500 million of efficiencies have now been secured, out of the target £600 million. A three year pay offer was agreed earlier in 2016 and further contract improvements have been secured with suppliers. The benefits of investment in Terminal 5 retail outlets and new car parking capacity continue to flow through strongly contributing to the £270 million incremental commercial revenue target set for the regulatory period.

On 1 March 2016, the CAA published its "Strategic Themes for the Review of Heathrow Airport's Charges (H7)" document. The document sets out the CAA's key milestones and details four key priorities for the next regulatory period (H7). The four priorities are 'empowering consumers and furthering their interests', 'incentivising the right consumer outcomes', 'increasing airport operational resilience' and 'promoting cost efficiency and financeability'. Heathrow responded to the CAA's consultation at the end of April.

1.4 Investing in Heathrow

Since the beginning of 2016, Heathrow has invested just over £300 million across the airport campus, improving the passenger experience and airport resilience, enhancing baggage resilience and working through a broad asset replacement programme. Passengers will benefit from improved baggage connection reliability following the opening of the Terminal 3 baggage facility and see reduced baggage disruption as facilities are made more resilient. Security processes have been strengthened and made more efficient with more body scanners installed across terminals and additional automated immigration gates introduced. Also, passengers connecting through Terminal 5 now experience an improved connection experience with the installation of an additional escalator.

Terminal 4 is currently significantly refreshing its retail proposition. The acclaimed Drake & Morgan group will open 'The Commission', their first airport unit, shortly. Terminal 4's luxury stores, such as Harrods, Burberry and Cartier, are also being re-developed and 5 new luxury brands will be introduced, two of which will be new to Heathrow. The luxury redevelopment in Terminal 5 has now been matched by the introduction of an enhanced food and beverage offer.

Airfield improvements continue to meet increased A380 operations with taxiway widening projects and stand modifications completed. Winter operations will benefit from improved de-icing facilities and enhanced runway landing systems should assist arrivals punctuality. The refurbishment and enhancing of road access tunnels into the central terminal area will be completed in late 2016.

1.5 Responsible Heathrow

Responsible Heathrow 2020 is Heathrow's commitment to supporting the UK and local economies whilst managing its impacts on communities and the environment. Over the past 6 months, Heathrow has been developing even more ambitious plans to make Heathrow the most sustainable hub airport in the world. Heathrow's sustainability leadership strategy is being developed in consultation with leading sustainability experts and NGOs, Heathrow's business community and local stakeholders and communities. It sets out Heathrow's aspiration to make the area around the airport one of the best places to live in the UK.

Heathrow won the Onsite Energy Efficiency category at the 2016 Edie Environment and Energy Awards, recognising its energy efficiency programme that cut electricity use by 27GWh in 2015, and was shortlisted for the ACI Europe 2016 Eco-innovation Award. A six month partnership with Guardian Sustainable Business was launched to explore new ideas in mobility and transportation technology, such as driverless cars and innovation in transport networks that will position Heathrow as a global authority on sustainable mobility.

On noise management, Heathrow is on track to reach its 2020 goal of all aircraft being ICAO Chapter 4 or better. Chapter 3 aircraft have reached their lowest level at 0.55% and are expected to fall further as new landing charges structures incentivise use of quieter aircraft. A 2016 noise action plan has been agreed with the Heathrow Community Noise Forum that is reflected in the 2016 Blueprint for Noise Reduction.

Heathrow's 2016 Blueprint for Reducing Emissions sets out a ten-point plan for working with partners to reduce emissions from aircraft, vehicles and buildings, as well as support Heathrow's commitment to play its part to ensure air quality limits in the local area are met. Progress has been made in several areas. Work to convert 30 cars and vans in Heathrow's fleet to electric or hybrid will be complete by end of 2016. As part of its wider campaign to reduce single occupancy car journeys, as well as related congestion and emissions, Heathrow introduced the world's first dedicated airport cycle officer in May. Tasked with getting 16,500 airport colleagues onto bikes, he will lead a one year partnership with Sustrans.

Energy demand management investment continues to shrink Heathrow's energy footprint. Efficiency is already close to the 6.5KWh per passenger target for 2020. Heathrow currently generates a small amount of electricity from a biomass boiler and its energy strategy promotes further on-site electricity generation to reduce costs, improve resilience and lower emissions. A focus on water has resulted in usage improving to 22.8 litres per passenger, below 2016's target of 24.6 litres and in line with the 2020 target.

1.6 Winning support for expansion

The case for Heathrow expansion has been further strengthened by the UK's recent referendum decision to leave the European Union. In an uncertain economic environment, a £16 billion privately funded infrastructure investment will create up to 180,000 jobs and £211 billion of growth across the UK. Only Heathrow expansion will allow exporters to trade with all the growing markets of the world, enabling up to 40 new long haul connections to be established with emerging growth markets and strengthening Britain's position as one of the world's great trading nations. By approving Heathrow expansion, the Government will send the strongest signal possible that Britain is open for business and confident in its future.

Recent polling shows that two thirds of MPs think approving Heathrow expansion will strengthen Britain's economy. MPs also ranked Heathrow expansion as the top infrastructure project for spreading growth across Britain – ahead of projects like HS2, HS3 and notably with Gatwick expansion last (Heathrow 41% vs Gatwick 3%). In addition, 74% of Conservative party members support Heathrow expansion.

In 2015, Heathrow received a unanimous and unambiguous recommendation for expansion from the independent Airports Commission following a two-and-a-half year, £20 million study. The Commission said expansion at Heathrow had by far the greatest economic benefits of the options available and that they would be spread across all of the UK.

The Commission also set out conditions to expansion including controls on night flights, air quality and noise. Heathrow accepted and, in most cases, exceeded those conditions in May. Heathrow is committed to working with airlines to deliver expansion that is affordable for passengers and airlines, whilst giving the fairest deal to local communities.

Heathrow expansion is seen as the best solution to Britain's aviation capacity crunch by business, trade unions, politicians and airlines. Supporters include the CBI, Federation of Small Businesses, chambers of commerce nationwide, Unite, the GMB, 37 British airports and airlines such as easyJet, which plans to operate from an expanded Heathrow. A large proportion of the local community also backs Heathrow.

1.7 Key management changes

Paul Deighton succeeded Sir Nigel Rudd as Chairman of the board of Heathrow Airport Holdings Limited on 22 June 2016. Lord Deighton's breadth of experience in funding and delivering major projects is unrivalled. Following a very successful career at Goldman Sachs, he delivered the 2012 London Olympic Games to international acclaim as CEO of LOCOG (London Organising Committee of the Olympic Games), enhancing the UK's reputation for infrastructure service delivery and generating national pride. Recently, as Commercial Secretary to the Treasury, he was responsible for the UK's National Infrastructure Plan, focussing on getting major projects built, capturing benefits, attracting capital into the UK from across the world and creating the right environment for continued infrastructure investment.

On 12 April 2016, Heathrow announced that Michael Uzielli, Chief Financial Officer, was to step down to take up an outstanding opportunity with a private equity backed business. Michael left the business in May 2016 when Javier Echave became Acting Chief Financial Officer. He joined Heathrow in 2008 and since then has played a critical role in all areas across finance – from designing and implementing its capital structure to returning Heathrow to the capital markets. More recently, as Finance Director for Operations and Performance and member of the Operational Leadership team, he has been deeply involved in the delivery of Heathrow's five-year £1 billion programme of commercial growth and cost efficiencies. The search for a permanent Chief Financial Officer is underway.

2 Financial review

2.1 Basis of presentation of financial results

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

2.2 Income statement

2.2.1 Overview

In the six months ended 30 June 2016, the Group's operating profit before certain re-measurements was £421 million (2015: £404 million) and its loss after tax was £201 million (2015: £88 million profit).

Six months ended 30 June	**2016 £m**	2015 £m
Excluding exceptional items and certain re-measurements		
Revenue	**1,320**	1,307
Operating costs before depreciation and amortisation	**(539)**	(559)
Adjusted EBITDA[1]	**781**	748
Depreciation and amortisation	**(360)**	(344)
Operating profit	**421**	404
Net finance costs	**(346)**	(335)
Profit before tax	**75**	69
Tax charge on profit before exceptional items & certain re-measurements	**(24)**	(22)
Including exceptional items and certain re-measurements		
Fair value (loss)/gain on investment properties	**(12)**	44
Fair value (loss)/gain on financial instruments	**(295)**	7
Tax credit/(charge) on exceptional items & certain re-measurements	**55**	(10)
(Loss)/profit after tax	**(201)**	88

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

2.2.2 Revenue

In the six months ended 30 June 2016, revenue totalled £1,320 million (2015: £1,307 million).

Six months ended 30 June	**2016** **£m**	2015 £m	Change (%)
Aeronautical	**802**	803	(0.1)
Retail	**280**	260	7.7
Other	**238**	244	(2.5)
Total revenue	**1,320**	1,307	1.0

2.2.2.1 Aeronautical

In the six months ended 30 June 2016, aeronautical revenue reduced 0.1% to £802 million (2015: £803 million) and average aeronautical revenue per passenger decreased 0.8% to £22.44 (2015: £22.61). Traffic growth of 0.6% generated an additional £5 million of aeronautical revenue, offset by a lower yield of 0.8% or £6 million.

2.2.2.2 Retail

In the six months ended 30 June 2016, retail revenue increased 7.7% to £280 million (2015: £260 million). Retail revenue per passenger rose 7.1% to £7.84 (2015: £7.32).

Six months ended 30 June	**2016** **£m**	2015 £m	Change (%)
Duty and tax-free	**62**	60	3.3
Airside specialist shops	**51**	47	8.5
Bureaux de change	**24**	23	4.3
Catering	**22**	21	4.8
Other retail income	**37**	32	15.6
Car parking	**55**	52	5.8
Other services	**29**	25	16.0
Total retail revenue	**280**	260	7.7

Retail shops performed well in the first half of 2016 following the major redevelopment of stores in Terminal 5 including new brands which have strengthened Heathrow's unrivalled airport shopping experience. Performance in duty and tax-free stores has continued to improve following extensive refurbishment in Terminal 5. Car parking has performed well in the first half, with continued take-up of Heathrow's car parking range and successful yield management.

2.2.2.3 Other

In the six months ended 30 June 2016, other revenue was £238 million (2015: £244 million).

Six months ended 30 June	**2016** **£m**	2015 £m	Change (%)
Other regulated charges	**110**	115	(4.3)
Heathrow Express	**65**	64	1.6
Property and other	**63**	65	(3.1)
Total other revenue	**238**	244	(2.5)

Performance in other revenue reflects growth from Heathrow Express, partly driven by the introduction of a more sophisticated pricing strategy. This was offset by reductions in property and other income and other regulated charges. Other regulated charges largely reflect pass through of costs to airlines, so performance here is based on reduction in costs, such as in baggage system operation and maintenance and utilities consumption and prices.

2.2.3 Operating costs

For the six months ended 30 June 2016, operating costs excluding depreciation, amortisation and exceptional items decreased 3.6% to £539 million (2015: £559 million).

Six months ended 30 June	**2016 £m**	2015 £m	Change (%)
Employment	**178**	187	(4.8)
Operational	**131**	123	6.5
Maintenance	**86**	84	2.4
Business rates	**63**	60	5.0
Utilities	**30**	51	(41.2)
Other	**51**	54	(5.6)
Total operating costs	**539**	559	(3.6)

Cost control continues to be strong as the full benefits flow through from initiatives implemented in 2015. Employment costs benefited from previously announced changes to the defined benefit pension scheme as well as take-up of a voluntary severance programme, improved new entrant pay levels, automation and other workforce efficiencies. Higher operational costs reflect a re-categorisation of costs from other costs partially offset by improved service driving lower service quality rebates. Savings are also coming from the recently re-negotiated NATS contract for providing aerodrome navigation services.

The rise in business rates reflects general national trends with Heathrow remaining one of the highest business rate payers in the UK. The significant reduction in utilities costs is driven particularly by re-negotiated contractual terms for the provision of electricity distribution infrastructure services that includes a combination of recurrent cost savings and a one-off credit related to prior periods. Whilst taking opportunities to deliver cost efficiencies, Heathrow continues to invest in passenger service and operational resilience improvements.

2.2.4 Operating profit

For the six months ended 30 June 2016, the Group recorded an operating profit before certain re-measurements of £421 million (2015: £404 million).

Six months ended 30 June	**2016 £m**	2015 £m	Change (%)
Adjusted EBITDA before certain re-measurements	**781**	748	4.4
Depreciation and amortisation	**(360)**	(344)	4.7
Operating profit before certain re-measurements	**421**	404	4.2

In the six months ended 30 June 2016, Adjusted EBITDA (before certain re-measurements and exceptional items) increased 4.4% to £781 million (2015: £748 million), resulting in an Adjusted EBITDA margin of 59.2% (2015: 57.2%). Depreciation increased to £360 million (2015: £344 million), reflecting the impact of the baggage facility at Terminal 3 and other assets in Terminal 3. In the period, there were no exceptional charges to the income statement.

2.2.5 Taxation

The tax charge arising on ordinary activities for the six months ended 30 June 2016 was £24 million based on a profit before tax of £75 million. This results in an effective tax rate of 32.0%, compared to the UK statutory rate of 20.0%. The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

2.3 Cash flow

2.3.1 Summary cash flow

In the six months ended 30 June 2016, there was an increase of £60 million in cash and cash equivalents compared with an increase of £173 million in the six months ended 30 June 2015.

Six months ended 30 June	**2016** **£m**	2015 £m
Cash generated from operations	**700**	729
Taxation:		
Corporation tax paid	**(18)**	-
Group relief received	**-**	18
Net cash from operating activities	**682**	747
Net purchase of property, plant and equipment and other assets	**(295)**	(307)
Net purchase of investment properties	**-**	(7)
Net purchase of intangible assets	**(8)**	(8)
Net decrease in term deposits and group deposits	**176**	82
Interest received	**3**	3
Net cash used in investing activities	**(124)**	(237)
Dividends paid	**(227)**	(214)
Proceeds from issuance of bonds and other financing	**344**	907
Repayment of bonds, facilities and other financing items	**(320)**	(639)
Increase in amount owed to Heathrow Finance plc	**95**	75
Settlement of accretion on index-linked swaps	**(86)**	(144)
Swap restructuring	**20**	-
Interest paid	**(324)**	(322)
Net cash used in financing activities	**(498)**	(337)
Net increase in cash and cash equivalents	**60**	173
Cash generated from operations after investment and interest	**76**	88

The net change in cash and cash equivalents compared to the same period last year principally reflects the repayment of maturing bonds, the settlement of accretion on index-linked swaps and lower capital raising activity in the first half of 2016.

At 30 June 2016, the Group had £587 million of cash, cash equivalents and term deposits, of which cash and cash equivalents comprised £232 million (31 December 2015: £722 million and £172 million respectively).

2.3.2 Cash generated from operations

In the six months ended 30 June 2016, cash generated from operations decreased 4.0% to £700 million (2015: £729 million). The following table reconciles Adjusted EBITDA to cash from operations.

Six months ended 30 June	**2016** **£m**	2015 £m
Adjusted EBITDA (before certain re-measurements and exceptional items)	**781**	748
(Increase)/decrease in receivables and inventories	**(46)**	13
Decrease in payables	**(8)**	(22)
Decrease in provisions	**(3)**	-
Difference between pension charge and cash contributions	**(24)**	(10)
Cash generated from operations	**700**	729

2.3.3 Capital expenditure

In the six months ended 30 June 2016, the cash impact of capital investment was £303 million (2015: £322 million) with gross additions to fixed assets of £303 million (2015: £280 million).

2.3.4 Restricted payments

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

In the six months ended 30 June 2016, gross restricted payments of £263 million (net restricted payments £168 million) were made by the Group which funded the majority of the £150 million in quarterly dividends paid to the Group's ultimate shareholders, £36 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance, a further £65 million distributed to Heathrow Finance (a net £20 million as £45 million was returned to Heathrow (SP) in the period) and £16 million of interest payments at ADI Finance 2 Limited ('ADIF2'). (2015: net restricted payments of £170 million which principally funded £118 million of the £150 million in quarterly dividends paid to the Group's ultimate shareholders, £31 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance and £16 million of interest payments at ADIF2).

2.4 Pension scheme

Heathrow operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. At 30 June 2016, the defined benefit pension scheme, as measured under IAS 19, had a surplus of £111 million (31 December 2015: £104 million). The increase of £7 million in the first half is due to contributions in excess of current service cost of £24 million, including £14 million for agreed deficit repair contributions, offset by net actuarial losses of £17 million, comprising asset gains of £415 million less increased liabilities of £432 million.

In July 2016, the trustee of the BAA Pension Scheme concluded a formal actuarial valuation of the scheme. The valuation was carried out as at 30 September 2015 and took into account changes implemented to reduce the scheme's liabilities. These changes were the introduction of an annual cap on future increases in pensionable pay for active members and a reduction in both the accrual rate for future service and inflationary increases for those future service pensions whilst in payment. The valuation indicated a scheme deficit of £228 million calculated using the agreed actuarial assumptions. As part of the process, LHR Airports Limited agreed a reduction to its annual deficit repair contribution from £27 million to £23 million that is intended to eliminate the deficit by 2022. The process also resulted in a reduction in ongoing cash contributions from 33% to 23% of pensionable salary, consistent with the efficiency targets under the current regulatory settlement. The reduction in cash contributions into the scheme applies from 1 July 2016 and is estimated at £12 million per annum.

2.5 Recent financing activity

Heathrow continues to focus on maintaining a strong liquidity position and optimising its long-term cost of debt as well as ensuring duration, diversification and resilience in its debt financing. Heathrow's recent financing strategy has looked to balance certainty of term funding, particularly to meet £1.2 billion in debt maturities in the first quarter of 2017, with the cost of carrying substantial cash on balance sheet. This has achieved by focusing on securing term debt with delays between commitment and drawing.

In 2016, Heathrow has raised approximately £1.0 billion of debt financing globally from a diverse range of sources. In January, it consolidated its presence in the Swiss franc bond market, raising CHF400 million in an 8 year public bond with a fixed rate coupon of 0.5%. In April, a £90 million private placement from non-sterling sources was signed that will be drawn in August 2016 and mature in 2032. In June, a £350 million 3.75 year term loan was signed with an initial group of 5 banks which is expected to be drawn in early 2017. Since the EU referendum, a NOK1 billion private placement has been signed which will be drawn in December 2016 and mature in 2029. At Heathrow Finance, 7-10 year term loans totalling

£200 million have been agreed that are expected to be drawn in early 2017. As a result of this activity, Heathrow has largely completed its 2016 funding plans but may selectively pursue further opportunities.

On 31 March 2016, Heathrow repaid a £300 million bond maturity. Since the period end, £75 million of term loan facilities at ADI Finance 2 Limited have been repaid.

2.6 Financing position

2.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt was £11,857 million at 30 June 2016 increasing from £11,745 million at the end of 2015. Nominal net debt comprises £11,875 million in bond issues, £368 million in term notes and loan facilities, £201 million in index-linked derivative accretion and cash at bank and term deposits of £587 million. Senior net debt was £10,120 million and junior debt was £1,737 million.

The average cost of the Group's nominal gross debt at 30 June 2016 was 4.16% (31 December 2015: 4.40%). 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 2016 was 4.78% (31 December 2015: 4.84%). The reduction in the average cost of debt since the end of 2015 is mainly due to the maturity on 31 March 2016 of a bond with a 12.45% coupon.

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 £12,051 million at 30 June 2016 (31 December 2015: £11,114 million). This includes £587 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

Heathrow expects to have sufficient liquidity to meet all its obligations in full up to September 2018. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. This forecast reflects £2.0 billion in undrawn revolving credit facilities and cash resources at 30 June 2016, over £700 million in committed term debt financing to be drawn after 30 June 2016 and expected operating cash flow over the period.

2.6.2 Debt at Heathrow Finance plc

Heathrow Finance's consolidated nominal net debt was £12,804 million at 30 June 2016, up 1.1% since the end of 2015 when it was £12,670 million. This comprises the Group's nominal net debt of £11,857 million, Heathrow Finance's gross debt of £964 million and cash held at Heathrow Finance of £17 million.

2.6.3 Net finance costs and net interest paid

In the six months ended 30 June 2016, the Group's net finance costs before certain re-measurements were £346 million (2015: £335 million) and net interest paid was £321 million (2015: £319 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Six months ended 30 June	**2016 £m**	2015 £m
Net finance costs before certain re-measurements and exceptional items	**346**	335
Amortisation of financing fees and other items	**(13)**	(5)
Borrowing costs capitalised	**15**	10
Underlying net finance costs	**348**	340
Non-cash accretion on index-linked instruments	**(41)**	(18)
Other movements	**14**	(3)
Net interest paid	**321**	319

Underlying net finance costs were £348 million (2015: £340 million) after adjusting for capitalised borrowing costs of £15 million (2015: £10 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £13 million (2015: £5 million).

Net interest paid in the period was £321 million (2015: £319 million) of which £285 million (2015: £288 million) related to external debt. The remaining £36 million (2015: £31 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 £295 million fair value loss on financial instruments (2015: £7 million gain) driven primarily by a 100 basis point reduction in long term sterling interest rates following the outcome of the UK's referendum on membership of the European Union.

2.6.4 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 using consolidated nominal net debt to Heathrow's Regulatory Asset Base ('RAB') value. At 30 June 2016, Heathrow's RAB was £15,007 million (31 December 2015: £14,921 million), the movement mainly reflects capital expenditure of £303 million and indexation of £143 million offset by depreciation of approximately £360 million.

At 30 June 2016, the Group's senior (Class A) and junior (Class B) gearing ratios were 67.4% and 79.0% respectively (31 December 2015: 67.5% and 78.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 85.3%, slightly higher than the prior year end but lower than at 31 March 2016 (31 December 2015: 84.9%; 31 March 2016: 85.7%). This compares to a covenant level of 90.0% under its financing agreements.

2.7 Outlook

Heathrow published its latest financial forecasts for 2016 on 23 June, the day of the referendum on the UK's continuing membership of the EU. This included a forecast for Adjusted EBITDA for the year of £1,678 million, slightly higher than its previous forecast and representing year on year growth of 4-5%. This forecast was underpinned by expected revenue growth of around 1% and a reduction in operating costs of approximately 4%.

The outcome of the referendum has raised uncertainties around the macro-economic outlook but Heathrow had begun to plan for a more challenging environment prior to the referendum. Heathrow's financial performance has proven resilient in previous periods of macro-economic instability so, whilst the coming months may present challenges, Heathrow does not currently expect its 2016 Adjusted EBITDA performance to be materially impacted.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement
for the six months ended 30 June 2016

		Unaudited Six months ended 30 June 2016			Unaudited Six months ended 30 June 2015			Audited Year ended 31 December 2015		
	Note	**Before certain re-measurements and exceptional items £m**	**Certain re-measurements and exceptional items[a] £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items[a] £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items[a] £m	Total £m
Revenue	*1*	**1,320**	**-**	**1,320**	1,307	-	1,307	2,765	-	2,765
Operating costs	*2*	**(899)**	**-**	**(899)**	(903)	-	(903)	(1,842)	236	(1,606)
Other operating items										
Fair value (loss)/gain on investment properties			**(12)**	**(12)**		44	44		95	95
Operating profit		**421**	**(12)**	**409**	404	44	448	923	331	1,254
Financing										
Finance income		**110**	**-**	**110**	118	-	118	252	-	252
Finance costs		**(456)**	**-**	**(456)**	(453)	-	(453)	(952)	-	(952)
Fair value (loss)/gain on financial instruments			**(295)**	**(295)**		7	7		148	148
Net finance costs	*4*	**(346)**	**(295)**	**(641)**	(335)	7	(328)	(700)	148	(552)
(Loss)/profit before tax		**75**	**(307)**	**(232)**	69	51	120	223	479	702
Tax credit/(charge) before change in tax rate		**(24)**	**55**	**31**	(22)	(10)	(32)	(54)	(88)	(142)
Change in tax rate		**-**	**-**	**-**	-	-	-	-	104	104
Taxation	*5*	**(24)**	**55**	**31**	(22)	(10)	(32)	(54)	16	(38)
(Loss)/profit for the period		**51**	**(252)**	**(201)**	47	41	88	169	495	664

[a] Certain re-measurements and exceptional items consist of: exceptional items, 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 hedge 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 six months ended 30 June 2016

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
(Loss)/profit for the period	**(201)**	88	664
Items that will not be subsequently reclassified to the consolidated income statement:			
Tax relating to retirement benefits[a]	**-**	-	(10)
Actuarial loss on retirement benefit schemes:			
Gain/(loss) on plan assets	**340**	(7)	(101)
(Increase)/decrease in scheme liabilities	**(354)**	(7)	98
Change in tax rate	**-**	-	7
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
Gains/(losses) taken to equity	**213**	(133)	(129)
Transferred to income statement	**(223)**	152	175
Change in tax rate	**-**	**-**	(9)
Other comprehensive (loss)/profit for the period net of tax	**(24)**	5	31
Total comprehensive (loss)/profit for the period[b]	**(225)**	93	695

[a] For the year ended 31 December 2015, related to a £50 million commutation payment for which the group receives no tax relief.
[b] Attributable to owners of the parent.

Heathrow (SP) Limited

Consolidated statement of financial position as at 30 June 2016

	Note	**Unaudited 30 June 2016 £m**	Unaudited 30 June 2015 £m	Audited 31 December 2015 £m
Assets				
Non-current assets				
Property, plant and equipment		**11,214**	11,292	11,248
Investment properties		**2,144**	2,106	2,156
Intangible assets		**125**	110	133
Retirement benefit surplus		**111**	-	104
Derivative financial instruments		**613**	66	175
Trade and other receivables		**30**	21	23
		14,237	13,595	13,839
Current assets				
Inventories		**11**	10	11
Trade and other receivables		**292**	267	253
Derivative financial instruments		**42**	1	-
Term deposits		**355**	50	550
Cash and cash equivalents		**232**	439	172
		932	767	986
Total assets		**15,169**	14,362	14,825
Liabilities				
Non-current liabilities				
Borrowings	*6*	**(12,468)**	(12,201)	(12,212)
Derivative financial instruments		**(1,223)**	(1,412)	(1,100)
Deferred income tax liabilities		**(956)**	(1,034)	(1,016)
Retirement benefit obligations		**(28)**	(241)	(28)
Provisions		**(2)**	(2)	(2)
Trade and other payables		**(11)**	(12)	(11)
		(14,688)	(14,902)	(14,369)
Current liabilities				
Borrowings	*6*	**(1,578)**	(576)	(993)
Derivative financial instruments		**(4)**	(28)	(90)
Provisions		**(2)**	-	(5)
Current income tax liabilities		**(37)**	(22)	(31)
Trade and other payables		**(387)**	(345)	(412)
		(2,008)	(971)	(1,531)
Total liabilities		**(16,696)**	(15,873)	(15,900)
Net liabilities		**(1,527)**	(1,511)	(1,075)
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		**(294)**	(302)	(284)
Retained earnings		**2,015**	2,039	2,457
Total shareholder's deficit		**(1,527)**	(1,511)	(1,075)

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Consolidated statement of changes in equity for the six months ended 30 June 2016

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2015	11	499	(3,758)	(321)	2,179	(1,390)
Comprehensive income:						
Profit for the period					88	88
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				19		19
Actuarial loss on retirement benefit schemes:						
Loss on plan assets					(7)	(7)
Increase in scheme liabilities					(7)	(7)
Total comprehensive income				19	74	93
Transaction with owners:						
Dividends paid					(214)	(214)
Total transaction with owners					(214)	(214)
30 June 2015	11	499	(3,758)	(302)	2,039	(1,511)
1 January 2016	**11**	**499**	**(3,758)**	**(284)**	**2,457**	**(1,075)**
Comprehensive income:						
Loss for the period					**(201)**	**(201)**
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				**(10)**		**(10)**
Actuarial loss on retirement benefit schemes:						
Gain on plan assets					**340**	**340**
Increase in scheme liabilities					**(354)**	**(354)**
Total comprehensive income				**(10)**	**(215)**	**(225)**
Transaction with owners:						
Dividends paid					**(227)**	**(227)**
Total transaction with owners					**(227)**	**(227)**
30 June 2016	**11**	**499**	**(3,758)**	**(294)**	**2,015**	**(1,527)**

Heathrow (SP) Limited

Consolidated statement of cash flows for the six months ended 30 June 2016

	Note	**Unaudited Six months ended 30 June 2016 £m**	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
Cash flows from operating activities				
Cash generated from operations	*7*	**700**	729	1,592
Taxation:				
Corporation tax paid		**(18)**	-	(24)
Group relief received		**-**	18	14
Net cash from operating activities		**682**	747	1,582
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		**(295)**	(307)	(595)
Investment properties		**-**	(7)	(7)
Intangible assets		**(8)**	(8)	(25)
Decrease/(increase) in term deposits[1]		**195**	120	(380)
Increase in group deposits[2]		**(19)**	(38)	(29)
Interest received		**3**	3	5
Net cash used in investing activities		**(124)**	(237)	(1,031)
Cash flows from financing activities				
Dividends paid		**(227)**	(214)	(380)
Proceeds from issuance of bonds		**344**	907	1,022
Repayment of bonds		**(300)**	(619)	(619)
Issuance of term note		**-**	-	150
Repayment of facilities and other financing items		**(20)**	(20)	(44)
Increase in amount owed to Heathrow Finance plc		**95**	75	48
Settlement of accretion on index-linked swaps		**(86)**	(144)	(213)
Swap restructuring		**20**	-	-
Interest paid		**(324)**	(322)	(609)
Net cash used in financing activities		**(498)**	(337)	(645)
Net increase/(decrease) in cash and cash equivalents		**60**	173	(94)
Cash and cash equivalents at beginning of period		**172**	266	266
Cash and cash equivalents at end of period		**232**	439	172

[1] Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
[2] Group deposits are amounts with LHR Airports Limited due in less than one year or on demand.

Heathrow (SP) Limited

General information and accounting policies for the six months ended 30 June 2016

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2015 or any other period. Statutory financial statements for the year ended 31 December 2015 were filed with the registrar of Companies on 20 March 2016. The annual financial information presented herein for the year ended 31 December 2015 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2015. The auditors' report on the 2015 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. The retirement benefit schemes plan assets are measured at fair value and the scheme obligations are measured in accordance with IAS 19 on the projected unit cost method. 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 2015.

Principal risks and uncertainties

The result of the UK referendum on 23 June (the UK exit from the EU) has caused management to review the following critical judgements, albeit at a very early stage after the exit result. The principal risks and uncertainties discussed below revise and add to those included in the 31 December 2015 financial statements.

Investment properties

Investment properties are fair valued by CBRE Limited Chartered Surveyors. The half year valuation was conducted during June using the same valuation methods as applied in previous years for the purpose of half year reporting. Since the Referendum date it has not been possible to assess the effect of the exit decision on transactions in the property market place because there is limited transaction activity since the vote upon which to base valuation assumptions. However, in the Group's investment property portfolio, management expect the long term effects to be less than the broader Investment property market as approximately 81% of the Group's investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility. Consequently, the valuations at 30 June 2016 are more uncertain and judgemental than at 31 December 2015.

Pensions

The Group's net retirement benefit surplus has been impacted by the financial volatility following the exit vote. The latest available valuation of the plan's assets and liabilities is reflected in these results, showing a net gain on plan assets of £340 million offset by a net increase in pension obligations of £354 million. However, it is too early to assess the full long term impact of the exit vote on the Plan's financial position going forward, particularly in respect of future movements in inflation and interest rates. The impact of any changes in future valuations will continue to be reported as an actuarial gain or loss within the statement of comprehensive income.

Cross currency swaps

Foreign currency debt and associated cross currency swaps has been impacted by a 10-15% devaluation of sterling against each of the issuance currencies. The net cross currency fair value asset at 30 June 2016 was a £608 million asset compared to a liability of £93 million at 31 December 2015. Consequently, whilst exposure to foreign exchange fluctuations is hedged, there is an impact on credit risk. Counterparty risk continues to be monitored carefully.

Index-linked and interest rate swaps

The half year valuation of index-linked and interest rate swaps has been negatively impacted by a 100 basis point downward shift in the interest rate curve and an increase in inflation expectations through the 2 to 5 year section of the index-linked curve. Due to the limited availability of hedge accounting under current accounting standards, the impact of changes in valuation of the index-linked and interest rate swaps is largely reported in fair value loss on financial instruments totalling £295 million.

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Notes to the consolidated financial information for the six months ended 30 June 2016

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.

During the second half of 2015, Heathrow Express was restructured to reflect its operations as a train operating company, which increased the cost of operations significantly from those previously included in the Heathrow Express segment. On a comparable basis the Adjusted EBITDA for the six months ended 30 June 2015 would have been approximately £5 million. Total Adjusted EBITDA for the Group was not affected by this change of cost structure.

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 six months ended 30 June 2016 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 loss for the period.

Table (b) and table (c) detail comparative information to table (a) for the six months ended 30 June 2015 and the year ended 31 December 2015 respectively.

Table (a) **Unaudited** **Six months ended** **30 June 2016**	**Segment revenue** **Aeronautical** **£m**	**Retail** **£m**	**ORCs** **£m**	**Other** **£m**	**Total external revenue** **£m**	**Adjusted EBITDA** **£m**
Heathrow	**802**	**280**	**110**	**63**	**1,255**	**782**
Heathrow Express				**65**	**65**	**(1)**
Continuing operations	**802**	**280**	**110**	**128**	**1,320**	**781**

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation	**(360)**
Operating profit (before certain re-measurements and exceptional items)	**421**
Fair value loss on investment properties (certain re-measurements)	**(12)**
Operating profit	**409**
Finance income	**110**
Finance costs	**(456)**
Fair value loss on financial instruments (certain re-measurements)	**(295)**
Loss before tax	**(232)**
Taxation before certain re-measurements and exceptional items	**(24)**
Taxation (certain re-measurements and exceptional items)	**55**
Taxation	**31**
Loss for the period	**(201)**

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Notes to the consolidated financial information for the six months ended 30 June 2016

1 Segment information *continued*

Table (b) Unaudited Six months ended 30 June 2015	Segment revenue: Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	Adjusted EBITDA £m
Heathrow	803	260	115	65	1,243	707
Heathrow Express	-	-	-	64	64	41
Continuing operations	803	260	115	129	1,307	748

Reconciliation to statutory information:	
Unallocated income and expense	
Depreciation and amortisation	(344)
Operating profit (before certain re-measurements and exceptional items)	404
Fair value gain on investment properties (certain re-measurements)	44
Operating profit	448
Finance income	118
Finance costs	(453)
Fair value gain on financial instruments (certain re-measurements)	7
Profit before tax	120
Taxation before certain re-measurements and exceptional items	(22)
Taxation (certain re-measurements and exceptional items)	(10)
Taxation	(32)
Profit for the period	88

Table (c) Audited Year ended 31 December 2015	Segment revenue: Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	Adjusted EBITDA £m
Heathrow	1,699	568	239	127	2,633	1,525
Heathrow Express				132	132	80
Continuing operations	1,699	568	239	259	2,765	1,605

Reconciliation to statutory information:	
Unallocated income and expense	
Depreciation and amortisation	(682)
Operating profit (before certain re-measurements and exceptional items)	923
Exceptional items	236
Fair value gain on investment properties (certain re-measurements)	95
Operating profit	1,254
Finance income	252
Finance costs	(952)
Fair value gain on financial instruments (certain re-measurements)	148
Profit before tax	702
Taxation before certain re-measurements and exceptional items	(54)
Taxation (certain re-measurements and exceptional items)	16
Taxation	(38)
Profit for the year	664

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Notes to the consolidated financial information for the six months ended 30 June 2016

2 Operating costs – ordinary

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
Employment	**178**	187	384
Operational	**131**	123	242
Maintenance	**86**	84	187
Business rates	**63**	60	123
Utilities	**30**	51	92
Other	**51**	54	132
Total adjusted operating costs	**539**	559	1,160
Depreciation and amortisation	**360**	344	682
Operating costs before exceptional items	**899**	903	1,842
Exceptional items (Note 3)	**-**	-	(236)
Total operating costs	**899**	903	1,606

3 Exceptional items

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
Pension credit: change to terms	**-**	-	236
Total operating exceptional items	**-**	-	236

Operating costs – exceptional

During 2015, the Company agreed changes to the defined benefit pension scheme effective from 1 October 2015. The changes included the introduction of an annual cap of 2% on future increases to pensionable pay for active members which resulted in a one-off reduction of £236 million in the scheme's liabilities, as measured under IAS19, and was classified as an exceptional item in the income statement. There was no immediate cash flow impact as a result of these changes.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2016

4 Financing

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	**105**	115	247
Interest on deposits	**3**	3	5
Net pensions finance income	**2**	-	-
	110	118	252
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(288)**	(287)	(583)
Bank loans and overdrafts and related hedging instruments	**(28)**	(24)	(50)
Interest payable on derivatives not in hedge relationship[2]	**(116)**	(111)	(259)
Facility fees and other charges	**(6)**	(3)	(7)
Net pension finance costs	**-**	(4)	(4)
Interest on debenture payable to Heathrow Finance plc	**(33)**	(34)	(70)
Unwinding of discount on provisions	**-**	-	(1)
	(471)	(463)	(974)
Less: capitalised borrowing costs[3]	**15**	10	22
	(456)	(453)	(952)
Net finance costs before certain re-measurements	**(346)**	(335)	(700)
Fair value (loss)/gain on financial instruments			
Interest rate swaps: ineffective portion of cash flow hedges	**-**	(1)	(1)
Interest rate swaps: not in hedge relationship	**(202)**	67	35
Index-linked swaps: not in hedge relationship[4]	**(113)**	(67)	87
Cross-currency swaps: ineffective portion of cash flow hedges	**28**	(7)	(10)
Cross-currency swaps: ineffective portion of fair value hedges	**(8)**	15	37
	(295)	7	148
Net finance costs	**(641)**	(328)	(552)

1 Includes accretion of £8 million (six months ended 30 June 2015: £1 million; year ended 31 December 2015: £9 million) on index-linked bonds.
2 Includes accretion of £33 million (six months ended 30 June 2015: £17 million; year ended 31 December 2015: £65 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 4.79% (six months ended 30 June 2015: 5.40%; year ended 31 December 2015: 5.20%) to expenditure incurred on such assets.
4 Reflects the impact on the valuation of movements in implied future inflation and interest rates.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2016

5 Taxation

	Unaudited Six months ended 30 June 2016			Unaudited Six months ended 30 June 2015			Audited Year ended 31 December 2015		
	Before certain re-measurements and exceptional items	**Certain re-measurements and exceptional items**	**Total**	Before certain re-measurements and exceptional items	Certain re-measurements and exceptional items	Total	Before certain re-measurements and exceptional items	Certain re-measurements and exceptional items	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
UK corporation tax									
Current tax (charge)/credit at 20% (2015: 20.25%)	**(24)**	**-**	**(24)**	(22)	-	(22)	(59)	-	(59)
Deferred tax	**-**	**55**	**55**	-	(10)	(10)	5	(88)	(83)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**-**	**-**	**-**	-	-	-	-	104	104
Taxation (charge)/credit for the period	**(24)**	**55**	**31**	(22)	(10)	(32)	(54)	16	(38)

Before certain re-measurements and exceptional items, the tax charge arising on ordinary activities for the six months ended 30 June 2016 was £24 million based on a profit before tax of £75 million. This results in an effective tax rate of 32.0%, compared to the UK statutory rate of 20.0%. The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

As part of the G20 Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project, in May 2016 HM Treasury published a second consultation document concerning the detailed policy design and implementation of previously announced proposals to limit the tax deductibility of corporate interest expense from 1 April 2017. These UK proposals follow the recommended approach set out in the OECD's final report in October 2015 for limiting base erosion involving interest deductions, namely to limit interest deductions to 30% of tax-based EBITDA, plus the ability to apply the group ratio rule. As highlighted in the consultation document, the group ratio rule should enable UK businesses (such as Heathrow) to continue to obtain deductions for interest expenses commensurate with their activities. The consultation has only recently been launched and Heathrow is still assessing the implications of the detailed provisions it contains to ensure that they are consistent with the commercial intent.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2016

6 Borrowings

	Unaudited 30 June 2016 £m	Unaudited 30 June 2015 £m	Audited 31 December 2015 £m
Current borrowings			
Secured			
Loans	**39**	39	39
Bonds:			
12.450% £300 million due 2016	**-**	311	303
4.125% €500 million due 2016	**416**	-	366
4.375% €700 million due 2017	**584**	-	-
2.500% CHF400 million due 2017	**309**	-	-
Total current (excluding interest payable)	**1,348**	350	708
Interest payable – external	**208**	203	259
Interest payable – owed to group undertakings	**22**	23	26
Total current	**1,578**	576	993
Non-current borrowings			
Secured			
Bonds:			
4.125% €500 million due 2016	**-**	349	-
4.375% €700 million due 2017	**-**	495	516
2.500% CHF400 million due 2017	**-**	271	271
4.600% €750 million due 2018	**606**	500	527
6.250% £400 million due 2018	**399**	398	398
4.000% C$400 million due 2019	**231**	202	195
6.000% £400 million due 2020	**397**	397	397
9.200% £250 million due 2021	**276**	272	271
3.000% C$450 million due 2021	**271**	231	225
4.875% US$1,000 million due 2021	**811**	652	703
1.650%+RPI £180 million due 2022	**196**	193	195
1.875% €600 million due 2022	**529**	430	453
5.225% £750 million due 2023	**663**	654	659
7.125% £600 million due 2024	**590**	590	590
0.500% CHF400 million due 2024	**320**	-	-
3.250% C$500 million due 2025	**307**	250	248
4.221% £155 million due 2026	**155**	154	155
6.750% £700 million due 2026	**691**	691	691
2.650% NOK1,000 million due 2027	**95**	77	77
7.075% £200 million due 2028	**198**	198	198
1.500% €750 million due 2030	**630**	485	504
6.450% £900 million due 2031	**852**	853	854
Zero-coupon €50 million due January 2032	**50**	42	43
1.366%+RPI £75 million due 2032	**78**	76	77
Zero-coupon €50 million due April 2032	**50**	41	43
4.171% £50 million due 2034	**50**	50	50
Zero-coupon €50 million due 2034	**44**	37	39
1.061%+RPI £180 million due 2036	**181**	-	115
1.382%+RPI £50 million due 2039	**52**	51	51
3.334%+RPI £460 million due 2039	**579**	574	576
1.238%+RPI £100 million due 2040	**102**	100	101
5.875% £750 million due 2041	**739**	742	741
4.625% £750 million due 2046	**742**	742	741
1.372%+RPI £75 million due 2049	**78**	76	77
	10,962	10,873	10,781

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2016

6 Borrowings *continued*

	Unaudited 30 June 2016 £m	Unaudited 30 June 2015 £m	Audited 31 December 2015 £m
Secured *continued*			
Loans	**78**	117	98
Term note: 3.770% £100 million due 2026	**100**	100	100
Term note: 2.630% £80 million due 2030	**80**	-	79
Term note: 2.970% £70 million due 2035	**70**	-	70
Unsecured			
Debenture payable to Heathrow Finance plc	**1,178**	1,111	1,084
Total loans	**1,506**	1,328	1,431
Total non-current	**12,468**	12,201	12,212
Total borrowings (excluding interest payable)	**13,816**	12,551	12,920

7 Cash generated from operations

	Unaudited Six months ended 30 June 2016 £m	Unaudited Six months ended 30 June 2015 £m	Audited Year ended 31 December 2015 £m
Operating activities			
(Loss)/profit before tax	**(232)**	120	702
Adjustments for:			
Fair value loss/(gain) on financial instruments	**295**	(7)	(148)
Finance costs	**456**	453	952
Finance income	**(110)**	(118)	(252)
Depreciation and amortisation	**360**	344	682
Fair value losses/(gains) on investment properties	**12**	(44)	(95)
Working capital changes:			
(Increase)/decrease in trade and other receivables	**(46)**	13	24
Decrease in trade and other payables	**(8)**	(22)	(20)
(Decrease)/increase in provisions	**(3)**	-	5
Difference between pension charge and cash contributions	**(24)**	(10)	(22)
Exceptional pension credit: change to terms	**-**	-	(236)
Cash generated from operations	**700**	729	1,592