Heathrow
Making every journey better

News release

Heathrow (SP) Limited
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21 April 2016

Heathrow (SP) Limited

Results for the three months ended 31 March 2016

- **High service standards recognised as Heathrow is named 'Best airport in Western Europe' by Skytrax for second consecutive year**
- **16.8 million passengers using Heathrow in first three months, up 2.6%. Garuda Indonesia is the latest airline to move its London operations from Gatwick to Heathrow – boosting British businesses with increased ties to a fast-growing economy**
- **Strong financial performance with revenue up 3.2% to £642 million and EBITDA up 7.3% to £367 million reflecting lower costs and better value**
- **Independent analysis shows that a number of routes from Heathrow, Britain's biggest port, are already full for freight. Only Heathrow expansion will get British exports moving**

At or for three months ended 31 March	**2016**	2015	Change (%)
(£m unless otherwise stated)			
Revenue	**642**	622	3.2
EBITDA(1)	**367**	342	7.3
Cash generated from operations	**332**	316	5.1
Cash flow after investment and interest(2)	**(27)**	(53)	n.m
Pre-tax profit(3)	**23**	19	21.1
Heathrow (SP) Limited consolidated net debt(4)	**11,884**	11,745	1.2
Heathrow Finance plc consolidated net debt(4)	**12,785**	12,670	0.9
Regulatory Asset Base(4)	**14,911**	14,921	(0.1)
Passengers (m)(5)	**16.8**	16.4	2.6
Retail revenue per passenger (£) (5)	**8.10**	7.52	7.7

Notes 1-5: see page 2

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

"It's been a fantastic start to 2016 and Heathrow is performing strongly on all fronts. Our colleagues are delivering excellent value for our passengers - better service at a lower cost.

"At a time of uncertainty about Britain's place in the world, families and businesses are counting on the Prime Minister to secure Britain's long term future. An expanded Heathrow will be an economic powerhouse, a global symbol of a confident, outward looking Britain. Let's make it happen."

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Notes
(1) 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 21 April 2016 at 3.00pm (UK time), 4.00pm (Central European time), 10.00am (Eastern Standard Time), hosted by Michael Uzielli, 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=706654119&t=a
using event password: 669327

Heathrow (SP) Limited

Consolidated results for the three months ended 31 March 2016

Contents

1 Key business developments

1.1 Passenger traffic

In the three months ended 31 March 2016, traffic rose 2.6% to 16.8 million (2015: 16.4 million).

(Millions)	**2016**	2015	Change (%)
UK	**1.1**	1.2	(12.0)
Europe	**6.8**	6.5	4.2
North America	**3.6**	3.5	3.3
Asia Pacific	**2.6**	2.5	4.5
Middle East	**1.6**	1.5	6.7
Africa	**0.8**	0.8	(5.7)
Latin America	**0.3**	0.3	5.6
Total passengers	**16.8**	16.4	2.6

For the three months ended 31 March 2016, traffic grew 2.6% to 16.8 million passengers (2015: 16.4 million). The average number of seats per passenger aircraft increased 1.6% to 210.2 (2015: 206.8) and the average load factor remained consistent with last year at 71.5% (2015: 71.2%). The impact of the leap year and earlier Easter contributed over 1.0% growth.

Long haul traffic increased 3.4%, principally from routes serving North America, the Middle East and the Asia Pacific region. Passengers benefitted from increased services to North America, larger aircraft on routes to the Middle East and new airlines serving Asia including Vietnam Airways services to Ho Chi Minh and Hanoi. In late March, Garuda Airlines became the latest airline to move services from Gatwick to Heathrow. Traffic to Africa was lower partly reflecting Virgin Atlantic's schedule changes in 2015 which reduced frequencies to Africa and Asia and added more flights to North America. Short haul traffic continued to grow reflecting an increase in seat capacity on European routes, more than offsetting the reduction in domestic traffic following the end of operations in 2015 by Virgin Little Red.

Cargo volume passing through Heathrow increased a further 0.4% in the first three months of 2016, with notable increases on China and Vietnam.

1.2 Transforming customer service

Heathrow continued to deliver its best ever passenger service, with a service quality score of 4.12 in the first three months of 2016. Over 81% of passengers surveyed rated their experience at Heathrow as 'Excellent' or 'Very Good', with strong recognition across a number of measures including security waiting times and the courtesy and helpfulness of Heathrow staff.

Heathrow has once again received recognition for the 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' for the fifth consecutive year and Heathrow being voted 'Best Airport for Shopping' for the sixth time. For the first time, Heathrow received the prestigious award of 'Europe's Best Airport' in the category of over 40 million passengers in the 2016 ASQ Awards.

Improvements continue to be made to ease passengers' journeys through the airport. Before the busy Easter period, an additional escalator was opened in Terminal 5 which allows flows to be balanced between the north and south of the terminal, eliminating bottlenecks in security queues at peak transfer times. 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: 97.6%) compared with a 95% service standard.

Departure punctuality improved and in the first three months of 2016, 83.7% of flights departed within 15 minutes of schedule (2015: 81.4%). The performance reflects ongoing investment to improve the resilience of the operations, including the introduction in 2015 of time-based aircraft separation on windy days. This year, continued work on widening of taxiways to support increasing A380 operations is enabling more efficient use of the airfield. Baggage performance has continued to be a focus and the baggage misconnect rate in the first quarter of the year was 13 per 1,000 passengers compared with 19 per 1,000 in the same period last year. The integrated, automated baggage facility in Terminal 3 is now fully operational contributing to the improved baggage reliability.

1.3 Beating the plan

Heathrow's business plan for the 2015-2018 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 £450 million of efficiencies have now been secured, out of the target £600 million. A three year pay offer was approved by members following a ballot in February and further contract improvements have been secured with suppliers. The benefits of investment in Terminal 5 retail outlets and the 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 will respond to the CAA by the end of April.

1.4 Winning support for expansion

Heathrow's expansion plan will make us the most environmentally responsible hub airport and Britain the best connected country in the world. Improving connectivity is key to the UK's future prosperity. UK businesses today trade up to 20 times more with countries where there is a daily direct flight. Currently, there is a queue of 30 airlines waiting to fly from an expanded Heathrow.

With expansion, Heathrow will open up 40 new long haul trading links enabling more high value British goods to reach fast-growing global markets more quickly and at a lower cost. The Government can secure long term economic opportunity for communities across all regions of the UK only by choosing to expand Heathrow. It would unlock up to £211 billion of economic growth and 180,000 new British jobs spread right across the country. The UK needs the Prime Minister to back Heathrow to enable Britain to compete and win in the global race. Only Heathrow can deliver.

1.5 Key management changes

On 8 March 2016, it was announced that Paul Deighton will succeed Sir Nigel Rudd as Chairman of the board of Heathrow Airport Holdings Limited later this year. Lord Deighton's breadth of experience in funding and delivering major projects is unrivalled. Following a very successful career at Goldman Sachs, Lord Deighton 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, Lord Deighton 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, is to step down later in the year to take up an outstanding opportunity with a private equity backed business. Michael will remain as CFO through the summer, continuing to develop Heathrow's finance department and make preparations for expansion. His successor will be announced in due course.

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) consolidated accounts are prepared under International Financial Reporting Standards ('IFRS').

2.2 Income statement

2.2.1 Overview

In the three months ended 31 March 2016, the Group earned an operating profit before certain re-measurements of £183 million (2015: £177 million) and a loss after tax of £36 million (2015: £49 million profit).

Three months ended 31 March	**2016 £m**	2015 £m
Excluding exceptional items and certain re-measurements		
Revenue	**642**	622
Operating costs before depreciation and amortisation	**(275)**	(280)
EBITDA(1)	**367**	342
Depreciation and amortisation	**(184)**	(165)
Operating profit	**183**	177
Net finance costs	**(160)**	(158)
Profit before tax	**23**	19
Tax charge	**(8)**	(12)
Including exceptional items and certain re-measurements		
Fair value (loss)/gain on investment properties	**(17)**	33
Fair value (loss)/gain on financial instruments	**(45)**	19
Tax credit/(charge) on exceptional items & certain re-measurements	**11**	(10)
(Loss)/profit after tax	**(36)**	49

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

2.2.2 Revenue

In the three months ended 31 March 2016, revenue totalled £642 million (2015: £622 million).

Three months ended 31 March	**2016 £m**	2015 £m	Change (%)
Aeronautical	**389**	382	1.8
Retail	**136**	123	10.6
Other	**117**	117	-
Total revenue	**642**	622	3.2

2.2.2.1 Aeronautical

In the three months ended 31 March 2016, aeronautical revenue increased 1.8% to £389 million (2015: £382 million) and the average aeronautical revenue per passenger decreased 0.8% to £23.17 (2015: £23.35). Traffic growth of 2.6% generated an additional £10 million of aeronautical revenue, offset by a lower yield of 0.8%.

2.2.2.2 Retail

In the three months ended 31 March 2016, retail revenue increased 10.6% to £136 million (2015: £123 million). Retail revenue per passenger rose 7.7% to £8.10 (2015: £7.52).

Three months ended 31 March	**2016 £m**	2015 £m	Change (%)
Duty and tax-free	**29**	27	7.4
Airside specialist shops	**25**	22	13.6
Bureaux de change	**11**	11	-
Catering	**11**	10	10.0
Other retail income	**19**	16	18.8
Car parking	**28**	25	12.0
Other services	**13**	12	8.3
Total retail revenue	**136**	123	10.6

Retail shops performed well in the first quarter 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 quarter, with continued take-up of Heathrow's car parking range and successful yield management.

2.2.2.3 Other

In the three months ended 31 March 2016, other revenue was £117 million (2015: £117 million).

Three months ended 31 March	**2016 £m**	2015 £m	Change (%)
Other regulated charges	**54**	56	(3.6)
Heathrow Express	**30**	30	-
Property and other	**33**	31	6.5
Total other revenue	**117**	117	-

Other revenue growth was driven by one-off higher property rental income, which offset the lower revenue from other regulated charges.

2.2.3 Operating costs

For the three months ended 31 March 2016, operating costs excluding depreciation, amortisation and exceptional items decreased 1.8% to £275 million (2015: £280 million).

Three months ended 31 March	**2016 £m**	2015 £m	Change (%)
Employment	**88**	93	(5.4)
Operational	**64**	62	3.2
Maintenance	**43**	43	-
Business rates	**31**	29	6.9
Utilities	**24**	26	(7.7)
Other	**25**	27	(7.4)
Total operating costs	**275**	280	(1.8)

Cost control continues to be strong as the full benefits flow through from initiatives implemented in 2015, including reductions in energy consumption. The take-up of the voluntary severance programme in 2015, improvements in new entrant pay levels, automation and other workforce efficiencies are reducing employment costs. The changes made to the defined benefit pension scheme in 2015 are driving further savings. Cost efficiencies in operations and maintenance were partially offset by additional spend to maintain high service standards and ensure operational resilience. Business rates increased by 7% and Heathrow remains one of the highest business rate payer in the UK.

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2.2.4 Operating profit

For the three months ended 31 March 2016, the Group recorded an operating profit before certain re-measurements of £183 million (2015: £177 million).

Three months ended 31 March	**2016 £m**	2015 £m	Change (%)
EBITDA before certain re-measurements	**367**	342	7.3
Depreciation and amortisation	**(184)**	(165)	11.5
Operating profit before certain re-measurements	**183**	177	3.4

In the three months ended 31 March 2016, EBITDA (before certain re-measurements and exceptional items) increased 7.3% to £367 million (2015: £342 million), resulting in an EBITDA margin of 57.2% (2015: 55.0%). Depreciation increased to £184 million (2015: £165 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

For the three months ended 31 March 2016, the profit before tax and certain re-measurements of £23 million resulted in a tax charge on ordinary activities of £8 million. This results in an effective tax rate of 34.8%, 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. In the first three months of 2016, £12 million corporation tax was paid.

2.3 Cash flow

2.3.1 Summary cash flow

In the three months ended 31 March 2016, there was a decrease of £32 million in cash and cash equivalents compared with an increase of £116 million in the three months ended 31 March 2015.

Three months ended 31 March	**2016 £m**	2015 £m
Net cash from operating activities	**320**	326
Net purchase of property, plant and equipment and other assets	**(139)**	(161)
Net purchase of intangible assets	**(5)**	-
Net decrease/(increase) in term deposits and group deposits	**190**	(415)
Net cash used in investing activities	**46**	(576)
Dividends paid	**(143)**	(123)
Proceeds from issuance of bonds and other financing	**302**	635
Repayment of bonds, facilities and other financing items	**(309)**	(13)
Increase in amount owed to Heathrow Finance plc	**50**	75
Settlement of accretion on index-linked swaps	**(83)**	-
Net interest paid	**(215)**	(208)
Net cash used in financing activities	**(398)**	366
Net (decrease)/increase in cash and cash equivalents	**(32)**	116
Cash generated from operations after investment and interest	**(27)**	(53)

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 of index-linked swaps and lower capital raising activity in the first quarter of 2016.

At 31 March 2016, the Group had £500 million of cash, cash equivalents and term deposits, of which cash and cash equivalents comprised £140 million (31 December 2015: £722 million and £172 million respectively).

2.3.2 Cash generated from operations

In the three months ended 31 March 2016, cash generated from operations increased 5.1% to £332 million (2015: £316 million). The following table reconciles EBITDA to cash from operations.

Three months ended 31 March	**2016 £m**	2015 £m
EBITDA (before certain re-measurements and exceptional items)	**367**	342
(Increase)/ decrease in receivables and inventories	**(20)**	3
Decrease in payables	**(4)**	(25)
Decrease in provisions	**(1)**	-
Difference between pension charge and contributions	**(10)**	(4)
Cash generated from operations	**332**	316

2.3.3 Capital expenditure

In the three months ended 31 March 2016, the cash impact of capital investment was £144 million (2015: £161 million) with gross additions to fixed assets of £141 million (2015: £128 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 three months ended 31 March 2016, gross restricted payments of £179 million (net restricted payments £129 million) were made by the Group which funded the majority of the £75 million in quarterly dividends paid to the Group's ultimate shareholders, £65 million distributed to Heathrow Finance, £36 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance and £8 million of interest payments at ADI Finance 2 Limited. (2015: £79 million which funded £43 million of the £75 million in quarterly dividends paid to the Group's ultimate shareholders and £31 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance).

2.4 Pension scheme

The HAH Group operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. At 31 March 2016, the defined benefit pension scheme, as measured under IAS 19, had a surplus of £121 million (31 December 2015: £104 million). The increase of £17 million in the first quarter is principally due to contributions in excess of current service cost, including £7 million for agreed deficit repair contributions.

2.5 Recent financing activity

Heathrow continues to focus on optimising the Group's long-term cost of debt as well as building further duration, diversification and resilience into its debt financing.

Heathrow raised nearly £500 million in the first quarter of 2016. In January, Heathrow 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 which will be drawn in August 2016 and mature in 2032. At Heathrow Finance, 7-10 year term loans, totalling £125 million have been agreed, these are expected to be drawn in early 2017.

On 31 March 2016, Heathrow repaid a £300 million bond maturity. Funding for the remainder of 2016 is expected to be under £1 billion.

2.6 Financing position

2.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt was £11,884 million at 31 March 2016 increasing from £11,745 million at the end of 2015. Nominal net debt comprises £11,803 million in bond issues, £404 million in term notes and loan facilities, £177 million in index-linked derivative accretion and cash at bank and term deposits of £500 million. Senior net debt was £10,189 million and junior debt was £1,695 million.

The average cost of the Group's nominal gross debt at 31 March 2016 was 4.11% (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 31 March 2016 was 4.55% (31 December 2015: 4.84%). The reduction in the average cost of debt since the end of 2015 is mainly due to the maturing 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 £11,729 million at 31 March 2016 (31 December 2015: £11,114 million). This includes £500 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 January 2018. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account £2.0 billion in undrawn loan facilities and cash resources at 31 March 2016, £280 million in committed term debt financing to be drawn after 31 March 2016 and the expected operating cash flow over the period.

2.6.2 Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance was £12,785 million at 31 March 2016, an increase of 0.9% since the end of 2015 (31 December 2015: £12,670 million). This comprises the Group's nominal net debt of £11,884 million, Heathrow Finance's gross debt of £981 million and cash held at Heathrow Finance of £80 million.

2.6.3 Net finance costs and net interest paid

In the three months ended 31 March 2016, the Group's net finance costs before certain re-measurements were £160 million (2015: £158 million) and net interest paid was £215 million (2015: £208 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Three months ended 31 March	**2016 £m**	2015 £m
Net finance costs before certain re-measurements and exceptional items	**160**	158
Amortisation of financing fees and other items	**(4)**	(5)
Borrowing costs capitalised	**7**	6
Underlying net finance costs	**163**	159
Non-cash accretion on index-linked instruments	**(7)**	1
Other movements	**59**	48
Net interest paid	**215**	208

Underlying net finance costs were £163 million (2015: £159 million) after adjusting for capitalised borrowing costs of £7 million (2015: £6 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £4 million (2015: £5 million).

Net interest paid in the period was £215 million (2015: £208 million) of which £179 million (2015: £177 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 higher than underlying net finance costs primarily due to timing differences between the payment of interest and the accruals for interest with the first quarter of the year characterised by relatively high interest payments.

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 31 March 2016, Heathrow's RAB was £14,911 million (31 December 2015: £14,921 million), the movement mainly reflects capital expenditure of £141 million and indexation of nearly £30 million offset by depreciation of nearly £180 million.

At 31 March 2016, the Group's senior (Class A) and junior (Class B) gearing ratios were 68.3% and 79.7% respectively (31 March 2015: 68.7% and 79.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 85.7% (31 March 2015: 85.8%) compared to a covenant level of 90.0% under its financing agreements.

The first quarter of the year is characterised by lower cash flow and relatively high interest payments and distributions. The increase in gearing since the end of 2015 (31 December 2015: 67.5%, 78.7% and 84.9%) reflects the seasonality as well as the impact of low inflation.

2.7 Outlook

Heathrow maintains EBITDA forecast for 2016 of £1,665 million. Revenue is forecast to grow around 1%, mainly reflecting modest traffic growth and further benefits from commercial revenue initiatives. Cost control is forecast to reduce operating costs by approximately 3%. EBITDA growth will taper through 2016 as the effects of the leap year and an early Easter diminish.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement
for the three months ended 31 March 2016

		Unaudited Three months ended 31 March 2016			Unaudited Three months ended 31 March 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
Continuing operations										
Revenue	*1*	**642**	**-**	**642**	622	-	622	2,765	-	2,765
Operating costs	*2*	**(459)**	**-**	**(459)**	(445)	-	(445)	(1,842)	236	(1,606)
Other operating items										
Fair value (loss)/gain on investment properties			**(17)**	**(17)**		33	33		95	95
Operating profit		**183**	**(17)**	**166**	177	33	210	923	331	1,254
Financing										
Finance income		**57**		**57**	58		58	252		252
Finance costs		**(217)**		**(217)**	(216)		(216)	(952)		(952)
Fair value (loss)/gain on financial instruments			**(45)**	**(45)**		19	19		148	148
Net finance costs	*4*	**(160)**	**(45)**	**(205)**	(158)	19	(139)	(700)	148	(552)
(Loss)/profit before tax		**23**	**(62)**	**(39)**	19	52	71	223	479	702
Tax (charge)/credit before change in tax rate		**(8)**	**11**	**3**	(12)	(10)	(22)	(54)	(88)	(142)
Change in tax rate		**-**	**-**	**-**	-	-	-	-	104	104
Taxation	*5*	**(8)**	**11**	**3**	(12)	(10)	(22)	(54)	16	(38)
(Loss)/profit for the period		**15**	**(51)**	**(36)**	7	42	49	169	495	664

[a] Certain re-measurements and exceptional items 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, exceptional items; and the associated tax impact of these and similar cumulative prior year items.

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Consolidated statement of comprehensive income for the three months ended 31 March 2016

	Unaudited Three months ended 31 March 2016 £m	Unaudited Three months ended 31 March 2015 £m	Audited Year ended 31 December 2015 £m
(Loss)/profit for the period	**(36)**	49	664
Items that will not be subsequently reclassified to the consolidated income statement:			
Tax relating to retirement benefits[a]	**-**	-	(10)
Net actuarial gain/(loss) on retirement benefit schemes	**4**	(71)	(3)
Change in tax rate	**-**	-	7
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
Losses taken to equity	**100**	(81)	(129)
Transferred to income statement	**(112)**	91	175
Change in tax rate	**-**	**-**	(9)
Other comprehensive (loss)/profit for the period net of tax	**(8)**	(61)	31
Total comprehensive (loss)/profit for the period[b]	**(44)**	(12)	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.

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Heathrow (SP) Limited

Consolidated statement of financial position as at 31 March 2016

	Note	**Unaudited 31 March 2016 £m**	Unaudited 31 March 2015[1] £m	Audited 31 December 2015 £m
Assets				
Non-current assets				
Property, plant and equipment		**11,215**	11,320	11,248
Investment properties		**2,139**	2,093	2,156
Intangible assets		**130**	107	133
Retirement benefit surplus		**121**	-	104
Derivative financial instruments		**412**	150	175
Trade and other receivables		**23**	23	23
		14,040	13,693	13,839
Current assets				
Inventories		**11**	10	11
Trade and other receivables		**273**	288	253
Derivative financial instruments		**19**	18	-
Term deposits		**360**	545	550
Cash and cash equivalents		**140**	382	172
		803	1,243	986
Total assets		**14,843**	14,936	14,825
Liabilities				
Non-current liabilities				
Borrowings	*6*	**(12,087)**	(12,155)	(12,212)
Derivative financial instruments		**(1,050)**	(1,395)	(1,100)
Deferred income tax liabilities		**(1,001)**	(1,018)	(1,016)
Retirement benefit obligations		**(28)**	(316)	(28)
Provisions		**(2)**	(12)	(2)
Trade and other payables		**(11)**	(2)	(11)
		(14,179)	(14,898)	(14,369)
Current liabilities				
Borrowings	*6*	**(1,454)**	(1,166)	(993)
Derivative financial instruments		**(33)**	(38)	(90)
Provisions		**(4)**	(1)	(5)
Current income tax liabilities		**(29)**	(4)	(31)
Trade and other payables		**(406)**	(354)	(412)
		(1,926)	(1,563)	(1,531)
Total liabilities		**(16,105)**	(16,461)	(15,900)
Net liabilities		**(1,262)**	(1,525)	(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		**(296)**	(311)	(284)
Retained earnings		**2,282**	2,034	2,457
Total shareholder's deficit		**(1,262)**	(1,525)	(1,075)

[1] The presentation for 31 March 2015 has been changed to disclose Term deposits of £545 million as a separate line item. These were previously held within Current assets – Trade and other receivables.

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Heathrow (SP) Limited

Consolidated statement of changes in equity for the three months ended 31 March 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					49	49
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				10		10
Actuarial loss on pension net of tax					(71)	(71)
Total comprehensive income				10	(22)	(12)
Transaction with owners:						
Dividends paid					(123)	(123)
Total transaction with owners					(123)	(123)
31 March 2015	11	499	(3,758)	(311)	2,034	(1,525)
1 January 2016	**11**	**499**	**(3,758)**	**(284)**	**2,457**	**(1,075)**
Comprehensive income:						
Loss for the period					**(36)**	**(36)**
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				**(12)**		**(12)**
Actuarial gain on pensions net of tax					**4**	**4**
Total comprehensive income				**(12)**	**(32)**	**(44)**
Transaction with owners:						
Dividends paid					**(143)**	**(143)**
Total transaction with owners					**(143)**	**(143)**
31 March 2016	**11**	**499**	**(3,758)**	**(296)**	**2,282**	**(1,262)**

Heathrow (SP) Limited

Consolidated statement of cash flows
for the three months ended 31 March 2016

	Note	**Unaudited Three months ended 31 March 2016 £m**	Unaudited Three months ended 31 March 2015 £m	Audited Year ended 31 December 2015 £m
Cash flows from operating activities				
Cash generated from operations	*7*	**332**	316	1,592
Taxation:				
Corporation tax paid		**(12)**	-	(24)
Group relief received		**-**	10	14
Net cash from operating activities		**320**	326	1,582
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		**(139)**	(155)	(595)
Investment properties		**-**	(6)	(7)
Intangible assets		**(5)**	-	(25)
Decrease/(increase) in term deposits[1]		**190**	(375)	(380)
Increase in group deposits[2]		**-**	(40)	(29)
Net cash used in investing activities		**46**	(576)	(1,036)
Cash flows from financing activities				
Dividends paid		**(143)**	(123)	(380)
Proceeds from issuance of bonds		**277**	560	1,022
Repayment of bonds		**(300)**	-	(619)
Issuance of term note		**-**	-	150
Drawdown of revolving credit facilities		**-**	75	-
Drawdown/(repayment) of facilities and other financing items		**16**	(13)	(44)
Increase in amount owed to Heathrow Finance plc		**50**	75	48
Settlement of accretion on index-linked swaps		**(83)**	-	(213)
Interest paid		**(216)**	(209)	(609)
Interest received		**1**	1	5
Net cash (used in)/from financing activities		**(398)**	366	(640)
Net (decrease)/increase in cash and cash equivalents		**(32)**	116	(94)
Cash and cash equivalents at beginning of period		**172**	266	266
Cash and cash equivalents at end of period		**140**	382	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 three months ended 31 March 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 have been 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. 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.

Heathrow (SP) Limited

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

The performance of the above segments is measured on a revenue and 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 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 EBITDA and a reconciliation to the consolidated loss for the period.

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

Table (a)	**Segment revenue**					
Unaudited Three months ended 31 March 2016	**Aeronautical £m**	**Retail £m**	**ORCs £m**	**Other £m**	**Total external revenue £m**	**EBITDA £m**
Heathrow	**389**	**136**	**54**	**33**	**612**	**353**
Heathrow Express				**30**	**30**	**14**
Continuing operations	**389**	**136**	**54**	**63**	**642**	**367**

Reconciliation to statutory information:	
Unallocated income and expense	
Depreciation and amortisation	**(184)**
Operating profit (before certain re-measurements and exceptional items)	**183**
Fair value loss on investment properties (certain re-measurements)	**(17)**
Operating profit	**166**
Finance income	**57**
Finance costs	**(217)**
Fair value loss on financial instruments (certain re-measurements)	**(45)**
Loss before tax	**(39)**
Taxation before certain re-measurements and exceptional items	**(8)**
Taxation (certain re-measurements and exceptional items)	**11**
Taxation	**3**
Loss for the period	**(36)**

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2016

1 Segment information *continued*

Table (b) Unaudited Three months ended 31 March 2015	Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	EBITDA £m
	Segment revenue					
Heathrow	382	123	55	32	592	323
Heathrow Express				30	30	19
Continuing operations	382	123	55	62	622	342

Reconciliation to statutory information:	
Unallocated income and expense	
Depreciation and amortisation	(165)
Operating profit (before certain re-measurements and exceptional items)	177
Fair value gain on investment properties (certain re-measurements)	33
Operating profit	210
Finance income	58
Finance costs	(216)
Fair value gain on financial instruments (certain re-measurements)	19
Profit before tax	71
Taxation before certain re-measurements and exceptional items	(12)
Taxation (certain re-measurements and exceptional items)	(10)
Taxation	(22)
Profit for the period	49

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2016

1 Segment information *continued*

Table (c) Audited Year ended 31 December 2015	Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	EBITDA £m
	Segment revenue					
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 three months ended 31 March 2016

2 Operating costs – ordinary

	Unaudited Three months ended 31 March 2016 £m	Unaudited Three months ended 31 March 2015 £m	Audited Year ended 31 December 2015 £m
Employment	**88**	93	384
Operational	**64**	62	242
Maintenance	**43**	43	187
Business rates	**31**	29	123
Utilities	**24**	26	92
Other	**25**	27	132
Total adjusted operating costs	**275**	280	1,160
Depreciation and amortisation	**184**	165	682
Operating costs before exceptional items	**459**	445	1,842
Exceptional items (Note 3)	**-**	-	(236)
Total operating costs	**459**	445	1,606

3 Exceptional items

	Unaudited Three months ended 31 March 2016 £m	Unaudited Three months ended 31 March 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 three months ended 31 March 2016

4 Financing

	Unaudited Three months ended 31 March 2016 £m	Unaudited Three months ended 31 March 2015 £m	Audited Year ended 31 December 2015 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	**55**	57	247
Interest on deposits	**1**	1	5
Net pension finance income	**1**	-	-
	57	58	252
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(141)**	(141)	(583)
Bank loans and overdrafts and related hedging instruments	**(16)**	(12)	(50)
Interest payable on derivatives not in hedge relationship[2]	**(49)**	(49)	(259)
Facility fees and other charges	**(2)**	(2)	(7)
Net pension finance costs	**-**	(2)	(4)
Interest on debenture payable to Heathrow Finance plc	**(16)**	(16)	(70)
Unwinding of discount on provisions	**-**	-	(1)
	(224)	(222)	(974)
Less: capitalised borrowing costs[3]	**7**	6	22
	(217)	(216)	(952)
Net finance costs before certain re-measurements	**(160)**	(158)	(700)
Fair value (loss)/gain on financial instruments			
Interest rate swaps: ineffective portion of cash flow hedges	**(2)**	(8)	(1)
Interest rate swaps: not in hedge relationship	**(111)**	(38)	35
Index-linked swaps: not in hedge relationship	**51**	82	87
Cross-currency swaps: ineffective portion of cash flow hedges	**21**	(14)	(10)
Cross-currency swaps: ineffective portion of fair value hedges	**(4)**	(3)	37
	(45)	19	148
Net finance costs	**(205)**	(139)	(552)

1 Includes accretion of £2 million (three months ended 31 March 2015: £2 million; year ended 31 December 2015: £9 million) on index-linked bonds.

2 Includes accretion of £6 million (three months ended 31 March 2015: £3 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% (three months ended 31 March 2015: 5.56%; year ended 31 December 2015: 5.20%) to expenditure incurred on such assets.

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2016

5 Taxation

	Unaudited Three months ended 31 March 2016			Unaudited Three months ended 31 March 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%)	**(10)**	**-**	**(10)**	(12)	-	(12)	(59)	-	(59)
Deferred tax	**2**	**11**	**13**	-	(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 year	**(8)**	**11**	**3**	(12)	(10)	(22)	(54)	16	(38)

Adjusting for certain re-measurements and exceptional items, the tax charge recognised for the three months ended 31 March 2016 on ordinary activities of £8 million results in an effective tax rate of 34.8% compared to the UK statutory rate of 20%. The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

It was announced in the 'Business tax road map' released at the time of the Government's 2016 Budget, that effective from April 2017 the UK will be introducing a Fixed Ratio Rule limiting corporation tax deductions for net interest expense to 30% of the group's UK earnings before interest, tax, depreciation and amortisation (EBITDA). The UK also recognised that some groups have high external gearing for genuine commercial purposes and will therefore be implementing a group ratio rule based on a net third party interest to EBITDA ratio for the worldwide group, as recommended in the OECD report. This should enable Heathrow to continue to obtain corporation tax deductions for its interest expense, but we will need to review legislation when drafted to confirm any impact.

Heathrow (SP) Limited

Notes to the consolidated financial information for the three months ended 31 March 2016

6 Borrowings

	Unaudited 31 March 2016 £m	Unaudited 31 March 2015 £m	Audited 31 December 2015 £m
Current borrowings			
Secured			
Loans	**39**	39	39
Bonds:			
3.000% £300 million due 2015	**-**	300	-
2.500% US$500 million due 2016	**-**	337	-
12.450% £300 million due 2016	**-**	315	303
4.125% €500 million due 2016	**393**	-	366
4.375% €700 million due 2017	**553**	-	-
2.500% CHF400 million due 2017	**291**	-	-
	1,237	952	669
Total current (excluding interest payable)	**1,276**	991	708
Interest payable – external	**173**	169	259
Interest payable – owed to group undertakings	**5**	6	26
Total current	**1,454**	1,166	993
Non-current borrowings			
Secured			
Bonds:			
4.125% €500 million due 2016	**-**	355	-
4.375% €700 million due 2017	**-**	505	516
2.500% CHF400 million due 2017	**-**	276	271
4.600% €750 million due 2018	**570**	507	527
6.250% £400 million due 2018	**399**	399	398
4.000% C$400 million due 2019	**213**	211	195
6.000% £400 million due 2020	**397**	397	397
9.200% £250 million due 2021	**275**	275	271
3.000% C$450 million due 2021	**249**	246	225
4.875% US$1,000 million due 2021	**741**	714	703
1.650%+RPI £180 million due 2022	**195**	192	195
1.875% €600 million due 2022	**498**	452	453
5.225% £750 million due 2023	**661**	651	659
7.125% £600 million due 2024	**590**	589	590
0.500% CHF400 million due 2024	**292**	-	-
3.250% C$500 million due 2025	**279**	-	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	**88**	-	77
7.075% £200 million due 2028	**198**	198	198
1.500% €750 million due 2030	**583**	541	504
6.450% £900 million due 2031	**853**	856	854
Zero-coupon €50 million due January 2032	**47**	42	43
1.366%+RPI £75 million due 2032	**77**	76	77
Zero-coupon €50 million due April 2032	**46**	41	43
4.171% £50 million due 2034	**50**	50	50
Zero-coupon €50 million due 2034	**42**	37	39
1.061%+RPI £115 million due 2036	**115**	-	115
1.382%+RPI £50 million due 2039	**51**	51	51
3.334%+RPI £460 million due 2039	**576**	574	576
1.238%+RPI £100 million due 2040	**101**	100	101
5.875% £750 million due 2041	**740**	743	741
4.625% £750 million due 2046	**741**	742	741
1.372%+RPI £75 million due 2049	**77**	76	77
	10,590	10,741	10,781

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Notes to the consolidated financial information for the three months ended 31 March 2016

6 Borrowings *continued*

	Unaudited 31 March 2016 £m	Unaudited 31 March 2015 £m	Audited 31 December 2015 £m
Secured *continued*			
Revolving credit facilities	**25**	75	-
Loans	**89**	128	98
Term note: 3.770% £100 million due 2026	**100**	100	100
Term note: 2.630% £80 million due 2030	**79**	-	79
Term note: 2.970% £70 million due 2035	**70**	-	70
Unsecured			
Debenture payable to Heathrow Finance plc	**1,134**	1,111	1,084
Total loans	**1,497**	1,414	1,431
Total non-current	**12,087**	12,155	12,212
Total borrowings (excluding interest payable)	**13,363**	13,146	12,920

7 Cash generated from operations

	Unaudited Three months ended 31 March 2016 £m	Unaudited Three months ended 31 March 2015 £m	Audited Year ended 31 December 2015 £m
Operating activities			
(Loss)/profit before tax	**(39)**	71	702
Adjustments for:			
Fair value loss/(gain) on financial instruments	**45**	(19)	(148)
Finance costs	**217**	216	952
Finance income	**(57)**	(58)	(252)
Depreciation and amortisation	**184**	165	682
Fair value losses/(gains) on investment properties	**17**	(33)	(95)
Working capital changes:			
(Increase)/decrease in trade and other receivables	**(20)**	3	24
Decrease in trade and other payables	**(4)**	(25)	(20)
Release of provisions	**(1)**	-	5
Difference between pension charge and cash contributions	**(10)**	(4)	(22)
Exceptional pension credit: change to terms	**-**	-	(236)
Cash generated from operations	**332**	316	1,592