

Heathrow (SP) Limited

Results for the six months ended 30 June 2017

- Heathrow delivered strong service and better value for passengers – record punctuality and baggage reliability supported its highest Q2 Airport Service Quality score of 4.16 - and passenger charges fell 2.3%
- New Flybe services and new long haul destinations like Portland and New Orleans enhance domestic connectivity and open new trading routes to British exporters
- Booming activity with all-time records in passenger traffic - up 3.9% to 37.1 million - and cargo - up 9.1% to 0.82 million tonnes
- Strong financial performance with revenue up 4.1% to £1,374 million and Adjusted EBITDA up 6.9% to £835 million reflecting renewed strengthening of retail momentum
- Over £1 billion in debt financing completed, enhancing resilience and simplifying Heathrow’s debt financing arrangements
- New partnership with Transport for London increases sustainable transport options for passengers with Crossrail serving all terminals from 2019
- Working with airlines, Heathrow is making good progress towards meeting the Government’s challenge to deliver expansion with airport charges close to current levels

At or for six months ended 30 June	2017	2016	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	1,374	1,320	4.1
Adjusted EBITDA ⁽¹⁾	835	781	6.9
EBITDA ⁽²⁾	909	769	18.2
Cash generated from operations	820	700	17.1
Cash flow after investment and interest ⁽³⁾	200	76	n.m
Pre-tax profit ⁽⁴⁾	102	75	36.0
Heathrow (SP) Limited consolidated net debt ⁽⁵⁾	12,454	11,908	4.6
Heathrow Finance plc consolidated net debt ⁽⁵⁾	13,132	13,005	1.0
Regulatory Asset Base ⁽⁵⁾	15,485	15,237	1.6
Passengers (m) ⁽⁶⁾	37.1	35.7	3.9
Retail revenue per passenger (£) ⁽⁶⁾	8.43	7.84	7.6

Notes 1-6: see page 2

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

“Heathrow’s strong start to 2017 is a boon for Britain – our passengers are getting better value and service, more British trade is flying high on new trading links and our expansion plans are on track. The Government set us the challenge to expand Britain’s hub while keeping airport charges close to current levels. Working with airlines, we are making good progress to meet this challenge whilst delivering all our local commitments and the global connections our country needs.”

Notes

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation, certain re-measurements and exceptional items
- (2) EBITDA is earnings before interest, tax, depreciation and amortisation
- (3) Cash flow after investment and interest is cash generated from operations after net capital expenditure and net interest paid
- (4) Pre-tax profit before exceptional items and certain re-measurements
- (5) 2016 net debt and RAB figures at 31 December 2016. Nominal net debt excluding intra-group loans and including inflation-linked accretion
- (6) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

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

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Conference call to be held for creditors and credit analysts on 27 July 2017 at 3.00pm (UK time), 4.00pm (Central European time), 10.00am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and Javier Echave, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 53511830#

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?MTID=ec556c67b30864feadf79c8f31b608cc4>

using event password: 680376

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Heathrow (SP) Limited

Consolidated results for the six months ended 30 June 2017

Contents

1	Key business developments.....	4
1.1	Passenger traffic.....	4
1.2	Transforming customer service	4
1.3	Beating the plan.....	5
1.4	Investing in Heathrow	5
1.5	Sustainable growth	5
1.6	Expansion	6
2	Financial review	8
2.1	Basis of presentation of financial results	8
2.2	Income statement	8
2.3	Cash flow	11
2.4	Recent financing activity.....	12
2.5	Financing position.....	13
2.6	Pension scheme	14
2.7	Outlook	14
Appendix 1	Financial information	15
	Consolidated income statement	15
	Consolidated statement of comprehensive income.....	16
	Consolidated statement of financial position	17
	Consolidated statement of changes in equity.....	18
	Consolidated statement of cash flows	19
	General information and accounting policies	20
	Notes to the consolidated financial information.....	21

1 Key business developments

1.1 Passenger traffic

In the six months ended 30 June 2017, traffic rose 3.9% to 37.1 million passengers (2016: 35.7 million).

<i>(Millions)</i>	2017	2016	Change (%)
UK	2.3	2.2	2.7
Europe	15.5	15.0	3.1
North America	8.2	8.1	1.6
Asia Pacific	5.4	5.2	5.7
Middle East	3.6	3.2	13.1
Africa	1.5	1.5	(0.1)
Latin America	0.6	0.6	4.1
Total passengers⁽¹⁾	37.1	35.7	3.9

(1) Calculated using unrounded passenger figures

For the six months ended 30 June 2017, traffic grew 3.9% to 37.1 million passengers (2016: 35.7 million). More resilient macro-economic conditions and airline stimuli to boost demand propelled traffic to a new record high in the first half of 2017. Aircraft were meaningfully fuller with average load factor increasing 2.7 percentage points to 75.8% (2016: 73.1%) while the average number of seats per passenger aircraft also ticked up 0.7% to 212.1 (2016: 210.6).

Intercontinental traffic was the key driver of traffic growth, increasing 4.7%, with load factors improving significantly. Intercontinental traffic growth was particularly robust on routes serving the Middle East where passenger numbers increased 13.1% reflecting more flights and larger aircraft, including additional A380 services from Emirates, Etihad and Qatar Airways and British Airways' relaunched Tehran service in 2016. Momentum in this region has been increasing since the second half of 2016. The 5.7% rise in Asia Pacific traffic was driven by substantial growth in load factor on existing routes serving Malaysia, Thailand and Singapore and new or increased services to Indonesia, Philippines and Vietnam. North American traffic recovered from a slow first quarter to outpace last year's traffic volume by 1.6% benefitting from fuller planes. Latin American traffic grew 4.1%, due to more flights and fuller aircraft serving the region.

European passengers increased by 3.1% due to extra flights and larger planes with notable growth on routes to Belgium, Portugal, Denmark, Italy and Russia. Flybe's new Scottish services contributed to the 2.7% growth in domestic traffic.

Over 30% of the UK's non-EU exports by value pass through Heathrow today. In the six months ended 30 June 2017, Heathrow's cargo volumes increased 9.1% to 0.82 million tonnes, one of the strongest periods in the last 5 years in terms of year on year performance, with notable increases on North America and the Middle East.

1.2 Transforming customer service

Heathrow continued to deliver its world-class passenger service, maintaining its record service quality score for the second quarter of the year of 4.16 while 83% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very Good' (2016: 82%). Heathrow has been ranked first among major European hub airports for service quality in this survey for twelve successive quarters.

Heathrow received other recognition for its high service standards, being named the 'Best Airport in Western Europe' for the third consecutive year at the Skytrax World Airport Awards. The award, voted for globally by passengers, came in addition to Heathrow being voted 'Best Airport for Shopping' for the eighth consecutive time.

Improvements to passengers' journeys through the airport continue. Passengers continue to enjoy efficient queuing to pass through security, passing through central security within the five minute period prescribed

under the Service Quality Rebate ('SQR') scheme 97.7% of the time (2016: 97.7%) compared with a 95% service standard. The service quality regime penalty threshold was not triggered in the first six months of 2017 in respect of any performance standard. And for the first time in the current regulatory period Heathrow earned a modest level of bonuses under the SQR scheme.

Punctuality improved with 83.2% of flights departing within 15 minutes of schedule (2016: 80.6%). Baggage performance also improved significantly with the misconnect rate down to 11 bags per 1,000 passengers (2016: 13), reflecting enhanced operational resilience. Heathrow achieved its best ever monthly baggage performances of 7 bags and 8 bags per 1,000 passengers in February 2017 and April 2017 respectively, beating the previous record of 9 bags per 1,000 passengers set in October 2016.

1.3 Beating the plan

Heathrow's business plan for the current regulatory period is intended to improve customer service, strengthen operational resilience and deliver an ambitious programme of cost efficiencies and revenue growth. Heathrow is on track to deliver the targeted £600 million of cost efficiencies over the period to the end of 2018.

The benefits of investment in Terminal 5 retail outlets, completion of Terminal 4 retail redevelopment and new car parking capacity continue to flow through strongly with over £250 million secured out of the £300 million incremental commercial revenue target set for the period to the end of 2018.

1.4 Investing in Heathrow

Heathrow invested £318 million in the first six months of 2017 on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme.

Passengers should benefit from improvements delivered in Terminal 4 including increased space in the immigration hall to ease congestion and the opening of a new Gucci store marking the completion of the luxury retail redevelopment. In Terminal 5, premium passengers will enjoy the new "First Wing" offering a fast track route with dedicated security lanes to British Airways' lounge. Additional self-boarding gates also came into operation in Terminal 5 which should reduce boarding times as Heathrow extends automation across the passenger journey and enhances efficiency for airlines. New combined body-scanner/metal detectors were also installed in Terminal 5 to enhance the transfer security experience. Airfield improvements continued to meet increased A380 operations with additional taxiway widening and stand modifications now substantially completed.

1.5 Sustainable growth

Earlier this year, Heathrow launched "Heathrow 2.0", its new sustainability leadership plan, which aspires to make the airport a centre of excellence in sustainable aviation. The strategy sets out ambitious goals to reduce the airport's and the industry's environmental impacts while maximising economic opportunities throughout the UK.

In July 2017, Heathrow, Transport for London ('TfL') and the Department for Transport reached an agreement that will boost rail connectivity to the airport. The new partnership will increase sustainable transport options for passengers with Crossrail serving all terminals from 2019.

In June 2017, Heathrow published its "Sustainability 2016 performance report". The report bridges the progress made against the Responsible Heathrow 2020 commitments and the four pillars stretching Heathrow's ambitions in Heathrow 2.0. Key highlights include 455 new apprenticeships pledged through the Heathrow Academy, the Heathrow Skills Task Force launched to help develop the skills and training

needed to build and operate an expanded airport and a 37% reduction in carbon emissions from energy used in Heathrow's buildings compared to 1990, well ahead of a target of 34% reduction by 2020.

Also in June 2017, Heathrow's Terminal 2 was awarded the Buildings Research Establishment's BREEAM sustainable building certification recognising the terminal's key credentials such as the energy centre, one of the UK's largest private biomass initiatives, which is designed to provide 20% of the renewable energy used at Terminal 2.

In May 2017, Heathrow launched the new Fly Quiet and Clean League Table which rates airlines based on seven noise and emissions criteria. Every three months, the 50 busiest airlines at Heathrow will be publicly ranked on their work to reduce emissions and noise in their operations. The new league table is an expanded version of the successful Heathrow Fly Quiet programme, which has tracked airlines' noise performance since 2013 and incentivised airlines to use their quieter aircraft types and operating procedures at the airport. As part of the airport's efforts to reduce the number of late flights, and to provide more predictable periods of noise respite for local residents, the league table also includes a new metric tracking unscheduled airline operations between 11:30pm and 4:30am.

1.6 Expansion

1.6.1 Introduction

Stakeholder engagement on Heathrow expansion continues to intensify following the government's decision in late 2016. Significant recent developments include the government's progress in delivering its Airports National Policy Statement ('NPS'), Heathrow's engagement with airlines on the design of new runway capacity and the CAA developing the regulatory framework to support capacity expansion.

1.6.2 Airports National Policy Statement

The government's national consultation on its draft NPS was launched in February 2017 and concluded in May 2017. Over 70,000 responses were made to the government's consultation. The draft NPS together with the consultation responses are expected to be considered by the transport select committee following the Parliamentary summer recess prior to submission of a final NPS to a vote in Parliament in the first half of 2018. Earlier in July, Lilian Greenwood was appointed as the new chairman of a transport select committee following the recent UK general election. There is overwhelming cross-party support in Westminster for expanding Britain's hub with the latest poll showing that nearly 3-in-4 MPs in the new Parliament back expanding Heathrow while strong opposition has dropped to its lowest level of only 8%.

1.6.3 Airline engagement

We have been refining our plans for expansion since the independent Airports Commission commenced its in-depth study almost five years ago. Last year we announced that we were optimising our plans to improve passenger experience, reduce costs and deliver the benefits of Heathrow expansion earlier.

Continuing to work with airlines, neighbours and wider communities, we are making good progress to meet the Secretary of State's challenge to expand Britain's hub while keeping charges close to current levels and meeting our local commitments. We have identified potential further savings through this work by looking at the location and configuration of the terminals along with different phasing options. We will continue refining our plans and release various options at our first planning consultation later this year.

1.6.4 CAA consultation

The CAA continues to consult on how Heathrow will be regulated through expansion. In June 2017, it issued a consultation document entitled 'Consultation on the core elements of the regulatory framework to support capacity expansion at Heathrow'. The consultation builds on previous consultations such as 'Strategic Themes for the Review of Heathrow Airport's Charges (H7)' launched in March 2016 and 'Economic Regulation of the new runway and capacity expansion at Heathrow airport: consultation on CAA

priorities and timetable' launched in January 2017. Responses to the consultation are requested by 22 September 2017.

The consultation includes a decision to further extend Heathrow's Q6 regulatory period by at least a year to 31 December 2020 although the CAA is yet to decide the basis for tariffs in this extra year. Various options for determining tariffs are under consideration including a simple roll-over of the Q6 tariff of RPI-1.5% (as applies to the extension of Q6 to 31 December 2019 already implemented) or some form of adjustment to reflect more recent actual performance on key regulatory building blocks rather than assumptions used at the start of Q6. The CAA also leaves open the option for further extension to Q6 depending on the overall expansion timetable. The CAA has said it will update its thinking on extensions in late 2017 with a final decision as soon as practicable in 2018 once the position on designation of the NPS is clearer.

The CAA clearly states that the regulatory framework needs to consider equally the fundamental objectives of affordability and financeability. For example, the consultation references both objectives in discussing profiling of returns and depreciation or potential incentives or risk sharing mechanisms relating to, for example, cost of debt and passenger forecasts. It also suggests further consideration of specific measures to support financeability such as minimum creditworthiness and strengthened liquidity requirements.

The latest consultation builds on the strength of the current regulatory framework, proposing the continued use of the regulatory asset base ('RAB') as the cornerstone of the regulatory framework and a single till approach to determine tariffs.

In terms of more specific topics, the CAA's consultation addresses the future basis for determining the cost of debt allowance included in Heathrow's allowed cost of capital as well as marking progress on the inflation measure to be used in the H7 determination and the H7 regulatory review timetable.

In relation to cost of debt, consistent with other UK regulators, the CAA continues to advocate a transition in H7 to partially or wholly using a suitable debt index to determine the allowance for debt costs rather than a fixed allowance.

On inflation, the CAA acknowledges the advantages of longer term transition to consumer price index ('CPI') rather than retail price index ('RPI') based regulation. However, it proposes a gradual transition in the interests of stability while capacity expansion occurs. The CAA highlights the lack of a market for CPI-linked debt and that a switch to CPI based regulation could lead to higher short term airport charges. Given this, its initial policy for H7 is to continue to use RPI to calculate allowed returns and the RAB, with an open question on whether RPI or CPI is used to calibrate the price control, for example, the tariff formula.

The consultation comments on a number of other areas where work will continue over the coming months. These include the cost of capital for H7 where it intends to give initial views on likely ranges for both 2 and 3 runway scenarios later in 2017. The CAA is explicit about the likely increase in risk associated with expansion and that this should be adequately rewarded. In a similar timeframe the CAA plans to consider the regulatory treatment of early stage 'Category C' costs. These costs relate, for example, to land acquisition, detailed surveying or design or very early construction that may be incurred before planning consent is granted for expansion in the interests of an efficient construction programme.

Given the extension of Q6 by at least one year, we now expect to issue our initial H7 business plan in December 2018. We expect further CAA consultations or updates in late 2017 or early 2018.

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 2017, the Group's operating profit before certain re-measurements was £503 million (2016: £421 million) and its profit after tax was £246 million (2016: £201 million loss).

Six months ended 30 June	2017 £m	2016 £m
Excluding certain re-measurements		
Revenue	1,374	1,320
Operating costs before depreciation and amortisation	(539)	(539)
Adjusted EBITDA⁽¹⁾	835	781
Depreciation and amortisation	(332)	(360)
Adjusted operating profit	503	421
Net finance costs	(401)	(346)
Adjusted profit before tax	102	75
Tax charge on profit before certain re-measurements	(30)	(24)
Including certain re-measurements		
Fair value gain/(loss) on investment properties	74	(12)
Fair value gain/(loss) on financial instruments	135	(295)
Tax (charge)/credit on certain re-measurements	(35)	55
Profit/(loss) after tax	246	(201)

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, certain re-measurements and exceptional items. Management uses Adjusted EBITDA to monitor the performance of the segments as it believes it more accurately reflects the underlying financial performance of the Group's operations. For the six months ended 30 June 2017, Adjusted EBITDA was £835 million and EBITDA was £909 million. For the six months ended 30 June 2016, Adjusted EBITDA was £781 million and EBITDA was £769 million.

2.2.2 Revenue

In the six months ended 30 June 2017, revenue increased 4.1% to £1,374 million (2016: £1,320 million).

Six months ended 30 June	2017 £m	2016 £m	Change (%)
Aeronautical	814	802	1.5
Retail	313	280	11.8
Other	247	238	3.8
Total revenue	1,374	1,320	4.1

2.2.2.1 Aeronautical

In the six months ended 30 June 2017, aeronautical revenue increased 1.5% to £814 million (2016: £802 million). Heathrow delivered better value for passengers and airlines with lower charges as average aeronautical revenue per passenger declined 2.3% to £21.92 (2016: £22.44).

Traffic growth of 3.9% generated £30 million incremental revenue. This was offset by a lower price due to the regulatory RPI-1.5% pricing formula and adjustments to reflect lower capital expenditure than forecast in the original regulatory settlement. In addition, yield dilution in the period compounded by concentration in the same period last year resulted in £11 million lower revenue.

2.2.2.2 Retail

In the six months ended 30 June 2017, retail revenue increased 11.8% to £313 million (2016: £280 million). Retail revenue per passenger rose 7.6% to £8.43 (2016: £7.84) with stronger growth in the second quarter of 8.7%.

Six months ended 30 June	2017 £m	2016 £m	Change (%)
Duty and tax-free	70	62	12.9
Airside specialist shops	63	51	23.5
Bureaux de change	24	24	-
Catering	26	22	18.2
Other retail income	43	37	16.2
Car parking	58	55	5.5
Other services	29	29	-
Total retail revenue	313	280	11.8

In addition to increased passenger traffic, growth in retail income reflected benefits, particularly in duty and tax-free and airside specialist shops, from the depreciation of sterling since June 2016. Catering also saw strong growth driven by increased passenger traffic, the redevelopment of Terminal 5 catering outlets and more passengers choosing to buy food from terminals before boarding their flights. Higher car rental and VIP income drove other retail income higher. The redevelopment of Terminal 4's luxury retail offering, completed in late 2016, also contributed to growth.

2.2.2.3 Other

In the six months ended 30 June 2017, other revenue was up 3.8% to £247 million (2016: £238 million).

Six months ended 30 June	2017 £m	2016 £m	Change (%)
Other regulated charges	113	110	2.7
Heathrow Express	63	59*	6.8
Property and other	71	69*	2.9
Total other revenue	247	238	3.8

* The segment revenue for both Heathrow Express and Property and other have been re-stated to reflect more accurately the performance of the underlying Heathrow Express business and to present segmental revenue on a basis consistent with adjusted EBITDA reported for Heathrow Express. There is no effect on total revenue as a result of this restatement.

Other regulated charges reflect a pass through to airlines of Heathrow's costs in areas such as utilities and baggage system operations and maintenance. The year on year performance primarily reflects an increase in baggage costs due to higher passenger numbers. Additional performance in other revenue reflects growth from Heathrow Express, driven by the introduction of a more sophisticated pricing strategy and traffic growth. During June Heathrow Express achieved the milestone of carrying one hundred million passengers since its launch in June 1998.

2.2.3 Operating costs

In the six months ended 30 June 2017, operating costs excluding depreciation, amortisation and exceptional items were flat at £539 million (2016: £539 million) or 3.7% lower on a per passenger basis at £14.52 (2016: £15.08). Adjusting utilities costs for a one-off £14 million credit previously reported in 2016

and for £7 million in expansion-related costs that started being capitalised, underlying operating costs were down 1.3% or 5.0% on a per passenger basis.

Six months ended 30 June	2017 £m	2016 £m	Change (%)
Employment	180	178	1.1
Operational	122	131	(6.9)
Maintenance	83	86	(3.5)
Business rates	64	63	1.6
Utilities	44	30	46.7
Other	46	51	(9.8)
Total operating costs	539	539	-

Significant cost efficiencies in people-related areas were offset primarily by the impact of inflation and higher costs related to managing higher passenger numbers while maintaining service standards and operational resilience. A combination of benefits from the renegotiated NATS contract, efficiencies from other third party supplies and lower insurance costs in the year to date drove operational costs down. The rise in business rates reflects general national trends with Heathrow remaining one of the UK's highest business rate payers.

Higher utility costs are due to the non-recurrence of a one-off £14 million credit in 2016 following the renegotiation of contractual terms for the provision of electricity distribution infrastructure services. The recurrent benefits from this renegotiation and focus on energy demand management continue to drive underlying savings year on year that are broadly offset by inflation impacts.

Other costs decreased mainly due to the fact that in relation to expansion, following the UK Government's decision in late 2016 to support Heathrow expansion, costs have started to be capitalised rather than being expensed. These costs amounted to £7 million in the first half.

2.2.4 Operating profit

For the six months ended 30 June 2017, the Group recorded an operating profit before certain re-measurements of £503 million (2016: £421 million).

Six months ended 30 June	2017 £m	2016 £m	Change (%)
Adjusted EBITDA	835	781	6.9
Depreciation and amortisation	(332)	(360)	(7.8)
Adjusted operating profit	503	421	19.5

In the six months ended 30 June 2017, Adjusted EBITDA increased 6.9% to £835 million (2016: £781 million), resulting in an Adjusted EBITDA margin of 60.8% (2016: 59.2%). Depreciation and amortisation decreased to £332 million (2016: £360 million). This was driven by a combination of various assets, mainly in Terminal 3, becoming fully depreciated during 2016 as well as a build-up in the value of assets in the course of construction where depreciation will commence once the relevant assets come into operational use over the coming years.

2.2.5 Taxation

For the six months ended 30 June 2017, the profit before tax and certain re-measurements of £102 million (2016: £75 million) resulted in a tax charge of £30 million (2016: £24 million). This results in an effective tax rate of 29.4% (2016: 32.0%), compared to the UK statutory rate of 19.25% (2016: 20.0%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge recognised was £65 million (2016: £31 million credit) based on the profit before tax of £311 million (2016: £232 million loss), which includes the impact of certain re-measurements.

2.3 Cash flow

2.3.1 Summary cash flow

In the six months ended 30 June 2017, there was a decrease of £64 million in cash and cash equivalents compared with an increase of £60 million in the six months ended 30 June 2016.

Six months ended 30 June	2017 £m	2016 £m
Cash generated from operations	820	700
Taxation:		
Corporation tax paid	(18)	(18)
Net cash from operating activities	802	682
Purchase of property, plant and equipment	(309)	(295)
Purchase of intangible assets	(9)	(8)
Decrease in term deposits	368	195
Increase in group deposits	-	(19)
Interest received	3	3
Net cash from/(used in) investing activities	53	(124)
Dividends paid to Heathrow Finance plc	(466)	(227)
(Decrease)/increase in amount owed to Heathrow Finance plc	(140)	95
Proceeds from issuance of bonds, term notes and other financing	878	344
Repayment of bonds and facilities and other financing items	(876)	(320)
Settlement of accretion on index-linked swaps	(10)	(86)
Swap restructuring	-	20
Interest paid	(305)	(324)
Net cash used in financing activities	(919)	(498)
Net (decrease)/increase in cash and cash equivalents	(64)	60
Cash generated from operations after capital expenditure and net interest paid	200	76

At 30 June 2017, the Group had £228 million (31 December 2016: £660 million) of cash, cash equivalents and term deposits, of which cash and cash equivalents were £216 million (31 December 2016: £280 million).

2.3.2 Cash generated from operations

In the six months ended 30 June 2017, cash generated from operations increased 17.1% to £820 million (2016: £700 million). The following table reconciles Adjusted EBITDA to cash from operations.

Six months ended 30 June	2017 £m	2016 £m
Adjusted EBITDA	835	781
Increase in receivables and inventories ¹	(11)	(46)
Increase/(decrease) in payables	13	(8)
Decrease in provisions	(7)	(3)
Difference between pension charge and cash contributions	(10)	(24)
Cash generated from operations	820	700

(1) Excludes movement in group deposits

2.3.3 Dividends/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 2017, Heathrow's ultimate shareholders received £188 million (2016: £150 million) in dividends reflecting the continued strong performance achieved by the business including delivering better value for airlines and passengers and significantly improving service. Total restricted payments paid by Heathrow (SP) Limited in the period amounted to £641 million (net) or £766 million (gross). Other than the £179 million payment made by Heathrow (SP) to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £35 million (2016: £36 million) of interest on the debenture between Heathrow (SP) and Heathrow Finance, £10 million (2016: £16 million) of interest payments at ADI Finance 2 Limited ('ADIF2') and a net £417 million distributed to Heathrow Finance to meet a £265 million bond maturity on 1 March 2017 and temporarily repay £275 million in various loan facilities.

2.4 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 debt financing strategy for the remainder of its current regulatory period is expected to have a strong focus on ensuring its relatively limited funding requirements are targeted at maintaining its presence in existing public markets whilst capitalising selectively on private placement opportunities.

In 2017, Heathrow has raised over £1.0 billion of debt financing globally comprising just over £700 million in Class A debt, a £275 million bond issued by Heathrow Finance and a £75 million term loan facility initially held at ADI Finance 2 Limited ('ADIF2') which will migrate to Heathrow Finance by 2019. Completion of the Heathrow Finance bond and the ADIF2 term loan facility will enable Heathrow to simplify its debt financing from four layers to three no later than 2019.

In terms of Class A debt raised since the start of 2017, the highlight has been the issue in June 2017 of a €500 million, 15 year public bond with a fixed rate coupon of 1.875% which further strengthens Heathrow's presence in this market. The transaction closed after the period end. Also in June 2017, a £100 million private placement from non-sterling sources which was signed in March 2017 was drawn and will mature in 2033 and 2037. In March 2017, Heathrow drew in full a £418 million term loan initially signed with a group of banks in June 2016 and increased by £68 million in early 2017. Finally, in July 2017 Heathrow entered into a £100 million 7 year term loan facility that is not expected to be drawn until July 2018.

In May 2017, Heathrow Finance returned to the bond market for the first time since October 2014, raising £275 million in a highly successful 10 year public bond with a fixed rate coupon of 3.875%. In June 2017, the last undrawn £75 million of Heathrow Finance term loans agreed in 2016 was drawn.

Since the start of 2017, Heathrow has repaid €700 million (£584 million) and CHF400 million (£272 million) Class A bonds in January 2017 and February 2017 respectively. In March 2017, Heathrow Finance repaid a £265 million bond and in June 2017, it also temporarily repaid £275 million in loan facilities as it looks to optimise its interest costs over the balance of 2017. This is the reason for the increase in Class A and B gearing ratios since March 2017 (see section 2.5.4) which will unwind once these facilities are redrawn around the end of 2017. Finally, earlier in July, £310 million of existing loan facilities at ADIF2 were repaid.

2.5 Financing position

2.5.1 Debt and liquidity at Heathrow (SP) Limited

At 30 June 2017, the Group's nominal net debt was £12,454 million (31 December 2016: £11,908 million) and comprised £11,117 million in bond issues, £937 million in other term debt, £360 million outstanding under revolving credit facilities and £268 million in index-linked derivative accretion offset by £228 million in cash and term deposits. Nominal net debt comprised £10,636 million in senior net debt and £1,818 million in junior debt.

The average cost of the Group's nominal gross debt at 30 June 2017 was 3.90% (31 December 2016: 4.08%). 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 2017 was 5.51% (31 December 2016: 5.22%). The reduction in the average cost of debt excluding index-linked accretion since the end of 2016 is mainly due to the replacement in 2017 of relatively high cost maturing legacy debt with newer lower cost debt. The increase in the average cost of debt including index-linked accretion since the end of 2016 has been driven by recent increases in inflation with the annual rate of retail price index ('RPI') inflation increasing from a low of 0.9% in March 2016 to 3.5% in June 2017. The average life of the Group's gross debt as at 30 June 2017, adjusted for the €500 million bond issue that closed shortly after the period end, was 11.7 years.

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

The accounting value of the Group's net debt was £12,550 million at 30 June 2017 (31 December 2016: £12,189 million). This includes £216 million of cash and cash equivalents and £12 million of 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 until September 2019. The obligations include forecast capital investment (including expected investment over the period related to potential expansion), debt service costs, debt maturities and distributions. This liquidity position takes into account £2.1 billion in undrawn loan facilities and term debt as well as cash resources at 30 June 2017 together with expected operating cash flow over the period.

2.5.2 Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased 1.0% to £13,132 million (31 December 2016: £13,005 million). This comprises the Group's £12,454 million nominal net debt, Heathrow Finance's gross debt of £1,038 million and cash held at Heathrow Finance of £360 million.

2.5.3 Net finance costs and net interest paid

In the six months ended 30 June 2017, the Group's net finance costs before certain re-measurements, from operations, were £401 million (2016: £346 million) and net interest paid was £302 million (2016: £321 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	2017 £m	2016 £m
Net finance costs before certain re-measurements	401	346
Amortisation of financing fees and other items	(14)	(13)
Borrowing costs capitalised	27	15
Underlying net finance costs	414	348
Non-cash accretion on index-linked instruments	(121)	(41)
Other movements	9	14
Net interest paid	302	321

Underlying net finance costs were £414 million (2016: £348 million) after adjusting for capitalised borrowing costs of £27 million (2016: £15 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £14 million (2016: £13 million). The increase in underlying net finance costs reflects higher index-linked accretion due to higher inflation in the period.

Net interest paid in the period was £302 million (2016: £321 million) of which £267 million (2016: £285 million) related to external debt. The remaining £35 million (2016: £36 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 £135 million fair value gain on financial instruments (2016: £295 million loss) driven primarily by an upwards shift in long term sterling swap rates compared to a reduction in rates in the prior year following the outcome of the UK's referendum on membership of the European Union in June 2016.

2.5.4 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 by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB') value. Heathrow's RAB was £15,485 million at 30 June 2017 (31 December 2016: £15,237 million).

At 30 June 2017, the Group's senior (Class A) and junior (Class B) gearing ratios were 68.7% and 80.4% respectively (31 December 2016: 66.7% and 78.2% respectively; 31 March 2017: 67.9% and 79.3% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. The increase in Class A and B gearing ratios since 31 December 2016 and 31 March 2017 reflects Heathrow's strategy to optimise its interest costs over the balance of 2017 by effectively temporarily repaying debt at ADIF2 with Class A and B debt. At 30 June 2017, Heathrow Finance's gearing ratio was 84.8% (31 December 2016: 85.4%; 31 March 2017: 85.5%). This compares to a covenant level of 90.0% under its financing agreements.

2.6 Pension scheme

Heathrow operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. At 30 June 2017, the defined benefit pension scheme, as measured under IAS 19, had a deficit of £163 million (31 December 2016: £79 million deficit). The £84 million change in the first half of 2017 is primarily due to a net actuarial loss of £94 million (reflecting primarily a combination of slightly lower discount rates derived from corporate bond yields and returns on scheme assets being lower than allowed for in the income statement) and charges to the income statement of £15 million, partly offset by £25 million of cash contributions to the scheme.

2.7 Outlook

The outlook for Heathrow's Adjusted EBITDA performance for 2017 remains consistent with the figure of £1,735 million set out in the Investor Report published on 27 June 2017 which was based on a traffic forecast of 76.7 million for the year.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017			Unaudited Six months ended 30 June 2016			Audited Year ended 31 December 2016			
		Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	Before certain re-measurements £m	Certain re-measurements ^a £m	Total £m	
Revenue	1	1,374	-	1,374	1,320	-	1,320	2,807	-	2,807	
Operating costs	2	(871)	-	(871)	(899)	-	(899)	(1,794)	-	(1,794)	
Other operating items											
Fair value gain/(loss) on investment properties		-	74	74	-	(12)	(12)	-	44	44	
Operating profit		503	74	577	421	(12)	409	1,013	44	1,057	
Financing											
Finance income		101	-	101	110	-	110	218	-	218	
Finance costs		(502)	-	(502)	(456)	-	(456)	(964)	-	(964)	
Fair value gain/(loss) on financial instruments		-	135	135	-	(295)	(295)	-	(524)	(524)	
Net finance costs	3	(401)	135	(266)	(346)	(295)	(641)	(746)	(524)	(1,270)	
Profit/(loss) before tax		102	209	311	75	(307)	(232)	267	(480)	(213)	
Tax (charge)/credit before change in tax rate		(30)	(35)	(65)	(24)	55	31	(67)	83	16	
Change in tax rate		-	-	-	-	-	-	-	53	53	
Taxation	4	(30)	(35)	(65)	(24)	55	31	(67)	136	69	
Profit/(loss) for the period		72	174	246	51	(252)	(201)	200	(344)	(144)	

^a Certain re-measurements consist of: fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying 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 2017**

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Profit/(loss) for the period	246	(201)	(144)
<i>Items that will not be subsequently reclassified to the consolidated income statement:</i>			
Actuarial loss on pensions net of tax:			
(Loss)/gain on plan assets	(36)	340	501
Increase in scheme liabilities	(43)	(354)	(688)
Tax relating to indexation of operational land	-	-	1
Change in deferred tax due to tax rate change	-	-	6
<i>Items that may be subsequently reclassified to the consolidated income statement:</i>			
Cash flow hedges:			
(Losses)/gains taken to equity	(76)	213	264
Transferred to income statement	80	(223)	(241)
Change in deferred tax due to tax rate change	-	-	(7)
Other comprehensive loss for the period net of tax	(75)	(24)	(164)
Total comprehensive income/(loss) for the period^a	171	(225)	(308)

^a Attributable to owners of the parent.

Heathrow (SP) Limited
Consolidated statement of financial position
as at 30 June 2017

<i>Note</i>	Unaudited 30 June 2017 £m	Unaudited 30 June 2016 £m	Audited 31 December 2016 £m
Assets			
Non-current assets			
Property, plant and equipment	11,348	11,214	11,306
Investment properties	2,274	2,144	2,200
Intangible assets	119	125	122
Retirement benefit surplus	-	111	-
Derivative financial instruments	480	613	676
Trade and other receivables	23	30	27
	14,244	14,237	14,331
Current assets			
Inventories	11	11	11
Trade and other receivables	282	292	271
Derivative financial instruments	147	42	78
Term deposits	12	355	380
Cash and cash equivalents	216	232	280
	668	932	1,020
Total assets	14,912	15,169	15,351
Liabilities			
Non-current liabilities			
Borrowings	5 (13,298)	(12,468)	(13,240)
Derivative financial instruments	(1,410)	(1,223)	(1,419)
Deferred income tax liabilities	(867)	(956)	(849)
Retirement benefit obligations	(199)	(28)	(114)
Provisions	(9)	(2)	(9)
Trade and other payables	(9)	(11)	(8)
	(15,792)	(14,688)	(15,639)
Current liabilities			
Borrowings	5 (897)	(1,578)	(1,241)
Derivative financial instruments	-	(4)	-
Provisions	(6)	(2)	(12)
Current income tax liabilities	(44)	(37)	(30)
Trade and other payables	(447)	(387)	(408)
	(1,394)	(2,008)	(1,691)
Total liabilities	(17,186)	(16,696)	(17,330)
Net liabilities	(2,274)	(1,527)	(1,979)
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	(264)	(294)	(268)
Retained earnings	1,238	2,015	1,537
Total shareholder's deficit	(2,274)	(1,527)	(1,979)

Heathrow (SP) Limited

**Consolidated statement of changes in equity
for the six months ended 30 June 2017**

	Attributable to owners of the Company					Total equity £m
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	
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 pensions net of tax:						
Gain on plan assets					340	340
Increase in scheme liabilities					(354)	(354)
Total comprehensive income				(10)	(215)	(225)
Transaction with owners:						
Dividends paid to Heathrow Finance plc					(227)	(227)
Total transaction with owners					(227)	(227)
30 June 2016	11	499	(3,758)	(294)	2,015	(1,527)
1 January 2017	11	499	(3,758)	(268)	1,537	(1,979)
Comprehensive income:						
Profit for the period					246	246
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				4		4
Actuarial loss on pensions net of tax:						
Loss on plan assets					(36)	(36)
Increase in scheme liabilities					(43)	(43)
Total comprehensive income				4	167	171
Transaction with owners:						
Dividends paid to Heathrow Finance plc					(466)	(466)
Total transaction with owners					(466)	(466)
30 June 2017	11	499	(3,758)	(264)	1,238	(2,274)

Heathrow (SP) Limited

**Consolidated statement of cash flows
for the six months ended 30 June 2017**

	Note	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Cash flows from operating activities				
Cash generated from operations	6	820	700	1,652
Taxation:				
Corporation tax paid		(18)	(18)	(45)
Group relief paid		-	-	(15)
Net cash from operating activities		802	682	1,592
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(309)	(295)	(660)
Intangible assets		(9)	(8)	(14)
Decrease in term deposits ¹		368	195	170
Increase in group deposits ²		-	(19)	(26)
Interest received		3	3	4
Net cash from/(used in) investing activities		53	(124)	(526)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc (Decrease)/increase in amount owed to Heathrow Finance plc		(466)	(227)	(596)
Proceeds from issuance of bonds		-	344	829
Repayment of bonds		(856)	(300)	(734)
Proceeds from issuance of other term debt		518	-	90
Drawdown of revolving credit facilities		360	-	-
Repayment of facilities and other financing items		(20)	(20)	(44)
Swap restructuring		-	20	20
Settlement of accretion on index-linked swaps		(10)	(86)	(188)
Interest paid		(305)	(324)	(595)
Net cash used in financing activities		(919)	(498)	(958)
Net (decrease)/increase in cash and cash equivalents		(64)	60	108
Cash and cash equivalents at beginning of period		280	172	172
Cash and cash equivalents at end of period		216	232	280

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

² Group deposits are amounts 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 2017

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2016 or any other period. Statutory financial statements for the year ended 31 December 2016 have been filed with the registrar of Companies on 24 February 2017. The annual financial information presented herein for the year ended 31 December 2016 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2016. The auditors' report on the 2016 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 2016.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

1 Segment information

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

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

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 2017 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA and a reconciliation to the consolidated profit for the period.

Table (b) and table (c) detail comparative information to table (a) for the six months ended 30 June 2016 and the year ended 31 December 2016 respectively.

Table (a) Unaudited Six months ended 30 June 2017	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	814	313	113	71	1,311	828	
Heathrow Express	-	-	-	63	63	7	
Continuing operations	814	313	113	134	1,374	835	
Reconciliation to statutory information:							
Unallocated income and expense							
Depreciation and amortisation						(332)	
Operating profit (before certain re-measurements)						503	
Fair value gain on investment properties (certain re-measurements)						74	
Operating profit						577	
Finance income						101	
Finance costs						(502)	
Fair value gain on financial instruments (certain re-measurements)						135	
Profit before tax						311	
Taxation before certain re-measurements						(30)	
Taxation (certain re-measurements)						(35)	
Taxation						(65)	
Profit for the period						246	

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

1 Segment information *continued*

Table (b) Unaudited Six months ended 30 June 2016	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	802	280	110	69*	1,261	782	
Heathrow Express				59*	59	(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)	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	(24)
Taxation (certain re-measurements)	55
Taxation	31
Loss for the period	(201)

Table (c) Audited Year ended 31 December 2016	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	1,699	612	232	144*	2,687	1,616	
Heathrow Express				120*	120	66	
Continuing operations	1,699	612	232	264	2,807	1,682	

Reconciliation to statutory information:

Unallocated income and expense	
Depreciation and amortisation	(669)
Operating profit (before certain re-measurements)	1,013
Fair value gain on investment properties (certain re-measurements)	44
Operating profit	1,057
Finance income	218
Finance costs	(964)
Fair value loss on financial instruments (certain re-measurements)	(524)
Loss before tax	(213)
Taxation before certain re-measurements	(67)
Taxation (certain re-measurements)	136
Taxation	69
Loss for the year	(144)

* Segment revenue for both Heathrow and Heathrow Express have both been re-stated to reflect more accurately the performance of the underlying Heathrow Express business and to present segmental revenue on a basis consistent with Adjusted EBITDA reported for Heathrow Express. There was no effect on total revenue as a result of this restatement.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

2 Operating costs – ordinary

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Employment	180	178	373
Operational	122	131	265
Maintenance	83	86	176
Business rates	64	63	128
Utilities	44	30	74
Other	46	51	109
Total adjusted operating costs	539	539	1,125
Depreciation and amortisation	332	360	669
Total operating costs	871	899	1,794

3 Financing

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	99	105	209
Interest on deposits	2	3	5
Net pension finance income	-	2	4
	101	110	218
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(244)	(288)	(591)
Bank loans and overdrafts and related hedging instruments	(70)	(28)	(56)
Interest payable on derivatives not in hedge relationship ²	(178)	(116)	(275)
Facility fees and other charges	(4)	(6)	(9)
Net pension finance costs	(2)	-	-
Interest on debenture payable to Heathrow Finance plc	(31)	(33)	(67)
Unwinding of discount on provisions	-	-	(1)
	(529)	(471)	(999)
Less: capitalised borrowing costs ³	27	15	35
	(502)	(456)	(964)
Net finance costs before certain re-measurements	(401)	(346)	(746)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: not in hedge relationship	51	(202)	(122)
Index-linked swaps: not in hedge relationship	72	(113)	(436)
Cross-currency swaps: ineffective portion of cash flow hedges	2	28	10
Cross-currency swaps: ineffective portion of fair value hedges	10	(8)	24
	135	(295)	(524)
Net finance costs	(266)	(641)	(1,270)

¹ Includes accretion of £22 million (six months ended 30 June 2016: £8 million; year ended 31 December 2016: £26 million) on index-linked bonds.

² Includes accretion of £99 million (six months ended 30 June 2016: £33 million; year ended 31 December 2016: £113 million) on index-linked swaps.

³ Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.12% (six months ended 30 June 2016: 4.79%; year ended 31 December 2016: 4.89%) to expenditure incurred on such assets.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

4 Taxation

	Unaudited Six months ended 30 June 2017			Unaudited Six months ended 30 June 2016			Audited Year ended 31 December 2016		
	Before certain re- measurements	Certain re- measurements	Total	Before certain re- measurements	Certain re- measurements	Total	Before certain re- measurements	Certain re- measurements	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK corporation tax									
Current tax charge at 19.25% (2016: 20.0%)	(32)	-	(32)	(24)	-	(24)	(56)	(2)	(58)
Under provision in respect to prior years	-	-	-	-	-	-	(1)	-	(1)
Deferred tax									
Current year (charge)/credit	2	(35)	(33)	-	55	55	(8)	89	81
Prior year charge	-	-	-	-	-	-	(2)	(4)	(6)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	-	-	-	-	-	-	-	53	53
Taxation (charge)/credit for the period	(30)	(35)	(65)	(24)	55	31	(67)	136	69

For the six months ended 30 June 2017, the profit before tax and certain re-measurements of £102 million (2016: £75 million) resulted in a tax charge of £30 million (2016: £24 million). This results in an effective tax rate of 29.4% (2016: 32.0%), compared to the UK statutory rate of 19.25% (2016: 20%). The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge recognised was £65 million (2016: £31 million credit) based on the profit before tax of £311 million (2016: £232 million loss), which includes the impact of certain re-measurements.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further 1% reduction in the main rate of corporation tax to 17% from 1 April 2020. Consequently the Group's significant deferred tax balances, which were previously provided at 18%, were re-measured in 2016 at the future tax rate at which the Group believes the timing differences will reverse. This resulted in a net reduction in the deferred tax liability and a corresponding net deferred tax credit of £53 million being recognised in the income statement.

In December 2016 and January 2017 the UK government published draft legislation on the new interest deductibility regime, in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). In this, the new corporate interest restriction would be effective from 1 April 2017 and interest deductions would be limited to 30% of tax based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). Whilst the legislation could impact the future tax charge of the group, Heathrow expects to be largely protected from the 30% of tax EBITDA cap through the use of the PIE and GRR. Although the draft legislation was not included in the Finance Act 2017, it will be included in the Finance Bill 2017 (No. 2) to be enacted later this year.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

5 Borrowings

	Unaudited 30 June 2017 £m	Unaudited 30 June 2016 £m	Audited 31 December 2016 £m
Current borrowings			
Secured			
Heathrow Funding Limited bonds:			
4.125% €500 million due 2016	-	416	-
4.375% €700 million due 2017	-	584	598
2.500% CHF400 million due 2017	-	309	318
4.600% €750 million due 2018	650	-	-
Total bonds	650	1,309	916
Heathrow Airport Limited loans	33	39	36
Total current (excluding interest payable)	683	1,348	952
Interest payable – external	195	208	266
Interest payable – owed to group undertakings	19	22	23
Total current	897	1,578	1,241
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds:			
4.600% €750 million due 2018	-	606	627
6.250% £400 million due 2018	399	399	399
4.000% C\$400 million due 2019	236	231	240
6.000% £400 million due 2020	398	397	398
9.200% £250 million due 2021	269	276	272
3.000% C\$450 million due 2021	266	271	274
4.875% US\$1,000 million due 2021	789	811	833
1.650%+RPI £180 million due 2022	203	196	199
1.875% €600 million due 2022	540	529	534
5.225% £750 million due 2023	680	663	669
7.125% £600 million due 2024	591	590	591
0.500% CHF400 million due 2024	310	320	314
3.250% C\$500 million due 2025	295	307	303
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	692	691	692
2.650% NOK1,000 million due 2027	91	95	93
7.075% £200 million due 2028	198	198	198
2.500% NOK1,000 million due 2029	81	-	85
1.500% €750 million due 2030	609	630	614
6.450% £900 million due 2031	850	852	850
Zero-coupon €50 million due January 2032	55	50	52
1.366%+RPI £75 million due 2032	80	78	79
Zero-coupon €50 million due April 2032	55	50	52
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	48	44	46
1.061%+RPI £180 million due 2036	186	181	183
1.382%+RPI £50 million due 2039	53	52	53
3.334%+RPI £460 million due 2039	597	579	587
1.238%+RPI £100 million due 2040	105	102	103
5.875% £750 million due 2041	739	739	738
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	80	78	79
2.750% £400 million due 2049	392	-	392
	10,834	10,962	11,496

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the six months ended 30 June 2017**

5 Borrowings continued

	Unaudited 30 June 2017 £m	Unaudited 30 June 2016 £m	Audited 31 December 2016 £m
Secured continued			
Heathrow Airport Limited debt:			
Revolving credit facilities	360	-	-
Term notes: £440 million due 2026-2037	439	250	339
Loans	462	78	62
Unsecured			
Debenture payable to Heathrow Finance plc	1,203	1,178	1,343
Total non-current	13,298	12,468	13,240
Total borrowings (excluding interest payable)	13,981	13,816	14,192

6 Cash generated from operations

	Unaudited Six months ended 30 June 2017 £m	Unaudited Six months ended 30 June 2016 £m	Audited Year ended 31 December 2016 £m
Operating activities			
Profit/(loss) before tax	311	(232)	(213)
<i>Adjustments for:</i>			
Fair value (gain)/loss on financial instruments	(135)	295	524
Finance costs	502	456	964
Finance income	(101)	(110)	(218)
Depreciation and amortisation	332	360	669
Fair value (gain)/loss on investment properties	(74)	12	(44)
<i>Working capital changes:</i>			
Increase in trade and other receivables	(11)	(46)	(19)
Increase/(decrease) in trade and other payables	13	(8)	13
(Decrease)/increase in provisions	(7)	(3)	7
Difference between pension charge and cash contributions	(10)	(24)	(31)
Cash generated from operations	820	700	1,652