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Heathrow (SP) Limited

Results for the nine months ended 30 September 2016

- Continued strong Airport Service Quality score of 4.14 in Q3 reflecting Heathrow's high service standards. Heathrow is recognised as the leading airport in Europe, receiving for the third time ACI Europe's 'Best Major Airport' award
- Record 57.3 million passengers used Heathrow in nine months, up 0.7%. Cargo volumes increased 2.1% with Heathrow's links to fast-growing economies boosting British businesses
- Strong financial performance with revenue up 1.2% to £2,093 million and Adjusted EBITDA up 4.4% to £1,274 million reflecting lower costs and better value
- Heathrow outlines 'Brexit Boost' plan to connect the UK to growth faster, adding 25,000 additional annual flights from 2021 on existing runways
- The Scottish Government joins the Welsh Government and DUP in backing an expanded Heathrow. They join a chorus of cross-party politicians backing the project as best for the whole of Britain

At or for nine months ended 30 September	2016	2015	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	2,093	2,068	1.2
Adjusted EBITDA ⁽¹⁾	1,274	1,220	4.4
Cash generated from operations	1,220	1,156	5.5
Cash flow after investment and interest ⁽²⁾	255	177	44.1
Adjusted pre-tax profit ⁽³⁾	202	182	11.0
Heathrow (SP) Limited consolidated net debt ⁽⁴⁾	12,016	11,745	2.3
Heathrow Finance plc consolidated net debt ⁽⁴⁾	12,835	12,670	1.3
Regulatory Asset Base ⁽⁴⁾	15,112	14,921	1.3
Passengers (m) ⁽⁵⁾	57.3	56.9	0.7
Retail revenue per passenger (£) ⁽⁵⁾	7.83	7.27	7.7

Notes 1-5: see page 2

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

"We are delighted to be named the best major airport in Europe. Heathrow's passengers are getting better service at lower prices - and record numbers are choosing the UK's hub airport. The Prime Minister is showing leadership and will decide on the critical national issue of Heathrow expansion in the next few days.

"Heathrow is the right choice to help make Britain stronger and fairer for everyone – that's why there is such broad support across the UK from Newquay to Inverness for our plans – and we stand ready to deliver the runway that will keep Britain a confident, outward looking trading nation as soon as we get the greenlight from Government."

Notes

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

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

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Conference call to be held for creditors and credit analysts on 20 October 2016 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, Acting Chief Financial Officer.

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

The presentation can be viewed at the Investor Centre at heathrow.com and online during the event at: <https://arkadin-event.webex.com/arkadin-event/onstage/g.php?d=703987983&t=a> using event password: 669330

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Heathrow (SP) Limited

Consolidated results for the nine months ended 30 September 2016

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1 Key business developments

1.1 Passenger traffic

In the nine months ended 30 September 2016, traffic rose 0.7% to 57.3 million (2015: 56.9 million).

<i>(Millions)</i>	2016	2015	Change (%)
UK	3.5	4.0	(12.3)
Europe	24.1	23.7	1.7
North America	13.0	13.1	(0.4)
Asia Pacific	8.2	7.9	3.2
Middle East	5.2	4.8	8.3
Africa	2.4	2.5	(5.3)
Latin America	0.9	0.9	3.1
Total passengers⁽¹⁾	57.3	56.9	0.7

(1) Calculated using unrounded passenger figures

For the nine months ended 30 September 2016, traffic grew 0.7% to 57.3 million passengers (2015: 56.9 million). The average number of seats per passenger aircraft increased 1.5% to 211.3 (2015: 208.1) and the average load factor was slightly lower than last year at 76.2% (2015: 76.9%). The summer period was particularly strong and in the three months ended 30 September 2016, 21.6 million passengers used Heathrow, a rise of 0.9% compared with the same period last year.

Long haul traffic increased 1.7%, principally from routes serving the Middle East and Asia Pacific regions. Passengers benefitted from larger aircraft on Middle East routes and new airlines serving Asia including Vietnam Airlines. In March, Garuda Airlines became the latest airline to move services from Gatwick to Heathrow. In the first quarter of the year, increased services to North America supported continued traffic growth with this region although geopolitical and macro-economic factors saw traffic soften as the year progressed. African traffic was lower partly reflecting Virgin Atlantic's schedule changes in 2015. Short haul traffic was marginally down year on year with growth in European traffic driven by British Airways increasing seat capacity broadly offset by reduced UK traffic principally due to Virgin Little Red ending operations in 2015.

Cargo volume passing through Heathrow increased 2.1% in the first nine months of 2016. There were particularly notable increases in cargo volumes on Hong Kong, China and Vietnam.

1.2 Transforming customer service

Heathrow continued to deliver its best ever passenger service, with its highest ever Airport Service Quality ('ASQ') score for the third quarter of the year of 4.14. 81% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very Good', with strong recognition in areas such as security waiting times and the courtesy and helpfulness of Heathrow staff.

Heathrow continues to receive recognition for its high service standards, being named the 'Best Airport in Western Europe' for the second consecutive year at the Skytrax World Airport Awards. The award, as voted by passengers across the world, came in addition to Terminal 5 being named as the world's 'Best Airport Terminal' and Heathrow 'Best Airport for Shopping' for the fifth and seventh consecutive years respectively. For the first time, Heathrow received the prestigious accolade of 'Europe's Best Airport' (with over 40 million passengers) in the 2016 ASQ Awards. Heathrow also received ACI Europe's Best Airport Award for the third time. Heathrow's success was also recognised at the latest Frontier Awards where the airport won the categories of the 'Operator of the Year' and 'Marketing Campaign of the Year by an Airport'.

Improvements to passengers' journeys through the airport continue. An additional escalator was opened in Terminal 5, improving operational flexibility and resilience. Passengers are experiencing improvements to security queuing and passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.4% of the time (2015: 97.4%) compared with a 95% service standard.

Punctuality improved and in the first nine months of 2016, 78.6% of flights departed within 15 minutes of schedule (2015: 78.1%), reflecting investment to improve operational resilience, including introducing time-based separation of aircraft on windy days in 2015. This year, further work on widening taxiways to support increasing A380 operations is enabling more efficient airfield use. Baggage performance continues to be a focus and the baggage misconnect rate in the nine months was 14 per 1,000 passengers (2015: 17). Terminal 3's integrated, automated baggage facility is now fully operational contributing to improved baggage reliability.

1.3 Beating the plan

Heathrow's business plan for the 2014-2018 period improves customer service, strengthens operational resilience and delivers an ambitious programme of cost efficiencies and revenue growth. Work continues to secure cost efficiencies and well over £500 million of efficiencies have now been secured, out of the target £600 million. A three year pay offer was agreed earlier in 2016 and further contract improvements have been secured with suppliers. The benefits of investment in Terminal 5 retail outlets and new car parking capacity continue to flow through strongly contributing to the £300 million incremental commercial revenue target set for the regulatory period.

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

In addition, in July 2016, the CAA launched a consultation on the potential extension of Heathrow's current Q6 regulatory period in order particularly to reduce the risk that the process for agreeing the terms for the next regulatory period is sub-optimal due to uncertainty regarding potential new runway capacity. On 13 October 2016, the CAA announced a proposed modification of Heathrow's licence to extend Q6 by one year to 31 December 2019. The final modification of the licence is expected by November 2016.

1.4 Investing in Heathrow

Since the beginning of 2016, Heathrow has invested close to £500 million across the airport campus, improving the passenger experience and airport resilience, enhancing baggage resilience and working through a broad asset replacement programme. Passengers will benefit from improved baggage connection reliability following the opening of the Terminal 3 integrated baggage facility and see reduced baggage disruption as facilities are made more resilient. Security processes have been strengthened and made more efficient with more body scanners installed across terminals and additional automated immigration gates introduced. Also, passengers connecting through Terminal 5 now experience an improved connection experience with the installation of an additional escalator.

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

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

1.5 Responsible Heathrow

Responsible Heathrow 2020 is Heathrow's commitment to supporting the UK and local economies whilst managing its impacts on communities and the environment. Over the past nine months, Heathrow has been consulting with leading sustainability experts and NGOs, the airport business community and local stakeholders to develop even more ambitious plans to become a true leader in sustainability. Heathrow's sustainability leadership strategy will be launched in early 2017.

Launched in August, Heathrow's second Blueprint for Noise Reduction is a response to feedback from local communities. It includes steps such as establishing a voluntary quiet night charter and introducing lower landing charges for the quietest types of aircraft, known as Chapter 14 aircraft. This is expected to make Heathrow the first airport in the world to differentiate charges for Chapter 14 aircraft.

Heathrow signed up to the Office for Low Emission Vehicles' (OLEV) Go Ultra Low Company campaign which requires large companies to convert at least 5% of their vehicles to electric by 2020.

Ingredients for success, Heathrow's strategy for managing sustainability issues across the airport's food and beverage retailers and lounges, held its first workshops focusing on energy, water and recycling. The workshops provide guidance to address sustainability challenges, as well as practical steps through energy surgeries.

Heathrow's energy footprint continues to shrink. The 2020 target of 6.5kWh per passenger has already been met this year, driven by the on-going reduction in electricity consumption due to Energy Demand Management works. In August, Heathrow issued an update to its 2011 climate change adaptation report, which commits to "Working with airport partners to ensure that the airport plays its role in respecting environmental limits, and adapting to the effects of a changing climate." Leading the debate on efficiency of future buildings, Heathrow has been working with the UK Green Building Council to create a report identifying innovative thinking in designing efficiency into new buildings.

In July members of Heathrow's engineering team featured on BBC Radio 4 talking about managing the 2,500 species of flora and fauna that inhabit the airport's 170 hectares across 13 sites. Heathrow's partnership with Guardian Sustainable Business continued, featuring an innovative approach to recycling cabin waste and an exploration into the sustainable airport of the future. In recognition of saving more than 130 million litres of water per year, General Electric honoured Heathrow with an Ecomagination award.

1.6 Winning support for expansion

Heathrow expansion will help build a stronger, fairer Britain and enable the country to seize the opportunities of Brexit. A third runway will bring huge benefits to everyone in Britain, creating up to 180,000 jobs and £211 billion of growth across the country. As the UK charts a new course outside the EU, it will enable up to 40 new long-haul trading routes and support Britain's exporters to reach the fastest growing markets in the world. To give Britain a 'Brexit Boost' and unlock jobs and growth across the country sooner, Heathrow will consult on plans to bring in 25,000 extra flights per year from 2021.

Recent polling shows that 67% of MPs support a third runway at Heathrow. Nearly half of MPs also said that an expanded Heathrow delivers the biggest long-term boost to the British economy of major infrastructure projects, more than four times the number who say the same for Gatwick.

In 2015, Heathrow received a clear and unanimous recommendation for expansion from the independent Airports Commission following a two-and-a-half year, £20 million study. The Commission said expansion at Heathrow had by far the greatest economic benefits of the options available and that they would be spread across all of the UK. The Commission also set out conditions to expansion including controls on night flights, air quality and noise. Heathrow accepted and, in most cases, offered to exceed those conditions in May. Heathrow is committed to working with airlines to deliver expansion that is affordable for passengers and airlines, whilst giving the fairest deal to local communities.

Heathrow expansion is seen as the best solution to Britain's aviation capacity crunch by business, trade unions, politicians and airlines. Supporters include the CBI, Federation of Small Businesses, over 30 chambers of commerce nationwide, Unite, the GMB and TUC, 37 British airports and airlines such as easyJet and flybe, which plan to operate from an expanded Heathrow. In constituencies closest to the airport, polling has shown that there is more backing than opposition.

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 nine months ended 30 September 2016, the Group's operating profit before certain re-measurements was £749 million (2015: £707 million) and its loss after tax was £210 million (2015: £419 million profit).

Nine months ended 30 September	2016 £m	2015 £m
Excluding exceptional items and certain re-measurements		
Revenue	2,093	2,068
Operating costs before depreciation and amortisation	(819)	(848)
Adjusted EBITDA⁽¹⁾	1,274	1,220
Depreciation and amortisation	(525)	(513)
Adjusted operating profit	749	707
Net finance costs	(547)	(525)
Adjusted profit before tax	202	182
Tax charge on profit before exceptional items & certain re-measurements	(57)	(59)
Including exceptional items and certain re-measurements		
Exceptional operating items	-	236
Fair value (loss)/gain on investment properties	(2)	62
Fair value (loss)/gain on financial instruments	(493)	72
Tax credit/(charge) on exceptional items & certain re-measurements	89	(74)
Tax credit relating to change in tax rate	51	-
(Loss)/profit after tax	(210)	419

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

2.2.2 Revenue

In the nine months ended 30 September 2016, revenue totalled £2,093 million (2015: £2,068 million).

Nine months ended 30 September	2016 £m	2015 £m	Change (%)
Aeronautical	1,276	1,277	(0.1)
Retail	449	414	8.5
Other	368	377	(2.4)
Total revenue	2,093	2,068	1.2

2.2.2.1 Aeronautical

In the nine months ended 30 September 2016, aeronautical revenue reduced 0.1% to £1,276 million (2015: £1,277 million) and average aeronautical revenue per passenger decreased 0.8% to £22.26 (2015: £22.44). Traffic growth of 0.7% generated an additional £9 million of aeronautical revenue, offset by a lower yield of 0.8% or £10 million.

2.2.2.2 Retail

In the nine months ended 30 September 2016, retail revenue increased 8.5% to £449 million (2015: £414 million). Retail revenue per passenger rose 7.7% to £7.83 (2015: £7.27).

Nine months ended 30 September	2016 £m	2015 £m	Change (%)
Duty and tax-free	99	93	6.5
Airside specialist shops	83	75	10.7
Bureaux de change	37	37	-
Catering	36	34	5.9
Other retail income	64	55	16.4
Car parking	87	80	8.7
Other services	43	40	7.5
Total retail revenue	449	414	8.5

Retail performed well in the first nine months 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 store refurbishment in Terminals 4 and 5. Car parking also performed well, with continued take-up of Heathrow's expanded car parking product range and successful yield management. Growth in retail income accelerated in the third quarter, particularly in areas such as duty and tax-free and airside specialist shops, driven particularly by the depreciation of sterling following the EU referendum in late June.

2.2.2.3 Other

In the nine months ended 30 September 2016, other revenue was £368 million (2015: £377 million).

Nine months ended 30 September	2016 £m	2015 £m	Change (%)
Other regulated charges	175	183	(4.4)
Heathrow Express	97	96	1.0
Property and other	96	98	(2.0)
Total other revenue	368	377	(2.4)

Performance in other revenue reflects growth from Heathrow Express, partly driven by the introduction of a more sophisticated pricing strategy. This was offset by reductions in property and other income and other regulated charges. The decline in other regulated charges, that pass through to airlines costs such as baggage system operations and maintenance and utilities, is providing better value to airlines.

2.2.3 Operating costs

For the nine months ended 30 September 2016, operating costs excluding depreciation, amortisation and exceptional items decreased 3.4% to £819 million (2015: £848 million).

Nine months ended 30 September	2016 £m	2015 £m	Change (%)
Employment	267	289	(7.6)
Operational	194	181	7.2
Maintenance	132	135	(2.2)
Business rates	96	92	4.3
Utilities	51	69	(26.1)
Other	79	82	(3.7)
Total operating costs	819	848	(3.4)

Cost control continues to be strong as the full benefits flow through from initiatives implemented in 2015. Employment costs benefited from previously announced changes to the defined benefit pension scheme as well as take-up of a voluntary severance programme, improved new entrant pay levels, the non-recurrence of restructuring cost, automation and other workforce efficiencies. Higher operational costs reflect a £7 million re-categorisation from other costs and increased investment in operational resilience partially offset by improved service driving lower service quality rebates. Savings are also coming from the recently re-negotiated NATS contract for providing aerodrome navigation services. The rise in business rates reflects general national trends with Heathrow remaining one of the UK's highest business rate payers.

The significant reduction in utilities costs is driven particularly by re-negotiated contractual terms for the provision of electricity distribution infrastructure services. This includes a combination of recurrent cost savings and a one-off credit related to prior periods. Additionally, a focus on energy demand management continues to drive savings in electricity consumption. For example, Heathrow is the first European hub airport to install LED lighting on all aircraft stands. The number of LED light installations across the Heathrow campus is approaching 100,000, compared to 75,000 at the end of 2015. Additionally, since Terminal 2's opening, Heathrow has generated around 5GWh of electricity on-site, from solar panels and the biomass renewable energy facility.

2.2.4 Operating profit

For the nine months ended 30 September 2016, the Group recorded an operating profit before certain re-measurements of £749 million (2015: £943 million).

Nine months ended 30 September	2016 £m	2015 £m	Change (%)
Adjusted EBITDA before certain re-measurements	1,274	1,220	4.4
Depreciation and amortisation	(525)	(513)	2.3
Exceptional items	-	236	n.m
Adjusted operating profit before certain re-measurements	749	943	(20.6)

In the nine months ended 30 September 2016, Adjusted EBITDA increased 4.4% to £1,274 million (2015: £1,220 million), resulting in an Adjusted EBITDA margin of 60.9% (2015: 59.0%). Depreciation increased to £525 million (2015: £513 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

Before certain re-measurements and exceptional items, the tax charge arising on ordinary activities for the nine months ended 30 September 2016 was £57 million based on a profit before tax of £202 million. This results in an effective tax rate of 28.4%, compared to the UK statutory rate of 20.0%. The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

2.3 Cash flow

2.3.1 Summary cash flow

In the nine months ended 30 September 2016, there was an increase of £353 million in cash and cash equivalents compared with an increase of £15 million in the nine months ended 30 September 2015.

Nine months ended 30 September	2016 £m	2015 £m
Cash generated from operations	1,220	1,156
Taxation:		
Corporation tax paid	(32)	(14)
Group relief received	-	18
Net cash from operating activities	1,188	1,160
Purchase of property, plant and equipment	(466)	(454)
Purchase of investment properties	-	(7)
Purchase of intangible assets	(11)	(13)
Net decrease in term deposits and group deposits	143	(307)
Interest received	3	3
Net cash used in investing activities	(331)	(778)
Dividends paid	(486)	(289)
Proceeds from issuance of bonds and other financing	828	1,102
Repayment of bonds, facilities and other financing items	(333)	(652)
Increase in amount owed to Heathrow Finance plc	95	125
Settlement of accretion on index-linked swaps	(137)	(145)
Swap restructuring	20	-
Interest paid	(491)	(508)
Net cash used in financing activities	(504)	(367)
Net increase in cash and cash equivalents	353	15
Cash generated from operations after investment and interest	255	177

The net change in cash and cash equivalents compared to the same period last year principally reflects the repayment of maturing bonds, the settlement of accretion on index-linked swaps and lower capital raising activity in the first nine months of 2016, allowing for movements in term and group deposits.

At 30 September 2016, the Group had £905 million of cash, cash equivalents and term deposits, which comprised cash and cash equivalents of £525 million and term deposits of £380 million (31 December 2015: £172 million and £550 million respectively).

2.3.2 Cash generated from operations

In the nine months ended 30 September 2016, cash generated from operations increased 5.5% to £1,220 million (2015: £1,156 million). The following table reconciles Adjusted EBITDA to cash from operations.

Nine months ended 30 September	2016 £m	2015 £m
Adjusted EBITDA (before certain re-measurements and exceptional items)	1,274	1,220
Increase in receivables and inventories	(12)	(19)
Decrease in payables	(11)	(24)
Decrease in provisions	(4)	(2)
Difference between pension charge and cash contributions	(27)	(19)
Cash generated from operations	1,220	1,156

2.3.3 Capital expenditure

In the nine months ended 30 September 2016, the cash impact of capital investment was £477 million (2015: £474 million) with gross additions to fixed assets of £487 million (2015: £437 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 nine months ended 30 September 2016, gross restricted payments of £556 million (net restricted payments £461 million) were made by the Group which principally funded the majority of the £225 million in quarterly dividends paid to the Group's ultimate shareholders, £70 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance, £185 million distributed to Heathrow Finance (of which £120 million was distributed after the period end from Heathrow Finance to repay loan facilities at ADI Finance 2 Limited ('ADIF2')) and £69 million of interest and principal payments on loan facilities at ADIF2. (2015: net restricted payments of £229 million which principally funded £143 million of the £225 million in quarterly dividends paid to the Group's ultimate shareholders, £65 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance and £16 million of interest payments at ADIF2).

2.4 Pension scheme

Heathrow operates a defined benefit pension scheme, the BAA Pension Scheme, which closed to new members in June 2008. At 30 September 2016, the defined benefit pension scheme, as measured under IAS 19, had a deficit of £370 million (31 December 2015: surplus £104 million). The £474 million change in the nine months to 30 September 2016 is due to net actuarial losses of £505 million, partly offset by contributions in excess of current service cost of £31 million, including £21 million for agreed deficit repair contributions.

The deterioration in the scheme actuarial position was driven by a fall in the net discount rate, particularly corporate bond yields which have fallen significantly since the result of the EU referendum. As a result, the value of Heathrow's IAS19 pension liabilities has increased by £1,217 million, whilst assets have increased by £712 million, partly offsetting the increase in liabilities.

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

2.5 Recent financing activity

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

In 2016, Heathrow has raised approximately £1.6 billion of debt financing globally from a diverse range of sources. In January, it consolidated its presence in the Swiss franc bond market, raising CHF400 million in an 8 year public bond with a fixed rate coupon of 0.5%. In June, a £350 million 3.75 year term loan was signed with an initial group of 5 banks which is expected to be drawn in early 2017. In July, a NOK1 billion private placement was signed which will be drawn in December 2016 and mature in 2029. Also in July, a £400 million, 33 year public bond with a fixed rate coupon of 2.75% was issued, extending Heathrow's maturity profile. In August, a £90 million private placement from non-sterling sources which was signed in April was drawn and matures in 2032.

Given the strength of its liquidity position, Heathrow has cancelled £250 million of its £1.4 billion core revolving credit facility. Further, £130 million of its £750 million liquidity facilities have been cancelled as Heathrow continues to focus on the efficiency of its financing arrangements for itself and counterparties.

At Heathrow Finance, £350 million in 7-12 year term loans have been agreed that are expected to be drawn in late 2016 or early 2017. As a result, Heathrow has completed its 2016 funding plans.

Heathrow has repaid £300 million and €500 million (£434 million) bonds in March 2016 and October 2016 respectively. Also during 2016, £195 million of term loan facilities at ADI Finance 2 Limited have been repaid which is being replaced by debt raised at Heathrow Finance as Heathrow evolves to a simpler debt capital structure.

2.6 Financing position

2.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt was £12,016 million at 30 September 2016 increasing from £11,745 million at the end of 2015. Nominal net debt comprised £12,283 million in bond issues, £449 million in term notes and loan facilities, £189 million in index-linked derivative accretion and cash at bank and term deposits of £905 million. Senior net debt was £10,278 million and junior debt was £1,738 million.

The average cost of the Group's nominal gross debt at 30 September 2016 was 4.09% (31 December 2015: 4.40%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 September 2016 was 4.86% (31 December 2015: 4.84%). The reduction in the average cost of debt excluding index-linked accretion since the end of 2015 is mainly due to the maturity on 31 March 2016 of a bond with a 12.45% coupon.

Nominal net 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 £12,373 million at 30 September 2016 (31 December 2015: £11,114 million). This includes £905 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 July 2019. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. This forecast reflects around £2.2 billion in undrawn revolving credit facilities and cash resources at 30 September 2016, nearly £800 million in committed term debt financing to be drawn after 30 September 2016 and expected operating cash flow over the period.

2.6.2 Debt at Heathrow Finance plc

Heathrow Finance's consolidated nominal net debt was £12,835 million at 30 September 2016, up 1.3% since the end of 2015 when it was £12,670 million. This comprises the Group's nominal net debt of

£12,016 million, Heathrow Finance's gross debt of £964 million and cash held at Heathrow Finance of £145 million.

2.6.3 Net finance costs and net interest paid

In the nine months ended 30 September 2016, the Group's net finance costs before certain re-measurements, from operations, were £547 million (2015: £525 million) and net interest paid was £488 million (2015: £505 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Nine months ended 30 September	2016 £m	2015 £m
Net finance costs before certain re-measurements and exceptional items	547	525
Amortisation of financing fees and other items	(20)	(11)
Borrowing costs capitalised	23	14
Underlying net finance costs	550	528
Non-cash accretion on index-linked instruments	(89)	(49)
Other movements	27	26
Net interest paid	488	505

Underlying net finance costs were £550 million (2015: £528 million) after adjusting for capitalised borrowing costs of £23 million (2015: £14 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £20 million (2015: £11 million). The year-on-year increase in underlying net finance costs primarily reflects higher index-linked accretion due to higher inflation than during the comparable period partially offset by favourable pension related interest charges and lower interest rates in the period.

Net interest paid in the period was £488 million (2015: £505 million) of which £418 million (2015: £440 million) related to external debt. The remaining £70 million (2015: £65 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 partially offset by £20 million higher interest paid than interest accrued for the year to date on the debenture between Heathrow (SP) and Heathrow Finance.

2.6.4 Financial ratios

The Group and Heathrow Finance continue to operate comfortably within required financial ratios.

Gearing ratios under the Group's financing agreements are calculated using consolidated nominal net debt to Heathrow's Regulatory Asset Base ('RAB') value. At 30 September 2016, Heathrow's RAB was £15,112 million (31 December 2015: £14,921 million), the movement mainly reflects capital expenditure of £487 million and indexation of £246 million offset by depreciation of approximately £540 million.

At 30 September 2016, the Group's senior (Class A) and junior (Class B) gearing ratios were 68.0% and 79.5% respectively (31 December 2015: 67.5% and 78.7% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 84.9% (31 December 2015: 84.9%). This compares to a covenant level of 90.0% under its financing agreements.

2.7 Outlook

Heathrow expects the outturn for Adjusted EBITDA in 2016 to be consistent with the forecast published in its investor report published in June 2016. The outlook for 2017 will be initially provided in the investor report due to be published on 14 December 2016.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the nine months ended 30 September 2016

	Note	Unaudited Nine months ended 30 September 2016			Unaudited Nine months ended 30 September 2015			Audited Year ended 31 December 2015		
		Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items ^a £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items ^a £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items ^a £m	Total £m
Revenue	1	2,093	-	2,093	2,068	-	2,068	2,765	-	2,765
Operating costs	2	(1,344)	-	(1,344)	(1,361)	236	(1,125)	(1,842)	236	(1,606)
Other operating items										
Fair value (loss)/gain on investment properties			(2)	(2)		62	62		95	95
Operating profit		749	(2)	747	707	298	1,005	923	331	1,254
Financing										
Finance income		165	-	165	178	-	178	252	-	252
Finance costs		(712)	-	(712)	(703)	-	(703)	(952)	-	(952)
Fair value (loss)/gain on financial instruments			(493)	(493)		72	72		148	148
Net finance costs	4	(547)	(493)	(1,040)	(525)	72	(453)	(700)	148	(552)
Profit/(loss) before tax		202	(495)	(293)	182	370	552	223	479	702
Tax (charge)/credit before change in tax rate		(57)	89	32	(59)	(74)	(133)	(54)	(88)	(142)
Change in tax rate			51	51		-	-		104	104
Taxation	5	(57)	140	83	(59)	(74)	(133)	(54)	16	(38)
Profit/(loss) for the period		145	(355)	(210)	123	296	419	169	495	664

^a Certain re-measurements and exceptional items consist of: exceptional items, fair value gains and losses on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedge items that are part of a fair value hedging relationship, the effects of the changes in tax rate and the associated tax impact of these and similar cumulative prior year items.

Heathrow (SP) Limited

**Consolidated statement of comprehensive income
for the nine months ended 30 September 2016**

	Unaudited Nine months ended 30 September 2016 £m	Unaudited Nine months ended 30 September 2015 £m	Audited Year ended 31 December 2015 £m
(Loss)/profit for the period	(210)	419	664
<i>Items that will not be subsequently reclassified to the consolidated income statement:</i>			
Tax relating to retirement benefits ^a	-	-	(10)
Actuarial net (loss)/gain on retirement benefit schemes:			
Gain/(loss) on plan assets	584	(41)	(101)
(Increase)/decrease in scheme liabilities	(999)	93	98
Change in tax rate	4	-	7
<i>Items that may be subsequently reclassified to the consolidated income statement:</i>			
Cash flow hedges:			
Gain/(loss) taken to equity	270	(118)	(129)
(Loss)/gains transferred to income statement	(271)	148	175
Change in tax rate	1	-	(9)
Other comprehensive (loss)/profit for the period net of tax	(411)	82	31
Total comprehensive (loss)/profit for the period^b	(621)	501	695

^a For the year ended 31 December 2015, related to a £50 million commutation payment for which the group receives no tax relief.

^b Attributable to owners of the parent.

Heathrow (SP) Limited

**Consolidated statement of financial position
as at 30 September 2016**

	Note	Unaudited 30 September 2016 £m	Unaudited 30 September 2015 £m	Audited 31 December 2015 £m
Assets				
Non-current assets				
Property, plant and equipment		11,248	11,287	11,248
Investment properties		2,153	2,124	2,156
Intangible assets		120	107	133
Retirement benefit surplus		-	165	104
Derivative financial instruments		750	164	175
Trade and other receivables		29	23	23
		14,300	13,870	13,839
Current assets				
Inventories		11	11	11
Trade and other receivables		264	296	253
Derivative financial instruments		98	-	-
Term deposits		380	450	550
Cash and cash equivalents		525	281	172
		1,278	1,038	986
Total assets		15,578	14,908	14,825
Liabilities				
Non-current liabilities				
Borrowings	6	(13,063)	(12,590)	(12,212)
Derivative financial instruments		(1,383)	(1,247)	(1,100)
Deferred income tax liabilities		(785)	(1,120)	(1,016)
Retirement benefit obligations		(399)	(30)	(28)
Provisions		(2)	(2)	(2)
Trade and other payables		(10)	(12)	(11)
		(15,642)	(15,001)	(14,369)
Current liabilities				
Borrowings	6	(1,672)	(612)	(993)
Derivative financial instruments		-	(30)	(90)
Provisions		(1)	-	(5)
Current income tax liabilities		(50)	(43)	(31)
Trade and other payables		(395)	(400)	(412)
		(2,118)	(1,085)	(1,531)
Total liabilities		(17,760)	(16,086)	(15,900)
Net liabilities		(2,182)	(1,178)	(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		(284)	(291)	(284)
Retained earnings		1,350	2,361	2,457
Total shareholder's deficit		(2,182)	(1,178)	(1,075)

Heathrow (SP) Limited

**Consolidated statement of changes in equity
for the nine months ended 30 September 2016**

	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 2015	11	499	(3,758)	(321)	2,179	(1,390)
Comprehensive income:						
Profit for the period					419	419
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				30		30
Actuarial loss on retirement benefit schemes:						
Loss on plan assets					(41)	(41)
Decrease in scheme liabilities					93	93
Total comprehensive income				30	471	501
Transaction with owner:						
Dividends paid					(289)	(289)
Total transaction with owner					(289)	(289)
30 September 2015	11	499	(3,758)	(291)	2,361	(1,178)
1 January 2016	11	499	(3,758)	(284)	2,457	(1,075)
Comprehensive income:						
Loss for the period					(210)	(210)
Other comprehensive income:						
Fair value losses on cash flow hedges net of tax				(1)		(1)
Actuarial loss on retirement benefit schemes:						
Gain on plan assets					584	584
Increase in scheme liabilities					(999)	(999)
Change in tax rate				1	4	5
Total comprehensive income				-	(621)	(621)
Transaction with owner:						
Dividends paid					(486)	(486)
Total transaction with owner					(486)	(486)
30 September 2016	11	499	(3,758)	(284)	1,350	(2,182)

Heathrow (SP) Limited

**Consolidated statement of cash flows
for the nine months ended 30 September 2016**

	Note	Unaudited Nine months ended 30 September 2016 £m	Unaudited Nine months ended 30 September 2015 £m	Audited Year ended 31 December 2015 £m
Cash flows from operating activities				
Cash generated from operations	7	1,220	1,156	1,592
Taxation:				
Corporation tax paid		(32)	(14)	(24)
Group relief received		-	18	14
Net cash from operating activities		1,188	1,160	1,582
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(466)	(454)	(595)
Investment properties		-	(7)	(7)
Intangible assets		(11)	(13)	(25)
Decrease/(increase) in term deposits ¹		170	(280)	(380)
Increase in group deposits ²		(27)	(27)	(29)
Interest received		3	3	5
Net cash used in investing activities		(331)	(778)	(1,031)
Cash flows from financing activities				
Dividends paid		(486)	(289)	(380)
Proceeds from issuance of bonds		738	1,022	1,022
Repayment of bonds		(300)	(619)	(619)
Issuance of term note		90	80	150
Repayment of facilities and other financing items		(33)	(33)	(44)
Increase in amount owed to Heathrow Finance plc		95	125	48
Settlement of accretion on index-linked swaps		(137)	(145)	(213)
Swap restructuring		20	-	-
Interest paid		(491)	(508)	(609)
Net cash used in financing activities		(504)	(367)	(645)
Net increase/(decrease) in cash and cash equivalents		353	15	(94)
Cash and cash equivalents at beginning of period		172	266	266
Cash and cash equivalents at end of period		525	281	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 nine months ended 30 September 2016

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2015 or any other period. Statutory financial statements for the year ended 31 December 2015 were filed with the registrar of Companies on 20 March 2016. The annual financial information presented herein for the year ended 31 December 2015 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2015. The auditors' report on the 2015 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU') and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. The retirement benefit schemes plan assets are measured at fair value and the scheme obligations are measured in accordance with IAS 19 on the projected unit cost method. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006. The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2015.

Principal risks and uncertainties

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

Investment properties

Investment properties are fair valued by CBRE Limited Chartered Surveyors. The half year valuation was conducted during June using the same valuation methods as applied in previous years for the purpose of half year reporting. Since the Referendum date there have been few transactions in the property market place upon which to base valuation assumptions. However, in the Group's investment property portfolio, management expect the long term effects to be less than the broader Investment property market as approximately 81% of the Group's investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility. Consequently, the valuations at 30 September 2016 are more uncertain and judgemental than at 31 December 2015.

Pensions

The Group's net retirement benefit surplus has been impacted by the financial volatility following the exit vote. The latest available valuation of the plan's assets and liabilities is reflected in these results, showing a net gain on plan assets of £712 million (£584 million net of deferred tax) offset by a net increase in pension obligations of £1,217 million (£999 million net of deferred tax). While the plans asset valuations have been positive during the period, they have not kept up with the increase in the accounting valuation of pension obligations; the obligations valuation is driven by falling corporate bond yields and rising inflation expectations.

Cross currency swaps

Foreign currency debt and associated cross currency swaps has been impacted by a 10-15% devaluation of sterling against each of the issuance currencies. The net cross currency fair value asset at 30 September 2016 was £806 million compared to a liability of £93 million at 31 December 2015. Consequently, whilst exposure to foreign exchange fluctuations is hedged, there is an impact on credit risk. Counterparty risk continues to be monitored carefully.

Index-linked and interest rate swaps

The valuation of index-linked and interest rate swaps has been negatively impacted by a downward shift in the interest rate curve of up to 120 basis point and an increase in inflation expectations through the index-linked curve. Due to the limited availability of hedge accounting under current accounting standards, the impact of changes in valuation of the index-linked and interest rate swaps is largely reported in fair value loss on financial instruments totalling £300 million.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2016

1 Segment information

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

During the second half of 2015, Heathrow Express was restructured to reflect its operations as a train operating company, which increased the cost of operations significantly from those previously included in the Heathrow Express segment. Total Adjusted EBITDA for the Group was not affected by this change of cost structure.

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

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

Table (a) details total revenue from external customers for the nine months ended 30 September 2016 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA and a reconciliation to the consolidated loss for the period.

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

Table (a) Unaudited Nine months ended 30 September 2016	Segment revenue					Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other	Total external revenue	
	£m	£m	£m	£m	£m	
Heathrow	1,276	449	175	96	1,996	1,227
Heathrow Express				97	97	47
Continuing operations	1,276	449	175	193	2,093	1,274
Reconciliation to statutory information:						
Unallocated income and expense						
Depreciation and amortisation						(525)
Operating profit (before certain re-measurements and exceptional items)						749
Fair value loss on investment properties (certain re-measurements)						(2)
Operating profit						747
Finance income						165
Finance costs						(712)
Fair value loss on financial instruments (certain re-measurements)						(493)
Loss before tax						(293)
Taxation before certain re-measurements and exceptional items						(57)
Taxation (certain re-measurements and exceptional items)						140
Taxation						83
Loss for the period						(210)

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2016**

1 Segment information *continued*

Table (b) Unaudited Nine months ended 30 September 2015	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	1,277	414	183	98	1,972	1,164	
Heathrow Express				96	96	56	
Continuing operations	1,277	414	183	194	2,068	1,220	
Reconciliation to statutory information:							
Unallocated income and expense							
Depreciation and amortisation						(513)	
Operating profit (before certain re-measurements and exceptional items)						707	
Exceptional items						236	
Fair value gain on investment properties (certain re-measurements)						62	
Operating profit						1,005	
Finance income						178	
Finance costs						(703)	
Fair value gain on financial instruments (certain re-measurements)						72	
Profit before tax						552	
Taxation before certain re-measurements and exceptional items						(59)	
Taxation (certain re-measurements and exceptional items)						(74)	
Taxation						(133)	
Profit for the period						419	

Table (c) Audited Year ended 31 December 2015	Segment revenue					Total external revenue £m	Adjusted EBITDA £m
	Aeronautical	Retail	ORCs	Other			
	£m	£m	£m	£m	£m		
Heathrow	1,699	568	239	127	2,633	1,525	
Heathrow Express				132	132	80	
Continuing operations	1,699	568	239	259	2,765	1,605	
Reconciliation to statutory information:							
Unallocated income and expense							
Depreciation and amortisation						(682)	
Operating profit (before certain re-measurements and exceptional items)						923	
Exceptional items						236	
Fair value gain on investment properties (certain re-measurements)						95	
Operating profit						1,254	
Finance income						252	
Finance costs						(952)	
Fair value gain on financial instruments (certain re-measurements)						148	
Profit before tax						702	
Taxation before certain re-measurements and exceptional items						(54)	
Taxation (certain re-measurements and exceptional items)						16	
Taxation						(38)	
Profit for the year						664	

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2016**

2 Operating costs – ordinary

	Unaudited Nine months ended 30 September 2016 £m	Unaudited Nine months ended 30 September 2015 £m	Audited Year ended 31 December 2015 £m
Employment	267	289	384
Operational	194	181	242
Maintenance	132	135	187
Business rates	96	92	123
Utilities	51	69	92
Other	79	82	132
Total adjusted operating costs	819	848	1,160
Depreciation and amortisation	525	513	682
Operating costs before exceptional items	1,344	1,361	1,842
Exceptional items (Note 3)	-	(236)	(236)
Total operating costs	1,344	1,125	1,606

3 Exceptional items

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

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2016**

4 Financing

	Unaudited Nine months ended 30 September 2016 £m	Unaudited Nine months ended 30 September 2015 £m	Audited Year ended 31 December 2015 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	158	175	247
Interest on deposits	4	3	5
Net pension finance income	3	-	-
	165	178	252
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(441)	(431)	(583)
Bank loans and overdrafts and related hedging instruments	(42)	(37)	(50)
Interest payable on derivatives not in hedge relationship ²	(195)	(186)	(259)
Facility fees and other charges	(7)	(6)	(7)
Net pension finance costs	-	(5)	(4)
Interest on debenture payable to Heathrow Finance plc	(50)	(52)	(70)
Unwinding of discount on provisions	-	-	(1)
	(735)	(717)	(974)
Less: capitalised borrowing costs ³	23	14	22
	(712)	(703)	(952)
Net finance costs before certain re-measurements	(547)	(525)	(700)
Fair value (loss)/gain on financial instruments			
Interest rate swaps: ineffective portion of cash flow hedges	-	(8)	(1)
Interest rate swaps: not in hedge relationship	(223)	2	35
Index-linked swaps: not in hedge relationship ⁽⁴⁾	(300)	61	87
Cross-currency swaps: ineffective portion of cash flow hedges	27	(13)	(10)
Cross-currency swaps: ineffective portion of fair value hedges	3	30	37
	(493)	72	148
Net finance costs	(1,040)	(453)	(552)

¹ Includes accretion of £16 million (Nine months ended 30 September 2015: £6 million; year ended 31 December 2015: £9 million) on index-linked bonds.

² Includes accretion of £73 million (Nine months ended 30 September 2015: £43 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 4.34% (Nine months ended 30 September 2015: 5.28%; year ended 31 December 2015: 5.20%) to expenditure incurred on such assets.

⁴ Reflects the impact on the valuation of movements in implied future inflation and interest rates.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2016

5 Taxation

	Unaudited Nine months ended 30 September 2016			Unaudited Nine months ended 30 September 2015			Audited Year ended 31 December 2015		
	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements and exceptional items £m	Total £m
UK corporation tax									
Current tax (charge)/credit at 20% (2015: 20.25%)	(51)	-	(51)	(56)	-	(56)	(59)	-	(59)
Deferred tax	(6)	89	83	(3)	(74)	(77)	5	(88)	(83)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities		51	51		-	-		104	104
Taxation (charge)/credit for the period	(57)	140	83	(59)	(74)	(133)	(54)	16	(38)

Before certain re-measurements and exceptional items, the tax charge arising on ordinary activities for the nine months ended 30 September 2016 was £57 million (2015: £59 million) based on a profit before tax of £202 million (2015: £182 million). This results in an effective tax rate of 28.4% (2015: 32.4%), 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.

The standard rate of corporation tax in the UK will reduce from 20% to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020, although at the 2015 year end the rate was to fall to 18% in 2020. Consequently the Group's significant deferred tax balances, which were previously provided at 20%, were re-measured in 2015 at the future tax rate at which the Group believes the temporary differences will reverse and this resulted in a net reduction in the deferred tax liability in 2015 with a corresponding net deferred tax credit of £104 million being taken to the income statement. Following the enactment of the fall in the rate from 18% to 17% in September 2016, there will be a further net reduction in the deferred tax liability with a corresponding net deferred tax credit of £51 million being taken to the income statement in 2016.

As part of the G20 Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project, in May 2016 HM Treasury published a second consultation document concerning the detailed policy design and implementation of previously announced proposals to limit the tax deductibility of corporate interest expense from 1 April 2017. These UK proposals follow the recommended approach set out in the OECD's final report in October 2015 for limiting base erosion involving interest deductions. Heathrow responded to the consultation in August 2016. Draft legislation is due to be published on 5 December 2016.

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2016**

6 Borrowings

	Unaudited 30 September 2016 £m	Unaudited 30 September 2015 £m	Audited 31 December 2015 £m
Current borrowings			
Secured			
Loans	38	39	39
Bonds:			
12.450% £300 million due 2016	-	309	303
4.125% €500 million due 2016	433	-	366
4.375% €700 million due 2017	605	-	-
2.500% CHF400 million due 2017	317	-	-
Total current (excluding interest payable)	1,393	348	708
Interest payable – external	274	257	259
Interest payable – owed to group undertakings	5	7	26
Total current	1,672	612	993
Non-current borrowings			
Secured			
Bonds:			
4.125% €500 million due 2016	-	365	-
4.375% €700 million due 2017	-	516	516
2.500% CHF400 million due 2017	-	271	271
4.600% €750 million due 2018	633	526	527
6.250% £400 million due 2018	399	399	398
4.000% C\$400 million due 2019	234	196	195
6.000% £400 million due 2020	397	397	397
9.200% £250 million due 2021	275	274	271
3.000% C\$450 million due 2021	273	226	225
4.875% US\$1,000 million due 2021	820	695	703
1.650%+RPI £180 million due 2022	198	194	195
1.875% €600 million due 2022	551	453	453
5.225% £750 million due 2023	666	655	659
7.125% £600 million due 2024	591	590	590
0.500% CHF400 million due 2024	323	-	-
3.250% C\$500 million due 2025	311	249	248
4.221% £155 million due 2026	155	154	155
6.750% £700 million due 2026	692	691	691
2.650% NOK1,000 million due 2027	94	77	77
7.075% £200 million due 2028	198	198	198
1.500% €750 million due 2030	666	508	504
6.450% £900 million due 2031	852	855	854
Zero-coupon €50 million due January 2032	52	44	43
1.366%+RPI £75 million due 2032	78	77	77
Zero-coupon €50 million due April 2032	52	43	43
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	46	38	39
1.061%+RPI £180 million due 2036	182	115	115
1.382%+RPI £50 million due 2039	52	51	51
3.334%+RPI £460 million due 2039	582	574	576
1.238%+RPI £100 million due 2040	102	100	101
5.875% £750 million due 2041	738	741	741
4.625% £750 million due 2046	742	742	741
2.750% £400 million due 2049	392	-	-
1.372%+RPI £75 million due 2049	78	77	77
	11,474	11,141	10,781

Heathrow (SP) Limited

**Notes to the consolidated financial information
for the nine months ended 30 September 2016**

6 Borrowings *continued*

	Unaudited 30 September 2016 £m	Unaudited 30 September 2015 £m	Audited 31 December 2015 £m
Secured <i>continued</i>			
Loans:			
EIB loans	70	108	98
Term Notes:			
3.770% £100 million due 2026	100	100	100
2.630% £80 million due 2030	80	80	79
3.160% £90 million due 2032	90	-	-
2.970% £70 million due 2035	70	-	70
Unsecured			
Debenture payable to Heathrow Finance plc	1,179	1,161	1,084
Total loans	1,589	1,449	1,431
Total non-current	13,063	12,590	12,212
Total borrowings (excluding interest payable)	14,456	12,938	12,920

7 Cash generated from operations

	Unaudited Nine months ended 30 September 2016 £m	Unaudited Nine months ended 30 September 2015 £m	Audited Year ended 31 December 2015 £m
Operating activities			
(Loss)/profit before tax	(293)	552	702
<i>Adjustments for:</i>			
Fair value loss/(gain) on financial instruments	493	(72)	(148)
Finance costs	712	703	952
Finance income	(165)	(178)	(252)
Depreciation and amortisation	525	513	682
Fair value loss/(gain) on investment properties	2	(62)	(95)
<i>Working capital changes:</i>			
(Increase)/decrease in trade and other receivables	(12)	(19)	24
Decrease in trade and other payables	(11)	(24)	(20)
(Decrease)/increase in provisions	(4)	(2)	5
Difference between pension charge and cash contributions	(27)	(19)	(22)
Exceptional pension credit: change to terms	-	(236)	(236)
Cash generated from operations	1,220	1,156	1,592