News release

Heathrow
Making every journey better
Heathrow (SP) Limited
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26 October 2017

Heathrow (SP) Limited

Results for the nine months ended 30 September 2017

- Heathrow delivered strong service and better value for passengers achieving a record Q3 Airport Service Quality score of 4.14 while passenger charges fell 2.1%
- Passenger traffic grew 3.1% to 59.1 million and cargo increased 10.5% to 1.25 million tonnes
- Increased travel demand and continued progress on the regulator's cost control objectives resulted in revenues increasing 3.2% to £2,161 million and Adjusted EBITDA up 5.7% to £1,347 million
- Over 120 sites across Britain have bid to become logistics hubs and help build an expanded Heathrow as the airport looks to promote more affordable and sustainable offsite manufacturing while driving job creation outside the South East
- Good progress on delivering expansion with the Government confirming a parliamentary vote by the end of June 2018 and Heathrow responding to the CAA's consultation on the expansion regulatory framework

At or for nine months ended 30 September	**2017**	2016	Change (%)
(£m unless otherwise stated)			
Revenue	**2,161**	2,093	3.2
Adjusted EBITDA(1)	**1,347**	1,274	5.7
EBITDA(2)	**1,441**	1,272	13.3
Cash generated from operations	**1,319**	1,220	8.1
Cash flow after investment and interest(3)	**364**	255	42.7
Pre-tax profit(4)	**229**	202	13.4
Heathrow (SP) Limited consolidated net debt(5)	**12,440**	11,908	4.5
Heathrow Finance plc consolidated net debt(5)	**13,455**	13,005	3.5
Regulatory Asset Base(5)	**15,630**	15,237	2.6
Passengers (m)(6)	**59.1**	57.3	3.1
Retail revenue per passenger (£)(6)	**8.33**	7.83	6.4

Notes 1-6: see page 2

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

"A strong performance over the summer – record numbers of passengers visiting Britain, double-digit growth in exports, strong global investor support and better service and value for passengers – shows what a critical national asset Heathrow has become.

Heathrow expansion is not a choice between the economy and the environment – it must deliver for both. In post-Brexit Britain, it will connect our whole country to the global growth markets of tomorrow and a robust package of environmental commitments will help us expand responsibly. We are now getting on with delivering it."

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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 is 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.

For further information please contact

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Conference call to be held for creditors and credit analysts on 26 October 2017 at 3.00pm (UK time), 4.00pm (Central European time), 10.00am (Eastern Standard Time) hosted by 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=ee74ffdc688bc257274733a3aa54730e8
using event password: 680377

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Heathrow (SP) Limited

Consolidated results for the nine months ended 30 September 2017

Contents

1 Key business developments

1.1 Passenger traffic

In the nine months ended 30 September 2017, traffic rose 3.1% to 59.1 million (2016: 57.3 million).

(Millions)	**2017**	2016	Change (%)
UK	**3.6**	3.5	3.0
Europe	**24.7**	24.1	2.6
North America	**13.2**	13.0	1.0
Asia Pacific	**8.5**	8.2	4.0
Middle East	**5.8**	5.2	10.5
Africa	**2.3**	2.4	(0.7)
Latin America	**1.0**	0.9	4.1
Total passengers(1)	**59.1**	57.3	3.1

(1) Calculated using unrounded passenger figures

In the nine months ended 30 September 2017, we welcomed 59.1 million passengers (2016: 57.3 million). A record summer followed a strong first half of 2017 as 21.9 million passengers used the airport in the three months ended 30 September 2017, a rise of 1.7% compared to the same period last year. Fuller aircraft continue to drive growth with average load factor increasing to 78.5% (2016: 76.2%). The average number of seats per passenger aircraft increased 0.3% to 212.0 (2016: 211.3).

Intercontinental traffic was the key driver of our traffic growth, increasing 3.5%, with load factors improving significantly. Intercontinental traffic growth was particularly robust on routes serving the Middle East where passenger numbers increased 10.5% reflecting more flights and larger aircraft, including additional A380 services from Emirates, Etihad and Qatar Airways, supported by additional services from Oman Air. The 4.0% rise in Asia Pacific traffic was driven by substantial growth in load factor on existing routes serving Malaysia and new or increased services to Thailand, Philippines and Vietnam. North American traffic stands 1.0% ahead of last year benefitting from increased load factors. Latin American traffic grew 4.1%, due to more flights and fuller aircraft serving the region.

European traffic increased by 2.6% due to extra flights and larger planes with notable growth on routes to Belgium, Portugal, Denmark, Italy, Turkey and Russia. Flybe's new Scottish services contributed to the 3.0% growth in domestic traffic.

Over 30% of the UK's non-EU exports by value pass through Heathrow today. In the nine months ended 30 September 2017, cargo volumes were 10.5% to 1.25 million tonnes, one of the strongest periods in the last 5 years in terms of year on year growth, with notable increases on North America and the Middle East.

1.2 Transforming customer service

We continued to deliver a world-class passenger service, maintaining a record service quality score for the third quarter of the year of 4.14 while 81% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very Good' (2016: 81%). We have been ranked first among major European hub airports for service quality in this survey for thirteen 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.

Improving passengers' journeys through the airport remains one of our key priorities. 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 97.1% of the time (2016: 97.4%) compared with a 95% service standard. The service quality regime penalty threshold was not triggered in the first nine months of 2017 in respect of any performance standard. For the first time in the current regulatory period we earned a modest level of bonuses under the SQR scheme.

Punctuality improved with 80.9% of flights departing within 15 minutes of schedule (2016: 78.6%). Baggage performance also improved significantly with the misconnect rate down to 10 bags per 1,000 passengers (2016: 14), 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.

Over a million passengers with reduced mobility are expected to travel through Heathrow this year. Over the summer, we agreed new service levels with the supplier of the services that will enhance our performance and transform these passengers' experience. In September 2017, we also launched a plan including steps we will take to better monitor and report our performance and passengers' satisfaction and engage with disability groups going forward.

1.3 Beating the plan

Our 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.

We are 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 also 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

We invested £491 million in the first nine months of 2017 on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continued to develop our plans for expanding Heathrow as we prepare for obtaining planning permission.

Passengers have benefited 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 are enjoying the new "First Wing" offering a fast track route with dedicated security lanes to British Airways' lounge. In Terminal 5, the final self-boarding gate of the first tranche of works was completed 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. In Terminal 3, the new Kurt Geiger shop and the new Dixons shop were opened as planned in the first week of August.

1.5 Sustainable growth

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

In July 2017, we re-launched our Quieter Homes Scheme for residents living close to the airport who are most affected by aircraft noise. Under the scheme, 708 homes are eligible to be fitted with noise insulation free of charge. This is part of our efforts to become a better, quieter neighbour by working closely with the people and communities around the airport to help improve their quality of life.

In August 2017, we launched a new Green Car Scheme to incentivise our colleagues to upgrade their car to a low or ultra-low emission vehicle at a competitive price. In September, we also became one of the 10 first members of EV100, a global initiative bringing together forward looking companies committed to accelerating the transition to electric vehicles. Our participation ties us to ambitious targets including converting all cars and small vans to electric or plug-in hybrid, and investing in electric infrastructure to support the transition of our own fleet, as well as our partners.

Finally, in September 2017, we released our latest Fly Quiet and Clean report, ranking the 50 busiest airlines operating at the airport from April to June 2017, based on seven noise and emission metrics. The report shows that airlines are increasingly using the quietest and cleanest aircraft for their Heathrow services, as the airport also marked its first month with no Chapter 3 aircraft operations (the oldest and noisiest classification of planes).

1.6 Expansion

1.6.1 Introduction

Our expansion plans remain on track to deliver a once-in-a-generation boost for Britain's economy in a way that is affordable, financeable and in line with our environmental commitments. The government reiterated its support for expanding Heathrow and the Secretary of State for Transport confirmed in September 2017 that a vote in Parliament on the National Policy Statement ('NPS') will be held in the first half of 2018.

The government is currently reviewing the responses to the initial NPS consultation and has launched a further consultation on the NPS that is due to conclude in December 2017 focused on updated aviation demand forecasts and the government's final air quality plan. The transport select committee has reconvened after the General Election and will shortly start its scrutiny of the second NPS consultation.

In other critical areas, Heathrow submitted a response to the CAA's consultation on developing the regulatory framework to support expansion and the CAA acknowledged the progress made in our engagement with airlines on our expansion plans over the past year. Work continues to develop an efficient, affordable and sustainable expansion supply chain with over 120 sites expressing their interest to become a Heathrow logistics hub. Finally, Heathrow submitted a response to the Government's consultation on the future aviation strategy.

1.6.2 Governmental developments

The government's national consultation on its draft NPS was launched in February 2017 and concluded in May 2017.

In October 2017, the government launched further consultation on the NPS that is to conclude in December 2017. The second consultation focuses on updated evidence on aviation demand forecasts and the Government's final air quality plan. The Transport Select Committee chaired by Lilian Greenwood MP is also set to imminently begin its inquiry into the revised NPS with calls for evidence. Neither of these processes is expected to impact the Government's timetable to submit the NPS to a vote in Parliamentary vote in the first half of 2018. The project remains well supported with over 70% cross party political support, in addition to the ongoing backing from major business groups and unions.

In July 2017, the government issued a consultation document entitled 'Beyond the horizon – The future of UK aviation'. The publication initiated a call for evidence which ended on 13 October 2017 and constitutes the first step toward developing a new aviation strategy for the UK. Additional consultations are due to take place in 2017 and 2018 ahead of a final Aviation Strategy being published by the end of 2018. Heathrow is pleased to support the government as it develops this new strategy. Our response to the call for evidence provides input to each of the six objectives underpinning the new proposed framework and our view on the interactions between the NPS and the Aviation Strategy processes.

1.6.3 Other expansion milestones

We have been refining our plans for expansion since the independent Airports Commission commenced its in-depth study 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.

We continue working with airlines, neighbours and wider communities and 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. In October 2017, the CAA acknowledged the progress made in Heathrow's engagement with airlines and it will provide a further update in its next interim assessment due to be published early next year. 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 in the coming months.

Other significant milestones being met within the expansion programme include the work around logistics hubs where over 120 sites from across Britain applied to help build an expanded Heathrow in an overwhelming show of support for the nation's most critical infrastructure project. Winning sites across the UK will be announced next year after all applicants have been considered. These logistics hubs are set to revolutionise UK construction as they will pioneer off-site manufacturing to reduce the cost of expansion, cut local emissions and boost new industry in all four corners of the UK.

Business Summits also continued and the fourth one of the year was completed. With a further three to take place before the end of 2017, announcements will be made on summits to come in 2018. The summits are part of our pledge to create jobs in all regions of the UK and enable businesses to meet Heathrow's biggest suppliers and win contracts as we ready ourselves for expansion.

1.6.4 CAA consultation

The CAA continues to consult on how Heathrow will be regulated through expansion. In June 2017, it issued its latest consultation document entitled 'Consultation on the core elements of the regulatory framework to support capacity expansion at Heathrow' for which responses, including by Heathrow, were made by 22 September 2017, which are expected to be made public by the CAA in due course.

The consultation includes a decision to further extend the Q6 regulatory period by at least a year to 31 December 2020 although the CAA is considering various options for determining tariffs beyond 2019. The CAA has also left open the option of 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 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.

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 consultation advocated 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. The CAA consultation did however leave an open question on whether RPI or CPI is used to calibrate the H7 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 the CAA intends to give initial views on likely ranges for both 2 and 3 runway scenarios by the end of 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 to at least the end of 2020, 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.

1.7 Key management changes

On 3 October 2017, Heathrow announced that Normand Boivin was stepping down as Chief Operating Officer ('COO'). While the selection of a permanent COO is underway, Derek Provan has stepped into the role on an interim basis. With 20 years of experience in aviation, Derek joined Heathrow in 2013 from Aberdeen Airport, which used to be part of the wider Heathrow group, where he was Managing Director. He has since held various senior roles at Heathrow, including as Director of Airside Operations.

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 2017, the Group's adjusted operating profit was £848 million (2016: £749 million) and its profit after tax was £443 million (2016: £210 million loss).

Nine months ended 30 September	**2017 £m**	2016 £m
Excluding exceptional items and certain re-measurements		
Revenue	**2,161**	2,093
Operating costs before depreciation and amortisation	**(814)**	(819)
Adjusted EBITDA[1]	**1,347**	1,274
Depreciation and amortisation	**(499)**	(525)
Adjusted operating profit	**848**	749
Net finance costs	**(619)**	(547)
Adjusted profit before tax	**229**	202
Tax charge on profit before certain re-measurements	**(62)**	(57)
Including exceptional items and certain re-measurements		
Fair value gain/(loss) on investment properties	**94**	(2)
Fair value gain/(loss) on financial instruments	**238**	(493)
Tax (charge)/credit on certain re-measurements	**(56)**	89
Tax credit relating to change in tax rate	**-**	51
Profit/(loss) after tax	**443**	(210)

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 nine months ended 30 September 2017, Adjusted EBITDA was £1,347 million and EBITDA was £1,441 million. For the nine months ended 30 September 2016, Adjusted EBITDA was £1,274 million and EBITDA was £1,272 million.

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2.2.2 Revenue

In the nine months ended 30 September 2017, revenue increased 3.2% to £2,161 million (2016: £2,093 million).

Nine months ended 30 September	**2017 £m**	2016 £m	Change (%)
Aeronautical	**1,288**	1,276	0.9
Retail	**492**	449	9.6
Other	**381**	368	3.5
Total revenue	**2,161**	2,093	3.2

2.2.2.1 Aeronautical

In the nine months ended 30 September 2017, aeronautical revenue increased 0.9% to £1,288 million (2016: £1,276 million). Heathrow delivered better value for passengers and airlines with lower charges as average aeronautical revenue per passenger declined 2.1% to £21.81 (2016: £22.26).

Traffic growth of 3.1% generated £38 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. Yield dilution in the period compounded by concentration in the same period last year resulted in £17 million lower revenue.

2.2.2.2 Retail

In the nine months ended 30 September 2017, retail revenue increased 9.6% to £492 million (2016: £449 million). Retail revenue per passenger rose 6.4% to £8.33 (2016: £7.83) reflecting greater airside participation (up 2 percentage points versus the same period in 2016) as well as increased retail spend per participating passenger.

Nine months ended 30 September	**2017 £m**	2016 £m	Change (%)
Duty and tax-free	**110**	99	11.1
Airside specialist shops	**98**	83	18.1
Bureaux de change	**36**	37	(2.7)
Catering	**42**	36	16.7
Other retail income	**71**	64	10.9
Car parking	**89**	87	2.3
Other services	**46**	43	7.0
Total retail revenue	**492**	449	9.6

Growth in retail income reflected the increased passenger traffic in the period. It also reflected benefit, particularly in duty and tax-free and airside specialist shops, from the depreciation of sterling since June 2016 although, as expected, there has been some moderation in this trend since the anniversary of the depreciation. The redevelopment of Terminal 4's luxury retail offering, completed in late 2016, also contributed to growth.

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 increased other retail income, and higher advertising income contributed to growth in other services income.

2.2.2.3 Other

In the nine months ended 30 September 2017, other revenue was £381 million (2016: £368 million).

Nine months ended 30 September	**2017 £m**	2016 £m	Change (%)
Other regulated charges	**180**	175	2.9
Heathrow Express	**94**	87*	8.0
Property and other	**107**	106*	0.9
Total other revenue	**381**	368	3.5

* 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 baggage system operations and maintenance and utilities. The year on year performance reflects an increase in baggage costs due to higher passenger numbers, partially offset by a reduction in utilities costs. Performance elsewhere in other revenue reflects strong traffic growth at Heathrow Express, stimulated by a more sophisticated pricing strategy.

2.2.3 Operating costs

For the nine months ended 30 September 2017, operating costs excluding depreciation, amortisation and exceptional items decreased 0.6% to £814 million (2016: £819 million) as cost efficiencies across a range of areas have offset the impacts of higher passenger numbers and inflation. Operating costs were 3.6% lower on a per passenger basis at £13.78 (2016: £14.29).

Nine months ended 30 September	**2017 £m**	2016 £m	Change (%)
Employment	**274**	267	2.6
Operational	**181**	194	(6.7)
Maintenance	**128**	132	(3.0)
Business rates	**95**	96	(1.0)
Utilities	**65**	51	27.5
Other	**71**	79	(10.1)
Total operating costs	**814**	819	(0.6)

Cost efficiencies in people-related areas were offset by managing higher passenger numbers whilst maintaining service and resilience, a pay rise coming into effect in July 2017 and the cost related to voluntary severance schemes across a range of operational areas to enable future efficiencies. A combination of benefits from the renegotiated NATS contract and other efficiencies from other third party suppliers and lower insurance costs in the year to date drove operational costs down.

Higher utility costs are due to the non-recurrence of a one-off 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.

Other costs decreased due to various efficiencies and also 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.

2.2.4 Operating profit

For the nine months ended 30 September 2017, the Group recorded an operating profit before certain re-measurements of £848 million (2016: £749 million).

Nine months ended 30 September	**2017 £m**	2016 £m	Change (%)
Adjusted EBITDA	**1,347**	1,274	5.7
Depreciation and amortisation	**(499)**	(525)	(5.0)
Adjusted operating profit before certain re-measurements	**848**	749	13.2

In the nine months ended 30 September 2017, Adjusted EBITDA increased 5.7% to £1,347 million (2016: £1,274 million), resulting in an Adjusted EBITDA margin of 62.3% (2016: 60.9%). Depreciation and amortisation decreased to £499 million (2016: £525 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 nine months ended 30 September 2017, the profit before tax and certain re-measurements of £229 million (2016: £202 million) resulted in a tax charge of £62 million (2016: £57 million). This results in an effective tax rate of 27.1% (2016: 28.4%), compared to the UK statutory rate of 19.25% (2016: 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 total tax charge recognised was £118 million (2016: £83 million tax credit) based on the profit before tax of £561 million (2016: £293 million loss), which includes the impact of certain re-measurements.

2.3 Cash flow

2.3.1 Summary cash flow

In the nine months ended 30 September 2017, there was a decrease of £112 million in cash and cash equivalents compared with an increase of £353 million in the nine months ended 30 September 2016.

Nine months ended 30 September	**2017 £m**	2016 £m
Cash generated from operations	**1,319**	1,220
Taxation:		
Corporation tax paid	**(35)**	(32)
Net cash from operating activities	**1,284**	1,188
Purchase of property, plant and equipment	**(479)**	(466)
Purchase of intangible assets	**(12)**	(11)
Decrease in term deposits	**80**	170
Increase in group deposits	**-**	(27)
Interest received	**4**	3
Net cash used in investing activities	**(407)**	(331)
Dividends paid to Heathrow Finance plc	**(870)**	(486)
Increase in amount owed to Heathrow Finance plc	**210**	95
Proceeds from issuance of bonds, term notes and other financing	**1,036**	828
Repayment of bonds, facilities and other financing items	**(887)**	(333)
Settlement of accretion on index-linked swaps	**(10)**	(137)
Swap restructuring	**-**	20
Interest paid	**(468)**	(491)
Net cash used in financing activities	**(989)**	(504)
Net (decrease)/increase in cash and cash equivalents	**(112)**	353
Cash generated from operations after investment and interest	**364**	255

At 30 September 2017, the Group had £468 million (31 December 2016: £660 million) of cash, cash equivalents and term deposits, of which cash and cash equivalents were £168 million (31 December 2016: £280 million).

2.3.2 Cash generated from operations

In the nine months ended 30 September 2017, cash generated from operations increased 8.1% to £1,319 million (2016: £1,220 million). The following table reconciles Adjusted EBITDA to cash from operations.

Nine months ended 30 September	**2017 £m**	2016 £m
Adjusted EBITDA	**1,347**	1,274
Decrease/(increase) in receivables and inventories	**6**	(12)
Decrease in payables	**(15)**	(11)
Decrease in provisions	**(3)**	(4)
Difference between pension charge and cash contributions	**(16)**	(27)
Cash generated from operations	**1,319**	1,220

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 nine months ended 30 September 2017, Heathrow's ultimate shareholders received £281 million (2016: £225 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 £727 million (net) or £1.2 billion (gross). Other than the £272 million payment made by Heathrow (SP) to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £67 million (2016: £70 million) of interest on the debenture between Heathrow (SP) and Heathrow Finance, £321 million (2016: £93 million) of interest and principal payments at ADI Finance 2 Limited ('ADIF2') and a net £67 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. All key 2017 debt financing targets have now been achieved.

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 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. 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 a key driver of current elevated levels of Class A and B gearing ratios which will unwind once these facilities are redrawn around the end of 2017. Finally, £310 million of existing loan facilities at ADIF2 were repaid in July 2017.

Looking ahead, Heathrow's 2018 debt financing targets are likely to be similar in scale to 2017.

2.5 Financing position

2.5.1 Debt and liquidity at Heathrow (SP) Limited

At 30 September 2017, the Group's nominal net debt was £12,440 million (31 December 2016: £11,908 million) and comprised £11,573 million in bond issues, £929 million in other term debt, £75 million outstanding under revolving credit facilities and £331 million in index-linked derivative accretion offset by £468 million in cash and term deposits. Nominal net debt comprised £10,620 million in senior net debt and £1,820 million in junior debt.

The average cost of the Group's nominal gross debt at 30 September 2017 was 3.89% (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 September 2017 was 5.69% (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 3.9% in September 2017. The average life of the Group's gross debt as at 30 September 2017, was 11.6 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 £12,452 million at 30 September 2017 (31 December 2016: £12,189 million). This includes £168 million of cash and cash equivalents and £300 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 £2.0 billion in undrawn loan facilities and term debt as well as cash resources at 30 September 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 3.5% to £13,455 million (31 December 2016: £13,005 million). This comprises the Group's £12,440 million nominal net debt, Heathrow Finance's gross debt of £1,037 million and cash held at Heathrow Finance of £22 million.

2.5.3 Net finance costs and net interest paid

In the nine months ended 30 September 2017, the Group's net finance costs before certain re-measurements, from operations, were £619 million (2016: £547 million) and net interest paid was £464 million (2016: £488 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	**2017 £m**	2016 £m
Net finance costs before certain re-measurements and exceptional items	**619**	547
Amortisation of financing fees and other items	**(22)**	(20)
Borrowing costs capitalised	**46**	23
Underlying net finance costs	**643**	550
Non-cash accretion on index-linked instruments	**(197)**	(89)
Other movements	**18**	27
Net interest paid	**464**	488

Underlying net finance costs were £643 million (2016: £550 million) after adjusting for capitalised borrowing costs of £46 million (2016: £23 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £22 million (2016: £20 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 £464 million (2016: £488 million) of which £397 million (2016: £418 million) related to external debt. The remaining £67 million (2016: £70 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

Included within certain re-measurements is a £238 million fair value gain on financial instruments (2016: £493 million loss) driven primarily by a decrease in long term market inflation expectations, together with an increase in long term sterling swap rates, compared to the prior year which was driven by a combination of lower rates and higher inflation expectations following the outcome of the UK's referendum on membership of the European Union.

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 using consolidated nominal net debt to Heathrow's Regulatory Asset Base ('RAB') value. At 30 September 2017, Heathrow's RAB was £15,630 million (31 December 2016: £15,237 million).

At 30 September 2017, the Group's senior (Class A) and junior (Class B) gearing ratios were 67.9% and 79.6% respectively (31 December 2016: 66.7% and 78.2% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Note that the Group's senior gearing trigger level increases from 70.0% to 72.5% with effect from 1 April 2018. Heathrow Finance's gearing ratio was 86.1% (31 December 2016: 85.4%). 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 September 2017, the defined benefit pension scheme, as measured under IAS 19, had a deficit of £112 million (31 December 2016: £79 million deficit). The £33 million change in the first nine months of 2017 is primarily due to a net actuarial loss of £48 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 £22 million, partly offset by £37 million of cash contributions to the scheme.

2.7 Outlook

Heathrow's traffic has continued to outperform expectations in recent months with rolling annual traffic reaching 77.4 million as at 30 September 2017 compared to a 76.7 million forecast for the 2017 calendar year included in the investor report published in June 2017. Assuming recent traffic trends persist for the balance of the year, it is expected there will be modest upside to the forecast Adjusted EBITDA for the year of £1,735 million included in the June investor report.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement
for the nine months ended 30 September 2017

		Unaudited Nine months ended 30 September 2017			Unaudited Nine months ended 30 September 2016			Audited Year ended 31 December 2016		
	Note	**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*	**2,161**	**-**	**2,161**	2,093	-	2,093	2,807	-	2,807
Operating costs	*2*	**(1,313)**	**-**	**(1,313)**	(1,344)	-	(1,344)	(1,794)	-	(1,794)
Other operating items										
Fair value gain/(loss) on investment properties		**-**	**94**	**94**	-	(2)	(2)	-	44	44
Operating profit		**848**	**94**	**942**	749	(2)	747	1,013	44	1,057
Financing										
Finance income		**151**	**-**	**151**	165	-	165	218	-	218
Finance costs		**(770)**	**-**	**(770)**	(712)	-	(712)	(964)	-	(964)
Fair value gain/(loss) on financial instruments		**-**	**238**	**238**	-	(493)	(493)	-	(524)	(524)
Net finance costs	*3*	**(619)**	**238**	**(381)**	(547)	(493)	(1,040)	(746)	(524)	(1,270)
Profit/(loss) before tax		**229**	**332**	**561**	202	(495)	(293)	267	(480)	(213)
Tax (charge)/credit before change in tax rate		**(62)**	**(56)**	**(118)**	(57)	89	32	(67)	83	16
Change in tax rate		**-**	**-**	**-**	-	51	51	-	53	53
Taxation	*4*	**(62)**	**(56)**	**(118)**	(57)	140	83	(67)	136	69
Profit/(loss) for the period		**167**	**276**	**443**	145	(355)	(210)	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.

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Heathrow (SP) Limited

Consolidated statement of comprehensive income for the nine months ended 30 September 2017

	Unaudited Nine months ended 30 September 2017	Unaudited Nine months ended 30 September 2016	Audited Year ended 31 December 2016
	£m	£m	£m
Profit/(loss) for the period	**443**	(210)	(144)
Items that will not be subsequently reclassified to the consolidated income statement:			
Actuarial loss on pensions net of tax:			
(Loss)/gain on plan assets	**(68)**	584	501
Decrease/(increase) in scheme liabilities	**29**	(999)	(688)
Tax relating to indexation of operational land	**-**	-	1
Change in deferred tax due to tax rate change	**-**	4	6
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
(Losses)/gains taken to equity	**(87)**	270	264
Transferred to income statement	**102**	(271)	(241)
Change in deferred tax due to tax rate change	**-**	1	(7)
Other comprehensive loss for the period net of tax	**(24)**	(411)	(164)
Total comprehensive income/(loss) for the period[a]	**419**	(621)	(308)

[a] Attributable to owners of the parent.

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Heathrow (SP) Limited

Consolidated statement of financial position as at 30 September 2017

	Note	Unaudited 30 September 2017 £m	Unaudited 30 September 2016 £m	Audited 31 December 2016 £m
Assets				
Non-current assets				
Property, plant and equipment		**11,382**	11,248	11,306
Investment properties		**2,293**	2,153	2,200
Intangible assets		**117**	120	122
Retirement benefit surplus		**-**	-	-
Derivative financial instruments		**455**	750	676
Trade and other receivables		**22**	29	27
		14,269	14,300	14,331
Current assets				
Inventories		**11**	11	11
Trade and other receivables		**268**	264	271
Derivative financial instruments		**166**	98	78
Term deposits		**300**	380	380
Cash and cash equivalents		**168**	525	280
		913	1,278	1,020
Total assets		**15,182**	15,578	15,351
Liabilities				
Non-current liabilities				
Borrowings	5	**(13,384)**	(13,063)	(13,240)
Derivative financial instruments		**(1,334)**	(1,383)	(1,419)
Deferred income tax liabilities		**(902)**	(785)	(849)
Retirement benefit obligations		**(148)**	(399)	(114)
Provisions		**(9)**	(2)	(9)
Trade and other payables		**(7)**	(10)	(8)
		(15,784)	(15,642)	(15,639)
Current liabilities				
Borrowings	5	**(1,333)**	(1,672)	(1,241)
Derivative financial instruments		**(3)**	-	-
Provisions		**(9)**	(1)	(12)
Current income tax liabilities		**(55)**	(50)	(30)
Trade and other payables		**(428)**	(395)	(408)
		(1,828)	(2,118)	(1,691)
Total liabilities		**(17,612)**	(17,760)	(17,330)
Net liabilities		**(2,430)**	(2,182)	(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		**(253)**	(284)	(268)
Retained earnings		**1,071**	1,350	1,537
Total shareholder's deficit		**(2,430)**	(2,182)	(1,979)

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Heathrow (SP) Limited

Consolidated statement of changes in equity
for the nine months ended 30 September 2017

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 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 pensions net of tax:						
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 to Heathrow Finance plc					(486)	(486)
Total transaction with owner					(486)	(486)
30 September 2016	**11**	499	(3,758)	(284)	1,350	(2,182)
1 January 2017	**11**	**499**	**(3,758)**	**(268)**	**1,537**	**(1,979)**
Comprehensive income:						
Profit for the period					**443**	**443**
Other comprehensive income:						
Fair value gains on cash flow hedges net of tax				**15**		**15**
Actuarial gain on pensions net of tax:						
Loss on plan assets					**(68)**	**(68)**
Increase in scheme liabilities					**29**	**29**
Change in tax rate				**-**	**-**	**-**
Total comprehensive income					**404**	**419**
Transaction with owner:						
Dividends paid to Heathrow Finance plc					**(870)**	**(870)**
Total transaction with owner					**(870)**	**(870)**
30 September 2017	**11**	**499**	**(3,758)**	**(253)**	**1,071**	**(2,430)**

Heathrow (SP) Limited

Consolidated statement of cash flows for the nine months ended 30 September 2017

	Note	**Unaudited Nine months ended 30 September 2017 £m**	Unaudited Nine months ended 30 September 2016 £m	Audited Year ended 31 December 2016 £m
Cash flows from operating activities				
Cash generated from operations	6	**1,319**	1,220	1,652
Taxation:				
Corporation tax paid		**(35)**	(32)	(45)
Group relief paid		**-**	-	(15)
Net cash from operating activities		**1,284**	1,188	1,592
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		**(479)**	(466)	(660)
Intangible assets		**(12)**	(11)	(14)
Decrease in term deposits[1]		**80**	170	170
Increase in group deposits[2]		**-**	(27)	(26)
Interest received		**4**	3	4
Net cash used in investing activities		**(407)**	(331)	(526)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc		**(870)**	(486)	(596)
Increase in amount owed to Heathrow Finance plc		**210**	95	260
Proceeds from issuance of bonds		**443**	738	829
Repayment of bonds		**(856)**	(300)	(734)
Proceeds from issuance of other term debt		**518**	90	90
Drawdown of revolving credit facilities		**75**	-	-
Repayment of facilities and other financing items		**(31)**	(33)	(44)
Swap restructuring		**-**	20	20
Settlement of accretion on index-linked swaps		**(10)**	(137)	(188)
Interest paid		**(468)**	(491)	(595)
Net cash used in financing activities		**(989)**	(504)	(958)
Net (decrease)/increase in cash and cash equivalents		**(112)**	353	108
Cash and cash equivalents at beginning of period		**280**	172	172
Cash and cash equivalents at end of period		**168**	525	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 nine months ended 30 September 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.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2016 and the year ended 31 December 2016 respectively.

Table (a)	**Segment revenue**					
Unaudited Nine months ended 30 September 2017	**Aeronautical £m**	**Retail £m**	**ORCs £m**	**Other £m**	**Total external revenue £m**	**Adjusted EBITDA £m**
Heathrow	**1,288**	**492**	**180**	**107**	**2,067**	**1,294**
Heathrow Express				**94**	**94**	**53**
Continuing operations	**1,288**	**492**	**180**	**201**	**2,161**	**1,347**
Reconciliation to statutory information:						
Unallocated income and expense						
Depreciation and amortisation						**(499)**
Operating profit (before certain re-measurements)						**848**
Fair value gain on investment properties (certain re-measurements)						**94**
Operating profit						**942**
Finance income						**151**
Finance costs						**(770)**
Fair value gain on financial instruments (certain re-measurements)						**238**
Profit before tax						**561**
Taxation before certain re-measurements						**(62)**
Taxation (certain re-measurements)						**(56)**
Taxation						**(118)**
Profit for the period						**443**

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2017

1 Segment information *continued*

Table (b) Unaudited Nine months ended 30 September 2016	Segment revenue Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	Adjusted EBITDA £m
Heathrow	1,276	449	175	106*	1,996	1,227
Heathrow Express				87*	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)	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	(57)
Taxation (certain re-measurements)	140
Taxation	83
Loss for the period	(210)

Table (c) Audited Year ended 31 December 2016	Segment revenue Aeronautical £m	Retail £m	ORCs £m	Other £m	Total external revenue £m	Adjusted EBITDA £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 nine months ended 30 September 2017

2 Operating costs – ordinary

	Unaudited Nine months ended 30 September 2017 £m	Unaudited Nine months ended 30 September 2016 £m	Audited Year ended 31 December 2016 £m
Employment	**274**	267	373
Operational	**181**	194	265
Maintenance	**128**	132	176
Rates	**95**	96	128
Utilities	**65**	51	74
Other	**71**	79	109
Total adjusted operating costs	**814**	819	1,125
Depreciation and amortisation	**499**	525	669
Total operating costs	**1,313**	1,344	1,794

3 Financing

	Unaudited Nine months ended 30 September 2017 £m	Unaudited Nine months ended 30 September 2016 £m	Audited Year ended 31 December 2016 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	**149**	158	209
Interest on deposits	**2**	4	5
Net pension finance income	**-**	3	4
	151	165	218
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(429)**	(441)	(591)
Bank loans and overdrafts and related hedging instruments	**(47)**	(42)	(56)
Interest payable on derivatives not in hedge relationship[2]	**(282)**	(195)	(275)
Facility fees and other charges	**(5)**	(7)	(9)
Net pension finance costs	**(2)**	-	-
Interest on debenture payable to Heathrow Finance plc	**(51)**	(50)	(67)
Unwinding of discount on provisions	**-**	-	(1)
	(816)	(735)	(999)
Less: capitalised borrowing costs[3]	**46**	23	35
	(770)	(712)	(964)
Net finance costs before certain re-measurements	**(619)**	(547)	(746)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: not in hedge relationship	**78**	(223)	(122)
Index-linked swaps: not in hedge relationship	**147**	(300)	(436)
Cross-currency swaps: ineffective portion of cash flow hedges	**3**	27	10
Cross-currency swaps: ineffective portion of fair value hedges	**10**	3	24
	238	(493)	(524)
Net finance costs	**(381)**	(1,040)	(1,270)

1 Includes accretion of £35 million (nine months ended 30 September 2016: £16 million; year ended 31 December 2016: £26 million) on index-linked bonds.

2 Includes accretion of £162 million (nine months ended 30 September 2016: £73 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 5.24% (nine months ended 30 September 2016: 4.34%; year ended 31 December 2016: 4.89%) to expenditure incurred on such assets

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Notes to the consolidated financial information for the nine months ended 30 September 2017

4 Taxation

	Unaudited Nine months ended 30 September 2017			Unaudited Nine months ended 30 September 2016			Audited Year ended 31 December 2016		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax									
Current tax charge at 19.25% (2016: 20.0%)	**(60)**	**-**	**(60)**	(51)	-	(51)	(56)	(2)	(58)
Under provision in respect to prior years	**-**	**-**	**-**	-	-	-	(1)	-	(1)
Deferred tax									
Current year (charge)/credit	**(2)**	**(56)**	**(58)**	(6)	89	(83)	(8)	89	81
Prior year charge	**-**	**-**	**-**	-	-	-	(2)	(4)	(6)
Change in UK corporation tax rate – impact on deferred tax assets and liabilities	**-**	**-**	**-**	-	51	51	-	53	53
Taxation (charge)/credit for the period	**(62)**	**(56)**	**(118)**	(57)	140	83	(67)	136	69

For the nine months ended 30 September 2017, the profit before tax and certain re-measurements of £229 million (2016: £202 million) resulted in a tax charge of £62 million (2016: £57 million). This results in an effective tax rate of 27.1% (2016: 28.4%), compared to the UK statutory rate of 19.25% (2016: 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 total tax charge recognised was £118 million (2016: £83 million tax credit) based on the profit before tax of £561 million (2016: £293 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). The latest draft legislation was released in September 2017 as Finance Bill 2017-2019 (expected to be enacted as Finance (No.2) Act 2017 later in 2017). The new corporate interest restriction will be effective from 1 April 2017 and interest deductions will be limited to 30% of tax based EBITDA, subject to the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). These recent updates have provided further clarity over the application of the rules and, 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.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2017

5 Borrowings

	Unaudited 30 September 2017 £m	Unaudited 30 September 2016 £m	Audited 31 December 2016 £m
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	**33**	38	36
Heathrow Funding Limited bonds:			
4.125% €500 million due 2016	**-**	433	-
4.375% €700 million due 2017	**-**	605	598
2.500% CHF400 million due 2017	**-**	317	318
4.600% €750 million due 2018	**656**	-	-
6.250% £400 million due 2018	**400**	-	-
Total current (excluding interest payable)	**1,089**	1,393	952
Interest payable – external	**238**	274	266
Interest payable – owed to group undertakings	**6**	5	23
Total current	**1,333**	1,672	1,241
Non-current borrowings			
Secured			
Heathrow Funding Limited Bonds:			
4.600% €750 million due 2018	**-**	633	627
6.250% £400 million due 2018	**-**	399	399
4.000% C$400 million due 2019	**238**	234	240
6.000% £400 million due 2020	**398**	397	398
9.200% £250 million due 2021	**267**	275	272
3.000% C$450 million due 2021	**266**	273	274
4.875% US$1,000 million due 2021	**763**	820	833
1.650%+RPI £180 million due 2022	**204**	198	199
1.875% €600 million due 2022	**543**	551	534
5.225% £750 million due 2023	**681**	666	669
7.125% £600 million due 2024	**592**	591	591
0.500% CHF400 million due 2024	**298**	323	314
3.250% C$500 million due 2025	**292**	311	303
4.221% £155 million due 2026	**155**	155	155
6.750% £700 million due 2026	**692**	692	692
2.650% NOK1,000 million due 2027	**93**	94	93
7.075% £200 million due 2028	**198**	198	198
2.500% NOK1,000 million due 2029	**84**	-	85
1.500% €750 million due 2030	**615**	666	614
6.450% £900 million due 2031	**851**	852	850
Zero-coupon €50 million due January 2032	**56**	52	52
1.366%+RPI £75 million due 2032	**81**	78	79
Zero-coupon €50 million due April 2032	**55**	52	52
1.875% €500 million due 2032	**438**	-	-
4.171% £50 million due 2034	**50**	50	50
Zero-coupon €50 million due 2034	**48**	46	46
1.061%+RPI £180 million due 2036	**189**	182	183
1.382%+RPI £50 million due 2039	**54**	52	53
3.334%+RPI £460 million due 2039	**602**	582	587
1.238%+RPI £100 million due 2040	**106**	102	103
5.875% £750 million due 2041	**738**	738	738
4.625% £750 million due 2046	**742**	742	742
1.372%+RPI £75 million due 2049	**81**	78	79
2.750% £400 million due 2049	**392**	392	392
	10,862	11,474	11,496

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Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2017

5 Borrowings *continued*

	Unaudited 30 September 2017 £m	Unaudited 30 September 2016 £m	Audited 31 December 2016 £m
Secured continued			
Heathrow Airport Limited debt:			
Revolving credit facilities	**75**	-	-
Term notes due 2026-2037	**439**	340	339
Loans	**455**	70	62
Unsecured			
Debenture payable to Heathrow Finance plc	**1,553**	1,179	1,343
Total non-current	**13,384**	13,063	13,240
Total borrowings (excluding interest payable)	**14,473**	14,456	14,192

6 Cash generated from operations

	Unaudited Nine months ended 30 September 2017 £m	Unaudited Nine months ended 30 September 2016 £m	Audited Year ended 31 December 2016 £m
Operating activities			
Profit/(loss) before tax	**561**	(293)	(213)
Adjustments for:			
Fair value (gain)/loss on financial instruments	**(238)**	493	524
Finance costs	**770**	712	964
Finance income	**(151)**	(165)	(218)
Depreciation and amortisation	**499**	525	669
Fair value (gain)/loss on investment properties	**(94)**	2	(44)
Working capital changes:			
Decrease/(increase) in trade and other receivables	**6**	(12)	(19)
(Decrease)/increase in trade and other payables	**(15)**	(11)	13
(Decrease)/increase in provisions	**(3)**	(4)	7
Difference between pension charge and cash contributions	**(16)**	(27)	(31)
Cash generated from operations	**1,319**	1,220	1,652