News release

24 July 2015

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Heathrow (SP) Limited

Results for the six months ended 30 June 2015

- Record passenger satisfaction and strong operational performance with Heathrow's busiest days ever
- High demand to use Heathrow continues with 35.5 million passengers using the airport, up 1.3%
- Robust financial performance, revenue up 5.9% to £1.3 billion and EBITDA up 6.3% to £748 million
- Substantial global appetite to invest in Heathrow with over £1.1 billion funding raised in 2015
- Unanimous and clear recommendation from Airports Commission for Heathrow's new North West runway plan

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

Six months ended 30 June	**2015**	2014	Change (%)
(£m unless otherwise stated)			
Revenue	**1,307**	1,234	5.9
Adjusted EBITDA(1)	**748**	704	6.3
Cash generated from operations	**729**	659	10.6
Cash flow after investment and interest(2)	**88**	(142)	n.m
Pre-tax profit	**120**	23	n.m
Heathrow (SP) Limited consolidated net debt(3)	**11,746**	11,653	0.8
Heathrow Finance plc consolidated net debt(3)	**12,650**	12,560	0.7
Regulatory Asset Base(3)	**14,870**	14,860	0.1
Passengers (m)(4)	**35.5**	35.1	1.3
Net retail income per passenger (4)	**£6.67**	£6.42	3.9

Notes (1) to (4) see page 2.

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

"Heathrow's performance in the last six months has been excellent, improving service to passengers and controlling costs. The Airports Commission's unanimous and clear recommendation to support Heathrow was warmly welcomed by business leaders and politicians from across the country and closed the debate on where a new runway should be built. Our focus now is on working closely with Government to deliver the benefits of expansion for all of the UK as quickly as possible."

Notes

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items
(2) Cash flow after investment and interest is net cash generated from operations after capital expenditure, disposals and net interest paid
(3) 2014 net debt and RAB figures at 31 December 2014. Nominal net debt excluding intra-group loans and including inflation-linked accretion
(4) Changes in passengers and net retail income per passenger are calculated using unrounded passenger data

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Heathrow

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A conference call will be held for creditors and credit analysts on 24 July 2015 at 3.00pm (UK time), 4.00pm (Central European time), 10.00 am (Eastern Standard Time), hosted by John Holland-Kaye, Chief Executive Officer and Michael Uzielli, Chief Financial Officer.

Dial-in details: UK local/standard international: +44 (0)20 3139 4830; North America: +1 718 873 9077. Participant PIN code: 78836333#.

The presentation can be viewed at the Heathrow Investor Centre at heathrow.com and online during the event, using event password: 655399 at: https://arkadin-trial.webex.com/arkadin-trial/j.php?MTID=mba739b969576633b5934087ddd84bfb8

Heathrow (SP) Limited

Consolidated results for the six months ended 30 June 2015

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1 Key business developments

1.1 Passenger traffic

Heathrow's passenger traffic by geographic segment for the six months ended 30 June 2015:

(Millions)	**2015**	2014	Change (%)[1]
UK	**2.5**	2.5	1.8
Europe	**14.7**	14.4	2.4
North America	**8.1**	8.0	1.4
Asia Pacific	**5.0**	5.1	(1.1)
Middle East	**3.0**	2.9	2.5
Africa	**1.6**	1.7	(6.8)
Latin America	**0.6**	0.5	10.6
Total passengers[1]	**35.5**	35.1	1.3

(1) Calculated using unrounded data

For the six months ended 30 June 2015, Heathrow's traffic increased 1.3% to 35.5 million passengers (2014: 35.1 million), a new record for the period. There was a 1.9% increase in the average number of seats per aircraft to 207.4 (2014: 203.5). The average load factor was 73.8% (2014: 74.5%), reflecting the increase in seat capacity.

European traffic was up 2.4% largely driven by British Airways' success in filling its substantially increased short haul seat capacity. Domestic traffic increased 1.8%.

Intercontinental traffic was up 0.4%, with an increase in average aircraft size in part from the continued rise of A380 long haul aircraft that now account for around 20 arrivals and departures per day by eight airlines. Increased frequencies on North America led to a rise of 1.4%, while traffic on routes serving the Middle East grew 2.5% reflecting increased flights and larger aircraft. Traffic on Asia Pacific routes decreased slightly, partly reflecting the impact of competition from other international hubs, although there was significant growth on routes serving China and Hong Kong, where traffic increased 10%. In March, Vietnam Airlines moved its London operations from Gatwick to Heathrow, following Air China's switch last year. Latin American traffic grew 10.6% reflecting Avianca's new route to Colombia as well as growth to Brazil and Mexico.

With over a quarter of UK exports passing through Heathrow, cargo volume at Heathrow increased 2.1% to 742 thousand metric tonnes in the first six months of 2015, with growth primarily from North America.

1.2 Transforming customer service

In 2015, Heathrow has delivered its best ever passenger service and 82% of passengers surveyed rated their experience as 'Excellent' or 'Very Good' (2014: 79%). For two quarters in succession Heathrow has delivered its highest ever service quality score of 4.12 out of 5.00. The independent Airport Service Quality (ASQ) survey directed by Airports Council International (ACI) puts Heathrow well ahead of major European hub airports. The result reflects strong overall operational performance and high levels of satisfaction across key passenger service attributes.

In March 2015, Heathrow was named 'Best Airport in Western Europe' for the first time at the Skytrax World Airport Awards. The prestigious award, voted for globally by passengers, came in addition to Terminal 5 being voted the world's 'Best Airport Terminal' for the fourth year in a row and Heathrow being voted 'Best Airport for Shopping' for the sixth consecutive year. The Skytrax World Airport Awards assess customer service and facilities across 388 airports providing an impartial benchmark of airport excellence and quality. Heathrow was also awarded the Airport Council International Europe's prestigious Best Airport Award for the second time. ACI Europe represents over 450 airports in 46 European countries.

Improvements have been made to facilitate passengers to pass through the airport more quickly. Parallel loading security lanes have been introduced in Terminals 4 and 5 to reduce queuing times. The Terminal 3 baggage facility which began initial operations in March improves the speed and reliability of baggage transfer, enhancing the connection experience for passengers and a new flight connection facility has also opened in Terminal 3, supporting a seamless transfer for passengers and enabling the early closure of Terminal 1.

As part of the focus on increasing the resilience of operations, Heathrow is the world's first airport to introduce a system to separate arriving aircraft by time rather than distance. This system improves the airport's performance on windy days enabling a more complete schedule, better punctuality and fewer disrupted passengers.

Heathrow has had its busiest days ever in 2015 and achieved strong levels of service performance in the first six months of the year. In relation to individual service standards, departure punctuality (the proportion of aircraft departing within 15 minutes of schedule) was 79.8% (2014: 81.1%) and the baggage misconnect rate was 17 per 1,000 passengers (2014: 19). The main challenges for punctuality during the period were an increase in strong wind days along with restrictions and delays in European airspace. Passengers passed through central security within the five minute period prescribed under the Service Quality Rebate scheme 97.7% of the time (2014: 95.8%) compared with a 95% service standard.

1.3 Beating the plan

At the same time as transforming customer service, Heathrow is focused on beating the business plan for the 2014-2018 regulatory period by delivering an ambitious programme of efficiencies and increased revenue. This programme aims to enhance Heathrow's competitive position and deliver an appropriate return for its financial stakeholders.

Heathrow has performed well in the regulatory period to date, making a fast start in implementing efficiency and revenue initiatives and benefitting from a positive external environment. By the end of 2014, Heathrow had secured cost efficiencies expected to be worth £280 million over the settlement period out of a target of over £600 million and revenue initiatives forecast to generate an additional £100 million over the period.

Progress has continued in 2015 including the early closure of Terminal 1, enhancements to security productivity and initiatives to improve energy consumption. In April, Heathrow entered into a 10 year strategic partnership agreement with NATS to incentivise improved resilience, noise and punctuality performance whilst reducing cost. A voluntary severance programme within the security operation has been launched, Heathrow Express office activities have been relocated to Heathrow and a consultation on proposed changes to the defined benefit pension scheme closed in July 2015.

Taking these initiatives into account, the cost efficiencies secured for the period are now estimated to be almost £400 million, which is strong progress towards the £600 million target. However, given the pressure on revenues from the low inflation environment, Heathrow will need to drive for further efficiencies across all areas of its business to achieve its objective of beating the plan.

1.4 Investing in Heathrow

Heathrow invested £280 million in the first six months of 2015 on programmes to improve both the passenger experience and airport resilience, as part of the £700 million capital expenditure plan for 2015.

For passengers, the focus has been on delivering faster and smoother journeys through the airport. In March 2015, Heathrow began operation of the Terminal 3 Integrated Baggage facility, and airlines are transitioning onto the system through to May 2016. The facility combines process enhancements and technology to create an integrated and efficient operation. Passengers will benefit from increased baggage connection reliability and the ability to check bags in earlier. It further strengthens Heathrow's hub capability and is a key step in moving Heathrow towards the goal of fully integrated and inter-connected baggage facilities across all terminals. This year passengers are also benefiting from new parallel loading security lanes in Terminals 4 and 5, which speed up the time to pass through security, and a new 800 space business car park in Terminal 5. The retail offer in Terminal 5 has been enhanced, giving passengers even greater choice, with luxury outlets including Louis Vuitton and Bottega Veneta.

For airport resilience, the focus has been on airfield improvements to meet increased airline demand for operating A380 aircraft at Heathrow. Part of the apron at Terminal 4 has been reconfigured and two stands have been enlarged to accommodate more A380 operations. Work to widen an additional taxiway has been completed giving A380 aircraft a route that avoids the need to cross the runway. This investment will drive significant improvement in taxi times and reduce congestion.

Many of these initiatives contribute to Heathrow's action plan in 2015 to further improve air quality around the airport. This plan includes reducing emissions from aircraft at the gate, encouraging airlines to phase out their older aircraft and improving taxiing efficiency. Heathrow is leading the way in the airport community by cutting emissions on its airside vehicle fleet and pooling ground support equipment; all Heathrow's 800 baggage tugs are now electric. Around the airport, Heathrow will incentivise low-emission vehicles and provide more electric vehicle charging points. Heathrow is working with partners to champion a joint approach to reducing emissions from road traffic in the Heathrow area and is working with Transport for London and other stakeholders to formulate a regional strategy for air quality.

In June, Heathrow was awarded the Eco-Innovation Award by ACI Europe, recognising how much progress Heathrow has made in reducing emissions from the airport (down 16% over the past five years), and recognising features such as the world's largest single site car-share scheme, the UK's first publicly accessible hydrogen refuelling site, and an unrivalled public transport system connecting passengers to central London and surrounding communities

1.5 Winning support for expansion

On 1 July 2015, the Airports Commission clearly and unanimously recommended Heathrow's new North West runway plan, following three years of extensive and robust consultation, evidence gathering and analysis. It recognises the unique role that Heathrow plays as Britain's only hub airport. The Commission recommended that Heathrow expansion is the only solution to help British businesses compete for global growth and support a truly national recovery built on exports, skills and investment.

The Commission also confirmed that Heathrow's new plan can be delivered while reducing its local and environmental impacts. It confirmed that it can be delivered within carbon and air quality limits and with significantly fewer people impacted by aircraft noise than today.

Support for Heathrow's expansion continues to grow. More people in the ten constituencies local to the airport (Populus 2014) support expansion than oppose expansion, as do local authorities Spelthorne and Slough and over 100,000 members of the campaign group Back Heathrow. British business strongly supports expansion at Heathrow, including the British Chambers of Commerce, more than 30 local Chambers of Commerce from across the whole of the UK as well as high profile UK business groups including the Confederation of British Industry, Institute of Directors, Federation of Small Business, British Chambers of Commerce and London First.

Only Heathrow can connect the whole of the UK with the growing markets of the world. Today, Heathrow has 82 long-haul connections, one of only six airports in the world that have regular flights to over 50 long-haul destinations. With expansion Heathrow can support 40 new long-haul connections to emerging growth markets around the world. The economic benefit to the UK of expanding Heathrow is up to £211 billion, creating 180,000 jobs nationally, 40,000 new jobs locally and 10,000 apprenticeships.

Heathrow is by far the largest wholly-privately funded airport in the world. Heathrow has successfully attracted global investors to fund £11 billion of investment over the last decade and Heathrow's expansion proposal is expected to involve privately funded investment of £16 billion. Heathrow intends to fund the expansion through its established and scalable financing platform and expects to target its existing investment grade credit rating. The major funding requirement is not expected until planning consent is obtained, which is expected by 2020, with the new runway operational from 2025.

The Government will now take time to review the report to make a policy decision which is expected by the end of the year. Heathrow will engage with Government on the options to progress expansion through this period and will work with communities, airlines and all stakeholders to build on the Airports Commission's clear recommendation for Heathrow's expansion.

Heathrow
Making every journey better

2 Financial review

2.1 Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow (SP)') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group').

Heathrow (SP) consolidated accounts are prepared under International Financial Reporting Standards ('IFRS'). As explained in the basis of preparation in Appendix 1, from 1 January 2015 the Group changed its treatment of actuarial gains and losses on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit pension scheme. Net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement.

2.2 Income statement

2.2.1 Overview

In the six months ended 30 June 2015 the Group earned an £88 million profit after tax (2014: £16 million).

Six months ended 30 June	**2015 £m**	2014 £m
Revenue	**1,307**	1,234
Operating costs before depreciation and amortisation	**(559)**	(530)
Adjusted EBITDA[1]	**748**	704
Exceptional items	**-**	(79)
Depreciation and amortisation	**(344)**	(240)
Operating profit before certain re-measurements	**404**	385
Fair value gain/(loss) on investment properties (certain re-measurements)	**44**	(26)
Operating profit	**448**	359
Net finance costs before certain re-measurements	**(335)**	(341)
Fair value gain on financial instruments	**7**	5
Net finance costs	**(328)**	(336)
Profit before taxation	**120**	23
Taxation	**(32)**	(7)
Profit after taxation	**88**	16

(1) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items

2.2.2 Revenue

In the six months ended 30 June 2015, Heathrow's revenue was £1,307 million (2014: £1,234 million).

Six months ended 30 June	**2015 £m**	2014 £m	Change (%)
Aeronautical income	**817**	767	6.5
Retail income	**247**	237	4.2
Other income	**243**	230	5.7
Total revenue	**1,307**	1,234	5.9

2.2.2.1 Aeronautical income

In the six months ended 30 June 2015, Heathrow's aeronautical income increased 6.5% to £817 million (2014: £767 million) and the average aeronautical income per passenger increased 5.2% to £23.00 (2014: £21.87).

Tariff changes and increased traffic contributed £32 million to the growth in aeronautical income. The remainder mainly relates to the absence, in the period, of rebates such as capital triggers, compared to the first half of 2014. This is partially offset by the non-recurrence of significant revenue recovery through the K factor mechanism that occurred in 2014.

Aeronautical income in 2015 is forecast to grow at 0.3%. The reduction in the second half of the year compared to the same period last year reflects the delay in tariff changes at the start of the regulatory period, which resulted in nine months of tariff changes being collected over the final six months of 2014, together with the absence of the significant K factor recovery of last year.

2.2.2.2 Retail income

In the six months ended 30 June 2015, Heathrow's retail income increased 4.2% to £247 million (2014: £237 million). Net retail income ('NRI') grew 5.3 % to £237 million (2014: £225 million) and NRI per passenger rose 3.9% to £6.67 (2014: £6.42).

Six months ended 30 June	**2015 £m**	2014 £m	Change (%)
Car parking	**52**	48	8.3
Duty and tax-free	**60**	59	1.7
Airside specialist shops	**47**	45	4.4
Bureaux de change	**23**	20	15.0
Catering	**21**	19	10.5
Other retail income	**44**	46	(4.3)
Gross retail income	**247**	237	4.2
Retail expenditure	**(10)**	(12)	(16.7)
Net retail income	**237**	225	5.3

Car parking has continued to perform well in 2015. The growth reflects increased car parking capacity, including the award-winning Terminal 2 multi-storey car park and the new 800-space Terminal 5 business car park which opened in February 2015. In addition, continued yield management and a broader product offering have contributed to the growth.

Growth in airside specialist shops was strong, with double-digit growth in luxury store income following the successful opening of the redeveloped luxury retail stores in Terminal 5. Brands including Louis Vuitton, Cartier, Rolex, Fortnum & Mason, Bottega Veneta and Hermes further strengthened Heathrow's unrivalled airport shopping experience. Growth in duty and tax free stores was moderated in part by the impact of the departure lounge development in Terminal 5.

Catering has performed well, driven mainly by enhancements in Terminal 5 and the strong offering in Terminal 2 which includes The Perfectionists' Café, created by multi-award winning chef Heston Blumenthal, and YO! Sushi.

2.2.2.3 Other income

In the six months ended 30 June 2015, other income increased 5.7% to £243 million (2014: £230 million). The increase was driven by growth in utility charges and higher property rental income following the opening of Terminal 2.

2.2.3 Adjusted operating costs

In the six months ended 30 June 2015, adjusted operating costs increased 5.5% to £559 million (2014: £530 million). Adjusted operating costs exclude depreciation, amortisation and exceptional items.

Six months ended 30 June	**2015 £m**	2014 £m	Change (%)
Employment costs	**194**	189	2.6
Maintenance expenditure	**86**	84	2.4
Utility costs	**51**	46	10.9
Rent and rates	**68**	63	7.9
General expenses	**150**	136	10.3
Retail expenditure	**10**	12	(16.7)
Total	**559**	530	5.5

Cost control has been strong in 2015, with a reduction in underlying costs. Overall costs reflect almost £35 million related to the incremental operation of Terminal 2 and the start of Terminal 3 baggage facility operations, offset by £13 million of savings from the wind-down of Terminal 1. In addition a net £6 million was incurred on expansion planning activities.

Taking these into account, underlying costs reduced slightly compared to 2014 and this trend is expected to continue as the full benefit flows through from recently completed initiatives. Underlying performance reflects ongoing focus on employment costs, with increased productivity achieved within operations, as well as the benefit of lower overall headcount compared to last year. These efficiencies are partially offset by inflation and higher pension costs. Maintenance and engineering costs continue to benefit from the new consolidated baggage operations and maintenance agreement, which is delivering substantial benefit over the regulatory period.

2.2.4 Operating result

The Group recorded an operating profit before certain re-measurements for the six months ended 30 June 2015 of £404 million (2014: £385 million). A reconciliation of Adjusted EBITDA and operating profit before certain re-measurements is provided below.

Six months ended 30 June	**2015 £m**	2014 £m	Change (%)
Adjusted EBITDA	**748**	704	6.3
Depreciation	**(344)**	(240)	43.3
Exceptional items	**-**	(79)	n.m.
Operating profit before certain re-measurements	**404**	385	4.9

In the six months ended 30 June 2015, Adjusted EBITDA increased 6.3% to £748 million (2014: £704 million), resulting in an Adjusted EBITDA margin of 57.2% (2014: 57.1%).

Depreciation increased substantially to £344 million (2014: £240 million). The increase in depreciation mostly reflects the start of depreciation of Terminal 2, the new Terminal 3 Integrated Baggage facility, along with increased depreciation of Terminal 1.

2.2.5 Exceptional items

In the six months ended 30 June 2015, there were no exceptional charges (2014: £79 million) to the income statement.

Six months ended 30 June	**2015 £m**	2014 £m
Pension	**-**	61
Terminal 2 operational readiness	**-**	18
Exceptional pre-tax charge	**-**	79

As noted in the basis of preparation, from 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the HAH Group's defined benefit pension scheme and these are no longer reported as an exceptional item in the income statement.

2.2.6 Taxation

The tax charge arising on ordinary activities for the six months ended 30 June 2015 was £32 million based on a profit before tax of £120 million. The charge results in an effective tax rate for the period of 26.3% compared to the UK statutory rate of 20.25%. The difference is primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

2.3 Cash flow

2.3.1 Summary cash flow

In the six months ended 30 June 2015 the Group increased cash and cash equivalents by £173 million, compared with an increase in 2014 of £179 million. At 30 June 2015, the Group had £439 million of cash and cash equivalents compared with £268 million at 31 December 2014.

Six months ended 30 June	**2015 £m**	2014 £m
Cash generated from operations	**729**	659
Cash from operating activities net of tax	**747**	651
Purchase of property, plant and equipment and other assets	**(322)**	(496)
Net decrease/(increase) in term deposits	**120**	(450)
Increase in group deposits	**(38)**	-
Disposal of Stansted airport	**-**	(2)
Net cash used in investing activities	**(240)**	(948)
Dividends paid	**(214)**	(144)
Proceeds from issuance of bonds	**907**	980
Repayment of bonds	**(619)**	-
Repayment of facilities and other financing items	**(20)**	(55)
Increase in amount owed to Heathrow Finance plc	**75**	-
Settlement of accretion on index-linked swaps	**(144)**	-
Net interest paid	**(319)**	(305)
Net cash (used in)/from financing activities	**(334)**	476
Net increase in cash and cash equivalents	**173**	179
Cash generated from operations after capital expenditure and net interest paid	**88**	(142)

2.3.2 Cash flow from operating activities

In the six months ended 30 June 2015, cash flow from operating activities grew 10.6% to £729 million (2014: £659 million). The following reconciles adjusted EBITDA to cash flow from operating activities.

Six months ended 30 June	**2015 £m**	2014 £m
Adjusted EBITDA	**748**	704
Exceptional Terminal 2 operational readiness	**-**	(18)
Decrease in receivables	**13**	11
Decrease in payables	**(22)**	(28)
Decrease in provisions	**-**	(1)
Difference in pension charge and contributions	**(10)**	(9)
Cash flow from operating activities	**729**	659

2.3.3 Capital expenditure

In the six months ended 30 June 2015, the cash flow impact of capital investment at Heathrow was £322 million (2014: £496 million) with lower gross additions to fixed assets in the period of £280 million (2014: £472 million). The higher level of cash capital investment reflects the timing differences between the completion of assets and supplier payments.

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 repurchase of share capital; and payments of fees, interest or principal on any intercompany loans.

In the six months ended 30 June 2015, restricted payments of £170 million (gross restricted payments £245 million) were made by the Group which principally funded £118 million of the £150 million in quarterly dividends paid to the Group's ultimate shareholders, £16 million of interest payments at ADI Finance 2 Limited ('ADIF2') and £31 million of interest payments on the debenture between Heathrow (SP) and Heathrow Finance plc (2014: £171 million including £128 million in quarterly dividends, £27 million of interest payments on the debenture and £16 million to fund interest payments at ADIF2).

2.4 Pension scheme

At 30 June 2015, the HAH Group defined benefit pension scheme deficit was £211 million as measured under IAS19(R) (31 December 2014: £199 million). The increase in the deficit reflects current service costs and interest expenses exceeding actuarial gains and cash contributions.

2.5 Recent financing activity

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

Since the start of 2015 Heathrow has raised over £1.1 billion in term debt. In February, a €750 million, 15 year public bond with a fixed rate coupon of 1.5% was issued, significantly extending Heathrow's maturity profile in the Euro market. In May, a C$500 million, 10 year public bond with a fixed rate coupon of 3.25% was issued, deepening Heathrow's presence in the Canadian market.

During 2015, Heathrow has also raised nearly £300 million of long-term private placements from non-sterling sources. This includes £150 million of 15 and 20 year sterling funding, of which £70 million was drawn in July 2015 with the balance due to be drawn in October 2015. A transaction for NOK1 billion with a 12.5 year maturity and a fixed coupon of 2.65% takes the number of currency markets Heathrow has accessed to six. Earlier this year Heathrow raised £50 million in a 10 year loan facility at Heathrow Finance which was drawn in July 2015. In addition at the end of 2014, Heathrow raised a £115 million, 21 year Class B private placement, which will be drawn in September 2015.

In June 2015, a £300 million bond and a US$500 million (£319 million) bond issued by Heathrow Funding Limited in 2012 matured and were repaid. Heathrow also completed a bond repurchase programme, buying back Heathrow Finance 2017 and 2019 notes with a nominal value of £32 million and £12 million respectively, at a cash cost of £49 million.

2.6 Financing position

2.6.1 Debt and liquidity at Heathrow (SP) Limited

The Group's nominal net debt was £11,746 million at 30 June 2015, an increase of 0.8% since the end of 2014 (31 December 2014: £11,653 million), comprising £11,700 million in bond issues, £256 million in term notes and loan facilities, £279 million in index-linked derivative accretion and cash at bank and term deposits of £489 million. Nominal net debt consisted of £10,191 million in senior net debt and £1,555 million in junior debt.

The average cost of the Group's nominal gross debt at 30 June 2015 was 4.32% (31 December 2014: 4.59%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, the Group's average cost of debt at 30 June 2015 was 5.14% (31 December 2014: 5.70%). The reduction in the average cost of debt since the end of 2014 is mainly due to the lower cost of debt raised in the first half of 2015 and lower inflation at 30 June 2015.

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 £10,951 million at 30 June 2015 (31 December 2014: £11,064 million). This includes £489 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 March 2017. The obligations include forecast capital investment, debt service costs, debt maturities and distributions. The liquidity forecast takes into account just over £2.0 billion in undrawn loan facilities and cash resources at 30 June 2015, £315 million in committed term debt financing to be drawn after 30 June 2015 and the expected operating cash flow over the period.

2.6.2 Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance was £12,650 million at 30 June 2015, an increase of 0.7% since 31 December 2014 (£12,560 million). This comprises the Group's nominal net debt of £11,746 million, Heathrow Finance's gross debt of £958 million and cash held at Heathrow Finance of £54 million.

2.6.3 Regulatory Asset Base ('RAB')

Heathrow's RAB at 30 June 2015 was £14,870 million compared to £14,860 million at 31 December 2014. RAB figures are used in calculating the gearing ratios under the Group's financing agreements.

2.6.4 Net finance costs and net interest paid

In the six months ended 30 June 2015, the Group's net finance costs before certain re-measurements were £335 million (2014: £341 million) and net interest paid was £319 million (2014: £305 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Six months ended 30 June	**2015 £m**	2014 £m
Net finance costs before certain re-measurements	**335**	341
Amortisation of financing fees and other items	**(5)**	(18)
Borrowing costs capitalised	**10**	72
Underlying net finance costs	**340**	395
Non-cash accretion on index-linked instruments	**(18)**	(91)
Other movements	**(3)**	1
Net interest paid	**319**	305

Underlying net finance costs were £340 million (2014: £395 million) after adjusting for capitalised borrowing costs of £10 million (2014: £72 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £5 million (2014: £18 million). The reduced underlying net finance costs principally reflect lower index linked accretion due to low inflation in the period.

Net interest paid in the period was £319 million (2014: £305 million) of which £288 million (2014: £278 million) related to external debt. The remaining £31 million (2014: £27 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

2.6.5 Financial ratios

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

At 30 June 2015, the Group's senior (Class A) and junior (Class B) gearing ratios (nominal net debt to RAB) were 68.5% and 79.0% respectively (31 December 2014: 68.0% and 78.4% respectively) compared with trigger levels of 70.0% and 85.0% under its financing agreements. Heathrow Finance's gearing ratio was 85.1% (31 December 2014: 84.5%) compared to a covenant level of 90.0% under its financing agreements. The modest increase in gearing since 31 December 2014 principally reflects the effects of the recent low inflation environment on Heathrow's RAB.

2.7 Outlook

In line with the forecasts published in the Investor Report on 26 June 2015, Heathrow expects EBITDA in 2015 to be £1.6 billion, an increase of 2.2% over 2014. The £36 million increase in forecast reflects stronger than anticipated traffic and retail revenue together with improved operating costs.

Appendix 1 – Financial information

Heathrow (SP) Limited

Consolidated income statement
for the six months ended 30 June 2015

		Unaudited Six months ended 30 June 2015			Unaudited Six months ended 30 June 2014			Audited Year ended 31 December 2014		
	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
Continuing operations										
Revenue	*1*	**1,307**	**-**	**1,307**	1,234	-	1,234	2,692	-	2,692
Operating costs	*2*	**(903)**	**-**	**(903)**	(849)	-	(849)	(1,899)	-	(1,899)
Other operating items										
Fair value gains/(losses) on investment properties			**44**	**44**		(26)	(26)		46	46
Operating profit		**404**	**44**	**448**	385	(26)	359	793	46	839
Analysed as:										
Operating profit before exceptional Items		**404**	**44**	**448**	464	(26)	438	995	46	1,041
Exceptional items	*3*	**-**	**-**	**-**	(79)	-	(79)	(202)	-	(202)
Financing										
Finance income		**118**	**-**	**118**	117	-	117	234	-	234
Finance costs		**(453)**	**-**	**(453)**	(458)	-	(458)	(1,038)	-	(1,038)
Fair value gain/(loss) on financial instruments			**7**	**7**		5	5		(154)	(154)
Net finance costs	*4*	**(335)**	**7**	**(328)**	(341)	5	(336)	(804)	(154)	(958)
Profit/(loss) before tax		**69**	**51**	**120**	44	(21)	23	(11)	(108)	(119)
Taxation	*5*	**(22)**	**(10)**	**(32)**	(11)	4	(7)	7	14	21
Profit/(loss) for the period from continuing operations		**47**	**41**	**88**	33	(17)	16	(4)	(94)	(98)
Profit from discontinued operations		**-**	**-**	**-**	-	-	**-**	3	-	3
Profit/(loss) for the period		**47**	**41**	**88**	33	(17)	16	(1)	(94)	(95)

[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 hedged items that are part of a fair value hedging relationship; and the associated tax impact of these and similar cumulative prior year items.

Heathrow (SP) Limited

Consolidated statement of comprehensive income
for the six months ended 30 June 2015

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Profit/(loss) for the period	**88**	16	(95)
Items that will not be subsequently reclassified to the consolidated income statement:			
Tax relating to retirement benefits	**-**	-	(4)
Tax relating to indexation of operating land	**-**	-	1
Net actuarial losses on retirement benefit schemes	**(14)**	-	-
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
Loss taken to equity	**(133)**	(93)	(174)
Transferred to income statement	**152**	115	163
Other comprehensive profit/(loss) for the period net of tax	**5**	22	(14)
Total comprehensive profit/(loss) for the period[a]	**93**	38	(109)

[a] Attributable to owners of the parent.

Heathrow (SP) Limited

Consolidated statement of financial position as at 30 June 2015

	Note	**Unaudited 30 June 2015 £m**	Unaudited[1] 30 June 2014 £m	Audited[1] 31 December 2014 £m
Assets				
Non-current assets				
Property, plant and equipment		**11,292**	11,461	11,349
Investment properties		**2,106**	1,945	2,054
Intangible assets		**110**	96	114
Derivative financial instruments		**66**	108	172
Trade and other receivables		**21**	34	23
		13,595	13,644	13,712
Current assets				
Inventories		**10**	9	10
Trade and other receivables		**317**	305	460
Current income tax assets		**-**	-	18
Derivative financial instruments		**1**	112	2
Cash and cash equivalents		**439**	723	268
		767	1,149	758
Total assets		**14,362**	14,793	14,470
Liabilities				
Non-current liabilities				
Borrowings	*6*	**(12,201)**	(11,320)	(11,877)
Derivative financial instruments		**(1,412)**	(1,259)	(1,328)
Deferred income tax liabilities		**(1,034)**	(1,040)	(1,023)
Retirement benefit obligations[1]		**(241)**	-	-
Provisions		**(2)**	(5)	(10)
Trade and other payables		**(12)**	(2)	(2)
		(14,902)	(13,626)	(14,240)
Current liabilities				
Borrowings	*6*	**(576)**	(1,398)	(933)
Derivative financial instruments		**(28)**	(29)	(1)
Current income tax liabilities		**(22)**	(7)	-
Provisions[1]		**-**	(165)	(232)
Trade and other payables		**(345)**	(510)	(454)
		(971)	(2,109)	(1,620)
Total liabilities		**(15,873)**	(15,735)	(15,860)
Net liabilities		**(1,511)**	(942)	(1,390)
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		**(302)**	(288)	(321)
Retained earnings		**2,039**	2,594	2,179
Total shareholder's deficit		**(1,511)**	(942)	(1,390)

[1] As explained in the basis of preparation section, liabilities relating to retirement benefits are now presented as an external obligation, previously they were treated as an intercompany liability.

Heathrow (SP) Limited

Consolidated statement of changes in equity for the six months ended 30 June 2015

		Attributable to owners of the Company (unaudited)					
	Note	**Share capital £m**	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2014		11	499	(3,758)	(310)	2,722	(836)
Comprehensive income:							
Profit for the period						16	16
Other comprehensive income:							
Income on re-measurement of the following:							
Cash flow hedges net of tax					22		22
Total comprehensive income					22	16	38
Transaction with owners:							
Dividends paid						(144)	(144)
Total transaction with owners						(144)	(144)
30 June 2014		11	499	(3,758)	(288)	2,594	(942)
1 January 2015		**11**	**499**	**(3,758)**	**(321)**	**2,179**	**(1,390)**
Comprehensive income:							
Profit for the period						**88**	**88**
Other comprehensive income:							
Fair value gains on cash flow hedges net of tax					**19**		**19**
Net actuarial losses on retirement benefit schemes						**(14)**	**(14)**
Total comprehensive income					**19**	**74**	**93**
Transaction with owners:							
Dividends paid						**(214)**	**(214)**
Total transaction with owners						**(214)**	**(214)**
30 June 2015		**11**	**499**	**(3,758)**	**(302)**	**2,039**	**(1,511)**

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Heathrow (SP) Limited

Consolidated statement of cash flows for the six months ended 30 June 2015

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Operating activities			
Profit/(loss) before tax	**120**	23	(119)
Adjustments for:			
Net finance costs	**328**	336	958
Depreciation, amortisation and impairment	**344**	240	572
Fair value (gain)/loss on investment properties	**(44)**	26	(46)
Working capital changes:			
Decrease in inventories and trade and other receivables	**13**	11	13
Decrease in trade and other payables	**(22)**	(28)	(4)
Release and utilisation of provisions	**-**	(1)	(3)
Difference between pension charge and cash contributions	**(10)**	(9)	(22)
Exceptional pension charge	**-**	61	176
Cash generated from continuing operations	**729**	659	1,525
Taxation – group relief received/(paid)	**18**	(8)	(19)
Net cash from operating activities	**747**	651	1,506
Cash flows from investing activities			
Net capital expenditure	**(322)**	(496)	(853)
Net decrease/(increase) in term deposits	**120**	(450)	(170)
Increase in group deposits	**(38)**	-	-
Disposal of Stansted Airport Limited	**-**	(2)	(2)
Net cash used in investing activities	**(240)**	(948)	(1,025)
Cash flows from financing activities			
Dividends paid	**(214)**	(144)	(445)
Proceeds from issuance of bonds	**907**	980	1,276
Repayment of bonds	**(619)**	-	(513)
Issuance of term notes	**-**	-	100
Net repayment of revolving credit facilities	**-**	(30)	(80)
Payment of facilities and other items	**(20)**	(25)	(54)
Increase in amount owed to Heathrow Finance plc	**75**	-	165
Settlement of accretion on index-linked swaps	**(144)**	-	(185)
Net interest paid	**(319)**	(305)	(573)
Net cash (used in)/from financing activities	**(334)**	476	(309)
Net increase in cash and cash equivalents	**173**	179	172
Cash and cash equivalents at beginning of period	**266**	94	94
Cash and cash equivalents at end of period	**439**	273	266
Represented by:			
Cash and cash equivalents	**439**	273	268
Overdrafts	-	-	(2)
Cash and cash equivalents at end of period	**439**	273	266

Heathrow (SP) Limited

General information and accounting policies for the six months ended 30 June 2015

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2014 or any other period. Statutory financial statements for the year ended 31 December 2014 have been filed with the registrar of Companies on 20 March 2015. The annual financial information presented herein for the year ended 31 December 2014 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2014. The auditors' report on the 2014 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.

These interim financial reports have been prepared and approved by the directors in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the IASB and as adopted by the EU. These are the second interim financial reports in compliance with IAS 34 and therefore do not include a reconciliation of equity and reconciliation of total comprehensive income at, and for the period ending, 30 June 2014 from UK GAAP, the previous accounting regime under which the Heathrow (SP) Limited group used to report. Reconciliations from previous GAAP to IFRS for comparative periods and as at transition are available in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2014 and in the first interim financial reports in compliance with IAS 34 for the period ended 31 March 2015. 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 2014.

Pension accounting
From 1 January 2015, the Group has changed the method of accounting for retirement benefit schemes. Before 31 December 2014, the Group recorded its share of the liability on the Heathrow Airport Holdings Limited group's (the 'HAH Group') defined benefit schemes ('the schemes'). This was recognised as a provision payable to the legal sponsor of the schemes, being LHR Airports Limited. Additionally, the Group recorded its share of the actuarial gains and losses on the schemes and presented this within exceptional items in the income statement.

Following the disposal of Aberdeen, Glasgow and Southampton by the HAH Group in December 2014, the directors have reassessed the Group's relationship with the legal sponsor of the schemes given that the HAH Group's sole operating business is now Heathrow. The directors have determined, after taking into account the Shared Service Agreement, employment relationships and the funding risk associated with the schemes, that the Group now acts as principal in relation to these schemes. As a result, the Group now recognises an external liability, in relation to the schemes, on its statement of financial position as non-current under the caption of Retirement benefit obligations and no longer records an intercompany payable to LHR Airports Limited. Additionally, it is now considered appropriate for the Group to record actuarial gains and losses on the external scheme within other comprehensive income. This differs from the prior periods where the Group recorded a share of the actuarial gains and losses, treated as an intercompany recharge, as an exceptional item in the Group's income statement. There is no impact on cash or net assets as a result of this change.

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Notes to the consolidated financial information for the six months ended 30 June 2015

1 Segment information

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

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

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

Table (a) details total revenue from external customers for the six months ended 30 June 2015 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is EBITDA on a pre and post exceptional basis, and a reconciliation to the consolidated profit for the period.

Table (b) and table (c) detail comparative information to table (a) for the six months ended 30 June 2014 and the year ended 31 December 2014 respectively.

Table (a)	**Segment revenue**					**EBITDA**		
Unaudited Six months ended 30 June 2015	**Aero-nautical £m**	**Retail £m**	**Property & facilities £m**	**Other £m**	**Total external revenue £m**	**Pre exceptional items £m**	**Operating exceptional items £m**	**Post exceptional items £m**
Heathrow	817	247	146	33	1,243	707	-	707
Heathrow Express	-	-	-	64	64	41	-	41
Continuing operations	**817**	**247**	**146**	**97**	**1,307**	**748**	**-**	**748**
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(344)
Operating profit (before certain re-measurements)								**404**
Fair value gain on investment properties (certain re-measurements)								44
Operating profit								**448**
Finance income								118
Finance costs								(453)
Fair value gain on financial instruments (certain re-measurements)								7
Profit before tax								**120**
Taxation before certain re-measurements								(22)
Taxation (certain re-measurements)								(10)
Taxation								**(32)**
Profit for the period								**88**

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2015

1 Segment information *continued*

Table (b) Unaudited Six months ended 30 June 2014	**Segment revenue**					**EBITDA**		
	Aero-nautical £m	**Retail £m**	**Property & facilities £m**	**Other £m**	**Total external revenue £m**	**Pre exceptional items £m**	**Operating exceptional items £m**	**Post exceptional items £m**
Heathrow	767	237	134	33	1,171	669	(79)	590
Heathrow Express	-	-	-	63	63	35	-	35
Continuing operations	767	237	134	96	1,234	704	(79)	625
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(240)
Operating profit (before certain re-measurements)								385
Fair value loss on investment properties (certain re-measurements)								(26)
Operating profit								359
Finance income								117
Finance costs								(458)
Fair value gain on financial instruments (certain re-measurements)								5
Profit before tax								23
Taxation before certain re-measurements								(11)
Taxation (certain re-measurements)								4
Taxation								(7)
Profit for the period								16

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2015

1 Segment information *continued*

Table (c) Audited Year ended 31 December 2014	**Segment revenue** **Aero-nautical** **£m**	**Retail** **£m**	**Property & facilities** **£m**	**Other** **£m**	**Total external revenue** **£m**	**EBITDA** **Pre exceptional items** **£m**	**Operating exceptional items** **£m**	**Post exceptional items** **£m**
Heathrow	1,706	503	285	69	2,563	1,493	(202)	1,291
Heathrow Express	-	-	-	129	129	74	-	74
Continuing operations	1,706	503	285	198	2,692	1,567	(202)	1,365
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(572)
Operating profit (before certain re-measurements)								793
Fair value gain on investment properties (certain re-measurements)								46
Operating profit								839
Finance income								234
Finance costs								(1,038)
Fair value loss on financial instruments (certain re-measurements)								(154)
Loss before tax								(119)
Taxation before certain re-measurements								7
Taxation (certain re-measurements)								14
Taxation								21
Loss for the year – continuing operations								(98)
Profit from discontinued operations								3
Consolidated loss for the year								(95)

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Notes to the consolidated financial information for the six months ended 30 June 2015

2 Operating costs – ordinary

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Employment costs	**194**	189	391
Maintenance expenditure	**86**	84	178
Utility costs	**51**	46	95
Rent and rates	**68**	63	132
General expenses	**150**	136	305
Retail expenditure	**10**	12	24
Total adjusted operating costs	**559**	530	1,125
Depreciation and amortisation	**344**	240	572
Exceptional costs (Note 3)	**-**	79	202
Total operating costs	**903**	849	1,899

3 Operating exceptional items

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Pension	**-**	61	176
Terminal 2 operational readiness	**-**	18	18
Restructure	**-**	-	8
Total operating exceptional items	**-**	79	202

Operating costs – exceptional: other

From 1 January 2015 the Group has changed its treatment of actuarial gains and losses on the Group's defined benefit pension scheme. The net actuarial gains and losses are now presented within other comprehensive income rather than as an exceptional item in the income statement. As explained in the basis of preparation.

Previously, movements in the Group's share of pension obligations were recorded as exceptional items. For the six months ended 30 June 2014 and the year ended 31 December 2014 a non-cash pension charge was recorded of £61 million and £176 million respectively.

Operational readiness costs were associated with managing the opening of Terminal 2. Costs for the six months ended 30 June 2014 and for the year ended 31 December 2014 were £18 million. These costs were primarily for familiarisation, induction and training and the ramp up of operational costs as Terminal 2 approached its opening on 4 June 2014.

Costs associated with the Group's change programmes were £8 million in the year ended 31 December 2014. The charge related to severance and pension payments associated with a restructuring programme.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2015

4 Financing

	Unaudited Six months ended 30 June 2015 £m	Unaudited Six months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Finance income			
Interest receivable on derivatives not in hedge relationship	**115**	114	231
Pensions finance income	**-**	2	-
Interest on deposits	**3**	1	3
	118	117	234
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]	**(287)**	(293)	(592)
Bank loans and overdrafts and related hedging instruments	**(24)**	(35)	(75)
Amortisation on bond redemption[2]	**-**	-	(62)
Interest payable on derivatives not in hedge relationship[3]	**(111)**	(166)	(323)
Facility fees and other charges	**(3)**	(9)	(14)
Net pension finance costs	**(4)**	-	(3)
Interest on debenture payable to Heathrow Finance plc	**(34)**	(27)	(57)
Unwinding of discount on provisions	**-**	-	(1)
	(463)	(530)	(1,127)
Less: capitalised borrowing costs[4]	**10**	72	89
	(453)	(458)	(1,038)
Net finance costs before certain re-measurements	**(335)**	(341)	(804)
Fair value gain/(loss) on financial instruments			
Interest rate swaps: ineffective portion of cash flow hedges	**(1)**	2	3
Interest rate swaps: not in hedge relationship	**67**	(21)	(196)
Index-linked swaps: not in hedge relationship[5]	**(67)**	12	26
Cross-currency swaps: ineffective portion of cash flow hedges	**(7)**	2	9
Cross-currency swaps: ineffective portion of fair value hedges	**15**	10	3
Fair value re-measurements of foreign exchange contracts and currency balances	**-**	-	1
	7	5	(154)
Net finance costs	**(328)**	(336)	(958)

1 Includes accretion of £1 million (six months ended 30 June 2014: £12 million loss; year ended 31 December 2014: £20 million loss) on index-linked bonds.
2 Amortisation on bond redemption includes a one-off non-cash £61 million amortisation charge recognised at maturity of the €750 million bond in September 2014. The amount should have been amortised over the period since 2010 when the bond formed part of a fair value hedging relationship. A deferred tax credit of £12 million relating to the amortisation charge has been recognised within the tax charge.
3 Includes accretion of £17 million (six months ended 30 June 2014: £79 million; year ended 31 December 2014: £139 million) on index-linked swaps.
4 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 5.40% (six months ended 30 June 2014: 6.04%; year ended 31 December 2014: 5.87%) to expenditure incurred on such assets.
5 Reflects the impact on the valuation of movements in implied future inflation and interest rates and accounting adjustment in respect of accretion.

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2015

5 Taxation

	Unaudited Six months ended 30 June 2015	Unaudited Six months ended 30 June 2014	Audited Year ended 31 December 2014
	£m	£m	£m
UK corporation tax			
Current tax at 20.25% (2014: 21.5%)	**(22)**	(1)	13
Deferred tax			
Current year	**(10)**	(6)	8
Taxation (charge)/credit for the period	**(32)**	(7)	21

The tax charge for the six months ended 30 June 2015 results in an effective tax rate of 26.3%, reflecting the tax charge arising on ordinary activities of £32 million based on a profit before tax of £120 million. The effective tax rate for the period differs from the UK statutory rate of 20.25% primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

For the six months ended 30 June 2014, the effective tax rate was 30.4%, reflecting the tax charge arising on ordinary activities of £7 million based on a profit before tax of £23 million. The effective tax rate for the period differs from the UK statutory rate of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation and non-deductible expenses.

The tax credit for the year ended 31 December 2014 resulted in an effective tax rate of 17.6%, reflecting the tax credit arising on ordinary activities of £21 million based on a loss before tax of £119 million. The effective tax rate for the period differs from the UK statutory rate of 21.5% primarily due to permanent differences mainly arising from non-qualifying depreciation, non-deductible expenses and the release of a provision.

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Notes to the consolidated financial information for the six months ended 30 June 2015

6 Borrowings

	Unaudited 30 June 2015 £m	Unaudited 30 June 2014 £m	Audited 31 December 2014 £m
Current borrowings			
Secured			
Loans	**39**	39	39
Bonds:			
4.600% €750 million due 2014	**-**	533	-
3.000% £300 million due 2015	**-**	299	300
2.500% US$500 million due 2015	**-**	292	320
12.450% £300 million due 2016	**311**	-	-
	350	1,163	659
Unsecured			
Bank overdrafts	**-**	-	2
Total current (excluding interest payable)	**350**	1,163	661
Interest payable – external	**203**	217	251
Interest payable – owed to group undertakings	**23**	18	21
Total current	**576**	1,398	933
Non-current borrowings			
Secured			
Bonds:			
12.450% £300 million due 2016	**-**	325	318
4.125% €500 million due 2016	**349**	391	381
4.375% €700 million due 2017	**495**	559	542
2.500% CHF400 million due 2017	**271**	263	257
4.600% €750 million due 2018	**500**	557	545
6.250% £400 million due 2018	**398**	398	398
4.000% C$400 million due 2019	**202**	217	219
6.000% £400 million due 2020	**397**	396	397
9.200% £250 million due 2021	**272**	267	275
3.000% C$450 million due 2021	**231**	240	248
4.875% US$1,000 million due 2021	**652**	601	670
1.650%+RPI £180 million due 2022	**193**	192	193
1.875% €600 million due 2022	**430**	480	485
5.225% £750 million due 2023	**654**	645	649
7.125% £600 million due 2024	**590**	589	589
3.250% C$500 million due 2025	**250**	-	-
4.221% £155 million due 2026	**154**	-	155
6.750% £700 million due 2026	**691**	691	691
2.650% NOK1,000 million due 2027	**77**	-	-
7.075% £200 million due 2028	**198**	198	198
1.500% €750 million due 2030	**485**	-	-
6.450% £900 million due 2031	**853**	844	855
Zero-coupon €50 million due January 2032	**42**	44	44
1.366%+RPI £75 million due 2032	**76**	76	76
Zero-coupon €50 million due April 2032	**41**	44	44
4.171% £50 million due 2034	**50**	50	50
Zero-coupon €50 million due 2034	**37**	-	39
1.382%+RPI £50 million due 2039	**51**	50	51
3.334%+RPI £460 million due 2039	**574**	569	575
1.238%+RPI £100 million due 2040	**100**	-	100
5.875% £750 million due 2041	**742**	739	743
4.625% £750 million due 2046	**742**	742	742
1.372%+RPI £75 million due 2049	**76**	76	76
	10,873	10,243	10,605

Heathrow (SP) Limited

Notes to the consolidated financial information for the six months ended 30 June 2015

6 Borrowings *continued*

	Unaudited 30 June 2015 £m	Unaudited 30 June 2014 £m	Audited 31 December 2014 £m
Secured *continued*			
Other loans	**117**	206	136
Term note: 3.77% £100 million due 2026	**100**	-	100
Unsecured			
Debenture payable to Heathrow Finance plc	**1,111**	871	1,036
Total loans	**1,328**	1,077	1,272
Total non-current	**12,201**	11,320	11,877
Total borrowings (excluding interest payable)	**12,551**	12,483	12,538

7 Dividends

During the period ended 30 June 2015, Heathrow (SP) Limited paid dividends of £214 million to Heathrow Finance plc being £43 million on 27 February 2015, £80 million on 4 March 2015 and £91 million on 30 June 2015. A further £75 million dividend was declared on 23 July 2015. (31 December 2014: Heathrow (SP) Limited paid dividends of £445 million to Heathrow Finance plc, being £65 million on 21 February 2014, £79 million on 27 June 2014, £66 million on 25 July 2014, £85 million on 23 September 2014 and £150 million on 18 December 2014 to fund £261 million in quarterly dividends and a further £135 million to the Group's ultimate shareholders and £49 million for the servicing of external debt at Heathrow (SP) Limited's holding companies and for general corporate purposes).