# News release

Heathrow (SP) Limited
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Making every journey better

25th October 2019

## Heathrow (SP) Limited

## Results for the nine months ended 30 September 2019

- **On track for ninth consecutive year of growth** – More passengers than ever are choosing to fly from Heathrow with a record 61 million passengers (+0.7%) travelling through the UK's hub airport already this year. This puts us on course to secure our ninth consecutive year of passenger growth
- **Investment in service driving growth** – Better service for passengers continues to be one of the main drivers underpinning passenger growth. Service scores maintained their high with 82% of passengers rating their experience as either "Excellent" or "Very Good" following £489 million of investment to boost airport efficiency, resilience and security
- **Strong financial performance** – Strong retail performance and more passengers pushed Heathrow's revenue up to £2,302 million and increased EBITDA by 1.3% to £1,454 million. Adjusted profit before tax also strengthened by 40.1%
- **Expansion benefits –** The tangible benefits of expansion are already materialising. Virgin Atlantic have outlined credible plans to create a second flag carrier at Heathrow with over 80 new services helping to drive down airfares through increased competition and choice for passengers. We are also currently reviewing feedback from our latest consultation and will submit our planning application next year
- **Reducing carbon emissions** – Heathrow welcomes the Committee on Climate Change's recent report recommending that aviation be included in the UK's target to achieve net zero emissions by 2050. Heathrow will operate carbon neutral airport infrastructure from 2020 and we are developing a number of bold options to substantially cut or offset aircraft emissions associated with the airport. Alongside moves by airlines – including IAG's recent announcement to offset all UK domestic flights from 2020 – the UK aviation industry is taking credible action to decarbonise

| At or for the nine months ended 30 September | 2018 | **2019** | Change (%) |
|---|---|---|---|
| *(£m unless otherwise stated)* | | | |
| Revenue | 2,211 | **2,302** | 4.1 |
| EBITDA(1) | 1,435 | **1,454** | 1.3 |
| Cash generated from operations | 1,336 | **1,463** | 9.5 |
| Adjusted profit before tax(2) | 212 | **297** | 40.1 |
| | | | |
| Heathrow (SP) Limited consolidated nominal net debt(3) | 12,407 | **12,844** | 3.5 |
| Heathrow Finance plc consolidated net debt(3) | 13,980 | **14,175** | 1.4 |
| Regulatory Asset Base(3) | 16,200 | **16,529** | 2.0 |
| | | | |
| Passengers (million)(4) | 60.5 | **61.0** | 0.7 |
| Retail revenue per passenger (£)(4) | 8.59 | **8.79** | 2.3 |

Notes
(1) EBITDA is earnings before interest, tax, depreciation and amortisation
(2) Adjusted profit before tax is profit before tax and certain re-measurements (excluding fair value gain / loss on investment properties and financial instruments). See page 7 for reconciliation to loss before tax. For the nine months to 30 September 2019 loss before tax was (£76) million (2018: £426 million profit). The loss before tax for the nine-month period to 30 September 2019 includes £368 million non-cash fair value loss on derivatives as a result of increased inflation expectations and a downward shift in the 6 month LIBOR curve affecting both index-linked and interest rate swaps. The derivatives have been entered to economically hedge RPI linked revenue and the Regulatory Asset Base
(3) 2018 net debt and RAB figures at 31 December 2018. Nominal net debt excludes intra-group loans and includes inflation-linked accretion
(4) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

Heathrow (SP) Limited is the holding company of a group of companies that fully own 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.

Heathrow Chief Financial Officer Javier Echave said:

"Heathrow is on-track for another year of record performance – which is great news for UK plc. Passengers are getting a better service, we have consulted on a strong masterplan to expand and we can see lower airfares and more airline choice for passengers appearing on the horizon. New investments in technology and a more sustainable supply chain are helping us to build a better Heathrow for the future - but carbon emissions remain the aviation industry's most pressing challenge. We are committed to overcoming it and we will be outlining our own bold plans to reduce or offset aircraft emissions at Heathrow in the coming months."

Heathrow
Making every journey better

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## Creditors and credit analysts conference call hosted by Javier Echave, CFO

### 25th October 2019

3.00pm (UK time – Central European Time), 10.00am (Eastern Standard Time)

UK: +44 (0)33 3300 0804

North America: +1 631 9131 422

Dial in access list

Participant PIN code: 51152288#

The presentation can be accessed online or through the webcast password: 301278362

## Strategic priorities

### MOJO

We want Heathrow to be a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continued building strong leadership capability in the first nine months of 2019, 174 colleagues were promoted and 1,069 colleagues attended training and development programmes.

We want everyone to go home safe and well to their loved ones. In the first nine months of 2019, our lost time injuries metric slightly increased to 0.40 (2018: 0.39). Targeted action plans are in place to address the worsened score such as reducing injuries to security officers when searching vehicles and bags.

Following Unite's decision to take strike action, we have proposed a progressive pay package which has been taken to ballot. We are pleased that Unite has recommended this to be accepted, and we await the outcome.

### TRANSFORM CUSTOMER SERVICE

We continue to deliver strong levels of service across our passengers' journey. Our service standards remain extremely high, despite passenger growth putting pressure on some key processes.

During the first nine months of the year, we achieved an ASQ of 4.16 out of 5.00 (2018: 4.16) compared to 3.97 just five years ago. In addition, 82% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2018: 82%). These scores illustrate not only the strength and resilience of our operations but also the benefits of our continued investments. For instance, passengers are enjoying upgraded Wi-Fi facilities and a transformed immigration experience as a result of newly installed e-Gates.

| **Service standard performance indicators**[(1)] | 2018 | **2019** |
|---|---|---|
| ASQ | 4.16 | **4.16** |
| Baggage connection | 98.7% | **99.0%** |
| Departure punctuality | 78.3% | **80.4%** |
| Security queuing | 97.0% | **96.4%** |

(1) For the nine months ended 30 September 2019

#### Investing in Heathrow

Total capital expenditure in the first nine months of 2019 was £649 million (2018: £590 million). We invested £489 million (2018: £499 million) in a variety of programmes to improve the passenger experience, airport resilience and asset replacement. We also progressed our plans to expand Heathrow with investment of an additional £160 million in the period (2018: £91 million).

### BEAT THE PLAN

#### Record passenger traffic

A record 61 million passengers travelled through Heathrow in the first nine months of 2019, an increase of 0.7% on the same period last year (2018: 60.5 million). Aircraft continue to fly fuller with load factors increasing to 80.2% (2018: 79.8%). Although the 0.4pp uplift in load factors is encouraging, 1 in 5 seats remain empty which provides a significant growth opportunity. The volume element of the commercial airline deal aims to tap into this opportunity and to further drive down airline charges. Air traffic movements ("ATMs") grew 0.3% as the airport looks to maximize the use of runway slots within the 480,000 limit. In addition, we have seen fewer slot handbacks and more adhoc flights. The average number of seats per passenger aircraft remained broadly in line with last year at 213.2 (2018: 213.4).

Intercontinental routes continue to be the key geographic driver of growth, resulting in long haul traffic increasing by 1.9% on last year. North American traffic grew 3.8% through increased load factors, flight frequency and aircraft size to a number of destinations such as New York, Boston and Miami, and new routes to Las Vegas and Dallas. African traffic also grew strongly driven by increased flight frequency to Johannesburg and new routes to Marrakesh, Seychelles and Durban. Short haul traffic declined slightly by 0.7%, with UK traffic down 0.5% and European traffic down by 0.7% due to British Airways reducing movements in these markets.

Our cargo volumes declined 6.0% compared to the first nine months of 2018. The result reflects the general weakness in the global market in 2019. Our cargo operation reached capacity in 2018 and we expect volumes to remain relatively flat until the capacity constraints are resolved by expanding Heathrow.

| *(Millions)* | 2018 | **2019** | Var %[(1)] |
|---|---|---|---|
| UK | 3.6 | **3.6** | (0.5) |
| Europe | 25.3 | **25.1** | (0.7) |
| North America | 13.7 | **14.2** | 3.8 |
| Asia Pacific | 8.7 | **8.6** | (0.7) |
| Middle East | 5.8 | **5.8** | (1.0) |
| Africa | 2.4 | **2.6** | 7.6 |
| Latin America | 1.0 | **1.1** | 2.2 |
| Total passengers | 60.5 | **61.0** | 0.7 |

(1) Calculated using unrounded passenger figures

| Other traffic performance indicators | 2018 | **2019** | Var % |
|---|---|---|---|
| Passenger ATM | 355,425 | **356,317** | 0.3 |
| Load factors (%) | 79.8 | **80.2** | 0.5 |
| Seats per ATM | 213.4 | **213.2** | (0.1) |
| Cargo tonnage ('000) | 1,264 | **1,189** | (6.0) |

## SUSTAINABLE GROWTH

### Tackling climate change

Tackling climate change is the biggest challenge of our generation and the aviation industry must be part of the solution. At Heathrow, we believe our four-part plan will enable the industry to decarbonise over the coming decades.

Currently, we are focused on modernising airspace and making ground operations more efficient. Heathrow has also invested over £100 million in sustainability transformation over the past six years which means our airport infrastructure will be carbon neutral from 2020 – this includes investments in electric car fleets and charging points, renewable energy generation and peatland restoration projects. Alongside that, we are promoting and investing in best-practice offsetting measures and carbon capture. These changes will contribute to a reduction in emissions in the short-term. Over the coming years, we will be investing further to achieve zero carbon airport infrastructure by 2050 at the latest – our ambition is to deliver this change much sooner.

In the medium term, scaling up the production of sustainable alternative fuels will help the industry reduce emissions from their primary source – aircraft. In September, our Chief Executive John Holland-Kaye joined world leaders at the UN Climate Action Summit in New York and announced that we would join the World Economic Forum's new 'Clean Skies for Tomorrow Coalition' aimed at accelerating decarbonisation in the aviation sector, with a particular focus on sustainable fuels.

Finally and in the longer-term, the industry must accelerate the arrival of new aircraft technology, including hybrid and electric aircraft, that will transition the industry to a net zero carbon future.

We welcome the Government's goal to make the UK economy net zero carbon by 2050 and the Committee on Climate Change's recent recommendation to include aviation in the UK's 2050 net zero target. We are also pleased to see airlines beginning to show leadership in addressing this issue, including International Airline Group's recent announcement to offset all UK domestic flights. This follows the announcement that Heathrow's biggest airline will begin producing sustainable jet fuel from 2024 as it commits to achieving net zero emissions by 2050.

We believe that there is further scope for the Government to help the aviation industry move faster by working with other governments to prioritise sustainable fuels for aviation - the hardest sector to decarbonise - and set common and progressive targets for the percentage of aviation fuel that must be from sustainable sources. This will send a strong signal to producers to increase investment in biofuel and synthetic fuel production and start to reduce the cost of production. The Government should also invest some of the annual £4 billion it already raises from air passengers in the form of Air Passenger Duty ("APD") in the production of sustainable fuels. APD is the highest of its kind in the world, and the revenue raised is not used to help manage the environmental effects of aviation. Given the scale of the challenge and society's desire to address climate change, it is right that the money air passengers are already paying should be spent to scale-up alternative sustainable fuels and develop new clean technologies sooner, alongside contributions from industry. We will continue to use our position as one of the world's top aviation hubs to drive this important change by the wider industry.

### Heathrow 2.0

We also continued progressing against our Heathrow 2.0 sustainability strategy. The Heathrow Centre of Excellence for Sustainability launched a new trial for a recycling unit that could process up to 5,000 tonnes of non-recyclable plastic once scaled up and could allow Heathrow to recycle 100% of its on-airport plastic waste into airport furniture, uniforms and alternative fuels.

Over the summer, a hand-made Botanical Tapestry depicting global flora was installed at Terminal 2, celebrating Heathrow's partnership with the Royal Botanic Gardens, Kew and their milestone £25,000 raised from the exclusive reusable shopping bag launched last November.

In September, one of our key sites The Princes Lakes won the Biodiversity Legacy Award at the Construction Industry Research Information Association ("CIRIA") Awards. Comprising around 100 hectares of lakes and woodland, the project was crowned due to the improvements generated by the habitat management plan including the creation of new reedbeds and establishing a woodland management regime seeking to improve the structural diversity of our wooded areas.

### Key Expansion developments

Heathrow expansion achieved a significant milestone during the period with the unveiling of our draft preferred masterplan and the successful completion of our latest round of public consultation. Our consultation outlined latest plans for our future airport, how we propose to operate and manage our growth and how we will deliver a sustainable, affordable and financeable expanded Heathrow at no cost to the taxpayer. We expect the new runway to open as early as 2026. We are currently assessing the feedback from the consultation – which closed in September – and remain on track to submit our development consent order ("DCO") application in 2020. The draft preferred masterplan outlines how the airport will grow in phases from the opening of the new runway up to 2050. Infrastructure development at the airport will align closely with forecast passenger growth, providing a phased capital expenditure programme. This approach will ensure we can deliver affordable passenger charges, drive further competition and choice, help airlines schedule and develop new routes and reduce operational disruption to minimise impact on the customer experience.

We remain committed to the long term sustainable expansion of Heathrow. A key component of this is set out in the Airport Expansion Consultation with our proposals for an Environmentally Managed Growth framework. It sets out our proposals for how Heathrow's growth would be managed in accordance with environmental limits on air quality, surface access, noise and carbon, and supports growth in flights at the airport while ensuring Heathrow's environmental performance stays within maximum limits. The Environmentally Managed Growth Framework supports our other commitments to reduce the impact of construction on the local environment, such as by adopting innovative construction practices including our logistics hubs - four off-site centres for pre-assembly and consolidation located across the UK - to help us deliver expansion sustainably and efficiently.

In parallel with the ongoing development consent process outlined above, we will continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports National Policy Statement – the appeal hearings for which are ongoing. Judicial reviews are common in infrastructure projects of this size. Our plans remain on-track and we will support the Department for Transport throughout this process. We remain totally confident in the robust process that has got us to this point, including the extensive evidence gathered by the independent Airports Commission, multiple rounds of public consultation and the overwhelming cross-party support of Parliament.

### Expansion – Regulatory developments

The Civil Aviation Authority's ("CAA's") objective in developing the framework for the next regulatory period (known as H7) is to find a framework that facilitates affordable and financeable delivery of new capacity, driving competition and choice in the best interest of consumers while fulfilling its duty to enable effective funding of Heathrow's operations. The CAA plans to provide additional clarity on the regulatory framework in November 2019 when it publishes its next consultation papers.

To better align the next regulatory period ('H7') with the overall expansion timetable and related statutory process, the CAA extended our economic licence by one year to 31 December 2019. For the period encompassing 2020 and 2021 known iH7 (Interim H7) we have signed a Commercial Agreement with the airline community on the aeronautical charges to be applied. The Agreement is built around overlaying fixed and volume-based rebates onto an extension of the existing RPI-1.5% path and regulatory framework. The deal aims to incentivise airlines to prioritise volume growth over yield which helps to reduce traffic ramp up risk as new capacity is released. The CAA has confirmed the Agreement is in the interest of consumers, and has issued notice of proposed licence modifications to extend this by a further two year period up to 31 December 2021, taking into account the Agreement signed by Heathrow and a majority of the airline community. The CAA will formalise the extension by the end of 2019.

In July 2019, the CAA published a new consultation titled "Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable (CAP1819)". In this consultation, the CAA consults on the regulatory treatment of Category B costs, pre-DCO Category C costs and the timetable for H7. Regarding Category B and pre-DCO Category C costs, the CAA confirms that these are in the interest of consumers and that these should be added to Heathrow's RAB and if efficiently delivered can be recoverable by Heathrow. In addition, the CAA consults on what is the most appropriate allowed return for these costs in 2020 and 2021 and describes the next steps to formally give effect to its policy on these costs. We have a long track record of delivering multi-billion pound infrastructure on-budget. We are committed to delivering the consumer benefits of expansion as soon as possible. The runway opening date will depend among other things on the level of investment in land acquisition and design ahead of receiving DCO consent. The earliest possible runway opening date is the end of 2026. We will have further clarity on this by the end of 2019.

Lastly, in August 2019, the CAA launched a further consultation titled "Economic regulation of Heathrow Airport Limited working paper on financial resilience and ring fencing". Consistent with its duties, the CAA aims to ensure that Heathrow remains financially resilient throughout H7 in order to deliver expansion. In this working paper the CAA discusses potential alternatives to do so and we agree with the CAA that financeability and financial resilience are instrumental objectives to delivering expansion.

## Financial Review

### Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow SP') is the holding company of a group of companies (the 'Group'), which includes Heathrow Airport Limited ('HAL') which owns and operates Heathrow airport, and Heathrow Express Operating Company Limited ('Hex Opco') which operates the Heathrow Express rail service. Heathrow SP's consolidated accounts are prepared under International Financial Reporting Standards ('IFRS').

### Adjusted EBITDA

For the nine month period ended 30 September 2019, Adjusted EBITDA was £1,459 million (2018: £1,372 million)

Following the adoption of IFRS 16, £37 million of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA. Adjusted EBITDA excluding the application of IFRS 16 has increased 3.6% to £1,422 million. (2018: £1,372 million)

Management uses Adjusted EBITDA to monitor performance of the segments as it believes it more appropriately reflects the underlying financial performance of the Group's operations.

### Revenue

Revenue increased 4.1% to £2,302 million (2018: £2,211 million).

| 9 months ended 30 September | 2018 £m | **2019 £m** | Var. % |
|---|---|---|---|
| Aeronautical | 1,307 | **1,379** | 5.5 |
| Retail | 520 | **536** | 3.1 |
| Other | 384 | **387** | 0.8 |
| **Total revenue** | 2,211 | **2,302** | 4.1 |

Aeronautical revenue has increased by 5.5% compared to 2018. Record passenger traffic coupled with yield concentration from a favourable mix of long-haul passengers and recovery of prior year yield dilution continue to be key drivers of growth. This has been somewhat offset by the introduction of our commercial airline deal. Aeronautical revenue per passenger has increased by 4.8% to £22.62 (2018: £21.59).

| 9 months ended 30 September | 2018 £m | **2019 £m** | Var. % |
|---|---|---|---|
| Retail concessions | 235 | **252** | 7.2 |
| Catering | 46 | **48** | 4.3 |
| Other retail | 87 | **84** | (3.4) |
| Car parking | 94 | **93** | (1.1) |
| Other services | 58 | **59** | 1.7 |
| **Total retail revenue** | 520 | **536** | 3.1 |

Retail revenue has grown by 3.1%, led by retail concessions and catering, reflecting strong passenger traffic. The Pound weakening against both Euro and US Dollar has also improved our concessions revenue. Catering continues to have strong performance as passengers enjoy the improved variety of eateries on offer. Retail revenue per passenger rose 2.3% to £8.79 (2018: £8.59).

| 9 months ended 30 September | 2018 £m | **2019 £m** | Var. % |
|---|---|---|---|
| Other regulated charges | 184 | **181** | (1.6) |
| Heathrow Express | 91 | **87** | (4.4) |
| Property and other | 109 | **119** | 9.2 |
| **Total other revenue** | 384 | **387** | 0.8 |

Other revenue remained broadly in line with 2018. Other regulated charges declined by 1.6% mainly due to lower baggage volumes and consumption of preconditioned air. Property revenues grew 9.2% mainly due to one off access charges. Heathrow Express saw a 4.4% decline in revenue due to cessation of Connect services and pricing dilution.

### Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation increased 0.5% to £843 million (2018: £839 million). Operating costs per passenger excluding depreciation and amortisation decreased by 0.2% to £13.83 (2018: £13.86).

| 9 months ended 30 September | 2018 £m | **2019 £m** | Var. % |
|---|---|---|---|
| Employment | 278 | **278** | 0.0 |
| Operational | 198 | **204** | 3.0 |
| Maintenance | 135 | **132** | (2.2) |
| Rates | 91 | **88** | (3.3) |
| Utilities and Other | 137 | **141** | 2.9 |
| **Operating costs before depreciation and amortisation** | 839 | **843** | 0.5 |

Following the adoption of IFRS 16, £37 million of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA. Of the £37 million, £17 million would have been located within operational costs, £1 million within maintenance costs and £19 million within utilities.

Operating costs excluding the application of IFRS 16 have increased, which was primarily driven by investment in security, resilience and passenger experience. We spent more on services for passengers with reduced mobility, upgrading drone defence capabilities, implementing new hold baggage screening and investing in our IT systems. Utilities costs also increased due to higher consumption. Excluding the application of IFRS 16, operating costs are up 4.9% to £880 million, and on a per passenger basis up 4.2% to £14.44.

### Operating profit and profit/loss after tax

Operating profit decreased to £869 million (2018: £892 million). Depreciation and amortisation increased to £585 million (2018: £543 million) impacted by the implementation of IFRS 16.

Adjusted EBITDA increased 6.3% to £1,459 million (2018: £1,372 million), resulting in an Adjusted EBITDA margin of 63.4% (2018: 62.1%).

| 9 months ended<br>30 September | 2018<br>£m | **2019**<br>**£m** |
|---|---|---|
| **Profit/(loss)** | 333 | **(91)** |
| Taxation charge | 93 | 15 |
| **Profit/(loss) before tax** | 426 | **(76)** |
| Finance income | (1) | (5) |
| Finance costs after certain re-measurements | 467 | 950 |
| **Operating profit** | 892 | **869** |
| Depreciation and amortisation | 543 | 585 |
| **EBITDA** | 1,435 | **1,454** |
| Fair value (gain)/loss on investment properties | (63) | 5 |
| **Adjusted EBITDA** | 1,372 | **1,459** |
| Impact of IFRS 16[(1)] | - | (37) |
| **Adjusted EBITDA excl. impact of IFRS 16[(1)]** | 1,372 | **1,422** |

(1) Following the adoption of IFRS 16, £37m of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA.

For the nine months ended 30 September 2019, the Group recorded a loss after tax of £91 million (2018: £333 million profit). This includes £368 million fair value loss on derivatives as a result of increased inflation expectations and a downward shift in the 6 month LIBOR curve affecting both index-linked and interest rate swaps.

| 9 months ended<br>30 September | 2018<br>£m | **2019**<br>**£m** |
|---|---|---|
| **Profit/(loss) before tax** | 426 | **(76)** |
| Fair value (gain)/loss on investment properties | (63) | **5** |
| Fair value (gain)/loss on financial instruments | (151) | **368** |
| **Adjusted profit before tax** | 212 | **297** |

### Taxation

The tax charge for the nine month period ended 30 September 2019, before certain re-measurements, was £78 million (2018: £57 million), charged at 26.3% (nine months ended 30 September 2018: 26.9%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to pre-tax income of the nine month period, before certain re-measurements. The effective tax rate being higher than the statutory rate of 19% (2018: statutory rate of 19%) reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge for the nine month period ended 30 September 2019 is £15 million (nine months ended 30 September 2018: £93 million), representing the sum of the tax charge on profits before certain re-measurements and the tax charge on certain re-measurements. For the period, the Group paid £70 million (nine months ended 30 September 2018: £44 million) in corporation tax.

### Cash generated from operations

In the nine month period ended 30 September 2019, cash generated from operations increased 9.5% to £1,463 million (2018: £1,336 million). The following table reconciles cash generated from operations to Adjusted EBITDA.

| 9 months ended<br>30 September | 2018<br>£m | **2019**<br>**£m** |
|---|---|---|
| **Cash generated from operations** | 1,336 | **1,463** |
| Increase/(decrease) in receivables and inventories[(1)] | 13 | **(53)** |
| Decrease in payables | 4 | **27** |
| Decrease in provisions | 5 | **4** |
| Difference between pension charge and cash contributions | 14 | **18** |
| **Adjusted EBITDA** | 1,372 | **1,459** |

(1) Excludes movement in group deposits

### Restricted payments

In the nine months ended 30 September 2019, Heathrow's ultimate shareholders received £300 million (2018: £341 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow SP in the period amounted to £684 million (net) or £1,350 million (gross). Other than the £295 million (2018: £326 million) payment made by Heathrow SP to Heathrow Finance to fund dividends to ultimate shareholders and a £2 million payment to fund interest payments on loan facilities at ADIF2, net restricted payments related mainly to meeting £110 million (2018: £99 million) of interest on the debenture between Heathrow SP and Heathrow Finance, £268 million from Heathrow SP to Heathrow Finance to repay the 2019 Heathrow Finance bond, and net outflow of £9 million to Heathrow Finance to fund external debt repayments offset by additional facilities at Heathrow Finance.

## RECENT FINANCING ACTIVITY

With global investors' continued confidence and support on our credit through expansion we have raised £1.5 billion of debt financing in the first nine months of 2019, underpinning our robust liquidity position and providing additional duration and diversification to our £14.2 billion debt portfolio. Of the £1.5 billion of debt raised, around £950 million was in Class A format and £550 million of debt was raised at Heathrow Finance.

Class A financing activities included:

a) a €650 million 15-year Class A bond maturing in 2034,
b) a €86 million Class A 20-year zero coupon bond,
c) a CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss Franc issuance,
d) £140 million term debt, and
e) redemption of our $400m CAD bond

Financing activities at Heathrow Finance included:

a) £550 million loan facilities which have been partially drawn
b) an early redemption of the 2019 Heathrow Finance bond on the 4th March 2019.

## FINANCING POSITION

### Debt and liquidity at Heathrow (SP) Limited

At 30 September 2019, Heathrow SP's nominal net debt was £12,844 million (31 December 2018: £12,407 million). It comprised £12,070 million in bond issues, £1,459 million in other term debt and £395 million in index-linked derivative accretion. This was offset by £1,080 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,487 million in senior net debt and £1,357 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 September 2019 was 3.42% (31 December 2018: 3.63%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 September 2019 was 4.74% (31 December 2018: 5.40%). The reduction in the average cost of debt since the end of 2018 is mainly due to:

a) the replacement of relatively high cost maturing legacy debt with new lower cost debt; and
b) falling RPI inflation, which reduced index linked swap accretion

The average life of Heathrow SP's gross debt as at 30 September 2019 was 11.7 years (31 December 2018: 12 years).

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

The accounting value of Heathrow SP's net debt was £13,040 million at 30 September 2019 (31 December 2018: £12,158 million). This includes £1,080 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until May 2021. This includes forecast capital investment (including projected expansion related investments as per our recently published draft preferred masterplan), debt service costs, debt maturities and distributions. This liquidity position takes into account £3.6 billion in undrawn loan facilities, bonds and term debt to be drawn as well as cash resources at 30 September 2019 together with expected operating cash flow over the period.

### Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £14,175 million (31 December 2018: £13,980 million). This comprised Heathrow SP's £12,844 million nominal net debt, Heathrow Finance's nominal gross debt of £1,707 million and cash and term deposits held at Heathrow Finance of £376 million.

### Financial ratios

Heathrow SP and Heathrow Finance continue to operate comfortably within required financial ratios. Gearing ratios under the Heathrow SP financing agreements are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ("RAB").

At 30 September 2019, Heathrow's RAB was £16,529 million (31 December 2018: £16,200 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 69.5% and 77.7% respectively (31 December 2018: 68.2% and 76.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 85.8% (31 December 2018: 86.3%) with a covenant of 92.5%. The covenant at Heathrow Finance has changed earlier in the year from 90% to 92.5% due to the redemption of the 2019 notes at Heathrow Finance.

## PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme), which closed to new members in June 2008. At 30 September 2019, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.1% (31 December 2018: 100.7%). This translated into a surplus of £4 million (31 December 2018: £28 million surplus). The £24 million decrease in the surplus in the nine months is primarily due to actuarial losses of £42 million, attributable to a decrease in the net discount rate of 1.00% over the nine months. In the first nine months of 2019, we contributed £37 million (nine months to 30 September 2018: £36 million) into the defined benefit pension scheme including £17 million (nine months to 30 September 2018: £17 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

The triennial valuation (as at 30 September 2018) has been completed and agreed by the Trustees of the scheme and LHR Airports Ltd, setting out the contributions needed to cover the costs of the benefits that active members will build up in the future and additional cash contributions from Heathrow to make up the shortfall between Technical liabilities and assets at that date. The additional cash contributions of £20 million per year from 1 October 2019 (£23 million per year before 1 October 2019) are expected to eliminate the shortfall within 4 years.

## POST BALANCE SHEET EVENTS

There have been no material post balance sheet events.

## ALTERNATIVE PERFORMANCE MEASURES (APM)

In preparing the nine month condensed consolidated interim financial information, a number of financial measures have been used to assess our performance that are not specifically defined under IFRS and are therefore categorised as alternative performance measures, or "APMs". These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2018. A reconciliation of each APM to the most directly comparable measures calculated and presented in accordance with IFRS are included on initial use of the APM in this report.

## PRINCIPAL RISKS

The directors do not consider that principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2018. A detailed explanation of the risks and how the Group seeks to mitigate the risks can be found on pages 20 to 26 of the annual report.

With regard to Brexit, a "no deal" exit on 31 October 2019 scenario has been developed which compares favourably to the scenarios developed in advance of the previous 29 March 2019 exit scenario assumed in the annual report. The improvements in our risk position are principally driven by the positive effects of EU/UK Contingency Agreements on air service levels and aviation safety, as well as the automation of Border e-Gates which reduces the risks to border resourcing and congestion. Residual Brexit-driven risks have reduced with progress made on several passenger and cargo issues including VAT reclaim, duty free, and cargo screening, although general concerns about the level of business readiness in the UK remain. Dialogue with Government agencies has continued and we continue to press for resolution on outstanding issues.

We do not expect that the current political situation in the UK will have any significant impact on Heathrow.

## OUTLOOK

The outlook for our underlying performance in 2019 remains consistent with the forecast set out in the Investor Report published on 27 June 2019. We also forecast to maintain comfortable covenant headroom.

## KEY MANAGEMENT CHANGES

There have been no key management changes since the last results announcement.

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## DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm that to the best of our knowledge the condensed set of financial statements have been prepared in accordance with IAS34 'Interim Financial Reporting'.

This report was approved and authorised by the Board and was issued on behalf of the Board on 24 October 2019.

**Javier Echave**
Director

**Nicholas Golding**
Director

# Appendix 1 Financial information

## Heathrow (SP) Limited

## Condensed consolidated income statement for the period ended 30 September 2019

| | | Unaudited | | | | | | | | | | | | Audited[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Three months ended | | | | | | Nine months ended | | | | | | Year ended |
| | | **30 September 2019** | | | 30 September 2018 | | | **30 September 2019** | | | 30 September 2018 | | | 31 December 2018 |
| | | **Before Certain re-measurements** | **Certain re-measurements[a]** | **Total** | Before Certain re-measurements | Certain re-measurements[a] | Total | **Before Certain re-measurements** | **Certain re-measurements[a]** | **Total** | Before Certain re-measurements | Certain re-measurements[a] | Total | Total |
| | *Note* | **£m** | **£m** | **£m** | £m | £m | £m | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| **Continuing operations** | | | | | | | | | | | | | | |
| **Revenue** | *1* | **841** | **-** | **841** | 806 | - | 806 | **2,302** | **-** | **2,302** | 2,211 | - | 2,211 | 2,970 |
| Operating costs | *2* | **(479)** | **-** | **(479)** | (468) | - | (468) | **(1,428)** | **-** | **(1,428)** | (1,382) | - | (1,382) | (1,876) |
| Other operating items | | | | | | | | | | | | | | |
| Fair value (loss)/gain on investment properties | | **-** | **2** | **2** | - | 24 | 24 | **-** | **(5)** | **(5)** | - | 63 | 63 | 117 |
| **Operating profit** | | **362** | **2** | **364** | 338 | 24 | 362 | **874** | **(5)** | **869** | 829 | 63 | 892 | 1,211 |
| **Financing** | | | | | | | | | | | | | | |
| Finance income[b] | | **1** | **-** | **1** | - | - | - | **5** | **-** | **5** | 1 | - | 1 | 2 |
| Finance costs[b] | | **(219)** | **(229)** | **(448)** | (221) | (4) | (225) | **(582)** | **(368)** | **(950)** | (618) | 151 | (467) | (791) |
| **Net finance cost** | *3* | **(219)** | **(229)** | **(447)** | (221) | (4) | (225) | **(577)** | **(368)** | **(945)** | (617) | 151 | (466) | (789) |
| **Profit/(loss) before tax** | | **144** | **(227)** | **(83)** | 117 | 20 | 137 | **297** | **(373)** | **(76)** | 212 | 214 | 426 | 422 |
| **Taxation credit/(charge)** | *4* | **(37)** | **39** | **2** | (33) | (3) | (36) | **(78)** | **63** | **(15)** | (57) | (36) | (93) | (89) |
| **(Loss)/profit for the period** | | **107** | **(188)** | **(81)** | 84 | 17 | 101 | **219** | **(310)** | **(91)** | 155 | 178 | 333 | 333 |

[a] Certain re-measurements consist of: fair value (losses)/gains on investment property revaluations and disposals; gains and losses arising on the re-measurement 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.
[b] Three months ended September 2018 (£52) million and £52 million) to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.
[c] This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

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# Heathrow (SP) Limited

## Condensed consolidated statement of comprehensive income for the period ended 30 September 2019

| | **Unaudited Three months ended 30 September 2019 £m** | Unaudited Three months ended 30 September 2018 £m | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited[c] Year ended 31 December 2018 £m |
|---|---|---|---|---|---|
| (Loss)/profit for the period | **(81)** | 101 | **(91)** | 333 | 333 |
| ***Items that will not be subsequently reclassified to the consolidated income statement:*** | | | | | |
| Actuarial (loss)/gain on pensions net of tax: | | | | | |
| Gain/(loss) on plan assets[b] | **293** | (53) | **620** | (140) | (192) |
| (Increase)/decrease in scheme liabilities[b] | **(264)** | 16 | **(655)** | 285 | 310 |
| ***Items that may be subsequently reclassified to the consolidated income statement:*** | | | | | |
| **Cash flow hedges net of tax:** | | | | | |
| Gains/(losses) taken to equity[b] | **(4)** | 12 | **100** | (163) | (162) |
| Transfer to finance costs[b] | **(3)** | 17 | **(77)** | 189 | 198 |
| Other comprehensive (loss)/income for the period net of tax | **22** | 32 | **(12)** | 171 | 154 |
| Total comprehensive (loss)/income for the period[a] | **(59)** | 69 | **(103)** | 504 | 487 |

[a] Attributable to owners of the parent.
[b] Items in the statement above are disclosed net of tax.
[c] This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

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# Heathrow (SP) Limited

## Condensed consolidated statement of financial position as at 30 September 2019

| | Note | **Unaudited as at 30 September 2019** | Unaudited as at 30 September 2018 | Audited[a] as at 31 December 2018 |
|---|---|---|---|---|
| | | **£m** | £m | £m |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | *5* | **11,530** | 11,407 | 11,405 |
| Right of use asset | | **280** | - | - |
| Investment properties | *6* | **2,470** | 2,414 | 2,472 |
| Intangible assets | | **166** | 161 | 173 |
| Retirement benefit surplus | *9* | **4** | 64 | 28 |
| Derivative financial instruments | *8* | **901** | 466 | 543 |
| Trade and other receivables | | **19** | 17 | 20 |
| | | **15,370** | 14,529 | 14,641 |
| **Current assets** | | | | |
| Inventories | | **12** | 11 | 13 |
| Trade and other receivables | | **251** | 274 | 302 |
| Term deposits | | **389** | - | 120 |
| Cash and cash equivalents | | **691** | 128 | 591 |
| | | **1,343** | 413 | 1,026 |
| **Total assets** | | **16,713** | 14,942 | 15,667 |
| | | | | |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | *7* | **(15,628)** | (14,069) | (14,813) |
| Derivative financial instruments | *8* | **(1,758)** | (1,327) | (1,523) |
| Lease liabilities | | **(352)** | - | - |
| Deferred income tax liabilities | | **(801)** | (930) | (907) |
| Retirement benefit obligations | *9* | **(32)** | (34) | (32) |
| Provisions | | **(1)** | (8) | (1) |
| Trade and other payables | | **(7)** | (6) | (7) |
| | | **(18,579)** | (16,374) | (17,283) |
| **Current liabilities** | | | | |
| Borrowings | *7* | **(639)** | (496) | (496) |
| Derivative financial instruments | *8* | **(44)** | (23) | (39) |
| Lease liabilities | | **(35)** | - | **-** |
| Provisions | | **(9)** | (1) | (13) |
| Current income tax liabilities | | **(69)** | (55) | (39) |
| Trade and other payables | | **(460)** | (453) | (433) |
| | | **(1,256)** | (1,028) | (1,020) |
| **Total liabilities** | | **(19,835)** | (17,402) | (18,303) |
| **Net liabilities** | | **(3,122)** | (2,460) | (2,636) |
| | | | | |
| **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 | | **(193)** | (226) | (216) |
| Retained earnings | | **319** | 1,014 | 828 |
| **Total shareholder's equity** | | **(3,122)** | (2,460) | (2,636) |

[a] This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

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# Heathrow (SP) Limited

## Condensed consolidated statement of changes in equity for the period ended 30 September 2019

| | 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 2018 (previously reported) | 11 | 499 | (3,758) | (252) | 865 | (2,635) |
| Adjustment in respect of: | | | | | | |
| Transition to IFRS 15 | | | | | (1) | (1) |
| Transition to IFRS 9 | | | | | (2) | (2) |
| 1 January 2018 (re-stated) | 11 | 499 | (3,758) | (252) | 862 | (2,638) |
| **Comprehensive income:** | | | | | | |
| Profit for the period | | | | | 333 | 333 |
| **Other comprehensive income:** | | | | | | |
| Fair value gain on cash flow hedges net of tax | | | | 36 | | 36 |
| Actuarial gain on pension net of tax: | | | | | | |
| Loss on plan assets | | | | | (192) | (192) |
| Decrease in scheme liabilities | | | | | 310 | 310 |
| **Total comprehensive income** | - | - | - | 36 | 451 | 487 |
| Transaction with owners: | | | | | | |
| Dividends paid to Heathrow Finance plc | - | - | - | - | (485) | (485) |
| Total transaction with owners | - | - | - | - | (485) | (485) |
| 31 December 2018 (Audited)[a] | 11 | 499 | (3,758) | (216) | 828 | (2,636) |
| **1 January 2019 (re-stated)[b]** | **11** | **499** | **(3,758)** | **(216)** | **831** | **(2,633)** |
| **Adjustment in respect of:** | | | | | | |
| Transition to IFRS 16 | | | | | **(89)** | **(89)** |
| **1 January 2019 (re-stated)** | **11** | **499** | **(3,758)** | **(216)** | **742** | **(2,722)** |
| **Comprehensive income:** | | | | | | |
| Loss for the period | | | | | **(91)** | **(91)** |
| **Other comprehensive income:** | | | | | | |
| Fair value gain on cash flow hedges net of tax | | | | **23** | | **23** |
| Actuarial loss on pension net of tax: | | | | | | |
| Gain on plan assets | | | | | **620** | **620** |
| Increase in scheme liabilities | | | | | **(655)** | **(655)** |
| **Total comprehensive income** | **-** | - | - | **23** | **(126)** | **(103)** |
| **Transaction with owners:** | | | | | | |
| Dividends paid to Heathrow Finance plc | **-** | - | - | - | **(297)** | **(297)** |
| **Total transaction with owners** | **-** | - | - | - | **(297)** | **(297)** |
| **30 September 2019 (Unaudited)** | **11** | **499** | **(3,758)** | **(193)** | **319** | **(3,122)** |

[a] This is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.
[b] Opening retained earnings restated by £3 million due to cumulative rounding adjustments.

# Heathrow (SP) Limited

## Condensed consolidated statement of changes in equity for the period ended 30 September 2018

| | Attributable to owners of the Company (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Merger reserve £m | Cash flow hedge reserve £m | Retained earnings £m | Total equity £m |
| **1 January 2018 (previously reported)** | 11 | 499 | (3,758) | (252) | 865 | (2,635) |
| **Adjustment in respect of:** | | | | | | |
| Transition to IFRS 15 | - | - | - | - | (1) | (1) |
| Transition to IFRS 9 | - | - | - | - | (2) | (2) |
| **1 January 2018 (re-stated)** | 11 | 499 | (3,758) | (252) | 862 | (2,638) |
| **Comprehensive income:** | | | | | | |
| Profit for the period | - | - | - | - | 333 | 333 |
| **Other comprehensive income:** | | | | | | |
| Fair value gain on cash flow hedges net of tax | - | - | - | 26 | - | 26 |
| Actuarial gain on pension net of tax: | | | | | | |
| Loss on plan assets | - | - | - | - | (140) | (140) |
| Decrease in scheme liabilities | - | - | - | - | 285 | 285 |
| **Total comprehensive income** | - | - | - | 26 | 478 | 504 |
| **Transaction with owners:** | | | | | | |
| Dividends paid to Heathrow Finance plc | - | - | - | - | (326) | (326) |
| **Total transaction with owners** | - | - | - | - | (326) | (326) |
| **30 September 2018** | 11 | 499 | (3,758) | (226) | 1,014 | (2,460) |

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# Heathrow (SP) Limited

## Condensed consolidated statement of cash flows for the period ended 30 September 2019

| | Note | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited[3] Year ended 31 December 2018 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | *10* | 1,463 | 1,336 | 1,787 |
| Taxation: | | | | |
| Corporation tax paid | | (70) | (44) | (70) |
| Group relief paid | | - | - | (6) |
| **Net cash from operating activities** | | 1,393 | 1,292 | 1,711 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Purchase of: | | | | |
| Property, plant and equipment | | (591) | (545) | (769) |
| Investment properties | | (3) | (2) | (4) |
| Intangible assets | | - | (8) | (20) |
| (Increase)/decrease in term deposits[1] | | (269) | 12 | (108) |
| Interest received | | 5 | 1 | 2 |
| **Net cash used in investing activities** | | (858) | (542) | (899) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Dividends paid to Heathrow Finance plc | | (297) | (326) | (485) |
| (Decrease)/increase in amount owed to Heathrow Finance | | (277) | (125) | 363 |
| Proceeds from issuance of bonds | | 783 | 678 | 771 |
| Repayment of bonds | | (251) | (910) | (910) |
| Proceeds from issuance of other term debt | | 340 | 245 | 245 |
| Drawdown of revolving credit facilities | | - | 320 | - |
| Repayment of facilities and other financing items | | (20) | (442) | (32) |
| Settlement of accretion on index-linked swaps | | (204) | (98) | (110) |
| Payment of lease liabilities[2] | | (37) | - | - |
| Interest paid | | (473) | (477) | (576) |
| **Net cash used in financing activities** | | (435) | (1,135) | (734) |
| | | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | 100 | (385) | 78 |
| | | | | |
| Cash and cash equivalents at beginning of period | | 591 | 513 | 513 |
| | | | | |
| **Cash and cash equivalents at end of period** | | 691 | 128 | 591 |

[1] Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.

[2] On application of IFRS 16 from 1 January 2019, the cash flow included the payment of principal (£37m) on lease liabilities. Finance cost on lease liabilities and depreciation of the right-of-use asset is added back in calculating net cash from operating activities. The lease payment for the nine month period ended 30 September 2019 is included separately as part of financing activities. In the prior period, the lease payment is included under cash flow from operating activities. Further details on the impact of IFRS 16 is included in Notes to the condensed consolidated financial statements.

[3] This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

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# Heathrow (SP) Limited
# Notes to the condensed consolidated financial statements

## General information

The Company is the holding company of a group of companies that owns Heathrow Airport ('Heathrow') and operates Heathrow Express ('HEX'), the express rail service between Heathrow and central London. Heathrow (SP) Limited is a limited liability company, limited by shares, incorporated in UK and registered in England and Wales, and domiciled in the UK. The Company is a private limited company and its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

## Basis of preparation and new accounting standards, interpretations and amendments

The financial information covers the nine month period ended 30 September 2019 and has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union (EU). This condensed set of financial statements comprises the unaudited financial information for the nine months ended 30 September 2019 and 2018, together with the unaudited consolidated statement of financial position as at 30 September 2019 and 2018.

The financial information for the nine month periods ended 30 September 2019 and 2018 and the year ended 31 December 2018 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The Deloitte LLP audit report on these statutory accounts was unqualified, did not contain an emphasis of matter and did not contain a statement under Section 498 of the Companies Act 2006.

Where financial information in the notes to the condensed consolidated financial statements for year ended 31 December 2018 is labelled audited, the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

The financial information for the nine-month period ended 30 September 2019 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2019. The Group has adopted IFRS 16 'Leases' for the first time with effect from 1 January 2019. Other than in this respect, the financial statements for the nine-month period ended 30 September 2019 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2018.

## Primary financial statements format

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements as listed in (i) and (ii) below, which management separates from the underlying operations of the Group. Also, this column includes exceptional items as listed in (iii) and the effect on taxation of changes in tax rates in (iv) and (v) below. By isolating certain re-measurements and exceptional items, management believes the underlying results provides the reader with a more meaningful understanding of the performance of the Group, by concentrating on the matters over which it exerts influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

The column 'certain re-measurements and exceptional items' in the consolidated income statement contains the following:

i. fair value gains and losses on investment property revaluations and disposals;
ii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;
iii. exceptional items;
iv. the associated tax impacts of the items in (i), (ii) and (iii) above; and
v. the impact on deferred tax balances of known future changes in tax rates.

## Significant accounting judgements and estimates

In applying the Groups accounting policies, management have made judgements and estimates in a number of key areas. Actual results may, however, differ from estimates calculated and management believes that the following areas present the greatest level of uncertainty.

## Critical Judgements

In preparing the nine-month condensed consolidated interim financial information, the areas where judgement has been exercised by management in applying the Group's accounting policies remain consistent with those applied to the Annual Report and Accounts for the year ended 31 December 2018, except for those critical judgements related to lease classification and the application of IFRS16.

In the Annual Report and Accounts for the year ended 31 December 2018, the categorisation of the UK Power Network Services Limited ('UKPNS') agreement as an operating lease under IAS 17 was deemed to be a critical judgement. Since the adoption of IFRS 16 for the first time with effect from 1 January 2019 this lease is categorised as a lease under IFRS 16 and the categorisation as an operating lease is no longer relevant.

On application of IFRS 16, the Group has used incremental borrowing rates as the discounting factor in determining the value of lease liabilities. Management judgment is used in determining the incremental borrowing rates for individual leases considering the primary economic environment of the lease, the credit risk premium, the lease term, level of indebtedness and the nature of the leased asset.

# Heathrow (SP) Limited
# Notes to the condensed consolidated financial statements

## Key sources of estimation uncertainty

In preparing the nine-month condensed consolidated interim financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Accounts for the year ended 31 December 2018.

## Going concern

Having made enquiries and reassessed the principal risks, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, being a period of not less than 12 months from the date of this report. Accordingly, it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial information.

## New IFRS accounting standards and interpretations adopted in the period

Other than the new lease accounting standard IFRS 16 *Leases* there are no other new standards, interpretations and amendments, issued by the IASB or by the IFRS Interpretations Committee (IFRIC), that are applicable for the period commencing on 1 January 2019 that have had a material impact on the Group's results.

**IFRS 16**
The Group has adopted IFRS 16 for the first time with effect from 1 January 2019.

***General impact of application of IFRS 16***
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 has superseded the current lease guidance including IAS 17 Leases and the related interpretations effective for accounting periods beginning on or after 1 January 2019.

The Group has chosen the simplified transition approach of IFRS 16 in accordance with IFRS 16:C5(b). Under this approach the cumulative effect of applying the standard as at 1 January 2019 is recorded as an adjustment to the opening balance of retained earnings. Consequently, the Group has not restated the comparative financial information. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

***Impact of the new definition of a lease***
The Group has not made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IFRS 16 has also been applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts. The new definition under IFRS 16 has not changed the scope of contracts that meet the definition of a lease for the Group compared to the definition under IAS 17.

***Impact on Lessee Accounting***
*Operating leases*
IFRS 16 changed how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases with the exception of short term (leases that are due to expire within 12 months – practical expedient allowed under IFRS 16) and low value leases, the Group has:

- recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments except for some large leases where right-of-use assets are measured as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application;
- recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement from 1 January 2019; and
- separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated cash flow statement from 1 January 2019.

For short-term and low-value assets leases, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Under IFRS 16, lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This has replaced the previous requirement to recognise a provision for onerous lease contracts.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 is an increase in the cash generated by operating activities and an increase in the net cash used in financing activities.

# Heathrow (SP) Limited
# Notes to the condensed consolidated financial statements

**Transition to IFRS 16**

The impact of the transition on the opening consolidated statement of financial position is set out in the following table:

| | Reference | 1 January 2019 £m | IFRS 16 adjustment £m | 1 January 2019 under IFRS 16 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 11,405 | - | 11,405 |
| Right of use asset | (i) | - | 297 | 297 |
| Investment properties | | 2,472 | - | 2,472 |
| Intangible assets | | 173 | - | 173 |
| Retirement benefit surplus | | 28 | - | 28 |
| Derivative financial instruments | | 543 | - | 543 |
| Trade and other receivables | | 20 | - | 20 |
| | | 14,641 | 297 | 14,938 |
| **Current assets** | | | | |
| Inventories | | 13 | - | 13 |
| Trade and other receivables | | 302 | - | 302 |
| Term deposits | | 120 | - | 120 |
| Cash and cash equivalents | | 591 | - | 591 |
| | | 1,026 | - | 1,026 |
| **Total assets** | | 15,667 | 297 | 15,964 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | | (14,813) | - | (14,813) |
| Derivative financial instruments | | (1,523) | - | (1,523) |
| Lease liabilities | (i) | - | (378) | (378) |
| Deferred income tax liabilities | | (907) | 18 | (889) |
| Retirement benefit obligations | | (32) | - | (32) |
| Provisions | | (1) | - | (1) |
| Trade and other payables | | (7) | - | (7) |
| | | (17,283) | (360) | (17,643) |
| **Current liabilities** | | | | |
| Borrowings | | (496) | - | (496) |
| Derivative financial instruments | | (39) | - | (39) |
| Lease liabilities | (i) | - | (26) | (26) |
| Provisions | | (13) | - | (13) |
| Current income tax liabilities | | (39) | - | (39) |
| Trade and other payables | | (433) | - | (433) |
| | | (1,020) | (26) | (1,046) |
| **Total liabilities** | | (18,303) | (386) | (18,689) |
| **Net liabilities** | | (2,636) | (89) | (2,725) |
| **Equity** | | | | |
| **Capital and reserves** | | | | |
| Share capital | | 11 | - | 11 |
| Share premium | | 499 | - | 499 |
| Merger reserve | | (3,758) | - | (3,758) |
| Cash flow hedge reserve | | (216) | - | (216) |
| Retained earnings | (i) | 828 | (89) | 739 |
| **Total shareholder's equity** | | (2,636) | (89) | (2,725) |

(i) As of 31 December 2018, the Group had non-cancellable operating lease commitments of £767 million. On application of IFRS 16 as at 1 January 2019, the Group has recognised a right-of-use asset of £297 million, a corresponding lease liability of £404 million and deferred tax assets of £18 million in respect of all these leases with a resulting net adjustment of £89 million in the retained earnings. The right-of-use asset and corresponding lease liability were previously reported as £446 million and £344 million respectively as at 1 January 2019. The reduction in lease liabilities and right of use asset has no impact on total cash flow or cash and cash equivalents for the year. The overstatement at transition was due to a delay to the start date of one of the lease contracts.

# Heathrow (SP) Limited
# Notes to the condensed consolidated financial statements

When measuring lease liabilities, the Group discounted the non-cancellable operating lease commitments as of 1 January 2019 of £767 million using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 4.1%. There is no difference between the present value of the operating lease commitments disclosed as of 31 December 2018, discounted at the rate used to calculate lease liabilities at the date of initial application of IFRS 16 and the lease liabilities recognised as at 1 January 2019.

During the nine month period ended 30 September 2019, the impact on the Group's income statement is a decrease in operating expense of £37 million, an increase in depreciation by £26 million and an increase in interest expense of £13 million, resulting in a decrease of profit before tax of £2 million as a result of adopting the new rules under IFRS 16.

## Heathrow (SP) Limited

# Notes to the condensed consolidated financial statements for the period ended 30 September 2019

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

Revenue previously disclosed as Aeronautical, Retail, Other regulated charges, and Other have been further disaggregated and incorporates the new requirements of IFRS 15.

| **Table (a)** | **Unaudited Three months ended 30 September 2019 £m** | Unaudited Three months ended 30 September 2018 £m | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|---|---|
| **Segment Revenue** | | | | | |
| **Under IFRS 15** | | | | | |
| Aeronautical | | | | | |
| Landing charges | **140** | 124 | **414** | 364 | 482 |
| Parking charges | **18** | 18 | **55** | 50 | 67 |
| Departing charges | **350** | 337 | **910** | 893 | 1,196 |
| Total Aeronautical revenue | **508** | 479 | **1,379** | 1,307 | 1,745 |
| Other regulated charges | **67** | 66 | **181** | 184 | 243 |
| Retail revenue | **44** | 43 | **107** | 106 | 147 |
| Property revenue | **29** | 33 | **104** | 98 | 129 |
| Rail Income | | | | | |
| Heathrow Express | **29** | 25 | **87** | 91 | 123 |
| Other | **11** | 10 | **15** | 11 | 14 |
| *Revenue reported under IFRS 15* | **688** | 656 | **1,873** | 1,797 | 2,401 |
| Revenue recognised at a point in time | **656** | 624 | **1,780** | 1,703 | 2,275 |
| Revenue recognised over time | **32** | 32 | **93** | 94 | 126 |
| **Total revenue reported under IFRS 15** | **688** | 656 | **1,873** | 1,797 | 2,401 |
| **Under IFRS 16 / IAS 17** | | | | | |
| Retail (lease-related income) | **153** | 150 | **429** | 414 | 569 |
| **Total revenue** | **841** | 806 | **2,302** | 2,211 | 2,970 |
| Heathrow | **812** | 776 | **2,215** | 2,120 | 2,847 |
| Heathrow Express | **29** | 30 | **87** | 91 | 123 |
| **Adjusted EBITDA** | | | | | |
| Heathrow | **538** | 510 | **1,415** | 1,327 | 1,772 |
| Heathrow Express | **14** | 14 | **44** | 45 | 65 |
| Total adjusted EBITDA | **552** | 524 | **1,459** | 1,372 | 1,837 |
| **Reconciliation to statutory information:** | | | | | |
| Depreciation and amortisation | **(190)** | (186) | **(585)** | (543) | (743) |
| **Operating profit (before certain re-measurements)** | **362** | 338 | **874** | 829 | 1,094 |
| Fair value (loss)/gain on investment properties (certain re-measurements) | **2** | 24 | **(5)** | 63 | 117 |
| **Operating profit** | **364** | 362 | **869** | 892 | 1,211 |
| Finance income | **1** | - | **5** | 1 | 2 |
| Finance costs | **(448)** | (225) | **(950)** | (467) | (791) |
| **Profit before tax** | **(83)** | 137 | **(76)** | 426 | 422 |
| **Taxation (charge)/credit** | **2** | (36) | **(15)** | (93) | (89) |
| **(Loss)/profit for the period** | **(81)** | 101 | **(91)** | 333 | 333 |

# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

**1 Segment information** *continued*

| Table (b) | **Unaudited Three months ended 30 September 2019** | | Unaudited Three months ended 30 September 2018 | | **Unaudited Nine months ended 30 September 2019** | | Unaudited Nine months ended 30 September 2018 | | Audited Year ended 31 December 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Depreciation & amortisation[1]** | **Fair value gain[2]** | Depreciation & amortisation[1] | Fair value gain[2] | **Depreciation & amortisation[1]** | **Fair value loss[2]** | Depreciation & amortisation[1] | Fair value gain[2] | Depreciation & amortisation[1] | Fair value gain[2] |
| | | | | | **£m** | **£m** | £m | £m | £m | £m |
| Heathrow | **(176)** | **2** | (167) | 24 | **(545)** | **(5)** | (489) | 63 | (672) | 117 |
| Heathrow Express | **(14)** | **-** | (19) | - | **(40)** | **-** | (54) | - | (71) | - |
| **Total** | **(190)** | **2** | (186) | 24 | **(585)** | **(5)** | (543) | 63 | (743) | 117 |

(1) Includes intangible amortisation charge of £25 million (Year ended December 2018: £27 million; Nine months ended September 2018: £27 million, Three months ended September 2019: £8 million and Three months ended September 2018: £16 million).
(2) Reflects fair value (loss)/gain on investment properties only.

| Table (c) | **Unaudited 30 September 2019** | | Unaudited 30 September 2018 | | Audited 31 December 2018 | |
|---|---|---|---|---|---|---|
| | **Assets £m** | **Liabilities £m** | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Heathrow | **14,093** | **(850)** | 13,627 | (450) | 13,711 | (440) |
| Heathrow Express | **630** | **(14)** | 652 | (18) | 670 | (14) |
| **Total operations** | **14,723** | **(864)** | 14,279 | (468) | 14,381 | (454) |
| Unallocated assets and liabilities: | | | | | | |
| Cash, term deposits and external borrowings | **1080** | **(14,351)** | 128 | (12,854) | 711 | (13,082) |
| Retirement benefit assets /(obligations) | **4** | **(32)** | 64 | (34) | 28 | (32) |
| Derivative financial instruments | **901** | **(1,802)** | 466 | (1,350) | 543 | (1,562) |
| Deferred and current tax liabilities | **-** | **(870)** | - | (985) | - | (946) |
| Amounts owed from/(to) group undertakings | **5** | **(1,916)** | 5 | (1,711) | 4 | (2,227) |
| **Total** | **16,713** | **(19,835)** | 14,942 | (17,402) | 15,667 | (18,303) |

Heathrow
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# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

### 2 Operating costs

| | **Unaudited Three months ended 30 September 2019 £m** | Unaudited Three months ended 30 September 2018 £m | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|---|---|
| Employment | **94** | 95 | **278** | 278 | 378 |
| Operational | **73** | 64 | **204** | 198 | 264 |
| Maintenance | **45** | 46 | **132** | 135 | 176 |
| Rates | **28** | 31 | **88** | 91 | 122 |
| Utilities | **18** | 23 | **53** | 68 | 90 |
| Other | **31** | 23 | **88** | 69 | 103 |
| Total operating costs before depreciation and amortisation | **289** | 282 | **843** | 839 | 1,133 |
| **Depreciation and amortisation:** | | | | | |
| Property, plant and equipment | **174** | 178 | **534** | 516 | 716 |
| Intangible assets | **8** | 8 | **25** | 27 | 27 |
| Right of Use (RoU) assets | **8** | - | **26** | - | - |
| **Total operating costs** | **479** | 468 | **1,428** | 1,382 | 1,876 |

### 3 Financing

| | **Unaudited Three months ended 30 September 2019 £m** | Unaudited Three months ended 30 September 2018 £m | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|---|---|
| **Finance income** | | | | | |
| Interest on deposits | **1** | **-** | 5 | 1 | 2 |
| Total finance income[4] | **1** | **-** | **5** | 1 | 2 |
| **Finance costs** | | | | | |
| Interest on borrowings: | | | | | |
| Bonds and related hedging instruments[1] | **(136)** | (142) | **(402)** | (407) | (541) |
| Bank loans, overdrafts and related hedging instruments | **(13)** | (12) | **(40)** | (38) | (58) |
| Net interest expense on derivatives not in hedge relationship[2] | **(50)** | (54) | **(77)** | (124) | (160) |
| Facility fees and other charges | **(1)** | - | **(5)** | (6) | (7) |
| Net pension finance costs | **-** | - | **-** | (2) | (4) |
| Interest on debenture payable to Heathrow Finance plc | **(26)** | (26) | **(76)** | (81) | (109) |
| Finance costs on lease liabilities | **(4)** | - | **(13)** | - | - |
| | **(230)** | (235) | **(613)** | (658) | (879) |
| Less: capitalised borrowing costs[3] | **11** | 14 | **31** | 40 | 50 |
| Total finance costs[4] | **(219)** | (221) | **(582)** | (618) | (829) |
| **Net finance costs before certain re-measurements** | **(218)** | (221) | **(577)** | (617) | (827) |
| **Fair value (loss)/gain on financial instruments** | | | | | |
| Interest rate swaps: not in hedge relationship | **(44)** | 18 | **(81)** | 100 | 83 |
| Index-linked swaps: not in hedge relationship | **(196)** | (27) | **(293)** | 38 | (90) |
| Cross-currency swaps: not in hedge relationship | **23** | - | **23** | - | - |
| Ineffective portion of cash flow hedges | **(10)** | 5 | **(2)** | 3 | 21 |
| Ineffective portion of fair value hedges | **(2)** | - | **(15)** | 10 | 24 |
| | **(229)** | (4) | **(368)** | 151 | 38 |
| **Net finance costs** | **(447)** | (225) | **(945)** | (466) | (789) |

[1] Includes accretion of £26 million for the nine months period ended September 2019 (nine months period ended September 2018: £32 million, year ended December 2018: £47 million, three months period ended September 2019: £13 million and three months period ended September 2018: £13 million) on index-linked bonds.

**3 Financing** *continued*

[2] Includes accretion of £116 million for the nine months period ended September 2019 (nine months period ended September 2018: £154 million, year ended December 2018: £207 million, three months period ended September 2019: £60 million and three months period ended September 2018: £60 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 5.02% for the nine months period ended September 2019 (nine months period ended September 2018: 5.70%, year ended December 2018: 5.65%, three months period ended September 2019: 4.92% and three months period ended September 2018: 5.56%) to expenditure incurred on such assets.

[4] Three months ended September 2018 (£52) million and £52 million) to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

### 4 Income tax expense

| | Unaudited | | | | | | | | | | | | Audited |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Three months ended** | | | | | | **Nine months ended** | | | | | | Year ended |
| | **30 September 2019** | | | 30 September 2018 | | | **30 September 2019** | | | 30 September 2018 | | | 31 December 2018 |
| | **Before certain re-measurements** | **Certain re-measurements** | **Total** | Before certain re-measurements | Certain re-measurements | Total | **Before certain re-measurements** | **Certain re-measurements** | **Total** | Before certain re-measurements | Certain re-measurements | Total | Total |
| | **£m** | **£m** | **£m** | £m | £m | £m | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| **UK corporation tax** | | | | | | | | | | | | | |
| Current tax charge at 19% (2018: 19%) | **(45)** | **-** | **(45)** | (41) | - | (41) | **(100)** | **-** | **(100)** | (69) | - | (69) | (90) |
| Over provision in respect of prior years | **-** | **-** | **-** | - | - | - | **-** | **-** | **-** | - | - | - | 5 |
| Deferred tax: | | | | | | | | | | | | | |
| Current year credit/(charge) | **8** | **39** | **47** | 8 | (3) | 5 | **22** | **63** | **85** | 12 | (36) | (24) | (8) |
| Prior year credit[1] | **-** | **-** | **-** | - | - | - | **-** | **-** | **-** | - | - | - | 4 |
| **Taxation credit/(charge)** | **(37)** | **39** | **2** | (33) | (3) | (36) | **(78)** | **63** | **(15)** | (57) | (36) | (93) | (89) |

[1] Year ended 31 December 2018 includes a £7 million debit adjustment in relation to revaluations of property, plant and equipment and an £11 million credit adjustment for accelerated capital allowances.

The tax charge before certain re-measurements for the 3 month period to 30 September 2019 represents the difference between the tax charge before certain re-measurements for the 9 month period to 30 September 2019 and the reported tax charge before certain re-measurements for the 6 month period to 30 June 2019, giving a rate of 25.7% (9 months ended 30 September 2018: 28.2%).

The total tax charge for the 9 month period ended 30 September 2019 is £15 million (9 months ended 30 September 2018: £93 million, year ended December 2018: £89 million), representing the best estimate of the annual effective tax rate expected for the full year, applied to the profit before certain re-measurements for the nine month period and deferred tax at 17% on the certain re-measurements.

The tax charge for the 9 month period ended 30 September 2019, before certain re-measurements, is charged at 26.3% (9 months ended 30 September 2018: 26.9%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax income of the 9 month period, before certain re-measurements. The tax charge for 2019 is more (2018: more) than implied by the statutory rate of 19% (2018: 19%) primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

The headline UK corporation tax rate is 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of this rate reduction has been reflected in the deferred tax balances in the financial statements.

In the November 2018 Budget the Government announced a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. Heathrow is likely to benefit from tax relief in future years on expenditure which would not be eligible under current rules.

# Heathrow (SP) Limited

# Notes to the condensed consolidated financial statements for the period ended 30 September 2019

## 5 Property, plant and equipment

| | Terminal complex £m | Airfields £m | Plant and equipment £m | Other land and buildings £m | Rail £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **1 January 2018** | **11,277** | **2,066** | **891** | **205** | **1,406** | **893** | **16,738** |
| Additions | - | - | - | - | - | 769 | 769 |
| Borrowing costs capitalised | - | - | - | - | - | 50 | 50 |
| Disposals | (3) | - | (10) | - | (15) | - | (28) |
| Reclassification | 78 | - | (78) | - | - | - | - |
| Transfer to intangible assets | - | - | - | - | - | (5) | (5) |
| Transfer to completed assets | 298 | (112) | 338 | 25 | 44 | (593) | - |
| **31 December 2018 (Audited)** | **11,650** | **1,954** | **1,141** | **230** | **1,435** | **1,114** | **17,524** |
| Additions | - | - | - | - | - | 646 | **646** |
| Borrowing costs capitalised | - | - | - | - | - | 31 | **31** |
| Disposals | (29) | - | (15) | - | - | - | **(44)** |
| Reclassification | - | - | - | - | - | - | **-** |
| Transfer to intangible assets | - | - | - | - | - | (18) | **(18)** |
| Transfer to completed assets | 278 | 173 | 5 | 42 | 22 | (520) | **-** |
| **30 September 2019 (Unaudited)** | **11,899** | **2,127** | **1,131** | **272** | **1,457** | **1,253** | **18,139** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| **1 January 2018** | **(3,910)** | **(463)** | **(433)** | **(68)** | **(557)** | **-** | **(5,431)** |
| Depreciation charge | (487) | (45) | (103) | (10) | (71) | - | (716) |
| Disposals | 3 | - | 10 | - | 15 | - | 28 |
| **31 December 2018 (Audited)** | **(4,394)** | **(508)** | **(526)** | **(78)** | **(613)** | **-** | **(6,119)** |
| Depreciation charge | (364) | (49) | (65) | (15) | (41) | - | **(534)** |
| Disposals | 29 | - | 15 | - | - | - | **44** |
| **30 September 2019 (Unaudited)** | **(4,729)** | **(557)** | **(576)** | **(93)** | **(654)** | **-** | **(6,609)** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **30 September 2019 (Unaudited)** | **7,170** | **1,570** | **555** | **179** | **803** | **1,253** | **11,530** |
| 31 December 2018 (Audited) | 7,256 | 1,446 | 615 | 152 | 822 | 1,114 | 11,405 |

The Regulatory Asset Base (RAB) at 30 September, 2019 was £16,529 million (31 December 2018: £16,200 million, 30 September 2018: £16,108 million)

| | Terminal complex £m | Airfields £m | Plant and equipment £m | Other land and buildings £m | Rail £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **1 January 2018** | **11,277** | **2,066** | **891** | **205** | **1,406** | **893** | **16,738** |
| Additions | - | - | - | - | - | 580 | 580 |
| Borrowing costs capitalised | - | - | - | - | - | 40 | 40 |
| Disposals | (3) | - | (10) | - | (14) | - | (27) |
| Reclassification | - | - | - | - | - | - | - |
| Transfer to intangible assets | - | - | - | - | - | (4) | (4) |
| Transfer to completed assets | 132 | (115) | 274 | 5 | 16 | (312) | - |
| **30 September 2018 (Unaudited)** | **11,406** | **1,951** | **1,155** | **210** | **1,408** | **1,197** | **17,327** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| **1 January 2018** | **(3,910)** | **(463)** | **(433)** | **(68)** | **(557)** | **-** | **(5,431)** |
| Depreciation charge | (346) | (28) | (81) | (7) | (54) | - | (516) |
| Disposals | 3 | - | 10 | - | 14 | - | 27 |
| **30 September 2018 (Unaudited)** | **(4,253)** | **(491)** | **(504)** | **(75)** | **(597)** | **-** | **(5,920)** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **30 September 2018 (Unaudited)** | **7,153** | **1,460** | **651** | **135** | **811** | **1,197** | **11,407** |

# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

### 6 Investment properties

| | Airport investment properties £m |
|---|---|
| **Valuation** | |
| 1 January 2018 | 2,350 |
| Additions | 4 |
| Transfers from property, plant and equipment | 1 |
| Revaluation | 117 |
| **31 December 2018 (Audited)** | **2,472** |
| Additions | 3 |
| Transfers to completed assets | - |
| Revaluation | (5) |
| **30 September 2019 (Unaudited)** | **2,470** |

| | Airport investment properties £m |
|---|---|
| **Valuation** | |
| 1 January 2018 | 2,350 |
| Additions | 2 |
| Transfers to completed assets | (1) |
| Revaluation | 63 |
| **30 September 2018 (Unaudited)** | **2,414** |

Investment properties were valued at fair value at 30 September 2019 by CBRE Limited, Chartered Surveyors (September 2018 and December 2018: CBRE Limited, Chartered Surveyors).

### 7 Borrowings

| | **Unaudited 30 September 2019 £m** | Unaudited 30 September 2018 £m | Audited 31 December 2018 £m |
|---|---|---|---|
| **Current borrowings** | | | |
| **Secured** | | | |
| **Heathrow Airport Limited debt:** | | | |
| Loans | **8** | 28 | 17 |
| Heathrow Funding Limited bonds: | | | |
| 4.000% C$400 million due 2019 | **-** | 237 | 230 |
| 6.000% £400 million due 2020 | **399** | - | - |
| **Total current (excluding interest payable)** | **407** | 265 | 247 |
| Interest payable – external | **230** | 223 | 213 |
| Interest payable – owed to group undertakings | **2** | 8 | 36 |
| **Total current** | **639** | 496 | 496 |
| | | | |
| **Non-current borrowings** | | | |
| **Secured** | | | |
| Heathrow Funding Limited bonds | | | |
| 6.000% £400 million due 2020 | **-** | 399 | 399 |
| 9.200% £250 million due 2021 | **256** | 261 | 260 |
| 3.000% C$450 million due 2021 | **275** | 260 | 256 |
| 4.875% US$1,000 million due 2021 | **826** | 757 | 783 |
| 1.650%+RPI £180 million due 2022 | **217** | 212 | 213 |
| 1.875% €600 million due 2022 | **547** | 542 | 549 |
| 5.225% £750 million due 2023 | **700** | 689 | 691 |
| 7.125% £600 million due 2024 | **594** | 593 | 593 |
| 0.500% CHF400 million due 2024 | **326** | 300 | 310 |
| 3.250% C$500 million due 2025 | **310** | 284 | 281 |

Heathrow
Making every journey better

# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

**7 Borrowings** *continued*

| | **Unaudited 30 September 2019 £m** | Unaudited 30 September 2018 £m | Audited 31 December 2018 £m |
|---|---|---|---|
| **Non-current borrowings** | | | |
| **Secured continued** | | | |
| 4.221% £155 million due 2026 | **155** | 155 | 155 |
| 6.750% £700 million due 2026 | **693** | 693 | 693 |
| 0.450% CHF210 million due 2026 | **178** | - | - |
| 2.650% NOK1,000 million due 2027 | **91** | 91 | 90 |
| 3.400% C$400 million bond due 2028 | **248** | 239 | 232 |
| 7.075% £200 million due 2028 | **198** | 198 | 198 |
| 4.150% A$175 million due 2028 | **110** | - | 99 |
| 2.500% NOK1,000 million due 2029 | **82** | 82 | 79 |
| 3.782% C$400 million bond due 2030 | **239** | 235 | 229 |
| 1.500% €750 million due 2030 | **706** | 613 | 629 |
| 6.450% £900 million due 2031 | **854** | 853 | 853 |
| Zero-coupon €50 million due January 2032 | **61** | 58 | 59 |
| 1.366%+RPI £75 million due 2032 | **86** | 84 | 85 |
| Zero-coupon €50 million due April 2032 | **59** | 57 | 58 |
| 1.875% €500 million due 2032 | **442** | 443 | 447 |
| 4.171% £50 million due 2034 | **50** | 50 | 50 |
| Zero-coupon €50 million due 2034 | **51** | 50 | 50 |
| 1.8750% €650 million due 2034 | **649** | - | - |
| 1.061%+RPI £180 million due 2036 | **201** | 195 | 197 |
| 1.382%+RPI £50 million due 2039 | **57** | 56 | 56 |
| 3.334%+RPI £460 million due 2039 | **635** | 620 | 626 |
| Zero-coupon €86 million due 2039 | **78** | - | - |
| 1.238%+RPI £100 million due 2040 | **113** | 110 | 111 |
| 5.875% £750 million due 2041 | **738** | 738 | 738 |
| 2.926% £55million due 2043 | **55** | 55 | 55 |
| 4.625% £750 million due 2046 | **741** | 742 | 742 |
| 1.372%+RPI £75 million due 2049 | **86** | 84 | 85 |
| 2.750% £400 million due 2049 | **392** | 392 | 392 |
| 0.147%+RPI £160 million due 2058 | **165** | 162 | 164 |
| **Total bonds** | **12,264** | 11,352 | 11,507 |
| Heathrow Airport Limited debt: | | | |
| Class A1 term loan due 2020 | **418** | - | 418 |
| Class A2 term loan due 2024 | **100** | 100 | 100 |
| Class A3 term loan due 2029 | **200** | - | - |
| Revolving credit facilities | **-** | 320 | - |
| Term note due 2026-2037 | **723** | 583 | 585 |
| Loans | **8** | 11 | 12 |
| **Unsecured** | | | |
| Debenture payable to Heathrow Finance plc | **1,915** | 1,703 | 2,191 |
| **Total non-current** | **15,628** | 14,069 | 14,813 |
| **Total borrowings (excluding interest payable)** | **16,035** | 14,334 | 15,060 |

At 30 September 2019, Heathrow SP's nominal net debt was £12,844 million (31 December 2018: £12,407 million). Nominal net debt comprised £11,487 million (December 2018: £11,054 million) in senior net debt and £1,357 million (December 2018: £1,353 million) in junior net debt.

At 30 September 2019, total non-current borrowings due after more than 5 years was £11,777 million, comprising £8,520 million of bonds, £1,915 million Debenture payable to Heathrow finance plc and £1,342 million in bank facilities.

# Heathrow (SP) Limited

## Notes to the condensed consolidated financial statements for the period ended 30 September 2019

**7 Borrowings** *continued*

***Impact of fair value hedge adjustments***

The nominal value of debt designated in fair value hedge relationship was GBP 393 million, EUR 2,000 million, USD 1,000 million, CAD 1,070 million, CHF 610 million, AUD 175 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

| | **Unaudited** | | Unaudited | | Audited | |
|---|---|---|---|---|---|---|
| | **Nine months ended 30 September 2019** | | Nine months ended 30 September 2018 | | Year ended 31 December 2018 | |
| | **Nominal** | **Fair value adjustment[1]** | Nominal | Fair value adjustment[1] | Nominal | Fair value adjustment[1] |
| | **£m** | **£m** | £m | £m | £m | £m |
| Sterling debt | 393 | (6) | 643 | (6) | 200 | (2) |
| Euro denominated debt | 1,615 | (148) | 1,499 | 36 | 1,498 | 26 |
| USD denominated debt | 621 | (14) | 621 | 8 | 621 | - |
| CAD denominated debt | 584 | - | 584 | 20 | 1,227 | 3 |
| Other currencies debt | 709 | (14) | 453 | 28 | 549 | 17 |
| **Designated in fair value hedge** | **3,922** | **(182)** | 3,800 | 86 | 4,095 | 44 |

(1) *Fair value adjustment is comprised of fair value loss of £147 million (September 2018: £147 million gain; December 2018: £89 million) on continuing hedges and £35 million loss (September 2018: £61 million; December 2018: £45 million) on discontinued hedges*

## 8 Derivative financial instruments

| **Unaudited 30 September 2019** | **Notional £m** | **Assets £m** | **Liabilities £m** | **Total £m** |
|---|---|---|---|---|
| **Current** | | | | |
| Foreign exchange contracts | 8 | - | - | - |
| Interest rate swaps | 338 | - | (11) | (11) |
| Cross-currency swaps | - | - | - | - |
| Index-linked swaps | 243 | - | (33) | (33) |
| | **589** | **-** | **(44)** | **(44)** |
| **Non-current** | | | | |
| Foreign exchange contracts | 33 | 1 | - | 1 |
| Interest rate swaps | 1,972 | - | (455) | (455) |
| Cross-currency swaps | 4,481 | 846 | (3) | 843 |
| Index-linked swaps | 6,276 | 54 | (1,300) | (1,246) |
| | **12,762** | **901** | **(1,758)** | **(857)** |
| **Total** | **13,351** | **901** | **(1,802)** | **(901)** |

At 30 September 2019, total non-current notional value of Derivative financial instruments due in greater than 5 years was £9,171 million, comprising £5,496 million of Index-linked swaps, £2,453 million of Cross-currency swaps, and £1,222 million of Interest rate swaps.

| **Unaudited 30 September 2018** | **Notional £m** | **Assets £m** | **Liabilities £m** | **Total £m** |
|---|---|---|---|---|
| Current | | | | |
| Foreign exchange contracts | - | - | - | - |
| Interest rate swaps | 604 | - | (10) | (10) |
| Cross-currency swaps | 250 | - | (13) | (13) |
| Index-linked swaps | - | - | - | - |
| | 854 | - | (23) | (23) |
| Non-current | | | | |
| Foreign exchange contracts | 11 | 2 | - | 2 |
| Interest rate swaps | 2,309 | - | (357) | (357) |
| Cross-currency swaps | 3,589 | 423 | (14) | 409 |
| Index-linked swaps | 5,819 | 41 | (956) | (915) |
| | 11,728 | 466 | (1,327) | (861) |
| Total | 12,582 | 466 | (1,350) | (884) |

**8 Derivative financial instruments** *continued*

| Audited<br>31 December 2018 | Notional<br>£m | Assets<br>£m | Liabilities<br>£m | Total<br>£m |
|---|---|---|---|---|
| Current | | | | |
| Foreign exchange contracts | 11 | - | - | - |
| Interest rate swaps | 204 | - | (5) | (5) |
| Cross-currency swaps | 250 | - | (19) | (19) |
| Index-linked swaps | 124 | - | (15) | (15) |
| | 589 | - | (39) | (39) |
| Non-current | | | | |
| Foreign exchange contracts | - | - | - | - |
| Interest rate swaps | 2,309 | - | (377) | (377) |
| Cross-currency swaps | 3,685 | 502 | (6) | 496 |
| Index-linked swaps | 6,395 | 41 | (1,140) | (1,099) |
| | 12,389 | 543 | (1,523) | (980) |
| Total | 12,978 | 543 | (1,562) | (1,019) |

***Interest rate swaps***
Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The losses deferred of £27 million expected to be released in less than one year, £22 million between one and two years, £63 million between two and five years and £121 million over five years. Of the total amount deferred in other comprehensive income £214 million related to discontinued cash flow hedges.

***Cross-currency swaps***
Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds.

***Index-linked swaps***
Index-linked swaps have been entered into in order to economically hedge RPI linked revenue and the Regulatory Asset Base but are not designated in a hedge relationship.

***Foreign exchange contracts***
Foreign exchange contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

## 9 Retirement benefit obligations

***Amounts arising from pensions related liabilities in the Group's financial statements***
The following tables identify the amounts in the Group's financial statements arising from its pension related liabilities. Further details of each scheme (except defined contribution schemes) are within sections a) and b).

*Income statement - pension and other pension related liabilities costs*

| | **Unaudited**<br>**Three months ended 30 September 2019**<br>**£m** | Unaudited<br>Three months ended 30 September 2018<br>£m | **Unaudited**<br>**Nine months ended 30 September 2019**<br>**£m** | Unaudited<br>Nine months ended 30 September 2018<br>£m | Audited<br>Year ended 31 December 2018<br>£m |
|---|---|---|---|---|---|
| Employment costs: | | | | | |
| Defined contribution schemes | **4** | 3 | **11** | 9 | 13 |
| BAA Pension Scheme | **5** | 8 | **19** | 23 | 34 |
| | **9** | 11 | **30** | 32 | 47 |
| Finance (credit)/charge - BAA Pension Scheme | **-** | 1 | **(1)** | 2 | 3 |
| Finance charge - Other pension and post retirement liabilities | **-** | 1 | **1** | 1 | 1 |
| **Total pension costs** | **9** | 13 | **30** | 35 | 51 |

**9 Retirement Benefit obligations** *continued*

*Other comprehensive income – (loss)/gain on pension and other pension related liabilities*

| | **Unaudited Three months ended 30 September 2019 £m** | Unaudited Three months ended 30 September 2018 £m | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 | Audited Year ended 31 December 2018 £m |
|---|---|---|---|---|---|
| BAA Pension Scheme (loss)/gain | **35** | (44) | **(42)** | 175 | 141 |
| Unfunded schemes | **-** | - | **-** | - | 3 |
| Actuarial (loss)/gain recognised before tax | **35** | (44) | **(42)** | 175 | 144 |
| Tax credit/(charge) on actuarial gain/(loss) | **(6)** | 7 | **7** | (30) | (26) |
| **Actuarial(loss)/gain recognised after tax** | **29** | (37) | **(35)** | 145 | 118 |

*Statement of financial position – net defined benefit pension (deficit)/surplus and other pension related liabilities*

| | **Unaudited 30 September 2019 £m** | Unaudited 30 September 2018 £m | Audited 31 December 2018 £m |
|---|---|---|---|
| Fair value of plan assets | **4,629** | 3,929 | 3,869 |
| Benefit obligation | **(4,625)** | (3,865) | (3,841) |
| Surplus/(Deficit) in BAA Pension Scheme | **4** | 64 | 28 |
| Unfunded pension obligations | **(28)** | (29) | (28) |
| Post-retirement medical benefits | **(4)** | (5) | (4) |
| Deficit in other pension related liabilities | **(32)** | (34) | (32) |
| **Net (deficit)/surplus in pension schemes** | **(28)** | 30 | (4) |
| **Group share of net (deficit)/surplus in pension schemes** | **(28)** | 30 | (4) |

**(a) BAA Pension Scheme**
The BAA Pension Scheme is a funded defined benefit scheme with both open and closed sections. The Scheme closed to employees joining the Group after 15 June 2008. The Scheme's assets are held separately from the assets of the HAH Group and are administered by the trustee.

The value placed on the Scheme's obligations as at 30 September 2019 is based on the full actuarial valuation carried out at 30 September 2015. This has been updated at 30 September 2019 by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 30 September 2019. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

***Analysis of financial assumptions***
The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R were:

| | **Unaudited 30 September 2019 %** | Unaudited 30 September 2018 % | Audited 31 December 2018 % |
|---|---|---|---|
| Rate of increase in pensionable salaries | **1.90** | 1,90 | 1.90 |
| Increase to deferred benefits during deferment | **2.50** | 2.70 | 2.65 |
| Increase to pensions in payment: | | | |
| Open section | **3.15** | 3.35 | 3.30 |
| Closed section | **3.25** | 3.45 | 3.40 |
| Discount rate | **2.00** | 3.00 | 3.00 |
| Inflation assumption | **3.25** | 3.45 | 3.40 |

# Notes to the condensed consolidated financial statements for the period ended 30 September 2019

## 10 Cash generated from operations

| | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before tax | **(76)** | 426 | 422 |
| *Adjustments for:* | | | |
| Net finance costs | **945** | 466 | 789 |
| Depreciation | **534** | 543 | 716 |
| Amortisation on intangibles | **25** | - | 27 |
| Amortisation on right of use assets | **26** | - | - |
| Fair value loss/(gain) on investment properties | **5** | (63) | (117) |
| *Working capital changes:* | | | |
| Decrease/(increase) in inventories and trade and other receivables | **53** | (13) | (46) |
| (Decrease)/increase in trade and other payables | **(27)** | (4) | 11 |
| Decrease in provisions | **(4)** | (5) | - |
| Difference between pension charge and cash contributions | **(18)** | (14) | (15) |
| **Cash generated from operations** | **1,463** | 1,336 | 1,787 |

## 11 Commitments and contingent liabilities

***Group commitments for property, plant and equipment***

| | **Unaudited Nine months ended 30 September 2019 £m** | Unaudited Nine months ended 30 September 2018 £m | Audited Year ended 31 December 2018 £m |
|---|---|---|---|
| **Contracted for, but not accrued:** | | | |
| Baggage systems | **117** | 97 | 77 |
| Terminal restoration and modernisation | **184** | 185 | 174 |
| Capacity optimisation | **18** | 20 | 20 |
| IT projects | **12** | 31 | 20 |
| Other projects | **76** | 41 | 35 |
| | **407** | 374 | 326 |

The figures in the above table are contractual commitments to purchase goods and services at the reporting date.

Commitments and contingent liabilities remain in line with those disclosed in the Annual Report and Accounts for the year ended 31 December 2018.

At 30 September 2019, total non-current lease liabilities greater than 5 years was £255 million

## 12 Related party transactions

The Group entered into the following transactions with related parties:

| **Purchase of goods and services** | **Nine months ended 30 September 2019 £m** | Nine months ended 30 September 2018 £m | Year ended 31 December 2018 £m |
|---|---|---|---|
| Amey OWR Ltd | **1** | 1 | 1 |
| Ferrovial Agroman | **27** | 55 | 69 |
| Heathrow Finance plc[1] | **76** | 81 | 109 |
| | **104** | 137 | 179 |

[1] Relates to interest on the debenture payable to Heathrow Finance plc (Note 3).

**12 Related party transactions** *continued*

| **Sales to related party** | **Nine months ended 30 September 2019 £m** | Nine months ended 30 September 2018 £m | Year ended 31 December 2018 £m |
|---|---|---|---|
| Harrods International Limited | **17** | 15 | 23 |
| Qatar Airways | **27** | 27 | 35 |
| | **44** | 42 | 58 |

Balances outstanding with related parties were as follows:

| | **30 September 2019** | | 30 September 2018 | | 31 December 2018 | |
|---|---|---|---|---|---|---|
| | **Amounts owed by related parties £m** | **Amounts owed to related parties £m** | Amounts owed by related parties £m | Amounts owed to related parties £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
| Heathrow Finance plc | **-** | **1,916** | - | 1,711 | - | 2,227 |
| Qatar Airways | **1** | **-** | 2 | - | 2 | - |
| | **1** | **1,916** | 2 | 1,711 | 2 | 2,227 |

The related parties outlined above are related through ownership by the same parties. The transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arm's length basis.

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# INDEPENDENT REVIEW REPORT TO HEATHROW (SP) LIMITED

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the nine months ended 30 September 2019 and the nine months ended 30 September 2018, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 12. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The quarterly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with International Accounting Standards 34.

As disclosed on page 17, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this quarterly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the quarterly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the quarterly financial report for the nine months ended 30 September 2019 and the nine months ended 30 September 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Deloitte LLP

**Deloitte LLP**
Statutory Auditor
London, UK
24 October 2019

# Glossary

**Air Transport Movement 'ATM' –** means a flight carried out for commercial purposes and includes scheduled flights operating according to a published timetable, charter flights, cargo flights but it does not include empty positioning flights, and private non-commercial flights.

**Airport Service Quality 'ASQ' –** quarterly Airport Service Quality surveys directed by Airports Council International (ACI). Survey scores range from 1 up to 5.

**Baggage connection –** numbers of bags connected per 1,000 passengers.

**Carbon neutral** – Emissions are offset through purchasing carbon offsets

**Departure punctuality –** percentage of flights departing within 15 minutes of schedule.

**Gearing ratios –** under the Group's financing agreements are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB') value.

**Lost Time Injury -** Lost time injuries are injuries sustained by colleagues whilst conducting work related duties, resulting in absence from work for at least a day. The measure is calculated as a moving annual frequency rate of the number of incidents in the last 12 months per 100,000 working hours.

**Net zero carbon** – Residual carbon emissions are offset by an equal volume of carbon removals

**Regulatory asset ratio 'RAR'** – is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 92.5%.

**Restricted payments –** The financing arrangements of the Group and Heathrow Finance plc ("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.

**Zero carbon** – No emissions are released into the atmosphere