

HEATHROW (SP) LIMITED

RESULTS FOR THE 6 MONTHS ENDED

30TH JUNE 2020

29TH JULY 2020

Safety remains our biggest priority – We are deploying UK’s most extensive array of new COVID-secure technologies to protect passengers and colleagues.

Significant passenger decline pushes Heathrow to loss - Passenger numbers were down over 96% in Q2 as global aviation came to a virtual standstill. We anticipate a gradual recovery as countries reopen borders, but that 2020 passenger volumes will be more than 60% lower than 2019. Q2 revenue fell 85% to £119 million and adjusted EBITDA turned to a loss of £93 million. We recorded an adjusted loss before tax of £471 million in the first six months of 2020.

Cargo volumes down over 30%, hit by loss of passenger flights – Cargo at the UK’s biggest port usually travels in the hold of passenger planes. Increase in cargo-only flights has not offset the loss of passenger flights to long haul markets.

Decisive action taken to protect jobs and cut costs – We acted quickly to reduce our average cash burn by over 30%, by cutting at least £300 million operating costs and cancelling or pausing over £650m of capital projects. We have tried to protect as many jobs as possible and maintain pay at or above the London Living Wage.

Heathrow finances remain robust - Cash reserves are sufficient until at least June 2021 with no revenue. We have agreed a waiver on financial covenants until the end of 2021 and maintained our Investment Grade credit rating status.

UK’s economic recovery depends on restarting aviation - Government’s risk-based approach to allow quarantine-free flights from low and medium risk countries is very welcome, but only covers 30% of Heathrow’s markets. Establishing an alternative to quarantine for COVID-free passengers from other countries should be a priority for Government. Pre-flight testing for passengers from high risk countries will allow long haul flying to resume, which is critical for the UK’s economic recovery.

At or for 6 months ended 30 June	2019	2020	Change (%)
(£m unless otherwise stated)			
Revenue	1,461	712	(51.3)
Cash generated from operations	907	294	(67.6)
Profit / (loss) before tax	7	(1,059)	--
Adjusted EBITDA ⁽¹⁾⁽⁴⁾	907	222	(75.5)
Adjusted profit / (loss) before tax ⁽²⁾⁽⁴⁾	153	(471)	--
Heathrow (SP) Limited consolidated nominal net debt ⁽³⁾⁽⁴⁾	12,412	12,860	3.6
Heathrow Finance plc consolidated net debt ⁽³⁾⁽⁴⁾	14,361	14,932	4.0
Regulatory Asset Base ⁽⁵⁾	16,598	16,516	(0.5)
Passengers (million) ⁽⁶⁾	38.8	15.4	(60.2)

“Today’s results should serve as a clarion call for the Government – the UK needs a passenger testing regime and fast. Without it, Britain is just playing a game of quarantine roulette. As many of our customers have experienced, it’s difficult to plan a holiday that way, let alone run a business. Testing offers a way to safely open up travel and trade to some of the UK’s biggest markets which currently remain closed. Our European competitors are racing ahead with passenger testing, if the UK doesn’t act soon global Britain will be nothing more than a campaign slogan.”

JOHN HOLLAND-KAYE
Heathrow CEO

NOTES

- (1) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items
- (2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items
- (3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index linked swap accretion and the hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans. 2019 figures are as at 31 December 2019
- (4) A reconciliation of our Alternative Performance Measures ('APMs') can be found in note 14
- (5) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. 2019 figures are as at 31 December 2019
- (6) Changes in passengers 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.

Creditors and credit analysts conference call hosted by
John Holland-Kaye, CEO and Javier Echave, CFO
Wednesday July 29th 2020

3.00pm (UK time), 4.00pm (Central European Time), 10.00am (Eastern Standard Time)

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These materials must be read in conjunction with the Heathrow (SP) Limited Annual Report and Accounts for the year ended 31 December 2019.

HEATHROW'S THREE-PHASE PLAN

The COVID-19 outbreak continues to represent a seismic challenge for the aviation industry, including Heathrow. We have put together a three-phase plan in response to the crisis.

Protecting our business

Ensuring that we continue to deliver on safety and security is our first and non-negotiable priority. We have added safety measures across the passenger journey following close collaboration with Public Health England. We have begun trialling a number of technologies and processes to keep the airport COVID-19 secure and rebuild passenger confidence as travel resumes, including temperature testing trials and the use of UV sanitation to quickly and efficiently disinfect key touchpoints in the passenger journey. We stand ready to host UK's first pilot 'Test-on-Arrival' procedure from Collinson and Swissport. The pilot, which is subject to Government approval, could allow COVID-19 negative passengers arriving from higher risk countries to enter the UK without the need to quarantine. Testing passengers before they board a plane would be even more effective but would require a Common International Standard which the UK Government could take a lead on setting up.

COVID-19 has had a significant impact on our financial performance. Management has taken rapid actions to protect the financial resilience of the business enabling a reduction in our average monthly cash burn from £240 million to £159 million. These savings will be achieved through initiatives to reduce our operating costs and our capital expenditure by over £650 million. Most operating costs initiatives were implemented across April and May with around £100 million of savings already realised so we remain on track to deliver our £300 million minimum target by the end of this year. The reduction in capital expenditure is largely driven by the demobilisation and delay of the expansion programme. This year's much reduced capital plan focuses on projects which ensure the safety and resilience of the airport, such as Hold Baggage Screening, cargo tunnel works, resurfacing of the southern runway and asset renewal.

In April, we moved to single runway operations and consolidated passenger operations into two terminals while maintaining enough flexibility to ramp up as passenger demand returns. We now have around 70% of our incumbent airlines flying and 3 new airlines. We have therefore reopened Terminal 5C to provide additional capacity to support their operations. Many of our retail outlets closed in late March, leaving only essential retailers open. Stores begun to reopen in late June following Government guidance meaning that we now have around 40% of outlets open across Terminals 2 and 5.

Winning the recovery

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. Following Government advice and best practice, we have established five key areas that define our Fly Safe model. These standards will create a different service proposition for both passengers and colleagues. These five areas are:

- Personal protection: all colleagues and passengers will have to use face coverings in our terminals and operational areas.
- Physical protection: we have installed Perspex screens at check-in desks and security areas to increase separation between passengers and colleagues.
- Social distancing: multiple methods have been used across our terminals and rail stations to remind passengers to socially distance. These methods include floor stickers, monoliths, seat blocking, tensor barriers and one-way systems.
- Health screening: we have launched thermal screening trails that use camera detection systems to quickly and seamlessly screen passengers with minimal impact to the passenger journey.
- Hygiene: we have installed hundreds of hand sanitiser dispensers and implemented additional cleaning and sanitation procedures across the campus using pioneering technologies. These technologies include UV cleaning robots using UV rays to kill viruses and bacteria, UV handrail technology to disinfect the continuously moving handrails and anti-viral wraps fitted to high-touch surfaces, coating them with long-lasting antiviral protection.

Building back better

Delivering our long-term ambitions for growth will be done in the right way. Our focus remains on taking the lead in getting the aviation industry to net zero-carbon and aligning the airport and sector to the goals of the Paris Agreement on Climate Change. We welcome the Government's announcement of aligning aviation within the UK's target net zero carbon emissions by 2050.

This crisis represents an opportunity for us to transform the way we operate, bringing more flexibility and dynamism into our operating model. As we move forward and build back better, we will embrace digitalisation through our retail proposition, security processes and contactless passenger experience. We will also look into the value proposition with our supply chain through closer supply partnerships.

We do believe that once the benefits of air travel and connectivity have been restored, an expanded Heathrow will be required to deliver the Government's vision of a Global Britain. We will therefore progress our appeal to the Supreme Court following the Court of Appeal's ruling last February.

A fit for purpose regulatory framework is critical for our recovery. Our current regulatory model is designed for a stable business with limited upside potential and unlimited downside risk. It is therefore failing to create a long-term balance between risk and reward given the asymmetric risks faced by

Heathrow. We will continue engaging with the CAA to ensure it creates a fair framework that drives the right incentives for investment for the benefit of consumers.

In recognition of the asymmetric risk in the regulatory model that has been exposed by the COVID-19 crisis, but was not allowed for in the allowed regulatory returns, Heathrow has requested that the CAA makes a policy statement setting out that it will amend Heathrow's Regulated Asset Base to allow Heathrow to recover excess losses over an extended period of time. This would avoid the need for material changes to the risk premium, which would translate to higher consumer prices.

STRATEGIC PRIORITIES

While we navigate the COVID-19 crisis, our strategic priorities remain:

- Mojo: protecting our colleagues and talent;
- Transforming customer service: protecting our service and reputation;
- Beating the plan: protecting long-term value to ensure we are viable, financeable and competitive;
- Sustainable growth: protecting our options to grow by building back better.

The following performance metrics were set for each of the four strategic priorities prior to the COVID-19 outbreak and provide a picture for the 6 months ended 30 June 2020. As Heathrow adapts to these circumstances, we will look to update them. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators ⁽¹⁾	2019	2020
Colleague promotions	109	56 ⁽²⁾
Managerial training	754	348
Lost time injuries	0.41	0.21

(1) For the 6 months ended 30 June

(2) Data is lower than Q1 2020 due to previous colleagues included are now no longer working for Heathrow following the business transformation programme

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators ⁽¹⁾	2019	2020
ASQ	4.18	--- ⁽²⁾
Experience as "excellent" or "very good" %	82.2	--- ⁽²⁾
Baggage connection %	99.1	99.1
Departure punctuality %	82.6	86.0
Security queuing %	96.5	97.3
Connections satisfaction	4.14	--- ⁽²⁾

(1) For the 6 months ended 30 June

(2) Passenger satisfaction and research has been temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) ⁽¹⁾	2019	2020	Var % ⁽²⁾
UK	2.3	1.0	(58.9)
Europe	15.9	6.0	(62.2)
North America	8.9	3.3	(62.7)
Asia Pacific	5.6	2.3	(59.3)
Middle East	3.6	1.7	(51.6)
Africa	1.8	0.8	(53.3)
Latin America	0.7	0.3	(53.4)
Total passengers	38.8	15.4	(60.2)

(1) For the 6 months ended 30 June

(2) Calculated using unrounded passenger figures

Other traffic performance indicators ⁽¹⁾	2019	2020	Var % ⁽²⁾
Passenger ATM	233,956	108,125	(53.8)
Load factors (%)	77.8	65.3	(16.0)
Seats per ATM	213.0	218.4	2.5
Cargo tonnage ('000)	806	550	(31.7)

(1) For the 6 months ended 30 June

(2) Calculated using unrounded passenger figures

SUSTAINABLE GROWTH

Climate change remains the single greatest challenge facing society and our industry over the medium to long term. This debate has remained a live one during the COVID-19 crisis. A clean and resilient recovery will be required so that we, as an industry, can build back better. We welcome the Government's recognition that there is a need to accelerate action to decarbonise aviation as part of a green recovery. We look forward to contributing to the Government's 'Jet Zero Council', bringing together aviation, Government and environmental leaders to drive action on sustainable fuel and future zero emission technology.

Over the next decade, sustainable aviation fuel ('SAF') represents the best way to accelerate a reduction in carbon. SAF can be utilised by existing aircrafts without waiting for a 25-year replacement cycle. The challenge is an economic one – the small volumes of SAF currently produced are expensive. A Government package of supply side regulations, demand incentives and financial support is needed, pursued with urgency and purpose.

The two key steps we are advocating for are a fuel blending mandate to drive supply, and a restructuring of Air Passenger Duty ('APD') to cut the price of SAF for airlines who use it. These asks build on those of UK air industry coalition, Sustainable Aviation, which is calling for financial support from Government, matched by private investment, to open the first two to three UK plants by 2025.

Key Expansion developments

On 27 February, the Court of Appeal concluded that the Government was required but failed to take into account the Paris Climate Agreement when preparing the Airports National Policy Statement ('ANPS'). The Court declared that the ANPS has no legal effect unless and until the Government carries out a review of the policy.

The Government declined to appeal to the Supreme Court directly, but Heathrow has been granted permission by the Supreme Court to appeal the Court of Appeal ruling.

We do believe that once the benefits of air travel and connectivity have been restored, an expanded Heathrow will be required, however responding to the impacts of COVID-19 is currently our main priority.

Given the current COVID-19 crisis and the ongoing appeals process, we expect the opening of the third runway to be delayed by at least two years.

Key regulatory developments

The CAA continues to progress its thinking for the H7 regulatory period ('H7'), due to begin on 1 January 2022. In June the CAA published its latest consultation on the H7 framework and other open regulatory policy issues. This follows on from the CAA's April update noting the impact of COVID-19, the need to review how uncertainty is managed through Heathrow's regulatory framework and the Court of Appeal ruling suspending the ANPS.

H7 regulatory framework:

The CAA confirms its intentions to explore potential frameworks for mitigating the forecasting uncertainty caused by the impact of COVID-19. These include reviewing potential passenger volume risk sharing mechanisms and reviewing the duration of the H7 price control.

The CAA continues to focus on the balance between affordability and financeability in setting the regulatory framework and the related package of incentives. As part of this process, Flint Global has carried out further work on Heathrow's cost of capital over the H7 period. This follows on work carried out by PwC in 2019 and also considers the recent developments on cost of capital from the Competition Market Authority's ('CMA') work on the NERL appeal. The CAA also discusses the treatment of other financeability issues, such as the level of notional gearing used and licence conditions regarding financial resilience.

The treatment of early expansion costs:

Due to the Court of Appeal ruling in February, the CAA is proposing to simplify its policy on recovery of early expansion expenditure. The CAA is proposing to remove the distinction between Category B and pre-DCO Category C expenditure and allow Heathrow to add to the RAB all early expansion expenditure incurred up to the end of February 2020. This covers around £500 million of expenditure.

The CAA also proposes that costs attributable to the wind-down of the expansion programme from March 2020 and the appeal to the Supreme Court be subject to the same treatment but notes that further work will be required when the full nature and extent of these costs is known.

Regulatory timetable:

We will be submitting our revised business plan ('RBP') in Autumn 2020, which the CAA will then use to form their proposals for setting the H7 price control. We expect the CAA to publish initial proposals in Summer 2021.

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') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU').

The financial information presented within this trading update has been prepared on a going concern basis. More detail can be found in note 1.

Management use Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. A reconciliation of our APMs has been included in note 14.

Revenue

In the 6 months ended 30 June 2020, revenue declined 51.3% to £712 million (2019: £1,461 million). Revenue declined by 84.8% during the second quarter in isolation compared to the same period last year.

6 months ended 30 June	2019 £m	2020 £m	Var. %
Aeronautical	871	398	(54.3)
Retail	339	150	(55.8)
Other	251	164	(34.7)
Total revenue	1,461	712	(51.3)

Aeronautical revenue declined by 54.3%. Aeronautical revenue per passenger increased 14.7% to £25.79 (2019: £22.48). The decline in aeronautical revenue is predominantly due to reduced passenger numbers. Fewer aircraft movements also drove revenue down. Revenue per passenger is largely distorted due to the reduced passenger numbers and an increase in cargo movements which are charged on a per movement basis.

6 months ended 30 June	2019 £m	2020 £m	Var. %
Retail concessions	158	63	(60.1)
Catering	31	13	(58.1)
Other retail	54	28	(48.1)
Car parking	61	26	(57.4)
Other services	35	20	(42.9)
Total retail revenue	339	150	(55.8)

Retail revenue declined by 55.8% driven by reduced passenger numbers. Retail revenue per passenger increased 11.1% to £9.72 (2019: £8.75). Retail income per passenger is largely distorted due to the reduced passenger numbers.

6 months ended 30 June	2019 £m	2020 £m	Var. %
Other regulated charges	114	74	(35.1)
Heathrow Express	58	21	(63.8)
Property and other	79	69	(12.7)
Total other revenue	251	164	(34.7)

Other revenue decreased by 34.7%. Property and other revenue decreased 12.7% driven by rent alleviations as a result of terminal consolidation. Heathrow Express saw a 63.8% decline in revenue due to fewer passengers.

Adjusted operating costs

Adjusted operating costs decreased 11.6% to £490 million (2019: £554 million). Adjusted operating costs per passenger increased by 122.1% to £31.75 (2019: £14.30). Operating costs were down 24.6% during the second quarter in isolation compared to the same period last year. This reflects the £100 million of savings realised through management initiatives.

6 months ended 30 June	2019 £m	2020 £m	Var. %
Employment	184	149	(19.0)
Operational	131	119	(9.2)
Maintenance	87	75	(13.8)
Rates	60	59	(1.7)
Utilities and Other	92	88	(4.3)
Adjusted operating costs	554	490	(11.6)

Drivers of the operating costs decline are management initiatives which were largely implemented across April and May, including a company-wide pay reduction, utilising the furlough scheme, restructuring of the organisation, operating on a smaller footprint, renegotiating our suppliers contracts and stopping all non-essential costs. This was partially offset by increased business resilience costs and a provision for expected credit loss on debtors increasing to £20 million. Operating costs per passenger is largely distorted due to the reduced passenger numbers and the fixed nature of our cost base in the medium term.

Operating profit / (loss) and Adjusted EBITDA

In the 6 months ended 30 June 2020, the Group recorded an operating loss of £510 million (2019: operating profit of £505 million). In addition to lower revenue, the loss was driven by a reduction in the non-cash fair value of our investment properties of £252 million and exceptional items of £122 million.

Adjusted EBITDA decreased 75.5% to £222 million (2019: £907 million), resulting in an Adjusted EBITDA margin of 31.2% (2019: 62.1%).

6 months ended 30 June	2019 £m	2020 £m
Operating profit/ (loss)	505	(510)
Depreciation and amortisation	395	358
EBITDA	900	(152)
Exceptional items ⁽¹⁾	-	122
Excl. Fair value loss on investment properties	7	252
Adjusted EBITDA	907	222

(1) Please see exceptional items section for further information.

Exceptional items

In the 6 months ended 30 June 2020, there was an exceptional charge of £122 million (2019: nil) to the income statement.

6 months ended 30 June	2019 £m	2020 £m
Business transformation	-	37
Asset impairment and write-off	-	85
Exceptional pre-tax charge	-	122

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling to suspend the Airports National Policy Statement), the Group has carried out a detailed review of its organisational design to simplify operations and reduce costs. As a result, in the 6 months to 30 June 2020 the Group has incurred £37 million of exceptional costs relating to this transformation programme. The Group has also reviewed their asset portfolio, notably assets under construction. Certain projects have been placed on hold while some projects are unlikely to be re-started in the foreseeable future. This resulted in an exceptional write-off of previously capitalised costs of £85 million in the period. This cost includes £10 million of spend related to expansion, where costs already capitalised will require re-work as a result of the estimated delay of at least two years. These costs remain on the RAB and continue to generate a return.

Loss after tax

In the 6 months ended 30 June 2020, the Group recorded an operating loss before tax of £510 million (2019: £505 million profit) and a loss after tax of £998 million (2019: £10 million loss).

6 months ended 30 June	2019 £m	2020 £m
Operating profit / (loss)	505	(510)
Net finance cost before certain re-measurements	(359)	(335)
Fair value loss on financial instruments	(139)	(214)
Profit / (loss) before tax	7	(1,059)
Taxation (charge) / credit	(17)	61
Loss after tax	(10)	(998)

Net finance cost before certain re-measurements was £335 million (2019: £359 million) due to RPI growth rate for the 12-months to June 2020 falling to 1.5%, down from 3.0% in the same prior period.

Fair value losses on financial instruments increased to £214 million (2019: £139 million) as a result of decreasing interest rate expectations due to the downward shift of the 6-month LIBOR curve.

Taxation

The tax credit for the 6-month period ended 30 June 2020, before certain re-measurements, was £78 million (2019: £41 million charge), at 16.6% (6 months ended 30 June 2019: 26.8%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the 6-month period, before certain re-measurements and exceptional items. The effective tax rate being lower (2019: higher) than the statutory rate of 19%

(2019: 19%) is primarily due to non-deductible expenses reducing the tax credit for the year (2019: non-deductible expenses increasing the tax charge for the year). The total tax credit for the 6-month period ended 30 June 2020 is £61 million (6 months ended 30 June 2019: £17 million charge), representing the sum of the tax credit on losses before certain re-measurements and the tax charge on certain re-measurements and exceptional items. For the period, the Group paid £5 million (6 months ended 30 June 2019: £41 million) in corporation tax.

Cash position

In the 6 months ended 30 June 2020, there was a decrease of £465 million in cash and cash equivalents compared with a decrease of £157 million in the 6 months ended 30 June 2019.

At 30 June 2020, the Group had £2,150 million (31 December 2019: £1,540 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £350 million (31 December 2019: £815 million).

We have further strengthened our cash management controls given our significantly increased cash position. These controls include enhanced monitoring across our commercial partners and further diversification of our bank counterparties with whom we have cash deposits.

Cash generated from operations

In the 6 months ended 30 June 2020, cash generated from operations decreased 67.6% to £294 million (2019: £907 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

6 months ended 30 June	2019 £m	2020 £m
Cash generated from operations	907	294
<i>Exclude:</i>		
Decrease in inventories and trade and other receivables ⁽¹⁾	(55)	(132)
Decrease in payables	41	25
Decrease in provisions	4	5
Difference between pension charge and cash contributions	10	10
Cash payments in respect of exceptional items	-	20
Adjusted EBITDA	907	222

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in the first 6 months of 2020 was £296 million (2019: £412 million).

We invested £231 million (2019: £307 million) in a variety of programmes to ensure the safety and resilience of the airport. We also invested £65 million in the period (2019: £105 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced.

Investment has focused on Hold Baggage Screening (HBS) upgrade works, main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained and renewal of assets that have come to the end of their economic life.

Expansion-related capital expenditure included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £380 million in Category B costs and £126 million in Category C costs, a total of £506 million (before capitalised interest and after £10m of re-work impairment) is carried in our balance sheet as assets in the course of construction.

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.

In the 6 months ended 30 June 2020, total restricted payments paid by Heathrow SP amounted to £27 million (net) or £107 million (gross) excluding cash pushed down from Heathrow Finance.

Net restricted payments included:

- £107 million (2019: £195 million) payment made by Heathrow SP to Heathrow Finance to primarily fund the £100 million (2019: £200 million) dividends paid to ultimate shareholders. This payment was made in February reflecting the cumulative outperformance before the significant impacts of COVID-19 on our industry were clear or anticipated,
- a net cash inflow of £80 million from Heathrow Finance to Heathrow SP (2019: net cash outflow of £3 million from Heathrow SP to Heathrow Finance).

For the remainder of 2020, no further restricted payments are to be made out of the Group as a result of the trigger event that occurred in relation to the forecast ICR for Class A and Class B debt for the year ending 31 December 2020. In effect, this means that cash is trapped within the Group and cannot be distributed to Heathrow Finance to service debt, nor to pay dividends to ultimate shareholders.

RECENT FINANCING ACTIVITY

In the first 6 months of 2020 we have raised £130 million of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £15 billion debt portfolio. 2020 funding activities have comprised £80 million in Class A debt and £50 million of Heathrow Finance debt. We also drew £2,091 million of debt signed prior to the reporting period.

Debt drawn signed prior to the reporting include:

- £900 million Class A revolving credit and working capital facilities,
- £250 million Class B revolving credit facilities,
- £381 million Class B delayed drawdown bonds closed in March 2020,
- £75 million Class B term debt maturing in 2035, and

e) £485 million of Heathrow Finance facilities with maturities ranging between 2026 and 2029.

In addition, we repaid a £400m Class B bond and made £2m of scheduled repayments on the EIB loan. £22.5m of undrawn Heathrow Finance debt was also cancelled. After the reporting period end we received the proceeds of the £80 million Class A debt which was arranged in March 2020.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 June 2020, Heathrow SP's consolidated nominal net debt was £12,860 million (31 December 2019: £12,412 million). It comprised £12,139 million in bond issues, £1,528 million in other term debt, £187 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £6 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,150 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,194 million in senior net debt and £1,666 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 June 2020 was 2.88% (31 December 2019: 3.41%). 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 June 2020 was 4.03% (31 December 2019: 4.75%). The reduction in the average cost of debt since the end of 2019 is mainly due to recent financing activities at a lower cost.

The average life of Heathrow SP's gross debt as at 30 June 2020 was 10.7 years (31 December 2019: 11.5 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 and additional lease liabilities entered since the transition to IFRS 16.

The accounting value of Heathrow SP's net debt was £13,747 million at 30 June 2020 (31 December 2019: £12,684 million). This includes £2,150 million of cash and cash equivalents and term deposits, and £373 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until at least June 2021 under the extreme stress-test scenario of no revenue, or well into 2022 under our traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2.7 billion in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 30 June 2020.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £14,932 million (31 December 2019: £14,361 million). This comprised Heathrow SP's £12,860 million nominal net debt, Heathrow Finance's nominal gross debt of

£2,514 million and cash and term deposits held at Heathrow Finance of £442 million.

Financial ratios

At 30 June 2020, Heathrow SP continues to operate comfortably within required financial ratios. Heathrow Finance's gearing ratio remained within required default covenant level although headroom has reduced significantly. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB').

At 30 June 2020, Heathrow's RAB was £16,516 million (31 December 2019: £16,598 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 67.8% and 77.9% respectively (31 December 2019: 66.6% and 74.8% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 90.4% (31 December 2019: 86.5%) with a covenant of 92.5%.

As of 30 June 2020, a forecasting event and trigger event have occurred in relation to the forecast Interest Cover Ratios ('ICRs') for Class A and Class B debt for the financial year ending 31 December 2020. As a result, a distribution lock-up is in place within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.

In early July, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2020 and to amend the Regulatory Asset Ratio covenant from 92.5% to 95.0% and 93.5% for the financial year ending on 31 December 2020 and 31 December 2021 respectively. Further details are available in our summary of additional disclosures in appendix 1.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 30 June 2020, the defined benefit pension scheme, as measured under IAS 19, was funded at 98.8% (31 December 2019: 100.8%). This translated into a deficit of £56 million (31 December 2019: £33 million surplus). The £89 million increase in the deficit in the 6 months is due to actuarial losses of £100 million, attributable to a decrease in the net discount rate of 0.6% offset by contributions in excess of current service cost of £11 million. In the 6 months ended 30 June 2020, we contributed £22 million (2019: £25 million) into the defined benefit pension scheme including £10 million (2019: £12 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

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

OUTLOOK

The outlook for our adjusted EBITDA performance in 2020 remains consistent with the revised guidance published in our June Investor Report on 16 June 2020.

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 28 July 2020.



Javier Echave

Director



Nicholas Golding

Director

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Heathrow Finance consent solicitation – As a result of the significant reduction in passenger demand, and temporary reduction in revenue that arises as a result of COVID-19, the Issuer is currently forecasting that, if the Group does not take any mitigating actions in the coming months, it will not be able to meet the HFP Group Covenants in respect of the Financial Year ending 31 December 2020 when tested in June 2021. Furthermore, it may not be able to meet the Group RAR covenant for the Financial Year ending 31 December 2021 (being the end of the current Regulatory Period) when it falls to be tested in June 2022.

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/consent-solicitation-heathrow-finance-plc/14579814> and here <https://www.londonstockexchange.com/news-article/market-news/heathrow-finance-plc-consent-solicitation-result/14608131>

Heathrow Finance's credit rating update – Credit rating agency Moody's affirmed Heathrow Finance plc's Ba3 debt rating. Moody's recognised the resilience of the airport with key financial metrics expected to return to stronger levels over the next two to three years. Negative outlook remains unchanged reflecting traffic volatility generated by COVID19 pandemic.

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/heathrow-finance-credit-rating-update/14591746>

Heathrow Funding Ltd placed on CreditWatch with negative Implications – Credit rating agency Standards & Poor's has put Heathrow Funding Limited's Class A and B debt on CreditWatch with negative implications. The agency anticipates COVID-19 will have a more severe impact than anticipated on passenger traffic while recovery to pre-crisis volumes may not occur until at least 2023. Class A and B investment grade credit ratings are unchanged at BBB+ and BBB- respectively.

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/heathrow-funding-ltd-credit-ratings-update/14561649>

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the six months ended 30 June 2020

	Note	Unaudited Six months ended 30 June 2020				Unaudited Six months ended 30 June 2019		
		Before certain re-measurements and exceptional items	Certain re-measurements ⁽¹⁾	Exceptional items ⁽²⁾	Total	Before certain re-measurements and exceptional items	Certain re-measurements ⁽¹⁾	Total
		£m	£m	£m	£m	£m	£m	£m
Continuing operations								
Revenue	1	712	-	-	712	1,461	-	1,461
Operating costs	2	(848)	-	(122)	(970)	(949)	-	(949)
Other operating items:								
Fair value loss on investment properties	7	-	(252)	-	(252)	-	(7)	(7)
Operating (loss)/profit		(136)	(252)	(122)	(510)	512	(7)	505
Financing								
Finance income		8	-	-	8	4	-	4
Finance cost		(343)	(214)	-	(557)	(363)	(139)	(502)
Net finance cost	4	(335)	(214)	-	(549)	(359)	(139)	(498)
(Loss)/profit before tax		(471)	(466)	(122)	(1,059)	153	(146)	7
Taxation credit/(charge)	5	78	(24)	7	61	(41)	24	(17)
Loss for the period		(393)	(490)	(115)	(998)	112	(122)	(10)

(1) Certain re-measurements consist of: fair value losses on investment property revaluations and disposals; 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 including the impact of the UK corporation tax rate change.

(2) Exceptional items are one-off material costs that have been incurred as a result of COVID-19 and the delay to Expansion following the Judicial Review. Further details can be found in note 3.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Loss for the period	(998)	(10)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions net of tax:		
Gain on plan assets ⁽²⁾	296	327
Increase in scheme liabilities ⁽²⁾	(377)	(391)
Change in tax rate	(1)	-
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains taken to equity ⁽²⁾	31	104
Transfer to finance cost ⁽²⁾	(19)	(74)
Change in tax rate	4	-
Other comprehensive expense for the period net of tax	(66)	(34)
Total comprehensive expense for the period ⁽¹⁾	(1,064)	(44)

(1) Attributable to owners of the parent.

(2) Items in the statement above are disclosed net of tax.

Condensed consolidated statement of financial position as at 30 June 2020

	<i>Note</i>	Unaudited as at 30 June 2020 £m	Audited ¹ as at 31 December 2019 £m
Assets			
Non-current assets			
Property, plant and equipment	6	11,434	11,561
Right of use asset		266	276
Investment properties	7	2,270	2,522
Intangible assets		197	176
Retirement benefit surplus	10	-	33
Derivative financial instruments	9	926	539
Trade and other receivables		17	18
		15,110	15,125
Current assets			
Inventories		14	13
Trade and other receivables		116	247
Current income tax assets		18	-
Derivative financial instruments	9	29	-
Term deposits		1,800	725
Cash and cash equivalents		350	815
		2,327	1,800
Total assets		17,437	16,925
Liabilities			
Non-current liabilities			
Borrowings	8	(17,637)	(15,948)
Derivative financial instruments	9	(1,290)	(1,227)
Lease liabilities		(333)	(346)
Deferred income tax liabilities		(897)	(934)
Retirement benefit obligations	10	(85)	(29)
Provisions		(1)	(1)
Trade and other payables		(5)	(5)
		(20,248)	(18,490)
Current liabilities			
Borrowings	8	(742)	(647)
Derivative financial instruments	9	(7)	(55)
Lease liabilities		(40)	(38)
Provisions		(20)	(8)
Current income tax liabilities		-	(31)
Trade and other payables		(325)	(430)
		(1,134)	(1,209)
Total liabilities		(21,382)	(19,699)
Net liabilities		(3,945)	(2,774)
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(171)	(187)
(Accumulated losses)/retained earnings		(526)	661
Total shareholder's equity		(3,945)	(2,774)

(1) This column is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2019.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of changes in equity for the six months ended 30 June 2020

	Attributable to owners of the Company					Total equity £m
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings/ (Accumulated losses) £m	
1 January 2019 (previously reported)	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16	-	-	-	-	(89)	(89)
1 January 2019 (re-stated)	11	499	(3,758)	(216)	739	(2,725)
Comprehensive income:						
Profit for the period	-	-	-	-	413	413
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	29	-	29
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	498	498
Increase in scheme liabilities	-	-	-	-	(509)	(509)
Total comprehensive income	-	-	-	29	402	431
Transaction with owners						
Dividends paid to Heathrow Finance plc	-	-	-	-	(480)	(480)
Total transaction with owners	-	-	-	-	(480)	(480)
31 December 2019 (audited) ¹	11	499	(3,758)	(187)	661	(2,774)
1 January 2020	11	499	(3,758)	(187)	661	(2,774)
Comprehensive income:						
Loss for the period	-	-	-	-	(998)	(998)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	12	-	12
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	296	296
Increase in scheme liabilities	-	-	-	-	(377)	(377)
Change in tax rate	-	-	-	-	(1)	(1)
Total comprehensive expense	-	-	-	16	(1,080)	(1,064)
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	-	-	-	-	(107)	(107)
30 June 2020 (unaudited)	11	499	(3,758)	(171)	(526)	(3,945)

(1) This row is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2019.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of cash flows for the six months ended 30 June 2020

<i>Note</i>	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Cash flows from operating activities		
Cash generated from operations	294	907
Taxation:		
Corporation tax paid	(5)	(41)
Net cash generated from operating activities	289	866
Cash flows from investing activities		
Purchase of:		
Property, plant and equipment	(376)	(364)
Investment properties	-	(1)
Increase in term deposits ⁽¹⁾	(1,075)	(270)
Interest received	6	3
Net cash used in investing activities	(1,445)	(632)
Cash flows from financing activities		
Dividends paid to Heathrow Finance plc	(107)	(197)
Proceeds from issuance of bonds	380	783
Repayment of bonds	(400)	-
Repayment of facilities and other financing items	(2)	(435)
Increase/(decrease) in amount owed to Heathrow Finance plc	128	(3)
Interest paid ⁽²⁾	(321)	(316)
Drawdown of revolving credit facilities	1,050	-
Proceeds from issuance of other term debt	175	-
Settlement of accretion on index-linked swaps	(193)	(204)
Payment of lease liabilities	(19)	(19)
Net cash generated from/(used in) financing activities	691	(391)
Net decrease in cash and cash equivalents	(465)	(157)
Cash and cash equivalents at beginning of period	815	591
Cash and cash equivalents at end of period	350	434

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

(2) Included within interest paid is £8 million of lease interest paid (June 2019: £9 million which was previously included in payment of lease liabilities).

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

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.

Primary financial statements format

A columnar approach has been adopted in the income statement and the impact of separately disclosed items is shown in separate columns. These columns include 'certain re-measurements' and 'exceptional items' which management separates from the underlying operations of the Group. 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' 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. the associated tax impacts of the items in (i) and (ii); and iv. the impact on deferred tax balances of known changes in tax rates where the deferred tax originally went through the income statement. The column 'exceptional items' contains the following: i. exceptional items; and ii. the associated tax impacts of item (i).

Accounting policies**Basis of preparation and new accounting standards, interpretations and amendments**

The financial information covers the six-month period ended 30 June 2020 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 six months ended 30 June 2020 and 2019, together with the unaudited consolidated statement of financial position as at 30 June 2020 and the audited consolidated statement of financial position as at 31 December 2019.

The financial information for the six-month periods ended 30 June 2020 and 2019 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 2019, 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 auditors' 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 2019 is labelled audited, the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2019.

The financial information for the six-month period ended 30 June 2020 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2020. The financial statements for the six-month period ended 30 June 2020 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2019 with the exception of the additional accounting policies and significant accounting judgements and estimates which has been detailed below.

Going concern

The directors have prepared the financial information presented within this trading update for Heathrow SP on a going concern basis as they have a reasonable expectation that the entity has adequate resources to continue in operational existence for the foreseeable future.

The wider Heathrow Group can raise finance at both Heathrow SP and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the directors have considered the wider group when assessing Going Concern.

In assessing the going concern position the directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months and the corresponding impact on the covenants associated with financing arrangements. The directors have also considered the period beyond 12 months to December 2021.

During Q1 and Q2 steps have been taken to access significant additional liquidity and Heathrow SP has drawn down an additional £1,606 million of pre-agreed facilities and raised an additional £80 million in Class A debt. Consequently, Heathrow SP held cash of £2,150 million as at 30 June 2020. Total debt maturity within Heathrow SP for the next 12 months is £496 million.

The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash and committed facilities of circa. £2.7 billion available. No debt matures outside of Heathrow SP for the next 12 months.

Taking this into account, we have sufficient liquidity to meet all our forecast needs until at least June 2021 under the extreme stress-test scenario of no revenue, or well into 2022 under our traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

Going concern *continued*

The directors have modelled future cashflows to include the impact of COVID-19 related disruption and have considered the following:

- the forecast revenue and operating cash flows from the underlying operations,
- the forecast level of capital expenditure, and
- the overall Group liquidity position, including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and its ability to access the debt markets.

The models have included the impacts of several important steps to reduce operating expenditure including temporarily shrinking our operation, cancelling executive pay, a company-wide pay reduction and bonus cancellation, freezing recruitment and removing all non-essential costs. Steps have also been taken to adjust our capital expenditure which we anticipate being around £445 million in the current year. In modelling the impact of COVID-19, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective.

As reported in the June 2020 Investor Report, the Group's financial modelling under the base case scenario assumes passenger traffic for 2020 will decline 64% compared to 2019 to 29.2m passengers, with a return to pre COVID-19 traffic volumes not anticipated until after 2022. Group EBITDA and cash flow from operations in 2020 and 2021 is expected to reduce significantly compared to prior expectations.

Rapid deterioration in traffic and cash flows have put trigger events at Heathrow SP and covenants at Heathrow Finance under strain. A Forecasting Event and a Trigger Event have occurred in relation to the forecast Interest Cover Ratios for the year ending 31 December 2020 for Class A and Class B debt at Heathrow SP when tested in June 2020. The breach of trigger events has resulted in a cash trap within Heathrow SP and will have no adverse effect on Heathrow SP's creditors. Heathrow Finance was forecast to breach its RAR and ICR covenant tests in relation to the financial year ending 31 December 2020, when tested in June 2021. However, Heathrow's management agreed a waiver for ICR and an amendment to RAR covenants from Heathrow Finance creditors and hence no breaches are forecast to occur in June 2021 and the Group is able to meet all obligations for the period of at least 12 months.

In reaching our going concern conclusion, the directors considered a severe but plausible downside for the period beyond 12 months to December 2021 which models a further significant double-digit percentage fall in revenue and cash flows arising from further unexpected COVID-19 related disruption. Under that scenario, the directors have a reasonable expectation that there are operational and financial mitigations within the control of the group to mitigate against any debt default covenant breach.

In conclusion, having had regard to both liquidity and debt covenants and considering a severe but plausible downside, the directors have concluded that there will be funds available to meet the Group's funding requirements for at least twelve months from the date of this trading statement.

Accounting policies in addition to those included in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2019

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2019 with the exception of the additional accounting policies noted below.

Government grants

Government grants are recognised where it is probable that the grant will be received, and all the attached conditions have been complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. The Group has chosen to present grants related to an expense item as net deductions against the related expense.

Exceptional items

The Group separately presents certain items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Group's result between periods. Exceptional items are material items of income or expense that are considered to merit separate presentation because of their size or nature. They are not expected to be incurred on a recurring basis.

Significant accounting judgements and changes in 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 judgments in applying the Group's accounting policies

In preparing the six-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 2019, except for the following critical judgements:

Going concern

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'Basis of preparation and new accounting standards, interpretations and amendments' section.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

Exceptional items

The Group has separately presented certain material one-off items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Group's result between periods. Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results. In the current year business transformation costs and asset impairment and write-off charges, as a consequence of the impact of the COVID-19 virus and the delay to expansion (following the announcement by the Court of Appeal regarding the Judicial Review into expansion), have been disclosed as exceptional items. Further details are disclosed in the accounting policy above and in note 3.

Expansion assets

Assets in the course of construction for the expansion of Heathrow had a net book value of £506m as at 30 June 2020. IAS 16 Property, Plant & Equipment requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. Management have considered the impact of the Court of Appeal announcement regarding the Judicial Review into expansion and the potential impact of COVID-19 on long term passenger demand and have concluded that expansion remains probable. Heathrow have been granted permission by the Supreme Court to appeal the Court of Appeal announcement. Although the expectations of the Directors at the time of approval of the 2019 Annual Report was that Heathrow would be successful at the Court of Appeal, the Directors continue to believe it is more likely than not that the process will proceed to the agreement of a finalised ANPS and subsequently an approved DCO. If the appeal is successful, then the Airports National Policy Statement (ANPS) would be confirmed as remaining legal. If the appeal is unsuccessful then the ANPS remains suspended and can either be withdrawn or re-reviewed by Government. The hearing is expected to take place in the second half of 2020. The process is expected to result in a delay to the programme of at least two years. If expansion were deemed not probable at a future date, then it is expected that the asset would be impaired.

Key sources of estimation uncertainty

In preparing the six-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 2019, except for the following:

Expected Credit Loss provisioning

As at 30 June 2020 gross trade debtors was £76m, £33m of this trade debtor balance was past due. Applying IFRS 9 the Group is required to estimate the expected credit loss on these balances. Our customers have been severely impacted by COVID-19 and many are restructuring their businesses, re-financing their facilities and in some cases are seeking or have obtained government support. The situation is fast changing and dynamic and estimating the expected credit loss from these customers is therefore uncertain. Based on the information available as at 30 June 2020 the expected credit loss was estimated to be £20m (31 December 2019: £5m). It is not considered a significant risk that there would be a material adjustment to the expected credit loss in the next year.

Investment properties

In applying IAS 40 investment properties have been estimated to be worth £2,270m as at 30 June 2020. To assist in assessing the valuation of our investment properties Heathrow engages a professional valuation firm that is regulated by the Royal Institution of Chartered Surveyors (RICS). Its report comments that the outbreak of COVID-19, has impacted global financial markets and resulted in travel restrictions having been implemented in many countries. Market activity, that provides the empirical data for the valuation expert to have an adequate level of certainty in the valuation, is as a result being impacted for our sector for specific properties. As at the valuation date, the valuation expert considered that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

Their valuation is therefore reported as being on the basis of 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty, and a higher degree of caution, should be attached to the investment property valuation than would normally be the case.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included in order to be clear and transparent of the fact that, in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

Retirement Benefit Obligations

The value of the Pension scheme assets held for the Retirement Benefit Scheme was £4,668m as at 30 June 2020. Their fair value has been estimated by the schemes fund managers. property assets were estimated to be worth £145m, however the fund manager has stated that c.70% of these assets equivalent to c.£100m, which is held within a specific property fund, had material uncertainty with regards to their valuation. This was due to difficulties in estimating the impact of COVID-19 and a reduction in the volume of transactions. Whilst the Directors are satisfied the overall pension asset value is appropriate given the low percentage of the total scheme assets that are impacted, this estimation uncertainty has been disclosed in order to be clear and transparent of the fact that, in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case.

New IFRS accounting standards and interpretations adopted in the period

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 2020 that have had a material impact on the Group's results.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

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.

Table (a)	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Segment Revenue		
Under IFRS 15		
Aeronautical		
Movement charges	148	274
Parking charges	28	37
Passengers charges	222	560
Total Aeronautical revenue	398	871
Other regulated charges	74	114
Retail services revenue ¹	150	339
Property revenue ¹	10	11
Rail Income		
Heathrow Express	21	58
Other ¹	8	12
<i>Revenue reported under IFRS 15</i>	661	1,405
Revenue recognised at a point in time	635	1,344
Revenue recognised over time	26	61
Total revenue reported under IFRS 15	661	1,405
Under IFRS 16		
Property (lease-related income) ¹	51	56
Total revenue	712	1,461
Heathrow	691	1,403
Heathrow Express	21	58
Adjusted EBITDA		
Heathrow	228	877
Heathrow Express	(6)	30
Total adjusted EBITDA	222	907
Reconciliation to statutory information:		
Depreciation and amortisation	(358)	(395)
Operating (loss)/profit (before certain re-measurements and exceptional items)	(136)	512
Exceptional items	(122)	-
Fair value loss on investment properties (certain re-measurements)	(252)	(7)
Operating (loss)/profit	(510)	505
Finance income	8	4
Finance cost	(557)	(502)
(Loss)/profit before tax	(1,059)	7

(1) Six months ended June 2019 has been reclassified as follows: £220 million was reclassified from property (lease-related income) under IFRS 16 to retail services revenue under IFRS 15, £56 million was reclassified from property revenue under IFRS 15 to retail services revenue under IFRS 15 and £8 million was reclassified from property revenue under IFRS 15 to other under IFRS 15.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Six months ended 30 June 2020		Unaudited Six months ended 30 June 2019	
	Depreciation & amortisation ⁽¹⁾ £m	Fair value loss ⁽²⁾ £m	Depreciation & amortisation ⁽¹⁾ £m	Fair value loss ⁽²⁾ £m
Heathrow	(341)	(252)	(369)	(7)
Heathrow Express	(17)	-	(26)	-
Total	(358)	(252)	(395)	(7)

(1) Includes intangible amortisation charge of £15 million (six months ended 30 June 2019: £17 million)

(2) Reflects fair value loss on investment properties only.

Table (c)	Unaudited 30 June 2020		Audited 31 December 2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	13,400	(334)	13,885	(429)
Heathrow Express	648	(18)	652	(15)
Total operations	14,048	(352)	14,537	(444)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	2,150	(15,699)	1,540	(14,055)
Retirement benefit assets/(obligations)	-	(85)	33	(29)
Derivative financial instruments	955	(1,297)	539	(1,282)
Deferred and current tax assets/(liabilities)	18	(897)	-	(965)
Amounts owed to group undertakings ⁽¹⁾	-	(2,679)	-	(2,540)
Right of use asset and lease liabilities	266	(373)	276	(384)
Total	17,437	(21,382)	16,925	(19,699)

(1) For the six months ended 30 June 2020 an amount of £4 million is now disclosed within 'Heathrow'. This reallocation has been made as the amount relates to external payments received by LHR Airports Limited under the Shared Services Agreement ('SSA') on behalf of Heathrow that will be remitted to Heathrow in due course. Previously this was disclosed as an amount 'owed from Group Undertakings'.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

2. OPERATING COSTS

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Employment ¹	149	184
Operational	119	131
Maintenance	75	87
Rates	59	60
Utilities	33	35
Other	55	57
Total operating costs before depreciation and amortisation	490	554
Depreciation and amortisation:		
Property, plant and equipment	324	360
Intangible assets	15	17
Right of Use (RoU) assets	19	18
Operating costs before exceptional items	848	949
Exceptional items (note 3)	122	-
Total operating costs	970	949

¹ Government grants of £17m have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Business transformation	(37)	-
Asset impairment and write-off	(85)	-
Total operating loss on exceptional items	(122)	-
Tax credit on exceptional items	7	-
Loss on exceptional items after tax	(115)	-

Business transformation

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has carried out a detailed review of its organisation designed to simplify operations and reduce costs. The Group has incurred £37m of exceptional costs relating to the transformation programme in the period, these costs primarily consist of people costs which have resulted from changes to the organisational structure. Further costs are expected to be incurred in the second half of the year, including costs of a voluntary severance scheme which has been launched.

Asset impairment and write-off

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has recognised a non-cash impairment and write-off charge of £85m on assets in the course of construction. A number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, costs incurred to date on these projects have been impaired. The impairment also includes £10m of impaired cost which relates to forecast re-work which will be required as a result of the estimated delay to the Expansion to the programme.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

4. FINANCING

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Finance income		
Interest on deposits	8	4
Total finance income	8	4
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments ⁽¹⁾	(258)	(266)
Bank loans, overdrafts and related hedging instruments	(32)	(27)
Net interest expense on derivatives not in hedge relationship ⁽²⁾	(4)	(27)
Facility fees and other charges	(5)	(4)
Interest on debenture payable to Heathrow Finance plc	(59)	(50)
Finance cost on lease liabilities	(8)	(9)
	(366)	(383)
Less: capitalised borrowing costs ⁽³⁾	23	20
Total finance cost	(343)	(363)
Net finance cost before certain re-measurements	(335)	(359)
Fair value loss on financial instruments		
Interest rate swaps: not in hedge relationship	(65)	(37)
Index-linked swaps: not in hedge relationship	(105)	(97)
Cross-currency swaps: not in hedge relationship	11	-
Ineffective portion of cash flow hedges ⁽⁴⁾	(6)	8
Ineffective portion of fair value hedges ⁽⁴⁾	(52)	(13)
Fair value re-measurements of foreign exchange contracts and currency	3	-
	(214)	(139)
Net finance cost	(549)	(498)

(1) Includes accretion of £11 million for six months ended 30 June 2020 (six months ended 30 June 2019: £13 million) on index-linked bonds.

(2) Includes accretion of £35 million for six months ended 30 June 2020 (six months ended 30 June 2019: £56 million) on index-linked swaps.

(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 4.40% (six months ended 30 June 2019: 4.95%) to expenditure incurred on such assets.

(4) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

5. INCOME TAX CREDIT/(CHARGE)

	Unaudited Six months ended 30 June 2020				Unaudited Six months ended 30 June 2019		
	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Total £m
UK corporation tax							
Current tax credit/(charge) at 19% (2019: 19%)	44	-	-	44	(55)	-	(55)
Deferred tax:							
Current year credit	34	89	7	130	14	24	38
Change in tax rate	-	(113)	-	(113)	-	-	-
Taxation credit/(charge)	78	(24)	7	61	(41)	24	(17)

The total tax credit recognised for the six months ended 30 June 2020 was £61 million (six months ended 30 June 2019: £17 million tax charge) and a loss before tax for the six months ended 30 June 2020 of £1,059 million (six months ended 30 June 2019: profit before tax £7 million).

The total tax credit before certain re-measurements for the six months ended 30 June 2020 was £78 million (six months ended 30 June 2019: £41 million tax charge). Based on a loss before tax and certain re-measurements of £471 million (six months ended 30 June 2019: profit before tax £153 million), this results in an effective tax rate of 16.6% (six months ended 30 June 2019: 26.8%). The tax credit for 2020 is less (2019: more) than implied by the statutory rate of 19% (2019: 19%) primarily due to non-deductible expenses reducing the tax credit for the year (2019: non-deductible expenses increasing the tax charge for the year).

In addition, there was an £24 million tax charge (six months ended 30 June 2019: £24 million tax credit) reflecting an £89m tax credit arising from fair value losses on investment property revaluations, fair value losses on financial instruments along with a £113m tax charge associated with the impact from the UK corporation tax rate remaining at 19% on deferred tax balances and a £7 million tax credit on exceptional items. The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in the 2020 Budget. The headline UK corporation tax rate of 19% was maintained and substantively enacted in March 2020. The effect of the rate increase 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 into 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. This relief was increased to 3% from 1 April 2020 in the March 2020 Budget. Heathrow is likely to benefit from tax relief in future years on expenditure which was not eligible under the previous rules. The increase from 2% to 3% has not yet been substantively enacted at the 30 June 2020 balance sheet date.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

6. 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 2020	11,937	2,016	996	274	1,395	1,268	17,886
Additions	-	-	-	-	-	296	296
Borrowing costs capitalised	-	-	-	-	-	23	23
Disposals	-	-	(1)	-	-	-	(1)
Capital write off	-	-	-	-	-	(85)	(85)
Transfer to intangible assets	-	-	-	-	-	(37)	(37)
Transfer to completed assets	163	53	63	7	12	(298)	-
30 June 2020 (Unaudited)	12,100	2,069	1,058	281	1,407	1,167	18,082
Depreciation							
1 January 2020	(4,641)	(504)	(475)	(88)	(617)	-	(6,325)
Depreciation charge	(234)	(25)	(42)	(6)	(17)	-	(324)
Disposals	-	-	1	-	-	-	1
30 June 2020 (Unaudited)	(4,875)	(529)	(516)	(94)	(634)	-	(6,648)
Net book value							
30 June 2020 (Unaudited)	7,225	1,540	542	187	773	1,167	11,434

The Regulatory Asset Base (RAB) at 30 June 2020 was £16,516 million (31 December 2019 was £16,598 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 2019	11,650	1,954	1,141	230	1,435	1,114	17,524
Additions	-	-	-	-	-	849	849
Borrowing costs capitalised	-	-	-	-	-	44	44
Disposals	(245)	(65)	(118)	(9)	(50)	-	(487)
Transfer to intangible assets	-	-	-	-	-	(44)	(44)
Transfer to completed assets	532	127	(27)	53	10	(695)	-
31 December 2019 (Audited)	11,937	2,016	996	274	1,395	1,268	17,886
Depreciation							
1 January 2019	(4,394)	(508)	(526)	(78)	(613)	-	(6,119)
Depreciation charge	(492)	(61)	(67)	(19)	(54)	-	(693)
Disposals	245	65	118	9	50	-	487
31 December 2019 (Audited)	(4,641)	(504)	(475)	(88)	(617)	-	(6,325)
Net book value							
31 December 2019 (Audited)	7,296	1,512	521	186	778	1,268	11,561

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2019	2,472
Additions	7
Revaluation	43
31 December 2019 (Audited)	2,522
Revaluation	(252)
30 June 2020 (Unaudited)	2,270

Investment properties were fair valued at 30 June 2020 by an external valuer, CBRE Limited. The valuers are independent and have appropriate, recognised qualifications, and experience in the categories and location of the investment properties being valued.

Management conduct a detailed review of each property to ensure the correct assumptions have been used. Meetings with the valuers are held to review and challenge the assumptions used in the valuation.

Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. The fair value measurement hierarchy used in calculating fair value has been classified as level 3.

The Investment Property portfolio includes Car Parks (for passengers and employees) and Maintenance Hangars, which together account for 70% (31 December 2019: 71%) of the fair value of the investment property portfolio at 30 June 2020. The valuation of Maintenance Hangars is largely based on long term contractual terms.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

8. BORROWINGS

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	4	4
Heathrow Funding Limited bonds:		
6.000% £400 million due 2020	-	400
£250m Bond 8.5% due 2021	253	-
3.000% CAD450m due 2021	270	-
Total current (excluding interest payable)	527	404
Interest payable – external	176	215
Interest payable – owed to group undertakings	39	28
Total current	742	647
Non-current		
Secured		
Heathrow Funding Limited bonds		
9.200% £250 million due 2021	-	255
3.000% CAD450 million due 2021	-	260
4.875% US\$1,000 million due 2021	827	763
1.650%+RPI £180 million due 2022	220	218
1.875% €600 million due 2022	555	517
5.225% £750 million due 2023	710	703
7.125% £600 million due 2024	595	594
0.500% CHF400 million due 2024	340	307
3.250% CAD500 million due 2025	313	288
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	694	693
0.450% CHF210 million due 2026	185	167
2.650% NOK1,000 million due 2027	90	85
3.400% CAD400 million due 2028	238	234
7.075% £200 million due 2028	200	200
4.150% AUD175 million due 2028	114	103
2.500% NOK1,000 million due 2029	83	76
3.782% CAD400 million due 2030	247	233
1.500% €750 million due 2030	726	644
6.450% £900 million due 2031	856	855
Zero-coupon €50 million due January 2032	64	58
1.366%+RPI £75 million due 2032	87	87
Zero-coupon €50 million due April 2032	63	57
1.875% €500 million due 2032	452	421
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	54	49
1.875% €650 million due 2034	671	584
0.347%+RPI £25 million due 2035	75	-
0.347%+RPI £50 million due 2035	75	-
1.061%+RPI £180 million due 2036	203	202
0.419%+RPI £51 million due 2038	51	-

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

8. BORROWINGS *CONTINUED*

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
3.460% £105 million due 2038	105	-
1.382%+RPI £50 million due 2039	58	58
3.334%+RPI £460 million due 2039	642	638
Zero-coupon €86 million due 2039	81	75
0.800% JPY1,000 million due 2039	79	69
1.238%+RPI £100 million due 2040	114	113
0.362%+RPI £75 million due 2041	75	-
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	741	741
1.372%+RPI £75 million due 2049	87	86
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	166	165
Total bonds	12,325	11,987
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	418	418
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	200
Revolving credit facilities	1,150	-
Term note due 2026-2037	798	723
Loans	6	8
Unsecured		
Debenture payable to Heathrow Finance plc	2,640	2,512
Total non-current	17,637	15,948
Total borrowings (excluding interest payable)	18,164	16,352

At 30 June 2020, Heathrow SP's consolidated nominal net debt was £12,860 million. It comprised £12,139 million in bond issues, £1,528 million in other term debt, £187 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £6 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,150 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,194 million in senior net debt and £1,666 million in junior debt.

At 30 June 2020, total non-current borrowings due after more than 5 years was £12,404 million, comprising £8,766 million of bonds, £2,640 million debenture payable to Heathrow Finance plc and £998 million in bank facilities, excludes lease liabilities.

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, US\$ 1,000 million, C\$ 1,070 million, CHF 610 million, A\$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 30 June 2020		Audited 31 December 2019	
	Nominal at hedge rate £m	Fair value adjustment ⁽¹⁾ £m	Nominal at hedge rate £m	Fair value adjustment ⁽¹⁾ £m
Sterling debt	393	(4)	250	(4)
Euro denominated debt	1,615	(153)	1,615	(70)
USD denominated debt	621	(20)	621	(10)
CAD denominated debt	584	(33)	810	(3)
Other currencies debt	779	(30)	946	3
Designated in fair value hedge	3,992	(240)	4,242	(84)

(1) Fair value adjustment is comprised of fair value loss of £215 million (year ended December 2019: £52 million loss) on continuing hedges and £25 million loss (year ended December 2019: £32 million loss) on discontinued hedges.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS

Unaudited 30 June 2020	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	7	1	-	1
Interest rate swaps	400	-	(2)	(2)
Cross-currency swaps	246	26	-	26
Index-linked swaps	314	2	(5)	(3)
	967	29	(7)	22
Non-current				
Foreign exchange contracts	26	2	(1)	1
Interest rate swaps	1,572	-	(461)	(461)
Cross-currency swaps	4,305	835	(4)	831
Index-linked swaps	5,962	89	(824)	(735)
	11,865	926	(1,290)	(364)
Total	12,832	955	(1,297)	(342)

Audited 31 December 2019	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	8	-	-	-
Interest rate swaps	738	-	(11)	(11)
Index-linked swaps	313	-	(44)	(44)
	1,059	-	(55)	(55)
Non-current				
Foreign exchange contracts	33	-	(2)	(2)
Interest rate swaps	1,572	-	(386)	(386)
Cross-currency swaps	4,551	482	(25)	457
Index-linked swaps	6,082	57	(814)	(757)
	12,238	539	(1,227)	(688)
Total	13,297	539	(1,282)	(743)

At 30 June 2020, total non-current notional value of Derivative financial instruments due in greater than 5 years was £8,999 million (31 December 2019: £9,057 million), comprising £5,126 million (31 December 2019: £5,311 million) of Index-linked swaps, £2,651 million (31 December 2019: £2,524 million) of Cross-currency swaps, and £1,222 million (31 December 2019: £1,222 million) of Interest rate swaps.

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 £22 million (30 June 2019: £29 million; 31 December 2019: £20 million) expected to be released in less than one year, £21 million (30 June 2019: £21 million; 31 December 2019: £22 million) between one and two years, £63 million (30 June 2019: £58 million; 31 December 2019: £62 million) between two and five years and £109 million (30 June 2019: £116 million; 31 December 2019: £121 million) over five years. Of the total amount deferred in other comprehensive income £192 million (30 June 2019: £222 million; 31 December 2019: £206 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.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

Foreign exchange contracts

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

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 30 June 2020 and 31 December 2019, all fair value estimates on derivative financial instruments are included in level 2.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- market prices for credit spreads based on counterparty's credit default swap prices and company's bond spread;
- the fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

At the restructuring date or initial date of recognition of index-linked swaps, the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring or at initial recognition, could not be supported by observable inputs alone. These fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument.

As at 30 June 2020, £193 million (31 December 2019: £206 million; 30 June 2019: £222 million) remained capitalised and £14 million (31 December 2019: £32 million; 30 June 2019: £16 million) had been recognised in the income statement for the period.

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the period there were no transfers between the levels in the fair value hierarchy.

The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 30 June:

	30 June 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Assets at fair value through income statement	-	134	-	134
Derivatives qualifying for hedge accounting	-	821	-	821
Total assets	-	955	-	955
Liabilities				
Liabilities at fair value through income statement	-	(1,268)	-	(1,268)
Derivatives qualifying for hedge accounting	-	(29)	-	(29)
Total liabilities	-	(1,297)	-	(1,297)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

	31 December 2019			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Assets				
Assets at fair value through income statement	-	76	-	76
Derivatives qualifying for hedge accounting	-	463	-	463
Total assets	-	539	-	539
Liabilities				
Liabilities at fair value through income statement	-	(1,236)	-	(1,236)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	-	(1,282)	-	(1,282)

10. 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 disclosed below.

Income statement - pension and other pension related liabilities costs

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Employment costs:		
Defined contribution schemes	8	7
BAA Pension Scheme	13	14
	21	21
Finance credit - BAA Pension Scheme	(1)	(1)
Finance charge - Other pension and post retirement liabilities	1	1
Total pension costs	21	21

Other comprehensive income – loss on pension and other pension related liabilities

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
BAA Pension Scheme loss	(100)	(77)
Unfunded schemes	-	-
Actuarial loss recognised before tax	(100)	(77)
Tax credit on actuarial gain	18	13
Actuarial loss recognised after tax	(82)	(64)

Statement of financial position – net defined benefit pension deficit and other pension related liabilities

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Fair value of plan assets	4,668	4,302
Benefit obligation	(4,724)	(4,269)
(Deficit)/Surplus in BAA Pension Scheme	(56)	33
Unfunded pension obligations	(28)	(28)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(29)	(29)
Net (deficit)/surplus in pension schemes	(85)	4
Group share of net (deficit)/surplus in pension schemes	(85)	4

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

(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 June 2020 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 30 June 2020 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 June 2020. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Equity	670	706
Property	145	147
Bonds	1,315	1,220
Cash	154	111
LDI	1,620	1,325
Buy in	347	322
Other	417	471
Total fair value of plan assets	4,668	4,302

At 30 June 2020, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,620 million (35% of the asset holding at 30 June 2020). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2019, the largest single category of investment was an LDI mandate, with value of £1,325 million (31% of the asset holding at 31 December 2019).

LDI holdings are portfolios of interest rate and inflation derivatives which are intended to protect the Scheme from movements in interest rates and inflation, so that the fair value of this element of the portfolio moves in the same way as the fair value of Scheme's obligations.

Analysis of financial assumptions

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

	Unaudited 30 June 2020 %	Audited 31 December 2019 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	2.30	2.40
Increase to pensions in payment:		
Open section	2.95	3.05
Closed section	3.05	3.15
Discount rate	1.50	2.10
Inflation assumption	3.05	3.15

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

11. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
(Loss)/profit before tax	(1,059)	7
Exceptional items	122	-
(Loss)/profit before tax and exceptional items	(937)	7
<i>Adjustments for:</i>		
Net finance cost	549	498
Depreciation	324	360
Amortisation on intangibles	15	17
Amortisation on right of use assets	19	18
Fair value loss on investment properties	252	7
<i>Working capital changes:</i>		
Decrease in inventories and trade and other receivables	132	55
Decrease in trade and other payables	(25)	(41)
Decrease in provisions	(5)	(4)
Difference between pension charge and cash contributions	(10)	(10)
Cash generated from operations before exceptional items	314	907
Cash payments in respect of exceptional items	(20)	-
Cash generated from operations	294	907

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Contracted for, but not accrued:		
Baggage systems	80	111
Terminal restoration and modernisation	114	168
Capacity optimisation	35	51
IT projects	13	15
Other projects	61	45
	303	390

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

Other commitments and contingent liabilities remain in line with those disclosed in the Annual Report and Accounts for the year ended 31 December 2019.

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Purchase of goods and services		
Ferrovial Agroman	18	11
Heathrow Finance plc ⁽¹⁾	59	50
	77	61

(1) Relates to interest on the debenture payable to Heathrow Finance plc (note 4).

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

13. RELATED PARTY TRANSACTIONS CONTINUED

Sales to related party	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Harrods International Limited	4	10
Qatar Airways	13	17
	17	27

Balances outstanding with related parties were as follows:	Unaudited 30 June 2020		Audited 31 December 2019	
	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	-	2,679	-	2,540
Qatar Airways	2	-	2	-
	2	2,679	2	2,540

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.

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

Alternative Performance Measures

The Group presents its results in accordance with International Financial Reporting Standards (IFRS). Management also uses other financial measures not defined by the IFRS and known as APMs (Alternative Performance Measures). Management relies on these APMs for decision-making and for evaluating the Group's performance. Below we provide an explanation of each APM.

EBITDA

EBITDA is loss or profit before interest, taxation, depreciation and amortisation. EBITDA is a useful indicator as it is widely used by investors, analysts and rating agencies to assess operating performance.

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Loss for the period	(998)	(10)
Add/less: Tax (credit)/charge	(61)	17
Add: Net finance cost	549	498
Operating (loss)/profit	(510)	505
Add: depreciation and amortisation	358	395
EBITDA	(152)	900

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation and fair value gains and losses on investment properties and exceptional items. Adjusted EBITDA is an approximation of pre-tax operating cash flow and reflects cash generation before changes in working capital and investment. The APM assists investors to value the business (valuation using multiples) and rating agencies and creditors to gauge levels of leverage by comparing Adjusted EBITDA with net debt.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

Adjusted EBITDA *continued*

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Loss for the period	(998)	(10)
Add/less: Tax (credit)/charge	(61)	17
Add: Net finance cost	549	498
Operating (loss)/profit	(510)	505
Add: depreciation and amortisation	358	395
Add: exceptional items	122	-
Add: fair value loss on investment properties	252	7
Adjusted EBITDA	222	907

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Cash generated from operations	294	907
<i>Exclude:</i>		
Decrease in inventories and trade and other receivables	(132)	(55)
Decrease in trade other payables	25	41
Decrease in provisions	5	4
Difference between pension charge and cash contributions	10	10
Cash payments in respect of exceptional items	20	-
Adjusted EBITDA	222	907

Adjusted operating (loss)/profit

Adjusted operating (loss)/profit shows operating results excluding fair value gains and losses to investment properties. These are excluded as they can vary significantly from one year to the next due to market perceptions of the value of the property and the accounting method used to calculate the fair value. The adjusted measure is used to assess underlying performance of the trading business.

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Operating (loss)/profit¹	(510)	505
Add: exceptional items	122	-
Add: fair value loss on investment properties	252	7
Adjusted operating (loss)/profit	(136)	512

¹Operating (loss)/profit is presented on the Group Income statement, it is not defined per IFRS, however it is a generally accepted profit measure

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) CONTINUED

Net finance cost before certain re-measurements

Net finance cost before certain re-measurements exclude fair value adjustments on financial instruments. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next. A significant portion of the fair value adjustments on financial instruments occur due to the business entering into arrangements to hedge against future inflation. As these contracts do not meet hedge criteria under IFRS 9, fair value adjustments create significant volatility in our IFRS income statement.

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Finance income	8	4
Finance cost	(557)	(502)
Net finance cost including certain remeasurements	(549)	(498)
Add: fair value loss arising on re-measurement of financial instruments	214	139
Net Finance cost before certain remeasurements	(335)	(359)

Adjusted (loss)/profit before tax

Adjusted (loss)/profit before tax excludes fair value adjustments on investment properties and financial instruments. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next.

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
(Loss)/profit before tax	(1,059)	7
Add: exceptional items	122	-
Add: fair value loss on investment properties	252	7
Add: fair value loss arising on re-measurement of financial instruments	214	139
Adjusted (loss)/profit before tax	(471)	153

Adjusted (loss)/profit after tax

Adjusted (loss)/profit after tax excludes fair value gains and losses on investment properties and financial instruments and the associated tax. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next.

	Unaudited Six months ended 30 June 2020 £m	Unaudited Six months ended 30 June 2019 £m
Loss after tax	(998)	(10)
Add: exceptional items	122	-
Add: fair value loss on investment properties	252	7
Add: fair value loss arising on re-measurement of financial instruments	214	139
Add/less: tax charge/(credit) on fair value loss on investment properties and re-measurement of financial instruments and exceptional items	17	(24)
Adjusted (loss)/profit after tax	(393)	112

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

Heathrow (SP) Limited consolidated nominal net debt

Consolidated nominal net debt is a measure of financial position used by our creditors when assessing covenant compliance.

Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits. It includes index linked swap accretion and hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Cash and cash equivalents	350	815
Term deposits	1,800	725
Current debt (excluding interest payable)	(527)	(404)
Current lease liability	(40)	(38)
Non-current debt	(14,997)	(13,436)
Non-current lease liability	(333)	(346)
Accounting value of Net debt	(13,747)	(12,684)
Index-linked swap accretion ⁽¹⁾	(187)	(345)
Impact of cross currency interest rate swaps ⁽²⁾	799	349
Bond issuance costs ⁽³⁾	(92)	(111)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases ⁽⁴⁾	367	379
Consolidated nominal net debt	(12,860)	(12,412)

(1) Index linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on the Statement of financial position.

(2) Where bonds are issued in currencies other than GBP, the Group has entered into foreign currency swaps to fix the GBP cash outflows on redemption. The impact of these swaps is reflected in nominal net debt.

(3) Capitalised bond issue costs are excluded from nominal net debt.

(4) The lease liability relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) is excluded from nominal net debt. All new leases entered into post transition are included.

Regulatory Asset Base (RAB)

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. By investing efficiently in the Airport, we add to the RAB over time. The RAB represents the invested capital on which Heathrow are authorised to earn a cash return. It is used in key financial ratios and in our regulatory accounts.

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Regulatory Asset Base (RAB)	16,516	16,598

Regulatory gearing ratio

The regulatory gearing ratio is consolidated nominal net debt to the RAB. It is a financial indicator used by investors, financial analysts, rating agencies, creditors and other parties to ascertain a company's debt position in regulated industries.

	Unaudited 30 June 2020 £m	Audited 31 December 2019 £m
Total net debt to RAB	0.779	0.748
Senior net debt to RAB	0.678	0.666

Independent review report to the Directors of Heathrow (SP) Limited

Report on the condensed consolidated interim financial information

Our conclusion

We have reviewed Heathrow (SP) Limited's condensed consolidated interim financial information (the "interim financial statements") for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2020;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the results for the 6 months ended 30th June 2020 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

As disclosed in page 15 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The results for the 6 months ended 30th June 2020, including the interim financial statements, is the responsibility of, and has been approved by, the directors.

Our responsibility is to express a conclusion on the interim financial statements based on our review. This report, including the conclusion, has been prepared for and only for the directors of the Company as a body, for management purposes, in connection with review of the condensed consolidated interim financial information and for no other purpose. Our report may not be made available to any other party without our prior written consent. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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 Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, 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.

We have read the other information contained in the results for the 6 months ended 30th June 2020 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge
28 July 2020

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.

Category B Costs – Capital expenditure related to the consent process for Expansion.

Connections satisfaction – Measures how satisfied passengers are with their connections journey via our in-house satisfaction tracker – QSM Connections. Throughout the year there are 14,000 face-to-face interviews across all terminals where transfer passengers rate their satisfaction with their Connections experience on a scale of one to five, where one is 'extremely poor' and five is 'excellent'.

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

Early Category C Costs – Capital expenditure related to the early design and construction costs for Expansion.

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

Interest Cover Ratio 'ICR' – is trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A ICR trigger ratio is 1.40x; Class A ICR covenant is 1.05x and is calculated as a 3-year trailing average, Class B ICR trigger ratio is 1.20x, Heathrow Finance ICR covenant is 1.00x.

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.

NERL – National Air Traffic Services is split into two main service provision companies, one of which is NATS En-Route PLC (NERL). NERL is the sole provider of civilian en-route air traffic control over the UK.

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.

Security queuing - % of security waiting time measured under 5 minutes, based on 15-minute time period measured.