RESULTS FOR THE 9 MONTHS ENDED 30TH SEPTEMBER 2021

26TH OCTOBER 2021

Strong pent-up demand as travel restrictions ease – In Q3, Heathrow experienced its first full quarter of passenger growth since 2019, underscoring strong pent-up demand as travel restrictions eased and testing requirements were simplified. Passenger numbers in Q3 recovered to 28%, and cargo to 90% of pre-pandemic levels. Traffic is not expected to fully recover until at least 2026.

£3.4bn in total losses since the start of pandemic underscore long road ahead – Airports have very high fixed costs and despite over 30% reduction in operating costs, Heathrow has lost £3.4bn cumulatively since the start of the pandemic and remains loss making today. We have the financial strength, with £4.1bn of cash, to be able to come through until the market recovers.

Sustainable Aviation Fuel mandate will accelerate decarbonisation - The UK Government's ambition to implement a mandate for at least 10% SAF use by 2030 and £300m kickstart funding for production in the UK, provides leadership by example to other world leaders ahead of the COP26 summit in Glasgow. We now need government to set higher mandate levels for 2050 and provide a price stability mechanism, such as contracts for difference, to scale up supply as fast as possible. Passengers can purchase SAF for their flights through a number of airlines, including British Airways, or from independent platforms such as CHOOOSE, who have partnered with Heathrow.

CAA H7 initial proposals do not go far enough to ensure financeability – We have transformed Heathrow through private investment so that it is now rated by passengers as one of the top 10 airports worldwide, and airlines are able to achieve premium margins at Heathrow. However, our shareholders have achieved negative returns in real terms over the last 15 years. The CAA's Initial Proposals do not go far enough to ensure that investors can achieve a fair return in H7 which is key to securing future private investment in passenger service and resilience for Britain's hub airport.

At or for 9 months ended 30 September	2020	2021	Change (%)
(£m unless otherwise stated)			
Revenue	951	695	(26.9)
Cash generated from operations	215	326	51.6
Loss before tax	(1,517)	(1,384)	8.8
Adjusted EBITDA(1) (4)	259	117	(54.8)
Adjusted profit / (loss) before tax(2) (4)	(786)	(1,068)	(35.9)
Heathrow (SP) Limited consolidated nominal net debt(3) (4)	13,131	13,322	1.5
Heathrow Finance plc consolidated net debt(3) (4)	15,120	15,427	2.0
Regulatory Asset Base(5)	16,492	17,060	3.4
Passengers (million)(6)	19.0	10.2	(46.4)

"We are on the cusp of a recovery which will unleash pent-up demand, create new quality jobs and see Britain's trade roar back to life – but it risks a hard landing unless secured for the long-haul. To do that, we need continued focus on the global vaccination programme so that borders can reopen without testing; we need a fair financial settlement from the CAA to sustain service and resilience after 15 years of negative real returns for investors; and we need a progressively increasing global mandate for Sustainable Aviation Fuels so that we can protect the benefits of aviation in a world without carbon."

John Holland-Kaye | Heathrow CEO

(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. 2020 figures are as at 31 December 2020
(4) Our Alternative Performance Measures ('APMs') remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2020.
(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. 2020 figures are as at 31 December 2020
(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

Tuesday October 26th 2021

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

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The presentation can be accessed online or through the webcast

OUR RESPONSE TO COVID-19

Given the resumption of international travel following the success of the vaccine rollout and the reopening of borders, we have seen a steady build in traffic over the past quarter. We expect demand to continue to increase following recent announcements to simplify travel rules and ease testing requirements, making international travel simpler, cheaper and less stressful for all passengers. Whilst the steps we have taken to protect the business over the previous 18 months make us a more efficient and resilient organisation, now is the time to look forward and turn our focus to winning the recovery, putting sustainability at the centre of our plans.

With the eyes of the world on the UK, Heathrow believes the 26th UN Climate Change Conference - COP26 offers an extraordinary opportunity to showcase the potential for net zero flight and set out the policies and investment pathways required to realise the aviation industry's commitments on carbon. Our CEO John Holland-Kaye will lead a Heathrow presence at the talks, centred around his 'Aviation Taskforce' champion role with HRH The Prince of Wales' Sustainable Markets Initiative.

Protect the business

When the COVID-19 crisis started, we took rapid management actions to protect passengers, colleagues and the financial resilience of the business.

Keep people safe – The safety of our colleagues and passengers remains our number one priority. As passenger numbers start to increase, some social distancing measures will be gradually removed in a phased, controlled manner and following appropriate risk assessments; for example, removing the one-way system and seat restrictions to ensure we provide enough seating for our passengers. Face coverings and hygiene measures, however, will remain in place. We are delighted that our COVID-19 safe programme continues to be recognised externally by the Airports Council International, the CAA and Skytrax with a 4 Star COVID-19 Airport Safety Ranking. Finally, we will continue working to keep everyone safe and rebuild confidence in flying so the benefits of global travel can continue well after COVID-19.

Cost mitigation – Due to management actions to protect the business, monthly average cash burn has reduced by c.50% during the first nine months of the year to £88 million from £170 million in the same period in 2020. As we move into the recovery phase, we expect our operating costs to increase with the scale up of operations to meet increasing demand and the end of the furlough scheme.

Revenue protection and loss mitigation – As traffic recovers, we continue seeking opportunities to optimise our revenue and minimise the impact of COVID-19 and the removal of tax-free shopping. We continue to improve the digital passenger experience to create a more seamless journey. The Click & Collect service, for instance, allows passengers to buy in any store and collect in any terminal. We continue to welcome new retailers to our terminals, such as JD Sports, Saint Laurent, InMotion and Accessorize, offering a greater range and choice to our passengers. At the same time, we continue to see an increase in our retail occupancy. From 1 November 2021, we will be introducing a Terminal Drop-Off Charge across the airport's departure forecourts. Heathrow is one of the last UK airports to introduce such a charge, as similar access charges are already in place across nine out of the ten largest UK airports. The charge is designed to incentivise the use of public transport wherever possible when accessing Heathrow's terminals. Finally, we continue to work with our retailers to mitigate the impact of the removal of tax-free shopping. We continue to believe this places UK tourism at a competitive disadvantage by making this the only country in Europe not to offer tax-free shopping.

Preserving liquidity – We completed the remainder of our £1.6 billion 2021 funding plan in early October with a C$325 million tap of the 12-year Class A bond issued earlier in the year and a £50 million Class B private placement. These successful transactions demonstrate investors' continued confidence in the airport's strength and resilience. The additional funding means we can cover our forecast obligations for at least 15 months until February 2023 in the extreme stress scenario of no revenue.

Win the recovery

As travel restrictions are lifted and demand to fly increases, we are moving into the recovery phase of our response to COVID-19. This presents an opportunity to create an environment where passengers feel safe and confident to fly comfortably.

Traffic Light System – We are pleased to see the UK Government recognise the success of the global vaccination programme with a move from a country-based approach to one based on individuals' vaccination status. Recent announcements removing the green and amber list and significantly reducing the red list simplify the rules for all travellers. Furthermore, the easing of testing requirements so that fully vaccinated passengers (including those from a greater number of recognised countries) are no longer required to take a pre-departure test and can now replace their PCR day 2 arrivals test with a lateral flow test represents significant progress.

This simplification of the travel rules is very welcome for businesses and families across the country but the decision to require fully vaccinated passengers to take private lateral flow tests at an additional cost remains an unnecessary barrier to travel, which keeps the UK out of step with the rest of the EU. Ministers must continue to work towards friction-free travel for vaccinated passengers.

Gearing up for growth – The steady build in passenger numbers and further lifting of travel restrictions puts Heathrow on the path to recovery. To ensure that we can meet this demand, we have been operating with two runways since early Summer and Terminals 2, 3 and 5 are fully operational. This provides additional capacity and ensures passengers can travel safely and securely through Heathrow. As mentioned above, as the number of passengers increases, we are removing some social distancing requirements in our terminals. Finally, we continue to support the Border Force in carrying out their checks and implementing adequate resourcing, technologies, and processes to align with current procedures and demand.

Working to attract as much traffic as possible - Our four strategic initiatives to drive passenger and cargo growth remain as follows:

- Incumbent build back: Airlines are continuing to see an encouraging increase in passenger numbers and load factors following the UK and US Government travel announcements. We are executing clear account and ramp-up plans to help our airlines maximise these opportunities.
- London consolidation: Some of our biggest airlines have signalled the permanent consolidation of their entire operation at Heathrow for Summer 2022.
- New entrants: Fifteen airlines have already taken the opportunity to fly from Heathrow for the first time, including JetBlue, Smartwings, BlueAir and China Airlines
- Growing cargo: Since the start of 2021, targeted business development has enabled five new freighter entrants to regularly operate from Heathrow, which, together with seven new passenger entrants flying significant cargo, has made up 7.4% of all UK air cargo in H1 2021.

Build back better

Our focus remains on beating the pandemic, but we also stand ready to support the Government's efforts to build back better and deliver a cleaner, greener and more resilient economy.

Sustainable growth – Taking the carbon emissions out of flying is an ethical and business imperative for Heathrow and we continue to play a leadership role. Our focus remains to champion the role of sustainable aviation fuel (SAF), highlighting the urgency of scaling up its production and use to become the biggest single contributor to aviation decarbonisation.

Following the first delivery of SAF into our main fuel supply in Q2, a 'perfect flight' departed from Heathrow to Glasgow in September, fuelled with SAF, to highlight its potential to cut carbon from flights in the lead up to COP26.

As more airlines commit to using 10% SAF by 2030, now representing 62% of air traffic at Heathrow, our CEO, John Holland-Kaye, continues to spearhead private sector engagement. This includes through the Sustainable Markets Initiative (SMI), created by HRH, The Prince of Wales. As champion of HRH's "Aviation Taskforce", he is scheduled to appear on an SMI platform at COP26, driving corporate demand for SAF to help further stimulate the market.

Propelled by recent progress at IATA in setting a 2050 net zero goal for global aviation, the UK Government can now focus COP26 on scaling up the solutions required to deliver, leading with bold commitments on SAF policy in the UK.

Policy and regulatory matters – On 19 October 2021 the CAA published its Initial Proposal for H7. We are reviewing the proposals and will provide a response by the end of the year. We therefore continue consulting with the CAA on the critical issues regarding Heathrow's future regulatory framework.

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 and provide a picture for the 9 months ended 30 September 2021. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators [1]	2020	2021
Colleague promotions	106	**160**
Managerial training	348	**206**
Lost time injuries[2]	0.14	**0.27**

(1) For the 9 months ended 30 September
(2) The definition for lost time injuries can be found in the Glossary in Appendix 2

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators [1]	2020	2021
Airport Service Quality - ASQ	4.29	**4.22**
Experience as "excellent" or "very good" %	86.2	**82.8**
Baggage connection %	99.2	**99.0**
Departure punctuality %	87.3	**84.0**
Security queuing %	95.3	**98.1**
Connections satisfaction	---[2]	**---[2]**
Cleanliness (QSM)	4.31	**4.41**

(1) For the 9 months ended 30 September
(2) Passenger satisfaction and research was temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) [1]	2020	2021	Var % [2]
UK	1.2	1.0	(13.2)
Europe	8.4	4.9	(42.1)
North America	3.6	1.5	(59.1)
Asia Pacific	2.5	1.0	(61.9)
Middle East	2.0	1.0	(48.8)
Africa	0.9	0.6	(33.1)
Latin America	0.4	0.2	(50.0)
Total passengers	**19.0**	**10.2**	**(46.4)**

(1) For the 9 months ended 30 September
(2) Calculated using unrounded passenger figures

Other traffic performance indicators [1]	2020	2021	Var % [2]
Passenger ATM[2]	143,277	**93,606**	(34.7)
Load factors (%)	61.5	**50.1**	(18.5)
Seats per ATM	215.2	**210.1**	(2.4)
Cargo tonnage ('000)	812	**1,008**	24.2

(1) For the 9 months ended 30 September
(2) Calculated using unrounded passenger figures
(3) 2020 figure restated

SUSTAINABLE GROWTH

We are continuing work to review and update our sustainability plan, Heathrow 2.0, adapting it for the new reality Heathrow is operating in as we recover from the pandemic. It will focus on delivering outcomes that align with the most material colleague, community and environmental issues for the airport. Decarbonisation remains a key priority and alongside this we continue to focus on making Heathrow a great place to live and work.

Net zero aviation - Decarbonising the aviation sector remains a key priority of our sustainable growth plan.

Following the first delivery of SAF into Heathrow's main fuel supply in June, a SAF-fuelled 'perfect flight' departed from Heathrow to Glasgow in September and further SAF deliveries are expected in Q4, demonstrating a real sense of momentum building. Also focussed on cutting carbon in the air, Heathrow continues to lead an Innovate UK funded 'Future Flight' project called NAPKIN which is modelling the introduction of hydrogen and electric aircraft into UK aviation and developing scenarios for airport infrastructure and operational requirements. An interim report is due in the next quarter.

In July Heathrow responded to the DfT's 'Jet Zero' Net Zero Aviation Consultation, calling for the most ambitious policy on Sustainable Aviation Fuel (SAF), involving both an escalating supply mandate to be introduced by 2025, rising to at least 10% by 2030, and complemented with a price support mechanism to generate greater demand.

On 19 October, the UK Government published its Net Zero Strategy. It adds further momentum, including progress on important areas to the airport such as bringing forward the decarbonisation of the power system to 2035 and further funding for the transition to zero emissions vehicles (ZEVs). For aviation, we are pleased to see an 'ambition' for 10% SAF by 2030. Which is essentially what we have been calling for, an ambitious, but achievable target. There was also financial support, including £180m towards new UK production and a £400m fund between the UK Government and the Bill Gates Foundation to support first-of-a-kind SAF production.

The World Economic Forum's 'Clean Skies for Tomorrow' and the Prince of Wales' Sustainable Markets Initiative (SMI) continue to co-ordinate net zero 'high ambition' coalitions for aviation towards a global net zero target at ICAO 2022 and pressing for urgent support for SAF to enable its achievement.

Finally, the UK Government can show real leadership in decarbonising aviation at COP26, by committing to an escalating mandate to realise the 10% SAF ambition, complemented by a price support mechanism to make SAF more affordable for airlines and consumers. Together this package of policies will accelerate the transition to Sustainable Aviation Fuel in the UK, which will protect the benefits of flying for future generations.

A great place to live - Following the Government's announcement in March of a £5.5 million investment in its Airport Modernisation Strategy (AMS), we are now progressing with our own airspace change programme. Heathrow launched its Airspace Change Proposal (ACP) at the end of July which seeks to redesign flight paths to and from the existing runways using new technologies, such as satellite-based navigation. It is anticipated that new flight paths will be implemented in 2027 to 2029, following a full public consultation on final flight path options. The following step commenced at the end of September with Heathrow engaging publicly on its proposed airspace Design Principles. The results will inform the development of design options.

In August Heathrow received approval from the CAA to implement Slightly Steeper Approaches (SSA) at the airport. These approaches have been in operation on a temporary basis following trials and will now be made permanent by the end of 2021. When aircraft fly SSAs, they fly higher for longer which helps to reduce the noise footprint on the ground.

We are continuing to deliver the recommendations set out in the Heathrow Local Recovery Plan, published in 2020. This includes launching Heathrow's new portfolio and supplier management website. A simplified dedicated business page on the Heathrow website, it provides additional support for local SMEs to prepare for pre-selection criteria.

Key regulatory developments

H7 and CAA consultations - The CAA published three key documents relating to the regulation of Heathrow in H1 2021:

- A response to Heathrow's request for a COVID-19 related RAB adjustment.
- A working paper on Q6 capital expenditure and early expansion costs.
- The Way Forward document, setting out the CAA's initial assessment of our RBP and providing further thinking on key policy issues for the H7 period.

In response to the CAA, we expressed our concern regarding its policy on financeability and its recognition of the impact of COVID-19 on Heathrow's position. We welcomed the CAA's £300m adjustment to Heathrow's Regulated Asset Base (RAB), but noted that, at less than 10% of over £3bn losses suffered since the onset of the COVID-19 pandemic, it was insufficient to mitigate the financial pressures we face as a business under regulation. The first update to our December 2020 Revised Business Plan (RBP), which we submitted to the CAA in June 2021, was built around two scenarios: a 'Low' Adjustment' scenario implementing only the CAA's interim £300m RAB adjustment and a 'Full Adjustment' scenario with a full RAB adjustment as requested by Heathrow applied as part of the CAA's H7 decision. We evidenced that our plan in the 'Full Adjustment' scenario – with a lower H7 average charge and greater ability to invest in the airport – is clearly in the best interests of consumers.

On 19 October 2021 we received the CAA's Initial Proposals for the H7 period, to which we will submit a formal response on 17 December 2021, following an eight-week consultation period. The CAA's Initial Proposals set out the following draft policy positions for the H7 price control:

- A range of cost and revenue forecasts leading to an upper quartile H7 charge of £34.40 (2020p) and a lower quartile estimate of £24.50 (2020p)
- Three potential capital expenditure plans ranging from £1.6bn to £3bn
- A pre-tax WACC range of between 7.09% and 4.38%
- A new traffic risk sharing mechanism and mechanisms to deal with asymmetric risk and cost uncertainty
- Proposals for an ex-ante capital efficiency framework with an incentive of between 20% and 30%
- Movement towards an outcomes-based service quality framework

Whilst the CAA have recognised that with fewer passengers travelling airport charges need to increase, there needs to be further recognition of the critical role of private investment from a financeability perspective. To encourage further investment and maintain sustainable levels of passenger service and resilience, the CAA needs to build confidence that investors will earn a fair return in H7 and see a recovery of all the investment efficiently incurred.

Alongside responding to the Initial Proposals, we will also be submitting the second update to our December 2020 RBP in mid-December 2021. This will include updated H7 passenger and financial forecasts to reflect the changes we have seen since our first RBP update in June 2021, as well as providing updates to the consumer insights that our plans are grounded in. This second update will ensure that the CAA has the most up to date evidence base available as it progresses towards its Final Proposals in 2022.

Under its current timetable, the CAA is planning to publish its Final Proposals for the H7 period in Q1/Q2 2022, with licence modifications for the H7 period coming into force at the end of H1 2022.

2022 Airport Charges Consultation - The price control condition in Heathrow's licence, which is used to calculate the annual yield per passenger, expires on 31 December 2021 - meaning it does not apply for 2022.

We were required to publish our 2022 charges consultation document on the 1st September 2021 under the Airport Charges Regulations 2011. With the CAA not having reached a decision by the launch of the consultation, we have consulted based on using the 2022 yield set out in our first RBP update in June 2021 to set our airport charges for 2022.

The airport charge is the profiled 2022 charge set out in our first RBP update - £35.81 (2018p), which converts to £39.85 in outturn prices. We have also made an adjustment through the K-factor to reflect the over yielding seen in 2020, taking our proposed 2022 yield to £37.64

The CAA has since provided its view on the charge for 2022 as part of its Initial Proposals and is proposing to set an interim charge of £29.50 (2020p) with a true up following the final H7 decision. This represents the mid-point between its proposed upper and lower quartile charges for the H7 period. The CAA's proposal is subject to consultation, with responses due on 17 November.

Expansion developments

Currently, our focus is on working to safely restart international travel and trade to help kickstart the UK's economic recovery. However, when demand returns to pre-COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions. We will continue to consult with investors, Government, airline customers and regulators on our next steps.

Brexit

Following the UK's departure from the EU on 1 January 2021, flights can continue without disruption between the UK and EU. From a border perspective, the UK's Border Operating Model (BOM) outlines a phased approach for cargo to limit immediate inbound changes at the UK border. In September, the UK Government revised this timeline again, with checks on imports being required from 1 January 2022 and further checks from 1 July 2022. EU citizens can continue to use electronic gates at immigration upon arrival into the UK. Heathrow has been working with Government and UK Border Force to manage changes to border and passenger processes, including the end of using EU ID cards to enter the UK. From 1 October 2021, unless they hold Settled Status, EU arrivals must now present their passport at the UK border. Heathrow has been working with the Government and industry to support an open and trading Global Britain post-Brexit. We are asking Government to ensure any issues at the border are minimised, managed and adequately resourced.

Principal Risks

The principal strategic, corporate and operational risks at 30 September 2021 remain consistent with those presented in the Annual Report and Accounts for the year ended 31 December 2020.

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 in accordance with UK adopted international accounting standards.

The Directors have prepared the financial information presented within this Q3 Press Release on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('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. The Directors have also considered the period beyond 12 months to December 2022.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.4 billion of debt in the year to 30 September 2021 with new €500 million, C$650 million, C$300 million and AUD125 million Class A transactions and a £350 million Class B transaction being successfully executed. A further £0.2 billion has been raised following the quarter end taking the year-to-date total to £1.6 billion. Consequently, Heathrow SP held cash of approximately £3.8 billion as at 30 September 2021. The total debt maturity within Heathrow SP for the next 12 months from 30 September 2021 is £1.1 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) held cash of approximately £4.1 billion as at 30 September 2021. No debt matures outside of Heathrow SP for the next 12 months from 30 September 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least February 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Modelling the impact of COVID-19

The Directors have modelled future cash flows for the period beyond 12 months to December 2022 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations,
- 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, projected covenant requirements, and its ability to access the debt markets.

In its assessment, management has included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operations in fewer terminals, multiple contract renegotiations, permanent changes in terms and conditions, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure. Management have also included the impacts of actions implemented in 2021 to reprofile interest payments, which is estimated to have created interest savings of £358 million in 2021 and £257m in 2022, in its assessment.

In modelling the impact of COVID-19, there remains a significant degree of uncertainty given 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 2021 Investor Report, the Group updated its financial modelling under the base case scenario to assume passenger traffic for 2021 will decline 2.7% compared to 2020 actual passenger numbers of 22.1 million, to 21.5 million passengers (a decrease of 73.4% compared to 2019). Despite this decline in passengers compared to 2020, Group EBITDA is expected to increase 23% to £332 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

To build the base case forecast of 21.5 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, roll-out of a vaccine and reopening of key travel corridors, and to date these have happened broadly in line with our expectations. Passenger numbers and EBITDA during Q3 have been in line with this base case scenario and this is expected to continue in Q4. Nevertheless, risks associated with the exact timing of reopening of the North American market as well as any additional COVID-19 restrictions over winter could significantly impact these.

The base case passenger numbers for 2022 forecast an improvement in passenger numbers with a graduated return to pre-pandemic levels over the following years, however the forecasted 2022 passengers remain significantly below 2019. Passenger charges for 2022 are assumed to be in line with the Revised Business Plan Update 1 published in June 2021.

Under the base case scenario, the Group will meet all covenants associated with its financial arrangements.

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least February 2023.

Nevertheless, Management has stress tested the base case, focusing on reducing revenue through a combination of lower H7 pricing for the regulatory period from 2022 to 2026 and traffic downside, resulting in a decrease in EBITDA and operating cashflow. The stress test scenario representing a 'severe but plausible' downside models a combined 36% decrease in 2022 EBITDA compared to the base case. This 'severe but plausible' scenario is not forecast to lead to a breach in covenants but would create limited headroom in EBITDA over the minimum levels required for ICR covenant compliance at Heathrow Finance. Specifically, Management estimates that at that stage headroom to breach the Heathrow Finance ICR covenant at 31 December 2022 would be limited to 7.9 million passengers (a reduction of 17% on the base case).

In this instance, management would need to undertake additional actions, including identifying additional cashflow mitigations and seeking a further covenant waiver or amendment from Heathrow Finance creditors. During Q3

2021, the Group successfully agreed a further ICR covenant waiver for the period ended 31 December 2021. This follows the agreement of a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. Whilst management is confident it would continue to receive support from its creditors if required, there is no certainty a further covenant waiver would be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Conclusion

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the Group and Company's funding requirements for at least 12 months from the date of this Q3 Press Release, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

The Directors consider that the underlying credit quality of the business means that it can secure, if necessary and in the event of a severe but plausible downside, the timely support of its debtholders as it successfully secured in 2020 and 2021.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period. These uncertainties may result in the Group needing to take further action, including seeking future further covenant waivers or amendments from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

The Q3 Press Release does not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Alternative performance measures

Management uses 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. These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2020.

The Group has separately presented certain items on 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. The exceptional items are material items of 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.

Summary performance

In the 9 months ended 30 September 2021, the Group's revenue declined by 26.9% to £695 million (2020: £951 million). Adjusted EBITDA declined to £117 million (2020: £259 million). The Group recorded a £1,323 million loss after tax (2020: £1,376 million loss).

9 months ended 30 September	2020 £m	2021 £m
Revenue	951	695
Adjusted operating costs[1]	(692)	(578)
Adjusted EBITDA[2]	259	**117**
Depreciation and amortisation	(539)	(608)
Adjusted operating loss[3]	(280)	**(491)**
Net finance costs before certain re-measurements and exceptional items	(506)	(577)
Adjusted loss before tax[4]	(786)	**(1,068)**
Tax credit on profit before certain re-measurements and exceptional items	132	194
Adjusted loss after tax[4]	(654)	**(874)**
Including certain re-measurements and exceptional items:		
Fair value (loss)/gain on investment properties	(278)	92
Fair value loss on financial instruments	(265)	(408)
Exceptional items	(188)	-
Tax credit on certain re-measurements and exceptional items	122	79
Change in tax rate	(113)	(212)
Loss after tax	(1,376)	**(1,323)**

(1) Adjusted operating costs excludes depreciation, amortisation, fair value adjustments on investment properties and exceptional items which are explained further in note 3
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items.
(3) Adjusted operating loss excludes fair value adjustments on investment properties and exceptional items.
(4) Adjusted loss before and after tax excludes fair value adjustments on investment properties and financial instruments, exceptional items and the associated tax impact of these including the impact of the UK corporation tax change.

Revenue

In the 9 months ended 30 September 2021, revenue declined 26.9% to £695 million (2020: £951 million). Revenue increased by 45.2% during the third quarter in isolation compared to the same period last year, reflecting the increase of passengers.

9 months ended 30 September	2020 £m	2021 £m	Var. %
Aeronautical	530	325	(38.7)
Retail	197	122	(38.1)
Other	224	248	10.7
Total revenue	**951**	**695**	**(26.9)**

Aeronautical revenue declined by 38.7%. The decline in aeronautical revenue is predominantly due to reduced passenger numbers and fewer aircraft movements. In the third quarter in isolation, we saw an increase versus the second quarter reflecting the recent recovery in passenger numbers due to the reopening of international travel.

9 months ended 30 September	2020 £m	2021 £m	Var. %
Retail concessions	84	42	(50.0)
Catering	16	12	(25.0)
Other retail	37	24	(35.1)
Car parking	34	23	(32.4)
Other services	26	21	(19.2)
Total retail revenue	**197**	**122**	**(38.1)**

Retail revenue declined by 38.1% driven by reduced passenger numbers and the mix of retail service available due to governmental restrictions on non-essential shops in the first five months of the year.

9 months ended 30 September	2020 £m	2021 £m	Var. %
Other regulated charges - ORCs	99	147	48.5
Heathrow Express	23	10	(56.5)
Property and other	102	91	(10.8)
Total other revenue	**224**	**248**	**10.7**

Other revenue increased by 10.7%. Other regulated charges increased by 48.5% predominantly due to increased revenue from the Airport Cost Recovery Charge introduced in February 2021. Higher prices have been published for certain Other Regulated Charges (ORCs) such as baggage on the General notice effective from August 2021 which also drives an increase in revenue. Heathrow Express saw a 56.5% decline in revenue due to fewer passengers. Property and other revenue decreased 10.8% although the decrease has been protected by actions taken by management such as targeted rental alleviation and minimising tenant vacations.

Adjusted operating costs

Adjusted operating costs decreased 16.5% to £578 million (2020: £692 million). Operating costs were down 2.5% during the third quarter in isolation compared to the same period last year.

9 months ended 30 September	2020 £m	2021 £m	Var. %
Employment	212	183	(13.7)
Operational	170	136	(20.0)
Maintenance	104	94	(9.6)
Rates	88	90	2.3
Utilities and Other	118	75	(36.4)
Adjusted operating costs	**692**	**578**	**(16.5)**

Operational costs have decreased by over 16% as a consequence of the management initiatives implemented throughout 2020. This includes employment costs due to our organisational restructure, the Government's furlough scheme and AGOSS grant support received. We have received £21 million benefit this year through the Government's furlough scheme (2020: £27 million). The decline in operational, maintenance, utilities and other costs result from the consolidation of operations, renegotiating our suppliers' contracts and stopping all non-essential costs. Despite a significant 46.1% reduction in traffic, Government business rates have increased by 2.3%, evidencing limited government support. Cost savings were offset by business resilience costs and additional operational ramp up costs including costs associated with recommencing our operations through Terminals 3 and 4.

Operating loss and Adjusted EBITDA

In the 9 months ended 30 September 2021, the Group recorded an operating loss of £399 million (2020: operating loss of £746 million). The loss was largely driven by lower revenue and mitigated by management actions to reduce costs.

Adjusted EBITDA decreased 54.8% to a £117 million (2020: £259 million).

9 months ended 30 September	2020 £m	2021 £m
Operating loss	**(746)**	**(399)**
Depreciation and amortisation	539	608
EBITDA	**(207)**	**209**
Exclude:		
Exceptional items	188	-
Fair value loss/(gain) on investment properties	278	(92)
Adjusted EBITDA	**259**	**117**

Loss after tax

In the 9 months ended 30 September 2021, the Group recorded an operating loss before tax of £399 million (2020: £746 million loss) and a loss after tax of £1,323 million (2020: £1,376 million).

9 months ended 30 September	2020 £m	2021 £m
Operating loss	**(746)**	**(399)**
Net finance cost before certain remeasurements	(506)	(577)
Fair value loss on financial instruments	(265)	(408)
Loss before tax	**(1,517)**	**(1,384)**
Taxation credit/(charge)	141	61
Loss after tax	**(1,376)**	**(1,323)**

Net finance cost before certain re-measurements was £577 million (2020: £506 million) due to RPI growth rate for the 12 months to September 2021 increasing to 4.8%, up from 1.1% in the same prior period as prices continue to rise, together with the increase in wholesale energy costs as global demand recovers.

Fair value losses on financial instruments increased to £408 million (2020: £265 million) because of RPI rate expectations, due to the upward shift of 1-20yr curve. Similarly, both the 6-month LIBOR and SONIA curves have shown upward shifts.

Taxation

The tax credit for the 9 months ended 30 September 2021, before certain re-measurements, was £194 million (2020: £132 million), at an effective tax rate of 18.2% (9 months ended 30 September 2020: 16.8%). This rate represents the best estimate of the effective tax rate expected for the full year, applied to the pre-tax loss of the 9-month period, before certain re-measurements. The effective tax rate being lower (2020: lower) than the statutory rate of 19% (2020: 19%) is primarily due to non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

The total tax credit for the 9-month period ended 30 September 2021 is £61 million (9 months ended 30 September 2020: £141 million credit), representing the sum of the tax credit on losses before certain re-measurements of £194m, the tax credit on certain re-measurements of £79m and a £212m tax charge to re-measure the deferred tax balances for the increase in corporation tax rate to 25% from 1 April 2023. For the period, the Group did not pay any corporation tax (9 months ended 30 September 2020: refunded £67 million).

Cash position

In the 9 months ended 30 September 2021, there was an increase of £1,202 million in cash and cash equivalents (2020: a decrease of £652 million).

At 30 September 2021, the Group had £3,847 million (31 December 2020: £3,516 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £1,482 million (31 December 2020: £280 million).

The increase in cash and cash equivalents was impacted by the unwind of prepayments that were made to suppliers in 2020 along with a decrease in interest payments as a result of the impacts of the swap reprofiling programme.

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 9 months ended 30 September 2021, cash generated from operations increased 51.6% to £326 million (2020: £215 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

9 months ended 30 September	2020 £m	2021 £m
Cash generated from operations	**215**	**326**
Exclude:		
Decrease in inventories and trade and other receivables[(1)(2)]	(79)	(265)
Decrease in payables	23	63
Decrease in provisions	6	-
Difference between pension charge and cash contributions	14	(17)
Cash payments in respect of exceptional items	80	10
Adjusted EBITDA	**259**	**117**

(1) Includes movement in Group deposits
(2) The decrease in trade and other receivables primarily relates to the unwind of prepayments made to suppliers at 31 December 2020. These prepayments were made in order to manage banking covenant ratios.

Capital expenditure

Total capital expenditure in the first 9 months of 2021 was £170 million (2020: £370 million) excluding capital creditors or £148 million (2020: £449 million) including capital creditors movements. We are investing in various programmes to ensure the airport's safety and resilience. Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, Kilo Apron development, back-office systems upgrades and renewal of assets that have come to the end of their economic life. We also invested £5 million in the period (2020: £66 million) on projects related to expansion.

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 £383 million in Category B costs and £130 million in Category C costs, a total of £513 million (before capitalised interest and after £10 million 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 9 months ended 30 September 2021, no restricted payments were made from the Group as a result of the trigger event that occurred in relation to the senior ICR and junior ICR ratios for the year ending 31 December 2020. The trigger event also resulted in £165 million of interest being capitalised on the Heathrow SP Debenture and leading to an amount of £165 million owed to Heathrow Finance.

The trigger event 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. Heathrow Finance itself has liquidity of £259 million, which can cover debt service until 2024 when the next debt maturity occurs.

RECENT FINANCING ACTIVITY

In the first 9 months of 2021 we raised £1.4 billion of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £15 billion debt portfolio.

Class A financing activities included:

- a new €500m public bond maturing in 2030;
- a new Canadian Dollar dual tranche transaction comprising a C$650m public bond maturing in 2027 and a C$300m public bond maturing in 2033;
- a new A$125m private placement maturing in 2041;
- the scheduled repayment of a £250m public bond in March;
- the scheduled repayment of £2m on the EIB loan; and
- the scheduled repayment of a C$450m public bond in June.

Class B financing activities included:

- a new £350m public bond maturing in 2028.

In October 2021 we completed a C$325m tap of the 12-year Class A bond issued earlier in the year and a £50m Class B private placement.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 September 2021, Heathrow SP's consolidated nominal net debt was £13,322 million (31 December 2020: £13,131 million). It comprised £14,097 million in bond issues, £1,602 million in other term debt, £288 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £32 million of additional lease liabilities post transition to IFRS 16. This was offset by £3,847 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,097 million in senior net debt and £2,225 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 September 2021 was 0.51% (31 December 2020: 0.87%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 September 2021 was 2.21% (31 December 2020: 1.48%). The increase in the average cost of debt since the end of 2020 is mainly due to an increase in inflation, partially offset by savings from further swap reprofiling in the first 9 months of the year. Excluding the impact of our swap portfolio reprofiling initiated in 2020, Heathrow SP's average cost of debt at 30 September 2021 was 2.47% excluding index-linked accretion and 4.17% including index-linked accretion

The average life of Heathrow SP's gross debt as at 30 September 2021 was 9.9 years (31 December 2020: 10.3 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 £13,541 million at 30 September 2021 (31 December 2020: £13,886 million). This includes £3,847 million of cash and cash equivalents and term deposits, and £393 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 well into 2025 under our traffic forecast, or until at least February 2023 under the extreme stress-test scenario of no revenue. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £3,847 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 30 September 2021.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,427 million (31 December 2020: £15,120 million). This comprised Heathrow SP's £13,322 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £259 million.

Financial ratios

At 30 September 2021, 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 September 2021, Heathrow's RAB was £17,060 million (31 December 2020: £16,492 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 65.0% and 78.1% respectively (31 December 2020: 68.4% and 79.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 90.4% (31 December 2020: 91.7%) with a covenant of 93.5%.

As of 30 September 2021, a forecasting event and trigger event subsist in relation to the 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.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 30 September 2021, the defined benefit pension scheme, as measured under IAS 19, was funded at 105.1% (31 December 2020: 100.3%). This translated into a surplus of £227 million (31 December 2020: £12 million). The £215 million increase in the surplus in the 9 months is largely due to actuarial gains of £232 million, attributable to strong asset performance relative to movements in the scheme liabilities offset by current service cost of £17 million. In December 2020, we prepaid £35 million into the defined benefit pension scheme to cover 2021 contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

As we come into the next phase of our recovery, Carol Hui, Andrew Macmillan and Chris Garton have decided that this is the right time for them to move on in their own careers. Our new Executive Committee structure was effective from 1 September, and includes Chris Annetts as a Chief Strategy Officer, Nigel Milton as a Chief of Staff and Carbon, and Helen Elsby as a Chief Solutions Officer.

OUTLOOK

The outlook for traffic and our adjusted EBITDA performance in 2021 remains consistent with the guidance published in our June Investor Report on 11 June 2021.

No covenant breaches are forecast across the wider Group. In August, our creditors at Heathrow Finance approved the waiver of the ICR covenant for financial year 2021 given the limited headroom available.

Our liquidity position remains strong with £4,106 million of cash as of 30 September 2021, which provides sufficient cash to meet all obligations into 2025 under our base case traffic forecast or until February 2023 in the extreme no revenue scenario.

Updated financial forecasts for 2021 and 2022 will be detailed in the next Investor Report due to be published in December.

SUMMARY OF ADDITIONAL DISCLOSURES

Publication of a Prospectus - Prospectus dated 4 October 2021 relating to the multicurrency programme for the issuance of bonds by Heathrow Funding Limited.
Full RNS available here: Publication of a Prospectus - 15:42:41 04 Oct 2021 - News article | London Stock Exchange

Documents incorporated by reference – Documents incorporated by reference in a prospectus which has been approved by the Financial Conduct Authority on 4 October 2021 and published by Heathrow Funding Limited (the Issuer) in connection with the multicurrency programme for the issuance of bonds by the Issuer (the Prospectus), are available for viewing:
Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/documents-incorporated-by-reference/15160407

Publication of Final Terms - The final terms ("Final Terms") for the Sub-Class A-53 CAD 325,000,000 3.726% Fixed Rate Bonds due 2035 (to be consolidated and form a single series with the existing Sub-Class A-53 CAD 300,000,000 3.726% Fixed Rate Bonds due 2035) (the "A-53 Tap Bonds") issued by Heathrow Funding Limited (the "Issuer") under the Issuer's multicurrency programme for the issuance of bonds (the "Programme") are available for viewing.
Full RNS available here: Publication of Final Terms - 17:19:05 08 Oct 2021 - News article | London Stock Exchange

Heathrow CELEBRATING 75 YEARS

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the nine months ended 30 September 2021

		Unaudited Nine months ended 30 September 2021			Unaudited Nine months ended 30 September 2020			
		Before certain re-measurements [1]	Certain re-measurements [2]	Total	Before certain re-measurements and exceptional items[1]	Certain re-measurements [2]	Exceptional items [3]	Total
	Note	£m	£m	£m	£m	£m	£m	£m
Continuing operations								
Revenue	*1*	695	-	695	951	-	-	951
Operating costs	*2*	(1,186)	-	(1,186)	(1,231)	-	(188)	(1,419)
Other operating items:								
Fair value gain/(loss) on investment properties		-	92	92	-	(278)	-	(278)
Operating loss		(491)	92	(399)	(280)	(278)	(188)	(746)
Financing								
Finance income		5	-	5	10	-	-	10
Finance cost		(582)	(408)	(990)	(516)	(265)	-	(781)
Net finance cost	*4*	(577)	(408)	(985)	(506)	(265)	-	(771)
Loss before tax		(1,068)	(316)	(1,384)	(786)	(543)	(188)	(1,517)
Taxation credit		194	79	273	132	103	19	254
Change in tax rate		-	(212)	(212)	-	(113)	-	(113)
Taxation credit/(charge)	*5*	194	(133)	61	132	(10)	19	141
Loss for the period [4]		(874)	(449)	(1,323)	(654)	(553)	(169)	(1,376)

(1) Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
(3) Exceptional items are one-off material costs that were incurred as a result of management decisions made in response to COVID-19 and the delay to Expansion following the Judicial Review. Further details can be found in note 3.
(4) Attributable to owners of the parent.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of comprehensive income for the nine months ended 30 September 2021

	Unaudited Nine months ended 30 September 2021 £m	Unaudited Nine months ended 30 September 2020 £m
Loss for the period	(1,323)	(1,376)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions:		
(Loss)/gain on plan assets[1]	(20)	252
Decrease/(increase) in scheme liabilities[1]	193	(330)
Change in tax rate	(1)	(1)
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges:		
Gains taken to equity[1]	5	5
Transfer to finance cost[1]	40	12
Change in tax rate	(13)	4
Change in tax rate on other opening balances	(4)	-
Other comprehensive income/(expense) for the period	**200**	(58)
Total comprehensive expense for the period[2]	**(1,123)**	(1,434)

(1) These items in the statement above are disclosed net of tax.
(2) Attributable to owners of the parent.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of financial position as at 30 September 2021

	Note	Unaudited as at 30 September 2021 £m	Audited[1] as at 31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment		10,754	11,136
Right of use assets		290	285
Investment properties		2,214	2,118
Intangible assets		146	182
Retirement benefit surplus		227	12
Derivative financial instruments		482	656
Trade and other receivables		24	20
		14,137	**14,409**
Current assets			
Inventories		15	14
Trade and other receivables		214	496
Current income tax assets		1	1
Derivative financial instruments		35	146
Term deposits		2,365	3,236
Cash and cash equivalents		1,482	280
		4,112	**4,173**
Total assets		**18,249**	**18,582**
Liabilities			
Non-current liabilities			
Borrowings	*6*	(19,288)	(18,635)
Derivative financial instruments		(1,781)	(1,134)
Lease liabilities		(350)	(349)
Deferred income tax liabilities		(813)	(784)
Retirement benefit obligations		(30)	(31)
Provisions		(1)	(1)
Trade and other payables		(5)	(6)
		(22,268)	**(20,940)**
Current liabilities			
Borrowings	*6*	(1,435)	(1,928)
Derivative financial instruments		(26)	(21)
Lease liabilities		(43)	(43)
Provisions		(5)	(15)
Trade and other payables		(352)	(392)
		(1,861)	**(2,399)**
Total liabilities		**(24,129)**	**(23,339)**
Net liabilities		**(5,880)**	**(4,757)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(141)	(173)
Accumulated losses		(2,491)	(1,336)
Total shareholder's equity		**(5,880)**	**(4,757)**

(1) These amounts have been extracted from the Group's audited financial statements for the year ended 31 December 2020.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of changes in equity for the nine months ended 30 September 2021

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings/ (Accumulated losses) £m	Total equity £m
1 January 2020	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,785)	(1,785)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	10	-	10
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	389	389
Increase in scheme liabilities	-	-	-	-	(492)	(492)
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(1)	(1)
Total comprehensive income/(expense)	**-**	**-**	**-**	**14**	**(1,890)**	**(1,876)**
Transaction with owners						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	**-**	**-**	**-**	**-**	**(107)**	**(107)**
31 December 2020 (audited) [1]	**11**	**499**	**(3,758)**	**(173)**	**(1,336)**	**(4,757)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,323)	(1,323)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	45	-	45
Change in tax rate	-	-	-	(13)	-	(13)
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(20)	(20)
Decrease in scheme liabilities	-	-	-	-	193	193
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(4)	(4)
Total comprehensive income/(expense)	**-**	**-**	**-**	**32**	**(1,155)**	**(1,123)**
30 September 2021 (unaudited)	**11**	**499**	**(3,758)**	**(141)**	**(2,491)**	**(5,880)**

(1) These amounts have been extracted from the Group's audited financial statements for the year ended 31 December 2020.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of cash flows for the nine months ended 30 September 2021

	Note	**Unaudited Nine months ended 30 September 2021 £m**	Unaudited Nine months ended 30 September 2020 £m
Cash flows from operating activities			
Cash generated from operations	7	326	215
Taxation:			
Corporation tax received		-	67
Net cash generated from operating activities		**326**	**282**
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(144)	(449)
Investment properties		(4)	-
Disposal of:			
Property, plant and equipment		14	-
Decrease/(increase) in term deposits [1]		871	(1,140)
Interest received		5	9
Net cash generated from/(used in) investing activities		**742**	**(1,580)**
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		-	(107)
Proceeds from issuance of bonds		1,380	381
Repayment of bonds		(1,119)	(402)
Repayment of facilities and other financing items		(4)	(4)
Increase in amount owed to Heathrow Finance plc		165	187
Interest paid[2]		(233)	(484)
Drawdown of revolving credit facilities		-	1,150
Proceeds from issuance of other term debt		-	155
Settlement of accretion on index-linked swaps		(31)	(201)
Payment of lease liabilities		(24)	(29)
Net cash generated from financing activities		**134**	**646**
Net increase/(decrease) in cash and cash equivalents		**1,202**	**(652)**
Cash and cash equivalents at beginning of period		280	815
Cash and cash equivalents at end of period		**1,482**	**163**

(1) Term deposits with an original maturity of over three months are invested by Heathrow Airport Limited.
(2) The decrease in interest paid relates to the impact of the swap restructuring programme, which resulted in c.£100m of interest prepayment in Q4 2020 and interest savings through 2021 and 2022, together with swap coupons received early in 2021.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the nine-month period ended 30 September 2021 or any other period. The annual financial information presented herein for the nine-month period ended 30 September 2021 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the twelve-month period ended 31 December 2020. The auditors' report on the 2020 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

The consolidated financial statements of Heathrow (SP) Limited have been prepared in accordance with UK adopted international accounting standards and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

1. SEGMENT INFORMATION

The Group is organised into business units according to the nature of the services provided. Most revenue is derived from the activities carried out within the Airport. The exception to this is Heathrow Express, which is a separately identifiable operating segment under IFRS 8, with separately identifiable assets and liabilities, and hence management aggregates these units into two operating segments, as follows:

- Heathrow (Aeronautical and commercial operations within the Airport and its boundaries)
- Heathrow Express (Rail income from the Heathrow Express rail service between Heathrow and London)

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis. 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 Nine months ended 30 September 2021 £m**	Unaudited Nine months ended 30 September 2020 £m
Revenue reported under IFRS 15		
Aeronautical		
Movement charges	152	199
Parking charges	40	46
Passenger charges	133	285
Total aeronautical revenue	325	530
Other regulated charges	147	99
Retail services revenue	122	197
Property revenue	7	16
Rail Income		
Heathrow Express	10	23
Other	3	9
Total revenue reported under IFRS 15	614	874
Revenue recognised at a point in time	*591*	*840*
Revenue recognised over time	*23*	*34*
Revenue reported under IFRS 16		
Property (lease-related income)	81	77
Total revenue	**695**	**951**
Heathrow	*685*	*928*
Heathrow Express	*10*	*23*
Adjusted EBITDA	117	259
Heathrow	*132*	*274*
Heathrow Express	*(15)*	(15)
Reconciliation to statutory information:		
Depreciation and amortisation	(608)	(539)
Operating loss (before certain re-measurements and exceptional items)	**(491)**	**(280)**
Exceptional items	-	(188)
Fair value gain/(loss) on investment properties (certain re-measurements)	92	(278)
Operating loss	**(399)**	**(746)**
Finance income	5	10
Finance cost	(990)	(781)
Loss before tax	**(1,384)**	**(1,517)**

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Nine months ended 30 September 2021		Unaudited Nine months ended 30 September 2020	
	Depreciation & amortisation [1] £m	Fair value gain [2] £m	Depreciation & amortisation [1] £m	Fair value loss [2] £m
Heathrow	(583)	92	(510)	(278)
Heathrow Express	(25)	-	(29)	-
Total	**(608)**	**92**	(539)	(278)

(1) Includes intangible amortisation charge of £29 million (nine months ended 30 September 2020: £18 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (c)	Unaudited 30 September 2021		Audited 31 December 2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	12,771	(335)	13,319	(401)
Heathrow Express	596	(28)	647	(13)
Total operations	**13,367**	**(363)**	13,966	(414)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	3,847	(17,243)	3,516	(17,219)
Retirement benefit assets/(obligations)	227	(30)	12	(31)
Derivative financial instruments	517	(1,807)	802	(1,155)
Deferred and current tax assets/(liabilities)	1	(813)	1	(784)
Amounts owed to group undertakings	-	(3,480)	-	(3,344)
Right of use asset and lease liabilities	290	(393)	285	(392)
Total	**18,249**	**(24,129)**	18,582	(23,339)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

2. OPERATING COSTS

	Unaudited Nine months ended 30 September 2021 £m	Unaudited Nine months ended 30 September 2020 £m
Employment[1]	183	212
Operational	136	170
Maintenance	94	104
Rates	90	88
Utilities	40	47
Other	35	71
Total operating costs before depreciation and amortisation	578	692
Depreciation and amortisation:		
Property, plant and equipment	548	492
Intangible assets	29	18
Right of Use (RoU) assets	31	29
Operating costs before exceptional items	1,186	1,231
Exceptional items (note 3)	-	188
Total operating costs	**1,186**	**1,419**

[1] Government grants of £21 million (nine months ended 30 September 2020: £27 million) have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme and are shown in employment costs above. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Unaudited Nine months ended 30 September 2021 £m	Unaudited Nine months ended 30 September 2020 £m
Business transformation	-	(103)
Asset impairment and write-off	-	(85)
Total operating loss on exceptional items	**-**	**(188)**
Tax credit on exceptional items	-	19
Loss on exceptional items after tax	**-**	**(169)**

In the prior year, as a consequence of the impact of the COVID-19 pandemic and delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group underwent a business transformation in order to simplify operations and reduce costs and incurred £103 million of people-related costs, principally redundancy. In addition, the Group reviewed its asset portfolio and recognised a non-cash impairment and write-off charge of £85 million on assets in the course of construction. At 31 December 2020, £13 million of costs relating to the business transformation programme had not been utilised and were included within provisions. In the nine months ended 30 September 2021, £10 million of this provision was utilised with the remaining £3 million expected to be utilised over the remainder of the current financial year.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

4. FINANCING

	Unaudited Nine months ended 30 September 2021 £m	Unaudited Nine months ended 30 September 2020 £m
Finance income		
Interest on deposits	5	10
Total finance income	5	10
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments(1)	(444)	(384)
Bank loans and overdrafts and related hedging instruments	(46)	(48)
Net interest receivable/(payable) on derivatives not in hedge relationship(2)	56	(4)
Facility fees and other charges	(7)	(7)
Interest on debenture payable to Heathrow Finance plc	(136)	(90)
Finance cost on lease liabilities	(12)	(12)
	(589)	(545)
Less: capitalised borrowing costs(3)	7	29
Total finance cost	(582)	(516)
Net finance cost before certain re-measurements	**(577)**	(506)
Certain re-measurements **Fair value loss on financial instruments**		
Interest rate swaps: not in hedge relationship	(41)	(49)
Index-linked swaps: not in hedge relationship (4), (5)	(345)	(177)
Cross-currency swaps and debt: not in hedge relationship (4), (5)	(11)	11
Cross-currency swaps and debt: ineffective portion of cash flow hedges (5)	(3)	(12)
Cross-currency swaps and debt: ineffective portion of fair value hedges (5)	(8)	(40)
Foreign exchange contracts and currency balances	-	2
	(408)	(265)
Net finance costs	**(985)**	(771)

(1) Includes accretion of £70 million for nine months ended 30 September 2021 (nine months ended 30 September 2020: £20 million) on index-linked bonds.
(2) Includes accretion of £185 million for nine months ended 30 September 2021 (nine months ended 30 September 2020: £57 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 1.69% (nine months ended 30 September 2020: 4.17%) to expenditure incurred on such assets.
(4) Includes gain on foreign exchange retranslation on the currency bonds of £5 million for the nine months ended 30 September 2021 (nine months ended 30 September 2020: £9 million loss) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
(5) 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 nine months ended 30 September 2021

5. TAX CREDIT/(CHARGE)

	Unaudited Nine months ended 30 September 2021			Unaudited Nine months ended 30 September 2020			
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m
UK corporation tax							
Current tax credit at 19% (2020: 19%)	-	-	-	98	-	-	98
Deferred tax:							
Current year credit	194	79	273	34	103	19	156
Change in tax rate	-	(212)	(212)	-	(113)	-	(113)
Taxation credit/(charge)	**194**	**(133)**	**61**	**132**	**(10)**	**19**	**141**

The total tax credit recognised for the nine months ended 30 September 2021 was £61 million (nine months ended 30 September 2020: £141 million tax credit), based on a loss before tax for the nine months ended 30 September 2021 of £1,384 million (nine months ended 30 September 2020: loss before tax of £1,517 million).

The total tax credit before certain re-measurements for the nine months ended 30 September 2021 was £194 million (nine months ended 30 September 2020: £132 million tax credit). Based on a loss before tax and certain re-measurements of £1,068 million (nine months ended 30 September 2020: £786 million loss), this results in an effective tax rate of 18.2% (nine months ended 30 September 2020: 16.8%). This is lower (2020: lower) than implied by the statutory rate of 19% (2020: 19%) primarily due to non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

In addition, there was a £133 million tax charge (nine months ended 30 September 2020: £10 million tax charge) in the certain re-measurements category. Of this tax charge, £212 million arises from the re-measurement of the deferred tax balances as a result of the Finance Act 2021 increase in the corporation tax rate from 19% to 25%, which will take effect from 1 April 2023. This is offset by a £79 million tax credit arising on fair value movements on investment property revaluations and financial instruments. We have recognised the re-measurement of deferred tax balances, based on the forecast unwind post-April 2023.

At 30 September 2021 there was a current income tax asset of £1 million (year ended 31 December 2020: £1 million). Deferred income tax liabilities of £813 million (year ended 31 December 2020: £784 million) were held. The £29 million increase in deferred income tax liabilities relates to the impact of the change in tax rate which is offset by a reduction in the deferred tax liability in relation to accelerated capital allowances and an increase in the deferred tax asset on losses carried forward due to the loss arising in the period.

Deferred income tax assets have been recognised in respect of all deductible temporary differences based on the reasonable assumption that there will be sufficient future taxable income, both from the unwinding of deferred tax liabilities and future taxable profits against which these assets will be recovered. There are no unrecognised deferred income tax assets. UK tax losses and capital losses have no expiry date. The deferred income tax asset on losses has been measured partly at 19% and partly at the 25% post-April 2023 enacted tax rate, based on the profile of utilisation against future taxable profits. The recognition of the overall deferred income tax assets is supported by a combination of the reversal of taxable temporary differences and forecast future taxable income.

In assessing the risks associated with future taxable profits forecasts that have been used to support recognition, management have concluded that there is appropriate headroom in the short-term and significant headroom in the long-term forecast above the amounts required to support recoverability of the deferred income tax assets.

The Group has a strong earnings history. The COVID-19 Pandemic has been very challenging for the aviation industry, but the business fundamentals remain strong. The Group benefits from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. This position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity. This underlying characteristic of Heathrow means that the airport is well placed to grow once passenger demand increases and travel restrictions are eased.

Finance Act 2018 implemented a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property which 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 Finance Act 2020. Heathrow is likely to benefit from tax relief in future years on expenditure which was not eligible under the previous rules. At 30 September 2021, no material SBA qualifying assets had been identified and brought into use.

Finance Act 2021 also announced a 130% super-deduction for expenditure incurred from 1 April 2021 until the end of March 2023 on qualifying plant and machinery and a 50% first year allowance was introduced for special rate assets which we will be claiming where applicable based on available tax capacity.

Other than these changes, there are no items which would materially affect the future tax credit/charge.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

6. BORROWINGS

	Unaudited 30 September 2021 £m	Audited 31 December 2020 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	4	4
Class A1 term loan due 2021	418	418
Heathrow Funding Limited bonds:		
8.500% £250 million due 2021	-	251
3.000% CAD450 million due 2021	-	259
4.875% US$1,000 million due 2021	-	742
1.650%+RPI £180 million due 2022	229	-
1.875% €600 million due 2022	520	-
Total current (excluding interest payable)	**1,171**	**1,674**
Interest payable – external	248	209
Interest payable – owed to group undertakings	16	45
Total current	**1,435**	**1,928**
Non-current		
Secured		
Heathrow Funding Limited bonds		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	549
5.225% £750 million due 2023	728	717
7.125% £600 million due 2024	596	595
0.500% CHF400 million due 2024	320	336
3.250% CAD500 million due 2025	298	301
1.500% EUR 750 million due 2025	639	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	167	177
6.750% £700 million due 2026	695	694
2.650% NOK1,000 million due 2027	85	90
2.694% CAD650 million due 2027	380	-
3.400% CAD400 million due 2028	233	229
2.625% £350 million due 2028	346	-
7.075% £200 million due 2028	198	199
4.150% AUD175 million due 2028	102	113
2.750% GBP450 million due 2029	445	444
2.500% NOK1,000 million due 2029	78	82
1.500% €750 million due 2030	680	735
3.782% CAD400 million due 2030	235	235
1.125% €500 million due 2030	424	-
3.661% CAD500 million due 2031	291	285
6.450% £900 million due 2031	859	857
Zero-coupon €50 million due January 2032	64	65
1.366%+RPI £75 million due 2032	90	88
Zero-coupon €50 million due April 2032	63	64
1.875% €500 million due 2032	428	446
0.101% + RPI £181.75 million due 2032	189	182

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

6. BORROWINGS *CONTINUED*

	Unaudited 30 September 2021 £m	Audited 31 December 2020 £m
3.726% CAD300m million due 2033	175	-
1.875% €650 million due 2034	576	636
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	53	54
0.347%+RPI £75 million due 2035	78	76
0.337%+RPI £75 million due 2036	79	76
1.061%+RPI £180 million due 2036	212	204
3.460% £105 million due 2038	105	105
0.419%+RPI £51 million due 2038	53	51
1.382%+RPI £50 million due 2039	60	58
Zero-coupon €86 million due 2039	80	81
3.334%+RPI £460 million due 2039	666	645
0.800% JPY1,000 million due 2039	67	72
1.238%+RPI £100 million due 2040	119	115
0.362%+RPI £75 million due 2041	78	76
5.875% £750 million due 2041	739	739
3.500% AUD125 million due 2041	67	-
2.926% £55 million due 2043	55	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	90	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	171	166
Total bonds	**13,496**	13,005
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	199
Revolving credit facilities	1,150	1,150
Term notes due 2026-2040	878	878
Loans	-	4
Unsecured		
Debenture payable to Heathrow Finance plc	3,464	3,299
Total non-current	**19,288**	18,635
Total borrowings (excluding interest payable)	**20,459**	20,309

At 30 September 2021, Heathrow SP's consolidated nominal net debt was £13,322 million. It comprised £14,097 million in bonds, £1,602 million in other term debt, £288 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £32 million of additional lease liabilities post transition to IFRS 16. This was offset by £3,847 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,097 million in senior net debt and £2,225 million in junior debt.

At 30 September 2021, total non-current borrowings due after more than 5 years was £15,201 million, comprising £10,759 million of bonds, £3,464 million debenture payable to Heathrow Finance plc and £978 million in bank facilities.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2021

6. BORROWINGS *CONTINUED*

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship at 30 September 2021 was EUR 2,000 million, US$ nil million, C$ 620 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 September 2021		Audited 31 December 2020	
	Nominal at hedge rate £m	**Fair value adjustment (1) £m**	Nominal at hedge rate £m	Fair value adjustment (1) £m
Sterling debt	-	-	393	(1)
Euro denominated debt	1,615	(73)	1,615	(145)
USD denominated debt	-	-	621	(10)
CAD denominated debt	337	(10)	584	(25)
Other currencies debt	779	(3)	779	(23)
Designated in fair value hedge	**2,731**	**(86)**	**3,992**	**(204)**

(1) Fair value adjustment is comprised of fair value loss of £76 million (year ended December 2020: £185 million loss) on continuing hedges and £10 million loss (year ended December 2020: £19 million loss) on discontinued hedges.

7. CASH GENERATED FROM OPERATIONS

	Unaudited Nine months ended 30 September 2021 £m	Unaudited Nine months ended 30 September 2020 £m
Loss before tax	**(1,384)**	(1,517)
Exceptional items	-	188
Loss before tax and exceptional items	**(1,384)**	(1,329)
Adjustments for:		
Net finance cost	985	771
Depreciation	548	492
Amortisation on intangibles	29	18
Amortisation on right of use assets	31	29
Fair value (gain)/loss on investment properties	(92)	278
Working capital changes:		
Decrease in inventories and trade and other receivables(1)	265	79
Decrease in trade and other payables	(63)	(23)
Decrease in provisions	-	(6)
Difference between pension charge and cash contributions	17	(14)
Cash generated from operations before exceptional items	**336**	295
Cash payments in respect of exceptional items	(10)	(80)
Cash generated from operations	**326**	215

(1) The decrease in trade and other receivables primarily relates to the unwind of prepayments made to suppliers at 31 December 2020. These prepayments were made in order to manage banking covenant ratios.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

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 if 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.