

HEATHROW (SP) LIMITED

RESULTS FOR THE 3 MONTHS ENDED

31ST MARCH 2020

1ST MAY 2020

Heathrow remains open – and continues operating safely to help people get home and to secure vital supply lines for the UK

Significant impact on traffic – Passenger numbers declined by 18.3% during Q1 to 14.6 million and are expected to be down by around 97% in April. We expect passenger demand will remain weak until governments around the world deem it safe to lift travel restrictions. Overall revenue fell 12.7% to £593 million and adjusted EBITDA fell by 22.4% to £315 million

Management has responded quickly – Heathrow took immediate action to conserve cash and reduce costs by around 30%, through cutting management pay, renegotiating all contracts and consolidating operations. Capital expenditure has been cut by £650 million

Financial position is robust – Heathrow has £3.2 billion in liquidity, sufficient to maintain the business at least over the next 12 months, even with no passengers

Building passenger confidence in flying - Heathrow is working with partners round the world to establish a Common International Standard for safe air travel to help the economy recover from the COVID-19 crisis. Re-establishing long haul passenger flights is critical for the UK's supply chain, exports, inbound tourism and education

At or for 3 months ended 31 March	2019	2020	Change (%)
(£m unless otherwise stated)			
Revenue	679	593	(12.7)
Cash generated from operations	426	375	(12.0)
Profit / (loss) before tax	132	(278)	(310.6)
Adjusted EBITDA ⁽¹⁾	406	315	(22.4)
Adjusted profit / (loss) before tax ⁽²⁾	57	(41)	(171.9)
Heathrow (SP) Limited consolidated nominal net debt ⁽³⁾	12,412	12,472	0.5
Heathrow Finance plc consolidated net debt ⁽³⁾	14,361	14,542	1.3
Regulatory Asset Base ⁽⁴⁾	16,598	16,646	0.3
Passengers (million) ⁽⁵⁾	17.9	14.6	(18.3)
Retail revenue per passenger (£) ⁽⁵⁾	8.92	9.28	4.0

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.

(4) 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.

(5) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers.

Heathrow (SP) Limited is the holding company of a group of companies that fully own Heathrow airport and together with its subsidiaries is referred to as the Group. Heathrow Finance plc, also referred to as Heathrow Finance, is the parent company of Heathrow (SP) Limited

Heathrow is proud to serve Britain by remaining open for repatriating UK citizens and critical supplies of PPE. When we have beaten this virus, we will need to get Britain flying again so that the economy can recover as fast as possible. That is why we are calling on the UK government to take a lead in setting a Common International Standard for safe air travel.

JOHN HOLLAND-KAYE
Heathrow CEO

Creditors and credit analysts conference call hosted by John Holland-Kaye, CEO and Javier Echave, CFO Friday 1st May 2020

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

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These materials must be read in conjunction with Heathrow's annual report and accounts for the year ended 31 December 2019.

CEO STATEMENT

The catastrophic impacts of COVID-19 across the world have been swift and significant. The tragic human cost alone is something we've not seen in generations, and the lockdown of economies across the world is something that no one could have imagined possible.

Our industry is struggling. It's hard to imagine that 2019 was our busiest year ever with 81 million passengers. Now only five months into 2020, we're operating from a single runway, we're consolidating our operations into only two terminals and our daily passenger numbers have shrunk to the thousands. This is a major crisis for global aviation and no one can be sure of how fast we will recover from it.

Heathrow is a business that has safety and sound future planning wired into its DNA. Whilst we couldn't have predicted this situation, we have been taking steps over the past decade to beef up the financial resilience of our business should the unexpected happen. Over the last decade, Heathrow has transformed its service to passengers while systematically reducing operating costs by 16% in real terms between 2014 and 2018. This transformation has allowed us to deliver the best airport service in Europe whilst airport charges dropped 16% in real terms in the same period. Sound management earned the confidence of private investors, and we steadily built up £3.2 billion in cash and committed facilities which our business can call on now.

Despite our strength, Heathrow will not be immune to this crisis. We must act responsibly to protect the long-term success of Heathrow and deliver on our commitments to all stakeholders that rely on our national critical role. The actions we are taking now are ones that none of us like having to do; reducing pay, restructuring the organisation, renegotiating contracts, consolidating down to just two terminals and a single runway. But this is what we have had to do to survive and remain competitive. The cost savings we are making now will help us to secure as many jobs as possible whilst maintaining the agility to return to growth when passenger demand increases.

The financial position we built up over the past decade means that the actions we are taking now are compatible with maintaining our strategic long-term ambition of sustainable growth. Keeping people safe remains our first and non-negotiable priority. We're standing by our commitment as a Living Wage employer and our Prompt Payment Code pledge to pay suppliers within 30 days, we're providing our airlines with free parking for grounded fleets as temporary support and we're making every effort to keep Heathrow open and operating so that vital supplies can continue to come into the UK and Britons stranded abroad can get home. We are trying to retain as much as possible our incredible team talent which we will need in the recovery.

No one ever wanted to be in this position, but the determination, speed and grace with which my colleagues have responded to this crisis is a beacon of light in this stormy weather. I thank them for their incredible contributions. We are in this together and we will continue to take responsible decisions that put Heathrow in the best position to support Britain's recovery after we've beaten COVID-19.

HEATHROW'S RESPONSE TO COVID-19

The COVID-19 outbreak represents a seismic challenge for the aviation industry, including Heathrow. Five key objectives guide the actions we are putting in place to safeguard Heathrow's resilience:

Protecting our passengers and colleagues

Keeping people safe remains our first and non-negotiable priority. We continue to collaborate closely with Public Health England to facilitate their work within our terminals to keep the airport safe at all times. Measures implemented include the provision of hundreds of hand sanitiser dispensers, additional cleaning and sanitation procedures as well as signage and floor stickers to remind passengers to socially distance. Our colleagues are also on hand to help manage the queues and ensure safe and adequate spacing between passengers, and have been provided PPE such as face masks to do so safely.

We are ready to work with Governments and the global aviation industry to agree a consensus around standardised processes for responding to health crises like COVID-19 in the future. This could include a number of measures such as a health passport, health screening, enhanced cleaning standards and innovation which will reduce physical contact in airports. Common measures across the world would help passengers build confidence in flying so that the personal and economic benefits of global travel can continue after COVID-19.

Keeping Heathrow open

Heathrow will stay open as long as it is safe to do so. The airport will continue to serve the UK by keeping open vital supply lines and helping people get home.

However, given the significantly reduced passenger traffic, we moved to single runway operations on 6 April. In addition, we temporarily shifted passenger operations out of Terminals 3 and 4 into Terminals 2 and 5 in the following weeks.

We are utilising our now available capacity to prioritise cargo flights with medical supplies. The airport is well-placed to receive time-critical and temperature-sensitive medical supplies, such as ventilators, medicines and COVID-19 testing kits.

Supporting Team Heathrow

We are taking steps to support industry partners during this crisis, which include:

- working with Team Heathrow to consolidate residual operations into two terminals,

- supporting the temporary suspension of the 80:20 slot rules to enable airlines to ground aircraft without being penalised,
- maintaining our commitment to the 30-day prompt payment code with our direct supply chain, and
- encouraging our direct supply chain to also maintain their payment terms – an important measure to protect small businesses.

Protecting our financial resilience

Our financial performance will be significantly impacted by this unprecedented crisis. We have already taken immediate actions to safeguard Heathrow's financial resilience.

Various management actions are expected to reduce our operating costs by at least 30% in 2020. Early actions include people initiatives such as cancelling executive pay, a company-wide pay reduction and freezing recruitment in addition to consolidating our operations into a smaller footprint and stopping all non-essential costs. Apart from preserving cash, we are taking steps to permanently adapt our organisation to prepare us for the recovery in the future.

We are reviewing all capital projects in order to protect cash while ensuring we keep Heathrow safe and resilient. We anticipate our capital expenditure will reduce to around £500 million, compared to £1.1 billion initially forecasted in our December 2019 investor report.

Discussions continue with the Government around measures that will support a reduction in our cost base; for instance, a reduction or deferral of business rates, VAT payments or corporation tax and relief on policing costs. We are also utilising the Government's job retention scheme and have started furloughing a number of our colleagues to help protect as many long-term jobs as possible.

Prudent management over the past decade means that we are able to face this crisis with a robust financial position. As at 31 March 2020, Heathrow had £3.2 billion of cash and committed facilities available to the business, designed to maintain at least a 12-month liquidity horizon even under the extreme stress-test of no revenues.

The COVID-19 outbreak expected impact on our cash flows and key credit metrics has been reflected in recent credit rating agencies updates – a summary of these updates is available in Appendix 1. As we continue working through this challenge, we remain committed to restore our A- investment grade credit rating in the medium term.

Supporting our local community

The Heathrow Community Trust ('HCT') – an independent charity funded by the airport – has granted £95,000 in rapid emergency funding for local community groups responding to COVID-19. The funding will be used to support projects including transitioning support services online and equipping the elderly with technology to help stay connected with friends and family.

We have donated 6,000 face masks to NHS teams working at Thames Valley Air Ambulance and Hillingdon Hospital.

We have also provided educational resources to local schools and have redeployed Heathrow Community Rangers to assist with delivering donations to local food banks.

STRATEGIC PRIORITIES

While we navigate these unprecedented times, 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 3 months ended 31 March 2020. As Heathrow adapts to these unprecedented circumstances, we will look to update them. All indicators definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators ⁽¹⁾	2019	2020
Colleague promotions	51	71
Managerial training	246	348
Lost time injuries	0.33	0.32

(1) For the 3 months ended 31 March 2020

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators ⁽¹⁾	2019	2020
ASQ	4.18	4.20
Experience as "excellent" or "very good" %	82.6	84.1
Baggage connection %	99.0	99.0
Departure punctuality %	82.6	83.4
Security queuing %	96.8	97.4
Connections satisfaction	4.15	4.19

(1) For the 3 months ended 31 March 2020

BEAT THE PLAN

Passenger traffic

(Millions)	2019	2020	Var. % ⁽¹⁾
UK	1.0	0.9	(12.0)
Europe	7.3	5.7	(21.6)
North America	3.8	3.2	(16.2)
Asia Pacific	2.8	2.1	(24.2)
Middle East	1.8	1.6	(8.5)
Africa	0.9	0.8	(11.8)
Latin America	0.3	0.3	(10.7)
Total passengers	17.9	14.6	(18.3)

(1) Calculated using unrounded passenger figures

Other traffic performance indicators	2019	2020	Var. % ⁽¹⁾
Passenger ATM	112,016	98,206	(12.3)
Load factors (%)	74.7	68.6	(8.2)
Seats per ATM	214.3	217.5	1.5
Cargo tonnage ('000)	408	333	(18.5)

(1) Calculated using unrounded passenger figures

SUSTAINABLE GROWTH

Notwithstanding the significant challenges currently faced as a consequence of COVID-19, we maintain our long-term strategic ambition for growth and tackling climate change will remain the single greatest challenge facing society and our industry over the medium and long term. We therefore maintain our focus on decarbonisation and to aligning the airport and sector to the goals of the Paris Agreement on Climate Change. In line with the recommendation of the Committee on Climate Change, we continue to advocate for the Government to include aviation within the UK's target net zero carbon emissions by 2050.

During the first three months of the year we procured a significant volume of green gas, which will help to stimulate growth for this important commodity. In addition, we have further invested in UK natural climate solutions such as woodland creation in Scotland. This is to capture carbon associated with future years' emissions, as part of our journey to net zero.

We have also continued to deliver against our Heathrow 2.0 sustainability strategy. In February we published our latest Gender Pay Gap report, detailing progress made and our gap as better than the national average. However, there is more to do to improve both female and Black, Asian and Minority Ethnic ('BAME') representation in more senior roles, which has been taken into account as part of the organisational redesign we are working through.

Key Expansion developments

On 27 February, the Court of Appeal concluded that the Government was required but failed to take 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 and other interested parties have applied for permission to appeal the Court of Appeal ruling.

Heathrow has already taken a lead in getting the UK aviation sector to commit to a plan to get to Net Zero emissions by 2050, in line with the Paris Agreement, and we are ready to work with Government to achieve this. Expanding Heathrow remains a key plank of our long-term strategy once we have beaten COVID-19 and entered the recovery phase. However, given the current COVID-19 crisis and the ongoing appeals process, we expect expansion and related capital investment to be delayed by at least two years.

Key regulatory developments

In December 2019 we submitted our Initial Business Plan ('IBP') to the CAA. The IBP included our proposals for the regulatory framework for the H7 price control period ('H7'), due to begin on 1 January 2022. In light of the Court of Appeal ruling setting aside the ANPS, we plan to provide an updated initial forecast of the regulatory building blocks and potential resulting price paths in coming months.

The CAA also continues to progress its thinking on the regulatory framework for H7 with its latest consultation published in April 2020. The document provides an update on the H7 timetable, confirming the need for Heathrow to submit a final or revised business plan ('RBP') in Autumn 2020 to establish the H7 price control in 2022. It also notes the impact of COVID-19 and the need to review how uncertainty can be managed through Heathrow's regulatory framework. The CAA will be publishing a further consultation document in June 2020.

The current COVID-19 crisis is a further example that demonstrates that existing regulation has failed to create a long-term balance between risks and reward given the asymmetric risks faced by Heathrow. This failure threatens the sustainability of investment for consumers. 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 and delivers on CAA's duties on financeability in the context of H7.

We will continue to collect feedback on our IBP from our airline partners and other key stakeholders through Summer 2020. This feedback will be reflected in our RBP. The CAA will use our RBP to inform their assumptions for setting the price path for the H7 price control.

Finally, in March we submitted our response to the CAA's consultation on the early design and construction costs associated with expanding Heathrow - category B and early category C costs. We expressed our concerns that some proposals do not represent a balanced set of incentives needed for investment. We have also requested that in light of the Court of Appeal judgment, the CAA confirms its policy on the treatment of these categories of spend incurred to date. We are expecting the CAA to provide an update on the treatment of these costs in Q2 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 under International Financial Reporting Standards ('IFRS').

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'). As Heathrow SP operates as an independent securitised group, going concern has been assessed independently from the wider Heathrow Group.

In assessing the going concern position of Heathrow SP, 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 Heathrow SP's financing arrangements.

During Q1 steps have been taken to access significant additional liquidity and Heathrow SP has drawn down an additional £1,531 million of pre-agreed facilities, and raised an additional £80 million in Class A debt. Consequently, Heathrow SP held cash of £2,486 million as at 31 March 2020. Total debt maturity within Heathrow SP for the next 12 months is £250 million.

The wider Heathrow Group (which includes Heathrow Finance and Heathrow SP) has cash and committed facilities of circa. £3.2 billion available. No debt matures outside of Heathrow SP for the next 12 months.

The directors have modelled revised cash flow projections for Heathrow SP, in the context of the significant impact of COVID-19 on the aviation industry, reflecting the additional operational and financial risks 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 £500 million in the current year. In modelling the impact of COVID-19, notably the rate at which passenger numbers will return from the around 97% reduction expected in April, 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.

In reaching our going concern conclusion the directors have therefore considered several potential downside scenarios.

These scenarios were prepared by internal experts and challenged by our governance committees. Our stress test was considered to represent a downside scenario which was worse than forecasts provided by others in the market. We continue to monitor available evidence and will update our forecasts as more information becomes available.

Having modelled various scenarios, and the corresponding impact on various debt covenants, the Directors have a reasonable expectation that there will be no default event triggering a repayment of external debt within the Heathrow SP group of companies within the going concern period. We are assessing the potential impact in the wider Heathrow Group above Heathrow SP and potential remedies if required.

In conclusion, having had regard to both liquidity and debt covenants, the Directors have concluded that there will be sufficient funds available to meet the Group's funding requirements for at least twelve months from the date of this trading statement. A further update will be provided as our next Investor Report, which we are targeting to publish in the first half of June.

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. These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2019.

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 incidence. They are not expected to be incurred on a recurring basis.

Revenue

In the 3 months ended 31 March 2020, revenue declined 12.7% to £593 million (2019: £679 million).

3 months ended 31 March	2019 £m ⁽¹⁾	2020 £m	Var. %
Aeronautical	408	342	(16.2)
Retail	160	136	(15.0)
Other	111	115	3.6
Total revenue	679	593	(12.7)

(1) 2019 restated to reclassify £11 million of income from Other income to Aeronautical income related to the commercial airline deal

Aeronautical revenue declined by 16.2%. Aeronautical revenue per passenger increased 2.6% to £23.35 (2019: £22.75). In 2020, we updated the airport charges structure defining how we collect aeronautical revenue. Three types of charges apply. The first is a 'movement charge' for both departing and landing movements, levied on the noise chapter of the aircraft, NOx emissions and whether the flight falls within the night quota period. The second is a 'passenger charge' for departing movements, levied on destination and season. The final type is a 'parking charge', whereby an

aircraft is charged per 15 minutes of parking following a defined free allowance.

The decline in aeronautical revenue is predominantly due to reduced passenger numbers. Fewer aircraft movements also drove revenue down following the European Commission's temporary suspension of the slot usage rule part way through the period. Revenue per passenger increased as airlines benefitted from a rebate through our commercial airline deal in 2019. The rebate is not likely to be paid in 2020 as annual passenger numbers are not expected to meet the minimum threshold required.

3 months ended 31 March	2019 £m	2020 £m	Var. %
Retail concessions	73	61	(16.4)
Catering	15	13	(13.3)
Other retail	27	23	(14.8)
Car parking	29	24	(17.2)
Other services	16	15	(6.3)
Total retail revenue	160	136	(15.0)

Retail revenue declined by 15.0% driven by reduced passenger numbers. Retail revenue per passenger increased 4.0% to £9.28 (2019: £8.92). The retail revenue per passenger increase is due to minimum value guarantees included in many of our concession agreements providing a bottom threshold whilst passenger numbers declined.

3 months ended 31 March	2019 £m	2020 £m	Var. %
Other regulated charges	55	57	3.6
Heathrow Express	27	20	(25.9)
Property and other	29	38	31.0
Total other revenue	111	115	3.6

Other revenue increased by 3.6%. Property and other revenues grew 31.0% driven by rail track-access charges. Heathrow Express saw a 25.9% decline in revenue predominantly due to fewer passengers.

Looking at March revenue in isolation, total revenue declined by 28.9%. This reflects the impact of reduced passenger numbers after the UK entered lockdown, and a majority of outlets closing from the last week of the month.

Adjusted operating costs

Adjusted operating costs increased 1.8% to £278 million (2019: £273 million). Adjusted operating costs per passenger increased by 24.7% to £18.98 (2019: £15.22).

3 months ended 31 March	2019 £m	2020 £m	Var. %
Employment	92	90	(2.2)
Operational	71	70	(1.4)
Maintenance	44	43	(2.3)
Rates	30	30	0.0
Utilities and Other	36	45	25.0
Adjusted operating costs	273	278	1.8

Drivers of the operating costs increase include services for passengers with reduced mobility and implementing new hold

baggage screening. The 25% increase in Utilities and other costs is driven by a rise in government levies on utilities usage, whilst overall consumption declined. As our cost base is largely fixed in the short term, operating costs per passenger have increased whilst passenger numbers have declined.

Looking at March operating costs in isolation, total costs are down 5.4% compared to last year. This reflects some of the immediate actions we have taken to reduce our cost base.

Operating profit / (loss) and Adjusted EBITDA

In the 3 months ended 31 March 2020, the Group recorded an operating loss of £140 million (2019: operating profit of £214 million). In addition to the lower revenue and increased operating costs, there was also a reduction in the non-cash fair value of our investment properties of £184 million and exceptional items of £82 million.

Adjusted EBITDA decreased 22.4% to £315 million (2019: £406 million), resulting in an Adjusted EBITDA margin of 53.1% (2019: 59.8%).

3 months ended 31 March	2019 £m	2020 £m
Operating profit/(loss)	214	(140)
Depreciation and amortisation	195	189
EBITDA	409	49
Exceptional items ⁽¹⁾	-	82
Excl. Fair value (gain)/loss on investment properties	(3)	184
Adjusted EBITDA	406	315

(1) Please see exceptional items section for further information

Exceptional items

In the 3 months ended 31 March 2020, there was an exceptional charge of £82 million (2019: nil) to the income statement.

3 months ended 31 March	2019 £m	2020 £m
People costs	-	30
Capital write offs	-	52
Exceptional pre-tax charge	-	82

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, the Group has made a provision in the period for £30 million of exceptional costs relating to this transformation programme. The Group has also reviewed their investment projects. As a result of the impact of the COVID-19, certain projects have been placed on hold while some projects are unlikely to be restarted in the foreseeable future. This resulted in an exceptional write-off of previously capitalised costs of £52 million in the period. These costs remain on the RAB and continue to generate a return.

Profit / (loss) after tax

In the 3 months ended 31 March 2020, the Group recorded a loss before tax of £278 million (2019: £132 million profit) and a loss after tax of £352 million (2019: £102 million profit).

3 months ended 31 March	2019 £m	2020 £m
Operating profit/(loss)	214	(140)
Net finance costs before certain re-measurements	(154)	(167)
Fair value gain on financial instruments	72	29
Profit / (loss) before tax	132	(278)
Taxation charge	(30)	(74)
Profit / (loss) after tax	102	(352)

Taxation

The tax credit for the 3-month period ended 31 March 2020, before certain re-measurements, was £6 million (2019: £17 million charge), at 14.6% (3 months ended 31 March 2019: 29.8%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the 3-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 charge for the 3-month period ended 31 March 2020 is £74 million (3 months ended 31 March 2019: £30 million), 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 £26 million (3 months ended 31 March 2019: £20 million) in corporation tax.

Cash generated from operations

In the 3 months ended 31 March 2020, cash generated from operations decreased 12.0% to £375 million (2019: £426 million).

Capital expenditure

Total capital expenditure in the first 3 months of 2020 was £224 million (2019: £191 million).

We invested £161 million (2019: £142 million) in a variety of programmes to improve the passenger experience, airport resilience and for asset replacement. We also invested an additional £63 million in the period (2019: £49 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced.

Expansion-related capital expenditure includes Category B costs associated with the consent process and also includes early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £390 million in Category B costs and £123 million in Category C costs, a total of £513 million that 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 3 months ended 31 March 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:

- a) £107 million (2019: £100 million) payment made by Heathrow SP to Heathrow Finance to primarily fund the £100 million (2019: £100 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,
- b) a net cash inflow of £80 million from Heathrow Finance to Heathrow SP (2019: net cash outflow of £270 million from Heathrow SP to Heathrow Finance).

RECENT FINANCING ACTIVITY

In the first 3 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 and £50 million of Heathrow Finance debt. We also drew £1,816 million of debt signed prior to the reporting period.

Debt drawn signed prior to the reporting include:

- a) £900 million Class A revolving credit and working capital facilities,
- b) £250 million Class B revolving credit facilities,
- c) £381 million Class B delayed drawdown bonds closed in March 2020, and
- d) £285 million of Heathrow Finance facilities with maturities ranging between 2026 and 2029.

Financing activities in the period include:

- a) £80 million Class A debt maturing in 2040 to be drawn in July 2020,
- b) repayment of the £400 million Class B bond in March 2020, and
- c) £50 million of Heathrow Finance debt maturing in 2029.

After the reporting period end we also received the proceeds of a £75 million Class B maturing in 2035 and £50 million in loan facility at Heathrow Finance maturing in 2035. These transactions were arranged prior to 2020.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 March 2020, Heathrow SP's consolidated nominal net debt was £12,472 million (31 December 2019: £12,412 million). It comprised £12,130 million in bond issues, £1,453 million in other term debt, £221 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £4 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,486 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,884 million in senior net debt and £1,588 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 March 2020 was 3.04% (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 31 March 2020 was 4.38% (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 31 March 2020 was 11.0 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 £13,124 million at 31 March 2020 (31 December 2019: £12,684 million). This includes £2,486 million of cash and cash equivalents and term deposits, and £375 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 for at least 12 months. This includes forecast operational costs and capital investment, debt service costs, debt maturities and distributions. This liquidity position takes into account £3.2 billion in cash resources as well as undrawn debt at 31 March 2020.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £14,542 million (31 December 2019: £14,361 million). This comprised Heathrow SP's £12,472 million nominal net debt, Heathrow Finance's nominal gross debt of £2,314 million and cash and term deposits held at Heathrow Finance of £244 million.

Financial ratios

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

At 31 March 2020, Heathrow's RAB was £16,646 million (31 December 2019: £16,598 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 65.4% and 74.9% 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 87.4% (31 December 2019: 86.5%) with a covenant of 92.5%

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 31 March 2020, the defined benefit pension scheme, as measured under IAS 19, was funded at 106.4% (31 December 2019: 100.8%). This translated into a surplus of £251 million (31 December 2019: £33 million surplus). The £218 million increase in the surplus in the 3 months is due to actuarial gains of £212 million, attributable to an increase in the net discount rate of 0.10% and to a decrease in the inflation assumption of 0.4% and contributions in excess of current service cost of £6 million. In the 3 months ended 31 March 2020, we contributed £12 million (2019: £12 million) into the defined

benefit pension scheme including £5 million (2019: £6 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

Stuart Birrell resigned as a director of Heathrow Airport Limited and LHR Airports Limited on 17 March 2020.

OUTLOOK

COVID-19 is having a significant negative impact on passenger numbers and financials at Heathrow. As a result of this challenging environment, the principal risks identified in our 2019 annual accounts have also increased.

We are working hard to provide new forecast and revised management business plan as the numbers we released in the December Investor Report do not reflect the impact of COVID-19.

Revised guidance will be provided in the June Investor Report which we are targeting to publish in the first half of June.

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Heathrow Funding Ltd and Heathrow Finance plc credit outlook update – Credit rating agency Fitch revised the outlook on Heathrow Funding Limited's Class A and B debt to negative from stable reflecting the uncertainty surrounding Covid-19. Fitch has also revised the outlook on Heathrow Finance plc's outstanding notes to negative. Credit ratings are unchanged with Fitch retaining confidence that Heathrow will be able to restore stronger credit metrics in future.

Full RNS available here: <https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/14513934.html>

Fitch affirms Heathrow's long-term credit ratings – Credit rating agency Fitch affirmed Heathrow Funding Limited's Class A and B bonds at 'A-' and 'BBB', respectively, with stable outlooks highlighting Heathrow's financial flexibility to navigate the uncertainty surrounding Covid-19. Fitch has also affirmed Heathrow Finance plc's outstanding notes at 'BB+' with a stable outlook.

Full RNS available here: <https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/14494434.html>

Heathrow Finance's credit outlook update – Credit rating agency Moody's announced that it is changing the outlook on the ratings at Heathrow Finance plc to negative from stable due to the ongoing uncertainty surrounding the spread of COVID-19. Moody's is not downgrading Heathrow's debt which remains unchanged at Ba3.

Full RNS available here: <https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/14488941.html>

Heathrow Funding Limited's credit rating update – Credit rating agency Standard & Poor's announced that it is lowering by one notch the long-term ratings on Class A and Class B debt issued by Heathrow Funding Limited, with both retaining negative outlooks due to the ongoing uncertainty surrounding the spread of COVID-19.

Full RNS available here: <https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/14480609.html>

Heathrow's response to COVID-19 – Heathrow will take steps to reorganise and shrink our operation to remain open throughout this crisis. Keeping Heathrow open will enable some passenger services to continue, as well as facilitating cargo operations which will safeguard vital supply lines for the UK. Whilst we remain committed to remaining open, Heathrow's financial performance will be significantly impacted by this unprecedented situation. We are taking a number of immediate actions to safeguard the financial resilience of the business.

Full RNS available here: <https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/other/14469996.html>

Consolidated income statement for the three month period ended 31 March 2020

	Note	Unaudited Three months ended 31 March 2020			Unaudited Three months ended 31 March 2019			Audited ^(b) Year ended 31 December 2019		
		Before		Total	Before		Total	Before		Total
		Certain re-measurements and exceptional items ^(a)	Certain re-measurements and exceptional items ^(a)		Certain re-measurements and exceptional items ^(a)	Certain re-measurements and exceptional items ^(a)		Certain re-measurements and exceptional items ^(a)	Certain re-measurements and exceptional items ^(a)	
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Continuing operations										
Revenue	1	593	-	593	679	-	679	3,070	-	3,070
Operating costs	2	(467)	(82)	(549)	(468)	-	(468)	(1,920)	-	(1,920)
Other operating items										
Fair value (loss)/gain on investment properties		-	(184)	(184)	-	3	3	-	43	43
Operating profit / (loss)		126	(266)	(140)	211	3	214	1,150	43	1,193
Financing										
Finance income		3	-	3	2	-	2	9	-	9
Finance costs		(170)	29	(141)	(156)	72	(84)	(784)	128	(656)
Net finance cost	3	(167)	29	(138)	(154)	72	(82)	(775)	128	(647)
(Loss) / profit before tax		(41)	(237)	(278)	57	75	132	375	171	546
Taxation credit / (charge)	4	6	(80)	(74)	(17)	(13)	(30)	(104)	(29)	(133)
(Loss) / profit for the period		(35)	(317)	(352)	40	62	102	271	142	413

(a) Certain re-measurements and exceptional items consist of: fair value gains and losses on investment property; gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship and the associated tax impact of these and similar cumulative prior year items, exceptional items, the effects of the changes in tax rate, and the associated tax impact of these and similar cumulative prior year items.

(b) 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

Consolidated statement of comprehensive income for the three month period ended 31 March 2020

	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited ^c Year ended 31 December 2019 £m
(Loss) / profit for the period	(352)	102	413
Items that will not be subsequently reclassified to the consolidated income statement:			
Actuarial gain / (loss) on pensions net of tax:			
(Loss)/gain on plan assets ^(b)	(96)	251	498
Decrease /(increase) in scheme liabilities ^(b)	267	(347)	(509)
Change in tax rate	1	-	-
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges net of tax:			
Losses taken to equity ^(b)	47	(5)	(3)
Transfer to finance costs ^(b)	(32)	15	32
Change in tax rate	4	-	-
Other comprehensive income for the period net of tax	191	(86)	18
Total comprehensive income for the period ^(a)	(161)	16	431

(a) Attributable to owners of the parent.

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

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

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Consolidated statement of financial position as at 31 March 2020

Note	Unaudited as at 31 March 2020 £m	Unaudited as at 31 March 2019 £m	Audited* as at 31 December 2019 £m
Assets			
Non-current assets			
Property, plant and equipment	11,571	11,407	11,561
Right of use asset	268	331	276
Investment properties	2,337	2,475	2,522
Intangible assets	170	186	176
Retirement benefit surplus	251	-	33
Derivative financial instruments	812	515	539
Trade and other receivables	17	20	18
	15,426	14,934	15,125
Current assets			
Inventories	13	13	13
Trade and other receivables	87	265	247
Term deposits	1,424	254	725
Cash and cash equivalents	1,062	595	815
	2,586	1,127	1,800
Total assets	18,012	16,061	16,925
Liabilities			
Non-current liabilities			
Borrowings	5 (17,573)	(14,726)	(15,948)
Derivative financial instruments	(1,129)	(1,353)	(1,227)
Lease liabilities	(337)	(384)	(346)
Deferred income tax liabilities	(1,047)	(879)	(934)
Retirement benefit obligations	(29)	(116)	(29)
Provisions	(1)	(1)	(1)
Trade and other payables	(6)	(7)	(5)
	(20,122)	(17,466)	(18,490)
Current liabilities			
Borrowings	5 (477)	(815)	(647)
Derivative financial instruments	(28)	(38)	(55)
Lease liabilities	(38)	(54)	(38)
Provisions	(36)	(13)	(8)
Current income tax liabilities	(4)	(42)	(31)
Trade and other payables	(349)	(443)	(430)
	(932)	(1,405)	(1,209)
Total liabilities	(21,054)	(18,871)	(19,699)
Net liabilities	(3,042)	(2,810)	(2,774)
Equity			
Capital and reserves			
Share capital	11	11	11
Share premium	499	499	499
Merger reserve	(3,758)	(3,758)	(3,758)
Cash flow hedge reserve	(168)	(206)	(187)
Retained earnings	374	644	661
Total shareholder's equity	(3,042)	(2,810)	(2,774)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Consolidated statement of changes in equity for the three month period ended 31 March 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 £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:						
Fair value gain on cash flow				29		29
Actuarial gain 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	11	499	(3,758)	(187)	661	(2,774)
Comprehensive income:						
Loss for the period					(352)	(352)
Other comprehensive income:						
Fair value gain on cash flow				15		15
Actuarial gain on pension net of tax:						
Loss on plan assets					(96)	(96)
Decrease in scheme liabilities					267	267
Change in tax rate				4	1	5
Total comprehensive income	-	-	-	19	(180)	(161)
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	-	-	-	-	(107)	(107)
31 March 2020	11	499	(3,758)	(168)	374	(3,042)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Consolidated statement of changes in equity for the three month period ended 31 March 2019

	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2018 (previously reported)	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16					(88)	(88)
1 January 2018 (re-stated)	11	499	(3,758)	(216)	740	(2,724)
Comprehensive income:						
Profit for the period					102	102
Other comprehensive income:						
Fair value gain on cash flow				10		10
Actuarial gain on pension net of tax:						
Gain on plan assets					251	251
Increase in scheme liabilities					(347)	(347)
Total comprehensive income	-	-	-	10	6	16
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(102)	(102)
Total transaction with owners	-	-	-	-	(102)	(102)
31 March 2019	11	499	(3,758)	(206)	644	(2,810)

Consolidated statement of cash flows for the three month period ended 31 March 2020

	Note	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited ³ Year ended 31 December 2019 £m
Cash flows from operating activities				
Cash generated from operations	6	375	426	1,942
Taxation:				
Corporation tax paid		(26)	(20)	(98)
Net cash from operating activities		349	406	1,844
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(208)	(161)	(849)
Investment properties		-	-	(7)
(Increase) in term deposits ⁽¹⁾		(699)	(135)	(605)
Interest received		3	2	7
Net cash used in investing activities		(904)	(294)	(1,454)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc		(107)	(102)	(480)
Proceeds from issuance of bonds		381	625	857
Repayment of bonds		(400)	-	(251)
Repayment of facilities and other financing items		(2)	(20)	(21)
Increase/(decrease) in amount owed to Heathrow Finance plc		80	(268)	321
Interest paid		(151)	(196)	(580)
Issuance of term note		-	-	340
Drawdown of revolving credit facilities and other facilities		1,150	-	-
Settlement of accretion on index-linked swaps		(136)	(134)	(295)
Payment of lease liabilities ⁽²⁾		(13)	(13)	(50)
Consent fee payment		-	-	(7)
Net cash used in financing activities		802	(108)	(166)
Net increase in cash and cash equivalents		247	4	224
Cash and cash equivalents at beginning of period		815	591	591
Cash and cash equivalents at end of period		1,062	595	815

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

(2) Payment in relation to investor's consent regarding IFRS 16 and lease liabilities

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

Notes to the consolidated financial statements for the three month period ended 31 March 2020

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the three month period ended 31 March 2020 or any other period. The annual financial information presented herein for the three month period ended 31 March 2020 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 2019. The auditors' report on the 2019 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 and new accounting standards, interpretations and amendments**

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

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the consolidated financial statements for the three month period ended 31 March 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.

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

Table (a)	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019 £m
Segment Revenue			
Under IFRS 15			
Aeronautical			
Movement charges	123	131	549
Parking charges	19	19	74
Passenger charges	200	258	1,208
Total Aeronautical revenue	342	408	1,831
Other regulated charges	57	55	244
Retail services revenue ¹	136	160	722
Property revenue ¹	6	(8)	25
Rail Income			
Heathrow Express	20	27	117
Other	6	6	23
<i>Revenue reported under IFRS 15</i>	567	649	2,962
Revenue recognised at a point in time	543	620	2,837
Revenue recognised over time	24	29	125
Total revenue reported under IFRS 15	567	649	2,962
Under IFRS 16 / IAS 17			
Retail (lease-related income) ¹	26	30	108
Total revenue	593	679	3,070
Heathrow	573	652	2,953
Heathrow Express	20	27	117
Adjusted EBITDA			
Heathrow	310	392	1,860
Heathrow Express	5	14	61
Total adjusted EBITDA	315	406	1,921
Reconciliation to statutory information:			
Depreciation and amortisation	(189)	(195)	(771)
Operating profit	126	211	1,150
Fair value (loss)/gain on investment properties (certain re-measurements)	(184)	3	43
Exceptional items	(82)	-	-
Operating profit	(140)	214	1,193
Finance income	3	2	9
Finance costs	(141)	(84)	(656)
(Loss)/Profit before tax	(278)	132	546

¹2019 comparatives for the three months ended March 2019 have been restated for the reclassification of lease related income under IAS 17 – Leases to retail service income under IFRS 15 – Revenue from contracts with customers. The impact of this is that £105 million was transferred from retail (lease-related income) under IFRS 16 to Retail services under IFRS 15 and £20 million was transferred from property revenue under IFRS 15 to Retail services under IFRS 15.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the consolidated financial statements for the three month period ended 31 March 2020

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Three months ended 31 March 2020		Unaudited Three months ended 31 March 2019		Audited Year ended 31 December 2019	
	Depreciation & amortisation ⁽¹⁾ £m	Fair value loss ⁽²⁾ £m	Depreciation & amortisation ⁽¹⁾ £m	Fair value gain ⁽²⁾ £m	Depreciation & amortisation ⁽¹⁾ £m	Fair value gain ⁽²⁾ £m
Heathrow	(228)	(184)	(182)	3	(716)	43
Heathrow Express	(13)	-	(13)	-	(55)	-
Total	(241)	(184)	(195)	3	(771)	43

(1) Includes intangible amortisation charge of £8 million (three months ended March 2019: £8m, year ended December 2019: £43 million)

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

Table (c)	Unaudited Three months ended 31 March 2020		Unaudited Three months ended 31 March 2019		Audited Year ended 31 December 2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Liabilities £m	Liabilities £m
Heathrow	13,554	(375)	13,922	(890)	13,885	(429)
Heathrow Express	637	(17)	772	(12)	652	(15)
Total operations	14,191	(392)	14,694	(902)	14,537	(444)
Unallocated assets and liabilities:						
Cash, term deposits and external borrowings	2,486	(15,401)	849	(13,610)	1,540	(14,055)
Retirement benefit assets /(obligations)	251	(29)	-	(116)	33	(29)
Derivative financial instruments	812	(1,157)	515	(1,391)	539	(1,282)
Deferred and current tax liabilities	-	(1,051)	-	(921)	-	(965)
Amounts owed from/(to) group undertakings	4	(2,649)	3	(1,931)	-	(2,540)
Right of use asset and lease liabilities	268	(375)	-	-	276	(384)
Total	18,012	(21,054)	16,061	(18,871)	16,925	(19,699)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the consolidated financial statements for the three month period ended 31 March 2020

2. OPERATING COSTS

	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019 £m
Employment	90	92	378
Operational	70	71	279
Maintenance	43	44	173
Rates	30	30	117
Utilities	20	10	72
Other	25	26	130
Total operating costs before depreciation and amortisation	278	273	1,149
Depreciation and amortisation:			
Property, plant and equipment	172	178	693
Intangible assets	8	8	43
Right of Use (RoU) assets	9	9	35
Total operating costs	467	468	1,920

3. FINANCING

	Three months ended 31 March 2020 £m	Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019 £m
Finance income			
Interest on deposits	3	2	9
Total finance income	3	2	9
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ⁽¹⁾	(132)	(121)	(535)
Bank loans, overdrafts and related hedging instruments	(16)	(14)	(58)
Net interest expense on derivatives not in hedge	1	1	(106)
Facility fees and other charges	(2)	(2)	(10)
Interest on debenture payable to Heathrow Finance plc	(30)	(25)	(102)
Finance costs on lease liabilities	(4)	(5)	(17)
	(183)	(166)	(828)
Less: capitalised borrowing costs ⁽³⁾	13	10	44
Total finance costs ⁽⁴⁾	(170)	(156)	(784)
Net finance costs before certain re-measurements	(167)	(154)	(775)
Fair value (loss)/gain on financial instruments			
Interest rate swaps: not in hedge	(41)	(21)	(19)
Index-linked swaps: not in hedge relationship	71	99	172
Cross-currency swaps: not in hedge relationship	9	-	11
Ineffective portion of cash flow hedges	6	9	(1)
Ineffective portion of fair value hedges	(19)	(15)	(33)
Fair value re-measurements of foreign exchange contracts	3	-	(2)
	29	72	128
Net finance costs	(138)	(82)	(647)

(1) Includes accretion of £4 million for three months ended March 2020 (three months March 2019: £1m, year ended December 2019: £35 million) on index-linked bonds.

(2) Includes accretion of £12 million for three months ended March 2020 (three months March 2019: £8m, year ended December 2019: £152 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 4.69% (three months March 2019: 5.20%, year ended December 2019: 4.98) to expenditure incurred on such assets

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Notes to the consolidated financial statements for the three month period ended 31 March 2020

4. INCOME TAX EXPENSE

	Unaudited Three months ended 31 March 2020			Unaudited Three months ended 31 March 2019			Audited Year ended 31 December 2019		
	Before certain re- measurements £m	Certain re- measurements and exceptional items £m	Total £m	Before certain re- measurements £m	Certain re- measurements £m	Total £m	Before certain re- measurements £m	Certain re- measurements £m	Total £m
UK corporation tax									
Current tax charge at 19% (2018: 19%)	-	-	-	(23)	-	(23)	(96)	(2)	(98)
Over provision in respect of prior years	-	-	-	-	-	-	8	-	8
Deferred tax:									
Current year credit/ (charge)	6	35	41	6	(13)	(7)	(15)	(28)	(43)
Change in tax rate	-	(115)	(115)	-	-	-	(1)	1	-
Prior year (charge)/credit	-	-	-	-	-	-	(1)	1	-
Taxation (charge)/credit	6	(80)	(74)	(17)	(13)	(30)	(104)	(29)	(133)

The total tax charge recognised for period ended 31 March 2020 was £74 million (period ended 31 March 2019: £30 million). Based on a loss before tax for the period of £278 million (period ended 31 March 2019: profit before tax £132 million), this results in a negative effective tax rate of 26.6% (period ended 31 March 2019: positive effective tax rate of 22.7%).

The total tax credit before certain re-measurements for the period ended 31 March 2020 was £6 million (period ended 31 March 2019: charge £17 million). Based on a loss before tax and certain re-measurements of £41 million (period ended 31 March 2019: profit before tax £57 million), this results in an effective tax rate of 14.6% (period ended March 2019: 29.8%). The tax credit for the period ended 31 March 2020 is less (period ended 31 March 2019: more) than implied by the statutory rate of 19% (2019: 19%).

In addition, there was an £80 million tax charge (period ended 31 March 2019: £13 million tax charge) reflecting a £35m tax credit arising from fair value gains/losses on investment property revaluations, fair value gains/losses on financial instruments and exceptional items along with a £115m tax charge associated with the impact from the UK corporation tax rate remaining at 19% on deferred tax balances..

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.

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Notes to the consolidated financial statements for the three month period ended 31 March 2020

5. BORROWINGS

	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	4	12	4
Heathrow Funding Limited bonds:			
4.000% C\$400 million due 2019	-	230	-
6.000% £400 million due 2020	-	399	400
Heathrow Finance plc bonds:			
5.375% £275 million due 2019	250	-	-
Total current (excluding interest payable)	254	641	404
Interest payable – external	166	166	215
Interest payable – owed to group undertakings	57	8	28
Total current	477	815	647
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds			
6.000% £400 million due 2020	-	-	-
9.200% £250 million due 2021	-	259	255
3.000% CAD450 million due 2021	262	258	260
4.875% US\$1,000 million due 2021	827	772	763
1.650%+RPI £180 million due 2022	219	213	218
1.875% €600 million due 2022	540	529	517
5.225% £750 million due 2023	707	694	703
7.125% £600 million due 2024	594	593	594
0.500% CHF400 million due 2024	333	302	307
3.250% CAD500 million due 2025	280	287	288
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	693	693	693
0.450% CHF210 million due 2026	181	-	167
2.650% NOK1,000 million due 2027	82	89	85
3.400% CAD400 million due 2028	229	233	234
7.075% £200 million due 2028	200	198	200
4.150% AUD175 million due 2028	101	102	103
2.500% NOK1,000 million due 2029	75	79	76
3.782% CAD400 million due 2030	236	228	233
1.500% €750 million due 2030	694	631	644
6.450% £900 million due 2031	855	853	855
Zero-coupon €50 million due January 2032	62	58	58
1.366%+RPI £75 million due 2032	87	84	87
Zero-coupon €50 million due April 2032	61	56	57
1.875% €500 million due 2032	440	429	421
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	52	50	49
0.347%+RPI £50 million due 2035	76	-	-
0.337%+RPI £75 million due 2036	76	-	-
1.875% €650 million due 2034	636	558	584
1.061%+RPI £180 million due 2036	202	197	202
0.419%+RPI £51 million due 2038	51	-	-
3.460% £105 million due 2038	105	-	-

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	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019
1.382%+RPI £50 million due 2039	58	56	58
3.334%+RPI £460 million due 2039	638	625	638
Zero-coupon €86 million due 2039	79	75	75
0.800% JPY1,000 million due 2039	81	110	69
1.238%+RPI £100 million due 2040	113	-	113
0.362%+RPI £75 million due 2041	76	-	-
5.875% £750 million due 2041	738	738	738
2.926% £55 million due 2043	54	55	54
4.625% £750 million due 2046	742	741	741
1.372%+RPI £75 million due 2049	86	84	86
2.750% £400 million due 2049	392	392	392
0.147%+RPI £160 million due 2058	166	164	165
Total bonds	12,384	11,690	11,987
Heathrow Airport Limited debt:			
Class A1 term loan due 2020	418	418	418
Class A2 term loan due 2024	100	100	100
Class A3 term loan due 2029	200	-	200
Revolving credit facilities	1,150	-	-
Term note due 2026-2037	723	585	723
Loans	6	10	8
Unsecured			
Debenture payable to Heathrow Finance plc	2,592	1,923	2,512
Total non-current	17,573	14,726	15,948
Total borrowings (excluding interest payable)	17,827	15,367	16,352

At 31 March 2020, Heathrow SP's consolidated nominal net debt was £12,472 million (31 December 2019: £12,412 million). It comprised £12,130 million in bond issues, £1,453 million in other term debt, £221 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £4 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,486 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,884 million in senior net debt and £1,588 million in junior debt.

At 31 March 2020, total non-current borrowings due after more than 5 years was £12,416 million, comprising £8,901 million of bonds, £2,592 million debenture payable to Heathrow Finance plc and £923 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 billion and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited Three months ended 31 March 2020		Unaudited Three months ended 31 March 2019		Audited Year ended 31 December 2019	
	Nominal £m	Fair value adjustment ⁽¹⁾ £m	Fair value adjustment ⁽¹⁾ £m	Nominal £m	Fair value adjustment ⁽¹⁾ £m	Nominal £m
Sterling debt	393	(4)	643	(6)	250	(4)
Euro denominated debt	1,615	(119)	1,615	(12)	1,615	(70)
USD denominated debt	621	(22)	621	(4)	621	(10)
CAD denominated debt	584	(12)	583	(1)	810	(3)
Other currencies debt	780	(27)	549	9	946	3
Designated in fair value hedge	3,993	(184)	4,011	(14)	4,242	(84)

(1) Fair value adjustment is comprised of fair value loss of £156 million (three months ended March 2019: £28 million gain, year ended December 2019: £52 million loss) on continuing hedges and £28 million loss (three months ended March 2019: £42 million loss, year ended December 2019: £32 million loss) on discontinued hedges.

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Notes to the consolidated financial statements for the three month period ended 31 March 2020

6. CASH GENERATED FROM OPERATIONS

	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019 £m
Operating activities			
Loss / profit before tax	(278)	132	546
<i>Adjustments for:</i>			
Net finance costs	138	82	647
Depreciation	172	178	693
Amortisation on intangibles	8	8	43
Amortisation on right of use assets	9	9	35
Fair value loss /(gain) on investment properties	184	(3)	(43)
Capital write off	52	-	-
<i>Working capital changes:</i>			
Decrease in inventories and trade and other receivables	160	39	57
(Decrease)/increase in trade and other payables	(97)	(14)	(7)
Increase / (decrease) in provisions	32	-	(7)
Difference between pension charge and cash contributions	(5)	(5)	(22)
Cash generated from operations	375	426	1,942

7. EXCEPTIONALS

	Unaudited Three months ended 31 March 2020 £m	Unaudited Three months ended 31 March 2019 £m	Audited Year ended 31 December 2019 £m
People costs	30	-	-
Capital write offs	52	-	-
Exceptional pre-tax charge	82	-	-

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's Regulatory Asset Base ('RAB') value.

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

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

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

Restricted payments – The financing arrangements of the Group and Heathrow Finance plc ("Heathrow Finance") restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital, any redemptions or repurchases of share capital, and payments of fees, interest or principal on any intercompany loans.

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