

01 May 2019

## Heathrow (SP) Limited

### Results for the 3 months ended 31 March 2019

- **More passengers than ever before** – Heathrow achieved its 29th consecutive month of growth, welcoming a record 17.9 million passengers in Q1 2019
- **Award-winning service** – Passenger satisfaction reached new highs with Terminal 5 beating international competition to be crowned the best airport terminal in the world at the annual Skytrax awards. Heathrow is delivering good value for passengers with airport charges declining 2.4% to £22.13 per passenger and 82.6% of passengers said they had an “Excellent” or “Very Good” experience at Heathrow
- **New routes boost Britain’s connectivity** – Over 210 global destinations are now connected via a direct flight from Heathrow after the Newquay, Chengdu, Osaka, Phoenix, Pittsburgh and Charleston routes launched in Q1. Up to 40 new long-haul services are set to give a further boost to Britain’s global connectivity once Heathrow expands
- **Robust financial health** – Higher retail spending resulted in a healthy £679 million in overall revenues and Adjusted EBITDA increasing by 1% to £406 million
- **Efficient access to financial markets** – Our robust financial health enables us to access competitively priced funding which ultimately results in lower passenger charges. This was demonstrated by successful returns to both the EUR and CHF markets and multiple private placements by global investors. Heathrow has already raised over £1 billion long dated finance in 2019 setting the groundwork to fund expansion entirely privately without a cost for the taxpayer
- **Sustainable future for colleagues and communities** – Heathrow is delivering a more sustainable future airport – reporting strong progress on increasing the number of women in senior roles and decreasing both gender pay and bonus gaps. In addition, we launched an aviation think tank comprised of five UK universities coordinating research in areas like carbon and net zero carbon air travel, noise, air quality and waste
- **Ramping up for growth** – With expansion on the horizon, Heathrow is set to invest nearly £1 billion into the airport over the coming year to prepare us for the future growth that expansion will unlock. Following a successful consultation on modernising the airspace around Heathrow in Q1, Heathrow is preparing to unveil its detailed preferred masterplan for public consultation in June

At or for 3 months ended 31 March	2018	2019	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	680	<b>679</b>	(0.1)
Adjusted EBITDA <sup>(1)</sup>	402	<b>406</b>	1.0
EBITDA <sup>(2)</sup>	403	<b>409</b>	1.5
Cash generated from operations	405	<b>426</b>	5.2
Adjusted profit before tax <sup>(3)</sup>	33	<b>57</b>	72.7
Heathrow (SP) Limited consolidated nominal net debt <sup>(4)</sup>	12,407	<b>12,771</b>	2.9
Heathrow Finance plc consolidated net debt <sup>(4)</sup>	13,980	<b>14,125</b>	1.0
Regulatory Asset Base <sup>(4)</sup>	16,200	<b>16,149</b>	(0.3)
Passengers (million) <sup>(5)</sup>	17.7	<b>17.9</b>	1.4
Retail revenue per passenger (£) <sup>(5)</sup>	8.82	<b>8.92</b>	1.1

#### Notes

(1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation and certain re-measurements

(2) EBITDA is earnings before interest, tax, depreciation and amortisation

(3) Adjusted profit before tax is adjusted operating profit after deducting net finance costs and before tax and certain re-measurements

(4) 2018 net debt and RAB figures at 31 December 2018. Nominal net debt excluding intra-group loans and including inflation-linked accretion

(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 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.

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

“2019 is an important year for Heathrow as we put in place the building blocks that will define Britain’s global connectivity for decades to come. With passengers continuing to choose Heathrow in record numbers, the strong backing of global investors and a credible plan to expand responsibly, we’re ramping up for growth and excited about building a bigger and better hub airport for Britain.”

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**Creditors and credit analysts conference call hosted by  
Javier Echave, Chief Financial Officer**

**01 May 2019**

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

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## Strategic priorities

### MOJO

We remain committed to making Heathrow a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In the first three months of 2019, 51 colleagues were promoted and 246 colleagues attended training to advance their managerial skills.

We value the health and safety (H&S) of our colleagues, passengers and neighbours above all else. We are committed to improving H&S standards and learning from incidents when they occur.

In Q1, our lost time injuries metric improved to 0.34 (2018 :0.49), the lowest it has been since 2016. Targeted action plans are in place to drive further reductions particularly in respect of sharps related injuries, vehicle speeding events, injuries sustained from manual tasks and the searching of vehicles at security control posts.

In March this year, we also paid our 2015 to 2018 Share in Success bonus to colleagues. This was an excellent reward for our colleagues' contributions to the success of the business. We will be re-launching the Share in Success saver scheme for 2019.

### TRANSFORM CUSTOMER SERVICE

We continued to deliver strong levels of service across our passengers' journey. Our service standards remained extremely high, despite passenger growth putting pressure on some key processes such as check in, security, immigration and baggage.

In Q1 we achieved an ASQ of 4.18 out of 5.00 (2018: 4.20) compared to 3.97 just five years ago. In addition, 82.6% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2018: 83.6%) illustrating the strength and resilience of our operations.

Service standard performance indicators <sup>(1)</sup>	2018	2019
ASQ	4.20	<b>4.18</b>
Baggage connection	98.7%	<b>99.0%</b>
Departure punctuality	80.4%	<b>82.6%</b>
Security queuing	97.8%	<b>96.8%</b>

(1) For the three months ended 31 March 2019

### Investing in Heathrow

Total capital expenditure in the first three months of 2019 was £191 million. We invested £142 million

(2018: £152 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to progress our plans to expand Heathrow with investment of an additional £49 million in the period (2018: £25 million).

### BEAT THE PLAN

#### New domestic and intercontinental routes

In March, Flybe operated an inaugural flight to Newquay in Cornwall, Heathrow's 10<sup>th</sup> domestic route. The route links our airport to Cornwall for the first time since 1997. We also welcomed new services to Chengdu, which is our 12<sup>th</sup> direct connection to China.

#### Record passenger traffic

A record 17.9 million passengers travelled through Heathrow in the first three months of 2019, an increase of 1.4% on the same period last year (2018: 17.7 million). March 2019 was the 29<sup>th</sup> month of consecutive record passenger numbers. Aircraft continue to fly fuller with load factors increasing to 74.7% (2018: 74.1%). The average number of seats per passenger aircraft also increased to 214.3 (2018: 213.9) driven by aircraft upgrades on long haul routes.

Intercontinental routes continue to be the key geographic driver of growth, resulting in long haul traffic increasing by 2.1% on last year. North American traffic was a driver of this through increased flight frequency and aircraft size to a number of destinations such as Dallas, New York (JFK), Boston and Detroit, and a new route to Nashville. African traffic also grew strongly driven by increased flight frequency to Johannesburg and new routes to Marrakesh, Seychelles and Durban. Short haul traffic grew by 0.6% driven by larger aircraft.

Our cargo volumes declined slightly compared to the first quarter of 2018. Our cargo operation reached capacity in 2018 and we expect volumes to remain relatively flat until the capacity constraints are resolved by expanding Heathrow.

(Millions)	2018	2019	Var % <sup>(1)</sup>
UK	1.1	<b>1.0</b>	(5.4)
Europe	7.2	<b>7.3</b>	1.5
North America	3.6	<b>3.8</b>	5.4
Asia Pacific	2.8	<b>2.8</b>	0.7
Middle East	1.9	<b>1.8</b>	(5.4)
Africa	0.8	<b>0.9</b>	8.2
Latin America	0.3	<b>0.3</b>	5.0
Total passengers	17.7	<b>17.9</b>	1.4

(1) Calculated using unrounded passenger figures

<b>Other traffic performance indicators</b>	2018	2019	Var %
Passenger ATM	111,593	<b>112,016</b>	0.4
Load factors (%)	74.1	<b>74.7</b>	0.8
Seats per ATM	213.9	<b>214.3</b>	0.2
Cargo tonnage ('000)	417	<b>408</b>	(2.1)

## SUSTAINABLE GROWTH

### Heathrow 2.0

We launched our Carbon Neutral Growth Roadmap in November last year. It was subsequently announced that Heathrow achieved the Level 3 Carbon Trust Supply Chain Standard - one of only a handful of companies to be accredited and the first airport. The standard recognises Heathrow's work with its suppliers to target year-on-year reductions in supply chain carbon emissions.

Last year, we were pleased to report that our gender pay gap was below the national average and that of our peer group. This year, we're delighted to have made more progress on all measures, announcing that our gender pay gap reduced from 6.53 in 2017, to 0.56 in 2018. We aim to further increase the percentage of women in senior roles through our diversity programmes including our leadership training, Career Returners programme and use of Textio software to address bias in the recruitment process.

We launched Britain's first airport-owned Shared Apprenticeship Scheme in construction in January. This will help build a stronger base of UK skills and make best use of 10,000 quality apprenticeships by 2030. This scheme will allow apprentices working at Heathrow to establish a broad range of skills and experience by working with multiple companies based or operating at the airport to complete their apprenticeship. This followed an extensive two-year review by the Heathrow Skills Taskforce who identified and recommended the best way forward for the airport's future talent and skills strategy, while also taking into account the expansion ambitions and other major UK projects in the pipeline.

In March, we inaugurated a prize worth £30,000, to be awarded to a winning idea that will help the airport reduce its carbon emissions as it explores solutions that will address climate change. Heathrow's new "Innovation Prize" is part of the airport's "Centre of Excellence" - a hub of learning and exploration that will accelerate the arrival of sustainable air travel. Heathrow also announced the launch of its first research think tank comprised of Brunel University London, Cranfield University, the University of Essex and Royal Holloway, and University of London -

working together on exploring topics such as carbon and net zero air travel alongside other environmental challenges like noise, air quality and waste.

We also published the latest Heathrow "Fly Quiet and Green" league table, revealing the top 50 airlines at Heathrow's performance on seven noise and emission metrics. The results show that more Boeing 787 Dreamliners and Airbus A350s are being brought to the UK's only hub airport than ever before. These top environmental performers now make up over a tenth of aircraft operating at Heathrow as airlines respond to the significant reductions in landing fees available to the quietest aircraft.

In February, we were delighted to receive Edie's 2019 Sustainable Business of the Year Award in recognition of our progress. We will publish our next update on our sustainability progress in May 2019, sharing additional detail on how we're continuing to use our scale and influence to drive positive change.

### Key Expansion developments

We continue to make significant progress towards expanding the airport following the overwhelming vote in Parliament in favour of the Airports National Policy Statement ('NPS') in June 2018. We have completed our preferred masterplan which includes feedback from the successful initial public consultation at the start of 2018 and the consultation on airspace and future runway operations which took place in early 2019. The final statutory consultation on our preferred masterplan will launch in June 2019 and will include information on all aspects of expansion, including outlining our plans in detail as well as setting out the likely environmental effects of the proposals and the ways we intend to mitigate them.

The announcement of this consultation comes as the latest independent polling from Populus continued to show that more local people around Heathrow support than oppose Heathrow expansion - a result which has been consistent since polling started in 2015. After reviewing and assessing feedback from the statutory consultation in June, we will prepare our final masterplan and submit a development consent order application to the Planning Inspectorate in 2020, commencing a consent process which will take 18 months from submission to decision. If Heathrow is granted development consent, the first flights will begin using the new runway in 2026.

We continue to engage strongly with businesses across the UK. In the first quarter of 2019, we have hosted 2 of 11 Business Summits at various locations across the UK. These summits help to increase the number of SMEs in the



airport's multi-billion-pound supply chain. We have an 18-strong shortlist of potential Logistics Hubs sites which will be invited to formal tender this year. The final selected sites will be announced in early 2020 and will help deliver expansion efficiently and sustainably by pioneering large-scale offsite manufacturing. We have also announced an Innovation Partnership programme calling for third parties to bring forward innovative ideas to deliver the airport's expansion plans affordably and sustainably. After reviewing over 150 entries, we announced a shortlist of 37, including local authorities, retail giants and airline partners which are now working on business cases for final consideration.

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Our expansion programme will be entirely privately funded at no cost to the taxpayer. We are also committed to maintaining our existing strong investment grade credit ratings throughout expansion. We are confident that we can expand the airport whilst keeping average passenger charges close to 2016 levels in real terms – which represents significant value for money for consumers and meets the Government's affordability challenge. Our proposals to expand Heathrow will unlock billions of pounds in growth, create tens of thousands of new skilled jobs across the UK, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations.

In parallel with the ongoing development consent process outlined above, we will continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports NPS – the hearing for which has now been completed. We are confident that the Government's decision-making process in designating the NPS were robust.

#### **Expansion – H7 Regulatory developments**

The CAA's objective in developing the framework for the next regulatory period (known as H7) is to find a framework that facilitates affordable and financeable delivery of new capacity, driving competition and choice in the best interest of consumers. The CAA continues to progress its thinking on the H7 framework and launched a new consultation titled 'Economic regulation of capacity expansion at Heathrow: policy update and consultation' (CAP1782) at the end of March 2019. In this consultation, the CAA discusses:

- a) an integrated approach to assessing that the H7 price control is financeable by considering risk,

incentives and the required return to ensure a financeable outcome.

- b) the CAA continues to consider that there are merits to the case for a potential modification to Heathrow's licence by means of a new condition promoting economy and efficiency in the operation, and maintenance and development of the airport.
- c) the CAA provides a further update on its approach to issues raised by potential alternative arrangements for delivering new capacity at Heathrow airport. The CAA confirms that it does not anticipate any changes to Heathrow's regulatory framework.
- d) the CAA further investigates the potential introduction of new capital investment incentives and how these may affect the risk and reward balance.

The CAA plans to provide additional clarity on the regulatory framework in October 2019 when it publishes its next consultation papers.

#### **Expansion – iH7 Regulatory developments**

Delivering an affordable and financeable expanded Heathrow is critical for all stakeholders. We've worked closely with our airline partners as we refine our master plan to meet the government's challenge to deliver expansion with average charges close to 2016 levels in real terms. In addition to the work under way on the H7 framework, based on a Memorandum of Understanding agreed with major carriers, a Formal Agreement has been finalised between Heathrow and airlines on the aeronautical charges to be applied prior to the start of H7. The formal agreement has been signed by a number of key carriers from multiple alliances and groups representing a majority of Heathrow's passenger traffic.

Under the Formal Agreement, we will offer a rebate to all airlines depending on actual passenger traffic volumes. The rebate creates an incentive for airlines to make better use of our existing capacity by way of a volume discount while also providing protection in the event that passenger volumes were to fall below current levels prior to 2022. Subject to meeting passenger volume thresholds, up to the first £50 million of the rebate is recognised in 2019. Another benefit of the Formal Agreement is that it will enable all parties to concentrate on the longer term aim of securing a regulatory settlement for H7 which will support affordable and financeable expansion of Heathrow.

In its consultation "Economic regulation at Heathrow airport from January 2020: proposals for interim arrangements"

(CAP1769), the CAA states that it is minded to support the commercial deal signed between Heathrow and airlines, on the basis that the deal is in consumers' interest. It will make a formal decision in July and make necessary licence changes by the end of 2019.

### Brexit

We continue to monitor progress on the proposed Withdrawal Agreement following the recent extension of the UK's date to exit the European Union until the 31<sup>st</sup> of October 2019. The aviation industry remains well positioned for Brexit contingency plans despite the delay in passing the Withdrawal Agreement.

Brexit contingency regulations have been agreed by both the UK and the EU, which includes continued flight access between the UK and Europe.

Separately, the UK Government is working to implement replacement Air Service Agreements (ASAs) for the 17 countries which are currently covered as bilateral agreements via the UK's membership of the EU. The Government has already announced that a number of these ASAs, including the agreement with the U.S.A, Canada and Switzerland have been agreed.

The UK and EU have also agreed to recognise certain security and safety standards. The UK Government has confirmed that airport certifications will remain valid and unaffected by any changes to the safety regulatory regime post-Brexit. In addition, current cargo security standards are aligned and equivalent, and will not require new designations post-Brexit. The UK Government, Civil Aviation Authority and the EU have also committed to a minimum of a continuation of mutual recognition of EASA's safety system of licenses, certificates and approvals.

We have a unique position as we are the UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have maintained our responsible approach to both operational and financial planning for 2019. Extensive operational contingencies are in place which will help to minimise any potential impact on passengers. In addition, Heathrow has sufficient resources to cope with an unlikely no-deal Brexit and still meet its obligations, including progressing our expansion plans.

## 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 owns the Heathrow Express rail service. Heathrow SP's consolidated accounts are prepared under International Financial Reporting Standards ('IFRS').

### Adjusted EBITDA

For the 3 month period ended 31 March 2019, Adjusted EBITDA was £406 million (2018: £402 million) and EBITDA was £409 million (2018: £403 million).

### Revenue

In the 3 month period ended 31 March 2019, revenue declined 0.1% to £679 million (2018: £680 million).

3 months ended 31 March	2018 £m	2019 £m	Var. %
Aeronautical	401	<b>397</b>	(1.0)
Retail	156	<b>160</b>	2.6
Other	123	<b>122</b>	(0.8)
<b>Total revenue</b>	680	<b>679</b>	(0.1)

Aeronautical revenue has fallen by 1.0% compared to 2018. We now offer improved value for money for passengers as a result of the commercial airline deal. Whilst we continue to benefit from record traffic growth, this has been somewhat offset by recoverable yield dilution as airlines employ cleaner and quieter aircraft as incentivised by our tariff structure. Aeronautical revenue per passenger has declined by 2.4% to £22.13 (2018: £22.67).

3 months ended 31 March	2018 £m	2019 £m	Var. %
Retail concessions	71	<b>74</b>	4.2
Catering	14	<b>15</b>	7.1
Other retail	25	<b>27</b>	8.0
Car parking	31	<b>29</b>	(6.5)
Other services	15	<b>15</b>	0.0
<b>Total retail revenue</b>	156	<b>160</b>	2.6

Retail revenue growth, led by retail concessions, catering and other retail, reflected strong traffic performance and a higher percentage of participating passengers. Catering also benefited from an improved outlet offering whilst other retail saw a significant increase in advertising income from greater utilisation of media sites. Car parking declined due to a reduction in passengers travelling to domestic destinations. Retail revenue per passenger rose 1.1% to £8.92 (2018: £8.82).

3 months ended 31 March	2018 £m	2019 £m	Var. %
Other regulated charges	58	<b>55</b>	(5.2)
Heathrow Express	32	<b>31</b>	(3.1)
Property and other	33	<b>36</b>	9.1
<b>Total other revenue</b>	<b>123</b>	<b>122</b>	(0.8)

Other revenue remained consistent with the first quarter of 2018. Other regulated charges declined due to lower consumption of utilities and fewer bags being processed. Property and other increased due to new lounge offerings for our passengers.

#### Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation decreased 1.8% to £273 million (2018: £278 million). Operating costs per passenger excluding depreciation and amortisation decreased by 3.2% to £15.22 (2018: £15.72).

3 months ended 31 March	2018 £m	2019 £m	Var. %
Employment	90	<b>92</b>	2.2
Operational	67	<b>71</b>	6.0
Maintenance	45	<b>44</b>	(2.2)
Rates	31	<b>30</b>	(3.2)
Utilities and Other	45	<b>36</b>	(20.0)
<b>Operating costs before depreciation and amortisation</b>	<b>278</b>	<b>273</b>	(1.8)

Following the adoption of IFRS16, £13m of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS16 these costs would have been presented under operating costs, above EBITDA.

Operating costs excluding the application of IFRS 16 have increased, which was primarily driven by investment in safety, security, resilience and growth. We increased investment in our special assistance services, security costs to aid operational resilience while passenger numbers continue to increase and upgrading drone defence capabilities. Excluding the application of IFRS 16, operating costs have increased 2.9% to £286 million, and on a per passenger basis were up 1.5% to £15.95.

#### Operating profit

For the 3 months ended 31 March 2019, Heathrow SP recorded an operating profit before certain re-measurements of £211 million (2018: £220 million). Adjusted EBITDA increased 1.0% to £406 million (2018: £402 million), resulting in an Adjusted EBITDA margin of 59.8% (2018: 59.1%). Depreciation and amortisation increased to £195 million (2018: £182 million).

3 months ended 31 March	2018 £m	2019 £m	Var. %
<b>Operating profit</b>	<b>221</b>	<b>214</b>	(3.2)
Certain re-measurements	(1)	<b>(3)</b>	300.0
<b>Adjusted operating profit<sup>(1)</sup></b>	<b>220</b>	<b>211</b>	(4.1)
Depreciation and amortisation	182	<b>195</b>	7.1
<b>Adjusted EBITDA</b>	<b>402</b>	<b>406</b>	1.0

(1) Adjusted operating profit is operating profit before certain re-measurements, comprising fair value gain on investment properties

#### Taxation

The tax charge for the 3 month period ended 31 March 2019, before certain re-measurements, is charged at 29.8% (3 months ended 31 March 2018: 27.3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to pre-tax income of the 3 month period, before certain re-measurements. The effective tax rate being higher than the statutory rate of 19% (2018: 19%) reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge for the 3 month period ended 31 March 2019 is charged at 22.7% (3 months ended 31 March 2018: 18.3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the total pre-tax income of the 3 month period. For the period, the Group paid £20 million (2018: £14 million) in corporation tax.

#### Cash generated from operations

In the 3 month period ended 31 March 2019, net cash from operating activities increased 5.2% to £426 million (2018: £405 million).

#### Restricted payments

In the 3 months ended 31 March 2019, our ultimate shareholders received £100 million (2018: £114 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow SP in the period amounted to £423 million (net) or £773 million (gross). Other than the £100 million (2018: £113 million) payment made by Heathrow SP to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £53 million (2018: £46 million) of interest on the debenture between Heathrow SP and Heathrow Finance and net cash flow of £270 million from Heathrow SP to Heathrow Finance to repay the 2019 Heathrow Finance bond and loan interest.

#### RECENT FINANCING ACTIVITY

We have raised just over £1 billion of debt financing in the first quarter of 2019, underpinning our robust liquidity position and providing additional duration and

diversification to our £14 billion debt portfolio. Of the £1 billion of debt raised, around £800 million was in Class A format and £210 million of debt was raised at Heathrow Finance.

Class A financing activity included:

- a) a €650 million 15-year Class A bond maturing in 2034, demonstrating high investor confidence in our credit throughout expansion
- b) a €86 million Class A 20-year zero coupon bond
- c) a CHF210 million 7.5-year Class A bond maturing in 2026, (settled in April 2019) marking our 3<sup>rd</sup> Swiss franc issuance.

Finally, financing activity at Heathrow Finance included:

- a) £210 million in loan facilities which will be drawn later in 2019
- b) Early redemption of our 2019 Heathrow Finance bond on the 4th March 2019.

## FINANCING POSITION

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

At 31 March 2019, Heathrow SP's nominal net debt was £12,771 million (31 December 2018: £12,407 million). It comprised £12,131 million in bond issues, £1,125 million in other term debt and £364 million in index-linked derivative accretion. This was offset by £849 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,418 million in senior net debt and £1,353 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 March 2019 was 3.55 % (31 December 2018: 3.63%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 31 March 2019 was 4.96% (31 December 2018: 5.40%). The reduction in the average cost of debt since the end of 2018 is mainly due to:

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

The average life of Heathrow SP's gross debt as at 31 March 2019 was 11.9 years (31 December 2018: 12 years).

Nominal debt excludes any restricted cash and the debenture between Heathrow SP and Heathrow Finance. It includes all the components used in calculating gearing

ratios under Heathrow SP's financing agreements including index-linked accretion.

The accounting value of Heathrow SP's net debt was £12,595 million at 31 March 2019 (31 December 2018: £12,158 million). This includes £849 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until March 2021. This includes forecast capital investment (including projected expansion related investments), debt service costs, debt maturities and distributions. This liquidity position takes into account around £3.5 billion in undrawn loan facilities and term debt as well as cash resources at 31 March 2019 together with expected operating cash flow over the period.

### Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £14,125 million (31 December 2018: £13,980 million). This comprises the Heathrow SP's £12,771 million nominal net debt, Heathrow Finance's nominal gross debt of £1,390 million and cash and term deposits held at Heathrow Finance of £36 million.

### Financial ratios

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

At 31 March 2019, Heathrow's RAB was £16,149 million (31 December 2018: £16,200 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 70.7% and 79.1% respectively (31 December 2018: 68.2% and 76.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 87.5% (31 December 2018: 86.3%) with a covenant of 92.5%. The covenant at Heathrow Finance has recently changed from 90% to 92.5% due to the recent redemption of the 2019 notes.

## PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme), which closed to new members in June 2008. At 31 March 2019, the defined benefit pension scheme, as measured under IAS 19, was funded at 99.0% (31 December 2018: 100.7%). This translated into a deficit of £84 million (31 December 2018: £28 million surplus). The £100 million increase in deficit in the 3 months is primarily due to net actuarial losses of £116 million,



attributable to a decrease in the net discount rate of 0.45% over the 3 months. In 2018, Heathrow contributed £12 million (2018: £12 million) into the defined benefit pension scheme including £6 million (2018: £6 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

#### **ALTERNATIVE PERFORMANCE MEASURES (APM)**

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

#### **OUTLOOK**

The outlook for our Adjusted EBITDA underlying performance in 2019 remains consistent with the forecast

set out in the Investor Report published on 20 December 2018. We also forecast to maintain comfortable covenant headroom.

2019 will see significant progress on our expansion plans including the recent conclusion of our consultation on airspace changes, and the launch of the formal statutory consultation on our expansion masterplan in June.

#### **KEY MANAGEMENT CHANGES**

Fidel Lopez resigned as a Non-Executive Director of the Board on 30 January 2019 and was replaced by Maria Casero on the same date. Ruth Kelly was appointed as a Non-Executive Director of the Board on 8 April 2019.

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

This report was approved and authorised by the Board and was issued on behalf of the Board on **30** April 2019.



**Javier Echave**  
Director



**Nicholas Golding**  
Director

## Appendix 1 Financial information

### Heathrow (SP) Limited

#### Condensed consolidated income statement for the three month period ended 31 March 2019

	Note	Unaudited Three months ended 31 March 2019			Unaudited Three months ended 31 March 2018			Audited <sup>c</sup> Year ended 31 December 2018			Total
		Before certain re-measurements £m	Certain re-measurements <sup>a</sup> £m	Total £m	Before certain re-measurements £m	Certain re-measurements <sup>a</sup> £m	Total £m	Before certain re-measurements £	Certain re-measurements <sup>a</sup> £	Total	
<b>Continuing operations</b>											
Revenue	1	679	-	679	680	-	680	2,970	-	2,970	
Operating costs	2	(468)	-	(468)	(460)	-	(460)	(1,876)	-	(1,876)	
Other operating items											
Fair value gain on investment properties		-	3	3	-	1	1	-	117	117	
<b>Operating profit</b>		<b>211</b>	<b>3</b>	<b>214</b>	<b>220</b>	<b>1</b>	<b>221</b>	<b>1,094</b>	<b>117</b>	<b>1,211</b>	
<b>Financing</b>											
Finance income <sup>b</sup>		2	-	2	1	-	1	2	-	2	
Finance costs <sup>b</sup>		(156)	72	(84)	(188)	195	7	(829)	38	(791)	
<b>Net finance (cost)/income</b>	3	<b>(154)</b>	<b>72</b>	<b>(82)</b>	<b>(187)</b>	<b>195</b>	<b>8</b>	<b>(827)</b>	<b>38</b>	<b>(789)</b>	
<b>Profit before tax</b>		<b>57</b>	<b>75</b>	<b>132</b>	<b>33</b>	<b>196</b>	<b>229</b>	<b>267</b>	<b>155</b>	<b>422</b>	
<b>Taxation charge</b>	4	<b>(17)</b>	<b>(13)</b>	<b>(30)</b>	<b>(9)</b>	<b>(33)</b>	<b>(42)</b>	<b>(58)</b>	<b>(31)</b>	<b>(89)</b>	
<b>Profit for the period</b>		<b>40</b>	<b>62</b>	<b>102</b>	<b>24</b>	<b>163</b>	<b>187</b>	<b>209</b>	<b>124</b>	<b>333</b>	

<sup>a</sup> Certain re-measurements consist of: fair value gain on investment property revaluations and disposals; gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship and the associated tax impact of these and similar cumulative prior year items.

<sup>b</sup> March 2018 finance income and finance costs have been restated by (£45) million and £45 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

<sup>c</sup> This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

**Heathrow (SP) Limited**

**Condensed consolidated statement of comprehensive income  
for the three month period ended 31 March 2019**

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited <sup>c</sup> Year ended 31 December 2018 £m
Profit for the period	102	187	333
<b>Items that will not be subsequently reclassified to the consolidated income statement:</b>			
Actuarial (loss)/gain on pensions net of tax:			
Gain/(loss) on plan assets <sup>b</sup>	251	(24)	(192)
(Increase)decrease in scheme liabilities <sup>b</sup>	(347)	103	310
<b>Items that may be subsequently reclassified to the consolidated income statement:</b>			
<b>Cash flow hedges net of tax:</b>			
Losses taken to equity <sup>b</sup>	(5)	(163)	(162)
Transfer to finance costs <sup>b</sup>	15	172	198
Other comprehensive (loss)/income for the period net of tax	(86)	88	154
Total comprehensive income for the period <sup>a</sup>	16	275	487

<sup>a</sup> Attributable to owners of the parent.

<sup>b</sup> Items in the statement above are disclosed net of tax.

<sup>c</sup> This column is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

**Heathrow (SP) Limited**  
**Condensed consolidated statement of financial position**  
**as at 31 March 2019**

	<i>Note</i>	Unaudited as at 31 March 2019 £m	Unaudited as at 31 March 2018 £m	Audited <sup>a</sup> as at 31 December 2018 £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	11,407	11,317	11,405
Right of use asset		331	-	-
Investment properties	6	2,475	2,350	2,472
Intangible assets		186	178	173
Retirement benefit surplus	9	-	-	28
Derivative financial instruments	8	515	338	543
Trade and other receivables		20	19	20
		<b>14,934</b>	<b>14,202</b>	<b>14,641</b>
<b>Current assets</b>				
Inventories		13	11	13
Trade and other receivables		265	235	302
Term deposits		254	-	120
Cash and cash equivalents		595	146	591
		<b>1,127</b>	<b>392</b>	<b>1,026</b>
<b>Total assets</b>		<b>16,061</b>	<b>14,594</b>	<b>15,667</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings	7	(14,726)	(13,735)	(14,813)
Derivative financial instruments	8	(1,353)	(1,256)	(1,523)
Lease liabilities		(384)	-	-
Deferred income tax liabilities		(879)	(920)	(907)
Retirement benefit obligations	9	(116)	(61)	(32)
Provisions		(1)	(9)	(1)
Trade and other payables		(7)	(8)	(7)
		<b>(17,466)</b>	<b>(15,989)</b>	<b>(17,283)</b>
<b>Current liabilities</b>				
Borrowings	7	(815)	(615)	(496)
Derivative financial instruments	8	(38)	-	(39)
Lease liabilities		(54)	-	-
Provisions		(13)	(1)	(13)
Current income tax liabilities		(42)	(26)	(39)
Trade and other payables		(443)	(439)	(433)
		<b>(1,405)</b>	<b>(1,081)</b>	<b>(1,020)</b>
<b>Total liabilities</b>		<b>(18,871)</b>	<b>(17,070)</b>	<b>(18,303)</b>
<b>Net liabilities</b>		<b>(2,810)</b>	<b>(2,476)</b>	<b>(2,636)</b>
<b>Equity</b>				
<b>Capital and reserves</b>				
Share capital		11	11	11
Share premium		499	499	499
Merger reserve		(3,758)	(3,758)	(3,758)
Cash flow hedge reserve		(206)	(243)	(216)
Retained earnings		644	1,015	828
<b>Total shareholder's equity</b>		<b>(2,810)</b>	<b>(2,476)</b>	<b>(2,636)</b>

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



**Heathrow (SP) Limited**

**Condensed consolidated statement of changes in equity  
for the three month period ended 31 March 2019**

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
1 January 2018 (previously reported)	11	499	(3,758)	(252)	865	(2,635)
Adjustment in respect of:						
Transition to IFRS 15					(1)	(1)
Transition to IFRS 9					(2)	(2)
1 January 2018 (re-stated)	11	499	(3,758)	(252)	862	(2,638)
<b>Comprehensive income:</b>						
Profit for the period					333	333
<b>Other comprehensive income:</b>						
Fair value gain on cash flow hedges net of tax				36		36
Actuarial gain on pension net of tax:						
Loss on plan assets					(192)	(192)
Decrease in scheme liabilities					310	310
<b>Total comprehensive income</b>	-	-	-	36	451	487
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(485)	(485)
<b>Total transaction with owners</b>	-	-	-	-	(485)	(485)
31 December 2018 (Audited) <sup>a</sup>	11	499	(3,758)	(216)	828	(2,636)
<b>1 January 2019 (previously reported)</b>	<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(216)</b>	<b>828</b>	<b>(2,636)</b>
Adjustment in respect of:						
Transition to IFRS 16					(88)	(88)
<b>1 January 2019 (re-stated)</b>	<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(216)</b>	<b>740</b>	<b>(2,724)</b>
<b>Comprehensive income:</b>						
Profit for the period					102	102
<b>Other comprehensive income:</b>						
Fair value gain on cash flow hedges net of tax				10		10
Actuarial gain on pension net of tax:						
Gain on plan assets					251	251
Increase in scheme liabilities					(347)	(347)
<b>Total comprehensive income</b>	-	-	-	10	6	16
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(102)	(102)
<b>Total transaction with owners</b>	-	-	-	-	(102)	(102)
<b>31 March 2019 (Unaudited)</b>	<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(206)</b>	<b>644</b>	<b>(2,810)</b>

<sup>a</sup> This is labelled audited as the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2018.

**Heathrow (SP) Limited**

**Condensed consolidated statement of changes in equity  
for the three month period ended 31 March 2019**

	Attributable to owners of the Company (Unaudited)					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
<b>1 January 2018 (previously reported)</b>	11	499	(3,758)	(252)	865	(2,635)
<b>Adjustment in respect of:</b>						
Transition to IFRS 15	-	-	-	-	(1)	(1)
Transition to IFRS 9	-	-	-	-	(2)	(2)
<b>1 January 2018 (re-stated)</b>	11	499	(3,758)	(252)	862	(2,638)
<b>Comprehensive income:</b>						
Profit for the period	-	-	-	-	187	187
<b>Other comprehensive income:</b>						
Fair value gain on cash flow hedges net of tax	-	-	-	9	-	9
Actuarial gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(24)	(24)
Decrease in scheme liabilities	-	-	-	-	103	103
<b>Total comprehensive income</b>	-	-	-	9	266	275
<b>Transaction with owners:</b>						
Dividends paid to Heathrow Finance plc	-	-	-	-	(113)	(113)
<b>Total transaction with owners</b>	-	-	-	-	(113)	(113)
<b>31 March 2018</b>	11	499	(3,758)	(243)	1,015	(2,476)

**Heathrow (SP) Limited**

**Condensed consolidated statement of cash flows  
for the three month period ended 31 March 2019**

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited <sup>3</sup> Year ended 31 December 2018 £m
<i>Note</i>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	426	405	1,787
Taxation:			
Corporation tax paid	(20)	(14)	(70)
Group relief paid	-	-	(6)
<b>Net cash from operating activities</b>	<b>406</b>	<b>391</b>	<b>1,711</b>
<b>Cash flows from investing activities</b>			
Purchase of:			
Property, plant and equipment	(161)	(149)	(769)
Investment properties	-	-	(4)
Intangible assets	-	(3)	(20)
(Increase)/decrease in term deposits <sup>1</sup>	(135)	12	(108)
Interest received	2	1	2
<b>Net cash used in investing activities</b>	<b>(294)</b>	<b>(139)</b>	<b>(899)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to Heathrow Finance plc	(102)	(113)	(485)
Increase in amount owed to Heathrow Finance plc	(268)	75	363
Proceeds from issuance of bonds	625	226	771
Repayment of bonds	-	(510)	(910)
Proceeds from issuance of other term debt	-	-	245
Repayment of facilities and other financing items	(20)	(8)	(32)
Settlement of accretion on index-linked swaps	(134)	(98)	(110)
Payment of lease liabilities <sup>2</sup>	(13)	-	-
Interest paid	(196)	(191)	(576)
<b>Net cash used in financing activities</b>	<b>(108)</b>	<b>(619)</b>	<b>(734)</b>
<b>Net increase in cash and cash equivalents</b>	<b>4</b>	<b>(367)</b>	<b>78</b>
Cash and cash equivalents at beginning of period	591	513	513
<b>Cash and cash equivalents at end of period</b>	<b>595</b>	<b>146</b>	<b>591</b>

<sup>1</sup> Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.

<sup>2</sup> On application of IFRS 16 from 1 January 2019, the cash flow includes both the payment of principal (£8m) and interest (£5m) on lease liabilities. Finance cost on lease liabilities and depreciation of the right-of-use asset is added back in calculating net cash from operating activities. The lease payment for the three month period ended 31 March 2019 is included separately as part of financing activities. In the prior period, the lease payment is included under cash flow from operating activities. Further details on the impact of IFRS 16 is included in Notes to the condensed consolidated financial statements.

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

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

### General information

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

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

The financial information covers the three month period ended 31 March 2019 and has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union (EU). This condensed set of financial statements comprises the unaudited financial information for the three months ended 31 March 2019 and 2018, together with the unaudited consolidated statement of financial position as at 31 March 2019 and 2018.

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

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

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

### Primary financial statements format

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

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

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

### Significant accounting judgements and estimates

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

### Critical Judgements

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

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

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



## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements

#### Key sources of estimation uncertainty

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

#### Going concern

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

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

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

##### IFRS 16

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

##### **General impact of application of IFRS 16**

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

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

##### **Impact of the new definition of a lease**

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

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

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

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

##### **Impact on Lessee Accounting**

###### *Operating leases*

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

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

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

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

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

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

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

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

**Transition to IFRS 16**

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

Reference	1 January 2019 £m	IFRS 16 adjustment £m	1 January 2019 under IFRS 16 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11,405	-	11,405
Right of use asset (i)	-	340	340
Investment properties	2,472	-	2,472
Intangible assets	173	-	173
Retirement benefit surplus	28	-	28
Derivative financial instruments	543	-	543
Trade and other receivables	20	-	20
	<b>14,641</b>	<b>340</b>	<b>14,981</b>
<b>Current assets</b>			
Inventories	13	-	13
Trade and other receivables	302	-	302
Term deposits	120	-	120
Cash and cash equivalents	591	-	591
	<b>1,026</b>	<b>-</b>	<b>1,026</b>
<b>Total assets</b>	<b>15,667</b>	<b>340</b>	<b>16,007</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	(14,813)	-	(14,813)
Derivative financial instruments	(1,523)	-	(1,523)
Lease liabilities (i)	-	(392)	(392)
Deferred income tax liabilities	(907)	18	(889)
Retirement benefit obligations	(32)	-	(32)
Provisions	(1)	-	(1)
Trade and other payables	(7)	-	(7)
	<b>(17,283)</b>	<b>(374)</b>	<b>(17,657)</b>
<b>Current liabilities</b>			
Borrowings	(496)	-	(496)
Derivative financial instruments	(39)	-	(39)
Lease liabilities (i)	-	(54)	(54)
Provisions	(13)	-	(13)
Current income tax liabilities	(39)	-	(39)
Trade and other payables	(433)	-	(433)
	<b>(1,020)</b>	<b>(54)</b>	<b>(1,074)</b>
<b>Total liabilities</b>	<b>(18,303)</b>	<b>(428)</b>	<b>(18,731)</b>
<b>Net liabilities</b>	<b>(2,636)</b>	<b>(88)</b>	<b>(2,724)</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	11	-	11
Share premium	499	-	499
Merger reserve	(3,758)	-	(3,758)
Cash flow hedge reserve	(216)	-	(216)
Retained earnings (i)	828	(88)	740
<b>Total shareholder's equity</b>	<b>(2,636)</b>	<b>(88)</b>	<b>(2,724)</b>

(i) As of 31 December 2018, the Group had non-cancellable operating lease commitments of £767 million. On application of IFRS 16 as at 1 January 2019, the Group has recognised a right-of-use asset of £340 million, a corresponding lease liability of £446 million and deferred tax assets of £18 million in respect of all these leases with a resulting net adjustment of £88 million in the retained earnings.

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

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

During the three month period ended 31 March 2019, the impact on the Group's income statement is a decrease in operating expense of £13 million, an increase in depreciation by £9 million and an increase in interest expense of £5 million, resulting in a decrease of profit before tax of £1 million as a result of adopting the new rules under IFRS 16.

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

#### 1 Segment information

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

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis, before certain re-measurements and exceptional items. The reportable segments derive their revenues from a number of sources including aeronautical, retail, other regulated charges and other products and services (including rail income), and this information is also provided to the Board on a monthly basis.

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

Table (a)	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
<b>Segment Revenue</b>			
<b>Under IFRS 15</b>			
Aeronautical			
Landing charges	131	116	482
Parking charges	18	17	67
Departing charges	248	268	1,196
Total Aeronautical revenue	397	401	1,745
Other regulated charges	55	58	243
Retail revenue	25	27	147
Property revenue	35	33	129
Rail Income			
Heathrow Express	31	32	123
Other	1	-	14
<i>Revenue reported under IFRS 15</i>	<b>544</b>	<b>551</b>	<b>2,401</b>
Revenue recognised at a point in time	515	520	2,275
Revenue recognised over time	29	31	126
<b>Total revenue reported under IFRS 15</b>	<b>544</b>	<b>551</b>	<b>2,401</b>
<b>Under IFRS 16 / IAS 17</b>			
Retail (lease-related income)	135	129	569
<b>Total revenue</b>	<b>679</b>	<b>680</b>	<b>2,970</b>
Heathrow	652	650	2,847
Heathrow Express	27	30	123
<b>Adjusted EBITDA</b>			
Heathrow	392	387	1,772
Heathrow Express	14	15	65
Total adjusted EBITDA	406	402	1,837
<b>Reconciliation to statutory information:</b>			
Depreciation and amortisation	(195)	(182)	(743)
<b>Operating profit (before certain re-measurements)</b>	<b>211</b>	<b>220</b>	<b>1,094</b>
Fair value gain on investment properties (certain re-measurements)	3	1	117
<b>Operating profit</b>	<b>214</b>	<b>221</b>	<b>1,211</b>
Finance income <sup>1</sup>	2	1	2
Finance costs <sup>1</sup>	(84)	7	(791)
<b>Profit before tax</b>	<b>132</b>	<b>229</b>	<b>422</b>
<b>Taxation charge</b>	<b>(30)</b>	<b>(42)</b>	<b>(89)</b>
<b>Profit for the period</b>	<b>102</b>	<b>187</b>	<b>333</b>

<sup>1</sup> March 2018 finance income and finance costs have been restated by (£45) million and £45 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.



**Heathrow (SP) Limited**

**Notes to the condensed consolidated financial statements  
for the three month period ended 31 March 2019**

Table (b)	Unaudited Three months ended 31 March 2019		Unaudited Three months ended 31 March 2018		Audited Year ended 31 December 2018	
	Depreciation & amortisation <sup>1</sup>	Fair value gain <sup>2</sup>	Depreciation & amortisation <sup>1</sup>	Fair value gain <sup>2</sup>	Depreciation & amortisation <sup>1</sup>	Fair value gain <sup>2</sup>
	£m	£m	£m	£m	£m	£m
Heathrow	(182)	3	(163)	1	(672)	117
Heathrow Express	(13)	-	(19)	-	(71)	-
<b>Total</b>	<b>(195)</b>	<b>3</b>	<b>(182)</b>	<b>1</b>	<b>(743)</b>	<b>117</b>

<sup>(1)</sup> Includes intangible amortisation charge of £8 million (December 2018: £27 million; March 2018: £8 million).

<sup>(2)</sup> Reflects fair value gain on investment properties only.

Table (c)	Unaudited Three months ended 31 March 2019		Unaudited Three months ended 31 March 2018		Audited Year ended 31 December 2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Heathrow	13,922	(890)	13,272	(451)	13,711	(440)
Heathrow Express	772	(12)	834	(6)	670	(14)
<b>Total operations</b>	<b>14,694</b>	<b>(902)</b>	<b>14,106</b>	<b>(457)</b>	<b>14,381</b>	<b>(454)</b>
Unallocated assets and liabilities:						
Cash, term deposits and external borrowings	849	(13,610)	146	(12,438)	711	(13,082)
Retirement benefit obligations	-	(116)	-	(61)	28	(32)
Derivative financial instruments	515	(1,391)	338	(1,256)	543	(1,562)
Deferred and current tax liabilities	-	(921)	-	(946)	-	(946)
Amounts owed from/(to) group undertakings	3	(1,931)	4	(1,912)	4	(2,227)
<b>Total</b>	<b>16,061</b>	<b>(18,871)</b>	<b>14,594</b>	<b>(17,070)</b>	<b>15,667</b>	<b>(18,303)</b>

**Heathrow (SP) Limited**

**Notes to the condensed consolidated financial statements  
for the three month period ended 31 March 2019**

**2 Operating costs**

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
Employment	92	90	378
Operational	71	67	264
Maintenance	44	45	176
Rates	30	31	122
Utilities	10	23	90
Other	26	22	103
Total operating costs before depreciation and amortisation	273	278	1,133
<b>Depreciation and amortisation</b>			
Property, plant and equipment	178	174	716
Intangible assets	8	8	27
Right of Use (ROU) assets	9	-	-
<b>Total operating costs</b>	<b>468</b>	<b>460</b>	<b>1,876</b>

**3 Financing**

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
<b>Finance income</b>			
Interest on deposits	2	1	2
Total finance income <sup>4</sup>	2	1	2
<b>Finance costs</b>			
Interest on borrowings:			
Bonds and related hedging instruments <sup>1</sup>	(121)	(111)	(541)
Bank loans and overdrafts and related hedging instruments	(14)	(32)	(58)
Net interest income/(expense) on derivatives not in hedge relationship <sup>2</sup>	1	(26)	(160)
Facility fees and other charges	(2)	(2)	(7)
Net pension finance costs	-	(1)	(4)
Interest on debenture payable to Heathrow Finance plc	(25)	(28)	(109)
Finance costs on lease liabilities	(5)	-	-
	(166)	(200)	(879)
Less: capitalised borrowing costs <sup>3</sup>	10	12	50
Total finance costs <sup>4</sup>	(156)	(188)	(829)
<b>Net finance costs before certain re-measurements<sup>4</sup></b>	<b>(154)</b>	<b>(187)</b>	<b>(827)</b>
<b>Fair value gain on financial instruments</b>			
Interest rate swaps: not in hedge relationship	(21)	53	83
Index-linked swaps: not in hedge relationship	99	133	(90)
Cross-currency swaps: ineffective portion of cash flow hedges	9	6	21
Cross-currency swaps: ineffective portion of fair value hedges	(15)	3	24
	72	195	38
<b>Net finance (costs)/income</b>	<b>(82)</b>	<b>8</b>	<b>(789)</b>

<sup>1</sup> Includes accretion of £1 million (March 2018: £6 million, Dec 2018: £47 million) on index-linked bonds.

<sup>2</sup> Includes accretion of £8 million (March 2018: £41 million, December 2018: £207 million) on index-linked swaps.

<sup>3</sup> Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.20 % (March 2018: 5.68%, December 2018: 5.65%) to expenditure incurred on such assets.

<sup>4</sup> March 2018 finance income and finance costs have been restated by (£45) million and £45 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

#### 4 Income tax expense

	Unaudited Three months ended 31 March 2019			Unaudited Three months ended 31 March 2018			Audited Year ended 31 December 2018		
	Before certain re-measurements £m	Certain re-measurements £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
<b>UK corporation tax</b>									
Current tax charge at 19% (2018: 19%)	(23)	-	(23)	(10)	-	(10)	(87)	(3)	(90)
Over provision in respect of prior years	-	-	-	-	-	-	5	-	5
Deferred tax:									
Current year (charge)/credit	6	(13)	(7)	1	(33)	(32)	13	(21)	(8)
Prior year credit/(charge) <sup>1</sup>	-	-	-	-	-	-	11	(7)	4
<b>Total income tax expense for the period</b>	<b>(17)</b>	<b>(13)</b>	<b>(30)</b>	<b>(9)</b>	<b>(33)</b>	<b>(42)</b>	<b>(58)</b>	<b>(31)</b>	<b>(89)</b>

<sup>1</sup> 2018 includes a £7 million debit adjustment in relation to revaluations of property, plant and equipment and an £11 million credit adjustment for accelerated capital allowances.

The total tax charge for the 3 month period ended 31 March 2019 is charged at 22.7% (3 months ended 31 March 2018: 18.3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the total pre-tax income of the 3 month period.

The tax charge for the 3 month period ended 31 March 2019, before certain re-measurements, is charged at 29.8% (3 months ended 31 March 2018: 27.3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax income of the 3 month period, before certain re-measurements. The tax charge for 2019 is more (2018: more) than implied by the statutory rate of 19% (2018: 19%) primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.

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

**Heathrow (SP) Limited**

**Notes to the condensed consolidated financial statements  
for the three month period ended 31 March 2019**

**5 Property, plant and equipment**

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
<b>Cost</b>							
<b>1 January 2018</b>	<b>11,277</b>	<b>2,066</b>	<b>891</b>	<b>205</b>	<b>1,406</b>	<b>893</b>	<b>16,738</b>
Additions	-	-	-	-	-	769	769
Borrowing costs capitalised	-	-	-	-	-	50	50
Disposals	(3)	-	(10)	-	(15)	-	(28)
Reclassification	78	-	(78)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(5)	(5)
Transfer to completed assets	298	(112)	338	25	44	(593)	-
<b>31 December 2018 (Audited)</b>	<b>11,650</b>	<b>1,954</b>	<b>1,141</b>	<b>230</b>	<b>1,435</b>	<b>1,114</b>	<b>17,524</b>
Additions	-	-	-	-	-	191	191
Borrowing costs capitalised	-	-	-	-	-	10	10
Disposals	(1)	-	(1)	-	-	-	(2)
Reclassification	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(21)	(21)
Transfer to completed assets	75	110	18	11	26	(240)	-
<b>31 March 2019 (Unaudited)</b>	<b>11,724</b>	<b>2,064</b>	<b>1,158</b>	<b>241</b>	<b>1,461</b>	<b>1,054</b>	<b>17,702</b>
<b>Depreciation</b>							
<b>1 January 2018</b>	<b>(3,910)</b>	<b>(463)</b>	<b>(433)</b>	<b>(68)</b>	<b>(557)</b>	-	<b>(5,431)</b>
Depreciation charge	(487)	(45)	(103)	(10)	(71)	-	(716)
Disposals	3	-	10	-	15	-	28
<b>31 December 2018 (Audited)</b>	<b>(4,394)</b>	<b>(508)</b>	<b>(526)</b>	<b>(78)</b>	<b>(613)</b>	-	<b>(6,119)</b>
Depreciation charge	(121)	(16)	(24)	(3)	(14)	-	(178)
Disposals	1	-	1	-	-	-	2
<b>31 March 2019 (Unaudited)</b>	<b>(4,514)</b>	<b>(524)</b>	<b>(549)</b>	<b>(81)</b>	<b>(627)</b>	-	<b>6,295</b>
<b>Net book value</b>							
<b>31 March 2019 (Unaudited)</b>	<b>7,210</b>	<b>1,540</b>	<b>609</b>	<b>160</b>	<b>834</b>	<b>1,054</b>	<b>11,407</b>
31 December 2018 (Audited)	7,256	1,446	615	152	822	1,114	11,405

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
<b>Cost</b>							
<b>1 January 2018</b>	<b>11,277</b>	<b>2,066</b>	<b>891</b>	<b>205</b>	<b>1,406</b>	<b>893</b>	<b>16,738</b>
Additions	-	-	-	-	-	179	179
Borrowing costs capitalised	-	-	-	-	-	12	12
Disposals	(1)	-	(1)	-	-	-	(2)
Reclassification	78	-	(78)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(8)	(8)
Transfer to completed assets	(6)	(13)	5	2	-	12	-
<b>31 March 2018 (Unaudited)</b>	<b>11,348</b>	<b>2,053</b>	<b>817</b>	<b>207</b>	<b>1,406</b>	<b>1,088</b>	<b>16,919</b>
<b>Depreciation</b>							
<b>1 January 2018</b>	<b>(3,910)</b>	<b>(463)</b>	<b>(433)</b>	<b>(68)</b>	<b>(557)</b>	-	<b>(5,431)</b>
Depreciation charge	(124)	(12)	(16)	(2)	(19)	-	(173)
Disposals	1	-	1	-	-	-	2
<b>31 March 2018 (Unaudited)</b>	<b>(4,033)</b>	<b>(475)</b>	<b>(448)</b>	<b>(70)</b>	<b>(576)</b>	-	<b>(5,602)</b>
<b>Net book value</b>							
<b>31 March 2018 (Unaudited)</b>	<b>7,315</b>	<b>1,578</b>	<b>369</b>	<b>137</b>	<b>830</b>	<b>1,088</b>	<b>11,317</b>

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

#### 6 Investment properties

	Airport investment properties £m
<b>Valuation</b>	
1 January 2018	2,350
Additions	4
Transfers from property, plant and equipment	1
Revaluation	117
<b>31 December 2018 (Audited)</b>	<b>2,472</b>
Revaluation	3
<b>31 March 2019 (Unaudited)</b>	<b>2,475</b>

	Airport investment properties £m
<b>Valuation</b>	
1 January 2018	2,350
Additions	1
Transfers to completed assets	(1)
<b>31 March 2018 (Unaudited)</b>	<b>2,350</b>

Investment properties were valued at fair value at 31 March 2019 by CBRE Limited, Chartered Surveyors (March 2018 and December 2018: CBRE Limited, Chartered Surveyors).

#### 7 Borrowings

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
<b>Current borrowings</b>			
<b>Secured</b>			
<b>Heathrow Airport Limited debt:</b>			
Loans	12	33	17
Heathrow Funding Limited bonds:			
6.250% £400 million due 2018	-	399	-
4.000% C\$400 million due 2019	230	-	230
6.000% £400 million due 2020	399	-	-
<b>Total current (excluding interest payable)</b>	<b>641</b>	<b>432</b>	<b>247</b>
<b>Interest payable – external</b>	<b>166</b>	<b>174</b>	<b>213</b>
<b>Interest payable – owed to group undertakings</b>	<b>8</b>	<b>9</b>	<b>36</b>
<b>Total current</b>	<b>815</b>	<b>615</b>	<b>496</b>
<b>Non-current borrowings</b>			
<b>Secured</b>			
Heathrow Funding Limited bonds:			
4.000% C\$400 million due 2019	-	221	-
6.000% £400 million due 2020	-	398	399
9.200% £250 million due 2021	259	264	260
3.000% C\$450 million due 2021	258	244	256
4.875% US\$1,000 million due 2021	772	710	783
1.650%+RPI £180 million due 2022	213	208	213
1.875% €600 million due 2022	529	537	549
5.225% £750 million due 2023	694	682	691
7.125% £600 million due 2024	593	592	593
0.500% CHF400 million due 2024	302	285	310
3.250% C\$500 million due 2025	287	267	281

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	693	693	693
2.650% NOK1,000 million due 2027	89	88	90
3.400% C\$400 million bond due 2028	233	224	232
7.075% £200 million due 2028	198	198	198
4.150% A\$175 million due 2028	102	-	99
2.500% NOK1,000 million due 2029	79	79	79
3.782% C\$400 million bond due 2030	228	-	229
1.500% €750 million due 2030	631	608	629
6.450% £900 million due 2031	853	851	853
Zero-coupon €50 million due January 2032	58	56	59
1.366%+RPI £75 million due 2032	84	82	85
Zero-coupon €50 million due April 2032	56	55	58
1.875% €500 million due 2032	429	437	447
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	50	49	50
1.8750% €650 million due 2034	558	-	-
1.061%+RPI £180 million due 2036	197	192	197
1.382%+RPI £50 million due 2039	56	55	56
3.334%+RPI £460 million due 2039	625	610	626
Zero-coupon €86 million due 2039	75	-	-
1.238%+RPI £100 million due 2040	110	108	111
5.875% £750 million due 2041	738	738	738
2.926% £55million due 2043	55	-	55
4.625% £750 million due 2046	741	742	742
1.372%+RPI £75 million due 2049	84	82	85
2.750% £400 million due 2049	392	393	392
0.147%+RPI £160 million due 2058	164	-	164
<b>Total bonds</b>	<b>11,690</b>	<b>10,953</b>	<b>11,507</b>
Heathrow Airport Limited debt:			
Class A1 term loan due 2020	418	-	418
Class A2 term loan due 2024	100	-	100
Term note due 2026-2037	585	439	585
Loans	10	440	12
<b>Unsecured</b>			
Debenture payable to Heathrow Finance plc	1,923	1,903	2,191
<b>Total non-current</b>	<b>14,726</b>	<b>13,735</b>	<b>14,813</b>
<b>Total borrowings (excluding interest payable)</b>	<b>15,367</b>	<b>14,167</b>	<b>15,060</b>

#### Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was GBP 643 million, EUR 2,000 million, USD 1,000 million, CAD 1,070 million, CHF 400 million, AUD 175 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited Three months ended 31 March 2019		Unaudited Three months ended 31 March 2018		Audited Year ended 31 December 2018	
	Nominal	Fair value adjustment <sup>1</sup>	Nominal	Fair value adjustment <sup>1</sup>	Nominal	Fair value adjustment <sup>1</sup>
	£m	£m	£m	£m	£m	£m
Sterling debt	643	(6)	918	(8)	200	(2)
Euro denominated debt	1,615	(12)	1,056	31	1,498	26
USD denominated debt	621	(4)	621	1	621	-
CAD denominated debt	583	(1)	512	9	1,227	3
Other currencies debt	549	9	453	28	549	17
<b>Designated in fair value hedge</b>	<b>4,011</b>	<b>(14)</b>	<b>3,560</b>	<b>61</b>	<b>4,095</b>	<b>44</b>

<sup>(1)</sup> Fair value adjustment is comprised of fair value gain of £28 million (March 2018: £129 million; December 2018: £89 million) on continuing hedges and £42 million loss (March 2018: £68 million; December 2018: £45 million) loss on discontinued hedges



**Heathrow (SP) Limited**

**Notes to the condensed consolidated financial statements  
for the three month period ended 31 March 2019**

**8 Derivative financial instruments**

<b>Unaudited 31 March 2019</b>	<b>Notional £m</b>	<b>Assets £m</b>	<b>Liabilities £m</b>	<b>Total £m</b>
<b>Current</b>				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	204	-	(2)	(2)
Cross-currency swaps	250	-	(19)	(19)
Index-linked swaps	124	-	(17)	(17)
	<b>578</b>	<b>-</b>	<b>(38)</b>	<b>(38)</b>
<b>Non-current</b>				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	2,309	-	(403)	(403)
Cross-currency swaps	4,473	507	(12)	495
Index-linked swaps	6,395	8	(938)	(930)
	<b>13,177</b>	<b>515</b>	<b>(1,353)</b>	<b>(838)</b>
<b>Total</b>	<b>13,755</b>	<b>515</b>	<b>(1,391)</b>	<b>(876)</b>
<b>Unaudited 31 March 2018</b>	<b>Notional £m</b>	<b>Assets £m</b>	<b>Liabilities £m</b>	<b>Total £m</b>
<b>Current</b>				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	-	-	-	-
Cross-currency swaps	-	-	-	-
Index-linked swaps	-	-	-	-
	-	-	-	-
<b>Non-current</b>				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	2,913	-	(413)	(413)
Cross-currency swaps	3,601	299	(50)	249
Index-linked swaps	5,419	39	(793)	(754)
	<b>11,933</b>	<b>338</b>	<b>(1,256)</b>	<b>(918)</b>
<b>Total</b>	<b>11,933</b>	<b>338</b>	<b>(1,256)</b>	<b>(918)</b>
<b>Audited 31 December 2018</b>	<b>Notional £m</b>	<b>Assets £m</b>	<b>Liabilities £m</b>	<b>Total £m</b>
<b>Current</b>				
Foreign exchange contracts	11	-	-	-
Interest rate swaps	204	-	(5)	(5)
Cross-currency swaps	250	-	(19)	(19)
Index-linked swaps	124	-	(15)	(15)
	<b>589</b>	<b>-</b>	<b>(39)</b>	<b>(39)</b>
<b>Non-current</b>				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	2,309	-	(377)	(377)
Cross-currency swaps	3,685	502	(6)	496
Index-linked swaps	6,395	41	(1,140)	(1,099)
	<b>12,389</b>	<b>543</b>	<b>(1,523)</b>	<b>(980)</b>
<b>Total</b>	<b>12,978</b>	<b>543</b>	<b>(1,562)</b>	<b>(1,019)</b>

**Interest rate swaps**

Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The losses deferred of £33 million expected to be released in less than one year, £22 million between one and two years, £62 million between two and five years and £131 million over five years. Of the total amount deferred in other comprehensive income £230 million related to discontinued cash flow hedges.

**Cross-currency swaps**

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

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

#### **Index-linked swaps**

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

#### **Foreign exchange contracts**

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

## 9 Retirement benefit obligations

#### **Amounts arising from pensions related liabilities in the Group's financial statements**

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

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

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
Employment costs:			
Defined contribution schemes	3	3	13
BAA Pension Scheme	8	8	34
	<b>11</b>	<b>11</b>	<b>47</b>
Finance charge - BAA Pension Scheme	-	-	3
Finance charge - Other pension and post retirement liabilities	-	-	1
<b>Total pension costs</b>	<b>11</b>	<b>11</b>	<b>51</b>

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

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018	Audited Year ended 31 December 2018 £m
BAA Pension Scheme (loss)/gain	(116)	95	141
Unfunded schemes	-	-	3
Actuarial (loss)/gain recognised before tax	(116)	95	144
Tax credit/(charge) on actuarial (loss)/gain	20	(16)	(26)
<b>Actuarial (loss)/gain recognised after tax</b>	<b>(96)</b>	<b>79</b>	<b>118</b>

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

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
Fair value of plan assets	4,176	4,060	3,869
Benefit obligation	(4,260)	(4,086)	(3,841)
(Deficit)/surplus in BAA Pension Scheme	(84)	(26)	28
Unfunded pension obligations	(28)	(30)	(28)
Post-retirement medical benefits	(4)	(5)	(4)
Deficit in other pension related liabilities	(32)	(35)	(32)
<b>Net deficit in pension schemes</b>	<b>(116)</b>	<b>(61)</b>	<b>(4)</b>
<b>Group share of net deficit in pension schemes</b>	<b>(116)</b>	<b>(61)</b>	<b>(4)</b>

## Heathrow (SP) Limited

### Notes to the condensed consolidated financial statements for the three month period ended 31 March 2019

#### (a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 March 2019 is based on the full actuarial valuation carried out at 30 September 2015. This has been updated at 31 March 2019 by KPMG LLP to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 March 2019. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

#### Analysis of financial assumptions

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

	Unaudited Three months ended 31 March 2019	Unaudited Three months ended 31 March 2018	Audited Year ended 31 December 2018
	%	%	%
Rate of increase in pensionable salaries	1.90	3.35	1.90
Increase to deferred benefits during deferment	2.70	2.60	2.65
Increase to pensions in payment:			
Open section	3.35	3.25	3.30
Closed section	3.45	3.35	3.40
Discount rate	2.55	2.65	3.00
Inflation assumption	3.45	3.35	3.40

#### 10 Cash generated from operations

	Unaudited Three months ended 31 March 2019	Unaudited Three months ended 31 March 2018	Audited Year ended 31 December 2018
	£m	£m	£m
<b>Operating activities</b>			
Profit before tax	132	229	422
<i>Adjustments for:</i>			
Net finance costs/(income)	82	(8)	789
Depreciation and amortisation	178	174	716
Amortisation on intangibles	8	8	27
Amortisation on right of use assets	9	-	-
Fair value gain on investment properties	(3)	(1)	(117)
<i>Working capital changes:</i>			
Decrease/(increase) in inventories and trade and other receivables	39	22	(46)
(Decrease)/increase in trade and other payables	(14)	(10)	11
Decrease in provisions	-	(4)	-
Difference between pension charge and cash contributions	(5)	(5)	(15)
<b>Cash generated from operations</b>	<b>426</b>	<b>405</b>	<b>1,787</b>

**Heathrow (SP) Limited**

**Notes to the condensed consolidated financial statements  
for the three month period ended 31 March 2019**

**11 Commitments and contingent liabilities**

*Group commitments for property, plant and equipment*

	Unaudited Three months ended 31 March 2019 £m	Unaudited Three months ended 31 March 2018 £m	Audited Year ended 31 December 2018 £m
<b>Contracted for, but not accrued:</b>			
Baggage systems	68	148	77
Terminal restoration and modernisation	167	218	174
Capacity optimisation	-	15	20
IT projects	15	24	20
Other projects	83	32	35
	<b>333</b>	<b>437</b>	<b>326</b>

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

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

## **INDEPENDENT REVIEW REPORT TO HEATHROW (SP) LIMITED**

We have been engaged by the Company to review the condensed set of financial statements in the quarterly financial report for the three months ended 31 March 2019 and the three months ended 31 March 2018, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows and related notes 1 to 11. We have read the other information contained in the quarterly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### **Directors' responsibilities**

The quarterly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the quarterly financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting".

As disclosed on page 38 of the 2018 annual accounts, the financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this quarterly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

### **Our responsibility**


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

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the quarterly financial report for the three months ended 31 March 2019 and the three months ended 31 March 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.



**Deloitte LLP**  
Statutory Auditor  
London, UK  
30 April 2019

## Glossary

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

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

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

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

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

**Lost Time Injury** - Lost time injuries are injuries sustained by colleagues whilst conducting work related duties, resulting in absence from work for at least a day. The measure is calculated as a moving annual frequency rate of the number of incidents in the last 12 months per 100,000 working hours. The 2019 Qtr1 figure of 0.34 equates to 50 incidents in the 12 month period ending in March 2019, compared to 66 incidents (0.49) in the 12 month period ending in March 2018.

**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.