HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2019

26TH FEBRUARY 2020

Heathrow lands 9th year of consecutive growth with healthy financial performance – Heathrow welcomed a record 80.9 million passengers in 2019 (+1% vs 2018) with 82% rating the airport as "Excellent" or "Very Good" following private investment of over £12 billion. The share of UK exports handled through Heathrow increased to 40%, strengthening our position as the UK's biggest port. Heathrow remains in strong financial health: revenues climbed 3.4% to £3.1 billion on the back of increased demand to fly – supporting an additional £856 million of investment into the airport in 2019. Adjusted EBITDA rose 4.6% to £1.9 billion. Remaining competitive in the lead-up to expansion continues to be a priority: strict operating cost discipline while prioritising service, operational resilience and investment in growth has driven adjusted costs per passenger pre IFRS 16 up 5.0% to £14.85. Strong balance sheet with liquidity extended to October 2021 after raising £2.1 billion in global capital markets

Heathrow expansion will boost economic prosperity, fulfilling the Prime Minister's vision of a Global Britain – Case for expansion was strengthened as new figures revealed that growth at EU competitor Charles de Gaulle is set to overtake Heathrow, threatening the UK's only hub airport and the Prime Minister's ambition for a Global Britain. As capacity constraints continue to strangle the UK's biggest port by value, trade and tourism volumes are being handed on a plate to European competitors

Expanding the UK's only hub airport will help level up the country – Heathrow delivered a record year for apprenticeship starts in 2019, and finalists in the airport's UK-wide logistics hub search await the final green light to help build expansion. £14 billion of private investment ready to launch tens of thousands of jobs, thousands of apprenticeships, new technology and huge economic benefits in every corner of the country

Heathrow takes a lead on addressing the biggest issue of our time – climate change – Heathrow signed up to unwavering commitment of net-zero carbon by 2050, alongside the rest of the aviation industry. Heathrow achieved carbon-neutral status in January 2020 and are working towards operating zero-carbon infrastructure by mid-2030s for all its infrastructure. Heathrow remains clear that unless expansion meets strict environmental targets, no additional capacity can or will be used

At year ended 31 December	2018	2019	Change (%)
(£m unless otherwise stated)			
Revenue	2,970	3,070	3.4
Cash generated from operations	1,787	1,942	8.7
Profit before tax	422	546	29.4
Adjusted EBITDA[(1)]	1,837	1,921	4.6
Adjusted profit before tax[(2)]	267	375	40.4
Heathrow (SP) Limited consolidated nominal net debt[(3)]	12,407	12,412	0.0
Heathrow Finance plc consolidated net debt[(3)]	13,980	14,361	2.7
Regulatory Asset Base[(4)]	16,200	16,598	2.5
Passengers (million)[(5)]	80.1	80.9	1.0
Retail revenue per passenger (£)[(5)]	8.94	8.93	(0.1)

Within two years, Charles de Gaulle will overtake Heathrow as the biggest airport in Europe. Heathrow's new runway is ready to turn "global Britain" into more than just a campaign slogan. It's the key to the UK's success after Brexit and will ensure we stay ahead of our European rivals. Expansion will be built within legally-binding environmental targets, creating lower airfares for passengers, connecting every corner of Britain to global growth and all at no cost to the taxpayer. It's time to get on with it.

JOHN HOLLAND-KAYE

Heathrow CEO

NOTES

(1) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments.
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index linked swap accretion and hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans.
(4) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return.
(5) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

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

Creditors and credit analysts conference call hosted by John Holland-Kaye, CEO and Javier Echave, CFO

Wednesday 26th February 2020

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

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

REVIEW OF THE YEAR

2019 marked the end of a transformational decade for Heathrow as we welcomed a record 80.9 million passengers. Our traffic grew by nearly 25% in the past ten years and we significantly enhanced our passenger experience despite being severely capacity-constrained. Over £12 billion of private money made all of this possible. We invested in our colleagues, in better facilities, better processes and resilience. We have also taken a leading role in tackling one of the biggest challenges of our times: climate change. All of this paid off for our passengers and has earned us a place among the best-rated airports in the world today. This is a position of which we can be proud but cannot take for granted. To continue delivering our vision and give passengers the best airport service in the world, we need to expand Heathrow. The last decade was pivotal in that process: we won the parliamentary vote for Heathrow expansion, we are finalising our Masterplan and we continue working with our regulator, airline partners, local communities and investors to deliver this once-in-a-generation project.

Zooming into 2019, we continued progressing on all four strategic priorities underpinning our vision to give passengers the best airport service in the world: making Heathrow a great place to work, transforming customer service, beating the business plan and sustainable growth.

Our colleagues are fundamental to the success of our vision, which is why making Heathrow a great place to work and creating careers where people can fulfil their potential remains at the very heart of our strategy. In the last 12 months, 1,648 colleagues (2018: 755) attended training to advance their managerial skills and 210 colleagues (2018: 263) were promoted. 1,093 apprenticeships were created as we progressed on our goal to deliver 10,000 apprenticeships by 2030. Since becoming a fully accredited London Living Wage employer in 2017, we continued making progress with our direct supply-chain colleagues: 64 contracts out of 108 have now been updated, with a target full transition by the end of 2020. Overall, 74% of our colleagues (2018: 73%) agreed that Heathrow is a great place to work.

Investments to transform customer service delivered successful results too. We achieved an all-time high 4.17 out of 5.00 score in the global Airport Service Quality (ASQ) survey over 2019. We also achieved some of the highest levels of baggage connections and departures punctuality in our history. For the fifth year running, Heathrow was named 'Best Airport in Western Europe' as well as 'Best Airport for Shopping' for the tenth year in the most recent Skytrax World Airport Awards.

2019 was our 9th consecutive year of passenger growth as we welcomed 80.9 million passengers through the only hub airport in the world's largest aviation market, up 1.0% compared to 2018. We continued to beat the plan with £3.1 billion revenue, up 3.4% on last year. Operating costs remained tightly controlled whilst gearing up for growth. We continued to prioritise safety, security, service and resilience. This drove a 5.0% increase in adjusted operating costs per passenger pre IFRS 16. Our Adjusted EBITDA rose 4.6% to £1.9 billion as a result. We raised £2.1 billion of debt financing globally in 2019 including a 15-year €650m bond issuance and our inaugural JPY transaction in December. Financing activities highlighted global investors' continued confidence in Heathrow's credit and kept cementing strong financial foundations ahead of expansion.

We contribute proactively in the delivery of the UN Sustainable Development Goals by 2030 and have achieved significant milestones to grow Heathrow sustainably today and in the future. We made further progress on decarbonising the airport's infrastructure: in January 2020 we became carbon-neutral. We are working towards operating zero-carbon airport infrastructure by the mid-2030s and have shared our plan to play our part in decarbonising the aviation industry over the coming decades. We were delighted to see our achievements recognised by edie's Mission Possible sustainable business of the year award.

In late 2019, we published our Initial Business Plan, another significant milestone in expanding the airport. It outlines how we will invest to deliver expansion and unlock material reduction in airfares by introducing additional airline competition and choice over the next 15 years. The plan is built on strongly-evidenced consumer views and includes two 'bookend' options which contrast service and cost by prioritising service or savings. We remain on track to submit our Development Consent Order ('DCO') application later in 2020. We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable an expansion that is sustainable, affordable, financeable and deliverable.

STRATEGIC PRIORITIES

MOJO

We want Heathrow to be a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. In 2019, 74% (2018: 73%) of colleagues agreed Heathrow is a great place to work through our Mini Pulse survey.

We continued building strong leadership capability in 2019: 210 colleagues (2018: 263) were promoted and 1,648 colleagues (2018: 755) attended training and development programmes.

We want everyone to go home safe and well to their loved ones. In 2019, our lost time injuries metric was broadly stable at 0.34 (2018: 0.33). Targeted action plans are in place to drive down injuries such as sharps related injuries and those sustained searching vehicles at control posts.

We have recently agreed a pay deal with our unions. The deal secures stable and fair terms and conditions for our colleagues until 2022 while remaining competitive.

TRANSFORM CUSTOMER SERVICE

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

In 2019, we achieved a record ASQ rating of 4.17 out of 5.00 (2018: 4.15) compared to 3.84 out of 5.00 in 2010. In addition, 82% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2018: 82%). These scores illustrate not only the strength and resilience of our operations but also the benefits of our continued investments. For instance, passengers are enjoying upgraded Wi-Fi facilities and a transformed immigration experience as a result of newly installed e-Gates. Closure of the cargo tunnel caused connections satisfaction to decline to 4.14 out of 5.00 (2018:4.16).

Service standard performance indicators (1)	2018	2019
ASQ	4.15	**4.17**
Baggage connection	98.8%	**99.0%**
Departure punctuality	77.6%	**78.5%**
Security queuing	96.8%	**96.3%**
Connections satisfaction	4.16	**4.14**

(1) For the year ended 31 December 2019

BEAT THE PLAN

New intercontinental routes

New routes were announced to North America by British Airways: Pittsburgh and Charleston. British Airways also announced new routes to Kansai, Dammam and Valencia. We also had new routes announced to Bali from Garuda Indonesia and Sialkot from Pakistan International Airline.

Record passenger traffic

During 2019 we welcomed 80.9 million passengers, an increase of 1.0% (2018: 80.1 million) and our 9th consecutive year of record passenger traffic. Aircraft continue to fly fuller with load factors increasing to the highest we have ever seen at 80.0% (2018: 79.4%). Nevertheless 1 in 5 seats remain empty, which provides a significant growth opportunity prior to expansion. The average number of seats per passenger aircraft also increased to 213.7 (2018: 213.4) driven by aircraft upgrades on European and Middle Eastern routes throughout the year.

Intercontinental traffic grew by 2.2%. Intercontinental growth continues to be driven by North America, through increased load factors and frequencies, additional services and new routes such as Pittsburgh and Charleston. Africa traffic also grew strongly due to additional services to Marrakesh, Seychelles, Durban and Johannesburg. Middle East traffic increased due to larger aircraft and increased load factors. Asia pacific traffic declined due to Jet ceasing operations early in the year. Short-haul traffic declined slightly by 0.3% driven by European traffic with a number of carriers reducing services. Domestic traffic grew 0.9% with new routes to Newquay, Guernsey and Isle of Man.

Our cargo volumes declined 6.6% compared to 2018 reflecting the general weakness in the global market in 2019. Our cargo operation reached capacity in 2018 and we do not expect volumes to increase materially until the capacity constraints are resolved by expanding Heathrow.

(Millions)	2018	2019	Var % (1)
UK	4.8	4.8	0.9
Europe	33.3	33.2	(0.5)
North America	18.1	18.8	4.1
Asia Pacific	11.5	11.4	(1.1)
Middle East	7.7	7.8	1.2
Africa	3.3	3.5	5.3
Latin America	1.4	1.4	2.3
Total passengers	80.1	80.9	1.0

(1) Calculated using unrounded passenger figures

Other traffic performance indicators	2018	2019	Var %
Passenger ATM	472,744	473,233	0.1
Load factors (%)	79.4	80.0	0.7
Seats per ATM	213.4	213.7	0.2
Cargo tonnage ('000)	1,700	1,587	(6.6)

SUSTAINABLE GROWTH

Decarbonising aviation

Tackling climate change is the biggest challenge of our generation and the aviation industry must be part of the solution. Aviation is a force for good in the world, helping power economic growth and bring people and cultures together. Heathrow matters because of our role connecting the UK to global growth. Aviation is not the enemy – carbon is. At Heathrow, we have outlined our new carbon plan that brings together partners in the industry, Government and passengers to help aviation achieve net-zero emissions by 2050.

The first step is to remove carbon from Heathrow's operations. Following more than £100 million in investments, Heathrow has become carbon-neutral. Heathrow's terminals are now powered by 100% renewable energy and green gas. Investments in new vehicles and charging infrastructure mean we now operate one of the largest electric vehicle fleets in

Europe. Further investment will help us work towards our target of zero-carbon airport infrastructure by 2050, although we aim to achieve this sooner by the mid-2030s.

In addition to our own operations, we are reducing wider carbon emissions by making it easier for passengers and colleagues to travel to the airport sustainably and by aiming to make Heathrow a world leader in low-carbon construction.

We are also focusing on removing carbon from the atmosphere by helping passengers to offset their flights, and increasing our own investment in natural climate solutions to capture carbon emissions. Heathrow passengers currently have the option to offset their journeys through verified schemes via our new partnership with climate company CHOOOSE. UK-based natural carbon capture projects like peatland and woodland restoration as well as regenerative farming provide an important opportunity to actively reduce and remove carbon emissions. Heathrow is already investing in a number of these projects in the UK, and earlier this month announced a further £1.8 million to restore UK peatlands and woodlands, as well as funding research into new farming methods which better capture and hold carbon in vegetation and soils.

Finally, we want to support the removal of carbon from flights by working with industry partners and governments to scale-up the production of sustainable alternative fuels (‘SAF’) and support the development of technologies which can get aviation to entirely zero-carbon flight.

On 4th February 2020, key players in the UK aviation industry including Heathrow, airlines and aircraft manufacturers jointly committed to a carbon roadmap that puts the industry on course to achieve net-zero emissions by 2050. Heathrow is calling on the UK Government to now accept the Committee on Climate Change’s recommendation to include aviation in the UK’s 2050 net-zero target. Officially including aviation emissions in the target would unlock the certainty needed to accelerate investment and technology change within the industry. The UK Government could take further action to prioritise sustainable fuel for aviation – the hardest sector to decarbonise – and set common and progressive targets for the percentage of aviation fuel that must be from sustainable sources. This will send a strong signal to producers to increase investment in biofuel and synthetic fuel production and start to reduce the cost of production.

A review and restructuring of Air Passenger Duty (‘APD’) could also make a significant contribution to efficiently secure this urgent, rapid transition. Reforming how APD is calculated and used to incentivise uptake of SAF will both help the Government achieve its decarbonisation aims and help the aviation industry to play a leading role in in tackling emissions. Such a move - achieved on a revenue neutral basis through an incremental increase on APD claimed back as a rebate by SAF - would narrow the cost gap with fossil fuels and would stimulate the production of SAF by supporting demand. Heathrow’s view is that there is a window of opportunity to develop and propose a policy for reform of APD in 2020.

Heathrow 2.0

In the last quarter of 2019 we have continued to deliver our Heathrow 2.0 sustainability strategy.

In October, we launched a new colleague campaign – Way2Go - to help all Team Heathrow colleagues find cheaper, smarter, healthier and greener ways to get to work. The campaign helps colleagues cut their carbon footprint, boost their physical and mental wellbeing and save money.

We published our latest “Fly Quiet & Green” quarterly league table. 60% of movements were by aircraft in the quietest category and under 1% in the noisiest, demonstrating airlines swapping in newer, quieter and more efficient jets to their fleets to decrease noise and emissions.

We also held our 23rd annual flagship Heathrow Business Summit. This followed a year-long tour, consisting of 11 business summits held in cities across the UK in conjunction with local business organisations and supported by the Department for International Trade (‘DIT’). These provided opportunities for over 870 SMEs to meet with our largest suppliers and professional trade advisers, and to find out about opportunities around the country connected to Heathrow’s expansion.

Through our World of Opportunity programme, we also partnered with the DIT to offer 20 SMEs across the UK a grant and expert advice to expand their business overseas.

In December, we increased our surface access connectivity to the UK through new coach and rail links. We are now connected to 64 of the UK’s 100 largest towns & cites, with Warrington, Southport, Lincoln and Harrogate forming the new additions.

The table below reports a select number of KPIs from our Heathrow 2.0 strategy. Progress against all of our KPIs and goals will be reported in our 2019 Sustainability Report in Spring 2020.

Sustainability performance indicators	2018	2019 target	2019
Number of apprenticeships(1)	310	400	1,093(2)
Late running aircraft(3)	268	219	257
London Living Wage contracts(4)	n/a	49	64
Total Carbon footprint(5)	2,089,141	Var(6)	-

(1) Number of people starting apprenticeships across Team Heathrow with the goal to deliver 10,000 apprenticeships by 2030
(2) Total number of people starting an apprenticeship either through the Heathrow Academy (175), or facilitated by Team Heathrow business partners, independently of the Heathrow Academy (918)
(3) Unscheduled departing aircraft operating after 11.30pm, on non-disrupted days with the goal of at least halving the number by 2022
(4) The number of amended and renegotiated contracts to be London Living Wage compliant, with the goal of all direct supply chain colleagues working at Heathrow to be transitioned by the end of 2020
(5) Represents Heathrow’s total carbon footprint for scopes 1, 2 (emissions we control) and scope 3 (emissions we influence)
(6) Various targets apply and are defined in the glossary

Our sustainability performance indicators are linked to the four strategic pillars of Heathrow 2.0:

‘A Great Place to Work’: working with our partners across Team Heathrow, we have far exceeded our 2019 target. 175 people started their apprenticeship through the Heathrow Academy. A further 918 apprenticeship starts were facilitated by Team Heathrow companies independently of the Academy. This bring the total number of apprenticeship starts to 1,093.

‘A Great Place to Live’: the number of late running departing aircraft did not meet our 2019 target, due to increased air traffic across Europe, Air Traffic Control resourcing challenges, weather, aircraft technical issues delaying departures as well as capacity restrictions across multiple air traffic sectors. We have made progress towards our end goal to at least half the number of flights to 165, with 257 flights operating after 11:30pm, 4% better than 2018. There were 119 nights with no flights, arrivals or departures between 11.30pm and 4.30am (2018: 115).

'A Thriving Sustainable Economy': we have exceeded our target, by updating 64 out of 108 supplier contracts included in the scope of our London Living Wage Roadmap. We also uplifted over 1,300 employees to the Living Wage and protected more than 1,275 through contractual changes during 2019.

'A World Worth Travelling': in November we reported our 2018 carbon emissions. Carbon emissions we control (~2%) fell due to improvements in energy efficiency and our purchase of renewable electricity. Carbon emissions that we influence (~98%) increased year on year due to areas such as passenger and colleague travel to the airport and a small rise in emissions from aircraft in their landing and take-off ('LTO') cycle. Heathrow's overall gross carbon footprint increased by 1.95% year on year. We recently announced the purchase of 27,244 carbon credits to offset emissions from our gas, electricity, operational vehicles and business travel making Heathrow carbon-neutral. Our 2019 carbon emissions will be published later in 2020.

Key Expansion developments

Heathrow expansion took a significant step forward in 2019 as we completed our statutory consultation after unveiling our Draft Preferred Masterplan for the project. The consultation outlined the latest plans for our future airport, how we propose to operate and manage our growth and how we will ensure a sustainable, affordable, financeable and deliverable expanded Heathrow at no cost to the taxpayer. We are now working to finalise the Masterplan and will hold a further eight-week public consultation between April and June before submitting our DCO application toward the end of 2020. Our DCO application will detail how the airport proposes to expand and connect all of Britain to global growth, whilst meeting the requirements of the Airports National Policy Statement. It will also restate our commitment to ensuring an expanded Heathrow meets strict environmental targets, delivers tens of thousands of new high-skilled jobs and honours the commitments the airport has made to local communities.

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

Regulatory developments

In November, the CAA extended our economic licence until the end of 2021 to better align the next regulatory period ('H7') with the overall expansion timetable and related statutory process. The period encompassing 2020 and 2021 is known as Interim H7 ('iH7'). A Commercial Airline Agreement defining the rebate on aeronautical charges that will be applicable during iH7 was reached with our airline community. This Agreement is reflected in the extended licence.

The agreement is built by overlaying fixed and volume-based rebates onto an extension of the existing RPI-1.5% price path and regulatory framework. The deal aims to incentivise airlines to maximise the use of current congested capacity ahead of new capacity being released.

Later in December, we submitted our Initial Business Plan (IBP) to the CAA. Expansion will unlock material reductions in airfares by injecting airline competition and choice. The plan is sustainable, affordable, financeable and deliverable and sets out our aspirations to offer what we understand consumers want while addressing the constraints from our other key stakeholders including our airline partners, local communities, colleagues and investors. Through engagement, we have identified two 'bookend' options contrasting cost and service. The first option prioritises savings by releasing additional capacity faster while the second option prioritises service with more emphasis in rail and service improvements. Through expansion, it is estimated that airfare savings could be between £21 to £142 per ticket depending on which option is chosen. Our plan also proposes an evolution to the regulatory framework by extending the price control period to 15 years. The longer horizon aims to balance predictability, risk and flexibility. We propose fixing the cost of equity for the duration of the price control while implementing periodic or performance-based resets for some building blocks such as passenger forecasts, operating expenses and commercial revenue to ensure creditors don't take additional risk. Feedback on our IBP is being collected from the Consumer Challenge Board, our airline partners and other key stakeholders at the time of this report. This feedback will be reflected in our Final Business Plan (FBP) due to be published in the second half of 2020.

Lastly, in January 2020 the CAA published a further consultation on the regulatory framework and financial issues related to H7. The CAA outlines the importance of setting price control arrangements that are consistent with our credit rating commitments and the importance of providing longer term regulatory certainty. It also signals that it will use the most up to date information from the Competition and Markets Authority regarding the NERL's case when defining the WACC for H7. We continue engaging on these issues with the CAA and will respond to the consultation by 5 March 2020.

Summary of current regulatory and legal challenges to expansion

The publication of the CAA policy document in December 2019 on the early design and construction costs associated with expanding Heathrow – category B and early category C costs – represents further progress towards providing the regulatory certainty necessary to deliver an expanded Heathrow. We are concerned that some proposals do not represent a balanced set of incentives needed for investment. This will be reflected in our upcoming response to the consultation. A final decision and policy statement from the CAA is currently expected to be received in April or May 2020.

The Court of Appeal judgement is awaited on the current judicial review proceedings against the Secretary of State for Transport relating to the Government's decision to designate the Airports National Policy Statement. We remain of the view that a robust process has been applied to date, including the extensive evidence gathered by the independent Airports Commission, multiple rounds of public consultation and the overwhelming vote in Parliament.

If the appeal were to go against the Secretary of State for Transport, depending on the detail of the judgement, we will carefully consider our next course of action.

We have concluded expansion is probable and therefore it is appropriate to have recognised £450 million of spend to date as an asset in the course of construction. Our current plan assumes that investment will continue growing in 2020 to circa £1 billion as set out in the Investor Report published on 20 December 2019. If either the policy statement setting out the CAA's final decisions does not resolve our concerns, or the Airports National Policy Statement is set aside in the event of an adverse court judgement against the Secretary of State for Transport, a reassessment of the probability of expansion occurring would take place. If the likelihood of expansion occurring were no longer considered probable, the expansion related capital investment incurred as of date of reassessment would be required to be impaired and expensed to the income statement. It should also be noted that we expect most of the assets will remain in the Regulatory Asset Base and continue to generate a return through the regulatory framework.

FINANCIAL REVIEW

Basis of presentation of financial results

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

Management use Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. A reconciliation of our APMs has been included in note 13.

Summary performance

In the year ended 31 December 2019, the Group's revenue climbed 3.4% to £3,070 million (2018: £2,970 million). Adjusted EBITDA increased 4.6% to £1,921 million (2018: £1,837 million), and its profit after tax increased 24.0% to £413 million (2018: £333 million).

Year ended 31 December	2018 £m	2019 £m
Revenue	2,970	3,070
Adjusted operating costs(1)	(1,133)	(1,149)
Adjusted EBITDA(2)	1,837	**1,921**
Depreciation and amortisation	(743)	(771)
Adjusted operating profit(3)	1,094	**1,150**
Net finance costs before certain re-measurements	(827)	(775)
Adjusted profit before tax(4)	267	**375**
Tax charge on profit before certain re-measurements	(58)	(104)
Adjusted profit after tax(4)	209	**271**

Including certain re-measurements		
Fair value gain on investment properties	117	43
Fair value gain on financial instruments	38	128
Tax charge on certain re-measurements	(31)	(29)
Profit after tax	333	**413**

(1) Adjusted operating costs excludes depreciation amortisation and fair value adjustments on investment properties.
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(3) Adjusted operating profit excludes fair value adjustments on investment properties.
(4) Adjusted profit before and after tax excludes fair value adjustments on investment properties and financial instruments and associated tax.

Following the adoption of IFRS 16, £52 million of operational lease costs are now reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs and within EBITDA. Adjusted EBITDA excluding the application of IFRS 16 has increased 1.7% to £1,869 million. (2018: £1,837 million)

Revenue

In the year ended 31 December 2019 revenue increased 3.4% to £3,070 million (2018: £2,970 million).

Year ended 31 December	2018 £m	2019 £m	Var. %
Aeronautical	1,745	1,831	4.9
Retail	716	722	0.8
Other	509	517	1.6
Total revenue	2,970	3,070	3.4

Aeronautical revenue has increased by 4.9% compared to 2018. Aeronautical revenue per-passenger increased 3.9% to £22.64 (2018: £21.78). A combination of record passenger traffic, favourable mix of passengers and recovery of prior-year yield dilution continue to be key drivers of growth. This has been partially offset by the introduction of our new commercial airline deal, providing a saving of £0.55 per-passenger on airline charges.

Year ended 31 December	2018 £m	2019 £m	Var. %
Retail concessions	323	342	5.9
Catering	61	64	4.9
Other retail	128	113	(11.7)
Car parking	126	125	(0.8)
Other services	78	78	0.0
Total retail revenue	716	722	0.8

Retail revenue has grown by 0.8%, retail revenue per-passenger remained flat at £8.93 (2018: £8.94). Growth was led by retail concessions and catering, reflecting record passenger traffic. The Sterling Pound weakening against both the Euro and US Dollar also contributed in driving retail concessions. Other retail revenue declined due to bureaux de change customers favouring alternative methods of prebooked currency, and a one off contractual benefit received in 2018 which will not reoccur. Excluding the one off contractual benefit in 2018, retail revenue per-passenger would have increased by 1.0% to £8.93 (2018: £8.83).

Year ended 31 December	2018 £m	2019 £m	Var. %
Other regulated charges	243	244	0.4
Heathrow Express	123	117	(4.9)
Property and other	143	156	9.1
Total other revenue	509	517	1.6

Other revenue increased 1.6% in 2019 to £517 million. Property and other revenues grew 9.1% driven by rail track-access charges. Heathrow Express saw a 4.9% decline in revenue due to lower prices to remain competitive and lower Crossrail compensation.

Adjusted operating costs

Adjusted operating costs increased 1.4% to £1,149 million (2018: £1,133 million). Adjusted operating costs per-passenger increased by 0.4% to £14.21 (2018: £14.14).

Year ended 31 December	2018 £m	2019 £m	Var. %
Employment	378	378	0.0
Operational	264	279	5.7
Maintenance	176	173	(1.7)
Rates	122	117	(4.1)
Utilities and Other	193	202	4.7
Adjusted operating costs	1,133	1,149	1.4

Following the adoption of IFRS 16, £52 million of operational lease costs are now reported below operating profit. Of the £52 million, £24 million would have been located within operational costs, £2 million within maintenance costs and £26 million within utilities. Excluding the application of IFRS 16, adjusted operating costs are up 6.0% to £1,201 million, and on a per-passenger basis up 5.0% to £14.85.

Operational costs have increased as we gear up for growth with investment in expansion, security, resilience and passenger experience. We spent more on services for passengers with reduced mobility, upgrading drone defence capabilities, implementing new hold baggage screening and investing in our IT systems. Utilities costs also increased due to a rise in government levies on usage, whilst overall consumption declined.

Operating profit and Adjusted EBITDA

In the year ended 31 December 2019, operating profit decreased 1.5% to £1,193 million (2018: £1,211 million). The decrease was due to a lower gain in the non-cash fair value of our investment properties offset by the favourable impact of operational lease costs now reported below operating profit.

Depreciation and amortisation increased to £771 million (2018: £743 million) mainly impacted by an additional £35 million of depreciation due to the transition to IFRS 16.

Fair value gain on investment properties decreased to £43 million (2018: £117 million) due to a smaller increase in the value of our car parks compared to 2018.

Adjusted EBITDA increased 4.6% to £1,921 million (2018: £1,837 million), resulting in an Adjusted EBITDA margin of 62.6% (2018: 61.9%). Adjusted EBITDA excluding the application of IFRS 16 has increased 1.7% to £1,869 million. (2018: £1,837 million).

Year ended 31 December	2018 £m	2019 £m
Operating profit	1,211	**1,193**
Depreciation and amortisation	743	771
EBITDA	1,954	**1,964**
Excl. Fair value gain on investment properties	(117)	(43)
Adjusted EBITDA	1,837	**1,921**
Impact of IFRS 16[(1)]	-	(52)
Adjusted EBITDA excl. impact of IFRS 16[(1)]	1,837	**1,869**

(1) Following the adoption of IFRS 16, £52m of operational lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA.

Profit after tax

For year ended 31 December 2019, the Group recorded a profit before tax of £546 million (2018: £422 million profit). Profit after tax increased 24.0% to £413 million (2018: £333 million profit).

Year ended 31 December	2018 £m	2019 £m
Operating profit	1,211	**1,193**
Net finance costs before certain remeasurements	(827)	(775)
Fair value gain on financial instruments	38	128
Profit before tax	422	**546**
Taxation charge	(89)	(133)
Profit after tax	333	**413**

Net finance costs before certain re-measurements decreased to £775 million (2018: £827 million) due to RPI growth rate for the 12-months to December 2019 falling to 2.2%, down from 3.2% in the same prior period.

Fair value gains on financial instruments increased to £128 million (2018: £38 million) as a result of a decrease in long term inflation expectations.

Taxation

The total tax charge for the year ended 31 December 2019 is £133 million (year ended 31 December 2018: £89 million), representing the sum of the tax charge on profits before certain re-measurements and the tax charge on certain re-measurements. The tax charge before certain re-measurements for the year ended 31 December 2019 was £104 million (2018: £58 million), resulting in an effective tax rate of 27.7% (year ended 31 December 2018: 21.7%). The effective tax rate being higher than (2018: higher than) the statutory rate of 19% (2018: statutory rate of 19%) primarily reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. For the period, the Group paid £98 million (year ended 31 December 2018: £70 million) in corporation tax.

Cash flow

At 31 December 2019, the Group had £1,540 million (2018: £711 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £815 million (2018: £591 million). As we transition into a period of intense investment, surplus funds are managed through a variety of investment products in line with policy thresholds to maximise available returns.

Cash generated from operations

In the year ended 31 December 2019, cash generated from operations increased 8.7% to £1,942 million (2018: £1,787 million). This continues to demonstrate our strong ability to convert operating profit into cash. The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2018 £m	2019 £m
Cash generated from operations	**1,787**	**1,942**
Exclude:		
Increase/(decrease) in inventories and trade and other receivables[(1)]	46	(57)
(Increase)/decrease in payables	(11)	7
Decrease in provisions	-	7
Difference between pension charge and cash contributions	15	22

Adjusted EBITDA	**1,837**	**1,921**

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in 2019 was £856 million (2018: £793 million).

We invested £620 million (2018: £666 million) in a variety of programmes to improve the passenger experience, airport resilience and for asset replacement. We also progressed our plans to expand Heathrow with investment of an additional £236 million in the period (2018: £127 million).

We continued to invest in airfield and resilience programmes. Work is underway to meet the next-generation security requirements mandated by the Department for Transport ('DfT'). Significant investment continues in automating the passenger journey with the roll-out of self-bag drops and self-boarding gates across all terminals. Further investment has also been made to increase capacity in Terminal 5, with 20 new carriages now on order to double the capacity on the Track Transit System, linking the main terminal to satellite buildings. The Hold Baggage Screening (HBS) upgrade works are progressing well, with the Terminal 5 programme now fully complete. The works in Terminal 4 are progressing well and scheduled to achieve the DfT compliance date in September 2020.

Expansion-related capital expenditure includes Category B costs associated with the consent process and also includes early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £361 million in Category B costs and £89 million in Category C costs, a total of £450 million that is carried in our balance sheet as assets in the course of construction. By the end of 2020 it is currently forecast that the asset under the course of construction will increase to circa £1 billion as set out in the Investor Report published on 20 December 2019.

As outlined in our summary of current regulatory and legal challenges to expansion, if the likelihood of expansion occurring was no longer probable, capital expenditure would be required to be impaired. This would significantly reduce the available distributable reserves of Heathrow Airport Limited (the legal entity holding the asset). Based on distributable reserves as at the 31 December 2019 the potential impairment would not result in negative distributable reserves within Heathrow Airport Limited.

It should also be noted that the non-cash impairment recognised under IFRS is separate to the Regulatory Asset Base. Should a planning decision or the appeal to the judicial review go against us we expect most of the assets will remain in the Regulatory Asset Base and continue to generate a return though the regulatory framework. As a result, key covenant ratios would not be materially affected as they are based on the Regulatory Asset Base and Income excluding Exceptional items.

Restricted payments

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

In the year ended 31 December 2019, total restricted payments paid by Heathrow SP amounted to £269 million (net) or £1,533 million (gross) excluding cash pushed down from Heathrow Finance.

Net restricted payments included:

a) £478 million (2018: £485 million) payment made by Heathrow SP to Heathrow Finance to fund the majority of the £500 million (2018: £500 million) dividends paid to ultimate shareholders reflecting the continued strong performance of the business,
b) £110 million (2018: £99 million) of interest on the debenture between Heathrow SP and Heathrow Finance,
c) £2 million (2018: £2 million) payment to fund interest at ADIF2, and
d) a net cash inflow of £321 million (2018: net cash inflow of £363 million) from Heathrow Finance to Heathrow SP.

RECENT FINANCING ACTIVITY

Continued confidence and support for our credit through expansion enabled us to raise £2.1 billion of debt in 2019. This funding underpins our robust liquidity position and provides additional duration and diversification to our £14 billion debt portfolio. 2019 funding activities comprised around £1 billion in Class A, including a JPY note representing our 8th currency of issuance, £75 million in Class B and £1 billion of debt raised at Heathrow Finance.

Class A financing activities included:

a) a €650 million 15-year Class A bond maturing in 2034,
b) a €86 million 20.5-year Class A zero coupon bond maturing in 2039,
c) a CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss Franc issuance,
d) a £140 million Class A term debt maturing in 2037,
e) an inaugural JPY10 billion 20-year Class A note maturing in 2039, and
f) the repayment of our $400m CAD bond.

Class B financing activities included:

a) a £75 million 15-year Class B private placement maturing in 2035 to be drawn in April 2020.

Financing activities at Heathrow Finance included:

a) £700 million new loan facilities, with various maturities out to 2035, which are partially drawn,
b) a £300 million 10-year Heathrow Finance bond maturing in 2029,
c) the early repayment of £267 million 2019 Heathrow Finance bond on the 4th March 2019,
d) the repayment of £325 million of term loans, and
e) the migration of £75 million raised by ADIF2 to Heathrow Finance in March 2019.

Our revolving credit facilities were amended to include direct link to ESG factors and extended to 2023.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 December 2019, Heathrow SP's consolidated nominal net debt was £12,412 million (31 December 2018: £12,407 million). It comprised £12,147 million in bond issues, £1,455 million in other term debt, £345 million in index-linked derivative accretion and £5 million of additional lease liabilities post transition to IFRS 16. This was offset by £1,540 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,055 million in senior net debt and £1,357 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 December 2019 was 3.41% (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 December 2019 was 4.75% (31 December 2018: 5.40%). The reduction in the average cost of debt since the end of 2018 is mainly due to:

a) recent financing activities at a lower cost, and
b) falling RPI inflation which reduced index-linked swap accretion.

The average life of Heathrow SP's gross debt as at 31 December 2019 was 11.5 years (31 December 2018: 12 years).

Nominal net debt excludes any restricted cash and the debenture between Heathrow SP and Heathrow Finance. It includes all the components used in calculating gearing ratios under Heathrow SP's financing agreements including index-linked accretion and additional lease liabilities entered since the transition to IFRS 16.

The accounting value of Heathrow SP's net debt was £12,684 million at 31 December 2019 (31 December 2018: £12,158 million). This includes £1,540 million of cash and cash equivalents and term deposits, and £384 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until October 2021. This includes forecast capital investment (including projected expansion related investments as per our investor report published on 20 December 2019), debt service costs, debt maturities and distributions. This liquidity position takes into account £3.7 billion in undrawn loan facilities, bonds and term debt to be drawn as well as cash resources at 31 December 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 £14,361 million (31 December 2018: £13,980 million). This comprised Heathrow SP's £12,412 million nominal net debt, Heathrow Finance's nominal gross debt of £1,979 million and cash and term deposits held at Heathrow Finance of £30 million.

Financial ratios

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

At 31 December 2019, Heathrow's RAB was £16,598 million (31 December 2018: £16,200 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 66.6% and 74.8% 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 86.5% (31 December 2018: 86.3%) with a covenant of 92.5%. The covenant at Heathrow Finance changed earlier in the year from 90% to 92.5% due to the redemption of the 2019 notes at Heathrow Finance. Lower gearing ratios at Class A and Class B reflect some debt reallocation between the ring-fenced group, Heathrow SP and Heathrow Finance as we build toward expansion. To complement this first step and deliver our commitment to maintain our existing investment grade ratings, we expect our existing cautious approach to balance sheet management to further focus on cash-flow driven metrics.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 31 December 2019, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.8% (2018: 100.7%). This translated into a surplus of £33 million (2018: £28 million surplus). The £5 million increase in the surplus in the 12 months is primarily due to actuarial losses of £17 million, attributable to a decrease in the net discount rate of 0.90% over the 12 months and offset by contributions in excess of current service cost of £22 million. At 31 December 2019, we contributed £47 million (2018: £48 million) into the defined benefit pension scheme including £23 million (2018: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

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

KEY MANAGEMENT CHANGES

Management changes this year include Fidel Lopez resigning as a Non-Executive Director of the Board on 30 January 2019. He was replaced by Maria Casero on the same date. RT Hon Ruth Kelly was appointed as a Non-Executive Director of the Board on 8 April 2019. Rachel Lomax stepped down from the HAHL Board on 23 February 2020, having served just over nine years on the Board.

OUTLOOK

The outlook for our Adjusted EBITDA performance in 2020 remains materially consistent with the forecast set out in the Investor Report published on 20 December 2019. We also forecast to maintain comfortable covenant headroom.

We are concerned about the global impact of the COVID-19 virus and are closely monitoring its impact on our business and stakeholders. At this point, and based on our central case, we do not expect this to have a material negative impact on our financial results. We will continue to monitor the situation carefully over the coming months and will provide updates in our quarterly results and semi-annual investor report.

2020 marks the beginning of an ambitious decade, with new private investment helping us to deliver a third runway which will give the UK's hub airport more capacity than our competitors in France or Germany, making us one of the best-connected airports in the world. Regular, direct flights to all the major cities in the US, India and China – the great economies of the 21st century – linked via the expanded hub at Heathrow to the regions and nations of the UK will ensure the whole of the country is at the heart of global trade. We look forward to delivering this economic growth that will help level up the UK in a way that unlocks an even better experience for passengers through cheaper tickets, and which crucially aligns with the Committee on Climate Change's net-zero 2050 target.

Consolidated income statement for the year ended 31 December 2019

		Year ended 31 December 2019			Year ended 31 December 2018		
		Before Certain re-measurements	Certain re-measurements[a]	Total	Before Certain re-measurements	Certain re-measurements[a]	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	*1*	3,070	-	3,070	2,970	-	2,970
Operating costs	*2*	(1,920)	-	(1,920)	(1,876)	-	(1,876)
Other operating items							
Fair value gain on investment properties		-	43	43	-	117	117
Operating profit		**1,150**	**43**	**1,193**	1,094	117	1,211
Financing							
Finance income		9	-	9	2	-	2
Finance costs		(784)	128	(656)	(829)	38	(791)
Net finance cost	*3*	**(775)**	**128**	**(647)**	(827)	38	(789)
Profit before tax		**375**	**171**	**546**	267	155	422
Taxation charge	*4*	**(104)**	**(29)**	**(133)**	(58)	(31)	(89)
Profit for the period		**271**	**142**	**413**	209	124	333

(a) Certain re-measurements consist of: fair value gains on investment property revaluations and disposals; gains 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.

Consolidated statement of comprehensive income for the year ended 31 December 2019

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit for the period	413	333
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
Gain/(loss) on plan assets[b]	498	(192)
(Increase)/decrease in scheme liabilities[b]	(509)	310
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Losses taken to equity[b]	(3)	(162)
Transfer to finance costs[b]	32	198
Other comprehensive income for the period net of tax	18	154
Total comprehensive income for the period[a]	431	487

(a) Attributable to owners of the parent.
(b) Items in the statement above are disclosed net of tax.

Consolidated statement of financial position as at 31 December 2019

	Note	as at 31 December 2019 £m	as at 31 December 2018 £m
Assets			
Non-current assets			
Property, plant and equipment	5	11,561	11,405
Right of use asset		276	-
Investment properties	6	2,522	2,472
Intangible assets		176	173
Retirement benefit surplus	9	33	28
Derivative financial instruments	8	539	543
Trade and other receivables		18	20
		15,125	14,641
Current assets			
Inventories		13	13
Trade and other receivables		247	302
Term deposits		725	120
Cash and cash equivalents		815	591
		1,800	1,026
Total assets		**16,925**	15,667
Liabilities			
Non-current liabilities			
Borrowings	7	(15,948)	(14,813)
Derivative financial instruments	8	(1,227)	(1,523)
Lease liabilities		(346)	-
Deferred income tax liabilities		(934)	(907)
Retirement benefit obligations	9	(29)	(32)
Provisions		(1)	(1)
Trade and other payables		(5)	(7)
		(18,490)	(17,283)
Current liabilities			
Borrowings	7	(647)	(496)
Derivative financial instruments	8	(55)	(39)
Lease liabilities		(38)	-
Provisions		(8)	(13)
Current income tax liabilities		(31)	(39)
Trade and other payables		(430)	(433)
		(1,209)	(1,020)
Total liabilities		**(19,699)**	(18,303)
Net liabilities		**(2,774)**	(2,636)
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(187)	(216)
Retained earnings		661	828
Total shareholder's equity		**(2,774)**	(2,636)

Consolidated statement of changes in equity for the year ended 31 December 2019

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2018 (previously reported)	11	499	(3,758)	(252)	865	(2,635)
Adjustment in respect of:						
Transition to IFRS 15					(1)	(1)
Transition to IFRS 9					(2)	(2)
1 January 2018 (re-stated)	11	499	(3,758)	(252)	862	(2,638)
Comprehensive income:						
Profit for the period					333	333
Other comprehensive income:						
Fair value gain on cash flow				36		36
Actuarial gain on pension net of tax:						
Loss on plan assets					(192)	(192)
Decrease in scheme liabilities					310	310
Total comprehensive income	**-**	**-**	**-**	**36**	**451**	**487**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(485)	(485)
Total transaction with owners	-	-	-	-	(485)	(485)
31 December 2018	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16					(89)	(89)
1 January 2019 (re-stated)	**11**	**499**	**(3,758)**	**(216)**	**739**	**(2,725)**
Comprehensive income:						
Gain for the period					413	413
Other comprehensive income:						
Fair value gain on cash flow				29		29
Actuarial loss on pension net of tax:						
Gain on plan assets					498	498
Increase in scheme liabilities					(509)	(509)
Total comprehensive income	**-**	**-**	**-**	**29**	**401**	**431**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	**-**	**-**	**-**	**-**	(480)	(480)
Total transaction with owners	**-**	**-**	**-**	**-**	**(480)**	**(480)**
31 December 2019	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**

Consolidated statement of cash flows for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Cash flows from operating activities			
Cash generated from operations	*10*	1,942	1,787
Taxation:			
Corporation tax paid		(98)	(70)
Group relief paid		-	(6)
Net cash from operating activities		**1,844**	1,711
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(849)	(769)
Investment properties		(7)	(4)
Intangible assets		-	(20)
(Increase) in term deposits[1]		(605)	(108)
Interest received		7	2
Net cash used in investing activities		**(1,454)**	(899)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		(480)	(485)
Proceeds from issuance of bonds		857	771
Repayment of bonds		(251)	(910)
Repayment of facilities and other financing items		(21)	(32)
Increase in amount owed to Heathrow Finance plc		321	363
Interest paid		(580)	(576)
Issuance of term note		340	245
Settlement of accretion on index-linked swaps		(295)	(110)
Payment of lease liabilities[2]		(50)	-
Consent fee payment		(7)	-
Net cash used in financing activities		**(166)**	(734)
Net increase in cash and cash equivalents		**224**	78
Cash and cash equivalents at beginning of period		591	513
Cash and cash equivalents at end of period		**815**	591

(1) Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
(2) Payment in relation to investor's consent regarding IFRS 16 and lease liabilities

Notes to the consolidated financial statements for the year ended 31 December 2019

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2019 or any other period. The annual financial information presented herein for the year ended 31 December 2019 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2019. The auditors' report on the 2019 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation and new accounting standards, interpretations and amendments

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

Notes to the consolidated financial statements for the year ended 31 December 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)	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Segment Revenue		
Under IFRS 15		
Aeronautical		
Landing charges	549	482
Parking charges	74	67
Departing charges	1,208	1,196
Total Aeronautical revenue	1,831	1,745
Other regulated charges	244	243
Retail services revenue[1]	722	716
Property revenue[1]	25	20
Rail Income		
Heathrow Express	117	123
Other	23	14
Revenue reported under IFRS 15	2,962	2,861
Revenue recognised at a point in time	2,837	2,735
Revenue recognised over time	125	126
Total revenue reported under IFRS 15	**2,962**	2,861
Under IFRS 16 / IAS 17		
Property (lease-related income)[1]	108	109
Retail (lease-related income)[1]	-	-
Total revenue	**3,070**	2,970
Heathrow	2,953	2,847
Heathrow Express	117	123
Adjusted EBITDA		
Heathrow	1.860	1,772
Heathrow Express	61	65
Total adjusted EBITDA	1,921	1,837
Reconciliation to statutory information:		
Depreciation and amortisation	(771)	(743)
Operating profit	**1,150**	1,094
Fair value (loss)/gain on investment properties (certain re-measurements)	43	117
Operating profit	**1,193**	1,211
Finance income	9	2
Finance costs	(656)	(791)
Profit before tax	546	422

[1]2018 comparatives have been restated for the reclassification of lease related income under IAS 17 – Leases to retail service income under IFRS 15 – Revenue from contracts with customers. The impact of this is that £569 million was transferred from retail (lease-related income) under IFRS 16 to Retail services under IFRS 15. £109 million was transferred from property revenue under IFRS 15 to property (lease-related income) under IAS 17.

Notes to the consolidated financial statements for the year ended 31 December 2019

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Year ended 31 December 2019		Year ended 31 December 2018	
	Depreciation & amortisation[(1)] £m	Fair value loss[(2)] £m	Depreciation & amortisation[(1)] £m	Fair value gain[(2)] £m
Heathrow	(716)	43	(672)	117
Heathrow Express	(55)	-	(71)	-
Total	**(771)**	**43**	(743)	117

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

Table (c)	Year ended 31 December 2019		Year ended 31 December 2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	13,885	(429)	13,715	(440)
Heathrow Express	652	(15)	670	(14)
Total operations	**14,537**	**(444)**	14,385	(454)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	1,540	(14,055)	711	(13,082)
Retirement benefit assets /(obligations)	33	(29)	28	(32)
Derivative financial instruments	539	(1,282)	543	(1,562)
Deferred and current tax liabilities	-	(965)	-	(946)
Amounts owed from/(to) group undertakings[1]	-	(2,540)	-	(2,227)
Right of use asset and lease liabilities	276	(384)	-	-
Total	**16,925**	**(19,699)**	15,667	(18,303)

[1] For the year ended 31 December 2018 an amount of £4m is now disclosed within 'Heathrow'. This reallocation has been made as the amount relates to external payments received by LHR Airports Limited under the Shared Services Agreement ('SSA') on behalf of Heathrow that will be remitted to Heathrow in due course. Previously this was disclosed as an amount 'owed from Group Undertakings'.

Notes to the consolidated financial statements for the year ended 31 December 2019

2. OPERATING COSTS

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Employment	378	378
Operational	279	264
Maintenance	173	176
Rates	117	122
Utilities	72	90
Other	130	103
Total operating costs before depreciation and amortisation	1,149	1,133
Depreciation and amortisation:		
Property, plant and equipment	693	716
Intangible assets	43	27
Right of Use (RoU) assets	35	-
Total operating costs	**1,920**	1,876

3. FINANCING

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Finance income		
Interest on deposits	9	2
Total finance income[(4)]	9	2
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[(1)]	(535)	(541)
Bank loans, overdrafts and related hedging instruments	(58)	(58)
Net interest expense on derivatives not in hedge relationship[(2)]	(106)	(160)
Facility fees and other charges	(10)	(7)
Net pension finance costs	-	(4)
Interest on debenture payable to Heathrow Finance plc	(102)	(109)
Finance costs on lease liabilities	(17)	-
	(828)	(879)
Less: capitalised borrowing costs[(3)]	44	50
Total finance costs[(4)]	(784)	(829)
Net finance costs before certain re-measurements	**(775)**	(827)
Fair value (loss)/gain on financial instruments		
Interest rate swaps: not in hedge	(19)	83
Index-linked swaps: not in hedge relationship	172	(90)
Cross-currency swaps: not in hedge relationship	11	-
Ineffective portion of cash flow hedges	(1)	21
Ineffective portion of fair value hedges	(33)	24
Fair value re-measurements of foreign exchange contracts and currency	(2)	-
	128	38
Net finance costs	**(647)**	(789)

(1) Includes accretion of £35 million for year ended December 2019 (year ended December 2018: £47 million) on index-linked bonds.
(2) Includes accretion of £152 million for year ended December 2019 (year ended December 2018: £207 million) on index-linked swaps.
(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 4.98% (2018: 5.66%) to expenditure incurred on such assets

Notes to the consolidated financial statements for the year ended 31 December 2019

4. INCOME TAX EXPENSE

	Year ended 31 December 2019			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
UK corporation tax						
Current tax charge at 19% (2018: 19%)	(96)	(2)	(98)	(87)	(3)	(90)
Over provision in respect of prior years	8	-	8	5	-	5
Deferred tax:						
Current year (charge)/credit	(15)	(28)	(43)	13	(21)	(8)
Prior year (charge)/credit[1]	(1)	1	-	11	(7)	4
Taxation charge	**(104)**	**(29)**	**(133)**	(58)	(31)	(89)

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

The total tax charge recognised for year ended 31 December 2019 was £133 million (year ended December 2018: £89 million). Based on a profit before tax for the year of £546 million (2018: £422 million), this results in an effective tax rate of 24.4% (2018: 21.1%).

The total tax charge before certain re-measurements for year ended 31 December 2019 was £104 million (2018: £58 million). Based on a profit before tax and certain re-measurements of £375 million (2018: £267 million), this results in an effective tax rate of 27.7% (2018: 21.7%). 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. However, with the introduction of the new Structures and Building Allowance relief (SBA) (see below), a higher proportion of Heathrow's capital expenditure will qualify for tax relief in future years, which is expected to reduce the effective tax rate.

In addition there was a £29 million tax charge (2018: £31 million tax charge) reflecting the tax impact arising from fair value gains on investment property revaluations and fair value gains on financial instruments, along with any associated prior year adjustments.

The headline UK corporation tax rate is 19% but 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. Prior to the UK General Election held on 12 December 2019, the Conservative Party announced that it would maintain the UK corporation tax rate at 19%. However, as no legislation had been substantively enacted at the balance sheet date, this announcement has not been reflected in the deferred tax balances. Based on the current net deferred tax liability, a 19% corporation tax rate would increase the net deferred tax liability to an estimated £1,044 million, which would give rise to a £110 million deferred tax charge due to changes in tax rates.

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 in future years from tax relief on expenditure which would not be eligible under current rules. At the balance sheet date, no material SBA-qualifying assets had been identified and brought into use.

Notes to the consolidated financial statements for the year ended 31 December 2019

5. PROPERTY, PLANT AND EQUIPMENT

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2018	11,277	2,066	891	205	1,406	893	16,738
Additions	-	-	-	-	-	769	769
Borrowing costs capitalised	-	-	-	-	-	50	50
Disposals	(3)	-	(10)	-	(15)	-	(28)
Reclassification	78	-	(78)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(5)	(5)
Transfer to completed assets	298	(112)	338	25	44	(593)	-
31 December 2018	**11,650**	**1,954**	**1,141**	**230**	**1,435**	**1,114**	**17,524**
Additions	-	-	-	-	-	849	849
Borrowing costs capitalised	-	-	-	-	-	44	44
Disposals	(245)	(65)	(118)	(9)	(50)	-	(487)
Reclassification	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(44)	(44)
Transfer to completed assets	532	127	(27)	53	10	(695)	-
31 December 2019	**11,937**	**2,016**	**996**	**274**	**1,395**	**1,268**	**17,886**
Depreciation							
1 January 2018	**(3,910)**	**(463)**	**(433)**	**(68)**	**(557)**	**-**	**(5,431)**
Depreciation charge	(487)	(45)	(103)	(10)	(71)	-	(716)
Disposals	3	-	10	-	15	-	28
31 December 2018	**(4,394)**	**(508)**	**(526)**	**(78)**	**(613)**	**-**	**(6,119)**
Depreciation charge	(492)	(61)	(67)	(19)	(54)	-	(693)
Disposals	245	65	118	9	50	-	487
31 December 2019	**(4,641)**	**(504)**	**(475)**	**(88)**	**(617)**	**-**	**(6,325)**
Net book value							
31 December 2019	**7,296**	**1,513**	**521**	**186**	**778**	**1,267**	**11,561**
31 December 2018	7,256	1,446	615	152	822	1,114	11,405

The Regulatory Asset Base (RAB) at 31 December 2019 was £16,598 million (31 December 2018: £16,200 million).

Notes to the consolidated financial statements for the year ended 31 December 2019

6. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2018	2,350
Additions	4
Transfers from property, plant and equipment	1
Revaluation	117
31 December 2018 (Audited)	**2,472**
Additions	7
Transfers to completed assets	-
Revaluation	43
31 December 2019 (Audited)	**2,522**

Investment properties were fair valued at 31 December 2019 by an external valuer, CBRE Limited. The valuers are independent and have appropriate, recognised qualifications, and experience in the categories and location of the investment properties being valued.

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

Notes to the consolidated financial statements for the year ended 31 December 2019

7. BORROWINGS

	31 December 2019 £m	31 December 2018 £m
Current borrowings		
Secured		
Heathrow Airport Limited debt:		
Loans	4	17
Heathrow Funding Limited bonds:		
4.000% C$400 million due 2019	-	230
6.000% £400 million due 2020	400	-
Total current (excluding interest payable)	**404**	247
Interest payable – external	215	213
Interest payable – owed to group undertakings	28	36
Total current	**647**	496
Non-current borrowings		
Secured		
Heathrow Funding Limited bonds		
6.000% £400 million due 2020	-	399
9.200% £250 million due 2021	255	260
3.000% CAD450 million due 2021	260	256
4.875% US$1,000 million due 2021	763	783
1.650%+RPI £180 million due 2022	218	213
1.875% €600 million due 2022	517	549
5.225% £750 million due 2023	703	691
7.125% £600 million due 2024	594	593
0.500% CHF400 million due 2024	307	310
3.250% CAD500 million due 2025	288	281
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	693	693
0.450% CHF210 million due 2026	167	-
2.650% NOK1,000 million due 2027	85	90
3.400% CAD400 million due 2028	234	232
7.075% £200 million due 2028	200	198
4.150% AUD175 million due 2028	103	99
2.500% NOK1,000 million due 2029	76	79
3.782% CAD400 million due 2030	233	229
1.500% €750 million due 2030	644	629
6.450% £900 million due 2031	855	853
Zero-coupon €50 million due January 2032	58	59
1.366%+RPI £75 million due 2032	87	85
Zero-coupon €50 million due April 2032	57	58
1.875% €500 million due 2032	421	447
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	49	50
1.875% €650 million due 2034	584	-
1.061%+RPI £180 million due 2036	202	197
1.382%+RPI £50 million due 2039	58	56
3.334%+RPI £460 million due 2039	638	626
Zero-coupon €86 million due 2039	75	-
0.800% JPY1,000 million due 2039	69	111
1.238%+RPI £100 million due 2040	113	
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	55
4.625% £750 million due 2046	741	742
1.372%+RPI £75 million due 2049	86	85
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	165	164
Total bonds	**11,987**	11,507

	31 December 2019 £m	31 December 2018 £m
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	418	418
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	-
Revolving credit facilities	-	-
Term note due 2026-2037	723	585
Loans	8	138
Unsecured		
Debenture payable to Heathrow Finance plc	2,512	2,191
Total non-current	**15,948**	14,813
Total borrowings (excluding interest payable)	**16,352**	15,060

At 31 December 2019, Heathrow SP's nominal net debt was £12,412 million (31 December 2018: £12,407 million). Nominal net debt comprised £11,055 million (December 2018: £11,054 million) in senior net debt and £1,357 million (December 2018: £1,353 million) in junior net debt.

At 31 December 2019, total non-current borrowings due after more than 5 years was £11,804 million, comprising £8,367 million of bonds, £2,512 million debenture payable to Heathrow Finance plc and £925 million in bank facilities, excludes lease liabilities.

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was GBP 250 million, EUR 2,000 million, US$ 1,000 million, C$ 1,470 million, CHF 610 million, A$ 175 million, JPY 10 billion and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Nominal £m	Fair value adjustment[1] £m	Nominal £m	Fair value adjustment[1] £m
Sterling debt	250	(4)	200	(2)
Euro denominated debt	1,615	(70)	1,498	26
USD denominated debt	621	(10)	621	-
CAD denominated debt	810	(3)	1,227	3
Other currencies debt	946	3	549	17
Designated in fair value hedge	**4,242**	**(84)**	4,095	44

(1) Fair value adjustment is comprised of fair value loss of £52 million (2018: £89 million gain) on continuing hedges and £32 million loss (2018: £45 million loss) on discontinued hedges.

Notes to the consolidated financial statements for the year ended 31 December 2019

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

At 31 December 2019, total non-current notional value of Derivative financial instruments due in greater than 5 years was £9,057 million (2018: £9,171 million), comprising £5,311 million (2018: £5,496 million) of Index-linked swaps, £2,524 million (2018: £2,453 million) of Cross-currency swaps, and £1,222 million (2018: £1,222 million) of Interest rate swaps.

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The losses deferred of £20 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 £121 million over five years. Of the total amount deferred in other comprehensive income £206 million related to discontinued cash flow hedges.

Cross-currency swaps

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

Index-linked swaps

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

Foreign exchange contracts

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

Notes to the consolidated financial statements for the year ended 31 December 2019

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Employment costs:		
Defined contribution schemes	15	13
BAA Pension Scheme	26	34
	41	47
Finance (credit)/charge - BAA Pension Scheme	(1)	3
Finance charge - Other pension and post retirement liabilities	1	1
Total pension costs	41	51

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
BAA Pension Scheme (loss)/gain	(17)	141
Unfunded schemes	2	3
Actuarial (loss)/gain recognised before tax	(15)	144
Tax credit/(charge) on actuarial (loss)/gain	4	(26)
Actuarial(loss)/gain recognised after tax	**(11)**	118

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

	31 December 2019 £m	31 December 2018 £m
Fair value of plan assets	4,302	3,869
Benefit obligation	(4,269)	(3,841)
Surplus in BAA Pension Scheme	33	28
Unfunded pension obligations	(28)	(28)
Post-retirement medical benefits	(1)	(4)
Deficit in other pension related liabilities	(29)	(32)
Net surplus/(deficit) in pension schemes	**4**	(4)
Group share of net surplus/(deficit) in pension schemes	**4**	(4)

(a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2019 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 31 December 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 December 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:

	31 December 2019 %	31 December 2018 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	2.40	2.65
Increase to pensions in payment:		
Open section	3.05	3.30
Closed section	3.15	3.40
Discount rate	2.10	3.00
Inflation assumption	3.15	3.40

10. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Operating activities		
Profit before tax	546	422
Adjustments for:		
Net finance costs	647	789
Depreciation	693	716
Amortisation on intangibles	43	27
Amortisation on right of use assets	35	-
Fair value gain on investment properties	(43)	(117)
Working capital changes:		
Decrease/(increase) in inventories and trade and other receivables	57	(46)
(Decrease)/increase in trade and other payables	(7)	11
(Decrease)/increase in provisions	(7)	-
Difference between pension charge and cash contributions	(22)	(15)
Cash generated from operations	**1,942**	1,787

11. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Contracted for, but not accrued:		
Baggage systems	**111**	77
Terminal restoration and modernisation	**168**	174
Capacity optimisation	**51**	20
IT projects	**15**	20
Other projects	**45**	35
	390	326

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

Notes to the consolidated financial statements for the year ended 31 December 2019

12. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Amey OWR Ltd	1	1
Ferrovial Agroman	44	69
Heathrow Finance plc[(1)]	102	109
	147	179

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

Sales to related party	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Harrods International Limited	23	23
Qatar Airways	26	35
	59	58

Balances outstanding with related parties were as follows:

	31 December 2019		31 December 2018	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	2,540	-	2,227
Qatar Airways	2	-	2	-
	2	2,540	2	2,227

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

13. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMS)

Alternative Performance Measures

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

EBITDA

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

	2019 £m	2018 £m
Profit for the year	413	333
Add: Tax charge	133	89
Add: Net finance cost	647	789
Operating profit	1,193	1,211
Add: depreciation and amortisation	771	743
EBITDA	**1,964**	1,954

Adjusted EBITDA

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

Adjusted EBITDA *continued*

	2019 £m	2018 £m
Profit for the year	413	333
Add: Tax charge	133	89
Add: Net finance cost	647	789
Operating profit	1,193	1,211
Add: depreciation and amortisation	771	743
Less: Fair value gains on investment properties	(43)	(117)
Adjusted EBITDA	**1,921**	1,837

	2019 £m	2018 £m
Cash generated from operations	1,942	1,787
Exclude:		
(Decrease) / increase in inventories and trade and other receivables	(57)	46
(Decrease) / increase in trade other payables	7	(11)
Decrease in provisions	7	-
Difference between pension charge and cash contributions	22	15
Adjusted EBITDA	**1,921**	1,837

Adjusted operating profit

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

	2019 £m	2018 £m
Operating profit[1]	1,193	1,211
Less: Fair value gains on investment properties	(43)	(117)
Adjusted operating profit	**1,150**	1,094

[1]Operating profit is presented on the Group Income statement, it is not defined per IFRS, however it is a generally accepted profit measure

Net finance costs before certain re-measurements

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

	2019 £m	2018 £m
Finance income	9	2
Finance cost	(656)	(791)
Net finance cost including certain remeasurements	**(647)**	(789)
Less: fair value gain arising on re-measurement of financial instruments	(128)	(38)
Net Finance cost before certain remeasurements	**(775)**	(827)

Adjusted profit before tax

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

	2019 £m	2018 £m
Profit before tax	546	422
Less: fair value gain on investment properties	(43)	(117)
Less: fair value gain arising on re-measurement of financial instruments	(128)	(38)
Adjusted PBT	**375**	267

Adjusted profit after tax

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

	2019 £m	2018 £m
Profit after tax	413	333
Less: fair value gain on investment properties	(43)	(117)
Less: fair value gain arising on re-measurement of financial instruments	(128)	(38)
Add: tax on fair value gain on investment properties and re-measurement of financial instruments	29	31
Adjusted PAT	**271**	209

Heathrow (SP) Limited consolidated nominal net debt

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

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

	2019 £m	2018 £m
Cash and cash equivalents	815	591
Term deposits	725	120
Current debt including lease liability	(442)	(247)
Non-current debt including lease liability	(13,782)	(12,622)
Accounting value of Net debt	**(12,684)**	(12,158)
Index-linked swap accretion (1)	(345)	(488)
Impact of cross currency interest rate swaps (2)	349	353
Bond issuance costs (3)	(111)	(114)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases (4)	379	-
Consolidated nominal net debt	**(12,412)**	(12,407)

(1) Index linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on the Statement of financial position.
(2) Where bonds are issued in currencies other than GBP, the Group has entered into foreign currency swaps to fix the GBP cash outflows on redemption. The impact of these swaps is reflected in nominal net debt.
(3) Capitalised bond issue costs are excluded from nominal net debt.
(4) The lease liability relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) is excluded from nominal net debt. All new leases entered into post transition are included.

Regulatory Asset Base (RAB)

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

	2019 £m	2018 £m
Regulatory Asset Base (RAB)	**16,598**	16,200

Regulatory gearing ratio

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

	2019 £m	2018 £m
Total net debt to RAB	0.748	0.766
Senior net debt to RAB	0.666	0.682

GLOSSARY

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

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

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

Carbon Footprint Targets - Targets can be found in the Heathrow 2.0 strategy document available on the company section of the website.

Carbon-neutral – Emissions are offset through purchasing carbon offsets.

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

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

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

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

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

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.

Mini Pulse Survey – On a monthly basis circa 600 colleagues are randomly selected from across Heathrow and are asked "To what extent do you agree or disagree with the following statement: Heathrow is a great place to work". Colleagues then give a score on a scale of one to five, where one is 'strongly disagree' and five is 'strongly agree'.

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

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

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

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

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

WACC – Weighted average cost of capital

Zero-carbon – No emissions are released into the atmosphere.