HEATHROW (SP) LIMITED

RESULTS FOR THE 9 MONTHS ENDED 30TH SEPTEMBER 2020

28TH OCTOBER 2020

Keeping people safe remains top priority – we have invested in UK aviation's most extensive array of COVID-secure technologies. New rapid testing technologies are already helping to open up overseas markets safely

Demand forecast revised down – Passenger numbers are now forecast to be 22.6m in 2020 and 37.1m in 2021, compared to our June forecast of 29.2m in 2020 and 62.8m in 2021, and 2019 actuals of 81m. The reduction is caused by the second wave of COVID and slow progress on introducing testing by the UK government to reopen borders with "high risk" countries

UK cedes competitive advantage to European rivals – For the first time, Paris Charles de Gaulle has overtaken Heathrow as Europe's largest airport, with Amsterdam Schiphol and Frankfurt close behind. All three continental rivals have implemented testing regimes. The UK Government has announced an intention to introduce testing for passengers from high risk countries by 1st December to help restart the UK economy

Losses widen on significant passenger decline – Heathrow's losses have widened to £1.5 billion in the first 9 months as passenger numbers in Q3 remained down over 84%. Q3 revenue fell 72% to £239 million and Q3 adjusted EBITDA fell to £37 million

Safeguarding the future – We acted quickly to reduce our monthly "cash burn" by over 30%, cutting at least £300 million of operating costs and cancelling or pausing over £650 million of capital projects. Further savings are planned, but we are protecting employment, offering all frontline colleagues a job with market-rate salaries guaranteed at or above the London Living Wage

Heathrow finances remain robust – Liquidity at the end of September has been boosted further in October to £4.5bn. Cash reserves are sufficient for the next 12 months even under an extreme scenario with no revenue, and well into 2023 under our current forecast. Investor confidence remains strong with 94% of creditors agreeing a waiver on financial covenants until the end of 2021. We have maintained our Investment Grade credit rating status

Seeking a regulatory adjustment, in line with the Q6 settlement – Heathrow is price regulated, with a return set not by the market but by the regulator based on assumptions with limited upside and limited downside. There was an explicit recognition in the Q6 settlement that it can be adjusted in the event of exceptional circumstances, which the CAA agrees has now occurred. We are seeking adjustment, in line with the settlement, which will keep future consumer prices down, incentivise investment to improve service and give a sustainable balance of risk and return

At or for 9 months ended 30 September	2019	2020	Change (%)
(£m unless otherwise stated)			
Revenue	2,302	951	(58.7)
Cash generated from operations	1,463	215	(85.3)
Loss before tax	(76)	(1,517)	--
Adjusted EBITDA[(1)]	1,459	259	(82.2)
Adjusted profit / (loss) before tax[(2)]	297	(786)	--
Heathrow (SP) Limited consolidated nominal net debt[(3)]	12,412	13,082	5.4
Heathrow Finance plc consolidated net debt[(3)]	14,361	15,199	5.8
Regulatory Asset Base[(4)]	16,598	16,472	(0.8)
Passengers (million)[(5)]	61.0	19.0	(68.9)

"Britain is falling behind because we've been too slow to embrace passenger testing. European leaders acted quicker and now their economies are reaping the benefits. Paris has overtaken Heathrow as Europe's largest airport for the first time ever, and Frankfurt and Amsterdam are quickly gaining ground. Let's make Britain a winner again. Bringing in pre-departure COVID tests and partnering with our US allies to open a pilot airbridge to America will kickstart our economic recovery and put the UK back ahead of our European rivals."

JOHN HOLLAND-KAYE
Heathrow CEO

Heathrow
Making every journey better

NOTES

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

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

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

Wednesday October 28th 2020

3.00pm (UK time), 4.00pm (Central European Time), 11.00am (Eastern Standard Time)

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

HEATHROW'S THREE-PHASE PLAN

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

Protecting our business

Safety and security remain our first and non-negotiable priority. We have reviewed the entire Heathrow airport experience to ensure that our passengers and colleagues are kept safe. We have added safety measures across the passenger journey following close collaboration with Public Health England and best practice.

COVID-19 continues to have a significant impact on our financial performance. Following the rapid actions management had taken to protect the financial resilience of the business, we have now realised over £200 million of our minimum £300 million operating cost savings target, and we remain on track to deliver this target by the end of the year. However, with a recovery now expected to be much more gradual and take longer to gather pace than previously expected, we must go further and ensure that the business is able to continue successfully navigating the turbulent years ahead. The lack of Government support to waive business rates, in contrast to other industries and airports outside England, puts increased pressure on the business to reduce costs that we can control. Unfortunately, that means that we must now look at reducing colleague costs. Our first priority has always been to protect as many frontline jobs as possible. Following discussions with our union partners over a series of months, we are able to offer a job at market-rate salaries above the London Living Wage for every frontline colleague that wants to remain with the business. We are naturally disappointed that our unions have recommended a rejection of the offer and that Unite is currently balloting their members for industrial action. In the event of a vote for industrial action, we will activate robust contingency plans that will ensure Heathrow remains open and operating safely throughout any coordinated action.

In October we took the prudent and proactive step to raise an additional £1.4 billion in the global bond markets. This debt financing strengthens our liquidity position and completes our 2021 funding programme. In addition, we also signed a new £750 million facility at ADI Finance 2 with net proceeds to be injected into the Heathrow Finance Group to help to provide further headroom to our group gearing covenant level.

With regards to our operations we now have over 80% of incumbent airlines flying, 5 new airlines and 2 more due to join us by the end of the year. We have been working closely with our airline partners to encourage hand backs of unused slots as a result of the suspension of the slot usage rule, and that has allowed us to bring in those new entrants. On the retail side, we now have around 77% of outlets open across Terminals 2 and 5. We have expressed our concerns at the Treasury's announcement of scrapping tax-free shopping for international tourists. The decision will leave Britain as the only country in Europe without a tax-free shopping scheme for international visitors, undermining the UK's competitiveness as an international shopping destination.

Winning the recovery

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. In August our colleagues stepped up and took part in trialling three rapid point of care testing solutions. The trials aim to understand how these tests might be quickly conducted outside of a laboratory. Findings have been shared with Government. They will complement the Government's own learnings about the usability of rapid point of care tests and will strengthen the research being in this area by trialling alternative suppliers. These testing trials are in addition to our proposed testing facility in partnership with Collinson and Swissport, which stands ready and is awaiting a Government green light.

We welcome the newly created Government's Global Travel Taskforce and its commitment to implement a testing regime by 1st December 2020. This taskforce will consider how testing could be introduced to safely reduce the length of quarantine, for instance by implementing "test and release" after 5 days of quarantine. Whilst this is a step in the right direction, travellers needed a firm commitment that a testing regime would be introduced in the near future. The UK's hub airport is no longer the busiest airports in Europe, competitors such as Charles de Gaulle have exceeded us in terms of passenger numbers as they benefit from a testing regime. Without a rapid move to testing, the UK will fall even further behind its European competitors and the economic recovery will fail to get off the ground.

Building back better

Climate change remains the single greatest challenge facing society and our industry over the medium to long term. Climate change has remained a live debate during the crisis and a clean and resilient recovery will be required so that as an industry we can build back better. Our focus remains on taking the lead in getting the aviation industry to net zero-carbon by 2050. We welcome the Government's announcement of aligning aviation within the UK's target net zero carbon emissions by 2050 and we also welcome **one**world member airlines committing to the same goal. Around 20 of the 90 airlines that operate at Heathrow representing around 70% of air transport movements have committed to achieving net zero carbon emissions by 2050 or are already carbon neutral for some of their flight operations.

COVID-19 has highlighted the level of demand risk to which Heathrow is exposed in contrast to regulated entities in other sectors. In its Q6 settlement, the CAA acknowledged that through Section 22 of the Civil Aviation Act 2012 (CAA12) Heathrow could request that its price control be reopened at any time during the regulatory period if Heathrow was impacted by an extreme event before the end of the settlement. The CAA confirmed it would assess any request on its merits at the time it was submitted. In recognition of the extreme nature of the COVID-19 impact. Heathrow has requested that the CAA reopen the current price control and has proposed a mechanism under which the CAA would adjust the Regulatory Asset Base ('RAB') to allow Heathrow to recover excess losses incurred during 2020-2021 over an extended period of time. This would ensure that Heathrow could continue to operate in the interests of consumers while smoothing the impact of this change on passengers over future years. In October, the CAA responded with a consultation document asking for more evidence that regulatory action is needed urgently and ahead of the H7 price control. We are extremely disappointed with this consultation and believe that a further delay in implementing the review of whether the Licence should be reopened, would have a materially adverse impact on consumers. It risks further job losses at Heathrow and will make future improvements for passengers much more expensive. We intend to respond robustly to the CAA with the required evidence.

STRATEGIC PRIORITIES

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

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

The following performance metrics were set for each of the four strategic priorities prior to the COVID-19 outbreak and provide a picture for the 9 months ended 30 September 2020. As Heathrow adapts to these circumstances, we will look to update them. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2019	2020
Colleague promotions	174	**106**
Managerial training	1,069	**348**
Lost time injuries	0.40	**0.14**

(1) For the 9 months ended 30 September

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2019	2020
ASQ	4.16	---(2)
Experience as "excellent" or "very good" %	82.0	---(2)
Baggage connection %	99.0	**99.2**
Departure punctuality %	80.4	**87.3**
Security queuing %	96.4	**95.3**
Connections satisfaction	4.14	---(2)

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

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2019	2020	Var % (2)
UK	3.6	1.2	(66.7)
Europe	25.1	8.4	(66.6)
North America	14.2	3.6	(74.9)
Asia Pacific	8.6	2.5	(70.6)
Middle East	5.8	2.0	(64.9)
Africa	2.6	0.9	(65.4)
Latin America	1.1	0.4	(66.5)
Total passengers	**61.0**	**19.0**	**(68.9)**

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

Other traffic performance indicators (1)	2019	2020	Var % (2)
Passenger ATM	356,317	143,252	(59.8)
Load factors (%)	80.2	61.5	(23.3)
Seats per ATM	213.2	215.2	1.0
Cargo tonnage ('000)	1,189	811.8	(31.7)

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

SUSTAINABLE GROWTH

Climate change remains the single greatest challenge facing society and our industry over the medium to long term. Our challenge is to protect the benefits of aviation in a world without carbon. That means the aviation industry around the world needs to "build back better" from the COVID-19 crisis – recovering in a way that sets us firmly on a path to net zero. The last quarter has seen increasing Government and corporate commitment to action. The **one**world alliance of airlines has committed to net zero by 2050. At a UK level, we welcome the Government's recognition that there is a need to accelerate action to decarbonise aviation. We look forward to contributing to the Government's 'Jet Zero Council', which held its first meeting in July, bringing together aviation, Government and environmental leaders to drive action on sustainable fuel and future zero emission technology.

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

The two key steps we are advocating for in the UK are a fuel blending mandate to drive supply, and a restructuring of Air Passenger Duty ('APD') to cut the price of SAF for airlines who use it. These asks build on those of UK air industry coalition, Sustainable Aviation, which is also calling for loan guarantees from Government, matched by private investment, to open the first two to three UK plants by 2025. Through the global "Clean Skies for Tomorrow Coalition" run by the World Economic Forum, we are advocating for a similar package of measures in the UK and globally and building support for ICAO to set a net-zero goal at its next Assembly.

Key regulatory developments

COVID-19 related RAB adjustment:

In October the CAA published its latest consultation document responding to our request to adjust the RAB to recover excess losses expected to be incurred as a result of the COVID-19 crisis. The CAA have requested further evidence that regulatory action is needed urgently ahead of the H7 regulatory reset in 2022. We intend to respond robustly to the CAA with the required evidence.

Regulatory timetable:

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

Expansion developments

In early October we proceeded with the hearing of our appeal at the Supreme court. There is no fixed timetable for a court judgement to be issued but we currently expect that this will happen in early 2021.

Brexit

The Brexit transition period is due to end on 31 December, at which point the UK would enact a new Trade Agreement with the EU or engage on WTO terms from 1st January 2021. As it stands, talks on the Future Trade Deal are ongoing.

From an aviation perspective, the UK and EU continue to negotiate a Comprehensive Air Transport Agreement (CATA), with both parties publicly stating that aviation is a priority in talks and committing to ensuring future air connectivity. Air Service Agreements are also being renegotiated with key countries that were previously covered by EU membership, with the USA, Canada and Japan already negotiated.

If the UK were to leave the EU without a deal, the UK has said it is working to draw up a bare-bones aviation contingency agreement to ensure planes will continue to fly on 1 January 2021. Heathrow continues to work with Government and internally on our contingency plans and the preparations needed for EU Exit.

FINANCIAL REVIEW

Basis of presentation of financial results

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

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

The wider Heathrow Group can raise finance at both Heathrow SP and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the directors have considered the wider group when assessing going concern. In assessing the going concern position the directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months and the corresponding impact on the covenants associated with financing arrangements. The directors have also considered the period beyond 12 months to December 2021.

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

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

In modelling the impact of COVID-19 on passenger numbers there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective.

Management use Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2019.

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

Revenue

In the 9 months ended 30 September 2020, revenue declined 58.7% to £951 million (2019: £2,302 million). Revenue declined by 71.6% during the third quarter alone compared to the same period last year.

9 months ended 30 September	2019 £m	2020 £m	Var. %
Aeronautical	1,379	530	(61.6)
Retail	536	197	(63.2)
Other	387	224	(42.1)
Total revenue	**2,302**	**951**	**(58.7)**

Aeronautical revenue declined by 61.6%. Aeronautical revenue per passenger increased 23.5% to £27.93 (2019: £22.62). The decline in aeronautical revenue is predominantly due to reduced passenger numbers. Fewer aircraft movements also drove revenue down. Revenue per passenger is largely distorted due to the reduced passenger numbers and an increase in cargo movements which are charged on a per movement basis.

9 months ended 30 September	2019 £m	2020 £m	Var. %
Retail concessions	252	84	(66.7)
Catering	48	16	(66.7)
Other retail	84	37	(56.0)
Car parking	93	34	(63.4)
Other services	59	26	(55.9)
Total retail revenue	**536**	**197**	**(63.2)**

Retail revenue declined by 63.2% driven by reduced passenger numbers. Retail revenue per passenger increased 18.1% to £10.38 (2019: £8.79). Retail income per passenger is largely distorted due to the reduced passenger numbers.

9 months ended 30 September	2019 £m	2020 £m	Var. %
Other regulated charges	181	99	(45.3)
Heathrow Express	87	23	(73.6)
Property and other	119	102	(14.3)
Total other revenue	**387**	**224**	**(42.1)**

Other revenue decreased by 42.1%. Other regulated charges declined 45.3% predominantly as a result of fewer passengers and aircraft movements impacting the ability to recover running costs. Heathrow Express saw a 73.6% decline in revenue due to fewer passengers. Property and other revenue decreased 14.3% driven by targeted rent support as a result of terminal consolidation.

Adjusted operating costs

Adjusted operating costs decreased 17.9% to £692 million (2019: £843 million). Adjusted operating costs per passenger increased by 163.7% to £36.47 (2019: £13.83). Operating costs were down 30.1% during the third quarter alone compared to the same period last year.

9 months ended 30 September	2019 £m	2020 £m	Var. %
Employment	278	212	(23.7)
Operational	204	170	(16.7)
Maintenance	132	104	(21.2)
Rates	88	88	0.0
Utilities and Other	141	118	(16.3)
Adjusted operating costs	**843**	**692**	**(17.9)**

The reduction in operating costs reflect the £200 million of savings realised through management initiatives. These initiatives were largely implemented across April and May while their effect will continue compounding until the end of the year. This was partially offset by increased business resilience costs and a provision for expected credit loss on debtors increasing to £21 million or £1 million higher than reported as at June 2020. Operating costs per passenger are largely distorted due to the reduced passenger numbers and the fixed nature of our cost base in the medium term.

Operating profit / (loss) and Adjusted EBITDA

In the 9 months ended 30 September 2020, the Group recorded an operating loss of £746 million (2019: operating profit of £869 million). In addition to lower revenue, the loss was driven by a reduction in the non-cash fair value of our investment properties of £278 million and exceptional items of £188 million.

Adjusted EBITDA decreased 82.2% to £259 million (2019: £1,459 million), resulting in an Adjusted EBITDA margin of 27.2% (2019: 63.4%).

9 months ended 30 September	2019 £m	2020 £m
Operating profit/ (loss)	**869**	**(746)**
Depreciation and amortisation	585	539
EBITDA	**1,454**	**(207)**
Exceptional items[1]	-	188
Excl. Fair value loss on investment properties	5	278
Adjusted EBITDA	**1,459**	**259**

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

Exceptional items

In the 9 months ended 30 September 2020, there was an exceptional charge of £188 million (2019: nil) to the income statement.

9 months ended 30 September	2019 £m	2020 £m
Business transformation	-	(103)
Asset impairment and write-off	-	(85)
Exceptional pre-tax charge	**-**	**(188)**

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling to suspend the Airports National Policy Statement), the Group has carried out a detailed review of its organisational design to simplify operations and reduce costs. As a result, in the 9 months to 30 September 2020 the Group has incurred £103 million of exceptional costs relating to this transformation programme. The Group has also reviewed their asset portfolio, notably assets under construction. Certain projects have been placed on hold while some projects are unlikely to be re-started in the foreseeable future. This resulted in an exceptional write-off of previously capitalised costs of £85 million in the period. This cost includes £10 million of spend related to expansion, where costs already capitalised will require re-work as a result of the estimated delay of at least two years. These costs remain on the RAB and continue to generate a return.

Loss after tax

In the 9 months ended 30 September 2020, the Group recorded an operating loss before tax of £746 million (2019: operating profit of £869 million) and a loss after tax of £1,376 million (2019: £91 million loss).

9 months ended 30 September	2019 £m	2020 £m
Operating profit / (loss)	**869**	**(746)**
Net finance cost before certain remeasurements	(577)	(506)
Fair value loss on financial instruments	(368)	(265)
Loss before tax	**(76)**	**(1,517)**
Taxation (charge) / credit	(15)	141
Loss after tax	**(91)**	**(1,376)**

Net finance cost before certain re-measurements was £506 million (2019: £577 million) due to the RPI growth rate for the annualised 12-month period to September 2020 falling to 1.6%, down from 2.8% in the same prior period as the global economic crisis continues due to the COVID-19 pandemic.

Fair value losses on financial instruments decreased to £265 million (2019: 368 million) as a result of lower than expected growth in the 1-20 year RPI curve, and an average downward shift of the 6-month LIBOR curve.

Taxation

The tax credit for the 9-month period ended 30 September 2020, before certain re-measurements and exceptional items, was £132 million (2019: £78 million charge), at 16.8% (9 months ended 30 September 2019: 26.3%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the 9-month period, before certain re-measurements and exceptional items. The effective tax rate being lower (2019: higher) than the statutory rate of 19% (2019: 19%) is primarily due to non-deductible expenses reducing the tax credit for the year (2019: non-deductible expenses increasing the tax charge for the year). The total tax credit for the 9-month period ended 30 September 2020 is £141 million (9 months ended 30 September 2019: £15 million tax charge).

For the period, the Group was refunded £67 million (9 months ended 30 September 2019: paid £70 million) in corporation tax from HMRC.

Cash position

In the 9 months ended 30 September 2020, there was a decrease of £652 million in cash and cash equivalents compared with an increase of £100 million in the 9 months ended 30 September 2019.

At 30 September 2020 the Group had £2,028 million (31 December 2019: £1,540 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £163 million (31 December 2019: £815 million).

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

Cash generated from operations

In the 9 months ended 30 September 2020, cash generated from operations decreased 85.3% to £215 million (2019: £1,463 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

9 months ended 30 September	2019 £m	2020 £m
Cash generated from operations	**1,463**	**215**
Exclude:		
Decrease in inventories and trade and other receivables[1]	(53)	(79)
Decrease in payables	27	24
Decrease in provisions	4	5
Difference between pension charge and cash contributions	18	14
Cash payments in respect of exceptional items	-	80
Adjusted EBITDA	**1,459**	**259**

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in the first 9 months of 2020 was £370 million (2019: £649 million).

We invested £304 million (2019: £489 million) in a variety of programmes to ensure the safety and resilience of the airport. We also invested £66 million in the period (2019: £160 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced, and the subsequent wind-down of the project.

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

Expansion-related capital expenditure included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £380 million in Category B costs and £127 million in Category C costs, a total of £507 million (before capitalised interest and after £10m of re-work impairment) is carried in our balance sheet as assets in the course of construction.

Restricted payments

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

In the 9 months ended 30 September 2020, total restricted payments paid by Heathrow SP amounted to £27 million (net) or £107 million (gross) excluding cash pushed down from Heathrow Finance.

Net restricted payments included:

– £107 million (2019: £295 million) payment made by Heathrow SP to Heathrow Finance to primarily fund the £100 million (2019: £300 million) dividends paid to ultimate shareholders. This payment was made in February reflecting cumulative outperformance and before the significant impacts of COVID-19 on our industry were clear or anticipated,

– a net cash inflow of £80 million from Heathrow Finance to Heathrow SP (2019: net cash outflow of £277 million from Heathrow SP to Heathrow Finance).

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

RECENT FINANCING ACTIVITY

In the first 9 months of 2020 we have raised £130 million of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £15 billion debt portfolio. 2020 funding activities have comprised £80 million in Class A debt and £50 million of Heathrow Finance debt. We also drew £2,091 million of debt signed prior to the reporting period.

Debt drawn signed prior to the reporting include:

– £900 million Class A revolving credit and working capital facilities,
– £250 million Class B revolving credit facilities,
– £381 million Class B delayed drawdown bonds closed in March 2020,
– £75 million Class B term debt maturing in 2035, and
– £485 million of Heathrow Finance facilities with maturities ranging between 2026 and 2029.

In addition, we repaid a £400m Class B bond and made £4m of scheduled repayments on the EIB loan. £22.5m of undrawn Heathrow Finance debt was also cancelled.

After the reporting period end, we accessed the Euro, Sterling and Canadian dollar bond markets raising £1.4 billion Sterling equivalent via three transactions. These transactions further strengthen our strong liquidity position and complete our funding plan set out in the June Investor Report.

In addition, we signed a new £750 million facility at ADI Finance 2 to be drawn in December with net proceeds to be injected into the Heathrow Finance Group to provide further headroom to the Group.

Lastly, we have restructured a proportion of existing and completed a series of new interest rate swap transactions. These actions help reduce interest payments over the next two years. This prudent step will contribute to creating more headroom to covenant levels in the short run as traffic recovers.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 September 2020, Heathrow SP's consolidated nominal net debt was £13,082 million (31 December 2019: £12,412 million). It comprised £12,148 million in bond issues, £1,606 million in other term debt, £201 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £5 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,028 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,415 million in senior net debt and £1,667 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 September 2020 was 2.55% (31 December 2019: 3.41%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 September 2020 was 3.40% (31 December 2019: 4.75%). The reduction in the average cost of debt since the end of 2019 is mainly due to recent financing activities at a lower cost.

The average life of Heathrow SP's gross debt as at 30 September 2020 was 10.5 years (31 December 2019: 11.5 years).

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

The accounting value of Heathrow SP's net debt was £13,868 million at 30 September 2020 (31 December 2019: £12,684 million). This includes £2,028 million of cash and cash equivalents and term deposits, and £362 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs for at least 12 months under the extreme stress-test scenario of no revenue, or into 2023 under our traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2.4 billion in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 30 September 2020 as well as funding raised after the reporting period end.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,199 million (31 December 2019: £14,361 million). This comprised Heathrow SP's £13,082 million nominal net debt, Heathrow Finance's nominal gross debt of £2,514 million and cash and term deposits held at Heathrow Finance of £397 million.

Financial ratios

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

At 30 September 2020, Heathrow's RAB was £16,472 million (31 December 2019: £16,598 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 69.3% and 79.4% respectively (31 December 2019: 66.6% and 74.8% respectively) with respective trigger levels of 72.5% and 85%.

Heathrow Finance's gearing ratio was 92.3% (31 December 2019: 86.5%) with a covenant of 95.0%.

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

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 30 September 2020, the defined benefit pension scheme, as measured under IAS 19, was funded at 98.9% (31 December 2019: 100.8%). This translated into a deficit of £50 million (31 December 2019: £33 million surplus). The £83 million increase in the deficit in the 9 months is due to actuarial losses of £97 million, attributable to a decrease in the net discount rate of 0.5% offset by contributions in excess of current service cost of £14 million. In the 9 months ended 30 September 2020, we contributed £32 million (2019: £37 million) into the defined benefit pension scheme including £15 million (2019: £17 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

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

OUTLOOK

Given our recent traffic outturn, UK Government quarantine policy, emergence of a second wave and slow progress on testing regime, we have revised our traffic outlook downward compared to our June investor report.

We anticipate traffic to decline by an additional 6.6 million to 22.6 million passengers against our previous guidance in June, with Adjusted EBITDA underperforming our June Investor Report by around £70 million to c.£290 million. We are also expecting a larger deterioration in traffic for 2021 with passenger volumes declining 54% versus 2019 to 37.1 million passengers. Given the progress made in our business protection plan around cost savings, swaps reprofiling to save interest costs over the next few years, capital injection into the Heathrow Finance group and additional costs reductions under consideration, our forecast assumes no covenant breaches to occur in 2021.

Full financial forecasts will be provided in our December investor report.

SUMMARY OF ADDITIONAL DISCLOSURES

No change in Heathrow Funding Ltd credit ratings – Credit rating agency Standards & Poor's maintains Heathrow Funding Limited's Class A and B debt rating, extending its CreditWatch with negative implications. The agency expects COVID-19 will have a more severe impact than anticipated with traffic volume deteriorating further in 2020 and 2021 as a direct consequence of UK's Government policy on quarantines. In their assessment, Standard & Poor's also places important weight to the upcoming regulatory reset starting on 1 January 2022. Class A and B investment grade credit ratings are unchanged at BBB+ and BBB- respectively.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/no-change-in-heathrow-funding-ltd-credit-ratings/14707345

Heathrow
Making every journey better

Condensed consolidated income statement for the nine months ended 30 September 2020

		Unaudited Nine months ended 30 September 2020				Unaudited Nine months ended 30 September 2019		
		Before certain re-measurements and exceptional items	Certain re-measurements [1]	Exceptional items [2]	Total	Before certain re-measurements	Certain re-measurements [1]	Total
	Note	£m	£m	£m	£m	£m	£m	£m
Continuing operations								
Revenue	*1*	951	-	-	951	2,302	-	2,302
Operating costs	*2*	(1,231)	-	(188)	(1,419)	(1,428)	-	(1,428)
Other operating items:								
Fair value loss on investment properties		-	(278)	-	(278)	-	(5)	(5)
Operating (loss)/profit		**(280)**	**(278)**	**(188)**	**(746)**	874	(5)	869
Financing								
Finance income		10	-	-	10	5	-	5
Finance cost		(516)	(265)	-	(781)	(582)	(368)	(950)
Net finance cost	*4*	**(506)**	**(265)**	**-**	**(771)**	(577)	(368)	(945)
Loss before tax		**(786)**	**(543)**	**(188)**	**(1,517)**	297	(373)	(76)
Taxation credit/(charge)	*5*	**132**	**(10)**	**19**	**141**	(78)	63	(15)
Loss for the period		**(654)**	**(553)**	**(169)**	**(1,376)**	219	(310)	(91)

(1) Certain re-measurements consist of: fair value losses on investment property revaluations and disposals; losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship and the associated tax impact of these including the impact of the UK corporation tax rate change.

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

Condensed consolidated statement of comprehensive income for the nine months ended 30 September 2020

	Unaudited Nine months ended 30 September 2020 £m	Unaudited Nine months ended 30 September 2019 £m
Loss for the period	(1,376)	(91)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions net of tax:		
Gain on plan assets[2]	252	620
Increase in scheme liabilities[2]	(330)	(655)
Change in tax rate	(1)	-
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains taken to equity[2]	5	100
Transfer to/(from) finance cost[2]	12	(77)
Change in tax rate	4	-
Other comprehensive expense for the period net of tax	(58)	(12)
Total comprehensive expense for the period[1]	(1,434)	(103)

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

Condensed consolidated statement of financial position as at 30 September 2020

	Note	Unaudited as at 30 September 2020 £m	Audited[1] as at 31 December 2019 £m
Assets			
Non-current assets			
Property, plant and equipment		11,358	11,561
Right of use asset		256	276
Investment properties		2,244	2,522
Intangible assets		181	176
Retirement benefit surplus		-	33
Derivative financial instruments		695	539
Trade and other receivables		16	18
		14,750	15,125
Current assets			
Inventories		15	13
Trade and other receivables		168	247
Derivative financial instruments		196	-
Term deposits		1,865	725
Cash and cash equivalents		163	815
		2,407	**1,800**
Total assets		**17,157**	**16,925**
Liabilities			
Non-current liabilities			
Borrowings	*6*	(16,925)	(15,948)
Derivative financial instruments		(1,331)	(1,227)
Lease liabilities		(323)	(346)
Deferred income tax liabilities		(872)	(934)
Retirement benefit obligations		(79)	(29)
Provisions		(1)	(1)
Trade and other payables		(6)	(5)
		(19,537)	**(18,490)**
Current liabilities			
Borrowings	*6*	(1,539)	(647)
Derivative financial instruments		(5)	(55)
Lease liabilities		(39)	(38)
Provisions		(25)	(8)
Current income tax liabilities		-	(31)
Trade and other payables		(327)	(430)
		(1,935)	**(1,209)**
Total liabilities		**(21,472)**	**(19,699)**
Net liabilities		**(4,315)**	**(2,774)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(166)	(187)
(Accumulated losses)/retained earnings		(901)	661
Total shareholder's equity		**(4,315)**	**(2,774)**

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

Condensed consolidated statement of changes in equity for the nine months ended 30 September 2020

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings/ (Accumulated losses) £m	Total equity £m
1 January 2019 (previously reported)	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16	-	-	-	-	(89)	(89)
1 January 2019 (re-stated)	**11**	**499**	**(3,758)**	**(216)**	**739**	**(2,725)**
Comprehensive income:						
Profit for the period	-	-	-	-	413	413
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	29	-	29
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	498	498
Increase in scheme liabilities	-	-	-	-	(509)	(509)
Total comprehensive income	**-**	**-**	**-**	**29**	**402**	**431**
Transaction with owners						
Dividends paid to Heathrow Finance plc	-	-	-	-	(480)	(480)
Total transaction with owners	**-**	**-**	**-**	**-**	**(480)**	**(480)**
31 December 2019 (audited) [1]	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
1 January 2020	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,376)	(1,376)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	17	-	17
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	252	252
Increase in scheme liabilities	-	-	-	-	(330)	(330)
Change in tax rate	-	-	-	-	(1)	(1)
Total comprehensive expense	**-**	**-**	**-**	**21**	**(1,455)**	**(1,434)**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	**-**	**-**	**-**	**-**	**(107)**	**(107)**
30 September 2020 (unaudited)	**11**	**499**	**(3,758)**	**(166)**	**(901)**	**(4,315)**

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

Condensed consolidated statement of cash flows for the nine months ended 30 September 2020

	Note	**Unaudited Nine months ended 30 September 2020 £m**	Unaudited Nine months ended 30 September 2019 £m
Cash flows from operating activities			
Cash generated from operations	7	215	1,463
Taxation:			
Corporation tax received/(paid)		67	(70)
Net cash generated from operating activities		**282**	1,393
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(449)	(591)
Investment properties		-	(3)
Increase in term deposits [1]		(1,140)	(269)
Interest received		9	5
Net cash used in investing activities		**(1,580)**	(858)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		(107)	(297)
Proceeds from issuance of bonds		381	783
Repayment of bonds		(402)	(251)
Repayment of facilities and other financing items		(4)	(20)
Increase/(decrease) in amount owed to Heathrow Finance plc		187	(276)
Interest paid [2]		(484)	(486)
Drawdown of revolving credit facilities		1,150	-
Proceeds from issuance of other term debt		155	340
Settlement of accretion on index-linked swaps		(201)	(204)
Payment of lease liabilities		(29)	(24)
Net cash generated from/(used in) financing activities		**646**	(435)
Net (decrease)/increase in cash and cash equivalents		**(652)**	100
Cash and cash equivalents at beginning of period		815	591
Cash and cash equivalents at end of period		**163**	691

(1) Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
(2) Included within interest paid is £12 million of lease interest paid (September 2019: £13 million which was previously included in payment of lease liabilities).

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the nine month period ended 30 September 2020 or any other period. The annual financial information presented herein for the nine month period ended 30 September 2020 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the twelve month period ended 31 December 2019. The auditors' report on the 2019 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation and new accounting standards, interpretations and amendments

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

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

1. SEGMENT INFORMATION

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

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

Table (a)	**Unaudited Nine months ended 30 September 2020 £m**	Unaudited Nine months ended 30 September 2019 £m
Segment Revenue		
Under IFRS 15		
Aeronautical		
Movement charges	199	414
Parking charges	46	55
Passengers charges	285	910
Total Aeronautical revenue	530	1,379
Other regulated charges	99	181
Retail services revenue[1]	197	536
Property revenue[1]	16	21
Rail Income		
Heathrow Express	23	87
Other [1]	9	16
Revenue reported under IFRS 15	874	2,220
Revenue recognised at a point in time	840	2,127
Revenue recognised over time	34	93
Total revenue reported under IFRS 15	**874**	2,220
Under IFRS 16		
Property (lease-related income)[1]	77	82
Total revenue	**951**	2,302
Heathrow	928	2,215
Heathrow Express	23	87
Adjusted EBITDA		
Heathrow	274	1,415
Heathrow Express	(15)	44
Total adjusted EBITDA	259	1,459
Reconciliation to statutory information:		
Depreciation and amortisation	(539)	(585)
Operating (loss)/profit (before certain re-measurements and exceptional items)	**(280)**	874
Exceptional items	(188)	-
Fair value loss on investment properties (certain re-measurements)	(278)	(5)
Operating (loss)/profit	**(746)**	869
Finance income	10	5
Finance cost	(781)	(950)
Loss before tax	**(1,517)**	(76)

(1) Nine months ended September 2019 has been reclassified as follows: £347 million was reclassified from property (lease-related income) under IFRS 16 to retail services revenue under IFRS 15, £82 million was reclassified from property revenue under IFRS 15 to retail services revenue under IFRS 15 and £1 million was reclassified from property revenue under IFRS 15 to other under IFRS 15.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	**Unaudited Nine months ended 30 September 2020**		Unaudited Nine months ended 30 September 2019	
	Depreciation & amortisation[1] £m	**Fair value loss[2] £m**	Depreciation & amortisation[1] £m	Fair value loss[2] £m
Heathrow	(510)	(278)	(545)	(5)
Heathrow Express	(29)	-	(40)	-
Total	**(539)**	**(278)**	(585)	(5)

(1) Includes intangible amortisation charge of £18 million (nine months ended 30 September 2019: £25 million).
(2) Reflects fair value loss on investment properties only.

Table (c)	**Unaudited 30 September 2020**		Audited 31 December 2019	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow	13,341	(342)	13,885	(429)
Heathrow Express	641	(17)	652	(15)
Total operations	**13,982**	**(359)**	14,537	(444)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	2,028	(15,754)	1,540	(14,055)
Retirement benefit assets/(obligations)	-	(79)	33	(29)
Derivative financial instruments	891	(1,336)	539	(1,282)
Deferred and current tax assets/(liabilities)	-	(872)	-	(965)
Amounts owed to group undertakings [1]	-	(2,710)	-	(2,540)
Right of use asset and lease liabilities	256	(362)	276	(384)
Total	**17,157**	**(21,472)**	16,925	(19,699)

(1) For the nine months ended 30 September 2020, an amount of £5 million is now disclosed within 'Heathrow'. This reallocation has been made as the amount relates to external payments received by LHR Airports Limited under the Shared Services Agreement ('SSA') on behalf of Heathrow that will be remitted to Heathrow in due course. Previously this was disclosed as an amount 'owed from Group Undertakings'.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

2. OPERATING COSTS

	Unaudited Nine months ended 30 September 2020 £m	Unaudited Nine months ended 30 September 2019 £m
Employment[1]	212	278
Operational	170	204
Maintenance	104	132
Rates	88	88
Utilities	47	53
Other	71	88
Total operating costs before depreciation and amortisation	692	843
Depreciation and amortisation:		
Property, plant and equipment	492	534
Intangible assets	18	25
Right of Use (RoU) assets	29	26
Operating costs before exceptional items	1,231	1,428
Exceptional items (note 3)	188	-
Total operating costs	**1,419**	1,428

[1] Included within employment costs are government grants of £27 million which relate to reimbursement of employee costs for staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Unaudited Nine months ended 30 September 2020 £m	Unaudited Nine months ended 30 September 2019 £m
Business transformation	(103)	-
Asset impairment and write-off	(85)	-
Total operating loss on exceptional items	**(188)**	-
Tax credit on exceptional items	19	-
Loss on exceptional items after tax	**(169)**	-

Business transformation

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has carried out a detailed review of its organisation designed to simplify operations and reduce costs. Exceptional costs relating to the transformation programme totalled £103 million in the period, these costs primarily consist of people costs which have resulted from changes to the organisational structure.

Asset impairment and write-off

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

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

4. FINANCING

	Unaudited Nine months ended 30 September 2020 £m	Unaudited Nine months ended 30 September 2019 £m
Finance income		
Interest on deposits	10	5
Total finance income	10	5
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments[(1)]	(384)	(402)
Bank loans, overdrafts and related hedging instruments	(48)	(40)
Net interest expense on derivatives not in hedge relationship[(2)]	(4)	(77)
Facility fees and other charges	(7)	(5)
Interest on debenture payable to Heathrow Finance plc	(90)	(76)
Finance cost on lease liabilities	(12)	(13)
	(545)	(613)
Less: capitalised borrowing costs[(3)]	29	31
Total finance cost	(516)	(582)
Net finance cost before certain re-measurements	**(506)**	(577)
Fair value loss on financial instruments		
Interest rate swaps: not in hedge relationship	(49)	(81)
Index-linked swaps: not in hedge relationship	(177)	(293)
Cross-currency swaps: not in hedge relationship	11	23
Ineffective portion of cash flow hedges [(4)]	(12)	(2)
Ineffective portion of fair value hedges [(4)]	(40)	(15)
Fair value re-measurements of foreign exchange contracts and currency	2	-
	(265)	(368)
Net finance cost	**(771)**	(945)

(1) Includes accretion of £20 million for nine months ended 30 September 2020 (nine months ended 30 September 2019: £26 million) on index-linked bonds.
(2) Includes accretion of £57 million for nine months ended 30 September 2020 (nine months ended 30 September 2019: £116 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 4.17% (nine months ended 30 September 2019: 5.02%) to expenditure incurred on such assets.
(4) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

5. INCOME TAX CREDIT/(CHARGE)

	Unaudited Nine months ended 30 September 2020				Unaudited Nine months ended 30 September 2019		
	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax							
Current tax credit/(charge) at 19% (2019: 19%)	98	-	-	98	(100)	-	(100)
Deferred tax:							
Current year credit	34	103	19	156	22	63	85
Change in tax rate	-	(113)	-	(113)	-	-	-
Taxation credit/(charge)	**132**	**(10)**	**19**	**141**	(78)	63	(15)

The total tax credit recognised for the nine months ended 30 September 2020 was £141 million (nine months ended 30 September 2019: £15 million tax charge) on a loss before tax for the nine months ended 30 September 2020 of £1,517 million (nine months ended 30 September 2019: loss before tax £76 million).

The total tax credit before certain re-measurements and exceptional items for the nine months ended 30 September 2020 was £132 million (nine months ended 30 September 2019: £78 million tax charge). Based on a loss before tax and certain re-measurements and exceptional items of £786 million (nine months ended 30 September 2019: profit before tax £297 million), this results in an effective tax rate of 16.8% (nine months ended 30 September 2019: 26.3%). The tax credit for 2020 is less than implied by the statutory rate of 19% primarily due to non-deductible expenses reducing the tax credit for the year (2019: the tax charge was more than implied by the statutory rate of 19% primarily due to non-deductible expenses increasing the tax charge for the year).

In addition, there was an £103 million tax credit (nine months ended 30 September 2019: £63 million tax credit) arising from fair value losses on investment property revaluations and fair value losses on financial instruments, along with a £113m tax charge associated with the impact from the UK corporation tax rate remaining at 19% on deferred tax balances and a £19 million tax credit on exceptional items. The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the government in the 2020 Budget. The headline UK corporation tax rate of 19% was maintained and substantively enacted in March 2020. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

In the November 2018 Budget the Government announced a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property will be available where the construction contract is entered into on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. This relief was increased to 3% from 1 April 2020 in the March 2020 Budget. Heathrow is likely to benefit from tax relief in future years on expenditure which was not eligible under the previous rules. The increase from 2% to 3% was enacted in July 2020.

Due to the exceptional adverse impact of the COVID-19 pandemic, the company is forecasting significant losses during the period ending 31 December 2020. In accordance with updated HMRC guidance, the company has made a claim to request repayment of quarterly instalment payments made in relation to the period ended 31 December 2019 and payments of £72.4m were returned to Heathrow Airport Ltd in September 2020 by HMRC. In 2021 the company intends to submit a loss carry back claim to carry back trading losses arising in the 2020 period against 2019 taxable profits. The impact of the estimated loss carry back claim is reflected in the tax results and balance sheet position of the company as at 30 September 2020.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

6. BORROWINGS

	Unaudited 30 September 2020 £m	Audited 31 December 2019 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	4	4
Heathrow Funding Limited bonds:		
6.000% £400 million due 2020	-	400
£250m Bond 8.5% due 2021	252	-
3.000% CAD450m due 2021	264	-
USD1000m 4.875% bond due 2021	788	-
Total current (excluding interest payable)	**1,308**	**404**
Interest payable – external	220	215
Interest payable – owed to group undertakings	11	28
Total current	**1,539**	**647**
Non-current		
Secured		
Heathrow Funding Limited bonds:		
9.200% £250 million due 2021	-	255
3.000% CAD450 million due 2021	-	260
4.875% US$1,000 million due 2021	-	763
1.650%+RPI £180 million due 2022	222	218
1.875% €600 million due 2022	554	517
5.225% £750 million due 2023	714	703
7.125% £600 million due 2024	595	594
0.500% CHF400 million due 2024	335	307
3.250% CAD500 million due 2025	306	288
4.221% £155 million due 2026	155	155
6.750% £700 million due 2026	694	693
0.450% CHF210 million due 2026	181	167
2.650% NOK1,000 million due 2027	89	85
3.400% CAD400 million due 2028	233	234
7.075% £200 million due 2028	199	200
4.150% AUD175 million due 2028	114	103
2.500% NOK1,000 million due 2029	82	76
3.782% CAD400 million due 2030	242	233
1.500% €750 million due 2030	724	644
6.450% £900 million due 2031	857	855
Zero-coupon €50 million due January 2032	65	58
1.366%+RPI £75 million due 2032	87	87
Zero-coupon €50 million due April 2032	64	57
1.875% €500 million due 2032	452	421
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	55	49
1.875% €650 million due 2034	668	584
0.347%+RPI £75 million due 2035	75	-
0.337%+RPI £75 million due 2035	76	-
1.061%+RPI £180 million due 2036	204	202
0.419%+RPI £51 million due 2038	51	-

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

6. BORROWINGS *CONTINUED*

	Unaudited 30 September 2020 £m	Audited 31 December 2019 £m
Non-current *continued*		
Secured *continued*		
Heathrow Funding Limited bonds *continued*		
3.460% £105 million due 2038	105	-
1.382%+RPI £50 million due 2039	58	58
3.334%+RPI £460 million due 2039	645	638
Zero-coupon €86 million due 2039	82	75
0.800% JPY1,000 million due 2039	75	69
1.238%+RPI £100 million due 2040	114	113
0.362%+RPI £75 million due 2041	75	-
5.875% £750 million due 2041	738	738
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	741
1.372%+RPI £75 million due 2049	87	86
2.750% £400 million due 2049	392	392
0.147%+RPI £160 million due 2058	166	165
Total bonds	**11,476**	11,987
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	418	418
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	200
Revolving credit facilities	1,150	-
Term note due 2026-2037	878	723
Loans	4	8
Unsecured		
Debenture payable to Heathrow Finance plc	2,699	2,512
Total non-current	**16,925**	15,948
Total borrowings (excluding interest payable)	**18,233**	16,352

At 30 September 2020, Heathrow SP's consolidated nominal net debt was £13,082 million. It comprised £12,148 million in bond issues, £1,606million in other term debt, £201 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £5 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,028 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,415 million in senior net debt and £1,667 million in junior debt.

At 30 September 2020, total non-current borrowings due after more than 5 years was £13,045 million, comprising £8,752 million of bonds, £2,699 million debenture payable to Heathrow Finance plc and £1,594 million in bank facilities, excludes lease liabilities.

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was GBP 393 million, EUR 2,000 million, US$ 1,000 million, C$ 1,070 million, CHF 610 million, A$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 30 September 2020		Audited 31 December 2019	
	Nominal at hedge rate £m	**Fair value adjustment [1] £m**	Nominal at hedge rate £m	Fair value adjustment [1] £m
Sterling debt	393	(3)	250	(4)
Euro denominated debt	1,615	(148)	1,615	(70)
USD denominated debt	621	(15)	621	(10)
CAD denominated debt	584	(31)	810	(3)
Other currencies debt	779	(27)	946	3
Designated in fair value hedge	**3,992**	**(224)**	**4,242**	**(84)**

(1) Fair value adjustment is comprised of fair value loss of £201 million (year ended December 2019: £52 million loss) on continuing hedges and £23 million loss (year ended December 2019: £32 million loss) on discontinued hedges.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2020

7. CASH GENERATED FROM OPERATIONS

	Unaudited Nine months ended 30 September 2020 £m	Unaudited Nine months ended 30 September 2019 £m
Loss before tax	**(1,517)**	(76)
Exceptional items	188	-
Loss before tax and exceptional items	**(1,329)**	(76)
Adjustments for:		
Net finance cost	771	945
Depreciation	492	534
Amortisation on intangibles	18	25
Amortisation on right of use assets	29	26
Fair value loss on investment properties	278	5
Working capital changes:		
Decrease in inventories and trade and other receivables	79	53
Decrease in trade and other payables (1)	(23)	(27)
Decrease in provisions (2)	(6)	(4)
Difference between pension charge and cash contributions	(14)	(18)
Cash generated from operations before exceptional items	**295**	1,463
Cash payments in respect of exceptional items	(80)	-
Cash generated from operations	**215**	1,463

(1) Excludes movements relating to capital creditors.
(2) Excludes movements relating to exceptional items.

GLOSSARY

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

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

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

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

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

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

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

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

Interest Cover Ratio 'ICR ' – is trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A ICR trigger ratio is 1.40x; Class A ICR covenant is 1.05x and is calculated as a 3-year trailing average, Class B ICR trigger ratio is 1.20x, Heathrow Finance ICR covenant is 1.00x. As a result of the waiver secured on 8 July 2020, Heathrow Finance's ICR covenant is waived for the financial year ended 31 December 2020

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

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

Regulatory asset ratio 'RAR' – is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 92.5%. As a result of the waiver secured on 8 July 2020, Heathrow Finance's RAR covenant increased to 95.0% for the testing date occurring on 31 December 2020, and 93.5% for the testing date occurring on 31 December 2021.

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.