HEATHROW (SP) LIMITED

RESULTS FOR THE 6 MONTHS ENDED 30TH JUNE 2021

26TH JULY 2021

Heathrow financing remains resilient, in spite of growing losses – Cumulative losses from COVID-19 have grown to £2.9bn. We have taken decisive management action to protect jobs and the financial resilience of the business reducing cash burn by over 50% versus H1 2019, with a 35% reduction in operating costs and a 77% cut in capex. Prudent financing action has increased liquidity by 49% to £4.8 billion since the start of the pandemic, providing sufficient cover to meet all commitments until October 2022 in the extreme no revenue scenario. With continued travel restrictions causing some uncertainty over passenger numbers, we have taken the prudent step to seek creditor approval to waive the Heathrow Finance ICR covenant for FY 2021.

Rebuilding passenger confidence through safe journeys – We have invested in the latest COVID-19 secure technologies and process to achieve the Skytrax 4* rating, the highest achieved by a UK airport. We continue to mandate face coverings in the airport and encourage social distancing to protect passengers and colleagues and rebuild confidence in travel.

Passenger demand increasing from historic lows, but travel restrictions remain a barrier – Fewer than 4 million people travelled through Heathrow in the first six months of 2021, a level that would have taken just 18 days to reach in 2019. Recent changes to the Government's traffic light system are encouraging, but expensive testing requirements and travel restrictions are holding back the UK's economic recovery and could see Heathrow welcome fewer passengers in 2021 than in 2020.

UK falling further behind as European competitors seize economic advantage – Cargo volume at Heathrow, Britain's biggest port, remains 18% down on pre-pandemic levels, while Frankfurt and Schiphol are up by 9%. Britain is losing out on tourism income and trade with key economic partners like the EU and US because Ministers continue to restrict travel for passengers fully vaccinated outside the UK. Trade routes between the EU and the US have recovered to nearly 50% of pre-pandemic levels while the UK remains 92% down.

Financial support should be in place as long as restrictions remain on travel – Travel is now the only sector still facing restrictions, and for as long as it does, Ministers should provide financial support including an extension to the furlough scheme and business rates relief. Heathrow pays nearly £120 million a year in rates, in spite of being loss making; the government is changing policy to prevent us from reclaiming overpayments and we are challenging this in the High Court.

UK Government is showing global leadership with its transport decarbonisation plan – We welcome the UK government's jet zero aviation strategy, which shows that growth in aviation is compatible with achieving net zero emissions by 2050. We also welcome the proposed mandate for progressively increasing use of Sustainable Aviation Fuel (SAF); together with a SAF price stability mechanism this can stimulate a massive increase in production of SAF, creating jobs across the UK.

Heathrow airlines are taking a lead on decarbonising aviation – Heathrow's airlines have already committed to using a higher level of SAF by 2030 than in the Committee on Climate Change's most optimistic case. We recently received our first shipment of SAF, an important proof of concept for blending SAF with kerosene at a major global hub airport.

At or for 6 months ended 30 June	2020	2021	Change (%)
(£m unless otherwise stated)			
Revenue	712	348	(51.1)
Cash generated from operations	294	177	(39.8)
Loss before tax	(1,059)	(868)	18.0
Adjusted EBITDA[(1) (4)]	222	(33)	(114.9)
Adjusted profit / (loss) before tax[(2) (4)]	(471)	(787)	--
Heathrow (SP) Limited consolidated nominal net debt[(3) (4)]	13,131	13,176	0.3
Heathrow Finance plc consolidated net debt[(3) (4)]	15,120	15,222	0.7
Regulatory Asset Base[(5)]	16,492	16,946	2.8
Passengers (million)[(6)]	15.4	3.9	(75.1)

"The UK is emerging from the worst effects of the health pandemic, but is falling behind its EU rivals in international trade by being slow to remove restrictions. Replacing PCR tests with lateral flow tests and opening up to EU and US vaccinated travellers at the end of July will start to get Britain's economic recovery off the ground"

John Holland-Kaye | Heathrow CEO

NOTES

(1) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items
(2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index linked swap accretion and the hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans. 2020 figures are as at 31 December 2020
(4) A reconciliation of our Alternative Performance Measures ('APMs') can be found in note 14
(5) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. 2020 figures are as at 31 December 2020
(6) Changes in passengers are calculated using unrounded passenger numbers

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

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

Monday July 26th 2021

3.00pm (UK time), 4.00pm (Central European Time), 10.00am (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 2020.

OUR RESPONSE TO COVID-19

In May 2021, we celebrated 75 years since Heathrow officially became a commercial airport. This remarkable milestone was an excellent opportunity to reflect on the huge journey of growth undertaken in those 75 years and look ahead at what the next 75 could bring. Before the pandemic, we welcomed over 80 million passengers each year, a massive journey of growth compared to the 63,000 who travelled through Heathrow in 1946. Despite facing the most challenging year in our history so far, we are now preparing for the next 75 years of growth with a more efficient and resilient organisation.

The recent progress in the vaccination rollout in the UK and abroad has enabled governments to start easing travel restrictions. The reopening of international travel in the UK on 17 May 2021 via the traffic light system and fully vaccinated UK residents no longer being required to quarantine when returning from amber list countries brings positive signs that we can soon overcome this crisis. However, further progress is needed. To kickstart Britain's economic recovery, the Government must reopen travel to fully vaccinated people from more countries, particularly our key trading partners like the US.

As a consequence of ongoing political caution around border controls and the gradual reopening of international travel, we revised our forecast, published in our June Investor Report. We now expect 21.5 million passengers to travel through Heathrow in 2021. This forecast was built on the evidence of pent-up demand for travel and reflected the gradual addition of countries to the government 'green list'. Under this forecast, headroom to our Heathrow Finance ICR covenant is limited, given ongoing cashflow generation pressures. We have therefore taken the prudent and proactive step to address the risk of a Heathrow Finance ICR breach by requesting a waiver of the Heathrow Finance ICR covenant for financial year 2021 from our creditors at Heathrow Finance. This consent exercise was announced on 19 July 2021, at which point approximately 71% of our creditors had indicated that, subject to final approvals, they intend to approve the request. Support for the waiver proposal will enable the company to focus on operational delivery, as passenger numbers return in the coming months, to the benefit of all creditors.

Finally, we have taken prudent action and increased our liquidity to £4,759 million of cash as at 30 June 2021, which is providing sufficient cash to meet all obligations into 2025 under our current base case traffic forecast or until October 2022 in the extreme no revenue scenario.

All things considered, our plan to navigate the COVID-19 crisis remains in place, alongside our vision to give passengers the best airport service in the world. Our three-phase plan of protecting the business, winning the recovery and building back better has helped guide our response and prepare the business for a better and greener future.

Protect the business

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

Keep people safe – Safety and security are our first and non-negotiable priorities. Although restrictions have now been lifted, all our COVID-19 safe measures will remain in place at the airport, including face coverings and social distancing, where possible, to protect passengers. We are pleased that our COVID-19 safe programme has been recognised externally by Airports Council International and the CAA. In addition, Heathrow has been upgraded to the prestigious 4 Star COVID-19 Airport Safety Ranking by Skytrax.

Cost mitigation – We continue to operate with costs at the lowest possible and safe level. Since the crisis started in March last year, we implemented early and decisive management actions to reduce costs such as organisational changes, renegotiating our suppliers' contracts, and utilising the government furlough scheme. We are now realising the benefit of these actions with a 22.2% reduction in operating costs in the first six months of 2021 compared to the prior year. Similarly, our capital plan remains reduced to preserve our cash position and focused on projects that ensure the airport's safety and resilience, with £96 million spent in the period compared to £296 million in the prior year. Our cash burn, therefore, has been reduced as a result of our cost mitigation actions. The average monthly cash burn has declined by over 50% during the first half of the year to £80 million from £182 million in the same period in 2020.

Revenue protection and loss mitigation – Whilst we are waiting for traffic to return to normal levels, we are seeking opportunities to optimise our revenue with digital technology such as click & collect and reduce risks associated with bad debts. It is disappointing that the Treasury has baked in a competitive disadvantage for UK tourism by making this the only country in Europe not to offer tax-free shopping. We now continue to work with our retailers to mitigate the impact of this.

Preserving liquidity – Since last quarter, we issued a new AUD125 million private placement. Together with the new bonds raised in the first quarter, we have raised £1.4 billion from global debt capital markets since the start of 2021. The successful transactions demonstrate investors' continued confidence in the airport's strength and resilience. The additional funding means that we can cover our forecast obligations until October 2022 in the extreme stress scenario of no revenue.

Win the recovery

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. The success of the UK vaccination programme with nearly 90% of adults vaccinated with the first dose and nearly 70% fully vaccinated means that we can now restart travel safely.

Traffic Light System – After many months of strict travel restrictions, the UK government implemented a traffic light system on 17 May 2021, allowing international travel to partially resume. The traffic light system is aligned with our proposal to the Global Travel Taskforce earlier this year and classifies countries into three different lists, green, amber and red, depending on their vaccination rate, infection rate and the emergence of variants of concern.

As vaccination rates increase, the Government should grant 'green' status to more low-risk countries. We welcome the news that fully vaccinated UK residents can travel to 'amber list' countries without the need to quarantine on return. However, we encourage the Government to go further by extending this to fully vaccinated passengers of all nationalities arriving from 'amber list' countries, particularly our key markets in the US and EU, by the end of July.

Delaying a meaningful restart of international aviation will not only put pressure on the UK's aviation and tourism sectors but the wider UK economy and the Government's global Britain agenda. We also call for a change to the testing requirements so that testing becomes more affordable, for instance, by removing VAT and integrating cheaper and quicker lateral flow tests.

Gearing up for growth – Following the restart of international travel on 17 May, we have seen an increase in passengers travelling through Heathrow. Over the past few weeks, more destinations have been added to the 'green list' and now fully vaccinated UK residents can travel more freely to 'amber list' destinations. As we prepare for increasing demand, we have taken the prudent step to recommence operations in Terminal 3 for Virgin and Delta airlines and have recommenced operations from two runways. This provides additional capacity and ensures passengers can travel safely and securely through Heathrow in the coming months.

In addition, in June, Terminal 4 was converted to a dedicated facility for arrivals from 'red list' countries. These 'red list' routes have become a crucial part of the UK Government's risk-based framework for international travel and this facility serves 'red list' passengers arriving on direct flights only. Opening this has been very challenging logistically, but we hope that it will enable Border Force to carry out its duties more efficiently as passenger volumes increase. Finally, we continue to support the Border Force in carrying out their checks and implementing adequate resourcing, technologies, and processes to align with the current procedures and demand.

Testing regimes and vaccine development - We have continued to significantly expand our COVID-19 screening services, reaching a capacity of over 400,000 tests per month. Our new partnership with a market-leading testing provider will offer tests to arriving and departing passengers at a competitive price across all terminals and car parks.

Early this month, we started undertaking trials with British Airways and Virgin Atlantic designed to support the Government in lifting some of the restrictions for travellers arriving from 'amber list' countries. These new trials will provide the Government with evidence that inbound travellers from all nationalities can present their fully vaccinated status in digital or paper format as proof of their vaccination status. It can be quickly and easily checked away from the border and allow safe entry to the UK. Anonymised data will be shared with the UK Government at the earliest opportunity, providing real-world insights to support the introduction of a scheme to exempt fully vaccinated passengers from self-isolation.

Working to attract as much traffic as possible – We have been working closely with airline partners to make the most of available capacity under three main strategies:

- Incumbent airline build-back – supporting 80% of incumbent airlines flying, although on reduced schedules;
- Consolidation of London operations at Heathrow rather than other London airports - mainly British Airways and Virgin Atlantic, but also many other airlines
- New entrants - encouraging airline partners to hand back unused slots and this has been aided by the extension of the temporary waiver on airport slot usage rules. The waiver prevents airlines from losing slots if they are unable to use them at least 80% of the time. Fifteen airlines have already taken the opportunity to fly from Heathrow for the first time, including JetBlue, Smartwings, Blueair and China Airlines. As we are the only London airport with a dedicated red arrivals facility, a further 3 airlines have moved their operations to Heathrow including Pegasus Airlines and Nouvelair so they can continue serving London.

Supporting our cargo business – Despite our efforts, cargo volumes were down 17% in the first six months of 2021 compared to the same period in 2019. Heathrow is the UK's biggest port, but most cargo is carried in the hold of passenger planes. Unused slots have allowed more dedicated freight operations, and higher rates for cargo have allowed airlines to keep operating some routes with low passenger load factors. However, this shows the importance of restarting long haul passenger travel to reinstate the UK's supply chain and export routes.

Build back better

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

Heathrow's importance for Global Britain – Heathrow is the UK's only hub airport and biggest port by value. It is set to become even more significant over the coming years in a post-lockdown and post-Brexit economy. New research published on 7 July by the Centre for Economics and Business Research (CEBR) shows that UK aviation can help deliver a huge £200 billion post-Brexit boost through global trade, supporting the Government's Global Britain plans. Heathrow already accounts for two-thirds of all trade transported by air in the UK, by value. This figure rises to over 75% for non-EU trade, with higher value items transported mainly by air rather than the sea in the belly hold of passenger flights. With the Government establishing post-Brexit trading agreements over the coming years, the volume and value of goods exported, particularly to non-EU countries, is set to increase. However, this growth will not be realised unless travel restrictions are eased to resume UK aviation. We continue to push the Government to highlight that the UK risks losing its competitive edge to European countries if international travel is not restarted considerably soon.

Sustainable growth – Taking the carbon emissions out of flying remains an ethical and business imperative for Heathrow. We are playing a leadership role to create momentum to solve the problem across all our carbon emission scopes. Specifically, after achieving the goal of our airport operation becoming carbon neutral, we have successfully incorporated sustainable aviation fuel (SAF) into our main fuel supply. This proof of concept will enable much greater use of SAF going forward - key for the decarbonisation of aviation.

We continue to be at the forefront of the UK aviation industry in pushing for sustainability and removing carbon from the sector. Our CEO, John Holland-Kaye, joined world leaders at the G7 Summit in Cornwall on 11 June. Speaking at a session hosted by His Royal Highness, The Prince of Wales, John asked the leaders of the G7 to reduce aviation emissions by collectively committing to both supply-side and demand-side support for sustainable aviation fuels (SAF). The escalating mandates target 10% SAF use by 2030, growing to at least 50% by 2050, plus a price stability mechanism to stimulate demand. Moreover, last year Heathrow committed to the Sustainable Markets Initiative (SMI), created by HRH, The Prince of Wales. This sees Heathrow working with other private sector businesses to define a roadmap towards a sustainable economy. Discussions were focussed on how the private sector can work with governments to tackle the climate emergency, including driving corporate demand for SAF to help further stimulate the market.

Action in the UK alone will not be enough and risks offshoring emissions - climate change is a global issue and requires a global response. We will support the Government in its efforts to secure an international agreement for net-zero aviation by the end of next year. As the COP26 host government, now is the opportune moment for policymakers to signal the need for a global net-zero target.

Policy and regulatory matters – We continue to engage with the CAA on the assumptions and approach to the next price control period (H7) due to start in 2022. In June 2021, we submitted an update of our Revised Business Plan (RBP), and we expect the CAA to publish its Initial Proposals for the H7 period later in 2021. We recognise the uncertainties ahead and that significant aspects of our plan will be outside of our control, including the recovery of passenger demand or the full implementation of our proposed RAB (Regulatory Asset Base) adjustment. We therefore continue consulting with the CAA on the critical issues regarding Heathrow's future regulatory framework.

STRATEGIC PRIORITIES

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

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

The following performance metrics were set for each of the four strategic priorities and provide a picture for the 6 months ended 30 June 2021. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2020	2021
Colleague promotions(2)	74	93
Managerial training	348	52
Lost time injuries	0.21	**0.15**

(1) For the 6 months ended 30 June
(2) 2020 comparative restated

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2020	2021
Airport Service Quality - ASQ	---(2)	**4.29**
Experience as "excellent" or "very good" %	---(2)	---(2)
Baggage connection %	99.1	99.1
Departure punctuality %	86.0	86.3
Security queuing %	97.3	98.2
Connections satisfaction	---(2)	**---(2)**
Cleanliness (QSM)	---(2)	**4.54**

(1) For the 6 months ended 30 June
(2) Passenger satisfaction and research was temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2020	2021	Var % (2)
UK	1.0	0.5	(51.0)
Europe	6.0	1.5	(74.4)
North America	3.3	0.5	(85.8)
Asia Pacific	2.3	0.5	(77.0)
Middle East	1.7	0.4	(75.2)
Africa	0.8	0.4	(55.5)
Latin America	0.3	0.1	(83.3)
Total passengers	**15.4**	**3.9**	**(75.1)**

(1) For the 6 months ended 30 June
(2) Calculated using unrounded passenger figures

Other traffic performance indicators (1)	2020	2021	Var % (2)
Passenger ATM	108,125	61,235	(43.4)
Load factors (%)	65.3	40.0	(38.7)
Seats per ATM	218.4	157.0	(28.1)
Cargo tonnage ('000)	550	665	20.9

(1) For the 6 months ended 30 June
(2) Calculated using unrounded passenger figures

SUSTAINABLE GROWTH

Despite the considerable impact of COVID-19 on our business, sustainability remains core to our strategy. We are working on reviewing and updating our sustainability plan, Heathrow 2.0, adapting it for the new reality Heathrow is operating in as we recover from the pandemic and focusing our efforts where we can have the greatest impact as we build back better. We will share the detail of our revised strategy later in 2021.

While we work on the detail of our revised plan, we remain committed to delivering outcomes that reflect the most material colleague, community and environmental issues for Heathrow.

Net zero aviation

Decarbonising the aviation sector remains a key priority of our sustainable growth plan. Government adoption of the Climate Change Committee's sixth carbon budget has added further impetus to aviation decarbonisation, and we look forward to the imminent publication of DfT's Net Zero Aviation Consultation which will help to inform how it will be achieved. In early June, Heathrow became the first UK major airport to successfully integrate Sustainable Aviation Fuels (SAF) into its operation, ahead of the G7 Summit. The supply, equivalent to fuel needed to power between 5-10 short haul flights, aims to serve as proof of concept to enable much greater use of SAF going forward. Sustainable Aviation Fuels are key to taking the carbon out of flying – but the Government must act now to introduce a mandate that requires a minimum of 10% SAF use by airlines by 2030, rising to at least 50% by 2050. Currently, 62% of Heathrow airlines have committed to 10% SAF by 2030, ahead of the Climate Change Committee target of 7.5%.

Additionally, we are leading an 18 month ten-strong consortium, funded by the Innovate UK 'Future Flight' programme, researching the introduction of hydrogen and electric aircraft into the aviation system. It will shed light on the implications of clean propulsion technologies for airport infrastructure, as well as operational, commercial and public acceptance issues, and build greater confidence in timelines for entry into service.

Net zero 'high ambition' coalitions for aviation continue to gather momentum, particularly through World Economic Forum's 'Clean Skies for Tomorrow' and the Prince of Wales' Sustainable Markets Initiative (SMI). These are supporting policy ambition to achieve a global net zero target at ICAO 2022 and pressing for urgent support for SAF.

A great place to live

We continue to support the Heathrow Community Trust (HCT), an independent grant-making charity that funds projects which improve communities' quality of life near the airport. In February we donated £41,000, after we outperformed ESG metrics built into our revolving credit facilities. This money has been awarded as small COVID-19 resilience grants of up to £5,000 to 15 organisations supporting people in the 9 boroughs neighbouring Heathrow through the development of services in response to new needs arising from the impact of the pandemic. Examples of organisations and projects receiving funding include Hillingdon Women's Centre to support victims of domestic violence and Ujala Foundation in Slough to run a regular tea and coffee delivery service and lunch club for elderly people.

In the first six months of 2021, there were 15 instances of late running aircraft. Although this low number largely reflects the operational impacts of the pandemic, as the airport recovers, we remain committed to reducing the number of late runners through collaborative initiatives such as the quiet night charter.

Key regulatory developments

CAA consultations - In April, the CAA published three key documents relating to the regulation of Heathrow. These documents cover a number of key issues regarding Heathrow's future regulatory framework and potential adjustments to the RAB ahead of the H7 period:

- Response to Heathrow's request for a COVID-19 related RAB adjustment.
- Working paper on Q6 capital expenditure and early expansion costs.
- Way Forward document. This document sets out the CAA's initial assessment of our RBP and provides further thinking on key policy issues for the H7 period.

In response to the CAA, we expressed that the CAA has a key role to play to support our financeability and its recognition of the impact of COVID-19 on Heathrow's position. While it is positive that the CAA accepted the need to act in its decision to implement a £300m adjustment to Heathrow's RAB, the scale of the adjustment is disappointing and indicates that the CAA does not understand the magnitude of the challenge posed by COVID-19. We set out clearly the need to return to an A- credit rating through H7 to ensure financeability and ensure that the CAA takes an informed approach to equity financeability. We reiterated the need for a move to revenue risk sharing in order to readdress and provide clarity around the balance of risk and reward in the price control. We also reinforced the need for a flexible and adaptable regulatory framework alongside this risk sharing mechanism through our capital efficiency framework and uncertainty mechanisms in our price control condition to ensure that the H7 settlement is fit for purpose and able to react to the potential uncertainties ahead.

Revised Business Plan update - Alongside our consultation responses, we published an update to our December 2020 Revised Business Plan (RBP) to the CAA and airlines. This provided an update to the assumptions underlying our December RBP to reflect the changes we have seen since then and ensure that the CAA has the most up to date evidence base available on which it can build its Initial Proposals.

Our Update is built around two scenarios:

1. A 'Full Adjustment' scenario where the CAA implements the full RAB adjustment requested by Heathrow of £2.5bn (2018 price).
2. A 'Low Adjustment' scenario where the CAA implements only its £300m RAB adjustment.

We are confident that our 'Full Adjustment' plan and the investment it facilitates is in the interests of consumers. Other key changes to our RBP assumptions include:

- Our passenger forecast has gone down versus the forecast shown in the RBP from a forecast total of 325.5m passengers in H7 to 317.7m passengers across H7 in our mid case forecast (P50). This largely reflects a lower forecast for 2022.
- We have proposed an increase to our capital plan from a maximum plan of £3.5bn across H7 to £4.2bn over the period. This is mainly due to safety spend, the inclusion of an allowance for airspace modernisation to allow us to

make meaningful progress on decarbonisation and the inclusion of capital for future solutions on Terminal 2 baggage and connectivity and efficiency in the Western Campus.

Under its current timetable, the CAA is planning to publish its Initial Proposals for the H7 period later in 2021. The H7 period is due to start in 2022.

Expansion developments

Currently, our main focus is on working to safely restart international travel and trade to help kickstart the UK's economic recovery. However, when demand returns to pre-COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions. Following the Supreme Court's decision in December 2020 and after consulting with our airline community and the CAA, we reopened our Interim Property Hardship Scheme in early May 2021 and continue to engage with our local communities. We will continue to consult with investors, Government, airline customers and regulators on our next steps.

Brexit

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

Principal Risks

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

FINANCIAL REVIEW

Basis of presentation of financial results

Heathrow (SP) Limited 'Heathrow SP' is the holding company of a group of companies (the 'Group'), which includes Heathrow Airport Limited ('HAL') which owns and operates Heathrow airport, and Heathrow Express Operating Company Limited ('Hex Opco') which operates the Heathrow Express rail service. Heathrow SP's consolidated accounts are prepared in accordance with UK adopted international accounting standards.

The directors have prepared the financial information presented within these financial statements for Heathrow SP on a going concern basis. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to undertake further actions, including identifying additional cost savings and seeking a further covenant waiver or amendment from Heathrow Finance creditors. Accordingly, on 19 July, the Group launched a public consent process to seek approval from Noteholders for a waiver of the Heathrow Finance ICR for the period ended 31 December 2021. The Group has also commenced discussions with its private lenders and investors over the same request to waive the Heathrow Finance ICR for the period ended 31 December 2021. Whilst the Directors are confident they will receive support from creditors, there is no certainty a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern. More detail can be found in the going concern statement on page 20.

Alternative performance measures

Management uses Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. A reconciliation of our APMs has been included in note 14.

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

Summary performance

In the 6 months ended 30 June 2021, the Group's revenue declined by 51.1% to £348 million (2020: £712 million). Adjusted EBITDA declined to a £33 million loss (2020: £222 million). The Group recorded a £917 million loss after tax (2020: £998 million loss).

6 months ended 30 June	2020 £m	2021 £m
Revenue	712	348
Adjusted operating costs[1]	(490)	(381)
Adjusted EBITDA[2]	222	**(33)**
Depreciation and amortisation	(358)	(409)
Adjusted operating loss[3]	(136)	**(442)**
Net finance costs before certain re-measurements and exceptional items	(335)	(345)
Adjusted loss before tax[4]	(471)	**(787)**
Tax credit on profit before certain re-measurements and exceptional items	78	143
Adjusted loss after tax[4]	(393)	**(644)**

Including certain re-measurements and exceptional items		
Fair value (loss)/gain on investment properties	(252)	25
Fair value loss on financial instruments	(214)	(106)
Exceptional items	(122)	-
Tax credit on certain re-measurements and exceptional items	96	20
Change in tax rate	(113)	(212)
Loss after tax	(998)	**(917)**

(1) Adjusted operating costs excludes depreciation amortisation, fair value adjustments on investment properties and exceptional items which are explained further in note 3
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties and exceptional items.
(3) Adjusted operating loss excludes fair value adjustments on investment properties and exceptional items.
(4) Adjusted loss before and after tax excludes fair value adjustments on investment properties and financial instruments, exceptional items and the associated tax impact of these including the impact of the UK corporation tax change.
(5) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change

Revenue

In the 6 months ended 30 June 2021, revenue declined 51.1% to £348 million (2020: £712 million). Revenue increased by 53.8% during the second quarter in isolation compared to the same period last year, reflecting the increase of passengers.

6 months ended 30 June	2020 £m	2021 £m	Var. %
Aeronautical	398	169	(57.5)
Retail	150	59	(60.7)
Other	164	120	(26.8)
Total revenue	**712**	**348**	**(51.1)**

Aeronautical revenue declined by 57.5%. The decline in aeronautical revenue is predominantly due to reduced passenger numbers. Fewer aircraft movements also drove revenue down. In the second quarter in isolation, we saw an increase versus the first quarter reflecting the recent recovery in passengers due to the reopening of international travel. Revenue per passenger is distorted mainly due to the reduced passenger numbers and increased cargo movements charged on a per movement basis.

6 months ended 30 June	2020 £m	2021 £m	Var. %
Retail concessions	63	17	(73.0)
Catering	13	6	(53.8)
Other retail	28	16	(42.9)
Car parking	26	9	(65.4)
Other services	20	11	(45.0)
Total retail revenue	**150**	**59**	**(60.7)**

Retail revenue declined by 60.7% driven by reduced passenger numbers and the mix of retail service available due to governmental restrictions on non-essential shops in the first five months of the year. This decrease is offset by the application of contractual terms with concessionaires, targeted promotions and a number of non-essential retailers offering a Pre-order and Collect service.

6 months ended 30 June	2020 £m	2021 £m	Var. %
Other regulated charges - ORCs	74	57	(23.0)
Heathrow Express	21	4	(81.0)
Property and other	69	59	(14.5)
Total other revenue	**164**	**120**	**(26.8)**

Other revenue decreased by 26.8%. Other regulated charges declined 23.0% predominantly because of fewer passengers and aircraft movements impacting the ability to recover running costs in the year. In February 2021, we agreed with our airline community and regulator an Airport Cost Recovery Charge - an £8.90 flat fee applying to all departing passengers, this removed the need for a more significant price increase at that time, across all Other Regulated Charges (ORCs) such as baggage. Heathrow Express saw a 81.0% decline in revenue due to fewer passengers. Property and other revenue decreased 14.5% although the decrease has been protected by actions taken by management such as targeted rental alleviation and minimising tenant vacations.

Adjusted operating costs

Adjusted operating costs decreased 22.2% to £381 million (2020: £490 million). Operating costs were down 7.5% during the second quarter in isolation compared to the same period last year.

6 months ended 30 June	2020 £m	2021 £m	Var. %
Employment	149	121	(18.8)
Operational	119	89	(25.2)
Maintenance	75	60	(20.0)
Rates	59	60	1.7
Utilities and Other	88	51	(42.0)
Adjusted operating costs	**490**	**381**	**(22.2)**

Operational costs have decreased by over 22% as a consequence of the management initiatives implemented throughout 2020. This includes employment costs due to our organisational restructure and the Government's furlough scheme. We have received £16 million benefit this year through the Government's furlough scheme (2020: £17 million). The decline in operational, maintenance, utilities and other costs result from the consolidation of operations and renegotiating our suppliers' contracts and stopping all non-essential costs. Despite a significant 75.1% reduction in traffic, Government business rates have increased by 1.7%, evidencing limited government support. Cost savings were partially offset by business resilience costs, including costs associated with recommencing our operations through Terminals 3 and 4.

Operating loss and Adjusted EBITDA

In the 6 months ended 30 June 2021, the Group recorded an operating loss of £417 million (2020: operating loss of £510 million). The loss was largely driven by lower revenue and mitigated by management actions to reduce costs.

Adjusted EBITDA decreased 114.9% to a £33 million loss (2020: £222 million).

6 months ended 30 June	2020 £m	2021 £m
Operating loss	**(510)**	**(417)**
Depreciation and amortisation	358	409
EBITDA	**(152)**	**(8)**
Exceptional items	122	-
Excl. Fair value loss/(gain) on investment properties	252	(25)
Adjusted EBITDA	**222**	**(33)**

Loss after tax

In the 6 months ended 30 June 2021, the Group recorded an operating loss before tax of £417 million (2020: £510 million loss) and a loss after tax of £917 million (2020: £998 million).

6 months ended 30 June	2020 £m	2021 £m
Operating loss	**(510)**	**(417)**
Net finance cost before certain remeasurements	(335)	(345)
Fair value loss on financial instruments	(214)	(106)
Loss before tax	**(1,059)**	**(868)**
Taxation credit/(charge)	61	(49)
Loss after tax	**(998)**	**(917)**

Net finance cost before certain re-measurements was £345 million (2020: £335 million) due to RPI growth rate for the 12-months to June 2021 increasing to 2.9%, up from 1.5% in the same prior period, offset by the impact of the swap restructuring programme.

Fair value losses on financial instruments decreased to £106 million (2020: £214 million) because of increasing interest rate expectations due to the upward shift of both the 6-month LIBOR and Sonia curves.

Taxation

The tax credit for the 6-month period ended 30 June 2021, before certain re-measurements, was £143 million (2020: £78 million), at an effective tax rate of 18.2% (6 months ended 30 June 2020: 16.6%). This rate represents the best estimate of the effective tax rate expected for the full year, applied to the pre-tax loss of the 6-month period, before certain re-measurements. The effective tax rate being lower (2020: lower) than the statutory rate of 19% (2020: 19%) is primarily due to non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

The total tax charge for the 6-month period ended 30 June 2021 is £49 million (6 months ended 30 June 2020: £61 million credit), representing the sum of the tax credit on losses before certain re-measurements of £143m, the tax credit on certain re-measurements of £20m and a £212m charge to re-measure the deferred tax balances for the increase in corporation tax rate to 25% from 1 April 2023. For the period, the Group did not pay any corporation tax (6 months ended 30 June 2020: paid £5 million).

Cash position

In the 6 months ended 30 June 2021, there was an increase of £6 million in cash and cash equivalents (2020: a decrease of £465 million).

At 30 June 2021, the Group had £4,441 million (31 December 2020: £3,516 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £286 million (31 December 2020: £280 million).

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

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

Cash generated from operations

In the 6 months ended 30 June 2021, cash generated from operations decreased 39.8% to £177 million (2020: £294 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

6 months ended 30 June	2020 £m	2021 £m
Cash generated from operations	**294**	**177**
Exclude:		
Decrease in inventories and trade and other receivables(1)(2)	(132)	(256)
Decrease in payables	25	48
Decrease in provisions	5	1
Difference between pension charge and cash contributions	10	(11)
Cash payments in respect of exceptional items	20	8
Adjusted EBITDA	**222**	**(33)**

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

Capital expenditure

Total capital expenditure in the first 6 months of 2021 was £96 million (2020: £296 million) excluding capital creditors or £96 million (2020: £376 million) including capital creditors movements. We are investing in various programmes to ensure the airport's safety and resilience. We also invested £7 million in the period (2020: £65 million) on projects related to expansion.

Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, Kilo Apron development, back-office systems upgrades and renewal of assets that have come to the end of their economic life.

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 £382 million in Category B costs and £133 million in Category C costs, a total of £515 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 6 months ended 30 June 2021, no restricted payments were made 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 and was reported in June and December 2020. The trigger event also resulted in £71 million of interest being capitalised on the Heathrow SP Debenture and leading to an amount of £71 million owed to Heathrow Finance.

The trigger event means that cash is trapped within the Group and cannot be distributed to Heathrow Finance to service debt, nor to pay dividends to ultimate shareholders. Heathrow Finance itself has liquidity of £318 million, which can cover debt service until 2024 when the next debt maturity occurs.

RECENT FINANCING ACTIVITY

In the first 6 months of 2021 we have raised £1.4 billion of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £15 billion debt portfolio.

Class A financing activities included:

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

Class B financing activities included:

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

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 June 2021, Heathrow SP's consolidated nominal net debt was £13,176 million (31 December 2020: £13,131 million). It comprised £14,679 million in bond issues, £1,604 million in other term debt, £181 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities post transition to IFRS 16. This was offset by £4,441 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,964 million in senior net debt and £2,212 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 June 2021 was 0.68% (31 December 2020: 0.87%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 June 2021 was 1.64% (31 December 2020: 1.48%). The increase in the average cost of debt since the end of 2020 is mainly due to an increase in inflation, partially offset by savings from further swap reprofiling in the first 6 months of the year. Excluding the impact of our swap portfolio reprofiling initiated in 2020, Heathrow SP's average cost of debt at 30 June 2021 was 2.64% excluding index-linked accretion and 3.60% including index-linked accretion

The average life of Heathrow SP's gross debt as at 30 June 2021 was 9.7 years (31 December 2020: 10.3 years).

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

The accounting value of Heathrow SP's net debt was £13,605 million at 30 June 2021 (31 December 2020: £13,886 million). This includes £4,441 million of cash and cash equivalents and term deposits, and £373 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 at least October 2022 under the extreme stress-test scenario of no revenue, or well into 2025 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 £4,759 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 30 June 2021.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,222 million (31 December 2020: £15,120 million). This comprised Heathrow SP's £13,176 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £318 million.

Financial ratios

At 30 June 2021, Heathrow SP continues to operate comfortably within required financial ratios. Heathrow Finance's gearing ratio remained within required default covenant level although headroom has reduced significantly. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB').

At 30 June 2021, Heathrow's RAB was £16,946 million (31 December 2020: £16,492 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.7% and 77.8% respectively (31 December 2020: 68.4% and 79.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 89.8% (31 December 2020: 91.7%) with a covenant of 93.5%.

As of 30 June 2021, a forecasting event and trigger event have 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. As a result, a distribution lock-up is in place within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 30 June 2021, the defined benefit pension scheme, as measured under IAS 19, was funded at 102.6% (31 December 2020: 100.3%). This translated into a surplus of £116 million (31 December 2020: £12 million). The £104 million increase in the surplus in the 6 months is largely due to actuarial gains of £116 million, attributable to an increase in the net discount rate of 0.55% offset by current service cost of £12 million. In December 2020, we prepaid £35 million into the defined benefit pension scheme to cover 2021 contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

Jorge Gil resigned as a Non-Executive Shareholder Director for Heathrow Airport Holdings Limited, FGP Topco Limited, ADI Finance 1 Limited and ADI Finance 2 Limited with effect from 23 June 2021. He was replaced by Luke Bugeja as a Non-Executive Shareholder Director for Heathrow Airport Holdings Limited, FGP Topco Limited, ADI Finance 1 Limited and ADI Finance 2 Limited on the same date.

Joan MacNaughton was appointed to the Board as an independent Non-Executive Director with effect from 14 June. Ms MacNaughton brings a wealth of board experience in industry, government, academia and the third sector to the leadership team of Heathrow and at a critical time in its history. Ms MacNaughton currently chairs the Board of the Climate Group; is a Non-Executive Director of En+Group IPJSC, where she chairs the Health, Safety and Environment Committee; and is a member of the Strategic Advisory Board of Engie UK plc.

OUTLOOK

The outlook for our adjusted EBITDA performance in 2021 remains consistent with the revised guidance published in our June Investor Report on 11 June 2021. Our updated traffic forecast is 21.5 million passengers in 2021, representing a 2.7% decline compared to 2020 but a dramatic 73.4% decline vs 2019. This Base Case traffic forecast, detailed in our June Investor Report, reflects the ongoing political caution around border controls and the expected gradual addition of countries to the UK government's 'green list' over the balance of the year.

Under the base case scenario, no covenant breaches are forecast across the wider Group. However, the headroom to our Heathrow Finance ICR covenant is expected to be limited given ongoing pressures on our cash flow generation. Management has stress tested the base case due to the uncertainty in passenger recovery and has adopted a severe but plausible case of 13.0m passengers. In this scenario, the Heathrow Finance ICR would be breached for 31 December 2021; no other breaches are forecast across the wider Group.

We have therefore taken the prudent and proactive step to address the risk of a Heathrow Finance ICR breach by requesting a waiver of the Heathrow Finance ICR covenant for financial year 2021 from our creditors. This consent exercise was announced on 19 July 2021. Support for the waiver proposal will enable the company to focus on operational delivery as passenger numbers recover in the coming months to the benefit of all creditors. Whilst the Directors are confident they will receive support from creditors, there is no certainty a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern (refer to page 20 for further information).

Our liquidity position remains strong with £4,759 million of cash as of 30 June 2021, which provides sufficient cash to meet all obligations into 2025 under our base case traffic forecast or until October 2022 in the extreme no revenue scenario.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

This report was approved and authorised by the Board and was issued on behalf of the Board on 25 July 2021.

Javier Echave
Director

Nicholas Golding
Director

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Heathrow announces change to its Board - Heathrow Airport Holdings Limited has appointed Joan MacNaughton to its Board as a Non-Executive Director. Ms MacNaughton will bring a wealth of board experience in industry, government, academia and the third sector to the leadership team of Heathrow and at a critical time in its history.

Full RNS available here: Board Appointment - 17:56:49 08 Jun 2021 - News article | London Stock Exchange

Heathrow appoints Luke Bugeja to its Board - Heathrow Airport Holdings Ltd has today announced that Luke Bugeja will join the airport's Board as a Non-Executive Director. Mr Bugeja has over 30-years' experience in the aviation industry. He previously held senior positions at Changi Airports International in Singapore, as well as Board positions at London City, Brussels, Copenhagen and Bristol airports. He also spent 16 years working in the airline business at Qantas and Virgin Blue in Australia. His breadth of experience across the entire aviation value chain - including operations, commercial and financial and investment - will be a welcome addition to the Heathrow Board and help the airport navigate the current COVID-19 crisis while remaining focused on providing excellent service and value for money to passengers.

Full RNS available here: Board Appointment - 17:45:07 10 Jun 2021 - News article | London Stock Exchange

Publication of Final Terms - The final terms ("Final Terms") for the issue of A-54 AUD 125,000,000 3.500 per cent. Fixed Rate Unwrapped Bonds due 2043 (the "A-54 Bonds") issued by Heathrow Funding Limited (the "Issuer") under the Issuer's multicurrency programme for the issuance of bonds (the "Programme") are available for viewing.

Full RNS available here: Publication of Final Terms - 08:18:26 25 Jun 2021 - News article | London Stock Exchange

Consent Solicitation - Heathrow Finance plc - Heathrow Finance plc (the Issuer) announces today separate invitations (together the Consent Solicitation) to Noteholders of each class of notes described in the table below (together the Notes and each class of the Notes a Class) to consent to certain amendments and waiver with respect to the terms and conditions of each Class, as proposed by the Issuer (each a Proposal and together the Proposals) for approval by an Extraordinary Resolution at separate meetings (including any adjourned such meetings) of the holders of each Class (each a Meeting and together the Meetings).

Full RNS available here: Consent Solicitation - Heathrow Finance plc - 13:46:49 19 Jul 2021 - News article | London Stock Exchange

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the six months ended 30 June 2021

		Unaudited Six months ended 30 June 2021			Unaudited Six months ended 30 June 2020			
		Before certain re-measurements (1)	Certain re-measurements (2)	Total	Before certain re-measurements and exceptional items(1)	Certain re-measurements (2)	Exceptional items (3)	Total
	Note	£m	£m	£m	£m	£m	£m	£m
Continuing operations								
Revenue	*1*	348	-	348	712	-	-	712
Operating costs	*2*	(790)	-	(790)	(848)	-	(122)	(970)
Other operating items:								
Fair value gain/(loss) on investment properties	*7*	-	25	25	-	(252)	-	(252)
Operating loss		(442)	25	(417)	(136)	(252)	(122)	(510)
Financing								
Finance income		4	-	4	8	-	-	8
Finance cost		(349)	(106)	(455)	(343)	(214)	-	(557)
Net finance cost	*4*	(345)	(106)	(451)	(335)	(214)	-	(549)
Loss before tax		(787)	(81)	(868)	(471)	(466)	(122)	(1,059)
Taxation credit		143	20	163	78	89	7	174
Change in tax rate		-	(212)	(212)	-	(113)	-	(113)
Taxation credit/(charge)	*5*	143	(192)	(49)	78	(24)	7	61
Loss for the period (4)		(644)	(273)	(917)	(393)	(490)	(115)	(998)

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

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2021

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss for the period	(917)	(998)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
(Loss)/gain on plan assets(1)	(119)	296
Decrease/(increase) in scheme liabilities(1)	206	(377)
Change in tax rate	(1)	(1)
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains taken to equity(1)	4	31
Transfer to finance cost(1)	21	(19)
Change in tax rate	(12)	4
Change in tax rate on other opening balances	(5)	-
Other comprehensive income/(expense) for the period net of tax	**94**	(66)
Total comprehensive expense for the period(2)	**(823)**	(1,064)

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

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of financial position as at 30 June 2021

	Note	Unaudited as at 30 June 2021 £m	Audited[1] as at 31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment	6	10,836	11,136
Right of use assets		268	285
Investment properties	7	2,146	2,118
Intangible assets		179	182
Retirement benefit surplus	10	116	12
Derivative financial instruments	9	463	656
Trade and other receivables		22	20
		14,030	**14,409**
Current assets			
Inventories		14	14
Trade and other receivables		229	496
Current income tax assets		1	1
Derivative financial instruments	9	149	146
Term deposits		4,155	3,236
Cash and cash equivalents		286	280
		4,834	**4,173**
Total assets		**18,864**	**18,582**
Liabilities			
Non-current liabilities			
Borrowings	8	(19,150)	(18,635)
Derivative financial instruments	9	(1,463)	(1,134)
Lease liabilities		(333)	(349)
Deferred income tax liabilities		(888)	(784)
Retirement benefit obligations	10	(30)	(31)
Provisions		(1)	(1)
Trade and other payables		(5)	(6)
		(21,870)	**(20,940)**
Current liabilities			
Borrowings	8	(2,158)	(1,928)
Derivative financial instruments	9	(25)	(21)
Lease liabilities		(40)	(43)
Provisions		(7)	(15)
Trade and other payables		(344)	(392)
		(2,574)	**(2,399)**
Total liabilities		**(24,444)**	**(23,339)**
Net liabilities		**(5,580)**	**(4,757)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(160)	(173)
Accumulated losses		(2,172)	(1,336)
Total shareholder's equity		**(5,580)**	**(4,757)**

(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 2020.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of changes in equity for the six months ended 30 June 2021

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings/ (Accumulated losses) £m**	**Total equity £m**
1 January 2020	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,785)	(1,785)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	10	-	10
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	389	389
Increase in scheme liabilities	-	-	-	-	(492)	(492)
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(1)	(1)
Total comprehensive income/(expense)	**-**	**-**	**-**	**14**	**(1,890)**	**(1,876)**
Transaction with owners						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	**-**	**-**	**-**	**-**	**(107)**	**(107)**
31 December 2020 (audited) [1]	**11**	**499**	**(3,758)**	**(173)**	**(1,336)**	**(4,757)**
Comprehensive income:						
Loss for the period	-	-	-	-	(917)	(917)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	25	-	25
Change in tax rate	-	-	-	(12)	-	(12)
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(119)	(119)
Decrease in scheme liabilities	-	-	-	-	206	206
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(5)	(5)
Total comprehensive income/(expense)	**-**	**-**	**-**	**13**	**(836)**	**(823)**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	-	-
Total transaction with owners	**-**	**-**	**-**	**-**	**-**	**-**
30 June 2021 (unaudited)	**11**	**499**	**(3,758)**	**(160)**	**(2,172)**	**(5,580)**

(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 2020.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated statement of cash flows for the six months ended 30 June 2021

	Note	**Unaudited Six months ended 30 June 2021 £m**	Unaudited Six months ended 30 June 2020 £m
Cash flows from operating activities			
Cash generated from operations	11	177	294
Taxation:			
Corporation tax paid		-	(5)
Net cash generated from operating activities		**177**	**289**
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(93)	(376)
Investment properties		(3)	-
Disposal of:			
Property, plant and equipment		14	-
Increase in term deposits (1)		(920)	(1,075)
Interest received		4	6
Net cash used in investing activities		**(998)**	**(1,445)**
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		-	(107)
Proceeds from issuance of bonds		1,379	380
Repayment of bonds		(496)	(400)
Repayment of facilities and other financing items		(2)	(2)
Increase in amount owed to Heathrow Finance plc		71	128
Interest paid(2)		(79)	(321)
Drawdown of revolving credit facilities		-	1,050
Proceeds from issuance of other term debt		-	175
Settlement of accretion on index-linked swaps		(30)	(193)
Payment of lease liabilities		(16)	(19)
Net cash generated from financing activities		**827**	**691**
Net increase/(decrease) in cash and cash equivalents		**6**	**(465)**
Cash and cash equivalents at beginning of period		280	815
Cash and cash equivalents at end of period		**286**	**350**

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

(2) The decrease in interest paid relates to the impact of the swap restructuring programme, which resulted in c.£100m of interest prepayment in Q4 2020 and interest savings through 2021 and 2022, together with swap coupons received early in 2021.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

General information

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

Primary financial statements format

A columnar approach has been adopted in the income statement and the impact of separately disclosed items is shown in separate columns. These columns include 'certain re-measurements' and 'exceptional items' which management separates from the underlying operations of the Group. By isolating certain re-measurements and exceptional items, management believes the underlying results provides the reader with a more meaningful understanding of the performance of the Group, by concentrating on the matters over which it exerts influence, whilst recognising that information on these additional items is available within the financial statements, should the reader wish to refer to them.

The column 'certain re-measurements' in the consolidated income statement contains the following: i. fair value gains and losses on investment property revaluations and disposals; ii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; iii. the associated tax impacts of the items in (i) and (ii); and iv. the impact on deferred tax balances of known changes in tax rates where the deferred tax originally went through the income statement. The column 'exceptional items' contains the following: i. exceptional items; and ii. the associated tax impacts of item (i).

Accounting policies

Basis of preparation

The financial information covers the six-month period ended 30 June 2021 and has been prepared in accordance with UK adopted international accounting standards. This condensed set of financial statements comprises the unaudited financial information for the six months ended 30 June 2021 and 2020, together with the unaudited consolidated statement of financial position as at 30 June 2021 and the audited consolidated statement of financial position as at 31 December 2020.

The financial information for the six-month period ended 30 June 2021 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 December 2020, which were prepared in accordance with UK adopted international accounting standards, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified, did not contain an emphasis of matter and did not contain a statement under section 498 of the Companies Act 2006.

Where financial information in the notes to the condensed consolidated financial statements for year ended 31 December 2020 is labelled audited, the amounts have been extracted from the Company's audited financial statements for the year ended 31 December 2020.

The financial information for the six-month period ended 30 June 2021 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2021. The financial statements for the six-month period ended 30 June 2021 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2020 with the exception of the additional accounting policies and significant accounting judgements and estimates which have been detailed below.

Going concern

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

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months. The Directors have also considered the period beyond 12 months to December 2022.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.4 billion of debt to the approval date of these interim consolidated financial statements across the capital structure in bond format. New €500 million, C$650 million, C$300 million and AUD125 million Class A transactions and a £350 million Class B transaction were successfully executed during the first half of 2021. Consequently, Heathrow SP held cash of circa. £4.5 billion as at 30 June 2021. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2021 is £1.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £4.8 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2021. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least October 2022 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

Going concern *continued*

Nevertheless, continued low levels of traffic and cash flows have put covenants at Heathrow Finance under strain and the corresponding impact on the covenants associated with financing arrangements has been carefully considered when modelling the impacts of COVID-19.

Modelling the impact of COVID-19

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

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

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

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

To build the base case forecast of 21.5 million passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, roll-out of a vaccine and reopening of key travel corridors. The level of demand at each stage of recovery is overlaid using data on actual passenger numbers. This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules. The base case of passenger numbers for 2022 forecasts an improvement in passenger numbers with a graduated return to pre-pandemic levels, however the forecasted 2022 passengers remain significantly below 2019.

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

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least October 2022.

Directors have stress tested the base case, focusing in particular on the next annual covenant compliance date of 31 December 2021, by elongating the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cash flow. Although no covenant breach is forecast under our base case scenario, the headroom to our ICR covenant is expected to be limited given ongoing pressures on our cash flow generation, with a reduction of £66m in EBITDA likely to lead to a breach of the Heathrow Finance ICR.

The stress test scenario representing a 'severe but plausible' downside models 13.0 million passengers in 2021 and a 71% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption due to uncertainty associated with reopening of travel corridors. This 'severe but plausible' scenario is expected to cause the Group to breach minimum levels required for ICR covenant compliance at Heathrow Finance.

In 2020, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. On 19 July 2021, the Group launched a public consent process to seek approval from Noteholders for a waiver of the Heathrow Finance ICR for the period ending 31 December 2021. The Group has also commenced discussions with its private lenders and investors over the same request to waive the Heathrow Finance ICR for the period ending 31 December 2021. The process for seeking approval from all creditors is expected to complete in August 2021, therefore after the approval date of these interim consolidated financial statements. Whilst directors are confident that they will receive support from creditors, there is no certainty that a further covenant waiver will be agreed, and this indicates the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

Going concern *continued*

Conclusion

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

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

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry, which may result in the Group needing to take further action, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

The interim consolidated financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Accounting policies in addition to those included in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2020

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2020.

New IFRS accounting standards and interpretations adopted in the period

Interest Rate Benchmark Reform

The UK's Financial Conduct Authority announced that the London Inter-bank Offered Rate (LIBOR) will cease to exist by the end of 2021 and will be replaced by alternative reference rates (ARR's). In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Phase I of Interest Rate Benchmark Reform, which modified certain hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments were amended as a result of the change in the reference rate. The amendments were endorsed in January 2020 for adoption in the EU.

The Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021 as they enable the Company and its subsidiaries to reflect the effects of transitioning from LIBOR to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of the financial statements. There were no transition adjustments on adoption of either Phase I or Phase II, and the Group has not restated the prior period, but instead has applied the amendments prospectively.

During the period, the Directors considered the Group's exposures to IBOR, including assessing the impact on loan agreements and derivative financial instruments as well as on commercial contracts, including insurance and lease contracts. Work is ongoing to update necessary documentation as well as systems and is expected to be completed by 31 December 2021.

Refer to the Notes 8 and 9 for further details on the contracts to be transitioned to the new alternative benchmark interest rate.

Apart from this there have been no other new standards, interpretations and amendments, issued by the IASB or by the IFRS Interpretations Committee (IFRIC), that are applicable for the period commencing on 1 January 2021 that have had a material impact on the Group's results.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing the six-month condensed consolidated interim financial information, the areas where judgement has been exercised by Directors in applying the Group's accounting policies remain consistent with those applied to the Annual Report and Accounts for the year ended 31 December 2020.

Retirement benefit scheme surplus

At 30 June 2021, the BAA Pension Scheme is in a net surplus position of £116 million, comprised of scheme assets measured at fair value of £4,577 million and scheme liabilities of £4,461 million. The Directors have deemed it appropriate to recognise the surplus in full on the basis that there is an unconditional right to refund and therefore no requirement to restrict the surplus as measured under IAS 19.

Going concern

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'Basis of preparation and new accounting standards, interpretations and amendments' section.

Expansion assets

Assets in the course of construction for the expansion of Heathrow had a net book value of £515m as at 30 June 2021. IAS 16 Property, Plant & Equipment requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. The Directors have considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement in 2020) and the potential impact of COVID-19 and the impact of climate change on long term passenger demand and have concluded that expansion remains probable.

In October 2020, we submitted an appeal to the Supreme Court and in December 2020, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. The verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK. Heathrow has already committed to net zero and this ruling recognises the robust planning process that will be required to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right outcome for the country, which will allow Global Britain to become a reality and Heathrow remains committed to a long-term sustainable expansion and considers it a probable outcome based on experience to date. As passenger numbers recover, the immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, government, airline customers and regulators on our next steps. These include the continued validation of the underlying business case (traffic demand and pricing proposition); ensuring a fair and stable economic regulatory framework; and the confirmation or a review of the ANPS by the Secretary of State for Transport. Expansion remains consistent with the commitments we are making around climate change as detailed in the TCFD section of the Annual Report and Accounts for the year ended 31 December 2020. If expansion were deemed not probable at a future date, then it is expected that the asset would be impaired in full.

Key sources of estimation uncertainty

In preparing the six-month condensed consolidated interim financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Accounts for the year ended 31 December 2020.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

1. SEGMENT INFORMATION

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

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

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

Table (a)	**Unaudited Six months ended 30 June 2021 £m**	Unaudited Six months ended 30 June 2020 £m
Segment Revenue		
Under IFRS 15		
Aeronautical		
Movement charges	84	148
Parking charges	24	28
Passengers charges	61	222
Total Aeronautical revenue	169	398
Other regulated charges	57	74
Retail services revenue	59	150
Property revenue	5	10
Rail Income		
Heathrow Express	4	21
Other	2	8
Revenue reported under IFRS 15	296	661
Revenue recognised at a point in time	287	635
Revenue recognised over time	9	26
Total revenue reported under IFRS 15	**296**	**661**
Under IFRS 16		
Property (lease-related income)	52	51
Total revenue	**348**	**712**
Heathrow	344	691
Heathrow Express	4	21
Adjusted EBITDA		
Heathrow	(21)	228
Heathrow Express	(12)	(6)
Total adjusted EBITDA	(33)	222
Reconciliation to statutory information:		
Depreciation and amortisation	(409)	(358)
Operating loss (before certain re-measurements and exceptional items)	**(442)**	**(136)**
Exceptional items	-	(122)
Fair value gain/(loss) on investment properties (certain re-measurements)	25	(252)
Operating loss	**(417)**	**(510)**
Finance income	4	8
Finance cost	(455)	(557)
Loss before tax	**(868)**	**(1,059)**

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Six months ended 30 June 2021		Unaudited Six months ended 30 June 2020	
	Depreciation & amortisation [1] £m	Fair value gain [2] £m	Depreciation & amortisation [1] £m	Fair value loss [2] £m
Heathrow	(392)	25	(341)	(252)
Heathrow Express	(17)	-	(17)	-
Total	**(409)**	**25**	(358)	(252)

(1) Includes intangible amortisation charge of £17 million (six months ended 30 June 2020: £15 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (c)	Unaudited 30 June 2021		Audited 31 December 2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	12,822	(322)	13,319	(401)
Heathrow Express	604	(35)	647	(13)
Total operations	**13,426**	**(357)**	13,966	(414)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	4,441	(17,875)	3,516	(17,219)
Retirement benefit assets/(obligations)	116	(30)	12	(31)
Derivative financial instruments	612	(1,488)	802	(1,155)
Deferred and current tax assets/(liabilities)	1	(888)	1	(784)
Amounts owed to group undertakings	-	(3,433)	-	(3,344)
Right of use asset and lease liabilities	268	(373)	285	(392)
Total	**18,864**	**(24,444)**	18,582	(23,339)

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

2. OPERATING COSTS

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Employment[1]	121	149
Operational	89	119
Maintenance	60	75
Rates	60	59
Utilities	28	33
Other	23	55
Total operating costs before depreciation and amortisation	381	490
Depreciation and amortisation:		
Property, plant and equipment	372	324
Intangible assets	17	15
Right of Use (RoU) assets	20	19
Operating costs before exceptional items	790	848
Exceptional items (note 3)	-	122
Total operating costs	**790**	**970**

[1] Government grants of £16 million (six months ended 30 June 2020: £17 million) have been received for reimbursement of employee costs relating to 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 Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Business transformation	-	(37)
Asset impairment and write-off	-	(85)
Total operating loss on exceptional items	**-**	**(122)**
Tax credit on exceptional items	-	7
Loss on exceptional items after tax	**-**	**(115)**

In the prior year, as a consequence of the impact of the COVID-19 pandemic and delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group underwent a business transformation in order to simplify operations and reduce costs and incurred £37 million of people-related costs, principally redundancy. In addition, the Group reviewed its asset portfolio and recognised a non-cash impairment and write-off charge of £85 million on assets in the course of construction. At 31 December 2020, £13 million relating to the business transformation programme was included within provisions. In the six months ended 30 June 2021, £8 million of this provision was utilised with the remaining £5 million expected to be utilised over the remainder of the current financial year.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

4. FINANCING

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Finance income		
Interest on deposits	4	8
Total finance income	4	8
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[(1)]	(279)	(258)
Bank loans and overdrafts and related hedging instruments	(30)	(32)
Net interest receivable/(payable) on derivatives not in hedge relationship[(2)]	57	(4)
Facility fees and other charges	(6)	(5)
Interest on debenture payable to Heathrow Finance plc	(88)	(59)
Finance cost on lease liabilities	(8)	(8)
	(354)	(366)
Less: capitalised borrowing costs[(3)]	5	23
Total finance cost	(349)	(343)
Net finance cost before certain re-measurements	**(345)**	(335)
Certain re-measurements **Fair value loss on financial instruments**		
Interest rate swaps: not in hedge relationship	(11)	(65)
Index-linked swaps: not in hedge relationship [(4), (5)]	(71)	(105)
Cross-currency swaps and debt: not in hedge relationship [(4), (5)]	(11)	11
Cross-currency swaps and debt: ineffective portion of cash flow hedges [(5)]	(12)	(6)
Cross-currency swaps and debt: ineffective portion of fair value hedges [(5)]	(1)	(52)
Foreign exchange contracts and currency balances	-	3
	(106)	(214)
Net finance costs	**(451)**	(549)

(1) Includes accretion of £30 million for six months ended 30 June 2021 (six months ended 30 June 2020: £11 million) on index-linked bonds.
(2) Includes accretion of £78 million for six months ended 30 June 2021 (six months ended 30 June 2020: £35 million) on index-linked swaps.
(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 1.50% (six months ended 30 June 2020: 4.40%) to expenditure incurred on such assets.
(4) Includes gain on foreign exchange retranslation on the currency bonds of £9 million for the six months ended 30 June 2021 (six months ended 30 June 2020: £15 million loss) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
(5) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

5. TAX CREDIT/(CHARGE)

	Unaudited Six months ended 30 June 2021			Unaudited Six months ended 30 June 2020			
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m
UK corporation tax							
Current tax credit at 19% (2020: 19%)	-	-	-	44	-	-	44
Deferred tax:							
Current year credit	143	20	163	34	89	7	130
Change in tax rate	-	(212)	(212)	-	(113)	-	(113)
Taxation credit/(charge)	**143**	**(192)**	**(49)**	**78**	**(24)**	**7**	**61**

The total tax charge recognised for the six months ended 30 June 2021 was £49 million (six months ended 30 June 2020: £61 million tax credit), based on a loss before tax for the six months ended 30 June 2021 of £868 million (six months ended 30 June 2020: loss before tax £1,059 million).

The total tax credit before certain re-measurements and exceptional items for the six months ended 30 June 2021 was £143 million (six months ended 30 June 2020: £78 million credit). Based on a loss before tax and certain re-measurements of £787 million (six months ended 30 June 2020: £471 million loss), this results in an effective tax rate of 18.2% (six months ended 30 June 2020: 16.6%). This is lower (2020: lower) than implied by the statutory rate of 19% (2020: 19%) primarily due to non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

In addition, there was a £192 million tax charge (six months ended 30 June 2020: £24 million tax charge) in the certain re-measurements category. Of this tax charge, £212 million arises from the re-measurement of the deferred tax balances as a result of the Finance Act 2021 increase in the corporation tax rate from 19% to 25%, which will take effect from 1 April 2023. This is offset by a £20 million tax credit arising on fair value movements on investment property revaluations and financial instruments. We have recognised the re-measurement of deferred tax balances, based on the forecast unwind post-April 2023.

At 30 June 2021 there was a current income tax asset of £1 million (year ended 31 December 2020: £1 million). Deferred income tax liabilities of £888 million (year ended 31 December 2020: £784 million) were held. Of the £104 million increase, £230 million relates to the impact of the change in tax rate (of which £18 million is recorded via OCI). This is offset by a reduction in the deferred tax liability in relation to accelerated capital allowances and an increase in the deferred tax asset on losses carried forward due to the loss arising in the period.

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

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

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

5. TAX CREDIT/(CHARGE) *CONTINUED*

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

Finance Act 2018 implemented a new 2% flat rate Structures and Building Allowance relief (SBA) for non-residential structural property which will be available where the construction contract is entered into on or after 29 October 2018. Relief will be provided on eligible construction costs at an annual rate of 2% on a straight-line basis, effectively giving tax relief over a 50-year period. This relief was increased to 3% from 1 April 2020 in Finance Act 2020. Heathrow is likely to benefit from tax relief in future years on expenditure which was not eligible under the previous rules. At 30 June 2021, no material SBA qualifying assets had been identified and brought into use.

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

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

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

6. 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 2021	**12,207**	**2,067**	**1,061**	**296**	**1,407**	**1,103**	**18,141**
Additions	-	-	-	-	-	93	93
Borrowing costs capitalised	-	-	-	-	-	5	5
Disposals	(2)	-	(2)	(1)	(174)	-	(179)
Transfer to intangible assets	-	-	-	-	-	(12)	(12)
Transfers	106	(26)	59	41	-	(180)	-
30 June 2021 (Unaudited)	**12,311**	**2,041**	**1,118**	**336**	**1,233**	**1,009**	**18,048**
Depreciation							
1 January 2021	**(5,120)**	**(553)**	**(568)**	**(108)**	**(656)**	**-**	**(7,005)**
Depreciation charge	(255)	(26)	(49)	(8)	(34)	-	(372)
Disposals	2	-	2	1	160	-	165
30 June 2021 (Unaudited)	**(5,373)**	**(579)**	**(615)**	**(115)**	**(530)**	**-**	**(7,212)**
Net book value							
30 June 2021 (Unaudited)	**6,938**	**1,462**	**503**	**221**	**703**	**1,009**	**10,836**

The Regulatory Asset Base (RAB) at 30 June 2021 was £16,946 million (31 December 2020 was £16,492 million).

	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 2020	11,937	2,016	996	274	1,395	1,268	17,886
Additions	-	-	-	-	-	413	413
Borrowing costs capitalised	-	-	-	-	-	33	33
Disposals	(16)	(8)	(25)	-	(1)	-	(50)
Capital write-off	-	-	-	-	-	(92)	(92)
Transfer from investment properties	-	-	-	1	-	-	1
Transfer to intangible assets	-	-	-	-	-	(50)	(50)
Transfer to completed assets	286	59	90	21	13	(469)	-
31 December 2020 (Audited)	**12,207**	**2,067**	**1,061**	**296**	**1,407**	**1,103**	**18,141**
Depreciation							
1 January 2020	**(4,641)**	**(504)**	**(475)**	**(88)**	**(617)**	**-**	**(6,325)**
Depreciation charge	(495)	(57)	(118)	(20)	(40)	-	(730)
Disposals	16	8	25	-	1	-	50
31 December 2020 (Audited)	**(5,120)**	**(553)**	**(568)**	**(108)**	**(656)**	**-**	**(7,005)**
Net book value							
31 December 2020 (Audited)	**7,087**	**1,514**	**493**	**188**	**751**	**1,103**	**11,136**

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2020	2,522
Additions	9
Transfers to property, plant and equipment	(1)
Fair value movements	(412)
31 December 2020 (Audited)	**2,118**
Additions	3
Fair value movements	25
30 June 2021 (Unaudited)	**2,146**

Investment properties valuations are prepared in accordance with the valuation manual issued by the Royal Institution of Chartered Surveyors and appraised by our property management company CBRE Limited, who are independent and have appropriate recognised qualifications and experience in the categories and location of our investment properties being valued.

Management conducts a detailed review of each property to ensure the appropriate assumptions and inputs have been used. Meetings with the valuers are held on a periodic basis to review and challenge the assumptions used in the valuation techniques, where they are classified into 3 categories as follows:

Level 1 inputs are quoted prices from active markets at the measurement date using relevant information generated by market transactions involving identical or comparable (similar) assets.

Level 2 inputs are other quoted market prices directly or indirectly observable and involve a combination of inputs. Non-commercial car parks, sites, non-operational land and residential properties were valued by a market approach involving similar observable transactions along with land value reversion whilst the other assets were valued using the capitalised income approach incorporating net initial and equivalent yield. Some of the valuations incorporated rent free and void periods where relevant in order to determine the most reasonable valuation.

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of commercial car parks. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues also.

There were no transfers between the fair value classifications for investment properties during the year.

The Investment Property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (31 December 2020: 68%) of the fair value of the investment property portfolio at 30 June 2021. The valuation of maintenance hangers is largely based on long term contractual terms and are not occupied by the Group. They are carried at fair value. Changes in fair values are presented in the income statement within other operating costs.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

8. BORROWINGS

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	4	4
Class A1 term loan due 2021	418	418
Heathrow Funding Limited bonds:		
8.500% £250 million due 2021	-	251
3.000% CAD450 million due 2021	-	259
4.875% US$1,000 million due 2021	725	742
1.650%+RPI £180 million due 2022	224	-
1.875% €600 million due 2022	522	-
Total current (excluding interest payable)	**1,893**	**1,674**
Interest payable – external	203	209
Interest payable – owed to group undertakings	62	45
Total current	**2,158**	**1,928**
Non-current		
Secured		
Heathrow Funding Limited bonds		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	549
5.225% £750 million due 2023	724	717
7.125% £600 million due 2024	596	595
0.500% CHF400 million due 2024	316	336
3.250% CAD500 million due 2025	299	301
1.500% EUR 750 million due 2025	638	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	165	177
6.750% £700 million due 2026	694	694
2.650% NOK1,000 million due 2027	86	90
2.694% CAD650 million due 2027	378	-
3.400% CAD400 million due 2028	232	229
7.075% £200 million due 2028	198	199
4.150% AUD175 million due 2028	104	113
2.625% £350 million due 2028	346	-
2.500% NOK1,000 million due 2029	78	82
2.75% GBP450 million due 2029	445	444
1.500% €750 million due 2030	683	735
3.782% CAD400 million due 2030	235	235
1.125% €500 million due 2030	423	-
6.450% £900 million due 2031	859	857
3.661% CAD500 million due 2031	291	285
Zero-coupon €50 million due January 2032	63	65
1.366%+RPI £75 million due 2032	89	88
Zero-coupon €50 million due April 2032	62	64
1.875% €500 million due 2032	427	446
2.850% + RPI £181.75 million due 2032	185	182

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

8. BORROWINGS *CONTINUED*

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
3.726% CAD300m million due 2033	174	-
1.875% €650 million due 2034	578	636
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	53	54
0.347%+RPI £75 million due 2035	77	76
0.337%+RPI £75 million due 2035	77	76
1.061%+RPI £180 million due 2036	208	204
0.419%+RPI £51 million due 2038	52	51
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	59	58
Zero-coupon €86 million due 2039	79	81
3.334%+RPI £460 million due 2039	654	645
0.800% JPY1,000 million due 2039	65	72
1.238%+RPI £100 million due 2040	117	115
0.362%+RPI £75 million due 2041	77	76
5.875% £750 million due 2041	739	739
3.500% AUD125 million due 2041	68	-
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	89	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	170	166
Total bonds	**13,451**	13,005
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	199	199
Revolving credit facilities	1,150	1,150
Term note due 2026-2040	878	878
Loans	2	4
Unsecured		
Debenture payable to Heathrow Finance plc	3,370	3,299
Total non-current	**19,150**	18,635
Total borrowings (excluding interest payable)	**21,043**	20,309

At 30 June 2021, Heathrow SP's consolidated nominal net debt was £13,176 million. It comprised £14,679 million in bond issues, £1,604 million in other term debt, £181 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities post transition to IFRS 16. This was offset by £4,441 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,964 million in senior net debt and £2,212 million in junior debt.

At 30 June 2021, total non-current borrowings due after more than 5 years was £15,326 million, comprising £10,878 million of bonds, £3,370 million debenture payable to Heathrow Finance plc and £1,078 million in bank facilities, excludes lease liabilities.

Interest Rate Benchmark Reform

Certain borrowings have payments that are linked to LIBOR. LIBOR is being replaced as an interest rate benchmark by alternative reference rates and therefore negotiations are underway to amend these contracts. At 30 June 2021, none of the contracts had yet been amended. £1,868 million of floating rate GBP LIBOR-linked debt will be impacted. In addition, the disclosure of fair value of these borrowings designated as amortised cost will be impacted due to the change in applying an alternative reference rate discount curve.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

8. BORROWINGS *CONTINUED*

Fair value of borrowings

	Unaudited 30 June 2021		Audited 31 December 2020	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current				
Short-term debt	1,893	1,857	1,674	1,685
Non-current				
Long-term debt	15,780	17,776	15,336	17,796
Borrowings from parent	3,370	3,370	3,299	3,299
	21,043	23,003	20,309	22,780

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair value of listed borrowings are based on quoted prices (thereby classified as Level 1) at balance sheet date. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data, which are adjusted to allow for any relevant credit risk (Level 2). The fair value of borrowings which have floating rate interest are assumed to materially equate to their nominal value. At 30 June 2021, the fair value of debt classified as Level 1 and Level 2 was £15,909 million and £7,094 million respectively (31 December 2020: £15,467 million and £7,313 million respectively).

The average cost of the Group's external gross debt at 30 June 2021 was 0.68% (31 December 2020: 0.87%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked swap accretion. Including index-linked swap accretion, the Group's average cost of debt at 30 June 2021 was 1.64% (31 December 2020: 1.48%).

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was, EUR 2,000 million, US$ 1,000 million, C$ 620 million, CHF 610 million, A$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 30 June 2021		Audited 31 December 2020	
	Nominal at hedge rate £m	Fair value adjustment [1] £m	Nominal at hedge rate £m	Fair value adjustment [1] £m
Sterling debt	-	-	393	(1)
Euro denominated debt	1,615	(81)	1,615	(145)
USD denominated debt	621	(1)	621	(10)
CAD denominated debt	337	(12)	584	(25)
Other currencies debt	779	(8)	779	(23)
Designated in fair value hedge	**3,352**	**(102)**	**3,992**	**(204)**

(1) Fair value adjustment is comprised of fair value loss of £90 million (year ended December 2020: £185 million loss) on continuing hedges and £12 million loss (year ended December 2020: £19 million loss) on discontinued hedges.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS

Unaudited 30 June 2021	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	64	1	(2)	(1)
Interest rate swaps	-	-	-	-
Cross-currency swaps	1,111	148	(1)	147
Index-linked swaps	206	-	(22)	(22)
	1,381	**149**	**(25)**	**124**
Non-current				
Foreign exchange contracts	72	1	(2)	(1)
Interest rate swaps	7,594	82	(560)	(478)
Cross-currency swaps	5,208	300	(70)	230
Index-linked swaps	5,807	80	(831)	(751)
	18,681	**463**	**(1,463)**	**(1,000)**
Total	**20,062**	**612**	**(1,488)**	**(876)**

Audited 31 December 2020	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	31	1	-	1
Interest rate swaps	-	-	-	-
Cross-currency swaps	868	144	-	144
Index-linked swaps	326	1	(21)	(20)
	1,225	146	(21)	125
Non-current				
Foreign exchange contracts	62	-	(3)	(3)
Interest rate swaps	6,844	33	(431)	(398)
Cross-currency swaps	4,656	547	(47)	500
Index-linked swaps	5,756	76	(653)	(577)
	17,318	656	(1,134)	(478)
Total	18,543	802	(1,155)	(353)

At 30 June 2021, total non-current notional value of Derivative financial instruments due in greater than 5 years was £15,185 million (31 December 2020: £14,170 million), comprising £4,977 million (31 December 2020: £4,926 million) of Index-linked swaps, £4,067 million (31 December 2020: £2,942 million) of cross-currency swaps, and £6,141 million (31 December 2020: £6,302 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 £22 million (30 June 2020: £22 million; 31 December 2020: £20 million) expected to be released in less than one year, £21 million (30 June 2020: £21 million; 31 December 2020: £22 million) between one and two years, £63 million (30 June 2020: £63 million; 31 December 2020: £64 million) between two and five years and £87 million (30 June 2020: £109 million; 31 December 2020: £99 million) over five years. Of the total amount deferred in other comprehensive income £193 million (30 June 2020: £192 million; 31 December 2020: £205 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.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

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.

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 30 June 2021 and 31 December 2020, all fair value estimates on derivative financial instruments are included in level 2.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- market prices for credit spreads based on counterparty's credit default swap prices and company's bond spread;
- the fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

At the restructuring date or initial date of recognition of index-linked swaps, the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring or at initial recognition, could not be supported by observable inputs alone. These fair values are supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9.

As at 30 June 2021, £193 million (30 June 2020: £193 million; 31 December 2020: £261 million) remained capitalised and £13 million (30 June 2020: £14 million; 31 December 2020: £28 million) had been recognised in the income statement for the period.

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the period there were no transfers between the levels in the fair value hierarchy.

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 30 June:

	30 June 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through income statement	-	192	-	192
Derivatives qualifying for hedge accounting	-	420	-	420
Total assets	**-**	**612**	**-**	**612**
Liabilities				
Liabilities at fair value through income statement	-	(1,418)	-	(1,418)
Derivatives qualifying for hedge accounting	-	(70)	-	(70)
Total liabilities	**-**	**(1,488)**	**-**	**(1,488)**

	31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	£m	£m	£m
Assets				
Assets at fair value through income statement	-	154	-	154
Derivatives qualifying for hedge accounting	-	648	-	648
Total assets	**-**	**802**	**-**	**802**
Liabilities				
Liabilities at fair value through income statement	-	(1,109)	-	(1,109)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	**-**	**(1,155)**	**-**	**(1,155)**

Interest Rate Benchmark Reform

The Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021. The amendments impact our fair value hedging relationships where derivative cash flows will be transitioned from paying LIBOR to paying an alternative reference rate. The Phase I amendments will be applied until the earliest point in time of the Group's contracts that reference LIBOR being amended, the hedging relationship being formally discontinued or formal market conventions ending uncertainty being published and widely adopted. When the transition takes place, on the hedge relationships where Phase 2 amendments are applicable, the hedged risk must be re-documented to reflect this and allow the existing hedge designations to continue. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9. The notional values of hedging instruments, for all fair value hedging relationships impacted by the Phase 2 amendments, are shown in the table below. There would be no impact on cash flow hedging relationships. These amounts also correspond to the exposures designated as fair value hedges.

Derivatives exposed to GBP LIBOR

	Carrying value at 30 June 2021 £m	**Notional**
Cross-currency interest rate swap derivative designated in fair value hedge relationships	380	3,354

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

10. 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 disclosed below.

Income statement - pension and other pension related liabilities costs

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Employment costs:		
Defined contribution schemes	6	8
BAA Pension Scheme	12	13
	18	21
Finance credit - BAA Pension Scheme	-	(1)
Finance charge - Other pension and post retirement liabilities	-	1
Total pension costs	**18**	21

Other comprehensive income – loss on pension and other pension related liabilities

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
BAA Pension Scheme gain/(loss)	116	(100)
Unfunded schemes	-	-
Actuarial gain/(loss) recognised before tax	116	(100)
Tax (charge)/credit on actuarial gain/(loss)	(30)	18
Actuarial gain/(loss) recognised after tax	**86**	(82)

Statement of financial position – net defined benefit pension deficit and other pension related liabilities

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Fair value of plan assets	4,577	4,796
Benefit obligation	(4,461)	(4,784)
Surplus in BAA Pension Scheme	116	12
Unfunded pension obligations	(29)	(30)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(30)	(31)
Net surplus/(deficit) in pension schemes	**86**	(19)
Group share of net surplus/(deficit) in pension schemes	**86**	(19)

(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 30 June 2021 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 30 June 2021 by ISIO Group Limited 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 30 June 2021. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

The Company has the ability to recognise the surplus in the BAA Pension Scheme in full, because the Company has an unconditional right to a refund of surplus upon gradual settlement of liabilities.

	Unaudited 30 June 2021 £m			Audited 31 December 2020 £m		
Fair value of plan assets [1]	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity	164	502	666	620	166	786
Property	-	157	157	-	149	149
Bonds	465	853	1,318	476	878	1,354
Cash	-	369	369	-	191	191
LDI	-	1,471	1,471	-	1,545	1,545
Buy in	-	326	326	-	339	339
Other	-	270	270	164	268	432
Total fair value of plan	**629**	**3,948**	**4,577**	1,260	3,536	4,796

[1] Quoted assets have prices in active markets in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

At 30 June 2021, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,471 million (32% of the asset holding at 30 June 2021). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2020, the largest single category of investment was an LDI mandate, with value of £1,545 million (32% of the asset holding at 31 December 2020).

LDI holdings are portfolios of interest rate and inflation derivatives which are intended to protect the Scheme from movements in interest rates and inflation, so that the fair value of this element of the portfolio moves in the same way as the fair value of Scheme's obligations.

Analysis of financial assumptions

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

	Unaudited 30 June 2021 %	Audited 31 December 2020 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	2.25	2.60
Increase to pensions in payment:		
Open section	3.30	3.00
Closed section	3.40	3.10
Discount rate	1.85	1.30
Inflation assumption	3.40	3.10

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

11. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss before tax	**(868)**	(1,059)
Exceptional items	-	122
Loss before tax and exceptional items	**(868)**	(937)
Adjustments for:		
Net finance cost	451	549
Depreciation	372	324
Amortisation on intangibles	17	15
Amortisation on right of use assets	20	19
Fair value (gain)/loss on investment properties	(25)	252
Working capital changes:		
Decrease in inventories and trade and other receivables[(1)]	256	132
Decrease in trade and other payables	(48)	(25)
Decrease in provisions	(1)	(5)
Difference between pension charge and cash contributions	11	(10)
Cash generated from operations before exceptional items	**185**	314
Cash payments in respect of exceptional items	(8)	(20)
Cash generated from operations	**177**	294

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

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Contracted for, but not accrued:		
Baggage systems	46	49
Terminal restoration and modernisation	66	78
Tunnels refurbishments	22	28
Capacity optimisation	27	27
IT projects	4	2
Other projects	23	8
	188	192

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

Other commitments and contingent liabilities remain in line with those disclosed in the Annual Report and Accounts for the year ended 31 December 2020.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Ferrovial Agroman	11	18
Heathrow Finance plc[1]	88	59
	99	77

(1) Relates to interest on the debenture payable to Heathrow Finance plc (note 4).

Sales to related party	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Harrods International Limited	1	4
Qatar Airways	9	13
	10	17

Balances outstanding with related parties were as follows:	Unaudited 30 June 2021		Audited 31 December 2020	
	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	-	3,433	-	3,344
	-	**3,433**	-	3,344

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.

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

Alternative Performance Measures

The Group presents its results in accordance with UK adopted international accounting standards. Management also uses other financial measures not defined by 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 loss or 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss for the period	**(917)**	(998)
Add/less: Tax charge/(credit)	49	(61)
Add: Net finance cost	451	549
Operating loss	(417)	(510)
Add: depreciation and amortisation	409	358
EBITDA	**(8)**	(152)

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

***EBITDA** continued*

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Cash generated from operations	**177**	294
Exclude:		
Decrease in inventories and trade and other receivables	(256)	(132)
Decrease in trade other payables	48	25
Decrease in provisions	1	5
Difference between pension charge and cash contributions	(11)	10
Cash payments in respect of exceptional items	8	20
Add: Fair value gain/(loss) on investment properties	25	(252)
Less: Exceptional items	-	(122)
EBITDA	**(8)**	(152)

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation and fair value gains and losses on investment properties and exceptional items. 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss for the period	**(917)**	(998)
Add/less: Tax charge/(credit)	49	(61)
Add: Net finance cost	451	549
Operating loss	(417)	(510)
Add: depreciation and amortisation	409	358
Add: exceptional items	-	122
Less: fair value (gain)/loss on investment properties	(25)	252
Adjusted EBITDA	**(33)**	222

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Cash generated from operations	**177**	294
Exclude:		
Decrease in inventories and trade and other receivables	(256)	(132)
Decrease in trade other payables	48	25
Decrease in provisions	1	5
Difference between pension charge and cash contributions	(11)	10
Cash payments in respect of exceptional items	8	20
Adjusted EBITDA	**(33)**	222

Notes to the condensed consolidated financial statements for the six months ended 30 June 2021

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

Adjusted operating loss

Adjusted operating loss 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Operating loss[1]	**(417)**	(510)
Add: exceptional items	-	122
Less: fair value (gain)/loss on investment properties	(25)	252
Adjusted operating loss	**(442)**	(136)

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

Net finance cost 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Finance income	4	8
Finance cost	(455)	(557)
Net finance cost including certain re-measurements	**(451)**	(549)
Add: fair value loss arising on re-measurement of financial instruments	106	214
Net finance cost before certain re-measurements	**(345)**	(335)

Adjusted loss before tax

Adjusted loss before tax 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss before tax	**(868)**	(1,059)
Add: exceptional items	-	122
Less: fair value (gain)/loss on investment properties	(25)	252
Add: fair value loss arising on re-measurement of financial instruments	106	214
Adjusted loss before tax	**(787)**	(471)

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

Adjusted loss after tax

Adjusted loss after tax 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.

	Unaudited Six months ended 30 June 2021 £m	Unaudited Six months ended 30 June 2020 £m
Loss after tax	**(917)**	(998)
Add: exceptional items	-	122
Less: fair value (gain)/loss on investment properties	(25)	252
Add: fair value loss arising on re-measurement of financial instruments	106	214
Less: tax credit on fair value re-measurement of investment properties and financial instruments and on exceptional items	(20)	(96)
Add: change in tax rate	212	113
Adjusted loss after tax	**(644)**	(393)

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.

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Cash and cash equivalents	286	280
Term deposits	4,155	3,236
Current debt (excluding interest payable)	(1,893)	(1,674)
Current lease liability	(40)	(43)
Non-current debt	(15,780)	(15,336)
Non-current lease liability	(333)	(349)
Accounting value of Net debt	**(13,605)**	(13,886)
Index-linked swap accretion (1)	(181)	(133)
Impact of cross currency interest rate swaps (2)	330	591
Bond issuance costs (3)	(90)	(92)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases (4)	370	389
Consolidated nominal net debt	**(13,176)**	(13,131)

(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.

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED*

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.

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Regulatory Asset Base (RAB)	**16,946**	16,492

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.

	Unaudited 30 June 2021 £m	Audited 31 December 2020 £m
Total net debt to RAB	0.778	0.796
Senior net debt to RAB	0.647	0.684

Independent review report to the Directors of Heathrow (SP) Limited
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Heathrow (SP) Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Results for the 6 months ended 30th June 2021 (the "period") of Heathrow (SP) Limited.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

Emphasis of matter

Without modifying our conclusion on the interim financial statements, we have considered the adequacy of the disclosure made in the going concern section of the accounting policies to the interim financial statements concerning the Heathrow (SP) Limited group's (the "group") ability to continue as a going concern. The wider Heathrow group has been significantly impacted by the COVID 19 pandemic which has resulted in a rapid deterioration in passenger traffic and cash flows. The group's forecast and projections assume a continued phased increase in passenger forecast which represents a significant reduction to pre-pandemic revenue levels, along with cost saving measures and reductions in capital expenditure. In the event there are further waves of the pandemic, or the implementation or continuation of lockdown periods, leading to further travel restrictions being imposed worldwide, the wider Heathrow group, whilst having sufficient liquidity, may require further covenant waivers in respect to the group interest cover ratio measured as at 31 December 2021. These conditions, along with the other matters explained in the going concern section of the accounting policies to the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt upon the group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 30 June 2021;
- the Condensed consolidated income statement and the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Results for the 6 months ended 30th June 2021 of Heathrow (SP) Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

As disclosed on page 16 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and UK-adopted international accounting standards.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Results for the 6 months ended 30th June 2021, including the interim financial statements, is the responsibility of, and has been approved by the directors.

Our responsibility is to express a conclusion on the interim financial statements in the Results for the 6 months ended 30th June 2021 based on our review. This report, including the conclusion, has been prepared for and only for the directors of the company as a body, for management purposes, in connection with review of the condensed consolidated interim financial information and for no other purpose. Our report may not be made available to any other party without our prior written consent. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Results for the 6 months ended 30th June 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Watford
25 July 2021

GLOSSARY

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

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

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

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

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

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

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

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

Interest Cover Ratio 'ICR ' – is trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A ICR trigger ratio is 1.40x; Class A ICR covenant is 1.05x and is calculated as a 3-year trailing average, Class B ICR trigger ratio is 1.20x, Heathrow Finance ICR covenant is 1.00x.

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

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

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

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

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

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