RESULTS FOR THE 3 MONTHS ENDED 31ST MARCH 2021

29TH APRIL 2021

Closure of national borders increases COVID losses to nearly £2.4 billion – Heathrow recorded a further £329 million loss in Q1 as only 1.7 million passengers travelled through the airport, down 91% compared to Q1 2019. This brings total losses since the start of the pandemic to nearly £2.4 billion. Cargo volumes are also down 23% on 2019, underlining how a lack of flights impacts UK trade with the rest of the world.

UK's summer economic recovery depends on travel restarting from May 17th – While underlying demand for travel remains strong, continuing uncertainty over Government policy means we have reduced our passenger forecast for the year to a range between 13 and 36 million, compared to 81 million in 2019. As vaccinations are rolled-out and COVID levels fall, restarting travel to markets like the US will be critical to the UK's economic recovery and we will be prepared to scale-up our operations as demand returns. Border Force's ability to provide an acceptable service for arriving passengers remains primary concern surrounding the restart and Ministers will need to ensure every desk is staffed to avoid unacceptable queues.

Safety remains our top priority – Heathrow is ready to welcome passengers and has invested to maintain strong COVID-secure standards, becoming one of the first UK airports to pass the CAA's COVID Security Assurance Scheme as well as securing the Airport Health Accreditation from Airports Council International.

Resilient financial position despite challenges – Decisive management action has protected jobs and the health of the business in the face of unprecedented uncertainty. We have reduced cash burn by 50% versus Q1 2020, with a 33% reduction in opex and a 77% cut in capex. Prudent financing action has increased liquidity by 41% to £4.5bn since the start of the pandemic, providing sufficient cover to meet all commitments for at least 15 months even with low passenger volumes.

UK Government's plan to include international aviation emissions in targets is welcome – Climate change remains aviation's biggest long-term challenge and the focus on emissions targets is welcome. UK policymakers should now focus on scaling up Sustainable Aviation Fuel (SAF) production in the UK by implementing a SAF mandate of 10% by 2030 and at least 50% by 2050. They should also use their leadership of the G7 and COP26 to agree a consistent international SAF mandate. Heathrow' largest airlines have already committed to using a higher level of SAF by 2030 than the Committee on Climate Change's most optimistic case.

More action needed by CAA to protect consumers and restore confidence in regulation – The CAA's interim action falls short of what was needed and undermines investor confidence in UK regulated businesses, putting at risk the Government's infrastructure agenda. The CAA will need to address all the issues related to adjustment fully in the upcoming H7 regulatory settlement to attract the investment needed to maintain service, keep prices lower than they would otherwise be and protect resilience through the recovery.

At or for 3 months ended 31 March	2020	2021	Change (%)
(£m unless otherwise stated)			
Revenue	593	165	(72.2)
Cash generated from operations	375	132	(64.8)
Loss before tax	(278)	(307)	(10.4)
Adjusted EBITDA(1)	315	(20)	(106.3)
Adjusted loss before tax(2)	(41)	(329)	-
Heathrow (SP) Limited consolidated nominal net debt(3)	13,131	13,064	(0.5)
Heathrow Finance plc consolidated net debt(3)	15,120	15,109	(0.1)
Regulatory Asset Base(4)	16,492	16,396	(0.6)
Passengers (million)(5)	14.6	1.7	(88.5)

These results show how COVID has devastated the aviation sector and British trade. Restarting international travel from May 17th will help to kickstart the economic recovery, allowing exporters to get their goods to market, as well as reuniting families who have been separated for over a year. Heathrow is gearing up for the recovery. By acting early to cut costs and protect cash, we have put ourselves in a strong financial position to weather the storm and are ready to welcome back passengers, while keeping them safe. This would not be possible without the energy and commitment of my colleagues across Heathrow and I am very proud of what they have achieved.

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) 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.
(5) Changes in passengers are calculated using unrounded passenger numbers

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

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

Thursday April 29th 2021

3.00pm (UK time), 4.00pm (Central European Time), 10.00am (Eastern Standard Time)

Investor enquiries

Christelle Lubin
+44 7764 805761

Media enquiries

Weston Macklem
+44 7525 825 516

UK: +44 (0)33 3300 0804
North America: +1 631 9131 422
Dial in access list

Participant PIN code: 22272257#
The presentation can be accessed online or through the webcast

OUR RESPONSE TO COVID-19

Over a year after the pandemic was declared, COVID-19 continues to represent a seismic challenge for the aviation industry, including Heathrow. Despite border closures, national lockdowns and the emergence of new strains, the success of vaccination rollouts brings signs of hope. However, the timing and path to traffic recovery remain uncertain. We are therefore currently considering various traffic scenarios for 2021 ranging from 13 million to 36 million passengers as well as their implications on our operational planning such as an earlier reopening of Terminal 3 and financing arrangements. In any eventuality, we continue benefitting from a strong liquidity position with £4.5 billion of cash available to the business after completion of financing transactions in April, providing sufficient financial cover for at least 15 months in the extreme stress scenario of no revenue.

Our vision remains to give passengers the best airport service in the world. This vision has both helped to guide our COVID-19 response and make key changes to our business to secure future success through our three-phase plan.

Protect the business

Safety and security remain our first and non-negotiable priorities. Measures have been implemented in collaboration with Public Health England and in line with best practices to keep our passengers and colleagues safe. We now have one of the largest private testing facilities in the UK, with capacity for up to 25,000 COVID-19 tests per day for use by passengers, colleagues, and the general public. In recognition of our progress on health and safety measures, in July 2020 we received Airport Health Accreditation (AHA) from Airports Council International (ACI). This certification confirms that the measures we implemented during the COVID crisis are in line with globally recognised standards - ICAO Council Aviation Restart Task Force (CART) recommendations - alongside industry best practices. In addition, Heathrow was one of the first airports in the UK to successfully pass the CAA's COVID - Assurance of Implementation of ICAO CART Take-Off Guidance programme - a joint CAA and Public Heath England scheme that seeks to ensure the UK aviation sector implements and maintains high COVID-related standards that are aligned with the ICAO recommendations.

As the recovery is expected to be much more gradual than previously anticipated, we continue to operate with costs at the lowest possible and safe level and to focus on preserving liquidity as well as protecting our financial covenants and credit ratings.

Cost mitigation – The costs initiatives implemented throughout 2020 drove a 33.5% cost reduction in the first three months of 2021 compared to prior year. The savings reflect the benefits of our organisational changes, consolidation of operations into two terminals and one runway, renegotiation of our suppliers' contracts and utilisation of the government furlough scheme which was extended until September 2021. Our capital plan focuses on projects which ensure the safety and resilience of the airport and remains constrained to preserve our cash position with £47m spent in the period compared to £224 million in the prior year. Early and decisive management actions to reduce costs allowed us to reduce our average monthly cash burn by over 50% during the first quarter to £79m from £222 million in prior comparable period.

Despite our call for action over the last 12 months, limited and inadequate governmental support on business rates continues putting pressure on our controllable costs.

Given the strength of pent-up demand, early clarity from the Government is essential to help the aviation sector plan ahead of the anticipated reopening of international travel from 17 May 2021. In the higher passenger traffic scenarios we could, for instance, require an earlier ramp-up of our operations through the reopening of Terminal 3. While this scenario could involve additional costs, we would still expect incremental revenues to exceed marginal costs. On the other hand, the cost initiatives implemented during 2020 mean that our cost base is as lean as possible while scalable if traffic materialises.

Revenue protection and loss mitigation - Whilst we are waiting for traffic to return to normal levels, we are seeking opportunities to optimise our revenue and reduce risks associated with bad debts. Our retailers have experienced a similar negative impact observed in the high street due to Government restrictions for non-essential shopping in addition to the impact of Government policy on VAT. We continue to work with our retailers to mitigate these impacts and also look to replace retailers that left our airport with new options for our passengers. We increased the use of 'contactless' digital technology to improve the passenger experience and retailer revenue, providing click & collect service predominantly in luxury. Additionally, we remain prudent and take a proactive and collaborative approach to keep bad debt under control. In the first three months of 2021, only 3.8% of total debtors were high risk.

Reorganising the business – Following the organisational changes implemented in 2020, our focus is now on securing further efficiencies and transforming our operating model through new systems and more standardised processes. Following extensive engagement with our unions, all frontline colleagues agreed to our new terms and conditions in 2020, which secured salaries above market rates and the London Living Wage and removed the need for compulsory redundancies. Notwithstanding this step forward, we were disappointed that Unite confirmed strike actions in the first quarter. Thanks to robust contingency plans, we have continued and expect to continue operating the airport safely with minimal disruption to our passengers.

Despite the significant reduction in passenger volumes, Border Force has failed to sustain its Service Level during the first quarter of 2021. While we are prepared to support Border Force to implement adequate resourcing, technologies and processes to align with the current procedures and demand, it is ultimately Government's responsibility to ensure that their processes are properly managed and efficiently carried out without impacting passenger welfare. We are engaging with Government and pressing for urgent resolution of this issue.

Preserving liquidity and protecting our financial covenants and credit ratings – We raised £1.3 billion from global debt capital markets since the start of 2021. Debt financing activities included a new £350 million Class B bond and €500 million Class A bond during the first quarter. In early April, we also raised C$950 million, the largest offering for an airport issuer in Canada. 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 for at least 15 months in the extreme stress scenario of no revenue.

Although uncertainty around the recovery of traffic remains one of our biggest challenges, our strong liquidity position and cost mitigation plans in response to the pandemic have been recognised by Standards and Poor's (S&P) and Fitch. Both credit rating agencies affirmed our credit ratings in March 2021.

Win the recovery

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. The success of the vaccination programme and advancements in testing technologies mean that the Government doesn't have to make the same choices it did last year. The latest scientific evidence shows that we can safely and cautiously restart international travel with a risk-based approach that allows us to start getting back to normal without sacrificing the progress made in beating the virus.

Testing regimes and vaccine development – Part of our head office building, the Compass Centre, was transformed in March into an NHS COVID-19 vaccination centre to support the Government's mass vaccination programme. It is one of the most extensive facilities in the area, with the capacity to provide 5,000 vaccinations per day, which is an impressive 35,000 people per week from our local communities. We continue to run a testing program for airport colleagues. Around 2,000 Heathrow colleagues regularly participate voluntarily in rapid lateral flow tests to help identify those who may unknowingly carry the virus.

A digitised process for capturing testing and vaccination records will be vital to deliver effective and efficient ways for people to conduct international travel on a larger scale than is possible today. Heathrow and the airlines community are working with the various organisations providing 'digital health certificates' from technology companies to aviation companies (IATA, SITA) and new entrants. These need to integrate into the existing airport processes and systems. Additionally, Heathrow continues to push for international frameworks to create and establish standards whilst maintaining security, privacy and creating trust.

Global Travel Taskforce – In March, we submitted our proposal to the Global Travel Taskforce to facilitate more inbound and outbound travel. We put forward a risk-based traffic light system to restart international travel and trade, as well as scientific evidence supporting our approach. We also recommended the development of the UK's 'Digital Health Certification' for international travel, which would capture testing, vaccination records and COVID-recovery information.

In early April, the Global Travel Taskforce published its recommended approach. We welcome the traffic light system put forward and recognition of the need to resume international travel. However, key information is still needed to aid business planning, especially how countries will be allocated to each tier and clarity on the types of tests required as well as progress in making these tests more affordable. We believe the Government should be prioritising reopening key markets like Israel, the United States, Caribbean, Singapore, Hong Kong, Australia and New Zealand which have higher vaccination rates, decreasing infection rates and a lower risk of introducing variants of concern.

We support additional positive recommendations in the Global Travel Taskforce publication on border resilience, international engagement and travel certification that reflect key solutions proposed in Heathrow's submission. We are also pleased that the UK government has committed to publishing a Tourism Recovery Plan in May, including plans for a world-class marketing campaign to welcome back visitors to the UK as soon as it is safe to do so.

Working to attract as much traffic as possible – We have been working closely with airlines partners to offer as many flights to as many destinations as possible, under three main strategies:

- Incumbent airline build-back – supporting 80% of incumbent airlines flying, although on reduced schedules;
- Airlines consolidation of London operations at Heathrow rather than other London airport - mainly British Airways, Virgin Atlantic and many other airlines
- New entrants - because of the slot usage rule suspension, we can now encourage the hand back of unused slots. Eight airlines have already taken the opportunity to fly from Heathrow for the first time, including Vistara, Blueair, Logan Air, Rwandair, China Airlines, Czech Airlines, Eastern and Uganda Airlines.

Supporting our cargo business – Heathrow is the UK's biggest port, but 95% of cargo is carried in the hold of passenger planes. Unused slots have allowed more dedicated freighter operations and higher rates for cargo have allowed airlines to keep operating some routes with low passenger load factors. However, despite our collective efforts, cargo volumes were down 5.0% in the first three months of 2021 compared to the same period last year. This shows the importance of restarting long haul passenger travel to reinstate the UK's supply chain and export routes.

Build back better

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

Sustainable growth – Taking the carbon emissions out of flying remains both an ethical and business imperative for Heathrow. After achieving the goal of our airport operation becoming carbon neutral, we are playing a leadership role to create momentum to solve the problem across our scope 3 greenhouse emissions.

The Government's 6th Carbon Budget establishes a challenging new interim carbon target for 2035, adding further impetus on aviation decarbonisation. Rising to this challenge, low carbon Sustainable Aviation Fuels (SAF) are key to taking the carbon out of flying – but 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. Not only will this stimulate the SAF market, but it will also create a new industrial sector for Britain.

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 a global 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. We will continue working on reducing our own emissions further through using renewable electricity, road user charging and more electric vehicle (EV) charge capacity.

Policy and regulatory matters – In December 2020, we submitted our Revised Business Plan to the CAA, setting our proposed approach to the next price control period (H7) due to start in 2022. We recognise the uncertainties ahead and that major demands of our plan will be outside of our control, including the recovery of passenger demand or the full implementation of our proposed RAB adjustment. Following our request for a RAB adjustment, the CAA published its decision in April 2021 confirming that a £300m adjustment should be made to Heathrow's RAB immediately. The adjustment, however, is inadequate when compared with expected losses of c. £3 billion. We will continue engaging with the CAA on further intervention for the H7 period while evaluating all our options.

STRATEGIC PRIORITIES

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

- **Mojo**: to be great place to work, we will help our colleagues fulfil their potential and work together to lead change across Heathrow with energy and pride;
- **Transforming customer service**: to deliver the world's best passenger experience, we will work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience;
- **Beating the plan**: to secure future investment, we will 'beat the plan' and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments and financing efficiently;
- **Sustainable growth**: to grow and operate our airport sustainably, now and in the future.

All key performance metrics below are defined in the glossary section of this report.

MOJO

Mojo performance indicators [1]	2020	2021
Colleague promotions	71	**42**
Managerial training	348	**0**
Lost time injuries	0.32	**0**

(1) For the three months ended 31 March 2021

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators [1]	2020	2021
ASQ	4.20	**4.25**
Experience as "excellent" or "very good" %	84.1	**---** [2]
Baggage connection %	99.0	**99.0**
Departure punctuality %	83.4	**82.5**
Security queuing %	97.4	**98.3**
Connections satisfaction	4.19	**---** [2]
Cleanliness (QSM)	4.31	**4.45**

(1) For the three months ended 31 March 2021
(2) Passenger satisfaction and research have been temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) [1]	2020	2021	Var % [2]
UK	0.9	0.2	(81.9)
Europe	5.7	0.6	(89.9)
North America	3.2	0.2	(94.4)
Asia Pacific	2.1	0.3	(86.3)
Middle East	1.6	0.2	(84.2)
Africa	0.8	0.2	(75.7)
Latin America	0.3	0.0	(93.2)
Total passengers	**14.6**	**1.7**	**(88.5)**

(1) For the three months ended 31 March 2021
(2) Calculated using unrounded passenger figures

Other traffic performance indicators [1]	2020	2021	Var % [2]
Passenger ATM	98,206	17,852	(81.8)
Load factors (%)	68.6	39.8	(27.9)
Seats per ATM	217.5	236.6	8.8
Cargo tonnage ('000)	333	316	(5.0)

(1) For the three months ended 31 March 2021
(2) Calculated using unrounded passenger figures

SUSTAINABLE GROWTH

COVID-19 has had a considerable impact on communities worldwide, including those local to Heathrow. Our local communities' economic and employment needs have increased while our understanding of the strategic risk of climate change has continued to grow. These changes in context reinforce our commitment to sustainability. Our current plan has four pillars through which we aim to deliver the big outcomes that reflect the material colleague, community and environmental issues for Heathrow: Great Place to Work, Great Place to Live, Thriving Sustainable Economy and a World Worth Travelling. We remain committed to take action across these pillars. We are reviewing our

Heathrow 2.0 plan and we will share our revised strategy later in 2021.

A great place to work – Heathrow's annual Gender Pay Gap report was published in March, showing an increase of 4.5% on median Gender Pay Gap in 2020 (vs. 3.0% in 2019) due to an increase in female representation in the lowest pay quartile. The mean Gender Pay Gap has improved by 1.0% to 8.8% (from 9.8% in 2019). The median Bonus gap has remained flat at 0.3%, with both the median male and female colleagues paid the Airport Profit bonus. The mean Bonus gap has improved by 1.0% to 27.0% (from 28.0% in 2019). We are proud of the progress we have made, but there is still more to do. Our recent Gender Pay Gap Report sets our ongoing plans to improve.

A great place to live - In the first three months of 2021, there were 9 instances of late running aircraft compared to 41 in the same period in 2020, reflecting 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. We also continue to support the Heathrow Community Trust, an independent grant-making charity that funds projects which improve communities' quality of life near the airport. In February 2021, for the first time, we were also able to donate £41,000 to the Trust after we outperformed ESG metrics built into our revolving credit facilities.

A thriving sustainable economy - As the UK's only hub airport, we have a critical role to play in the economy, both nationally and locally. We want to use our influence to drive change and collaborate with the 400 businesses that operate from or supply goods and services to Heathrow. Despite the impact of the pandemic, we have maintained the London Living Wage (LLW) for all our directly employed colleagues. Due to the impact of COVID-19 on our business, in March 2020 we made the very difficult decision to pause the delivery of our Living Wage Roadmap for suppliers. We remain committed to transitioning all direct supply chain colleagues working at Heathrow to be paid the London Living Wage. We are currently working through the details of our revised Living Wage Roadmap so that we can restart this programme again as soon as we are able to.

A world worth travelling - Heathrow and the UK aviation industry continue to play their part in leading the world in committing to net zero carbon and pushing for UK and global action. A growing group of global airlines back this goal, demonstrated most recently by the Airlines for America commitment in March 2021 to achieve net zero by 2050. Currently 72% of Heathrow airlines (weighted by 2019 passenger volume) have committed to net zero by 2050. This focus on decarbonising aviation will gain further momentum as we approach COP26 in November.

Heathrow remains focussed on advocating for action on Sustainable Aviation Fuel (SAF), particularly by UK government. Heathrow is advocating two key policies to attract SAF investment to the UK and kickstart this sunrise industry domestically: a mandate and the right commercial incentives to close the price gap with kerosene. The Jet Zero Council represents a real opportunity to make progress in the UK. Emma Gilthorpe, Heathrow's current COO, was confirmed as CEO in March when its second full Council meeting took place. Meanwhile its two workstreams have been progressing discussions on accelerating SAF and other aviation technology such as hydrogen. Currently 59% of Heathrow airlines have also committed to 10% SAF by 2030, ahead of the Climate Change Committee target of 7.5%.

DfT's net zero aviation policy consultation, expected in late May, will determine which levers government will pull to decarbonise flights. The Government will also consult separately on its policies to scale up SAF, including a mandate.

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.

Heathrow is also 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.

Key regulatory developments

COVID-19 related RAB adjustment - In July 2020, Heathrow applied to the CAA for an adjustment to the Regulatory Asset Base (RAB) for an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. The adjustment is designed to secure the recovery of historic investment which has been deemed to be efficiently incurred as well as losses in return as per economic parameters used to set our allowed cost of capital. This proposal seeks the enforcement of the review mechanism included in our settlement triggered by exceptional circumstances. We have proposed a reasonable adjustment that allows the CAA to act now in order to lower future charges and maintain investment in the airport – protecting jobs and avoiding rapid degradation of service. The CAA must ultimately take a decision – but failure to act in the right way and in a timely manner will see confidence in effective regulation evaporate. This would not just affect Heathrow but will undermine the perception of investing in the UK and the Government's Global Britain agenda.

On 27 April 2021, the CAA published its decision on our request. It has confirmed that a £300m adjustment should be made to Heathrow's RAB immediately to allow for the investment required to maintain service quality and ensure that there is capacity to accommodate potential increases in passengers through 2021. The CAA confirmed that this decision will be set out in Heathrow's licence as part of the H7 period. It also set out that, as part of the H7 process, it will carry out further work to establish whether any additional intervention is required, including in regard to the recovery of regulatory depreciation for 2020 and 2021.

While it is positive that the CAA has accepted the need to act to ensure service levels are maintained and that Heathrow continues to be financeable, the scale of adjustment proposed is highly disappointing. We continue to believe that our proposed adjustment is the right outcome for consumers in H7 and beyond, ensuring lower airport charges for passengers and incentivising investment. The CAA's decision risks undermining confidence in the regulatory regime and generating worse outcomes for consumers going forward. We will continue to engage with the CAA on its assessment of the required intervention as part of the H7 process.

H7 and Regulatory timetable - The H7 period is due to start on 1 January 2022. In December we submitted our Revised Business Plan (RBP) to the CAA. This set out our plans for the H7 period following consultation with airlines and the publication of further policy views from the CAA through 2020. Our RBP will form the basis of the CAA's decision making for the H7 period.

On 27 April 2021, the CAA published its '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. While the CAA is broadly content with our approach to passenger forecasting for the period, it requests further information from Heathrow on our assumptions regarding operating costs, commercial revenues and our capital plan. It notes that, in advance of its initial proposals, it will work with independent consultants to review our assumptions and set out its proposed forecasts of these building blocks for the H7 period. As set out in our RBP, we intend to provide the CAA with updated information on our RBP alongside our response to the Way Forward document in order to ensure the CAA has access to the most up to date information on which it can base its decisions.

In regard to H7 policy, the CAA sets out its minded to a decision that the H7 period should be set for five years on the basis of a RAB-based single till framework. It notes that a number of changes will be required for H7, including the introduction of either a passenger volume or revenue risk sharing mechanism. The CAA also notes the developments regarding the assessment of cost of capital following the CMA's decision in relation to water companies and sets out that it intends to follow an approach broadly consistent with that taken by the CMA when setting the cost of capital for H7. The CAA also continues to move toward the implementation of increased ex-ante capital incentives and a consumer-focused outcomes-based service quality framework. We will continue to engage with the CAA on these policy issues through 2021 ahead of its Initial Proposals.

Under its current timetable, the CAA is planning to publish its Initial Proposals for the H7 period in summer 2021 with its final decision in December.

Expansion developments

Following the positive outcome from the judicial review proceedings last year, reinstating the Airports National Policy Statement ('ANPS') as lawful policy, we remain committed to a long-term sustainable expansion. As passenger numbers recover, our immediate focus will be to continue ensuring their safety and maintaining 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.

Following the Supreme Court's decision in December 2020, we have been taking steps with a view to reopening our Property Hardship Scheme. We have consulted with our airline community and the CAA, and we can confirm that Heathrow's Interim Property Hardship Scheme will reopen from May 2021.

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 1st January 2022, as opposed to 1 July 2021. EU citizens can continue to use electronic gates at immigration upon arrival into the UK. 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.

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 international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.3 billion of debt to date in 2021 across the capital structure in bond format. A new £350m Class B and €500m Class A transactions were successfully executed during the first quarter. Consequently, Heathrow SP held cash of £3.7 billion as at 31 March 2021. Total debt maturity within Heathrow SP for the next 12 months is £1.3 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash and committed facilities of circa. £4.0 billion available. No debt matures outside of Heathrow SP for the next 12 months.

Taking this into account, the Group have sufficient liquidity to meet all forecast needs for at least 15 months, even under the most extreme scenario of no revenue, or at least into 2024 under all traffic scenarios. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Modelling the impact of COVID-19

The directors have modelled future cash flows for the period beyond 12 months to June 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 its assessment, management has 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.

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 forecasting is therefore inherently subjective. Following continued uncertainty since the year ended 31 December 2020, management has now adopted a range of plausible passenger scenarios from 13 to 36 million which reflect the uncertainty over COVID-19 control, the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through these stages of recovery following the recommendations of the UK's Government Global Travel Taskforce, with appropriate levels of stress testing. Apart from traffic, the forecast assumes no material adverse changes in working capital.

For the purposes of assessing going concern, management considered a midpoint of the range which is deemed to be a 'severe but plausible' scenario with passenger traffic for 2021 declining 69% compared to 2019 to 25 million passengers (an increase of 13% from 2020). This would lead to an 80% decrease in EBITDA in 2021 compared to 2019. No covenant breaches are forecast in this scenario and the Directors have a reasonable expectation that there are operational and financial mitigations within the control of the group to mitigate against any debt default covenant breaches for the 12 months from the date of the Q1 Press Release should the need arise.

The lowest end of the passenger range reflects a 'worst case' yet plausible downside for the period beyond 12 months to June 2022 which models 13 million passengers in 2021 and a 96% fall in EBITDA in 2021 compared to 2019. It is between the 'severe but plausible' and 'worst case' scenarios that Heathrow Finance covenant breaches are forecast which would require management to seek further covenant waivers or amendments from creditors. Gearing levels will be mitigated by the immediate addition of £300m in the RAB, recently confirmed by the CAA.

Conclusion

Having had regard to both liquidity and debt covenants, and considering a range of plausible scenarios, the Directors have concluded that there will be funds available to meet the Group's scheduled funding requirements for at least twelve months from the date of this Q1 Press Release and that it is accordingly appropriate to adopt a going concern basis for the preparation of the results.

The Directors consider that the underlying credit quality of the business means that it can secure, if necessary in the lower part of the range of scenarios considered, the timely support of its debtholders as it successfully secured in 2020.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry as evidenced by the range of plausible scenarios considered by management, which may result in the Group needing to take further action as described above. It is the fact that there are a range of plausible scenarios, some of which that would require creditor consent that indicates the existence of a material uncertainty which could cast significant doubt upon the Group's ability to continue as a going concern.

The Q1 trading results do not include the adjustments that would result if the Group were unable to continue as a going concern.

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. These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2020.

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

Summary performance

In the three months ended 31 March 2021, the Group's revenue declined by 72.2% to £165 million (2020: £593 million). Adjusted EBITDA declined to negative £20 million (2020: £315 million). The Group recorded a £258 million loss after tax (2020: £352 million loss).

Three months ended 31 March	2020 £m	2021 £m
Revenue	593	165
Adjusted operating costs(1)	(278)	(185)
Adjusted EBITDA(2)	**315**	**(20)**
Depreciation and amortisation	(189)	(185)
Adjusted operating profit/(loss)(3)	126	**(205)**
Net finance costs before certain re-measurements and exceptional items	(167)	(124)
Adjusted loss before tax(4)	(41)	**(329)**
Tax credit on profit before certain re-measurements and exceptional items	6	53
Adjusted loss after tax(4)	(35)	**(276)**
Including certain re-measurements and exceptional items		
Fair value loss on investment properties	(184)	(1)
Fair value gain on financial instruments	29	23
Exceptional items	(82)	-
Tax charge on certain re-measurements and exceptional items	(80)	(4)
Loss after tax	(352)	**(258)**

(1) Adjusted operating costs excludes depreciation amortisation and 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 profit/(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.

Revenue

In the three months ended 31 March 2021, revenue declined 72.2% to £165 million (2020: £593 million).

Three months ended 31 March	2020 £m	2021 £m	Var. %
Aeronautical	342	78	(77.2)
Retail	136	27	(80.1)
Other	115	60	(47.8)
Total revenue	**593**	**165**	**(72.2)**

Aeronautical revenue declined by 77.2%. Aeronautical revenue per passenger increased 98.8% to £46.42 (2020: £23.35). The decline in aeronautical revenue is due to reduced passenger numbers and a 18% of reduction in airport charges compared to 2020. The average revenue per passenger is largely distorted by the reduced traffic number and an increase in cargo movements which are charged on a per movement basis.

Three months ended 31 March	2020 £m	2021 £m	Var. %
Retail concessions	61	6	(90.2)
Catering	13	3	(76.9)
Other retail	23	8	(65.2)
Car parking	24	4	(83.3)
Other services	15	6	(60.0)
Total retail revenue	**136**	**27**	**(80.1)**

Retail revenue declined by 80.1% driven by reduced passenger numbers and the mix of retail service available due to governmental restrictions on non-essential shops. Retail revenue per passenger increased 73.1% to £16.07 (2020: £9.28). Retail income per passenger is largely distorted due to the reduced passenger numbers.

Three months ended 31 March	2020 £m	2021 £m	Var. %
Other regulated charges ('ORCs')	57	28	(50.9)
Heathrow Express	20	1	(95.0)
Property and other	38	31	(18.4)
Total other revenue	**115**	**60**	**(47.8)**

Other revenue decreased by 47.8%. Other regulated charges declined 50.9% 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 a repricing of other regulated charges enabling an £8.90 flat charge applying to all departing passengers, this removed the need for a more significant price increase across all ORCs such as baggage.

Heathrow Express saw a 95.0% decline in revenue due to fewer passengers. Property and other revenue decreased 18.4% showing relative resilience due to targeted rental alleviation from consolidated operations being spread forward over the residual life of the contracts.

Adjusted operating costs

In the three months ended 31 March 2021, adjusted operating costs decreased 33.5% to £185 million (2020: £278 million). Adjusted operating costs per passenger increased by 480.1% to £110.11 (2020: £18.98). The adjusted operating costs per passenger is largely distorted by the reduced traffic number compared to same period last year and the fixed nature of our cost base in the medium term.

Three months ended 31 March	2020 £m	2021 £m	Var. %
Employment	90	60	(33.3)
Operational	70	41	(41.4)
Maintenance	43	29	(32.6)
Rates	30	29	(3.3)
Utilities and Other	45	26	(42.2)
Adjusted operating costs	**278**	**185**	**(33.5)**

Operational costs have decreased by over 33% as a consequence of the management initiatives implemented in 2020. We spent less on employment costs following our organisational restructure and the Government's furlough scheme. The decline in operational, maintenance, utilities and other costs results from the consolidation of operations into two terminals and one runway, renegotiating our suppliers' contracts and stopping all non-essential costs. Despite a significant 88.5% reduction in traffic, Government business rates have decreased by only 3.3%, evidencing limited government support. Cost savings were partially offset by business resilience costs, including costs associated with contingency plans to ensure Heathrow remains open and continues operating safely throughout industrial action.

Operating Loss and Adjusted EBITDA

In the three months ended 31 March 2021, the Group recorded an operating loss of £206 million (2020: operating loss of £140 million). The loss was largely driven by lower revenue and mitigated by management actions to reduce costs.

Adjusted EBITDA decreased to a £20 million loss (2020: £315 million).

Three months ended 31 March	2020 £m	2021 £m
Operating loss	**(140)**	**(206)**
Depreciation and amortisation	189	185
EBITDA	**49**	**(21)**
Exceptional items(1)	82	-
Excl. Fair value loss on investment properties	184	(1)
Adjusted EBITDA	**315**	**(20)**

Loss after tax

In the three months ended 31 March 2021, the Group recorded a loss before tax of £307 million (2020: £278 million) and a loss after tax of £258 million (2020: £352 million).

Three months ended 31 March	2020 £m	2021 £m
Operating loss	**(140)**	**(206)**
Net finance costs before certain remeasurements	(167)	(124)
Fair value gain on financial instruments	29	23
Loss before tax	**(278)**	**(307)**
Taxation (charge)/credit	(74)	49
Loss after tax	**(352)**	**(258)**

Net finance costs before certain re-measurements decreased to £124 million (2020: £167 million) due to the steps taken to reprofile our swap portfolio and secure interest savings in 2021 while traffic recovers.

Fair value gain on financial instruments decreased to £23 million (2020: £29 million) as a result swaps reprofiling, together with an increase in interest rate expectations which observed an average 56 bps (2020: 39 bps) upward shift of the 6-month LIBOR curve.

Taxation

The total tax credit for the three-month period ended 31 March 2021 was £49 million (three months ended 31 March 2020: £74 million charge). The tax credit before certain re-measurements and exceptional items, was £53 million (three months ended 31 March 2020: £6 million), at an effective tax rate of 16.1% (three months ended 31 March 2020: 14.6%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the three-month period, before certain re-measurements and exceptional items. The effective tax rate being lower than the statutory rate of 19% is primarily due to non-deductible expenses reducing the tax credit for the year. For the three-month period ended 31 March 2021, a tax charge of £4 million was recognised on certain re-measurements (fair value movements on financial instruments and investment properties). In the three months ended 31 March 2020, the tax charge of £80 million on certain re-measurements and exceptional items included a £115 million tax charge reflecting the impact of the change in tax rate from 17% to 19%.

Cash position

In the three months ended 31 March 2021, there was an increase of £219 million in cash and cash equivalents compared with an increase of £247 million in the three months ended 31 March 2020.

At 31 March 2021, the Heathrow SP Group had £3,669 million (31 December 2020: £3,516 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £499 million (31 December 2020: £280 million).

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

Cash generated from operations

In the three months ended 31 March 2021, cash generated from operations decreased to £132 million (2020: generated £375 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Three months ended 31 March	2020 £m	2021 £m
Cash generated from operations	**375**	**132**
Exclude:		
Decrease in inventories and trade and other receivables(1)	(160)	(171)
Decrease in trade and other payables	97	19
Decrease in provisions	(2)	-
Difference between pension charge and cash contributions	5	(6)
Cash payments in respect of FY20 exceptional items	-	6
Adjusted EBITDA	**315**	**(20)**

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in the first three months of 2021 was £47 million (2020: £224 million) excluding capital creditors movements or £52 million (2020: £208 million) including capital creditors movements.

We invested £44 million (2020: £161 million) in various programmes to ensure the airport's safety and resilience. We also invested £3 million in the period (2020: £63 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, back office systems upgrades and renewal of assets that have come to the end of their economic life.

Expansion-related capital expenditure includes 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 £129 million in Category C costs, with a total of £511 million (before capitalised interest and after £10m of rework impairment) carried on the 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 three months ended 31 March 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 £319 million, which can cover debt service until 2024 when the next debt maturity occurs.

RECENT FINANCING ACTIVITY

Despite a much more challenging market backdrop given the COVID-19 pandemic, continued confidence and support for our credit enabled us to raise £1.3 billion in debt financing since the start of 2021 across the capital structure.

These actions ensured we maintained a robust liquidity position throughout the year and provided 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 C$ dual tranche including a C$650m public bond maturing in 2027 and a C$300m public bond maturing in 2033; and
- the scheduled repayments of a £250m public bond in March and £2m on the EIB loan.

Class B financing activities included:

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

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 March 2021, Heathrow SP’s consolidated nominal net debt was £13,064 million (31 December 2020: £13,131 million). It comprised £13,859 million in bond issues, £1,604 million in other term debt, £117 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities. This was offset by £3,669 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,862 million in senior net debt and £2,202 million in junior debt.

The average cost of Heathrow SP’s nominal gross debt at 31 March 2021 was 0.83% (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 31 March 2021 was 1.43% (31 December 2020: 1.48%). The reduction in the average cost of debt since the end of 2020 is mainly due to recent financing at a lower cost and swap portfolio reprofiling. Excluding the impact of our swap portfolio reprofiling initiated in 2020, Heathrow SP’s average cost of debt at 31 March 2021 was 2.62% excluding index-linked accretion and 3.22% including index-linked accretion.

The average life of Heathrow SP’s gross debt as at 31 March 2021 was 10.1 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 £13,529 million at 31 March 2021 (31 December 2020: £13,886 million). This includes £3,669 million of cash and cash equivalents and term deposits, and £380 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs for at least 15 months under the extreme stress-test scenario of no revenue, or into 2024 under all traffic scenarios considered. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £3,988 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 31 March 2021.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance amounted to £15,109 million (31 December 2020: £15,120 million). This comprised Heathrow SP’s £13,064 million nominal net debt, Heathrow Finance’s nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £319 million.

Financial ratios

At 31 March 2021, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios and interest coverage ratios are defined within the Glossary.

At 31 March 2021, Heathrow’s RAB was £16,396 million (31 December 2020: £16,492 million). Heathrow SP’s senior (Class A) and junior (Class B) gearing ratios were 66.2% and 79.7% 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 92.1% (31 December 2020: 91.7%) with a covenant of 93.5% following the waiver secured last July.

As of 31 December 2020, 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 31 March 2021, the defined benefit pension scheme, as measured under IAS 19, was funded at 101.5% (31 December 2020: 100.3%). This translated into a surplus of £64 million (31 December 2020: £12 million). The £52 million increase in the surplus in the three months is largely due to actuarial gains of £58 million, attributable to an increase in the net discount rate of 0.7% offset by current service cost of £6 million. In December 2020, we prepaid £35 million into the defined benefit pension scheme to cover 2021 contributions. No further payments have been made in the three months ended 31 March 2021. Management believes that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

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

OUTLOOK

Given the ongoing material uncertainty surrounding traffic recovery, our 2021 traffic outlook has been revised to a range going from 13 million to 36 million passengers. The range of outcomes considered reflects the expected strength of pent-up demand balanced with a strong dependency on government policy with regards to restarting international travel. All traffic scenarios within the range are considered plausible at this stage. Apart from traffic, the forecast assumes no material adverse changes in working capital.

Thanks to the range of cost saving initiatives implemented throughout 2020, our cost base has been shrunk to the lowest possible and safe level and can be scaled up if traffic materialises.

In the higher traffic scenarios, we expect an earlier reopening of Terminal 3 to be needed. This prospect requires careful planning which we are currently going through. Incremental costs may be associated with an earlier operational ramp-up. However, we expect these costs to be more than offset by the additional revenues generated by higher traffic volumes.

Within the range considered, we will also face different potential outcomes on our financial covenants. While we forecast no breach of covenants at Heathrow SP across the range considered and within the modelling cashflow assumptions, there may be downside scenarios resulting in a breach of covenants at Heathrow Finance. Gearing levels under this extreme case will be mitigated by the immediate addition of £300m in the RAB, recently confirmed by the CAA. We continue monitoring the situation closely and assessing all options to protect Heathrow's financial resilience.

An updated financial forecast will be provided in our forthcoming Investor Report due to be published in June 2021.

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Heathrow Funding Limited credit ratings affirmed - Credit rating agency Standards and Poor's (S&P) affirmed Heathrow Funding Limited's investment grade ratings at BBB+ for Class A debt and BBB- for Class B debt. Both ratings were taken off CreditWatch where they had been since May 2020 and moved to negative outlook.

Full RNS available here: Heathrow Funding Limited credit ratings affirmed - 09:39:18 05 Mar 2021 - News article | London Stock Exchange

Heathrow re-enters GBP Class B market with £350m bond - Heathrow has successfully placed a £350 million Class B bond maturing in 2028 with a fixed coupon of 2.625%. The bond was overwhelmingly supported by a diverse range of investors driving an order book in excess of £1.1 billion, more than three times oversubscribed.

Full RNS available here: Heathrow re-enters GBP Class B market with £350m bond - 18:08:52 09 Mar 2021 - News article | London Stock Exchange

Heathrow's credit ratings update - Credit rating agency Fitch affirmed Heathrow Funding Limited's investment grade ratings at A- for Class A debt and BBB for Class B debt as well as Heathrow Finance's credit rating at BB+. The outlook on all classes remains unchanged at negative.

Full RNS available here: Heathrow's credit ratings update - 07:00:05 01 Apr 2021 - News article | London Stock Exchange

Heathrow secures new EUR500 million Class A bond - Heathrow has placed a €500 million Class A bond maturing in 2030 with a fixed coupon of 1.125%. The funds will be used for general corporate purposes and ensure the airport retains sufficient liquidity for the next 18 - 24 months.

Full RNS available here: Heathrow secures new EUR500 million Class A bond - 07:00:01 09 Apr 2021 - News article | London Stock Exchange

Heathrow secures new CAD950 million Class A funding - Heathrow Funding Limited has successfully placed a dual-tranche issue for combined proceeds of CAD 950 million, consisting of a CAD 650 million Class A bond maturing in 2027 with a fixed coupon of 2.694% and a CAD 300 million Class A Bond maturing in 2033 with a fixed coupon of 3.726%.

Full RNS available here: Heathrow secures new CAD950 million Class A funding - 16:55:41 13 Apr 2021 - News article | London Stock Exchange

Condensed consolidated income statement for the three months ended 31 March 2021

		Unaudited Three months ended 31 March 2021			Unaudited Three months ended 31 March 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*	165	-	165	593	-	-	593
Operating costs	*2*	(370)	-	(370)	(467)	-	(82)	(549)
Other operating items:								
Fair value loss on investment properties		-	(1)	(1)	-	(184)	-	(184)
Operating (loss)/profit		**(205)**	**(1)**	**(206)**	**126**	**(184)**	**(82)**	**(140)**
Financing								
Finance income		2	-	2	3	-	-	3
Finance cost		(126)	23	(103)	(170)	29	-	(141)
Net finance cost	*4*	**(124)**	**23**	**(101)**	**(167)**	**29**	**-**	**(138)**
Loss before tax		**(329)**	**22**	**(307)**	**(41)**	**(155)**	**(82)**	**(278)**
Taxation credit		53	(4)	49	6	29	6	41
Change in tax rate		-	-	-	-	(115)	-	(115)
Taxation credit/(charge)	*5*	**53**	**(4)**	**49**	**6**	**(86)**	**6**	**(74)**
Loss for the period [4]		**(276)**	**18**	**(258)**	**(35)**	**(241)**	**(76)**	**(352)**

(1) Amounts stated before certain remeasurements 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 in the prior year 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

Condensed consolidated statement of comprehensive income for the three months ended 31 March 2021

	Unaudited Three months ended 31 March 2021 £m	Unaudited Three months ended 31 March 2020 £m
Loss for the period	(258)	(352)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
Loss on plan assets [1]	(251)	(96)
Decrease in scheme liabilities [1]	299	267
Change in tax rate	-	1
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains taken to equity [1]	4	47
Transfer to finance cost [1]	11	(32)
Change in tax rate	-	4
Other comprehensive income for the period net of tax	63	191
Total comprehensive expense for the period [2]	(195)	(161)

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

Heathrow
Making every journey better

Condensed consolidated statement of financial position as at 31 March 2021

	Note	Unaudited as at 31 March 2021 £m	Audited[1] as at 31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment		10,995	11,136
Right of use asset		274	285
Investment properties		2,119	2,118
Intangible assets		182	182
Retirement benefit surplus		64	12
Derivative financial instruments		461	656
Trade and other receivables		23	20
		14,118	14,409
Current assets			
Inventories		15	14
Trade and other receivables		316	496
Current income tax assets		1	1
Derivative financial instruments		129	146
Term deposits		3,170	3,236
Cash and cash equivalents		499	280
		4,130	**4,173**
Total assets		**18,248**	**18,582**
Liabilities			
Non-current liabilities			
Borrowings	*6*	(18,777)	(18,635)
Derivative financial instruments		(1,254)	(1,134)
Lease liabilities		(339)	(349)
Deferred income tax liabilities		(750)	(784)
Retirement benefit obligations		(31)	(31)
Provisions		(1)	(1)
Trade and other payables		(4)	(6)
		(21,156)	**(20,940)**
Current liabilities			
Borrowings	*6*	(1,608)	(1,928)
Derivative financial instruments		(16)	(21)
Lease liabilities		(41)	(43)
Provisions		(9)	(15)
Trade and other payables		(370)	(392)
		(2,044)	**(2,399)**
Total liabilities		**(23,200)**	**(23,339)**
Net liabilities		**(4,952)**	**(4,757)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(158)	(173)
Accumulated losses		(1,546)	(1,336)
Total shareholder's equity		**(4,952)**	**(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.

Condensed consolidated statement of changes in equity for the three months ended 31 March 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	-	-	-	-	(258)	(258)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	15	-	15
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(251)	(251)
Decrease in scheme liabilities	-	-	-	-	299	299
Total comprehensive income/(expense)	**-**	**-**	**-**	**15**	**(210)**	**(195)**
31 March 2021 (unaudited)	**11**	**499**	**(3,758)**	**(158)**	**(1,546)**	**(4,952)**

(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.

Condensed consolidated statement of cash flows for the three months ended 31 March 2021

	Note	Unaudited Three months ended 31 March 2021 £m	Unaudited Three months ended 31 March 2020 £m
Cash flows from operating activities			
Cash generated from operations	7	132	375
Taxation:			
Corporation tax paid		-	(26)
Net cash generated from operating activities		**132**	349
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(50)	(208)
Investment properties		(2)	-
Proceeds on disposals of:			
Property, plant and equipment		14	-
Decrease/(increase) in term deposits [(1)]		66	(699)
Interest received		3	3
Net cash from/(used in) investing activities		**31**	(904)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		-	(107)
Proceeds from issuance of bonds		348	381
Repayment of bonds		(250)	(400)
Repayment of facilities and other financing items		(3)	(2)
Increase in amount owed to Heathrow Finance plc		71	80
Interest paid [2]		(71)	(155)
Drawdown of revolving credit facilities		-	1,150
Settlement of accretion on index-linked swaps		(31)	(136)
Payment of lease liabilities		(8)	(9)
Net cash generated from financing activities		**56**	802
Net increase in cash and cash equivalents		**219**	247
Cash and cash equivalents at beginning of period		280	815
Cash and cash equivalents at end of period		**499**	1,062

(1) Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
(2) Included within interest paid is £4 million of lease interest paid (March 2020: £4 million which was previously included in payment of lease liabilities).

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the three month period ended 31 March 2021 or any other period. The annual financial information presented herein for the three month period ended 31 March 2021 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the twelve month period ended 31 December 2020. The auditors' report on the 2020 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation and new accounting standards, interpretations and amendments

The consolidated financial statements of Heathrow (SP) Limited have been prepared in accordance with international accounting standard in conformity with the requirements of the Companies Act 2006 and prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historical cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

1. SEGMENT INFORMATION

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

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

Table (a)	**Unaudited Three months ended 31 March 2021 £m**	**Unaudited Three months ended 31 March 2020 £m**
Segment Revenue		
Under IFRS 15		
Aeronautical		
Movement charges	38	123
Parking charges	11	19
Passengers charges	29	200
Total aeronautical revenue	78	342
Other regulated charges	28	57
Retail services revenue	27	136
Property revenue	1	6
Rail income		
Heathrow Express	1	20
Other	3	6
Revenue reported under IFRS 15	138	567
Revenue recognised at a point in time	134	543
Revenue recognised over time	4	24
Total revenue reported under IFRS 15	**138**	567
Under IFRS 16		
Property (lease-related income)	27	26
Total revenue	**165**	593
Heathrow	164	573
Heathrow Express	1	20
Adjusted EBITDA		
Heathrow	(14)	310
Heathrow Express	(6)	5
Total Adjusted EBITDA	(20)	315
Reconciliation to statutory information:		
Depreciation and amortisation	(185)	(189)
Operating (loss)/profit (before certain re-measurements and exceptional items)	**(205)**	126
Exceptional items	-	(184)
Fair value loss on investment properties (certain re-measurements)	(1)	(82)
Operating loss	**(206)**	(140)
Finance income	2	3
Finance cost	(103)	(141)
Loss before tax	**(307)**	(278)

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Three months ended 31 March 2021		Unaudited Three months ended 31 March 2020	
	Depreciation & amortisation (1) £m	**Fair value loss (2) £m**	Depreciation & amortisation (1) £m	Fair value loss (2) £m
Heathrow	(175)	(1)	(228)	(184)
Heathrow Express	(10)	-	(13)	-
Total	**(185)**	**(1)**	(241)	(184)

(1) Includes intangible amortisation charge of £9 million (three months ended 31 March 2020: £8 million).
(2) Reflects fair value loss on investment properties only.

Table (c)	Unaudited 31 March 2021		Audited 31 December 2020	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow	13,023	(343)	13,319	(401)
Heathrow Express	627	(41)	647	(13)
Total operations	**13,650**	**(384)**	13,966	(414)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	3,669	(16,999)	3,516	(17,219)
Retirement benefit assets/(obligations)	64	(31)	12	(31)
Derivative financial instruments	590	(1,270)	802	(1,155)
Deferred and current tax assets/(liabilities)	1	(750)	1	(784)
Amounts owed to group undertakings	-	(3,386)	-	(3,344)
Right of use asset and lease liabilities	274	(380)	285	(392)
Total	**18,248**	**(23,200)**	18,582	(23,339)

2. OPERATING COSTS

	Unaudited Three months ended 31 March 2021 £m	**Unaudited Three months ended 31 March 2020 £m**
Employment (1)	60	90
Operational	41	70
Maintenance	29	43
Rates	29	30
Utilities	14	20
Other	12	25
Total operating costs before depreciation and amortisation	185	278
Depreciation and amortisation:		
Property, plant and equipment	166	172
Intangible assets	9	8
Right of Use (RoU) assets	10	9
Operating costs before exceptional items	370	467
Exceptional items (note 3)	-	82
Total operating costs	**370**	549

(1) Government grants of £7 million (three months ended 31 March 2020: £nil) 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.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

3. EXCEPTIONAL ITEMS

	Unaudited Three months ended 31 March 2021 £m	**Unaudited Three months ended 31 March 2020 £m**
Business transformation	-	30
Asset impairment and write-off	-	52
Total operating loss on exceptional items	**-**	82
Tax credit on exceptional items	-	(6)
Loss on exceptional items after tax	**-**	76

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 £30 million of people-related costs, principally redundancy. In addition, the Group reviewed their asset portfolio and recognised a non-cash impairment and write-off charge of £52 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 three months ended 31 March 2021, £6 million of this provision was utilised with the remaining £7 million expected to be utilised over the remainder of the current financial year.

4. FINANCING

	Unaudited Three months ended 31 March 2021 £m	**Unaudited Three months ended 31 March 2020 £m**
Finance income		
Interest on deposits	2	3
Total finance income	2	3
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments(1)	(117)	(132)
Bank loans, overdrafts and related hedging instruments	(14)	(16)
Net interest expense on derivatives not in hedge relationship(2)	51	1
Facility fees and other charges	(2)	(2)
Interest on debenture payable to Heathrow Finance plc	(42)	(30)
Finance cost on lease liabilities	(4)	(4)
	(128)	(183)
Less: capitalised borrowing costs(3)	2	13
Total finance cost	(126)	(170)
Net finance cost before certain re-measurements	**(124)**	(167)
Fair value gain on financial instruments		
Interest rate swaps: not in hedge relationship	50	(41)
Index-linked swaps: not in hedge relationship	(12)	71
Cross-currency swaps: not in hedge relationship	(8)	9
Ineffective portion of cash flow hedges	(7)	6
Ineffective portion of fair value hedges	-	(19)
Fair value re-measurements of foreign exchange contracts and currency	-	3
	23	29
Net finance cost	**(101)**	(138)

(1) Includes accretion of £4 million for three months ended 31 March 2021 (three months ended 31 March 2020: £4 million) on index-linked bonds.
(2) Includes accretion of £15 million for three months ended 31 March 2021 (three months ended 31 March 2020: £12 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 1.45% (for three months ended 31 March 2020: 4.69%) to expenditure incurred on such assets

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

5. INCOME TAX CREDIT/(CHARGE)

	Unaudited Three months ended 31 March 2021			Unaudited Three months ended 31 March 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/(charge) at 19% (2019: 19%)	-	-	-	-	-	-	-
Deferred tax:							
Current year credit	53	(4)	49	6	29	6	41
Change in tax rate	-	-	-	-	(115)	-	(115)
Taxation credit/(charge)	**53**	**(4)**	**49**	6	(86)	6	(74)

The total tax credit recognised for the three months ended 31 March 2021 was £49 million (three months ended 31 March 2020: £74 million charge), based on a loss before tax for the year of £307 million (three months ended 31 March 2020: £278 million loss).

The total tax credit before certain re-measurements and exceptional items for three months ended 31 March 2021 was £53 million (three months ended 31 March 2020: £6 million credit). Based on a loss before tax, certain re-measurements and exceptional items of £329 million (three months ended 31 March 2020: £41 million loss), this results in an effective tax rate of 16.1% (three months ended 31 March 2020: 14.6%). The tax credit for 2021 is less than implied by the statutory rate of 19% primarily due to non-deductible expenses reducing the tax credit for the year.

In addition, there was an £4 million tax charge (three months ended 31 March 2020: £29 million tax credit) arising from fair value movements on investment property revaluations and financial instruments.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included. However, it is likely that the overall effect of the change, had it been substantively enacted by 31 March 2021, would be to recognise an additional tax charge for the period of £235 million.

The Spring Budget 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. The tax benefit of this temporary measure will not materially impact the tax credit for 2021.

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 31 March 2021, no material SBA qualifying assets had been identified and brought into use.

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 three months ended 31 March 2021

6. BORROWINGS

	Unaudited 31 March 2020 £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	260	259
4.875% US$1,000 million bond due 2021	729	742
Total current (excluding interest payable)	**1,411**	**1,674**
Interest payable - external	181	209
Interest payable - owed to group undertakings	16	45
Total current	**1,608**	**1,928**
Non-current		
Secured		
Heathrow Funding Limited bonds:		
1.650%+RPI £180 million due 2022	222	222
1.875% €600 million due 2022	519	549
5.225% £750 million due 2023	721	717
7.125% £600 million due 2024	596	595
0.500% CHF400 million due 2024	310	336
3.250% CAD500 million due 2025	296	301
1.500% €750 million due 2025	632	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	163	177
6.750% £700 million due 2026	694	694
2.650% NOK1,000 million due 2027	86	90
3.400% CAD400 million due 2028	229	229
7.075% £200 million due 2028	198	199
4.150% AUD175 million due 2028	105	113
2.625% £350m due 2028	346	-
2.500% NOK1,000 million due 2029	78	82
2.75 % £450 million due 2029	445	444
1.500% €750 million due 2030	680	735
3.782% CAD400 million due 2030	231	235
6.450% £900 million due 2031	858	857
3.661% CAD500m due 2031	287	285
0.101% RPI £181.75 million due 2032	183	182
Zero-coupon €50 million due January 2032	62	65
1.366%+RPI £75 million due 2032	88	88
Zero-coupon €50 million due April 2032	61	64
1.875% €500 million due 2032	424	446
1.875% €650 million due 2034	575	636
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	52	54
0.347%+RPI £75 million due 2035	76	76
0.337%+RPI £75 million due 2036	76	76

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

6. BORROWINGS *CONTINUED*

	Unaudited 31 March 2020 £m	Audited 31 December 2020 £m
Non-current ***continued***		
Secured ***continued***		
Heathrow Funding Limited bonds *continued*		
1.061%+RPI £180 million due 2036	204	204
0.419%+RPI £51 million due 2038	51	51
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	58	58
Zero-coupon €86 million due 2039	78	81
3.334%+RPI £460 million due 2039	647	645
0.800% JPY1,000 million due 2039	64	72
1.238%+RPI £100 million due 2040	115	115
0.362%+RPI £75 million due 2041	76	76
5.875% £750 million due 2041	739	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	87	87
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	167	166
Total bonds	**13,078**	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	**18,777**	18,635
Total borrowings (excluding interest payable)	**20,188**	20,309

At 31 March 2021, Heathrow SP's consolidated nominal net debt was £13,064 million. It comprised £13,859 million in bond issues, £1,604 million in other term debt, £117 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities. This was offset by £3,669 million in cash and cash equivalents and term deposits. Nominal net debt comprised £10,862 million in senior net debt and £2,202 million in junior debt.

At 31 March 2021, total non-current borrowings due after more than 5 years was £10,858 million (31 December 2020: £10,703 million), comprising £9,781 million of bonds (31 December 2020: £9,626 million) and £1,077 million (31 December 2020: £1,077 million) in bank facilities, excludes lease liabilities.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2021

6. BORROWINGS *CONTINUED*

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$ 1,070 million, CHF 610 million, A$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 31 March 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	(87)	1,615	(145)
USD denominated debt	621	(5)	621	(10)
CAD denominated debt	584	(12)	584	(25)
Other currencies debt	779	(5)	779	(23)
Designated in fair value hedge	**3,599**	**(109)**	**3,992**	**(204)**

(1) Fair value adjustment is comprised of fair value loss of £94 million (year ended 31 December 2020: £185 million loss) on continuing hedges and £15 million loss (year ended 31 December 2020: £19 million loss) on discontinued hedges.

7. CASH GENERATED FROM OPERATIONS

	Unaudited Three months ended 31 March 2021 £m	**Unaudited Three months ended 31 March 2020 £m**
Loss before tax	**(307)**	(278)
Exceptional items	-	82
Loss before tax and exceptional items	**(307)**	(196)
Adjustments for:		
Net finance cost	101	138
Depreciation	166	172
Amortisation on intangibles	9	8
Amortisation on right of use assets	10	9
Fair value loss on investment properties	1	184
Working capital changes:		
Decrease in inventories and trade and other receivables (1)	171	160
Decrease in trade and other payables	(19)	(97)
(Decrease)/increase in provisions	-	2
Difference between pension charge and cash contributions	6	(5)
Cash generated from operations before exceptional items	**138**	375
Cash payments in respect of prior year exceptional items	(6)	-
Cash generated from operations	**132**	375

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'.

Consolidated nominal net debt – 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

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' - under the Group's financing agreements are calculated as the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid. 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%. Following the waiver secured in July 2020, Heathrow Finance RAR covenant was revised from 92.5% to 95% and 93.5% for the financial year ending 31 December 2020 and 2021 respectively.

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.