

23 July 2019

Heathrow (SP) Limited

Results for the six months ended 30 June 2019

- **Heathrow lands strong passenger growth** – Demand to fly from the UK’s hub hit a record high of 38.8 million passengers (+1.8%) in H1 2019, underpinned by higher passenger satisfaction and increased investment
- **Award-winning service drives growth** – Record-breaking passenger satisfaction saw the airport secure a place amongst the top 10 airports globally in the Skytrax awards, as well as 82% of passengers rating their experience as either “Excellent” or “Very Good”
- **Investing for the future** – Heathrow has invested over £412 million to improve passenger experience, efficiency and resilience, including trials of security scanners which allow passengers to leave laptops and liquids in bags
- **Air Passenger Duty Reform** – Heathrow supports the goal of net zero carbon by 2050. We are calling on the UN’s aviation body ICAO to set targets for the use of biofuels in aviation, as recommended by the Energy Transition Commission. We also call on the government to invest some of the nearly £4 billion annual revenue raised from Air Passenger Duty to scale-up production of sustainable fuels
- **Healthy financial performance** – A 4.0% increase in Heathrow’s revenues to £1,461 million and increased EBITDA by 1.5% to £900 million. Adjusted profit before tax was also strengthened by lower net finance costs
- **Strong appetite to invest in Heathrow** – £1.4 billion raised so far this year as we build a war chest to deliver the £14 billion privately funded north west runway
- **Expansion draft preferred masterplan unveiled** – Heathrow unveiled its draft preferred masterplan for expansion – demonstrating how the airport will grow to over 140 million passengers by 2050, create tens of thousands of new skilled jobs and open up to 40 new long-haul trading links for Britain’s exporters. The airport has invited the public to provide further feedback on the plans which will be put into a final planning application in 2020

At or for 6 months ended 30 June	2018	2019	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	1,405	1,461	4.0
EBITDA ⁽¹⁾	887	900	1.5
Cash generated from operations	847	907	7.1
Adjusted profit before tax ⁽²⁾	95	153	61.1
Heathrow (SP) Limited consolidated nominal net debt ⁽³⁾	12,407	12,520	0.9
Heathrow Finance plc consolidated net debt ⁽³⁾	13,980	14,145	1.2
Regulatory Asset Base ⁽³⁾	16,200	16,420	1.4
Passengers (million) ⁽⁴⁾	38.1	38.8	1.8
Retail revenue per passenger (£) ⁽⁴⁾	8.62	8.75	1.5

Notes

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

(2) Adjusted profit before tax is adjusted operating profit after deducting net finance costs and before tax and certain re-measurements (including fair value gain / loss on investment properties and financial instruments)

(3) 2018 net debt and RAB figures at 31 December 2018. Nominal net debt excluding intra-group loans and including inflation-linked accretion

(4) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

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

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

“2019 is shaping up to be a strong year for Heathrow – our colleagues are delivering an excellent service to passengers, we’re investing millions to improve the airport and secure new skilled jobs for the future and we’ve set out our plans to expand Britain’s hub airport sustainably and affordably. We support the goal of net zero carbon emissions by 2050, and are working to ensure that global aviation plays its part.”

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

23 July 2019

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

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Strategic priorities

MOJO

We want Heathrow to be a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We are building strong leadership capability in the first half of 2019, 109 colleagues were promoted and 754 colleagues attended training and development programmes.

We want everyone to go home safe and well to their loved ones. In the first half of 2019, our lost time injuries metric improved to 0.41 (2018: 0.42). Targeted action plans are in place to reduce injuries to security officers when searching vehicles and bags.

We are disappointed that Unite will be taking strike action. Following this decision, we are implementing contingency plans to ensure the airport remains open and operating safely throughout any coordinated action. We will be working alongside our airline partners to minimise disruption to passengers as they look towards their well-deserved summer holidays. We are proud of our record as a good employer and we remain committed to finding a solution. We have proposed an 18 month progressive pay package giving at least a 4.6% pay rise to over 70% of our frontline colleagues. The total package offered is above RPI and is specifically designed to boost the wages of lower paid colleagues. We have invited our union colleagues back to the table and urge them to continue working with us to reach an agreement.

TRANSFORM CUSTOMER SERVICE

We continue to deliver strong levels of service across our passengers' journey. Our service standards remain extremely high, despite passenger growth putting pressure on some key processes.

For the first half of the year we achieved an ASQ of 4.18 out of 5.00 (2018: 4.17) compared to 3.97 just five years ago. In addition, 82.2% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2018: 82.5%) illustrating the strength and resilience of our operations. Improvements are driven by transformed immigration experience as a result of investments in e-gate and upgraded wi-fi facilities for passengers.

Service standard performance indicators ⁽¹⁾	2018	2019
ASQ	4.17	4.18
Baggage connection	98.8%	99.1%
Departure punctuality	79.9%	82.6%
Security queuing	97.6%	96.5%

(1) For the six months ended 30 June 2019

Investing in Heathrow

Total capital expenditure in the first six months of 2019 was £412 million. We invested £307 million (2018: £310 million) on a variety of programmes to improve the passenger experience, airport resilience and asset replacement. We also progressed our plans to expand Heathrow with investment of an additional £105 million in the period (2018: £60 million).

In the period we have seen continued investment into large infrastructure projects on the airfield and resilience programmes with key milestones delivered in the Kilo apron development and engineering asset replacement projects. We have invested in automating the passenger journey with the roll out of self-bag drops and self-boarding gates across T3 and T5. We are also investing to increase capacity in T5, and have signed off 20 new carriages to double the capacity on the Track Transit System. The Hold Baggage Screening (HBS) upgrade works are progressing well, with the Terminal 5 programme now screening 100% of bags at the DfT mandated level of security (Standard 3). The remaining works in Terminal 4 are scheduled to complete ahead of the final deadline in September 2020.

BEAT THE PLAN

New domestic and intercontinental routes

In June, we launched a direct flight to Zhengzhou, which is a European first and marks our 13th direct connection to China. The city is an important Chinese manufacturing hub where 70% of all Apple iPhones sold worldwide are manufactured. It is also one of the most important textile centres in the country, meaning that British businesses and passengers are now able to directly access the heart of industrial – as well as ancient - China.

Flybe also began flights to Guernsey, Isle of Man and Newquay at the start of the summer schedule, connecting more points in the UK to the international destinations served by Heathrow – the UK's only hub airport.

Record passenger traffic

A record 38.8 million passengers travelled through Heathrow in the first half of 2019, an increase of 1.8% on the same period last year (2018: 38.1 million). June 2019 was the 32nd month of consecutive record passenger numbers. Aircraft continue to fly fuller with load factors increasing to 77.8% (2018: 76.9%). Although the 1.1% uplift in load factors is encouraging, there are still 1 in 5 seats being flown empty which provides a significant growth opportunity to help drive airline charges lower. Movements grew 0.8% as the airport looks to maximise the use of runway slots within the 480,000 limit. The average

number of seats per passenger aircraft remained broadly in line with last year at 213.0 (2018: 213.3).

Intercontinental routes continue to be the key geographic driver of growth, resulting in long haul traffic increasing by 3.3% on last year. North American traffic was the fastest growing market through increased load factors, flight frequency and aircraft size to a number of destinations such as New York (JFK), Boston and Miami, and new routes to Las Vegas and Dallas. African traffic also grew strongly driven by increased flight frequency to Johannesburg and new routes to Marrakesh, Seychelles and Durban. Short haul traffic remained in line with last year at 0.1%, with UK traffic declining 1.2% and European traffic up by 0.3%.

Our cargo volumes declined 4.2% compared to the first half of 2018. Our cargo operation reached capacity in 2018 and we expect volumes to remain relatively flat until the capacity constraints are resolved by expanding Heathrow. The result also reflects the general weakness in the global market in 2019.

(Millions)	2018	2019	Var % ⁽¹⁾
UK	2.4	2.3	(1.2)
Europe	15.9	15.9	0.3
North America	8.4	8.9	5.6
Asia Pacific	5.5	5.6	1.1
Middle East	3.6	3.6	(1.5)
Africa	1.6	1.8	9.5
Latin America	0.7	0.7	3.7
Total passengers	38.1	38.8	1.8

(1) Calculated using unrounded passenger figures

Other traffic performance indicators	2018	2019	Var %
Passenger ATM	232,203	233,956	0.8
Load factors (%)	76.9	77.8	1.1
Seats per ATM	213.3	213.0	(0.1)
Cargo tonnage ('000)	841	806	(4.2)

SUSTAINABLE GROWTH

Heathrow 2.0

In the first six months of 2019 we have progressed against our Heathrow 2.0 sustainability strategy. This period saw an increase in public and political focus on climate change, including the Government's announcement in June of a legally binding target of net zero emissions by 2050. Heathrow's existing targets are consistent with this objective, and, together with 194 other airports, it

supported ACI-Europe's (Airports Council International) commitment in June for the European airport industry to achieve net zero carbon emissions by 2050.

In April, we were shortlisted as a finalist for the BITC Responsible Business of the Year 2019 award which recognises businesses taking pioneering steps in sustainability.

In May, we published our 2018 Sustainability Progress Report, outlining progress against 10 flagship goals as well as wider targets and aspirations. We also announced a new measure to protect local air quality and reduce congestion. Set to be introduced in 2022, the world's first airport Ultra Low Emission Zone 'ULEZ' will set minimum vehicle emissions standards identical to the London Mayor's ULEZ.

In June, Heathrow installed over 300 umbrellas at Terminal 5 in partnership with the ADHD Foundation, part of an initiative to raise awareness of neuro-developmental disorders. The installation forms part of a wider education programme with participating local schools. We also published our 2018 Modern Anti-Slavery Statement, detailing the steps taken to operate Heathrow Airport as a place that drives change throughout our supply chain, delivering ethical, sustainable and low-carbon procurement and sourcing.

Heathrow also became the world's first Sustainably Sourced Fish Airport as recognised by Sustain, the alliance for better food and farming. This project was the outcome of an airport-wide initiative, involving all 37 food and beverage and covers 4 million fish meals per year.

The Heathrow Centre of Excellence for Sustainability continues to explore projects that accelerate the arrival of sustainable air travel including a roundtable on sustainable propulsion with Imperial College and other industry experts. The Centre also launched a process for research projects to benefit from available investment of c.£100k through a 'think tank' event that brought together various universities.

We are working towards aligning our Heathrow 2.0 strategy with established ESG frameworks. As part of this we will be reporting updates on a half yearly basis for selected KPI's.

Sustainability performance indicators	2019 target	H1 2019
Number of apprenticeships ⁽¹⁾	400	84
Late running aircraft ⁽²⁾	219	127
London Living Wage contracts ⁽³⁾	49	47

- (1) Number of apprenticeship starts with the goal to deliver 10,000 apprenticeships by 2030.
- (2) Unscheduled departing aircraft operating after 11.30pm, on non-disrupted days with the goal seeking to at least halve the number by 2022
- (3) The number of amended and renegotiated contracts to be London Living Wage compliant, with the goal of all direct supply chain colleagues working at Heathrow to be transitioned by the end of 2020.

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

1. 'A Great Place to Work', we have made steady progress in the first half of 2019 delivering apprenticeships across Team Heathrow, and we will continue to work with our partners to achieve our 2019 target.
2. 'A Great Place to Live', the number of late running departing aircraft in the first half of the year is influenced by factors such as increased air traffic across Europe, Air Traffic Control resourcing challenges, weather, aircraft technical issues delaying departures as well as capacity restrictions across multiple air traffic sectors. We will be closely monitoring this for the rest of the year to work towards achieving our 2019 target.
3. 'A Thriving Sustainable Economy', we are very close to renegotiating all of the planned contracts for this year and have made good progress to achieve our 2019 goal early.
4. 'A World Worth Travelling', we report our breakdown of carbon emissions a year in arrears and will therefore be incorporating our 2018 data within the 2019 full year results release. We are continuing to work towards carbon neutral airport infrastructure from 2020 and delivering our plan for zero carbon airport infrastructure by 2050 at the latest.

Key Expansion developments

We completed a significant milestone in the development of our masterplan to expand Heathrow during the second quarter. We remain committed to delivering a sustainable, affordable and financeable expanded Heathrow airport at no cost to the taxpayer and expect the first aircraft to operate on the new third runway in 2026. We remain confident that we can expand the airport whilst delivering the Secretary of State's challenge to keep average passenger charges close to 2016 levels in real terms. Following on from 2 previous public consultations, we launched our statutory Airport Expansion Consultation on 18 June 2019 which will be open for 3 months. We have assessed all feedback received from our 2 previous public consultations and will assess the feedback received via this statutory consultation to finalise our masterplan. We remain on track to submit our development consent order request in 2020. The current statutory consultation sets out our draft preferred masterplan and our growth in phases –

from the opening of the new runway expected in 2026 to the completion of the masterplan in approximately 2050. Growth in infrastructure between 2026 and 2050 will align closely with forecast passenger growth. The phased capital expenditure programme will help us to maintain average passenger charges close to 2016 levels on average in real terms, drive further competition and choice, help airlines' schedule and develop new routes, reduce operational disruption to minimise impact on the customer experience and provide flexibility to respond if passenger growth performs differently to our forecasts.

We remain committed to the long term sustainable expansion of Heathrow Airport. A key component of this is set out in the Airport Expansion Consultation with our proposals for an Environmentally Managed Growth framework. It sets out our proposals for how Heathrow's growth would be managed in accordance with environmental limits on air quality, surface access, noise and carbon, and supports growth in flights at the airport while ensuring Heathrow's environmental performance stays within maximum limits. The Environmentally Managed Growth Frameworks supports our other commitments to reduce the impact of construction on the local environment such as by adopting innovative construction practices including the logistics hubs.

Tackling climate change is the biggest challenge of our generation and the aviation industry must be part of the solution. At Heathrow, we believe a four-part plan will enable the industry to decarbonise over the coming decades. Currently, we are focussed on modernising airspace and making ground operations more efficient. These changes will contribute to a reduction in emissions in the short-term. Alongside that, we are promoting and investing in best-practice offsetting measures and carbon capture. In the medium term, scaling up the production of sustainable alternative fuels will help the industry reduce emissions from their primary source – aircraft. Finally and in the longer-term, the industry must accelerate the arrival of new aircraft technology, including hybrid and electric aircraft, that will transition the industry to a zero carbon future.

Over the past six years, Heathrow has invested over £100m in sustainability transformation which means we will operate carbon neutral airport infrastructure from 2020 – this includes investments in electric car fleets and charging points, renewable energy generation and peatland restoration projects. Over the coming years, we will be investing further to achieve zero carbon airport infrastructure by 2050 at the latest – our ambition is to deliver this change much sooner. We support the Government's goal to make the UK economy net zero

carbon by 2050, but we believe that there is further scope for the Government to help the aviation industry move faster by working with other governments to prioritise sustainable fuels for aviation, which is the hardest sector to decarbonise; set common and progressive targets for the percentage of aviation fuel that must be from sustainable sources. This will send a strong signal to producers to increase investment in biofuel and synthetic fuel production and start to reduce the cost of production; and invest some of the annual £4 billion it already raises from air passengers in the form of Air Passenger Duty ('APD') in the production of sustainable fuels. APD is the highest of its kind in the world, and the revenue raised is not used to help manage the environmental effects of aviation. Given the scale of the challenge and society's desire to address climate change, it is right that the money air passengers are already paying should be spent alongside contributions from industry to scale-up alternative sustainable fuels and develop new clean technologies sooner. We will continue to use our position as one of the world's top aviation hubs to drive this important change by the wider industry.

Expansion – H7 Regulatory developments

The Civil Aviation Authority's ('CAA's') objective in developing the framework for the next regulatory period (known as H7) is to find a framework that facilitates affordable and financeable delivery of new capacity, driving competition and choice in the best interest of consumers. The CAA launched a consultation titled 'Economic regulation of capacity expansion at Heathrow: policy update and consultation' (CAP1782) at the end of March 2019 and plans to provide additional clarity on the regulatory framework in October 2019 when it publishes its next consultation papers.

Expansion – iH7 Regulatory developments

Delivering an affordable and financeable expanded Heathrow is critical for all stakeholders. To better align the next regulatory period ('H7') with the overall expansion timetable and related statutory process, the CAA has extended our economic license by one year to 31 December 2019, and has committed to a further extension to the end of 2021. This period encompassing 2020 and 2021 is known as iH7 (Interim H7).

We have signed a Commercial Agreement with the airline community on the aeronautical charges to be applied for the iH7 period. The Agreement is built around overlaying rebates onto an extension of the existing RPI-1.5% path and regulatory framework. The formal agreement has been signed by a significant number of key carriers from multiple alliances and groups representing at least 85% of Heathrow's passenger traffic.

The deal has been agreed with airlines as follows:

- 'Fixed' rebate of £260 million to all airlines;
- Up to the first £50 million of the fixed rebate is earned in 2019 with the remaining in 2020 and 2021;
- Payment of the fixed rebate to be spread over 4 years following accrual year; and
- Additional volume based rebates if volumes increase above certain levels and protections if traffic falls below certain thresholds.

Benefits of the deal include:

- Allows all parties to focus on H7;
- Creditors continue to benefit from all existing regulatory protections;
- Provides Heathrow with downside protection if traffic reduces as there will be an immediate rebate adjustment;
- Lower prices for airlines and faster monetisation of the rebate for consumers; and
- Incentivises airlines to prioritise passenger growth over yield which will help to reduce traffic ramp up risk as new capacity is released.

The CAA states in its consultation "Economic regulation at Heathrow airport from January 2020: proposals for interim arrangements" (CAP1769), that it is minded to support the deal on the basis that the deal is in consumer's best interest. The CAA will make a formal decision on iH7 in July 2019 and make necessary licence changes by the end of 2019.

In July 2019, the CAA published a new consultation titled "Economic regulation of capacity expansion at Heathrow airport: consultation on early costs and regulatory timetable (CAP1819)". In this consultation, the CAA consults on the regulatory treatment of Category B costs, pre-DCO Category C costs and the timetable for H7. Regarding Category B and pre-DCO Category C costs, the CAA confirms that these are in the interest of consumers and that these should be added to Heathrow's RAB and if efficiently delivered be recoverable by Heathrow. In addition, the CAA consults on what is the most appropriate allowed return for these costs in 2020 and 2021 and next steps to formally give effect to its policy on these costs.

Brexit

We continue to monitor progress on the proposed Withdrawal Agreement following the extension of the UK's date to exit the European Union until the 31st of October 2019. The aviation industry remains well positioned for

Brexit contingency plans despite the delay in passing the proposed Withdrawal Agreement.

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

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

Financial Review

Basis of presentation of financial results

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

Summary performance

In the six months ended 30 June 2019, the Group's operating profit before certain re-measurements was £512 million (2018: £491 million) and its loss after tax after certain re-measurements was £10 million, (2018: £232 million profit).

6 months ended 30 June	2018 £m	2019 £m
Revenue	1,405	1,461
Adjusted operating costs ⁽¹⁾	(557)	(554)
Adjusted EBITDA⁽²⁾	848	907
Depreciation and amortisation	(357)	(395)
Adjusted operating profit⁽³⁾	491	512
Net finance costs before certain re-measurements	(396)	(359)
Adjusted profit before tax⁽⁴⁾	95	153
Tax charge on profit before certain re-measurements	(24)	(41)
Adjusted profit after tax⁽⁴⁾	71	112

Including certain re-measurements

Fair value gain/(loss) on investment properties	39	(7)
Fair value gain/(loss) on financial instruments	155	(139)
Tax (charge)/credit on certain re-measurements	(33)	24
Profit/(loss) after tax	232	(10)

- (1) Adjusted operating costs is operating costs excluding depreciation and amortisation
- (2) Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation and certain re-measurements
- (3) Adjusted operating profit is adjusted EBITDA including depreciation and amortisation
- (4) Adjusted profit is adjusted operating profit after deducting net finance costs and before certain re-measurements

For the six month period ended 30 June 2019, Adjusted EBITDA was £907 million (2018: £848 million) and EBITDA was £900 million (2018: £887 million) after adjusting for fair value gain/(loss) on investment properties.

Management uses Adjusted EBITDA to monitor performance of the segments as it believes it more appropriately reflects the underlying financial performance of the Group's operations. On a monthly basis management review results, paying particular attention to the airport operations over which it exercises control on a day-to-day basis.

Following the adoption of IFRS 16, £26m of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA. Adjusted EBITDA excluding the application of IFRS 16 has increased 3.9% to £881 million.

Certain re-measurements comprise fair value movements on investment properties, which are mainly market-driven and over which management has no influence; fair value gains and losses on financial instruments which are subject to external financial market fluctuations; tax associated with these items and the effects of changes in tax rates, which are set by statute.

Revenue

In the six month period ended 30 June 2019, revenue increased 4.0% to £1,461 million (2018: £1,405 million).

6 months ended 30 June	2018 £m	2019 £m	Var. %
Aeronautical	828	871	5.2
Retail	328	339	3.4
Other	249	251	0.8
Total revenue	1,405	1,461	4.0

Aeronautical revenue has increased by 5.2% compared to 2018. Whilst we continue to benefit from record traffic

growth, favourable passenger mix and recovery of prior year yield dilution, this has been somewhat offset by further recoverable current year yield dilution as airlines employ cleaner and quieter aircraft as incentivised by our tariff structure, and the introduction of our commercial airline deal. Aeronautical revenue per passenger has increased by 3.4% to £22.48 (2018: £21.75).

6 months ended 30 June	2018 £m	2019 £m	Var. %
Retail concessions	148	158	6.8
Catering	29	31	6.9
Other retail	58	54	(6.9)
Car parking	62	61	(1.6)
Other services	31	35	12.9
Total retail revenue	328	339	3.4

Retail revenue growth, led by retail concessions, catering and other services, reflected strong traffic performance and a higher percentage of participating passengers. Catering also benefited from an improved outlet offering whilst other services saw strong performance in our VIP offering due to the Cricket World Cup. Retail revenue per passenger rose 1.5% to £8.75 (2018: £8.62).

6 months ended 30 June	2018 £m	2019 £m	Var. %
Other regulated charges	118	114	(3.4)
Heathrow Express	61	58	(4.9)
Property and other	70	79	12.9
Total other revenue	249	251	0.8

Other revenue remained consistent with the first half of 2018. Other regulated charges declined due to lower consumption of utilities and fewer bags being processed. Heathrow express declined due to the cessation of Connect Services.

Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation decreased 0.5% to £554 million (2018: £557 million). Operating costs per passenger excluding depreciation and amortisation decreased by 2.3% to £14.30 (2018: £14.63).

6 months ended 30 June	2018 £m	2019 £m	Var. %
Employment	183	184	0.5
Operational	134	131	(2.2)
Maintenance	89	87	(2.2)
Rates	60	60	0.0
Utilities and Other	91	92	1.1
Operating costs before depreciation and amortisation	557	554	(0.5)

Following the adoption of IFRS 16, £26m of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA. Of the £26 million, £13 million sits within operational costs, £1 million sits within maintenance costs and £12 million sits within utilities.

Operating costs excluding the application of IFRS 16 have increased, which was primarily driven by increased investment in growth, resilience, security and passenger experience. We spent more on our special assistance services, security costs to aid operational resilience and keep our passengers safe while passenger numbers continue to increase, and upgrading our drone defence capabilities. Excluding the application of IFRS 16, operating costs have increased 4.1% to £580 million, and on a per passenger basis up 2.3% to £14.97.

Operating profit

For the six months ended 30 June 2019, Heathrow SP recorded an operating profit before certain re-measurements of £512 million (2018: £491 million). Adjusted EBITDA increased 7.0% to £907 million (2018: £848 million), resulting in an Adjusted EBITDA margin of 62.1% (2018: 60.4%). Depreciation and amortisation increased to £395 million (2018: £357 million) also impacted by the implementation of IFRS 16.

6 months ended 30 June	2018 £m	2019 £m	Var. %
Operating profit	530	505	(4.7)
Depreciation and amortisation	357	395	10.6
EBITDA	887	900	1.5
Fair value gain/(loss) on investment properties	(39)	7	n/a
Adjusted EBITDA	848	907	7.0
Impact of IFRS 16	-	26	n/a
Adjusted EBITDA excl. impact of IFRS 16⁽¹⁾	848	881	3.9

(1) Following the adoption of IFRS 16, £26m of lease costs are now being reported below EBITDA. Prior to the adoption of IFRS 16 these costs would have been included in operating costs, above EBITDA.

Taxation

The tax charge for the six month period ended 30 June 2019, before certain re-measurements, was £41 million (2018: £24 million), charged at 26.8% (6 months ended 30 June 2018: 25.3%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to pre-tax income of the six month period, before certain re-measurements. The effective tax rate being higher than the statutory rate of 19% (2018: 19%) reflects the fact that a substantial proportion of Heathrow's capital

expenditure does not qualify for tax relief. The total tax charge for the six month period ended 30 June 2019 is £17 million (six months ended 30 June 2018: £57 million), representing the sum of the tax charge on profits before certain re-measurements and the tax charge on certain re-measurements. For the period, the Group paid £41 million (six months end 31 June 2018: £24 million) in corporation tax.

Cash flow

In the six months ended 30 June 2019, there was a decrease of £157 million in cash and cash equivalents compared with a decrease of £468 million in the six months ended 30 June 2018.

At 30 June 2019, the Group had £824 million (2018: £45 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £434 million (2018: £45 million).

Cash generated from operations

In the six month period ended 30 June 2019, net cash from operating activities increased 7.1% to £907 million (2018: £847 million). The following table reconciles cash generated from operations to Adjusted EBITDA.

6 months ended 30 June	2018 £m	2019 £m
Cash generated from operations	847	907
Decrease in receivables and inventories ⁽¹⁾	(8)	(55)
Increase/(decrease) in payables	(5)	41
Decrease in provisions	5	4
Difference between pension charge and cash contributions	9	10
Adjusted EBITDA	848	907

(1) Excludes movement in group deposits

Restricted payments

In the 6 months ended 30 June 2019, Heathrow's ultimate shareholders received £200 million (2018: £228 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow SP in the period amounted to £253 million (net) or £868 million (gross). Other than the £195 million (2018: £212 million) payment made by Heathrow SP to Heathrow Finance to fund dividends to ultimate shareholders and a £2 million payment to fund interest payments on loan facilities at ADIF2, net restricted payments related mainly to meeting £53 million (2018: £46 million) of interest on the debenture between Heathrow SP and Heathrow Finance, £268 million from Heathrow SP to Heathrow Finance to repay the 2019 Heathrow Finance bond, and net of £264

million proceeds received from additional facilities at Heathrow Finance.

RECENT FINANCING ACTIVITY

We have raised £1.4 billion of debt financing in the first half of 2019, underpinning our robust liquidity position and providing additional duration and diversification to our £14.1 billion debt portfolio. Of the £1.4 billion of debt raised, around £950 million was in Class A format and £450 million of debt was raised at Heathrow Finance.

Class A financing activity included:

- a €650 million 15-year Class A bond maturing in 2034, demonstrating high investor confidence in our credit throughout expansion,
- a €86 million Class A 20-year zero coupon bond,
- a CHF210 million 7.5-year Class A bond maturing in 2026, marking our 3rd Swiss Franc issuance, and
- £140 million term debt drawn post period end.

Financing activity at Heathrow Finance included:

- £450 million loan facilities which will be drawn later in 2019, and
- an early redemption of our 2019 Heathrow Finance bond on the 4th March 2019.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 June 2019, Heathrow SP's nominal net debt was £12,520 million (31 December 2018: £12,407 million). It comprised £12,306 million in bond issues, £703 million in other term debt and £335 million in index-linked derivative accretion. This was offset by £824 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,165 million in senior net debt and £1,355 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 June 2019 was 3.54% (31 December 2018: 3.63%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 June 2019 was 4.94% (31 December 2018: 5.40%). The reduction in the average cost of debt since the end of 2018 is mainly due to:

- the replacement of relatively high cost maturing legacy debt with new lower cost debt; and

- b) falling RPI inflation, which reduced index linked swap accretion

The average life of Heathrow SP's gross debt as at 30 June 2019 was 11.8 years (31 December 2018: 12 years).

Nominal debt excludes any restricted cash and the debenture between Heathrow SP and Heathrow Finance. It includes all the components used in calculating gearing ratios under Heathrow SP's financing agreements including index-linked accretion.

The accounting value of Heathrow SP's net debt was £12,673 million at 30 June 2019 (31 December 2018: £12,158 million). This includes £824 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until May 2021. This includes forecast capital investment (including projected expansion related investments), debt service costs, debt maturities and distributions. This liquidity position takes into account £3.7 billion in undrawn loan facilities, bonds and term debt to be drawn as well as cash resources at 30 June 2019 together with expected operating cash flow over the period.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £14,145 million (31 December 2018: £13,980 million). This comprises the Heathrow SP's £12,520 million nominal net debt, Heathrow Finance's nominal gross debt of £1,655 million and cash and term deposits held at Heathrow Finance of £30 million.

Financial ratios

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

At 30 June 2019, Heathrow's RAB was £16,420 million (31 December 2018: £16,200 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 68.0% and 76.2% respectively (31 December 2018: 68.2% and 78.4% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 86.1% (31 December 2018: 86.6%) with a covenant of 92.5%. The covenant at Heathrow Finance has recently changed from 90% to 92.5% due to the recent redemption of the 2019 notes at Heathrow Finance.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme), which closed to new members in June 2008. At 30 June 2019, the defined benefit pension scheme, as measured under IAS 19, was funded at 99.1% (31 December 2018: 100.7%). This translated into a deficit of £39 million (31 December 2018: £28 million surplus). The £67 million increase in deficit in the six months is primarily due to actuarial losses of £77 million, attributable to a decrease in the net discount rate of 0.55% over the six months. In 2019, we contributed £25 million (30 June 2018: £24 million) into the defined benefit pension scheme including £12 million (30 June 2018: £12 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

POST BALANCE SHEET EVENTS

On 2 July 2019, the Board approved the payment of £100 million third quarter ordinary dividend to ultimate Shareholders.

ALTERNATIVE PERFORMANCE MEASURES (APM)

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

PRINCIPAL RISKS

The directors do not consider that principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2018. A detailed explanation of the risks and how the Group seeks to mitigate the risks can be found on pages 20 to 26 of the annual report.

With regard to Brexit, a "no deal" exit on 31 October 2019 scenario has been developed which compares favourably to the scenarios developed in advance of the previous 29 March 2019 exit scenario assumed in the annual report. The improvements in our risk position are

principally driven by the positive effects of EU/UK Contingency Agreements on air service levels and aviation safety, as well as the automation of Border eGates which reduces the risks to border resourcing and congestion. Remaining Brexit-driven risks arise from some still unresolved passenger and cargo issues (including VAT reclaim, pet passports, duty free, and cargo screening) and heightened passenger frustration exacerbated by “Brexit fatigue”. Dialogue with Government agencies has continued since April, and we continue to press for resolution on outstanding issues.

We do not expect that the current political situation in the UK will have any significant impact on Heathrow.

OUTLOOK

The outlook for our Adjusted EBITDA underlying performance in 2019 remains consistent with the forecast set out in the Investor Report published on 27 June 2019.

We also forecast to maintain comfortable covenant headroom.

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

KEY MANAGEMENT CHANGES

On 3 May 2019, Stephen Chambers resigned as a director of Heathrow Express Operating Company Limited.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

This report was approved and authorised by the Board and was issued on behalf of the Board on 22 July 2019.



Javier Echave
Director



Nicholas Golding
Director

Appendix 1 Financial information

Heathrow (SP) Limited

Condensed consolidated income statement for the period ended 30 June 2019

	Unaudited												Audited ^c	
	Three months ended						Six months ended						Year ended	
	30 June 2019			30 June 2018			30 June 2019			30 June 2018			31 December 2018	
	Before Certain re- measurements	Certain re- measurements ^a	Total	Before Certain re- measurements	Certain re- measurements ^a	Total	Before Certain re- measurements	Certain re- measurements ^a	Total	Before Certain- measurements	Certain- measurements ^a	Total	Total	
Note	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Continuing operations														
Revenue	1	782	-	782	725	-	725	1,461	-	1,461	1,405	-	1,405	2,970
Operating costs	2	(481)	-	(481)	(454)	-	(454)	(949)	-	(949)	(914)	-	(914)	(1,876)
Other operating items														
Fair value (loss)/gain on investment properties		-	(10)	(10)	-	38	38	-	(7)	(7)	-	39	39	117
Operating profit		301	(10)	291	271	38	309	512	(7)	505	491	39	530	1,211
Financing														
Finance income ^b		2	-	2	-	-	-	4	-	4	1	-	1	2
Finance costs ^b		(207)	(211)	(418)	(209)	(40)	(249)	(363)	(139)	(502)	(397)	155	(242)	(791)
Net finance cost	3	(205)	(211)	(416)	(209)	(40)	(249)	(359)	(139)	(498)	(396)	155	(241)	(789)
Profit before tax		96	(221)	(125)	62	(2)	60	153	(146)	7	95	194	289	422
Taxation credit/(charge)	4	(24)	37	13	(15)	-	(15)	(41)	24	(17)	(24)	(33)	(57)	(89)
(Loss)/profit for the period		72	(184)	(112)	47	(2)	45	112	(122)	(10)	71	161	232	333

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

^b Six months ended June 2018 finance income and finance costs have been restated by (£97) million and £97 million respectively (three months ended June 2018 (£52) million and £52 million) to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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

Heathrow (SP) Limited

**Condensed consolidated statement of comprehensive income
for the period ended 30 June 2019**

	Unaudited Three months ended 30 June 2019 £m	Unaudited Three months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited ^c Year ended 31 December 2018 £m
(Loss)/profit for the period	(112)	45	(10)	232	333
Items that will not be subsequently reclassified to the consolidated income statement:					
Actuarial gain/(loss) on pensions net of tax:					
Gain/(loss) on plan assets ^b	76	(63)	327	(87)	(192)
(Increase)/decrease in scheme liabilities ^b	(44)	166	(391)	269	310
Items that may be subsequently reclassified to the consolidated income statement:					
Cash flow hedges net of tax:					
Gains/(losses) taken to equity ^b	109	12	104	(151)	(162)
Transfer to finance costs ^b	(89)	-	(74)	172	198
Other comprehensive income/(loss) for the period net of tax	52	115	(34)	203	154
Total comprehensive (loss)/income for the period ^a	(60)	160	(44)	435	487

^a Attributable to owners of the parent.

^b Items in the statement above are disclosed net of tax.

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

Heathrow (SP) Limited
Condensed consolidated statement of financial position
as at 30 June 2019

	<i>Note</i>	Unaudited as at 30 June 2019 £m	Unaudited as at 30 June 2018 £m	Audited ^a as at 31 December 2018 £m
Assets				
Non-current assets				
Property, plant and equipment	5	11,462	11,370	11,405
Right of use asset		334	-	-
Investment properties	6	2,468	2,390	2,472
Intangible assets		169	159	173
Retirement benefit surplus	9	-	103	28
Derivative financial instruments	8	806	422	543
Trade and other receivables		19	15	20
		15,258	14,459	14,641
Current assets				
Inventories		12	11	13
Trade and other receivables		249	251	302
Term deposits		390	-	120
Cash and cash equivalents		434	45	591
		1,085	307	1,026
Total assets		16,343	14,766	15,667
Liabilities				
Non-current liabilities				
Borrowings	7	(15,037)	(13,740)	(14,813)
Derivative financial instruments	8	(1,475)	(1,302)	(1,523)
Lease liabilities		(395)	-	-
Deferred income tax liabilities		(844)	(941)	(907)
Retirement benefit obligations	9	(71)	(34)	(32)
Provisions		(1)	(8)	(1)
Trade and other payables		(10)	(8)	(7)
		(17,833)	(16,033)	(17,283)
Current liabilities				
Borrowings	7	(863)	(657)	(496)
Derivative financial instruments	8	(66)	(9)	(39)
Lease liabilities		(48)	-	-
Provisions		(9)	(1)	(13)
Current income tax liabilities		(53)	(34)	(39)
Trade and other payables		(436)	(447)	(433)
		(1,475)	(1,148)	(1,020)
Total liabilities		(19,308)	(17,181)	(18,303)
Net liabilities		(2,965)	(2,415)	(2,636)
Equity				
Capital and reserves				
Share capital		11	11	11
Share premium		499	499	499
Merger reserve		(3,758)	(3,758)	(3,758)
Cash flow hedge reserve		(186)	(231)	(216)
Retained earnings		469	1,064	828
Total shareholder's equity		(2,965)	(2,415)	(2,636)

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

Heathrow (SP) Limited

Condensed consolidated statement of changes in equity for the period ended 30 June 2019

	Attributable to owners of the Company					
	Share capital	Share premium	Merger reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
1 January 2018 (previously reported)	11	499	(3,758)	(252)	865	(2,635)
Adjustment in respect of:						
Transition to IFRS 15					(1)	(1)
Transition to IFRS 9					(2)	(2)
1 January 2018 (re-stated)	11	499	(3,758)	(252)	862	(2,638)
Comprehensive income:						
Profit for the period					333	333
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				36		36
Actuarial gain on pension net of tax:						
Loss on plan assets					(192)	(192)
Decrease in scheme liabilities					310	310
Total comprehensive income	-	-	-	36	451	487
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(485)	(485)
Total transaction with owners	-	-	-	-	(485)	(485)
31 December 2018 (Audited) ^a	11	499	(3,758)	(216)	828	(2,636)
1 January 2019 (previously reported)	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16					(88)	(88)
1 January 2019 (re-stated)	11	499	(3,758)	(216)	740	(2,724)
Comprehensive income:						
Loss for the period					(10)	(10)
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				30		30
Actuarial loss on pension net of tax:						
Gain on plan assets					327	327
Increase in scheme liabilities					(391)	(391)
Total comprehensive income	-	-	-	30	(74)	(44)
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(197)	(197)
Total transaction with owners	-	-	-	-	(197)	(197)
30 June 2019 (Unaudited)	11	499	(3,758)	(186)	469	(2,965)

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

Heathrow (SP) Limited

**Condensed consolidated statement of changes in equity
for the period ended 30 June 2019**

	Attributable to owners of the Company (Unaudited)					
	Share capital	Share premium	Merger reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
1 January 2018 (previously reported)	11	499	(3,758)	(252)	865	(2,635)
Adjustment in respect of:						
Transition to IFRS 15	-	-	-	-	(1)	(1)
Transition to IFRS 9	-	-	-	-	(2)	(2)
1 January 2018 (re-stated)	11	499	(3,758)	(252)	862	(2,638)
Comprehensive income:						
Profit for the period	-	-	-	-	232	232
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax	-	-	-	21	-	21
Actuarial gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(87)	(87)
Decrease in scheme liabilities	-	-	-	-	269	269
Total comprehensive income	-	-	-	21	414	435
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(212)	(212)
Total transaction with owners	-	-	-	-	(212)	(212)
30 June 2018	11	499	(3,758)	(231)	1,064	(2,415)

Heathrow (SP) Limited

Condensed consolidated statement of cash flows for the period ended 30 June 2019

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited ³ Year ended 31 December 2018
Note	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations	10	847	1,787
Taxation:			
Corporation tax paid	(41)	(24)	(70)
Group relief paid	-	-	(6)
Net cash from operating activities	866	823	1,711
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment	(364)	(344)	(769)
Investment properties	(1)	(2)	(4)
Intangible assets	-	(8)	(20)
(Increase)/decrease in term deposits ¹	(270)	12	(108)
Interest received	3	1	2
Net cash used in investing activities	(632)	(341)	(899)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc	(197)	(212)	(485)
(Decrease)/increase in amount owed to Heathrow Finance		75	363
Proceeds from issuance of bonds	783	385	771
Repayment of bonds	-	(510)	(910)
Proceeds from issuance of other term debt	-	145	245
Repayment of facilities and other financing items	(435)	(435)	(32)
Settlement of accretion on index-linked swaps	(204)	(98)	(110)
Payment of lease liabilities ²	(28)	-	-
Interest paid	(307)	(300)	(576)
Net cash used in financing activities	(391)	(950)	(734)
Net (decrease)/increase in cash and cash equivalents	(157)	(468)	78
Cash and cash equivalents at beginning of period	591	513	513
Cash and cash equivalents at end of period	434	45	591

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

² On application of IFRS 16 from 1 January 2019, the cash flow includes both the payment of principal (£19m) and interest (£9m) on lease liabilities. Finance cost on lease liabilities and depreciation of the right-of-use asset is added back in calculating net cash from operating activities. The lease payment for the six month period ended 30 June 2019 is included separately as part of financing activities. In the prior period, the lease payment is included under cash flow from operating activities. Further details on the impact of IFRS 16 is included in Notes to the condensed consolidated financial statements.

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

Heathrow (SP) Limited

Notes to the condensed consolidated financial statements

General information

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

Basis of preparation and new accounting standards, interpretations and amendments

The financial information covers the six month period ended 30 June 2019 and has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union (EU). This condensed set of financial statements comprises the unaudited financial information for the six months ended 30 June 2019 and 2018, together with the unaudited consolidated statement of financial position as at 30 June 2019 and 2018.

The financial information for the six month periods ended 30 June 2019 and 2018 and the year ended 31 December 2018 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The Deloitte LLP audit report on these statutory accounts was unqualified, did not contain an emphasis of matter and did not contain a statement under Section 498 of the Companies Act 2006.

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

The financial information for the six-month period ended 30 June 2019 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2019. The Group has adopted IFRS 16 'Leases' for the first time with effect from 1 January 2019. Other than in this respect, the financial statements for the six-month period ended 30 June 2019 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2018.

Primary financial statements format

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

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

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

Significant accounting judgements and estimates

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

Critical Judgements

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

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

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

Heathrow (SP) Limited

Notes to the condensed consolidated financial statements

Key sources of estimation uncertainty

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

Going concern

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

New IFRS accounting standards and interpretations adopted in the period

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

IFRS 16

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

General impact of application of IFRS 16

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

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

Impact of the new definition of a lease

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

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

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

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

Impact on Lessee Accounting

Operating leases

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

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

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

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

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

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

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

Heathrow (SP) Limited

Notes to the condensed consolidated financial statements

Transition to IFRS 16

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

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

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

Heathrow (SP) Limited

Notes to the condensed consolidated financial statements

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

During the six month period ended 30 June 2019, the impact on the Group's income statement is a decrease in operating expense of £26 million, an increase in depreciation by £19 million and an increase in interest expense of £9 million, resulting in a decrease of profit before tax of £2 million as a result of adopting the new rules under IFRS 16.

Heathrow (SP) Limited

Notes to the condensed consolidated financial statements for the period ended 30 June 2019

1 Segment information

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

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

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

Table (a)	Unaudited Three months ended 30 June 2019 £m	Unaudited Three months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Segment Revenue					
Under IFRS 15					
Aeronautical					
Landing charges	143	124	274	240	482
Parking charges	19	15	37	32	67
Departing charges	312	288	560	556	1,196
Total Aeronautical revenue	474	427	871	828	1,745
Other regulated charges	59	60	114	118	243
Retail revenue	38	36	63	63	147
Property revenue	40	32	75	65	129
Rail Income					
Heathrow Express	27	34	58	66	123
Other	3	1	4	1	14
Revenue reported under IFRS 15	641	590	1,185	1,141	2,401
Revenue recognised at a point in time	609	559	1,124	1,079	2,275
Revenue recognised over time	32	31	61	62	126
Total revenue reported under IFRS 15	641	590	1,185	1,141	2,401
Under IFRS 16 / IAS 17					
Retail (lease-related income)	141	135	276	264	569
Total revenue	782	725	1,461	1,405	2,970
Heathrow	751	694	1,403	1,344	2,847
Heathrow Express	31	31	58	61	123
Adjusted EBITDA					
Heathrow	485	430	877	817	1,772
Heathrow Express	16	16	30	31	65
Total adjusted EBITDA	501	446	907	848	1,837
Reconciliation to statutory information:					
Depreciation and amortisation	(200)	(175)	(395)	(357)	(743)
Operating profit (before certain re-measurements)	301	271	512	491	1,094
Fair value (loss)/gain on investment properties (certain re-measurements)	(10)	38	(7)	39	117
Operating profit	291	309	505	530	1,211
Finance income ¹	2	-	4	1	2
Finance costs ¹	(418)	(249)	(502)	(242)	(791)
Profit before tax	(125)	60	7	289	422
Taxation credit/(charge)	13	(15)	(17)	(57)	(89)
(Loss)/profit for the period	(112)	45	(10)	232	333

¹ For the six months ended June 2018 finance income and finance costs have been restated by (£97) million and £97 million respectively (three months ended June 2018 (£52) million and £52 million) to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
for the period ended 30 June 2019**

Table (b)	Unaudited Three months ended 30 June 2019		Unaudited Three months ended 30 June 2018		Unaudited Six months ended 30 June 2019		Unaudited Six months ended 30 June 2018		Audited Year ended 31 December 2018	
	Depreciation & amortisation ¹	Fair value loss ²	Depreciation & amortisation ¹	Fair value gain ²	Depreciation & amortisation ¹	Fair value loss ²	Depreciation & amortisation ¹	Fair value gain ²	Depreciation & amortisation ¹	Fair value gain ²
					£m	£m	£m	£m	£m	£m
Heathrow	(187)	(10)	(159)	38	(369)	(7)	(322)	39	(672)	117
Heathrow Express	(13)	-	(16)	-	(26)	-	(35)	-	(71)	-
Total	(200)	(10)	(175)	38	(395)	(7)	(357)	39	(743)	117

⁽¹⁾ Includes intangible amortisation charge of £17 million (Year ended December 2018: £27 million; Six months ended June 2018: £19 million, Three months ended June 2019: £9 million and Three months ended June 2018: £11 million).

⁽²⁾ Reflects fair value (loss)/gain on investment properties only.

Table (c)	Unaudited Six months ended 30 June 2019		Unaudited Six months ended 30 June 2018		Audited Year ended 31 December 2018	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	14,075	(886)	13,538	(445)	13,711	(440)
Heathrow Express	633	(13)	654	(19)	670	(14)
Total operations	14,708	(899)	14,192	(464)	14,381	(454)
Unallocated assets and liabilities:						
Cash, term deposits and external borrowings	824	(13,680)	45	(12,459)	711	(13,082)
Retirement benefit assets /(obligations)	-	(71)	103	(34)	28	(32)
Derivative financial instruments	806	(1,541)	422	(1,311)	543	(1,562)
Deferred and current tax liabilities	-	(897)	-	(975)	-	(946)
Amounts owed from/(to) group undertakings	5	(2,220)	4	(1,938)	4	(2,227)
Total	16,343	(19,308)	14,766	(17,181)	15,667	(18,303)

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**Notes to the condensed consolidated financial statements
for the period ended 30 June 2019**

2 Operating costs

	Unaudited Three months ended 30 June 2019	Unaudited Three months ended 30 June 2018	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	£m	£m	£m	£m	£m
Employment	92	93	184	183	378
Operational	60	67	131	134	264
Maintenance	43	44	87	89	176
Rates	30	29	60	60	122
Utilities	25	22	35	45	90
Other	31	24	57	46	103
Total operating costs before depreciation and amortisation	281	279	554	557	1,133
Depreciation and amortisation:					
Property, plant and equipment	182	164	360	338	716
Intangible assets	9	11	17	19	27
Right of Use (RoU) assets	9	-	18	-	-
Total operating costs	481	454	949	914	1,876

3 Financing

	Unaudited Three months ended 30 June 2019	Unaudited Three months ended 30 June 2018	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	£m	£m	£m	£m	£m
Finance income					
Interest on deposits	2	-	4	1	2
Total finance income ⁴	2	-	4	1	2
Finance costs					
Interest on borrowings:					
Bonds and related hedging instruments ¹	(145)	(154)	(266)	(265)	(541)
Bank loans and overdrafts and related hedging instruments	(13)	6	(27)	(26)	(58)
Net interest expense on derivatives not in hedge relationship ²	(28)	(43)	(27)	(69)	(160)
Facility fees and other charges	(2)	(4)	(4)	(6)	(7)
Net pension finance costs	-	(1)	-	(2)	(4)
Interest on debenture payable to Heathrow Finance plc	(25)	(27)	(50)	(55)	(109)
Finance costs on lease liabilities	(4)	-	(9)	-	-
	(217)	(223)	(383)	(423)	(879)
Less: capitalised borrowing costs ³	10	14	20	26	50
Total finance costs ⁴	(207)	(209)	(363)	(397)	(829)
Net finance costs before certain re-measurements⁴	(205)	(209)	(359)	(396)	(827)
Fair value (loss)/gain on financial instruments					
Interest rate swaps: not in hedge relationship	(16)	29	(37)	82	83
Index-linked swaps: not in hedge relationship	(196)	(68)	(97)	65	(90)
Cross-currency swaps: ineffective portion of cash flow hedges	(1)	(8)	8	(2)	21
Cross-currency swaps: ineffective portion of fair value hedges	2	7	(13)	10	24
	(211)	(40)	(139)	155	38
Net finance costs	(416)	(249)	(498)	(241)	(789)

¹ Includes accretion of £13 million for the six months period ended June 2019 (six months period ended June 2018: £19 million, year ended December 2018: £47 million, three months period ended June 2019: £12 million and three months period ended June 2018: £13 million) on index-linked bonds.

² Includes accretion of £56 million for the six months period ended June 2019 (six months period ended June 2018: £94 million, year ended December 2018: £207 million, three months period ended June 2019: £5 million and three months period ended June 2018: £53 million) on index-linked swaps.

³ Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 4.95% for the six months period ended June 2019 (six months period ended June 2018: 5.67%, year ended December 2018: 5.65%, three months period ended June 2019: 4.93% and three months period ended June 2018: 5.70%) to expenditure incurred on such assets.

⁴ Six months period ended June 2018 finance income and finance costs have been restated by (£97) million and £97 million respectively (three months ended June 2018 (£52) million and £52 million) to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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4 Income tax expense

	Unaudited												Audited
	Three months ended						Six months ended						Year ended
	30 June 2019			30 June 2018			30 June 2019			30 June 2018			31 December 2018
	Before certain re-measurements	Certain re-measurements	Total	Before certain re-measurements	Certain re-measurements	Total	Before certain re-measurements	Certain re-measurements	Total	Before certain re-measurements	Certain re-measurements	Total	Total
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
UK corporation tax													
Current tax charge at 19% (2018: 19%)	(32)	-	(32)	(18)	-	(18)	(55)	-	(55)	(28)	-	(28)	(90)
Over provision in respect of prior years	-	-	-	-	-	-	-	-	-	-	-	-	5
Deferred tax:													
Current year credit/(charge)	8	37	45	3	-	3	14	24	38	4	(33)	(29)	(8)
Prior year credit ¹	-	-	-	-	-	-	-	-	-	-	-	-	4
Taxation credit/(charge)	(24)	37	13	(15)	-	(15)	(41)	24	(17)	(24)	(33)	(57)	(89)

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

The tax charge before certain re-measurements for the 3 month period to 30 June 2019 represents the difference between the tax charge before certain re-measurements for the 6 month period to 30 June 2019 and the reported tax charge before certain re-measurements for the 3 month period to 31 March 2019, giving a rate of 25.0% (3 month ended 30 June 2019: 24.2%).

The total tax charge for the 6 month period ended 30 June 2019` is £17 million (6 months ended 30 June 2018: £57 million, year ended December 2018: £89 million), representing the best estimate of the annual effective tax rate expected for the full year, applied to the profit before certain re-measurements for the six month period and deferred tax at 17% on the certain re-measurements.

The tax charge for the 6 month period ended 30 June 2019, before certain re-measurements, is charged at 26.8% (6 months ended 30 June 2018: 25.3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax income of the 6 month period, before certain re-measurements. The tax charge for 2019 is more (2018: more) than implied by the statutory rate of 19% (2018: 19%) primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

The headline UK corporation tax rate is 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of this rate reduction has been reflected in the deferred tax balances in the financial statements.

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

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
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5 Property, plant and equipment

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2018	11,277	2,066	891	205	1,406	893	16,738
Additions	-	-	-	-	-	769	769
Borrowing costs capitalised	-	-	-	-	-	50	50
Disposals	(3)	-	(10)	-	(15)	-	(28)
Reclassification	78	-	(78)	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(5)	(5)
Transfer to completed assets	298	(112)	338	25	44	(593)	-
31 December 2018 (Audited)	11,650	1,954	1,141	230	1,435	1,114	17,524
Additions	-	-	-	-	-	412	412
Borrowing costs capitalised	-	-	-	-	-	20	20
Disposals	(29)	-	(15)	-	-	-	(44)
Reclassification	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	(15)	(15)
Transfer to completed assets	258	147	(42)	42	22	(427)	-
30 June 2019 (Unaudited)	11,879	2,101	1,084	272	1,457	1,104	17,897
Depreciation							
1 January 2018	(3,910)	(463)	(433)	(68)	(557)	-	(5,431)
Depreciation charge	(487)	(45)	(103)	(10)	(71)	-	(716)
Disposals	3	-	10	-	15	-	28
31 December 2018 (Audited)	(4,394)	(508)	(526)	(78)	(613)	-	(6,119)
Depreciation charge	(245)	(33)	(43)	(12)	(27)	-	(360)
Disposals	29	-	15	-	-	-	44
30 June 2019 (Unaudited)	(4,610)	(541)	(554)	(90)	(640)	-	6,435
Net book value							
30 June 2019 (Unaudited)	7,269	1,560	530	182	817	1,104	11,462
31 December 2018 (Audited)	7,256	1,446	615	152	822	1,114	11,405

The Regulatory Asset Base (RAB) at 30 June, 2019 was £16,420 million (31 December 2018: £16,200 million, 30 June 2018: £15,952 million)

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2018	11,277	2,066	891	205	1,406	893	16,738
Additions	-	-	-	-	-	370	370
Borrowing costs capitalised	-	-	-	-	-	26	26
Disposals	(2)	-	(9)	-	(9)	-	(20)
Reclassification	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	-	-	-	-	-
Transfer to completed assets	112	(2)	(14)	3	13	(107)	5
30 June 2018 (Unaudited)	11,387	2,064	868	208	1,410	1,182	17,119
Depreciation							
1 January 2018	(3,910)	(463)	(433)	(68)	(557)	-	(5,431)
Depreciation charge	(233)	(20)	(44)	(4)	(37)	-	(338)
Disposals	2	-	9	-	9	-	20
30 June 2018 (Unaudited)	(4,141)	(483)	(468)	(72)	(585)	-	(5,749)
Net book value							
30 June 2018 (Unaudited)	7,246	1,581	400	136	825	1,182	11,370

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**Notes to the condensed consolidated financial statements
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6 Investment properties

	Airport investment properties £m
Valuation	
1 January 2018	2,350
Additions	4
Transfers from property, plant and equipment	1
Revaluation	117
31 December 2018 (Audited)	2,472
Additions	1
Transfers to completed assets	2
Revaluation	(7)
30 June 2019 (Unaudited)	2,468

	Airport investment properties £m
Valuation	
1 January 2018	2,350
Additions	2
Transfers to completed assets	(1)
Revaluation	39
30 June 2018 (Unaudited)	2,390

Investment properties were valued at fair value at 30 June 2019 by CBRE Limited, Chartered Surveyors (June 2018 and December 2018: CBRE Limited, Chartered Surveyors).

7 Borrowings

	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	8	28	17
Heathrow Funding Limited bonds:			
6.250% £400 million due 2018	-	400	-
4.000% C\$400 million due 2019	241	-	230
6.000% £400 million due 2020	399	-	-
Total current (excluding interest payable)	648	428	247
Interest payable – external	183	194	213
Interest payable – owed to group undertakings	32	35	36
Total current	863	657	496
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds:			
4.000% C\$400 million due 2019	-	230	-
6.000% £400 million due 2020	-	399	399
9.200% £250 million due 2021	257	263	260
3.000% C\$450 million due 2021	270	254	256
4.875% US\$1,000 million due 2021	799	751	783
1.650%+RPI £180 million due 2022	215	210	213
1.875% €600 million due 2022	552	541	549
5.225% £750 million due 2023	697	687	691
7.125% £600 million due 2024	593	592	593
0.500% CHF400 million due 2024	322	292	310
3.250% C\$500 million due 2025	303	278	281

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	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	693	693	693
0.450% CHF210 million due 2026	175	-	-
2.650% NOK1,000 million due 2027	93	91	90
3.400% C\$400 million bond due 2028	243	233	232
7.075% £200 million due 2028	198	198	198
4.150% A\$175 million due 2028	107	-	99
2.500% NOK1,000 million due 2029	83	81	79
3.782% C\$400 million bond due 2030	235	-	229
1.500% €750 million due 2030	687	613	629
6.450% £900 million due 2031	854	852	853
Zero-coupon €50 million due January 2032	61	57	59
1.366%+RPI £75 million due 2032	85	83	85
Zero-coupon €50 million due April 2032	60	56	58
1.875% €500 million due 2032	445	440	447
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	52	49	50
1.8750% €650 million due 2034	617	-	-
1.061%+RPI £180 million due 2036	199	193	197
1.382%+RPI £50 million due 2039	57	55	56
3.334%+RPI £460 million due 2039	629	615	626
Zero-coupon €86 million due 2039	79	-	-
1.238%+RPI £100 million due 2040	112	109	111
5.875% £750 million due 2041	738	738	738
2.926% £55million due 2043	55	-	55
4.625% £750 million due 2046	741	742	742
1.372%+RPI £75 million due 2049	85	83	85
2.750% £400 million due 2049	392	392	392
0.147%+RPI £160 million due 2058	166	160	164
Total bonds	12,154	11,235	11,507
Heathrow Airport Limited debt:			
Class A1 term loan due 2020	-	-	418
Class A2 term loan due 2024	100	-	100
Term note due 2026-2037	585	584	585
Loans	10	18	12
Unsecured			
Debtenture payable to Heathrow Finance plc	2,188	1,903	2,191
Total non-current	15,037	13,740	14,813
Total borrowings (excluding interest payable)	15,685	14,168	15,060

At 30 June 2019, Heathrow SP's nominal net debt was £12,520 million (31 December 2018: £12,407 million). Nominal net debt comprised £11,165 million (December 2018: £11,054 million) in senior net debt and £1,355 million (December 2018: £1,353 million) in junior net debt.

At 30 June 2019, Total non-current borrowings due after more than 5 years was £11,322 million, comprising £8,449 million of bonds, £2,188 million Debtenture payable to Heathrow finance plc and £685 million in bank facilities.

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Notes to the condensed consolidated financial statements for the period ended 30 June 2019

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was GBP 643 million, EUR 2,000 million, USD 1,000 million, CAD 1,070 million, CHF 610 million, AUD 175 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited		Unaudited		Audited	
	Six months ended 30 June 2019		Six months ended 30 June 2018		Year ended 31 December 2018	
	Nominal	Fair value adjustment ¹	Nominal	Fair value adjustment ¹	Nominal	Fair value adjustment ¹
	£m	£m	£m	£m	£m	£m
Sterling debt	643	(6)	250	(2)	200	(2)
Euro denominated debt	1,615	(86)	1,499	29	1,498	26
USD denominated debt	621	(13)	621	5	621	-
CAD denominated debt	584	(2)	738	7	1,227	3
Other currencies debt	709	(8)	453	27	549	17
Designated in fair value hedge	4,172	(115)	3,561	66	4,095	44

⁽¹⁾ Fair value adjustment is comprised of fair value loss of £77 million (June 2018: £131 million; December 2018: £89 million) on continuing hedges and £38 million loss (June 2018: £65 million; December 2018: £45 million) on discontinued hedges

8 Derivative financial instruments

Unaudited 30 June 2019	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	3	-	-	-
Interest rate swaps	338	-	(15)	(15)
Cross-currency swaps	250	-	(8)	(8)
Index-linked swaps	243	-	(43)	(43)
	834	-	(66)	(66)
Non-current				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	1,970	-	(403)	(403)
Cross-currency swaps	4,481	751	(1)	750
Index-linked swaps	6,276	55	(1,071)	(1,016)
	12,727	806	(1,475)	(669)
Total	13,561	806	(1,541)	(735)
Unaudited 30 June 2018	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	604	-	(9)	(9)
Cross-currency swaps	-	-	-	-
Index-linked swaps	-	-	-	-
	604	-	(9)	(9)
Non-current				
Foreign exchange contracts	-	-	-	-
Interest rate swaps	2,309	-	(390)	(390)
Cross-currency swaps	3,601	382	(22)	360
Index-linked swaps	5,819	40	(890)	(850)
	11,729	422	(1,302)	(880)
Total	12,333	422	(1,311)	(889)

At 30 June 2019, Total non-current notional value of Derivative financial instruments due in greater than 5 years was £9,565 million, comprising £5,496 million of Index-linked swaps, £2,846 million of Cross-currency swaps, and £1,222 million of Interest rate swaps.

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
for the period ended 30 June 2019**

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

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The losses deferred of £29 million expected to be released in less than one year, £21 million between one and two years, £58 million between two and five years and £116 million over five years. Of the total amount deferred in other comprehensive income £222 million related to discontinued cash flow hedges.

Cross-currency swaps

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

Index-linked swaps

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

Foreign exchange contracts

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

9 Retirement benefit obligations

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

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

Income statement - pension and other pension related liabilities costs

	Unaudited Three months ended 30 June 2019 £m	Unaudited Three months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Employment costs:					
Defined contribution schemes	4	3	7	6	13
BAA Pension Scheme	6	7	14	15	34
	10	10	21	21	47
Finance (credit)/charge - BAA Pension Scheme	(1)	1	(1)	1	3
Finance charge - Other pension and post retirement liabilities	1	-	1	-	1
Total pension costs	10	11	21	22	51

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
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Other comprehensive income – (loss)/gain on pension and other pension related liabilities

	Unaudited Three months ended 30 June 2019	Unaudited Three months ended 30 June 2018	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	£m	£m	£m		£m
BAA Pension Scheme (loss)/gain	39	124	(77)	219	141
Unfunded schemes	-	-	-	-	3
Actuarial (loss)/gain recognised before tax	39	124	(77)	219	144
Tax (charge)/credit on actuarial gain/(loss)	(7)	(21)	13	(37)	(26)
Actuarial(loss)/gain recognised after tax	32	103	(64)	182	118

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

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	£m	£m	£m
Fair value of plan assets	4,273	3,987	3,869
Benefit obligation	(4,312)	(3,884)	(3,841)
(Deficit)/surplus in BAA Pension Scheme	(39)	103	28
Unfunded pension obligations	(28)	(29)	(28)
Post-retirement medical benefits	(4)	(5)	(4)
Deficit in other pension related liabilities	(32)	(34)	(32)
Net (deficit)/surplus in pension schemes	(71)	69	(4)
Group share of net (deficit)/surplus in pension schemes	(71)	69	(4)

(a) BAA Pension Scheme

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

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

Analysis of financial assumptions

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

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	%	%	%
Rate of increase in pensionable salaries	1.90	1.90	1.90
Increase to deferred benefits during deferment	2.65	2.55	2.65
Increase to pensions in payment:			
Open section	3.30	3.20	3.30
Closed section	3.40	3.30	3.40
Discount rate	2.45	2.85	3.00
Inflation assumption	3.40	3.30	3.40

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
for the period ended 30 June 2019**

10 Cash generated from operations

	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Operating activities			
Profit before tax	7	289	422
<i>Adjustments for:</i>			
Net finance costs	498	241	789
Depreciation and amortisation	360	338	716
Amortisation on intangibles	17	19	27
Amortisation on right of use assets	18	-	-
Fair value loss/(gain) on investment properties	7	(39)	(117)
<i>Working capital changes:</i>			
Decrease/(increase) in inventories and trade and other receivables	55	8	(46)
(Decrease)/increase in trade and other payables	(41)	5	11
Decrease in provisions	(4)	(5)	-
Difference between pension charge and cash contributions	(10)	(9)	(15)
Cash generated from operations	907	847	1,787

11 Commitments and contingent liabilities

Group commitments for property, plant and equipment

	Unaudited Six months ended 30 June 2019 £m	Unaudited Six months ended 30 June 2018 £m	Audited Year ended 31 December 2018 £m
Contracted for, but not accrued:			
Baggage systems	76	105	77
Terminal restoration and modernisation	164	198	174
Capacity optimisation	26	13	20
IT projects	12	43	20
Other projects	77	48	35
	355	407	326

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

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

At 30 June 2019, Total non-current Lease liabilities greater than 5 years was £242.5 million

12 Related party transactions

The Group entered into the following transactions with related parties:

Purchase of goods and services	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Amey OWR Ltd	-	1	1
Ferrovial Agroman	11	39	69
Heathrow Finance plc ¹	50	55	109
	61	95	179

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

Heathrow (SP) Limited

**Notes to the condensed consolidated financial statements
for the period ended 30 June 2019**

Sales to related Party	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Harrods International Limited	10	10	23
Qatar Airways	17	16	35
	27	26	58

Balances outstanding with related parties were as follows:

	30 June 2019		30 June 2018		31 December 2018	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	2,220	-	1,938	-	2,227
Qatar Airways	3	-	1	-	2	-
	3	2,220	1	1,938	2	2,227

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

INDEPENDENT REVIEW REPORT TO HEATHROW (SP) LIMITED

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2019 and the six months ended 30 June 2018, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 12. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with International Accounting Standards 34.

As disclosed on page 18, the half yearly statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2019 and the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.



Deloitte LLP
Statutory Auditor
London, UK
22 July 2019

Glossary

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

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

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

Carbon neutral – Emissions are offset through purchasing carbon offsets

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

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

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

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

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

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

Zero carbon – No emissions are released into the atmosphere