

Heathrow (SP) Limited Results for the nine months ended 30 September 2018

- **Lower charges and better service push Heathrow to record highs** – An all-time record of 60.5m passengers have travelled through Heathrow so far in 2018 as the airport delivered better value and service. Passenger charges fell 1% to £21.59 whilst 82% of passengers said they had an “Excellent” or “Very Good” experience at Heathrow
- **New long-haul routes lift global trade** – Trade flowing through Heathrow increased 1.5% to a record high of 1.3m tonnes, boosted in part by this year’s 5 new services to China
- **Robust financial performance** – Heathrow remains in strong financial health as revenues climbed 2.3% to £2,211 million on the back of higher demand to fly and strong retail spend – supporting an additional £555 million of investment into the airport. Adjusted EBITDA climbed 1.9% to £1,372 million. Remaining competitive as we expand continues to be a key priority, with operational charges increasing only slightly after investments to boost resilience, security and service in 2018
- **Prompt Payment Code champion** – Heathrow has reaffirmed its undertakings to the Prompt Payment Code to pay suppliers on time
- **Global appetite to invest in Heathrow stronger than ever** – Nearly £1.6 billion raised from global investors during 2018, recently adding a 7th currency with a debut Australian dollar issue. Attractive financing lays the groundwork for entirely privately-funded expansion and builds Heathrow’s financial resilience ahead of Brexit
- **Heathrow pushes for a carbon-neutral airport by 2020** – In its aim to be carbon-neutral by 2020, Heathrow launched the first in a series of peatland restoration projects. The site in Lancashire will trap nearly 23,000 tonnes of CO₂ over 30 years – equivalent to nearly 64,000 passenger journeys from Heathrow to New York. The project comes as Terminal 2 became one of the first terminals in the world to be powered by 100% renewable energy
- **Ground surveys for expansion begin** – Progress continues in delivering expansion. Initial ground surveys of surrounding land began in September. With two further public consultations set for January and June 2019, Heathrow remains on-track to submit a planning application in 2020 and for the first flights to use the new runway in 2026

At of for the nine months ended 30 September	2017	2018	Change (%)
<i>(£m unless otherwise stated)</i>			
Revenue	2,161	2,211	2.3
Adjusted EBITDA ⁽¹⁾	1,347	1,372	1.9
EBITDA ⁽²⁾	1,441	1,435	(0.4)
Cash generated from operations	1,319	1,336	1.3
Cash flow after investment and interest ⁽³⁾	364	305	(16.2)
Pre-tax profit ⁽⁴⁾	229	212	(7.4)
Heathrow (SP) Limited consolidated nominal net debt ⁽⁵⁾	12,372	12,749	3.0
Heathrow Finance plc consolidated net debt ⁽⁵⁾	13,674	13,822	1.1
Regulatory Asset Base ⁽⁵⁾	15,786	16,108	2.0
Passengers (million) ⁽⁶⁾	59.1	60.5	2.5
Retail revenue per passenger (£) ⁽⁶⁾	8.33	8.59	3.1

Notes 1-6: see page 2

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

“With the outcome of Brexit negotiations unknown, strong businesses like Heathrow must stand up to support Britain’s economy. We will expand Heathrow to boost Britain’s global trade for decades to come, and we are proud to protect Britain’s SMEs by maintaining our 30-day payment terms for all of our suppliers. No matter how small, suppliers should have confidence that they will be paid on-time for their services, and we call on other businesses to follow our lead.”

Notes

- (1) Adjusted EBITDA is earnings before interest, tax, depreciation & amortisation
- (2) EBITDA is earnings before interest, tax, depreciation and amortisation
- (3) Cash flow after investment and interest is cash generated from operations after net capital expenditure and net interest paid
- (4) Pre-tax profit before exceptional items and certain re-measurements
- (5) 2017 net debt and RAB figures at 31 December 2017. Nominal net debt excluding intra-group loans and including inflation-linked accretion
- (6) Changes in passengers and retail revenue per passenger are calculated using unrounded passenger numbers

Heathrow (SP) Limited owns 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.

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Creditors and credit analysts conference call hosted by Javier Echave, Chief Financial Officer

26 October 2018

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

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Strategic priorities

MOJO

We are committed to making Heathrow a great place to work by providing an environment where colleagues feel safe, proud, motivated and enjoy what they do. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In the first nine months of 2018, an outstanding 320 colleagues were promoted and 643 colleagues attended training to advance their managerial skills.

Continuously improving our Health and Safety credentials, culture and behaviour remains a significant driver in achieving great results and preventing or reducing the likelihood of incidents occurring. In the first nine months of 2018, our lost time injuries metric improved to 0.39 (2017: 0.48).

TRANSFORM CUSTOMER SERVICE

During the first nine months of the year, Heathrow continued to rank ahead of European hubs in the ASQ survey. Over the period, our service standards remained strong and operations ran with limited disruption despite passenger growth putting pressure on security and check in services.

While we have made strong improvements in service quality in recent years, as part of our drive to provide the best airport service in the world, we recently introduced our Service Signatures programme to help all our colleagues to make things better.

In the third quarter of 2018, we achieved a score of 4.12 out of 5.00 compared to 4.14 in the same period last year. In addition, 82% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2017: 81%) illustrating the strength and resilience of our operations.

Service standards ⁽¹⁾	2017	2018
ASQ	4.15	4.16
Baggage connection	99.0%	98.7%
Departure punctuality	80.9%	78.3%
Security queuing	97.4%	97.0%

(1) For the nine months to 30 September 2018

Investing in Heathrow

Heathrow invested £555 million in the first nine months of 2018 (2017: £491 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to develop our plans for expanding Heathrow for which investments amounted to around £91 million in the period. We expect expansion-related capital investment to be approximately £160 million in 2018.

BEAT THE PLAN

A new direct service to Chinese economic powerhouse and popular tourist destination Chongqing commenced from Heathrow in August 2018. This route is the 10th direct Chinese connection from Heathrow, the UK's only hub airport and primary gateway to China. At the same time, British Airways announced a new direct route to Pittsburgh and American Airways announced a new route to Phoenix. Both routes will commence in April 2019.

Heathrow has now achieved 23 consecutive months of record passenger numbers. During the first nine months of 2018 Heathrow welcomed a record 60.5 million passengers, an increase of 2.5% on the corresponding period in 2017 (2017: 59.1 million). Aircraft continue to get fuller with load factors increasing to 79.8% (2017: 78.5%). The average number of seats per passenger aircraft increased to 213.4 (2017: 212.0) due to airlines introducing larger aircraft.

Reflecting the success of our pricing strategy aiming to boost domestic connectivity, short haul traffic grew by 2% while intercontinental grew by 2.9%. Intercontinental growth continues to be driven by strong growth in routes to North America, through increasing flight frequency and aircraft size to a number of destinations including Phoenix, Miami, New York and San Francisco, while Asia Pacific grew strongly driven by our new Chinese routes.

(Millions)	2017	2018	Var % ⁽²⁾
UK	3.6	3.6	1.1
Europe	24.7	25.3	2.2
North America	13.2	13.7	3.7
Asia Pacific	8.5	8.7	2.6
Middle East	5.8	5.8	0.8
Africa	2.3	2.4	4.4
Latin America	1.0	1.0	4.6
Total passengers	59.1	60.5	2.5

(2) Calculated using unrounded passenger figures

Other traffic metrics	2017	2018
Passenger ATM	354,675	355,425
Load factors (%)	78.5	79.8
Seats per ATM	212.0	213.4
Cargo tonnage ('000)	1,246	1,265

SUSTAINABLE GROWTH

Heathrow 2.0

As part of our Heathrow 2.0 plan for sustainable growth, we have established the Heathrow Centre of Excellence for Sustainability to create a forum for collaboration. One of the Centre's first initiatives was to launch a sustainable innovation prize. Open to both small businesses with innovative solutions and Heathrow colleagues with ideas for research, the prize has awarded £20,000 worth of funding to Energy Crop Solutions, along with the opportunity to use the airport as a testbed to explore how different willow varieties could provide acoustic, air quality and aesthetic improvements for local residents. The colleague prize was awarded to Andrew Swift whose idea is to use the airports plastic waste for its road surfacing. Heathrow will fund research into Andrew's winning idea with its university partners, which could lead to an on-airport trial.

Between May and June, we ran a public consultation on Heathrow's draft 2019-2023 Noise Action Plan ('NAP') which sets out how Heathrow plans to manage and reduce the impact of aircraft noise. Feedback received will help us refine and shape the NAP which is currently being reviewed by Department for Environment, Food and Rural Affairs ('DEFRA') and will be published in 2019.

In September, the Heathrow Skills Taskforce ('HST') published recommendations that will ensure Heathrow's expansion leaves a national legacy of skills for future infrastructure projects. Independent from Heathrow and chaired by Lord David Blunkett, the HST was set up in 2016 to ensure a clear plan is in place to provide the skills required to build and operate an expanded Heathrow. Recommendations include creating a new "Infrastructure Passport" that will coordinate transferable skills amongst major UK projects and a partnership with the Further and Higher Education sectors to help create a pipeline of talent and skills. Heathrow will respond to the HST's recommendations in early 2019.

Heathrow has announced its investment in the restoration of UK peatlands to offset carbon emissions as part of the airport's plans to be a carbon neutral airport by 2020. By supporting research into the climate benefits of peatland

restoration, Heathrow hopes to show that projects like this will make a good option for airlines' Carbon Offsetting Scheme for International Aviation (CORSIA) commitments – an international agreement to deliver carbon neutral growth in aviation from 2020. This pilot project will also help explore opportunities for peatland to deliver cost effective carbon offsetting alongside a range of other benefits including biodiversity, water quality and flood protection. Heathrow has invested more than £94,000 in Little Woollen Moss to restore 70 hectares of peatland that has up until now been used for extraction. According to DEFRA indicators, the restoration of this project area could lead to savings of around 23,000 tonnes of CO₂ over 30 years – equivalent to nearly 64,000 passenger journeys from Heathrow to New York. Following this initial pilot project, Heathrow plans to invest in more peatland restoration projects over the next two years and is already exploring other locations. We will also shortly be releasing our carbon neutral growth routemap, setting out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral.

Expansion - Heathrow developments

Heathrow continues to make significant progress in expanding the airport following June's overwhelming vote in Parliament in favour of the Airport's National Policy Statement ('NPS'). Initial ground surveys at 650 sites across the land required for the project are already underway and the airport is moving towards confirming its preferred masterplan. Heathrow has incorporated feedback from a successful initial public consultation earlier this year, and will hold two consultations in 2019 to seek further views on our plans. The consultation on airspace and future runway operations will take place in January 2019, followed by a consultation in June 2019 on our preferred masterplan. The announcement of these consultations comes as the latest independent polling from Populus released in September continues to show that more local people around Heathrow support than oppose the project – a result which has been consistent since polling started in 2015. After reviewing and assessing feedback from next year's consultations, Heathrow will prepare a final masterplan and submit a development consent order application to the Planning Inspectorate in 2020, kick-starting an approval process which will take 18 months. If Heathrow is granted development consent, the new runway is expected to open in 2026.

Heathrow is continuing its strong engagement with businesses across the UK. We have hosted 7 of 10 Business Summits scheduled for this year at various locations across the UK to increase the number of Small

and Medium Enterprises ('SME') in the airport's multi-billion-pound supply chain. Heathrow has completed visits to all 65 longlisted Logistics Hubs sites. We will shortly invite all longlisted sites to provide us with more extensive information on their bids, and we then expect to draw up a shortlist of sites which will be invited to formal tender in 2019. The final selected sites will help deliver expansion efficiently by pioneering large-scale offsite manufacturing. Earlier this year, Heathrow also announced an Innovation Partnership programme calling for third parties to bring forward innovative ideas to deliver the airport's expansion plans more affordably and sustainably. After reviewing over 150 entries, Heathrow has announced a shortlist of 37 – including local authorities, retail giants and airline partners – which are now working on business cases that will be reviewed before a final pitch list is drawn up.

We remain committed to delivering a sustainable, affordable and financeable expanded airport. Heathrow's expansion programme will be entirely privately funded at no cost to the taxpayer. Heathrow is also committed to maintaining its existing strong investment grade credit ratings throughout expansion. We are confident that we can expand the airport whilst keeping passenger charges close to 2016 levels – which represents significant value for money for consumers and meets the Government's affordability challenge. Expanding Heathrow will unlock billions of pounds in growth, create tens of thousands of new skilled jobs across the UK, meet tough environmental and noise limits, open up to 40 new long-haul trading links, improve domestic connectivity and secure a skills legacy for future generations. Over the next 12 months alone, we expect to sign £150 million worth of contracts with British businesses, creating 900 new jobs and 200 new apprenticeships.

In parallel with the ongoing development consent process outlined above, Heathrow will continue to participate in the judicial review proceedings relating to the Airports NPS – the hearing of which has now been set for March 2019. Securing consent for large-scale infrastructure projects often involves judicial review and Heathrow remains fully confident that the Government's decision-making process was robust. The Airports NPS was overwhelmingly approved by a significant cross-party majority in Parliament. To date, there have been no successful challenges against the designation of a NPS.

Brexit

Heathrow continues to monitor the progress of the negotiations and is encouraged by the Government's continued commitment to securing a deal with the European Union ('EU') in the coming months. Whilst it

remains important for the Government and Parliament to agree a deal that secures continued liberal access to the European aviation market to facilitate efficient flows of both people and goods into and out of the UK, Heathrow remains in an extremely strong position notwithstanding the final outcome of the Brexit negotiations.

Heathrow is unique as the UK's only hub airport and global gateway. The airport benefits from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. As the UK Government has already indicated, the UK already has existing bilateral Air Service Agreements ('ASA') with 111 countries around the world. ASAs to a further 17 countries are covered by the UK's membership of the EU. The Government has already indicated that replacement UK ASAs for a number of these countries have already been agreed and is confident that the remaining agreements will be put in place well in advance of the UK leaving the EU. That means that the vast majority of services at Heathrow are either not impacted by the UK's relationship with the EU, or would be replicated by bilateral agreements either before or very quickly after Brexit. Of the remaining European services, both the European Commission and the UK Government have indicated that a temporary arrangement to facilitate flying between EU countries and the UK is desirable and could be quickly put into place.

Passengers should be reassured by Heathrow's long track-record of successfully managing significant operational change. We have taken an extremely responsible approach to both operational and financial planning. Extensive contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we have raised close to £1.6 billion from global investors so far this year. This extends our liquidity horizon until the end of 2020 and ensures the airport has sufficient financial firepower to cope with a no-deal Brexit and still meet its obligations – including progressing our expansion plans.

In a further sign of our confidence and in a significant boost for Britain's SMEs and suppliers, Heathrow recently reaffirmed its undertakings to the Prompt Payment Code to pay all suppliers on time. Heathrow spends over £1.5 billion annually with over 1,200 SMEs and suppliers. We will continue to advocate for SMEs and encourage other companies with complex supply chains like Heathrow's to support SME's.

Financial Review

Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow SP') is the holding company of a group of companies that owns Heathrow airport and operates the Heathrow Express rail service (the 'Group'). Heathrow SP's consolidated accounts are prepared under International Financial Reporting Standards ('IFRS').

Adjusted EBITDA

Adjusted EBITDA grew 1.9% to £1,372 million (2017: £1,347 million) for the nine months ending 30 September 2018. The results reflect continued strong traffic and retail performance and continued cost control.

Revenue

In the nine months ended 30 September 2018, revenue increased 2.3% to £2,211 million (2017: £2,161 million).

9 months ended 30 September	2017 £m	2018 £m	Var. %
Aeronautical	1,288	1,307	1.5
Retail	492	520	5.7
Other	381	384	0.8
Total revenue	2,161	2,211	2.3

Aeronautical income continues to benefit from strong traffic growth offset by some recoverable yield dilution as airlines respond strongly to Heathrow's tariff structure by employing cleaner and quieter aircraft. We continue to deliver strong value for passengers with average aeronautical revenue per passenger decreasing by 1% to £21.59. (2017: £21.81).

9 months ended 30 September	2017 £m	2018 £m	Var. %
Retail concessions	223	235	5.4
Catering	42	45	7.1
Other retail	85	88	3.5
Car parking	89	94	5.6
Other services	53	58	7.5
Total retail revenue	492	520	5.7

Retail revenue remains strong, led by retail concessions and catering, reflecting the strong traffic performance and longer dwell in the departure lounge due to our call to gate initiative. Retail concessions were boosted by the roll out of new digital capability on Heathrow boutique, allowing customers to reserve and collect their shopping. Catering benefited from refurbishments in Terminals 3 and 5, in addition to "Grab & Go" offerings for passengers to take

food on flights. Other retail reflects an increase in advertising income from an enhanced utilisation of spaces. Retail revenue per passenger rose 3.1% to £8.59 (2017: £8.33).

9 months ended 30 September	2017 £m	2018 £m	Var. %
Other regulated charges	180	184	2.2
Heathrow Express	94	91	(3.2)
Property and other	107	109	1.9
Total other revenue	381	384	0.8

The increase in other revenue was driven by other regulated charges. Higher passenger numbers travelling through the airport resulted in more baggage being processed. Heathrow Express revenue declined as passenger numbers softened.

Operating costs

Operating costs excluding depreciation and amortisation increased 3.1% to £839 million (2017: £814 million). Operating costs per passenger before depreciation and amortisation increased by 0.6% to £13.86 (2017: £13.78).

Operating cost increases were primarily driven by higher expansion and security costs and increased investment in our special assistance services and resilience. In the early part of the year, we also spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years which impacted both maintenance and other costs. Business rates declined as a result of a rates review.

At the same time, cost efficiencies in people-related areas offset increased pension charges and higher staff numbers to manage service and resilience while passenger numbers continue to increase.

9 months ended 30 September	2017 £m	2018 £m	Var. %
Employment	274	278	1.5
Operational	181	198	9.4
Maintenance	128	135	5.5
Rates	95	91	(4.2)
Utilities and Other	136	137	0.7
Total operating costs	814	839	3.1

Adjusted operating profit

For the nine months ended 30 September 2018, Heathrow SP recorded an operating profit before certain re-measurements of £829 million (2017: £848 million). Adjusted EBITDA increased 1.9% to £1,372 million (2017: £1,347 million), resulting in an Adjusted EBITDA

margin of 62.1% (2017: 62.3%). Depreciation and amortisation increased to £543 million (2017: £499 million).

9 months ended 30 September	2017 £m	2018 £m	Var. %
Adjusted EBITDA	1,347	1,372	1.9
Depreciation and amortisation	499	543	8.8
Adjusted operating profit	848	829	(2.2)

Taxation

The tax charge for the period, before certain re-measurements, was £57 million (2017: £62 million) resulting in an effective tax rate of 26.9% (2017: 27.1%), compared to the UK statutory rate of 19% (2017: 19.25%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge for the period was £93 million (2017: £118 million). For the period ended 30 September 2018, Heathrow SP paid £44 million (2017: £35 million) in corporation tax.

Cash generated from operations

In the nine months ended 30 September 2018, cash generated from operations increased 1.3% to £1,336 million (2017: £1,319 million).

Restricted payments

In the nine months ended 30 September 2018, Heathrow's ultimate shareholders received £341 million (2017: £281 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow SP in the period amounted to £550 million (net) or £625 million (gross). Other than the £326 million (2017: £272 million) payment made by Heathrow SP to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £99 million (2017: £67 million) of interest on the debenture between Heathrow SP and Heathrow Finance and net of £125 million distribution to Heathrow Finance to temporarily repay the majority of £150 million in various facilities and permanently repay £50 million.

RECENT FINANCING ACTIVITY

Heathrow has raised close to £1.6 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14.1 billion debt portfolio. During the nine months ending 30 September 2018, financing activities have included £1.0 billion in Class A debt and £381 million in Class B debt

that will be drawn in 2020. Heathrow Finance also raised £75 million via a 12 year term loan facility.

Heathrow has further built upon its successful entrance into the Canadian market with a CAD400 million 12 year bond issued in August 2018. This was the first issuance by a UK based company with a maturity date beyond 10 years and further builds upon Heathrow's strong presence and liquidity in the Canadian market. Heathrow also raised another £200 million via a 10 year Class A term loan facility with Export Development Canada ('EDC'), the Canadian Export Credit Agency with a 12 month availability period. This loan is the first export credit agency loan obtained by Heathrow.

After the end of the period, Heathrow closed an AUD175 million 10 year Class A note. This marks Heathrow's debut in the Australian market and is also the longest dated Australian dollar issuance by a UK corporate in EMTN format.

Our funding activities for the remainder of the year remain in line with our debt financing strategy. We continue to target value opportunities through diversification and building liquidity in existing markets by being a repetitive issuer in each active market.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 September 2018, Heathrow SP's nominal net debt was £12,749 million (31 December 2017: £12,372 million). It comprised £11,386 million in bond issues, £724 million in other term debt, £320 million outstanding in the revolving credit facilities and £447 million in index-linked derivative accretion. This was offset by £128 million in cash. Nominal net debt comprised £11,398 million in senior net debt and £1,351 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 September 2018 was 3.66 % (31 December 2017: 3.92%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 September 2018 was 5.43% (31 December 2017: 5.87%). The reduction in the average cost of debt since the end of 2017 is mainly due to:- a) the replacement in 2018 of relatively high cost maturing legacy debt with newer lower cost debt and b), recent moves in inflation with the retail price index ('RPI') inflation falling from a high of 3.9% in September 2017 to 3.4% in June

2018. The average life of Heathrow SP's gross debt as at 30 September 2018 was 12.2 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 £12,503 million at 30 September 2018 (31 December 2017: £12,311 million). This includes £128 million of cash and cash equivalents as reflected in the statement of financial position and excludes accrued interest.

Heathrow has sufficient liquidity to meet all its forecast needs in full until December 2020. This includes forecast capital investment (including expected investment over the period related to potential expansion), debt service costs, debt maturities and distributions. This liquidity position takes into account £2.2 billion in undrawn loan facilities and term debt as well as cash resources at 30 September 2018 together with expected operating cash flow over the period.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £13,822 million (31 December 2017:

£13,674 million). This comprises the Heathrow SP's £12,749 million nominal net debt, Heathrow Finance's gross debt of £1,112 million and cash held at Heathrow Finance of £39 million.

Financial ratios

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

At 30 September 2018, Heathrow's RAB was £16,108 million (31 December 2017: £15,786 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 70.8% and 79.1% respectively (31 December 2017: 67.3% and 78.4% respectively). Heathrow Finance's gearing ratio was 85.8% (31 December 2017: 86.6%).

OUTLOOK

The outlook for Heathrow's Adjusted EBITDA performance for 2018 remains broadly in line with the forecast set out in the Investor Report published on 27 June 2018. Heathrow is also forecast to maintain a comfortable covenant headroom.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement for the nine months ended 30 September 2018

		Unaudited Nine months ended 30 September 2018			Unaudited Nine months ended 30 September 2017			Audited Year ended 31 December 2017		
		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
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Revenue	1	2,211	-	2,211	2,161	-	2,161	2,884	-	2,884
Operating costs	2	(1,382)	-	(1,382)	(1,313)	-	(1,313)	(1,815)	-	(1,815)
Other operating items										
Fair value gain on investment properties		-	63	63	-	94	94	-	149	149
Operating profit		829	63	892	848	94	942	1,069	149	1,218
Financing										
Finance income		1	-	1	2	-	2	3	-	3
Finance costs		(618)	-	(618)	(621)	-	(621)	(855)	-	(855)
Fair value gain on financial instruments		-	151	151	-	238	238	-	213	213
Net finance cost	3	(617)	214	(466)	(619)	238	(381)	(852)	213	(639)
Profit before tax		212	214	426	229	332	561	217	362	579
Taxation charge	4	(57)	(36)	(93)	(62)	(56)	(118)	(48)	(47)	(95)
Profit for the period		155	178	333	167	276	443	169	315	484

^a Certain re-measurements consist of: fair value gain on investment property revaluations and disposals; gains and losses arising on the re-measurement and disposal 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.

Heathrow (SP) Limited

Consolidated statement of comprehensive income for the nine months ended 30 September 2018

	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Profit for the period	333	443	484
Items that will not be subsequently reclassified to the consolidated income statement:			
Actuarial gain/(loss) on pensions net of tax:			
(Loss)/gain on plan assets	(140)	(68)	62
Decrease/(increase) in scheme liabilities	285	29	(116)
Tax relating to indexation of operational land	-	-	2
Items that may be subsequently reclassified to the consolidated income statement:			
Cash flow hedges:			
Losses taken to equity	(163)	(87)	(105)
Transferred to income statement	189	102	121
Other comprehensive income/(loss) for the period net of tax	171	(24)	(36)
Total comprehensive income for the period ^a	504	419	448

^a Attributable to owners of the parent.

Heathrow (SP) Limited

Consolidated statement of financial position as at 30 September 2018

	Note	Unaudited 30 September 2018 £m	Unaudited 30 September 2017 £m	Audited 31 December 2017 £m
Assets				
Non-current assets				
Property, plant and equipment		11,407	11,382	11,307
Investment properties		2,414	2,293	2,350
Intangible assets		161	117	175
Retirement benefit surplus		64	-	-
Derivative financial instruments		466	455	444
Trade and other receivables		17	22	18
		14,529	14,269	14,294
Current assets				
Inventories		11	11	11
Trade and other receivables		274	268	258
Derivative financial instruments		-	166	170
Term deposits		-	300	12
Cash and cash equivalents		128	168	513
		413	913	964
Total assets		14,942	15,182	15,258
Liabilities				
Non-current liabilities				
Borrowings	5	(14,069)	(13,384)	(13,567)
Derivative financial instruments		(1,327)	(1,334)	(1,459)
Deferred income tax liabilities		(930)	(902)	(870)
Retirement benefit obligations		(34)	(148)	(158)
Provisions		(8)	(9)	(8)
Trade and other payables		(6)	(7)	(7)
		(16,374)	(15,784)	(16,069)
Current liabilities				
Borrowings	5	(496)	(1,333)	(1,363)
Derivative financial instruments		(23)	(3)	(7)
Provisions		(1)	(9)	(6)
Current income tax liabilities		(55)	(55)	(30)
Trade and other payables		(453)	(428)	(418)
		(1,028)	(1,828)	(1,824)
Total liabilities		(17,402)	(17,612)	(17,893)
Net liabilities		(2,460)	(2,430)	(2,635)
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		(226)	(253)	(252)
Retained earnings		1,014	1,071	865
Total shareholder's equity		(2,460)	(2,430)	(2,635)

Heathrow (SP) Limited

Consolidated statement of changes in equity for the nine months ended 30 September 2018

	Attributable to owners of the Company (Unaudited)					Total equity £m
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings £m	
1 January 2017	11	499	(3,758)	(268)	1,537	(1,979)
Comprehensive income:						
Profit for the period					443	443
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				15		15
Actuarial gain on pension net of tax:						
Loss on plan assets					(68)	(68)
Increase in scheme liabilities					29	29
Total comprehensive income	-	-	-	15	404	419
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(870)	(870)
Total transaction with owners	-	-	-	-	(870)	(870)
30 September 2017	11	499	(3,758)	(253)	1,071	(2,430)
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				26		26
Actuarial gain on pension net of tax:						
Loss on plan assets					(140)	(140)
Decrease in scheme liabilities					285	285
Total comprehensive income	-	-	-	26	478	504
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(326)	(326)
Total transaction with owners	-	-	-	-	(326)	(326)
30 September 2018	11	499	(3,758)	(226)	1,014	2,460

Heathrow (SP) Limited

Consolidated statement of cash flows for the nine months ended 30 September 2018

	Note	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Cash flows from operating activities				
Cash generated from continuing operations	6	1,336	1,319	1,733
Taxation:				
Corporation tax paid		(44)	(35)	(53)
Group relief paid		-	-	(12)
Net cash from operating activities		1,292	1,284	1,668
Cash flows from investing activities				
Purchase of:				
Property, plant and equipment		(545)	(479)	(669)
Investment properties		(2)	-	(1)
Intangible assets		(8)	(12)	(17)
Decrease in term deposits ¹		12	80	368
Decrease in group deposits ²		-	-	11
Interest received		1	4	5
Net cash used in investing activities		(542)	(407)	(303)
Cash flows from financing activities				
Dividends paid to Heathrow Finance plc		(326)	(870)	(1,104)
(Decrease)/increase in amount owed to Heathrow Finance plc		(125)	210	485
Proceeds from issuance of bonds		678	443	443
Repayment of bonds		(910)	(856)	(856)
Proceeds from issuance of other term debt		245	518	518
Drawdown of revolving credit facilities		320	75	-
Repayment of facilities and other financing items		(442)	(31)	(41)
Settlement of accretion on index-linked swaps		(98)	(10)	(10)
Interest paid		(477)	(468)	(567)
Net cash used in financing activities		(1,135)	(989)	(1,132)
Net (decrease)/increase in cash and cash equivalents		(385)	(112)	233
Cash and cash equivalents at beginning of period		513	280	280
Cash and cash equivalents at end of period		128	168	513

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

² Group deposits are amounts settled with LHR Airports Limited during the period under the terms of the Shared Services Agreement.

Heathrow (SP) Limited

General information and accounting policies for the nine months ended 30 September 2018

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2017 or any other period. Statutory financial statements for the year ended 31 December 2017 have been filed with the registrar of Companies on 22 February 2018. The annual financial information presented herein for the year ended 31 December 2017 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2017. The auditors' report on the 2017 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

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

The accounting policies adopted in the preparation of this consolidated financial information are consistent with those applied by the Group in its audited consolidated financial statements for the year ended 31 December 2017, with the exception of new financial reporting standards which have been applied from 1 January 2018 as follows:

IFRS 15 *Revenue from Contracts with Customers*

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption is recognised in retained earnings as of 1 January 2018 and that comparatives are not restated. The adoption of IFRS 15 resulted in an amount of £1 million charged to retained earnings at 1 January 2018.

IFRS 9 *Financial instruments*

The Group adopted IFRS 9 on 1 January 2018, and has reviewed its financial assets and liabilities and there is no change in relation to its financial liabilities which is the same under IAS 39. The financial assets under the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39.

The adoption of IFRS 9 has resulted in an ECL impairment provision of £2 million in relation to the Group's trade receivables, as at 1 January 2018, which was charged to retained earnings at that date.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2018

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 ('ORCs') and other products and services (including rail income), and this information is also provided to the Board on a monthly basis.

	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Segment Revenue			
Under IFRS 15			
Aeronautical			
Landing charges	364	354	470
Parking charges	50	47	63
Departing charges	893	887	1,183
Total Aeronautical revenue	1,307	1,288	1,716
Other regulated charges	184	180	240
Other revenue	203	195	260
Rail Income			
Heathrow Express	91	94	127
Other	12	7	9
Revenue reported under IFRS 15	1,797	1,764	2,352
Under IAS 17			
Retail (lease-related income)	414	397	532
Total revenue	2,211	2,161	2,884
Revenue recognised at a point in time	1,600	1,574	2,096
Revenue recognised over time	197	190	256
Total revenue reported under IFRS 15	1,797	1,764	2,352
Adjusted EBITDA			
Heathrow	1,327	1,294	1,688
Heathrow Express	45	53	72
Total adjusted EBITDA	1,372	1,347	1,760
Reconciliation to statutory information:			
Depreciation and amortisation	(543)	(499)	(691)
Operating profit (before certain re-measurements)	829	848	1,069
Fair value gain on investment properties (certain re-measurements)	63	94	149
Operating profit	892	942	1,218
Finance income	1	2	3
Finance costs	(618)	(621)	(855)
Fair value gain on financial instruments (certain re-measurements)	151	238	213
Profit before tax	426	561	579
Taxation before certain re-measurements	(57)	(62)	(48)
Taxation (certain re-measurements)	(36)	(56)	(47)
Taxation charge	(93)	(118)	(95)
Profit for the period	333	443	484

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2018

2 Operating costs – ordinary

	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Employment	278	274	374
Operational	198	181	252
Maintenance	135	128	176
Rates	91	95	126
Utilities	68	65	86
Other	69	71	110
Total operating costs before depreciation and amortisation	839	814	1,124
Depreciation and amortisation	543	499	691
Total operating costs	1,382	1,313	1,815

3 Financing

	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Finance income			
Interest on deposits	1	2	3
	1	2	3
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments ¹	(407)	(428)	(574)
Bank loans and overdrafts and related hedging instruments	(38)	(47)	(61)
Interest payable on derivatives not in hedge relationship ²	(124)	(134)	(184)
Facility fees and other charges	(6)	(5)	(7)
Net pension finance costs	(2)	(2)	(3)
Interest on debenture payable to Heathrow Finance plc	(81)	(51)	(71)
Unwinding of discount on provisions	-	-	(1)
	(658)	(667)	(901)
Less: capitalised borrowing costs ³	40	46	46
	(618)	(621)	(855)
Net finance costs before certain re-measurements	(617)	(619)	(852)
Fair value gain on financial instruments			
Interest rate swaps: not in hedge relationship	100	78	61
Index-linked swaps: not in hedge relationship	38	147	134
Cross-currency swaps: ineffective portion of cash flow hedges	3	3	4
Cross-currency swaps: ineffective portion of fair value hedges	10	10	14
	151	238	213
Net finance costs	(466)	(381)	(639)

¹ Includes accretion of £32 million (nine months ended 30 September 2017: £35 million; year ended 31 December 2017: £48 million) on index-linked bonds.

² Includes accretion of £154 million (nine months ended 30 September 2017: £162 million; year ended 31 December 2017: £222 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 5.70 % (nine months ended 30 September 2017: 5.24%; year ended 31 December 2017: 5.37%) to expenditure incurred on such assets.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2018

4 Taxation

	Unaudited Nine months ended 30 September 2018			Unaudited Nine months ended 30 September 2017			Audited Year ended 31 December 2017		
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax									
Current tax charge at 19% (2017: 19.25%)	(69)	-	(69)	(60)	-	(60)	(63)	(2)	(65)
Deferred tax:									
Current year credit	12	(36)	(24)	(2)	(56)	(58)	3	(54)	(51)
Prior year charge	-	-	-	-	-	-	12	9	21
Taxation charge for the period	(57)	(36)	(93)	(62)	(56)	(118)	(48)	(47)	(95)

For the nine months ended 30 September 2018, the profit before tax and certain re-measurements of £212 million (2017: £229 million) resulted in a tax charge of £57 million (2017: £62 million). This results in an effective tax rate of 26.9% (2017: 27.1%), compared to the UK statutory rate of 19% (2017: 19.25%). The higher effective tax rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge recognised was £93 million (2017: £118 million) based on the profit before tax of £426 million (2017: £561 million), which includes the impact of certain re-measurements.

The Finance (No 2) Act 2015 enacted reductions in the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. The Finance Act 2016 enacted a further 1% reduction in the main rate of corporation tax to 17% from 1 April 2020. The effects of these rate reductions were reflected in the deferred tax balances in the 2016 financial statements.

Legislation was enacted, in November 2017, which, limits the deductibility of interest expense for UK corporation tax payers with effect from 1 April 2017. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). The legislation applies a fixed ratio rule which limits a group's UK tax deductions for net interest expense to 30 per cent of UK "tax-based" EBITDA. The legislation also contains a group ratio rule to allow groups that are highly leveraged for commercial reasons to obtain a higher level of net interest deductions, up to a limit in line with the group's overall external gearing position, and a public infrastructure exemption aimed at ensuring that any restriction does not impede the provision of external finance used to fund taxable UK public infrastructure. The FGP Topco Limited Group expects to be largely protected from any disallowance as a result of the FGP Topco Limited Group making a public infrastructure exemption election. No tax disallowance is expected at SP level.

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2018

5 Borrowings

	Unaudited 30 September 2018 £m	Unaudited 30 September 2017 £m	Audited 31 December 2017 £m
Current borrowings			
Secured			
Heathrow Airport Limited debt:			
Loans	28	33	33
Heathrow Funding Limited bonds:			
4.600% €750 million due 2018	-	656	665
6.250% £400 million due 2018	-	400	399
4.000% CAD400 million due 2019	237	-	-
Total current (excluding interest payable)	265	1,089	1,097
Interest payable – external	223	238	239
Interest payable – owed to group undertakings	8	6	27
Total current	496	1,333	1,363
Non-current borrowings			
Secured			
Heathrow Funding Limited bonds			
4.000% C\$400 million due 2019	-	238	235
6.000% £400 million due 2020	399	398	398
9.200% £250 million due 2021	261	267	266
3.000% C\$450 million due 2021	260	266	260
4.875% US\$1,000 million due 2021	757	763	748
1.650%+RPI £180 million due 2022	212	204	206
1.875% €600 million due 2022	542	543	545
5.225% £750 million due 2023	689	681	683
7.125% £600 million due 2024	593	592	592
0.500% CHF400 million due 2024	300	298	293
3.250% C\$500 million due 2025	284	292	286
4.221% £155 million due 2026	155	155	155
6.750% £700 million due 2026	693	692	693
2.650% NOK1,000 million due 2027	91	93	90
7.075% £200 million due 2028	198	198	198
3.400% CAD400 million due 2028	239	-	-
2.500% NOK1,000 million due 2029	82	84	81
3.782% CAD400 million due 2030	235	-	-
1.500% €750 million due 2030	613	615	624
6.450% £900 million due 2031	853	851	851
Zero-coupon €50 million due January 2032	58	56	57
1.366%+RPI £75 million due 2032	84	81	82
Zero-coupon €50 million due April 2032	57	55	56
1.875% €500 million due 2032	443	438	442
4.171% £50 million due 2034	50	50	50
Zero-coupon €50 million due 2034	50	48	49
1.061%+RPI £180 million due 2036	195	189	191
1.382%+RPI £50 million due 2039	56	54	55
3.334%+RPI £460 million due 2039	620	602	608
1.238%+RPI £100 million due 2040	110	106	107
5.875% £750 million due 2041	738	738	738
2.926% £55 million due 2043	55	-	-
4.625% £750 million due 2046	742	742	742
1.372%+RPI £75 million due 2049	84	81	82
2.750% £400 million due 2049	392	392	392
0.147% £160 million due 2058	162	-	-
	11,352	10,862	10,855

Heathrow (SP) Limited

Notes to the consolidated financial information for the nine months ended 30 September 2018

5 Borrowings continued

	Unaudited 30 September 2018 £m	Unaudited 30 September 2017 £m	Audited 31 December 2017 £m
Non-current borrowings continued			
Secured continued			
Heathrow Airport Limited debt:			
Revolving credit facilities	320	75	-
Term notes due 2026-2037	683	439	439
Loans	11	455	445
Unsecured			
Debenture payable to Heathrow Finance plc	1,703	1,553	1,828
Total non-current	14,069	13,384	13,567
Total borrowings (excluding interest payable)	14,334	14,473	14,664

6 Cash generated from operations

	Unaudited Nine months ended 30 September 2018 £m	Unaudited Nine months ended 30 September 2017 £m	Audited Year ended 31 December 2017 £m
Operating activities			
Profit before tax	426	561	579
<i>Adjustments for:</i>			
Fair value gain on financial instruments	(151)	(238)	(213)
Finance costs	618	621	855
Finance income	(1)	(2)	(3)
Depreciation and amortisation	543	499	691
Fair value gain on investment properties	(63)	(94)	(149)
<i>Working capital changes:</i>			
(Increase)/decrease in inventories and trade and other receivables	(13)	6	(6)
(Decrease)/increase in trade and other payables	(4)	(15)	8
Decrease in provisions	(5)	(3)	(7)
Difference between pension charge and cash contributions	(14)	(16)	(22)
Cash generated from operations	1,336	1,319	1,733

Glossary

ADI Finance 2 Limited – ‘ADIF2’

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

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

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 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%

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

Security queuing – percentage of passengers passing through central security within five-minute period prescribed under Service Quality Rebate 'SQR' scheme