HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2020

24TH FEBRUARY 2021

Keeping passengers and colleagues safe – We have only been able to remain open throughout the pandemic by maintaining high safety levels. We helped to develop international standards for safe travel through airports and invested in cutting-edge COVID-secure technologies and testing facilities for up to 25,000 passengers a day to help restore international travel safely.

Annual loss of £2bn underlines the devastating impact of COVID-19 on aviation – Passenger numbers collapsed to 22.1m, more than half of whom travelled in January and February. Overall revenue fell 62% to £1.2bn and adjusted EBITDA fell to £270m. Government policies over recent months have effectively closed borders. We have had no government support, other than furlough, and have not been given relief from business rates, unlike other airports, retail and hospitality businesses. The March Budget is the key opportunity for the Chancellor to support the sector by providing 100% business rates relief, extending the furlough scheme and reversing the tourist tax.

Decisive action to weather the storm – Airports have very high fixed costs. We acted quickly to cut gross operating costs by nearly £400m, reduced capital expenditure by £700m and raised £2.5bn in funding including a £600m capital injection. We ended the year with £3.9bn of liquidity, enough to see us through until 2023.

CAA must act now to unlock lower charges and more investment for consumers – If the CAA acts to approve a RAB adjustment, to recover regulatory depreciation and provide a fair balance of risk and reward, they can unlock lower airport charges and higher investment in passenger service and resilience.

28% decline in cargo volumes shows the cost to the economy of shutting down aviation. Passenger planes from Heathrow are the UK's global trading network, carrying British exports and inbound supply chain. Economic recovery will be held back until long haul passenger flights are restarted, especially to key markets such as the US.

We support the Prime Minister's plan to restart travel and the economy – We will work with the Global Travel Taskforce, so that Britain can become the first country in the world to safely restart international travel and trade at scale, saving thousands of jobs and reinvigorating the UK economy. The Prime Minister has a unique opportunity to agree a common international standard for safe travel with other world leaders when he hosts the G7 in June.

Building Back Better – We remain focused on decarbonising aviation. We became carbon neutral in 2020 and have been working to make decarbonizing aviation a flagship goal for COP26 ahead of a global agreement for net zero emissions by 2050 at the ICAO general Assembly in September 2022.

Heathrow expansion is mission critical to delivering "Global Britain" – With the Supreme Court reinstating the Airports National Policy Statement, we will consult with investors, Government, airline customers and regulators on our next steps.

At year ended 31 December	2019	2020	Change (%)
(£m unless otherwise stated)			
Revenue	3,070	1,175	(61.7)
Cash generated from operations	1,942	(95)	--
Profit / (loss) before tax	546	(2,012)	--
Adjusted EBITDA(1) (4)	1,921	270	(85.9)
Adjusted profit / (loss) before tax(2) (4)	375	(1,214)	--
Heathrow (SP) Limited consolidated nominal net debt(3) (4)	12,412	13,131	5.8
Heathrow Finance plc consolidated net debt(3) (4)	14,361	15,120	5.3
Regulatory Asset Base(5)	16,598	16,492	(0.6)
Passengers (million)(6)	80.9	22.1	(72.7)

"2020 has been one of our most challenging years – but despite £2bn of losses and shrinking to passenger levels we haven't seen since the 70s, I am hugely proud of the way that our colleagues have kept our passengers safe and the UK's hub airport open for vital supplies throughout. We can be hopeful for 2021, with Britain on the cusp of becoming the first country in the world to safely resume international travel and trade at scale. Getting aviation moving again will save thousands of jobs and reinvigorate the economy, and Heathrow will be working with the Global Travel Taskforce to develop a robust plan underpinned by science and backed by industry. The Prime Minister will then have the unique opportunity to secure global agreement on a common international standard for travel when he hosts the G7 in June. In the meantime, we need next week's Budget to support aviation's recovery by extending furlough and providing 100% business rates relief."
John Holland-Kaye, HEATHROW CEO

NOTES

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

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

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

Wednesday February 24th 2021

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

Investor enquiries

Christelle Lubin
+44 7764 805761

Media enquiries

Weston Macklem
+44 7525 825 516

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

Participant PIN code: 64099089#
The presentation can be accessed online or through the webcast

REVIEW OF THE YEAR

2020 has been the toughest year by far in Heathrow's 75-year history. The year started strongly, with record passenger numbers in January, building on a record 80.9m passengers served in 2019. We were gearing up for further growth as we prepared the planning application for Heathrow Expansion, in line with the Airports National Policy Statement ('ANPS'), which was given overwhelming and cross-party parliamentary approval in 2018. In January our airport operation became carbon neutral, and in early February, we helped to launch the UK's Sustainable Aviation roadmap, the first time that an entire national aviation industry had committed to net zero emissions by 2050 and laid out a plan to get there.

In mid-February, the Court of Appeal suspended the ANPS, (a ruling which was reversed in December by the Supreme Court), and the first cases of COVID-19 started to appear in Europe. Through March, passenger numbers collapsed completely as COVID-19 became a global pandemic, countries closed their borders and the UK went into the first lockdown. In April passengers had fallen to only 3 percent of 2019 levels.

Our first concern was the safety of colleagues and passengers. We worked quickly with other airports and airlines around the world to set consistent high standards of COVID safety in the end to end passenger journey, and to implement them at Heathrow.

We acted quickly and decisively in March to conserve cash, stopping capital expenditure and implementing a c.£400m gross operating cost reduction programme and suspended all work on expansion while retaining key talent. This change process was made more difficult through being managed remotely by people working from home.

At the same time, we worked hard to protect revenues and bring in new airlines, including dedicated cargo freighters. We supported the UK Government in developing a risk-based approach to reopening borders safely, which resulted in the introduction of travel corridors in June.

While this allowed travel to restart, it became clear in mid-August that the recovery had stalled so we started making plans for further cost reduction and begun implementing in October. These included cutting all our costs to the lowest level we safely could, including further management reductions, closing our main office and suspending our free travel zone. We also changed our pricing to link it more to aircraft movement and cargo, and slightly less dependent on passenger numbers. By acting early, we have been able to get the maximum cash benefits for 2021.

The change programme has resulted in very difficult choices: a reduction of around a third of our management team and around a quarter of our frontline team choosing to leave under voluntary severance. As a significant local employer, we are very conscious that job losses in front line roles have a devastating impact on the community around Heathrow. We have therefore chosen to cut our payroll cost by reducing legacy terms and conditions to above market levels and the London Living Wage, which has allowed us to avoid front line compulsory redundancies. We are very grateful that 100% of our front line colleagues have accepted these new terms.

After a second lockdown in November, the market started to recover, only for further restrictions to be put in place in mid-December as new variants of COVID-19 emerged around the world. We are currently in a third lockdown and under tight border controls to protect against new variants, but the rapid roll out of vaccinations gives the prospect of bringing the COVID-19 crisis to an end and the return to a more normal life.

The result of acting quickly on revenues and capex and beating our £300m net cost reduction target has been that we have ended the year with only a slightly lower EBITDA than forecast in June despite lower traffic – which is a great credit to the hard work of our team in delivering the plan. We have been well supported by shareholders and creditors and have successfully raised £2.5 billion of debt including a £600 million of capital into the regulated business. The market remains extremely uncertain, but we have £3.9 billion of cash, which would be sufficient to take us well into 2023 under our current traffic forecast or through 15 months even without any revenue. This is as strong a position as we could have hoped for. We have had no support from Government, other than the national furlough scheme, and no action as yet from the CAA to enforce protections assumed in our license, though they have recently recognised that they need to take action in these exceptional circumstances.

Now, after 12 months with very few passengers, we are only just starting to see daylight at the end of a very long tunnel. While so much has changed, we still retain some of the strengths from February 2020. Heathrow, the UK's only hub airport and biggest port, has a critical role to play in rebuilding the national economy and connecting all of Britain to global growth.

Despite the pandemic, we have achieved record levels of customer service and resilience, which reflects the strength of our service culture. We have done this by working closely with our Team Heathrow partners to a common plan to help us all come through this crisis with a more efficient and agile operation which is designed around the needs of our passengers.

We have continued to work on a plan for net zero carbon aviation and to build a "coalition of the willing" across the world; during 2020, airlines in the US, Middle East, Hong Kong and Russia have signed up, and the entire European aviation sector has announced a plan for net zero aviation.

Most important of all, we have been able to retain a talented team at Heathrow who have demonstrated great versatility, resilience and teamwork in coming through 2020 and have grown in capability. They are the best reason for confidence in our future.

John Holland-Kaye

CEO

HEATHROW'S 3-PHASE PLAN

COVID-19 continues to represent a seismic challenge for the aviation industry, including Heathrow. Despite this, our vision remains to give passengers the best airport service in the world. This vision has both helped to guide our COVID-19 response and make key changes to our business to secure future success.

Responding to an industry in crisis

Heathrow's market saw dramatic, sudden shifts through multiple national lockdowns and worldwide quarantines. Uncertainty continues as to when stability and growth will return.

In response, our strategy has focused on what we can control and what will maximise opportunities with recovery. We have reprioritised around controlling costs and ensuring financial stability. We have continued to listen to our passengers. They still want direct flights to destinations they want, from a choice of airlines, at a price they are willing to pay. COVID-19 has heightened their expectations especially around ease of new processes, cleanliness and reassurance. It has accelerated the need for digital interactions and created new needs such as testing services. We have taken a lead in developing responses to this in the global aviation industry.

We reoriented the immediate business plan as the impacts of COVID-19 and the suspension of the Airports National Policy Statement hit in spring 2020. We have focused on Protecting the Business, Winning the Recovery and Building Back Better as phases. These continue to pursue our strategic priorities but with a focus balanced across the stage of recovery we find ourselves in.

Protect the business

Safety and security remain our first and non-negotiable priorities. COVID-19 continues to have a significant impact on our business and recovery is expected to be much more gradual than previously thought. We have therefore implemented several steps to reduce our costs, preserve liquidity, and protect our financial covenants.

Extending our cost reduction programme – Like most infrastructure businesses our cost base is largely 'fixed', while this has been a very efficient model when we have had stable demand, it is not suited to major changes in demand. In 2020 we have significantly reduced our cost base and started to make it more variable. By the end of 2020 we reduced our gross operating costs by circa £400 million compared to our December 2019 Investor Report forecast. Alongside organisational changes as detailed below, we also consolidated our operations into two terminals and one runway. We will continue to balance our infrastructure and terminal occupancy with demand. We have also renegotiated most of our supplier contracts and are reviewing all contracts to find opportunities for cost reduction. The only major area where we have not been able to reduce cost is in governmental costs such as Business Rates.

We also significantly reduced our capital expenditure, by £700 million, to preserve cash with investment focused on the safety and resilience of the airport. For instance, we invested in resurfacing the southern runway, which is typically challenging to do in busier operational periods.

Reorganising the business - We made immediate changes to implement temporary pay cuts, bonus cancellations, recruitment freezes and to maximise the use of the Government furlough scheme. We have made significant changes to our organisational design. We have also undertaken work to ensure all salaries are aligned to market rate to ensure savings become sustainable through the recovery. Our focus has been to protect jobs through this crisis and to offer every frontline colleague a job at a market rate salary above the London Living Wage. Through 2020 our management team reduced by around a third while around a quarter of our front line colleagues chose to leave under voluntary severance as a result of implementing new market aligned terms and conditions.

Focusing on efficiency – We are undertaking a significant corporate transformation to drive efficiency in key business processes and systems. We seek to improve the efficiency of the airport through standardisation of processes, particularly at known pinch points including security.

Preserving liquidity and protecting our financial covenants – We took the proactive step to raise £1.7 billion from global debt capital markets to strengthen our liquidity in response to the crisis. In addition, we also secured a new £750 million facility at ADI Finance 2. The facility's net proceeds were injected into the Heathrow Finance Group to provide further headroom to our group gearing covenant level including £600 million pushed into the Heathrow SP Group that was used to optimise our working capital position.

Win the recovery

Creating an environment where passengers feel safe and confident to fly is fundamental to winning the recovery. We have worked with the Government to implement the necessary standards and procedures as the pandemic has evolved. We have put in significant measures to keep passengers and colleagues safe, including UK robots, UV handrail technology, Perspex screens and hygiene technicians. Since April 2020, we have encouraged the introduction of a Common International Standard for pre-departure testing which will allow international travel and trade to get back to normal as soon as possible. We support all measures that will bring the COVID-19 crisis to an end, but blanket hotel quarantine is effectively the closure of our borders which carries huge ramifications for Britain and the aviation sector.

Testing regimes and vaccine development – We trialled pre-departure testing with four of our transatlantic carriers – American Airlines, British Airways, United Airlines and Virgin Atlantic. This helped the industry and Government to evaluate which pre-departure testing approach is practical and safe enough to replace quarantine and other travel restrictions. We have also developed a testing pilot for airport colleagues, where around 2,000 Heathrow colleagues will regularly take part in rapid lateral flow tests to help identify those who may unknowingly be carrying the virus.

Working to attract as much traffic as possible – To offer as many flights to as many destinations as possible, our work includes;

- Incumbent airline build-back – supporting 80% of incumbent airlines flying, although on reduced schedules;
- Airlines consolidation of London operations – British Airways, Virgin Atlantic and numerous other airlines have chosen to fly from Heathrow rather than other London airports, albeit this will unlikely be a permanent move;
- Targeting new entrants – working closely with airline partners to encourage hand backs of unused slots because of the suspension of the slot usage rule to provide new entrants with an opportunity to fly from Heathrow for the first time.
- Supporting our cargo business – the best performer during the pandemic with a c.8x growth in cargo-only movements. We will develop a more ambitious cargo strategy which could help to diversify our future revenue and rebalance our strategic exposure to passenger demand.

Responding to passenger needs - We are working to mitigate the impact that the Government policy on VAT will have on our airport and retailers, which is in essence a tourist tax. In similar scenes to the devastation on the high street, a number of our retailers have also exited the airport. Where possible, we are seeking to replace these retailers with new and fresh options for our passengers. Our passengers have also expressed a desire for digital options to support them throughout their airport experience, meaning they can have a wider selection of products with a touch-free experience.

Build back better

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

Sustainable growth – Taking the carbon emissions out of flying remains both an ethical and business imperative for Heathrow. After achieving the goal of our airport operation becoming carbon neutral, we are playing a leadership role to create momentum to solve the problem across our scope 3 greenhouse emissions. The Committee on Climate Change (CCC) has recommended no airport expansion unless the industry proves Sustainable Aviation Fuel (SAF) works. We are working on advocating action by the UK Government. The UK will host COP26 this year which provides an important forum. We were involved in developing the Terra Carta, a green recovery charter for business led by HRH, The Prince of Wales. We look forward to contributing to the newly created Build Back Better Council which brings together 30 business leaders from a wide range of sectors of the British economy. The Council will work with the Government to unlock investment, boost job creation and support the delivery of Global Britain. We played a leading role in developing the sustainable aviation roadmap, launched in February 2020, and have been working to get it established in Government policy. We will continue working on reducing our own emissions further through using renewable electricity, road user charging and more EV charge capacity.

Heathrow Expansion – In December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government Policy. Their verdict concluded the Government had considered the Paris Climate Change Agreement as part of the policy and reversed the decision taken by the Court of Appeal in February 2020. Heathrow has already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. As passenger numbers recover, our immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, Government, airline customers and regulators on our next steps. As explained below, we continue to be confident that expansion will proceed successfully in support of Global Britain.

Policy and regulatory matters – In December we submitted our Revised Business Plan to the CAA, setting our proposed approach to the next price control period (H7) due to start in 2022. We recognise the uncertainties ahead and that major demands of our plan will be outside of our control including the recovery of passenger demand, the implementation of our proposed RAB adjustment and the length of the regulatory period. We have requested the CAA to enforce protections included in our current license to recover regulatory depreciation with immediate effect and limit losses in the same way upside is capped. Timely action by the CAA will secure private investment to maintain current levels of service and lower charges to consumers from H7.

STRATEGIC PRIORITIES

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

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

The following performance metrics were set for each of the four strategic priorities prior to the COVID-19 outbreak and provide a picture for the 12 months ended 31 December 2020. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators [1]	2019	2020
Colleague promotions	210	**129**
Managerial training	1,648	**348**
Lost time injuries	0.34	**0.14**

(1) For the year ended 31 December

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators [1]	2019	2020
ASQ	4.19	**4.24**
Experience as "excellent" or "very good" %	81.9	**---[2]**
Baggage connection %	99.0	**99.2**
Departure punctuality %	78.5	**85.7**
Security queuing %	96.3	**95.2**
Connections satisfaction	4.14	**---[2]**

(1) For the year ended 31 December except ASQ presented for the three months ended 31 December
(2) Passenger satisfaction and research have been temporarily suspended

BEAT THE PLAN

Passenger traffic

(Millions) [1]	2019	2020	Var % [2]
UK	4.8	1.5	(69.8)
Europe	33.2	9.8	(70.3)
North America	18.8	3.9	(79.5)
Asia Pacific	11.4	2.9	(74.5)
Middle East	7.8	2.5	(68.2)
Africa	3.5	1.1	(67.3)
Latin America	1.4	0.4	(68.8)
Total passengers	**80.9**	**22.1**	**(72.7)**

(1) For the 12 months ended 31 December
(2) Calculated using unrounded passenger figures

Other traffic performance indicators [1]	2019	2020	Var % [2]
Passenger ATM	473,233	177,285	(62.5)
Load factors (%)	80.0	57.7	(27.9)
Seats per ATM	213.7	216.2	1.2
Cargo tonnage ('000)	1,587	1,141	(28.1)

(1) For the 12 months ended 31 December
(2) Calculated using unrounded passenger figures

SUSTAINABLE GROWTH

COVID-19 has had a considerable impact on communities worldwide, including those local to Heathrow. Our local communities economic and employment needs have increased while the understanding of the strategic risk of climate change has continued to grow. These changes in context reinforce our commitment to sustainability. We want to capitalise on our successes and lessons over the last years since Heathrow 2.0 was launched so that sustainability remains at the heart of our business.

Heathrow 2.0 is our plan for sustainable operation and growth. It sets out how we will improve life for colleagues and communities, contribute to a thriving economy, and help to tackle global challenges including climate change. Our plan has four pillars through which we aim to deliver the big outcomes that reflect the material colleague, community and environmental issues for Heathrow: Great Place to Work, Great Place to Live, Thriving Sustainable Economy and a World Worth Travelling. We remain committed to taking action across these pillars to protect and support people, economy and environment. Heathrow 2.0 supports the ambitions set out in our Revised Business Plan and will help us meet the expectations of our stakeholders and retain our licence to operate, while reducing environmental and social risks to our business. We will share the detail of a revised and updated Heathrow 2.0 sustainability strategy later in 2021. During 2020 we have made some early adaptations to our plan.

We have created a Heathrow Local Recovery Plan together with local boroughs and stakeholders under the leadership of Lord David Blunkett. The Plan channels several ongoing activities to support local communities in the crisis, e.g. building on Heathrow's donation of laptops to local schools with a quality online / virtual work experience programme for young people in education. We have also continued supporting our local communities through the Heathrow Community Trust, an independently run grant-making charity. The Trust's grant programme funds projects that improve quality of life for communities near the airport. Although donations were reduced during 2020 to reflect the challenging environment we operated in, overall we gave £425,000 (2019: £725,000) and a further £10,900 (2019: £107,000) was leveraged from airline noise fines. In February 2021, for the first time, we were also able to donate £41,000 to the Trust after we outperformed ESG metrics built into our revolving credit facilities.

We have enhanced our diversity and inclusion strategy, underlining our commitment to creating a welcoming and inclusive workplace. Our goal is for Heathrow to reflect the diversity of the local community at every level by 2025. This is a challenging target, and we have significant work to do on some aspects if we are to meet it, but it is the right thing to do for our business and for our local communities.

Building upon our carbon-neutral status, achieved in January 2020, carbon has also explicitly become part of an executive director's portfolio - the Chief Carbon and Strategy Officer now leads a Carbon team, thus placing climate change at the centre of the company's strategic planning.

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

The two key steps we are advocating for in the UK are a fuel blending mandate to drive supply, and a restructuring of Air Passenger Duty ('APD') to cut the price of SAF for airlines who use it. These asks build on those of UK air industry coalition, Sustainable Aviation, which is also calling for loan guarantees from Government, matched by private investment, to open the first two to three UK's SAF production plants by 2025. Through the global "Clean Skies for Tomorrow Coalition" run by the World Economic Forum, we are advocating for a similar package of measures in the UK and globally and building support for ICAO to set a net-zero goal at its next Assembly in 2022.

Key regulatory developments

COVID-19 related RAB adjustment

In July 2020, Heathrow applied to the CAA for an adjustment to the Regulatory Asset Base (RAB) for an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. The adjustment is designed to secure the recovery of historic investment efficiently incurred as well as losses in return as per economic parameters used to set our allowed cost of capital. This proposal seeks the enforcement of the protection included in our settlement against unlimited downside triggered by exceptional circumstances. In October, the CAA published a consultation requesting further evidence that this action was required. In response to the CAA's consultation we set out the need for the urgent adjustment as prescribed in our license and how our proposed mechanism would ensure that Heathrow could continue to operate in the interests of users while smoothing the impact of this change on passengers over future years.

In February, the CAA published a further consultation, recognising the existence of exceptional circumstances as defined in our license and accepting that doing nothing was not an option as well as laying out its two preferred solutions. We have proposed a reasonable adjustment that allows the CAA to act now in order to lower future charges and maintain investment in the airport – protecting jobs and avoiding rapid degradation of service. The CAA must ultimately take a decision – but failure to act in the right way and in a timely manner will see confidence in effective regulation evaporate. This would not just affect Heathrow but will undermine the perception of investing in the UK and the Government's Global Britain agenda.

H7 and Regulatory timetable

The H7 period is due to start on 1 January 2022. In December we submitted our Revised Business Plan (RBP) to the CAA. This set out our plans for the H7 period following consultation with airlines and the publication of further policy views from the CAA through 2020. Our plan seeks to maximise passenger growth and minimise airport charges to support airlines in the recovery. The plan assumes our proposed RAB adjustment is fully implemented, which is a critical factor for our plan to be debt financeable and equity investable and also unlocks our capacity to use financial levers to keep prices as low as possible. Our RBP will form the basis of the CAA's decision making for the H7 period. Our RBP proposes a minimum five-year regulatory period from 2022-2026 as the basis of our H7 framework. We have proposed evolutions to the regulatory framework following the impact of COVID-19 to ensure that the framework is robust to future uncertainty and appropriately balances risk and reward in the H7 period and beyond. These evolutions include a proposed price control adjustment mechanism which automatically adjusts if revenues deviate from forecast by over 8% by making an adjustment to Heathrow's RAB. Additionally, we are proposing changes to ensure we can mitigate any unforeseeable future costs caused by the pandemic and changes in relevant Health and Safety legislation.

The CAA is continuing to consult on its proposals for the regulatory framework which will be in place for the H7 period. We are expecting further consultations from the CAA in early 2021 focusing on policy development in areas such as capital efficiency and the recovery of early expansion costs. We are expecting the CAA's Initial Proposals, which will provide its preliminary view on the price cap and conditions for the H7 period in Summer 2021.

Expansion developments

In February, the Court of Appeal suspended the ANPS. In October, we submitted an appeal to the Supreme Court and in December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. The verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK. We have already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right outcome for the country, which will allow Global Britain to become a reality and Heathrow remains committed to a long-term sustainable expansion and considers it a probable outcome based on experience to date. As passenger numbers recover, the immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, Government, airline customers and regulators on our next steps. These include the continued validation of the underlying business case (traffic demand and pricing proposition); ensuring a fair and stable economic regulatory framework; and the confirmation or a review of the ANPS by the Secretary of State for Transport.

With the support of the Government, the CAA and the airlines, Heathrow will be able to deliver an Expansion project that would benefit the airport's local communities as well as the whole of the UK, delivering tens of thousands of jobs and resulting in an unrivalled network of international connections that would help Global Britain succeed.

Brexit

In December, the UK and EU agreed a Comprehensive Trade Agreement (the 'Deal') that came into force on 1 January 2021. The Agreement outlines new rules for living, working and trading between the two parties.

Aviation was identified at early stages as a priority for both sides. The Agreement includes an aviation chapter, providing the rights for flights to continue between the EU and UK without disruption. All other air services between the UK and rest of the world countries have been rolled over or renegotiated, meaning that flights can continue to all markets with certainty. The aviation chapter also outlines ambitions for cooperation on future air traffic management, aviation security and consumer protection, while rules on airline ownership and control will be reviewed after 12 months.

From a border perspective, the UK's Border Operating Model (BOM) outlines a phased approach for cargo to limit immediate changes at the UK border, with full checks beginning from 1 July 2021. The UK Government also confirmed that EU citizens can continue to use electronic gates at immigration upon arrival into the UK. Heathrow is working closely with Government and industry to support Global Britain post-Brexit and ensure any longer-term disruption is minimised and adequately managed.

From a retail perspective and ahead of the end of the transition period, the Government announced changes to airside tax-free sales of all non-excise goods and the withdrawal of the VAT Refund scheme from January 2021. The existing tax-free status is a key purchase driver among passengers, particularly in high-spend categories such as luxury and technology. The VAT Refund scheme incentivises international residents to visit the UK and spend in the UK retail sector which benefits the wider economy and 'UK PLC'. It is also a material source of revenue subsidising passenger charges.

These changes will impact our pricing proposition materially and are therefore a significant and credible threat to our income of circa £200 million annually. Removing tax free shopping would lead to a c.15% increase in passenger charges from 2022, due to increased difficulty to remain price competitive versus foreign airports and destinations, as well as the knock-on impact of passengers using the VAT refund scheme at the airport. Heathrow, World Duty Free, and Global Blue, have launched a Judicial Review on the Government's decision for which a hearing took place in late February.

FINANCIAL REVIEW

Basis of presentation of financial results

Heathrow (SP) Limited ('Heathrow SP') is the holding company of a group of companies (the 'Group'), which includes Heathrow Airport Limited ('HAL') which owns and operates Heathrow airport, and Heathrow Express Operating Company Limited ('Hex Opco') which operates the Heathrow Express rail service. Heathrow SP's consolidated accounts are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial information presented within these financial statements has been prepared on a going concern basis. We have a strong liquidity position and do not forecast any covenant breach during 2021 under our current traffic scenario, while acknowledging that the impact of COVID-19 continues to create considerable uncertainty for the aviation industry. Under certain severe but plausible scenarios, the Group may need to take additional action within our control to mitigate against any debt default covenant breach. More detail can be found in the going concern statement on page 20.

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

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

Summary performance

In the year ended 31 December 2020, the Group's revenue declined by 61.7% to £1,175 million (2019: £3,070 million). Adjusted EBITDA declined 85.9% to £270 million (2019: £1,921 million). The Group recorded a £1,782 million loss after tax (2019: £413 million profit).

Year ended 31 December	2019 £m	2020 £m
Revenue	3,070	1,175
Adjusted operating costs(1)	(1,149)	(905)
Adjusted EBITDA(2)	1,921	**270**
Depreciation and amortisation	(771)	(812)
Adjusted operating profit/(loss)(3)	1,150	**(542)**
Net finance costs before certain re-measurements and exceptional items	(775)	(672)
Adjusted profit/(loss) before tax(4)	375	**(1,214)**
Tax (charge)/credit on profit before certain re-measurements and exceptional items	(104)	211
Adjusted profit/(loss) after tax(4)	271	**(1,003)**
Including certain re-measurements and exceptional items		
Fair value gain/(loss) on investment properties	43	(412)
Fair value gain/(loss) on financial instruments	128	(202)
Exceptional items	-	(184)
Tax (charge)/credit on certain re-measurements and exceptional items	(29)	16
Profit/(loss) after tax	413	**(1,785)**

(1) Adjusted operating costs excludes depreciation amortisation and fair value adjustments on investment properties and exceptional items which are explained further in note 3
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties and exceptional items.
(3) Adjusted operating profit/(loss) excludes fair value adjustments on investment properties and exceptional items.
(4) Adjusted profit before and after tax excludes fair value adjustments on investment properties and financial instruments, exceptional items and the associated tax impact of these including the impact of the UK corporation tax change.

Revenue

At the year ended 31 December 2020, revenue declined 61.7% to £1,175 million (2019: £3,070 million). Revenue declined by 70.8% during the fourth quarter in isolation compared to the same period last year.

Year ended 31 December	2019 £m	2020 £m	Var. %
Aeronautical	1,831	647	(64.7)
Retail	722	234	(67.6)
Other	517	294	(43.1)

Total revenue	**3,070**	**1,175**	**(61.7)**

Aeronautical revenue declined by 64.7%. Aeronautical revenue per passenger increased 29.2% to £29.26 (2019: £22.64). The decline in aeronautical revenue is predominantly due to reduced passenger numbers. The average revenue per passenger is largely distorted by the reduced traffic number and an increase in cargo movements which are charged on a per movement basis.

Year ended 31 December	2019 £m	2020 £m	Var. %
Retail concessions	342	97	(71.6)
Catering	64	19	(70.3)
Other retail	113	43	(61.9)
Car parking	125	40	(68.0)
Other services	78	35	(55.1)
Total retail revenue	**722**	**234**	**(67.6)**

Retail revenue declined by 67.6% driven by reduced passenger numbers and mix of retail service available. Retail revenue per passenger increased 18.6% to £10.58 (2019: £8.93). Retail income per passenger is largely distorted due to the reduced passenger numbers.

Year ended 31 December	2019 £m	2020 £m	Var. %
Other regulated charges	244	118	(51.6)
Heathrow Express	117	26	(77.8)
Property and other	156	150	(3.8)
Total other revenue	**517**	**294**	**(43.1)**

Other revenue decreased by 43.1%. Other regulated charges declined 51.6% predominantly because of fewer passengers and aircraft movements impacting the ability to recover running costs in the year. Heathrow Express saw a 77.8% decline in revenue due to fewer passengers. Property and other revenue decreased 3.8% showing relative resilience due to targeted rental alleviation from consolidated operations being spread forward over the residual life of the contracts.

Adjusted operating costs

Adjusted operating costs decreased 21.2% to £905 million (2019: £1,149 million). Operating costs were down 30.4% during the fourth quarter in isolation compared to the same period last year. In response to COVID-19, Heathrow's management implemented a cost reduction programme which delivered £303 million of net savings compared to the budget published in our December 2019 investor report. Furthermore, taking account of the provision for expected credit loss on debtors of £12 million and expansion related people costs of £79 million that were previously capitalised, gross savings amounted to £394 million. Adjusted operating costs per passenger increased by 188.1% to £40.93 (2019: £14.21).

Year ended 31 December	2019 £m	2020 £m	Var. %
Employment	378	282	(25.4)
Operational	279	224	(19.7)
Maintenance	173	140	(19.1)
Rates	117	116	(0.9)
Utilities and Other	202	143	(29.2)
Adjusted operating costs	**1,149**	**905**	**(21.2)**

The management initiatives driving a total of £303 million in net savings or £394 million in gross savings, were largely implemented across April and May, with a second wave of initiatives launched in October in response to the lower traffic outlook in 2020 and 2021. They included a company-wide pay reduction, restructuring of the organisation, operating on a smaller footprint, renegotiating our suppliers' contracts and stopping all non-essential costs. We also used the Government's furlough scheme which reduced our people costs by circa £36 million. These cost saving initiatives were partially offset by increased business resilience costs and a provision for expected credit loss on debtors mentioned above. Governmental business rates represent 13% of our cost base and are the single cost we have been unable to meaningfully reduce despite 73% decrease in traffic and associated trade. Operating costs per passenger are largely distorted due to the reduced passenger numbers and the fixed nature of our cost base in the medium term.

Operating profit / (loss) and Adjusted EBITDA

At the year ended 31 December 2020, the Group recorded an operating loss of £1,138 million (2019: operating profit of £1,193 million). In addition to lower revenue, the loss was driven by a reduction in the non-cash fair value of our investment properties of £412 million and exceptional items of £184 million.

Adjusted EBITDA decreased 85.9% to £270 million (2019: £1,921 million), resulting in an Adjusted EBITDA margin of 23% (2019: 62.6%).

Year ended 31 December	2019 £m	2020 £m
Operating profit/ (loss)	**1,193**	**(1,138)**
Depreciation and amortisation	771	812
EBITDA	**1,964**	**(326)**
Exceptional items[(1)]	-	184
Excl. Fair value (gain)/loss on investment properties	(43)	412
Adjusted EBITDA	**1,921**	**270**

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

Exceptional items

At the year ended 31 December 2020, there was an exceptional charge of £184 million (2019: nil) to the income statement.

Year ended 31 December	2019 £m	2020 £m
Business transformation	-	92
Asset impairment and write-off	-	92
Exceptional pre-tax charge	**-**	**184**

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has undergone a business transformation in order to simplify operations and reduce costs. Following this review the Group incurred £92 million of exceptional charges, consisting of £142m of people-related costs, principally redundancy, partially offset by a net £50m credit associated with corresponding pension settlements and curtailments.

£13 million relating to the business transformation programme is included within provisions at 31 December 2020 and is expected to be settled within the next financial year.

In addition, the Group has recognised a non-cash impairment and write-off charge of £92m on assets in the course of construction. While the vast majority of expansion assets remain on the balance sheet at year-end, a number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, £82m of costs incurred to date on these projects have been impaired. In addition, £10m of costs which relates to forecast re-work, which will be required as a result of the estimated delay to the Expansion to the programme, have been impaired.

Loss after tax

At the year ended 31 December 2020, the Group recorded a loss before tax of £2,012 million (2019: £546 million profit) and a loss after tax of £1,785 million (2019: £413 million profit).

Year ended 31 December	2019 £m	2020 £m
Operating profit / (loss)	**1,193**	**(1,138)**
Net finance costs before certain remeasurements	(775)	(672)
Fair value gain/(loss) on financial instruments	128	(202)
Profit / (loss) before tax	**546**	**(2,012)**
Taxation (charge) / credit	(133)	227
Loss after tax	**413**	**(1,785)**

Net finance costs before certain re-measurements were £672 million (2019: £775 million) due to RPI growth rate for the 12-months to Dec 2020 falling to 1.5%, down from 3.0% in the same prior period.

Fair value losses on financial instruments increased to £202 million (2019: £128 million gain) as a result of a decrease in interest rate expectations due to the global economic crisis which observed an average 60 bps downward shift of the 6-month LIBOR curve.

Taxation

The tax credit for the 12-month period ended 31 December 2020, before certain re-measurements and exceptional items, was £211 million (2019: £104 million charge), at 17.4% (12 months ended 31 December 2019: 27.7%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the 12-month period, before certain re-measurements and exceptional items. The effective tax rate being lower (2019: higher) than the statutory rate of 19% (2019: 19%) is primarily due to non-deductible expenses reducing the tax credit for the year (2019: non-deductible expenses increasing the tax charge for the year). The total tax credit for the 12-month period ended 31 December 2020 is £227 million (12 months ended 31 December 2019: £133 million charge), representing the sum of the tax credit on losses before certain re-measurements and the tax charge on certain re-measurements and exceptional items. For the period, the Group received a repayment of £67 million in corporation tax (12 months ended 31 December 2019: paid £98 million).

Cash position

In the 12 months ended 31 December 2020, there was a decrease of £535 million in cash and cash equivalents compared with an increase of £224 million in the 12 months ended 31 December 2019.

At 31 December 2020, the Heathrow SP Group had £3,516 million (31 December 2019: £1,540 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £280 million (31 December 2019: £815 million).

This strong cash position was notably enhanced by the capital injection secured in the last quarter of 2020 of which £600 million were pushed into the Group. Considering the deteriorating traffic outlook, we opted to use the proceeds of this capital injection into the Group to optimise our working capital and to provide further headroom to our financial covenants in 2021. As a result, £282 million of operating costs due in 2021 were prepaid in December 2020. In addition, a proportion of our swap portfolio was restructured resulting in circa £100 million in interest being prepaid ahead of 2021.

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

Cash generated from / (used in) operations

In the 12 months ended 31 December 2020, cash generated from operations decreased to negative £95 million (2019: £1,942 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2019 £m	2020 £m
Cash generated from/(used in) operations	**1,942**	**(95)**
Exclude:		
Increase/(decrease) in receivables[(1)]	(57)	239
Increase in inventories	-	1
Decrease in trade and other payables	7	(56)
Decrease in provisions	7	5
Difference between pension charge and cash contributions	22	51
Cash payments in respect of exceptional items	-	125
Adjusted EBITDA	**1,921**	**270**

(1) Includes movement in Group deposits

Capital expenditure

Total capital expenditure in 2020 was £422 million (2019: £856 million) excluding capital creditors movements or £521 million (2019: £856 million) including capital creditors movements.

We invested £354 million (2019: £620 million) in a variety of programmes to ensure the safety and resilience of the airport. We also invested £68 million in the period (2019: £236 million) on plans to expand the airport mostly before the Court of Appeal's judgement was announced.

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

Expansion-related capital expenditure included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £381 million in Category B costs and £127 million in Category C costs, a total of £508 million (before capitalised interest and after £10m of re-work impairment) is carried in our balance sheet as assets in the course of construction.

Restricted payments

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

In the 12 months ended 31 December 2020, total restricted payments amounted to £573 million (net) received by Heathrow SP or £107 million (gross) paid excluding cash pushed down from Heathrow Finance paid by Heathrow SP

Net restricted payments included:

a) £107 million (2019: £478 million) payment made by Heathrow SP to Heathrow Finance to primarily fund the £100 million (2019: £500 million) dividends paid to ultimate shareholders. This payment was made in February 2020 reflecting the cumulative outperformance from previous years and before the significant impacts of COVID-19 on our industry were clear or anticipated,
b) a net cash inflow of £680 million from Heathrow Finance to Heathrow SP, largely driven by the capital injection secured in October 2020 (2019: net cash outflow of £321 million from Heathrow SP to Heathrow Finance).

No further restricted payments were made out of the Group as a result of the trigger event that occurred in relation to the forecast ICR for Class A and Class B debt for the year ending 31 December 2020 and was reported in June 2020. The trigger event also resulted in £107 million of interests being capitalised on the Heathrow SP debenture and leading to an amount of £787 million owed to Heathrow Finance.

The trigger event means that cash is trapped within the Group and cannot be distributed to Heathrow Finance to service debt, nor to pay dividends to ultimate shareholders. Heathrow Finance itself has liquidity of £375 million, which can cover circa 4 years of debt service and prior to any debt maturity in 2024.

RECENT FINANCING ACTIVITY

Despite a much more challenging market backdrop given the COVID-19 pandemic, continued confidence and support for our credit enabled us to raise £2.5 billion debt in 2020 across the capital structure in bond and loan format.

A total of £1.7 billion was raised by the Group alone, £50 million was raised at Heathrow Finance and a £750 million capital injection was secured via ADI Finance 2. A further £2.1 billion of debt signed prior to 2020 was drawn down during the first half of the year.

These actions ensured we maintained a robust liquidity position throughout the year and provided additional duration and diversification to our £15 billion debt portfolio.

Class A financing activities included:

- the drawdown of £800 million in revolving credit facility and £100 million in working capital facility;
- a new £80 million term note maturing in 2040;
- a new €750m public bond maturing in 2025;
- a new £450m public bond maturing in 2029;
- a new C$500m public bond maturing in 2031; and
- the scheduled repayments of £4m on the EIB loan.

Class B financing activities included:

- the drawdown of £250m in revolving credit facilities;
- the drawdown of £381m in private placements;
- the drawdown of a £75m term note maturing in 2035;
- a new £182m index-linked private placement maturing in 2032; and
- the scheduled repayment of a £400m public bond in March.

Financing activities at Heathrow Finance included:

- the drawdown of £485m in term loans with maturities ranging between 2026 and 2029;
- a new £50m term loan with a maturity in 2029;
- the cancellation of £22.5m of undrawn debt; and
- the prepayment of a £150m term loan.

In addition, we restored the ADI Finance 2 Limited level of our capital structure with a £750 million facility signed with private international lenders. The net proceeds were injected into the Heathrow Finance Group, of which £600 million was pushed into the Heathrow SP Group.

Lastly, we reprofiled £5.6 billion of existing interest rate and inflation swaps and completed £4.9 billion of new interest rate swap transactions which will help to reduce interest payments over the next few years. The net impact of these transactions saw a prepayment in 2020 of circa £100 million and a reduction in interest paid in 2021 of circa £308 million.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 December 2020, Heathrow SP's consolidated nominal net debt was £13,131 million (31 December 2019: £12,412 million). It comprised £13,755 million in bond issues, £1,606 million in other term debt, £133 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities post transition to IFRS 16. This was offset by £3,516 million in cash and cash equivalents and term deposits.

Nominal net debt comprised £11,280 million in senior net debt and £1,851 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 December 2020 was 0.87% (31 December 2019: 3.41%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 31 December 2020 was 1.48% (31 December 2019: 4.75%). The reduction in the average cost of debt since the end of 2019 is mainly due to the reprofiling of our swap portfolio during 2020 to reduce interest as traffic recovers as well as recent financing activities at a lower cost. Excluding the impact of our swap portfolio reprofiling, Heathrow SP's average cost of debt at 31 December 2020 was 2.67% excluding index-linked accretion and 3.27% including index-linked accretion.

The average life of Heathrow SP's gross debt as at 31 December 2020 was 10.3 years (31 December 2019: 11.5 years).

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

The accounting value of Heathrow SP's net debt was £13,886 million at 31 December 2020 (31 December 2019: £12,684 million). This includes £3,516 million of cash and cash equivalents and term deposits, and £392 million lease liabilities as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs until at least April 2022 under the extreme stress-test scenario of no revenue, or well into 2023 under our current traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £3,891 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 31 December 2020.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,120 million (31 December 2019: £14,361 million). This comprised Heathrow SP's £13,131 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £375 million.

Financial ratios

At 31 December 2020, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios and interest coverage ratios are defined within the Glossary.

At 31 December 2020, Heathrow's RAB was £16,492 million (31 December 2019: £16,598 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 68.4% and 79.6% respectively (31 December 2019: 66.6% and 74.8% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 91.7% (31 December 2019: 86.5%) with a covenant of 95% following the waiver secured last July.

In the year ended 31 December 2020, the Group's senior and junior interest cover ratios were -0.50x and -0.43x respectively (2019: 3.74x and 3.15x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was -0.36x (2019: 2.71x) compared to a covenant level of 1.00x under its financing agreements.

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

In July, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2020 and to amend the Regulatory Asset Ratio covenant from 92.5% to 95.0% and 93.5% for the financial year ending on 31 December 2020 and 31 December 2021 respectively. Further details are available in our summary of additional disclosures in appendix 1.

Under our current traffic scenario, we do not forecast any covenant breach in 2021. As part of our going concern assessment, we have also considered a severe but plausible downside scenario whereby traffic reduced to 27 million passengers. In this downside scenario, we concluded that sufficient mitigations would be within management control to avoid any covenant breach. Plausible scenarios below this 'severe but plausible' downside could cause Heathrow Finance to breach minimum levels required for covenant compliance. In this instance, management would need to undertake additional actions, which could include seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group's ability to continue as a going concern. This analysis is discussed in more details in our going concern disclosure.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2020, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.3% (31 December 2019: 100.8%). This translated into a surplus of £12 million (31 December 2019: £33 million surplus). The £21 million decrease in the surplus in the 12 months is largely due to actuarial losses of £125 million, attributable to a decrease in the net discount rate of 0.8% offset by contributions in excess of current service cost of £55 million. In the year ended 31 December 2020, we contributed £78 million (2019: £49 million) into the defined benefit pension scheme including £20 million (2019: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

Following a reorganisation of the business that took place on 17 March 2020, Stuart Birrell resigned as Heathrow's Chief Information Officer and as a director of Heathrow Airport Limited and LHR Airports Limited. Emma Gilthorpe's role changed from Expansion Director to Chief Operating Officer, Andrew MacMillan's role changed from Chief Strategy Officer to Chief Carbon & Strategy Officer and Chris Garton's role changed from Chief Operating Officer to Executive Director, Solutions.

OUTLOOK

The outlook for our adjusted EBITDA performance in 2021 remains consistent with the revised guidance published in our December Investor Report on 18 December 2020.

We forecast 37.1 million passengers travelling through Heathrow in 2021 or a 54% reduction compared to 2019. Our forecast assumes no further recovery during the first quarter and around two thirds of the annual volume forecast materialising during the second half of year.

Given the more gradual recovery envisaged, further steps to reduce our costs were taken in October. Terminal 4 will remain non-operational throughout 2021 while the ramp up of Terminal 3 will remain contingent on traffic recovery. In the absence of meaningful Government support, we reduced our people costs further including additional reductions in our management roles and removal of all legacy allowances.

Taking into account the mitigations put in place throughout 2020, we do not forecast any covenant breach during 2021 under our current traffic scenario. Given the degree of uncertainty around traffic recovery, we have also considered a severe but plausible downside scenario whereby traffic reduced to 27 million passengers in 2021. In this scenario, we concluded that sufficient mitigations would remain within management control to avoid any covenant breach. However, the impact of COVID-19 continues to create considerable uncertainty for the aviation industry and the fact that, under other severe but plausible downside scenarios, the Group may need to take additional action indicates the existence of a material uncertainty.

SUMMARY OF ADDITIONAL DISCLOSURES

Heathrow Finance consent solicitation – As a result of the significant reduction in passenger demand, and temporary reduction in revenue that arises as a result of COVID-19, Heathrow Finance launched a consent solicitation process to avoid potential breach of the HFP Group Covenants in respect of the Financial Year ending 31 December 2020 when tested in June 2021 and Group RAR covenant for the Financial Year ending 31 December 2021 (being the end of the current Regulatory Period) when it falls to be tested in June 2022. The consent process was successfully completed in July 2020.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/consent-solicitation-heathrow-finance-plc/14579814 and here https://www.londonstockexchange.com/news-article/market-news/heathrow-finance-plc-consent-solicitation-result/14608131

Heathrow Finance's credit rating update – Credit rating agency Moody's downgraded Heathrow Finance plc's debt rating to B1 from Ba3 and maintained its negative outlook. The one notch downgrade reflects the slower than expected recovery in passenger demand due to travel restrictions and quarantine measures. Whilst Moody's recognised Heathrow's management actions to protect the financial resilience of the airport, the agency expects key credit metrics to remain under pressure for longer than initially anticipated.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/heathrow-finance-credit-rating-update/14753972

Heathrow Funding Ltd credit ratings update – Following a single notch downgrade in March 2020, credit rating agency Standards & Poor's maintains Heathrow Funding Limited's Class A and B debt rating, extending its CreditWatch with negative implications. The agency expects COVID-19 will have a more severe impact than anticipated with traffic volume deteriorating further in 2020 and 2021 as a direct consequence of UK's Government policy on quarantines. In their assessment, Standard & Poor's also places important weight to the upcoming regulatory reset starting on 1 January 2022. Class A and B investment grade credit ratings are unchanged since March at BBB+ and BBB- respectively.

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

Heathrow Finance plc announces interest step-up – The Issuer announces an Interest Step-Up Trigger Date occurred on 11 November 2020.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/heathrow-finance-plc-interest-rate-step-up/14768939

Heathrow
Making every journey better

Condensed consolidated income statement for the year ended 31 December 2020

		Year ended 31 December 2020				Year ended 31 December 2019		
		Before certain re-measurements and exceptional items [1]	**Certain re-measurements [2]**	**Exceptional items [3]**	**Total**	Before certain re-measurements and exceptional items [1]	Certain re-measurements [2]	Total
	Note	**£m**	**£m**	**£m**	**£m**	£m	£m	£m
Continuing operations								
Revenue	*1*	1,175	-	-	1,175	3,070	-	3,070
Operating costs [4]	*2*	(1,717)	-	(184)	(1,901)	(1,920)	-	(1,920)
Other operating items:								
Fair value (loss)/gain on investment properties	*7*	-	(412)	-	(412)	-	43	43
Operating (loss)/profit		**(542)**	**(412)**	**(184)**	**(1,138)**	1,150	43	1,193
Financing								
Finance income		12	-	-	12	9	-	9
Finance cost		(684)	(202)	-	(886)	(784)	128	(656)
Net finance cost	*4*	**(672)**	**(202)**	**-**	**(874)**	(775)	128	(647)
(Loss)/profit before tax		**(1,214)**	**(614)**	**(184)**	**(2,012)**	375	171	546
Taxation credit/(charge)		211	110	18	339	(104)	(29)	(133)
Change in tax rate		-	(112)	-	(112)	-	-	-
Taxation credit/(charge)	*5*	**211**	**(2)**	**18**	**227**	(104)	(29)	(133)
(Loss)/profit for the period [5]		**(1,003)**	**(616)**	**(166)**	**(1,785)**	271	142	413

(1) Amounts stated before certain remeasurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
(3) Exceptional items are one-off material costs that have been incurred as a result of management decisions made in response to COVID-19 and the delay to Expansion following the Judicial Review. Further details can be found in note 3.
(4) Included within Operating costs is a £12 million (2019: £1 million) charge for the impairment of trade receivables.
(5) Attributable to owners of the parent.

Making every journey better

Condensed consolidated statement of comprehensive income for the year ended 31 December 2020

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit for the period	(1,785)	413
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions net of tax:		
Gain on plan assets[1)]	389	498
Increase in scheme liabilities[1]	(492)	(509)
Change in tax rate	(1)	-
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains/(losses) taken to equity[1]	(43)	(3)
Transfer to finance cost[1]	53	32
Change in tax rate	4	-
Change in tax rate on other opening balances	(1)	
Other comprehensive (expense)/income for the period net of tax	(91)	18
Total comprehensive (expense)/income for the period[2]	(1,876)	431

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

Condensed consolidated statement of financial position as at 31 December 2020

	Note	as at 31 December 2020 £m	as at 31 December 2019 £m
Assets			
Non-current assets			
Property, plant and equipment	*6*	11,136	11,561
Right of use asset		285	276
Investment properties	*7*	2,118	2,522
Intangible assets		182	176
Retirement benefit surplus	*10*	12	33
Derivative financial instruments	*9*	656	539
Trade and other receivables		20	18
		14,409	15,125
Current assets			
Inventories		14	13
Trade and other receivables		496	247
Current income tax assets		1	-
Derivative financial instruments	*9*	146	-
Term deposits		3,236	725
Cash and cash equivalents		280	815
		4,173	**1,800**
Total assets		**18,582**	**16,925**
Liabilities			
Non-current liabilities			
Borrowings	*8*	(18,635)	(15,948)
Derivative financial instruments	*9*	(1,134)	(1,227)
Lease liabilities		(349)	(346)
Deferred income tax liabilities		(784)	(934)
Retirement benefit obligations	*10*	(31)	(29)
Provisions		(1)	(1)
Trade and other payables		(6)	(5)
		(20,940)	(18,490)
Current liabilities			
Borrowings	*8*	(1,928)	(647)
Derivative financial instruments	*9*	(21)	(55)
Lease liabilities		(43)	(38)
Provisions		(15)	(8)
Current income tax liabilities		-	(31)
Trade and other payables		(392)	(430)
		(2,399)	**(1,209)**
Total liabilities		**(23,339)**	**(19,699)**
Net liabilities		**(4,757)**	**(2,774)**
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(173)	(187)
(Accumulated losses)/retained earnings		(1,336)	661
Total shareholder's equity		**(4,757)**	**(2,774)**

Condensed consolidated statement of changes in equity for the year ended 31 December 2020

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
1 January 2019 (previously reported)	11	499	(3,758)	(216)	828	(2,636)
Adjustment in respect of:						
Transition to IFRS 16	-	-	-	-	(89)	(89)
1 January 2019 (re-stated)	**11**	**499**	**(3,758)**	**(216)**	**739**	**(2,725)**
Comprehensive income:						
Profit for the period	-	-	-	-	413	413
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	29	-	29
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	498	498
Increase in scheme liabilities	-	-	-	-	(509)	(509)
Total comprehensive income	**-**	**-**	**-**	**29**	**402**	**431**
Transaction with owners						
Dividends paid to Heathrow Finance plc	-	-	-	-	(480)	(480)
Total transaction with owners	**-**	**-**	**-**	**-**	**(480)**	**(480)**
31 December 2019	**11**	**499**	**(3,758)**	**(187)**	**661**	**(2,774)**
Comprehensive income:						
Loss for the period	-	-	-	-	(1,785)	(1,785)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	10	-	10
Change in tax rate	-	-	-	4	-	4
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	389	389
Increase in scheme liabilities	-	-	-	-	(492)	(492)
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(1)	(1)
Total comprehensive income/(expense)	**-**	**-**	**-**	**14**	**(1,890)**	**(1,876)**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(107)	(107)
Total transaction with owners	**-**	**-**	**-**	**-**	**(107)**	**(107)**
31 December 2020	**11**	**499**	**(3,758)**	**(173)**	**(1,336)**	**(4,757)**

Condensed consolidated statement of cash flows for the year ended 31 December 2020

	Note	**Year ended 31 December 2020 £m**	Year ended 31 December 2019 £m
Cash flows from operating activities			
Cash (used in)/generated from operations[1]	11	(95)	1,942
Taxation:			
Corporation tax received/(paid)		67	(98)
Group relief received		2	-
Net cash (used in)/generated from operating activities		**(26)**	1,844
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(512)	(849)
Investment properties		(9)	(7)
Increase in term deposits[2]		(2,511)	(605)
Interest received		12	7
Net cash used in investing activities		**(3,020)**	(1,454)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		(107)	(480)
Proceeds from issuance of bonds		1,977	857
Repayment of bonds		(402)	(251)
Repayment of facilities and other financing items		(12)	(21)
Increase in amount owed to Heathrow Finance plc		787	321
Prepayment of interest on swaps[3]		(30)	-
Inflation swap restructuring prepaid[3]		(47)	-
Interest paid[4]		(628)	(597)
Issuance of term notes		255	340
Drawdown of revolving credit facilities		1,050	-
Settlement of accretion on index-linked swaps		(285)	(295)
Payment of lease liabilities		(36)	(33)
Prepayment of lease liabilities[1]		(11)	-
Consent fee payment[5]		-	(7)
Net cash generated from/(used in) financing activities		**2,511**	(166)
Net (decrease)/increase in cash and cash equivalents		**(535)**	**224**
Cash and cash equivalents at beginning of period		815	591
Cash and cash equivalents at end of period		**280**	815

(1) Within cash generated from operations, the increase in trade and other receivables includes £247 million relating to prepayments made to suppliers at 31 December 2020. The total includes a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. A further £11 million of prepayments in relation to IFRS 16 lease liabilities are included within cash flows from financing activities. These prepayments were made in order to manage banking covenant ratios.

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

(3) The Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate swap transactions which will help to reduce interest payments over the next few years, resulting in prepayment of interest in 2020

(4) Included within interest paid is £16 million of lease interest paid (2019: £17 million which was previously included in payment of lease liabilities) and £23 million of interest prepayments (2019: nil) as part of the Group's swap profiling programme.

(5) Payment in relation to investor's consent regarding IFRS 16 and lease liabilities.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

General information

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

Primary financial statements format

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

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

Accounting policies

Basis of preparation and new accounting standards, interpretations and amendments

The Group's financial statements comply in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and are prepared under the historic cost convention, except for investment properties, financial assets, derivative financial instruments and financial liabilities that qualify as hedged items under fair value hedge accounting. These exceptions to the historic 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 financial statements for the twelve-month period ended 31 December 2020 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2019 with the exception of the additional accounting policies and significant accounting judgements and estimates which have been detailed below.

Going concern

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

The wider Heathrow group can raise finance through both Heathrow SP and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the Directors have considered the wider Heathrow group when assessing going concern. In assessing the going concern position the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months from the date of this report and the corresponding impact on the covenants associated with financing arrangements. The Directors have also considered the period beyond 12 months to June 2022. Rapid deterioration in traffic and cash flows have put covenants at Heathrow Finance under strain. As a result, Heathrow Finance was likely to breach its RAR and ICR covenant tests in relation to the financial year ending 31 December 2020. However, management agreed a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which has resulted in no breaches to occur for this period. Details on the covenants have been included in Note 18 of the Heathrow (SP) Limited Annual Report and Accounts for the year ended 31 December 2020.

Despite a much more challenging market backdrop given the COVID-19 pandemic, continued confidence and support for our credit enabled the wider Heathrow group to raise £2.5 billion of debt in 2020 across the capital structure in bond and loan format. A total of £1.7 billion was raised by Heathrow SP alone, £50 million was raised at Heathrow Finance and a £750 million capital injection was secured via ADI Finance 2. A further £2.1 billion of debt signed prior to 2020 was drawn down during the first half of the year. Consequently, Heathrow SP held cash of £3.5 billion as at 31 December 2020. Total debt maturity within Heathrow SP for the next 12 months is £1.5 billion. The wider Heathrow group has cash and committed facilities of circa. £3.9 billion available. No debt matures outside of Heathrow SP for the 12 months from the date of this report.

Taking this into account, Heathrow SP has sufficient liquidity to meet all its forecast cashflow needs until at least April 2022 even under the extreme scenario of no revenue, or well into 2023 under the base case cashflow forecast. This includes forecast operational costs, capital investment, debt service costs, debt maturities and repayments.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

Modelling the impact of COVID-19

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

- forecast revenue and operating cash flows from the underlying operations,

- forecast level of capital expenditure, and

- the overall group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

In our assessment we have included the impacts of several important actions implemented in 2020 to reduce operating expenditure including temporarily consolidating our operation in fewer terminals, cancelling executive pay for a period, a company-wide pay reduction and bonus cancellation, freezing recruitment, removing all non-essential costs and adjusting our capital expenditure.

In modelling the impact of COVID-19, there is a significant degree of uncertainty given the evolving current environment and the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. This element of our forecasting is therefore inherently subjective. As reported in the December 2020 Investor Report, the group's financial modelling under the base case scenario assumes passenger traffic for 2021 will decline 54% compared to 2019 to 37.1m passengers (an increase of 40% from 22.1m in 2020). As a result, group EBITDA in 2021 are also expected to reduce from £1,330m to £493m compared to £1,921 million.

To build the base case forecast of 37.1m passengers in 2021 we assumed the implementation of a testing regime and a large-scale vaccine roll out during 2021 to drive the traffic increase compared to 2020. We then defined the stages of recovery, with key drivers being COVID-19 control, implementation of testing and then roll-out of a vaccine. The level of demand at each stage of recovery is overlayed using data on actual passenger numbers.

This is done at a granular level splitting into geographical markets and purpose of travel. Thereon, a timeline for moving between stages using latest information on testing and vaccine roll out and adjusting this for each of the geographical regions was taken into account. This approach is calibrated against information from airlines on planned schedules.

Stress testing

For the purpose of assessing going concern, management has stress tested this base case with a number of downturn scenarios in which the timing of the implementation of the testing regime, the rollout of vaccination programmes and the transition through the stages of recovery is elongated. This is reflected in further decreases in passenger numbers and a resulting drop in EBITDA and operating cashflow. Individually these potential risks are unlikely to require significant additional management actions to support the business. The combination of some or all of these potential risks, or if the impact of the pandemic is significantly more prolonged or severe than modelled by management, will result in management action being required to mitigate covenant breaches.

One such scenario represents a 'severe but plausible' downside for the period beyond 12 months to June 2022 which models 27m passengers in 2021 and a 47% fall in EBITDA in 2021 compared to the base case, arising from further COVID-19 related disruption. The Directors, however, have a reasonable expectation that in this particular scenario there are operational and financial mitigations within the control of the group to mitigate against any debt default covenant breach at December 2021.

Due to the extreme level of uncertainty created by the global COVID-19 pandemic, the Directors have considered other plausible scenarios that could result in further reductions in passenger numbers arising from travel restrictions and reduced customer confidence in travel. Plausible scenarios below the 'severe but plausible' downside described above could cause the group to breach minimum levels required for covenant compliance. In this instance, management would need to undertake additional actions, including seeking a further covenant waiver or amendment from Heathrow Finance creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the group and the company's ability to continue as a going concern.

Conclusion

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

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

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

The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

Accounting policies in addition to those included in the consolidated financial statements for the year ended 31 December 2019

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2019 with the exception of the additional accounting policies noted below.

Government grants

Government grants are recognised where it is probable that the grant will be received, and all the attached conditions have been complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. The Group has chosen to present grants related to an expense item as net deductions against the related expense.

Exceptional items

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

Significant accounting judgements and changes in 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 judgments in applying the Group's accounting policies

In preparing the twelve-month condensed consolidated 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 2020, except for the following critical judgements:

Going concern

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

Exceptional items

The Group has separately presented certain material one-off items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Group's result between periods. Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results. In the current year business transformation costs and asset impairment and write-off charges, as a consequence of management decisions made in response to the COVID-19 virus and the delay to expansion (following the announcement by the Court of Appeal regarding the Judicial Review into expansion), have been disclosed as exceptional items. Further details are disclosed in the accounting policy above and in note 3.

Presentation of prepayments in the cash flow statement

Heathrow may from time to time at major reporting dates prepay in advance of the operating expense falling due to its suppliers', payments which are subsequently lodged into an escrow account to improve the cashflow bank covenant ratio. In accordance, with IAS 7, cash and cash equivalent balances have been shown in accordance with the definition and thus do not include these prepayments held in escrow, as these are amounts that are no longer available to the group, as disclosed in Note 28 of the financial statements. Within the cashflow statement, these prepayments are presented as operating cashflows, which form part of the current, trade and other receivables balance.

Expansion assets

Assets in the course of construction for the expansion of Heathrow had a net book value of £508m as at 31 December 2020. IAS 16 Property, Plant & Equipment requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. Management have considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement) and the potential impact of COVID-19 and the impact of climate change on long term passenger demand and have concluded that expansion remains probable. In October, Heathrow submitted an appeal to the Supreme Court and, in December, the Supreme Court unanimously ruled the ANPS as lawful and legal Government policy. The verdict confirmed the Government had taken into account the Paris Climate Change Agreement as part of the policy, and that this would be considered as part of the robust planning processes in the UK. Heathrow has already committed to net zero and this ruling recognises the robust planning process that will require us to prove expansion is compliant with the UK's climate change obligations, including the Paris Climate Agreement, before construction can begin. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology. This is the right outcome for the country, which will allow Global Britain to become a reality and Heathrow remains committed to a long-term sustainable expansion and considers it a probable outcome based on experience to date. As passenger numbers recover, the immediate focus will be to continue to ensure their safety and to maintain our service levels while we consult with investors, government, airline customers and regulators on our next steps. These include the continued validation of the underlying business case (traffic demand and pricing proposition); ensuring a fair and stable economic regulatory framework; and the confirmation or a review of the ANPS by the Secretary of State for Transport. Expansion remains consistent with the commitments we are making around climate change as detailed in the TCFD section.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

Key sources of estimation uncertainty

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

Investment properties

In applying IAS 40 investment properties have been estimated to be worth £2,118m as at 31 December 2020. To assist in assessing the valuation of our investment properties Heathrow engages a professional valuation firm, CBRE Limited, Chartered Surveyors, that is regulated by the Royal Institution of Chartered Surveyors (RICS). Its report comments that the outbreak of COVID-19, has impacted global financial markets and resulted in travel restrictions having been implemented in many countries. Market activity, that provides the empirical data for the valuation expert to have an adequate level of certainty in the valuation, is as a result being impacted for our sector for specific properties. As at the valuation date, the valuation expert considered that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

Their valuation is therefore reported as being on the basis of 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty, and a higher degree of caution, should be attached to the investment property valuation than would normally be the case.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included in order to be clear and transparent of the fact that, in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

Management have reviewed the main assumptions underlying the valuation of Investment properties and provide sensitivity analysis based on reasonable possible changes to relevant assumptions. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying amounts of investment properties within the next financial year have been assessed as those related to Car Parks.

Car parks are valued individually based on actual data on revenue in the current year and expectations of future growth rates. Sensitivities have been run to analyse the impact of a reasonable change in growth rates and a reasonable change in base year revenue informed by discussions with CBRE and internal Heathrow car park experts. Estimations are also made concerning expectations of future growth rates of operating costs including business rates. The results of the sensitivities are shown in Note 7 to the financial statements.

Retirement Benefit Obligations

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at the period end and charges to the income statement. The assumptions have been determined in consultation with the Group's actuary considering market and economic conditions. Assumptions can vary from period to period because of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations.

The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position of the Group pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income.

The triennial Trustee valuation of the scheme was completed during 2019 and included updates to mortality rates as well as other key demographic indicators, which have been used to inform management assumptions used at 31 December 2020.

Management have reviewed the main assumptions underlying the valuation of Retirement benefit obligations. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying value of the assets and liabilities relating to the scheme have been assessed as: a) Discount rate, b) Inflation rates, and c) Mortality/Life expectancy changes.

Sensitivities have been run to analyse the impact of a reasonable change in these estimations informed by discussions with scheme actuaries ISIO and internal Heathrow experts.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

1. SEGMENT INFORMATION

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

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

Table (a)	**Year ended 31 December 2020 £m**	Year ended 31 December 2019 £m
Segment Revenue		
Under IFRS 15		
Aeronautical [1]		
Movement charges	244	549
Parking charges	62	74
Passengers charges	341	1,208
Total Aeronautical revenue	647	1,831
Other regulated charges	118	244
Retail services revenue	234	722
Property revenue	20	25
Rail Income		
Heathrow Express	26	117
Other	23	23
Revenue reported under IFRS 15	1,068	2,962
Revenue recognised at a point in time	1,028	2,837
Revenue recognised over time	40	125
Total revenue reported under IFRS 15	**1,068**	2,962
Under IFRS 16		
Property (lease-related income)	107	108
Total revenue	**1,175**	3,070
Heathrow	1,149	2,953
Heathrow Express	26	117
Adjusted EBITDA		
Heathrow	284	1,860
Heathrow Express	(14)	61
Total adjusted EBITDA	270	1,921
Reconciliation to statutory information:		
Depreciation and amortisation	(812)	(771)
Operating (loss)/profit (before certain re-measurements and exceptional items)	**(542)**	1,150
Exceptional items	(184)	-
Fair value (loss)/gain on investment properties (certain re-measurements)	(412)	43
Operating (loss)/profit	**(1,138)**	1,193
Finance income	12	9
Finance cost	(886)	(656)
(Loss)/profit before tax	**(2,012)**	546

[1] In 2019, movement charges and passenger charges were referred to as landing and departure charges. Until 2019, landing charges were levied for substantially all aircraft (with certain diplomatic and other flights being exempted). From 2020, movement charges are now levied instead of landing charges. The charge per movement is around half of what the landing charges were previously, however is applied to each aircraft on both take-off and landing.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Year ended 31 December 2020	Year ended 31 December 2019
	£m	£m
Property income charged in advance	28	34
Retail and other income charged in advance	14	27
Total	**42**	61

All unsatisfied performance obligations at 31 December 2019 were satisfied in during 2020 and are included within total revenue for the year. Management expects that all of the transaction price allocated to the unsatisfied contracts as of the year ended 2020 will be recognised as revenue during the next reporting period.

Table (c)	Year ended 31 December 2020		Year ended 31 December 2019	
	Depreciation & amortisation[1] £m	Fair value loss[2] £m	Depreciation & amortisation[1] £m	Fair value gain[2] £m
Heathrow	(769)	(412)	(716)	43
Heathrow Express	(43)	-	(55)	-
Total	**(812)**	**(412)**	(771)	43

(1) Includes intangible amortisation charge of £44 million (year ended 31 December 2019: £43 million).
(2) Reflects fair value (loss)/gain on investment properties only.

Table (d)	31 December 2020		31 December 2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	13,319	(401)	13,885	(429)
Heathrow Express	647	(13)	652	(15)
Total operations	**13,966**	**(414)**	14,537	(444)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	3,516	(17,219)	1,540	(14,055)
Retirement benefit (obligations)/assets	12	(31)	33	(29)
Derivative financial instruments	802	(1,155)	539	(1,282)
Deferred and current tax assets/(liabilities)	1	(784)	-	(965)
Amounts owed to group undertakings	-	(3,344)	-	(2,540)
Right of use asset and lease liabilities	285	(392)	276	(384)
Total	**18,582**	**(23,339)**	16,925	(19,699)

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

2. OPERATING COSTS

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Employment[1]	282	378
Operational	224	279
Maintenance	140	173
Rates	116	117
Utilities	62	72
Other	81	130
Total operating costs before depreciation and amortisation	**905**	1,149
Depreciation and amortisation:		
Property, plant and equipment	730	693
Intangible assets	44	43
Right of Use (RoU) assets	38	35
	812	771
Operating costs before exceptional items	**1,717**	1,920
Exceptional items (note 3)	184	-
Total operating costs	**1,901**	1,920

[1] Government grants of £36m have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Business transformation	(92)	-
Asset impairment and write-off	(92)	-
Total operating loss on exceptional items	**(184)**	-
Tax credit on exceptional items	18	-
Loss on exceptional items after tax	**(166)**	-

Business transformation

As a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has undergone a business transformation in order to simplify operations and reduce costs. Following this review the Group incurred £92 million of exceptional charges, consisting of £142m of people-related costs, principally redundancy, partially offset by a net £50m credit associated with corresponding pension settlements and curtailments – refer to Note 10 for further details. £13 million relating to the business transformation programme is included within provisions at 31 December 2020 and is expected to be settled within the next financial year.

Asset impairment and write-off

As a consequence of the impact of the COVID-19 outbreak and the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group has recognised a non-cash impairment and write-off charge of £92m on assets in the course of construction. While the vast majority of expansion assets remain on the balance sheet at year-end, a number of partially complete projects have been placed on hold, some of these projects are unlikely to be re-started in the foreseeable future or are unlikely to be restarted without material changes to the original proposal design, £82m of costs incurred to date on these projects have been impaired. In addition, £10m of costs which relates to forecast re-work, which will be required as a result of the estimated delay to the Expansion programme, have been impaired.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

4. FINANCING

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Finance income		
Interest on deposits	12	9
Total finance income	12	9
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments[(1)]	(514)	(535)
Bank loans, overdrafts and related hedging instruments	(63)	(58)
Net interest expense on derivatives not in hedge relationship[(2)]	17	(106)
Facility fees and other charges	(15)	(10)
Net pension finance costs	(1)	-
Interest on debenture payable to Heathrow Finance plc	(125)	(102)
Finance cost on lease liabilities	(16)	(17)
	(717)	(828)
Less: capitalised borrowing costs[(3)]	33	44
Total finance cost	(684)	(784)
Net finance cost before certain re-measurements	**(672)**	(775)
Fair value (loss)/gain on financial instruments		
Interest rate swaps: not in hedge relationship	(65)	(19)
Index-linked swaps: not in hedge relationship	(75)	172
Cross-currency swaps: not in hedge relationship [(4), (5)]	11	11
Ineffective portion of cash flow hedges [(5)]	(14)	(1)
Ineffective portion of fair value hedges [(5)]	(59)	(33)
Fair value re-measurements of foreign exchange contracts and currency	-	(2)
	(202)	128
Net finance cost	**(874)**	(647)

(1) Includes accretion of £24 million for year ended 31 December 2020 (year ended 31 December 2019: £35 million) on index-linked bonds.
(2) Includes accretion of £75 million for year ended 31 December 2020 (year ended 31 December 2019: £152 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 3.82% (year ended 31 December 2019: 4.98%) to expenditure incurred on such assets.
(4) Includes foreign exchange retranslation on the currency bonds of £6 million (2019: £4 million) which has moved systematically in the opposite direction to that of the cross currency swaps which economically hedge the related currency bonds.
(5) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

5. TAX CREDIT/(CHARGE)

	Year ended 31 December 2020				Year ended 31 December 2019		
	Before certain re-measurements and exceptional items £m	**Certain re-measurements £m**	**Exceptional items £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Total £m
UK corporation tax:							
Current tax credit/(charge) at 19% (2019: 19%)	76	(2)	27	101	(96)	(2)	(98)
Over provision in respect of prior years	-	-	-	-	8	-	8
Deferred tax:							
Current year credit/(charge)	135	106	(9)	232	(15)	(28)	(43)
Prior year credit/(charge)	-	6	-	6	(1)	1	-
Change in tax rate	-	(112)	-	(112)	-	-	-
Taxation credit/(charge) for the year	**211**	**(2)**	**18**	**227**	(104)	(29)	(133)

The total tax credit recognised for the year ended 31 December 2020 was £227 million (2019: £133 million charge). Based on a loss before tax for the year of £2,012 million (2019: £546 million profit).

The total tax credit before certain re-measurements and exceptional items for the year ended 31 December 2020 was £211 million (2019: £104 million charge). Based on a loss before tax, certain re-measurements and exceptional items of £1,214 million (2019: £375 million profit), this results in an effective tax rate of 17.4% (2019: 27.7%). The tax credit for 2020 is less than implied by the statutory rate of 19% primarily due to non-deductible expenses reducing the tax credit for the year (2019: the tax charge was more than implied by the statutory rate of 19% primarily due to non-deductible expenses increasing the tax charge for the year).

In addition, there was an £110 million tax credit (2019: £29 million tax charge) arising from fair value losses on investment property revaluations and fair value losses on financial instruments, along with a £112m tax charge associated with the impact from the UK corporation tax rate remaining at 19% on deferred tax balances and an £18 million tax credit on exceptional items.

The previously announced reduction of the corporation tax rate to 17% from 1 April 2020 was revoked by the Government in Finance Act 2020. The headline UK corporation tax rate of 19% was maintained and substantively enacted in March 2020. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

Due to the exceptional adverse impact of the COVID-19 pandemic, the Group has made significant losses during the period ended 31 December 2020. In accordance with updated HMRC guidance, Heathrow Airport Ltd has made a claim to request repayment of quarterly instalment payments made in relation to the period ended 31 December 2019 and payments of £73 million were returned to Heathrow Airport Ltd in September 2020 by HMRC, resulting in a net cash receipt from HMRC for the year of £67m (2019: cash payment of £98m). In 2021 Heathrow Airport Ltd intends to submit a loss carry back claim to carry back all trading losses arising in Heathrow Airport Ltd in the 2020 period against 2019 taxable profits. The impact of the estimated loss carry back claim (a tax credit of £100m) is reflected in the tax results and balance sheet position of the Group as at 31 December 2020.

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

6. PROPERTY, PLANT AND EQUIPMENT

	Terminal comp lex	Airfields	Plant and equipment	Other land and buildings	Rail	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 2019	11,650	1,954	1,141	230	1,435	1,114	17,524
Additions	-	-	-	-	-	849	849
Borrowing costs capitalised	-	-	-	-	-	44	44
Disposals	(245)	(65)	(118)	(9)	(50)	-	(487)
Transfer to intangible assets	-	-	-	-	-	(44)	(44)
Transfer to completed assets	532	127	(27)	53	10	(695)	-
31 December 2019	**11,937**	**2,016**	**996**	**274**	**1,395**	**1,268**	**17,886**
Additions	**-**	**-**	**-**	**-**	**-**	**413**	**413**
Borrowing costs capitalised	**-**	**-**	**-**	**-**	**-**	**33**	**33**
Disposals	**(16)**	**(8)**	**(25)**	**-**	**(1)**	**-**	**(50)**
Capital write off	**-**	**-**	**-**	**-**	**-**	**(92)**	**(92)**
Transfer from investment properties	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Transfer to intangible assets	**-**	**-**	**-**	**-**	**-**	**(50)**	**(50)**
Transfer to completed assets	**286**	**59**	**90**	**21**	**13**	**(469)**	**-**
31 December 2020	**12,207**	**2,067**	**1,061**	**296**	**1,407**	**1,103**	**18,141**
Depreciation							
1 January 2019	**(4,394)**	**(508)**	**(526)**	**(78)**	**(613)**	**-**	**(6,119)**
Depreciation charge	(492)	(61)	(67)	(19)	(54)	-	(693)
Disposals	245	65	118	9	50	-	487
31 December 2019	**(4,641)**	**(504)**	**(475)**	**(88)**	**(617)**	**-**	**(6,325)**
Depreciation charge	**(495)**	**(57)**	**(118)**	**(20)**	**(40)**	-	(730)
Disposals	**16**	**8**	**25**	**-**	**1**	-	50
31 December 2020	**(5,120)**	**(553)**	**(568)**	**(108)**	**(656)**	**-**	**(7,005)**
Net book value							
31 December 2020	**7,087**	**1,514**	**493**	**188**	**751**	**1,103**	**11,136**
31 December 2019	7,296	1,512	521	186	778	1,268	11,561

The Regulatory Asset Base (RAB) at 31 December 2020 was £16,492 million (31 December 2019 was £16,598 million).

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2019	2,472
Additions	7
Revaluation	43
31 December 2019	**2,522**
Additions	**9**
Reclassification	**(1)**
Revaluation	**(412)**
31 December 2020	**2,118**

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

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

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

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

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 89% (2019: 91%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (2019: 71%) of the fair value of the investment property portfolio at 31 December 2020. The valuation of maintenance hangers is largely based on long term contractual terms and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

The investment property asset class balance consists of 48% (2019: 53%) car parks, 25% (2019: 23%) airport operations and 27% (2019: 24%) land and others. Level 1 to 3 is split according to the following percentiles respectively: nil (2019: 3%), 59% (2019: 49%) and 41% (2019: 48%).

The sensitivities analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises of 92% (2019: 31%) of the total. Therefore, the valuation of level 3 has been determined based on reasonably possible changes to the respective assumptions. The methodology used in arriving at the incremental changes shown is consistent with that used for the valuation at the year end.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

8. BORROWINGS

	31 December 2020 £m	31 December 2019 £m
Current		
Secured		
Heathrow Airport Limited debt:		
Loans	4	4
Class A1 term loan due 2021	418	-
Heathrow Funding Limited bonds:		
6.000% £400 million due 2020	-	400
£250m Bond 8.5% due 2021	251	-
3.000% CAD450m due 2021	259	-
4.875% US$1,000 million due 2021	742	-
Total current (excluding interest payable)	**1,674**	**404**
Interest payable – external	209	215
Interest payable – owed to group undertakings	45	28
Total current	**1,928**	**647**
Non-current		
Secured		
Heathrow Funding Limited bonds		
8.500% £250 million due 2021	-	255
3.000% CAD450 million due 2021	-	260
4.875% US$1,000 million due 2021	-	763
1.650%+RPI £180 million due 2022	222	218
1.875% €600 million due 2022	549	517
5.225% £750 million due 2023	717	703
7.125% £600 million due 2024	595	594
0.500% CHF400 million due 2024	336	307
3.250% CAD500 million due 2025	301	288
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	177	167
6.750% £700 million due 2026	694	693
2.650% NOK1,000 million due 2027	90	85
3.400% CAD400 million due 2028	229	234
7.075% £200 million due 2028	199	200
4.150% AUD175 million due 2028	113	103
2.500% NOK1,000 million due 2029	82	76
1.500% €750 million due 2030	735	644
3.782% CAD400 million due 2030	235	233
6.450% £900 million due 2031	857	855
Zero-coupon €50 million due January 2032	65	58
1.366%+RPI £75 million due 2032	88	87
Zero-coupon €50 million due April 2032	64	57
1.875% €500 million due 2032	446	421
1.875% €650 million due 2034	636	584
4.171% £50 million due 2034	50	50
Zero-coupon €50 million due 2034	54	49
0.347%+RPI £75 million due 2035	76	-
0.337%+RPI £75 million due 2036	76	-
1.061%+RPI £180 million due 2036	204	202
0.419%+RPI £51 million due 2038	51	-

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

8. BORROWINGS *CONTINUED*

	31 December 2020 £m	31 December 2019 £m
3.460% £105 million due 2038	105	-
1.382%+RPI £50 million due 2039	58	58
Zero-coupon €86 million due 2039	81	75
3.334%+RPI £460 million due 2039	645	638
0.800% JPY1,000 million due 2039	72	69
1.238%+RPI £100 million due 2040	115	113
0.362%+RPI £75 million due 2041	76	-
5.875% £750 million due 2041	739	738
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	741
1.372%+RPI £75 million due 2049	87	86
2.750% £400 million due 2049	393	392
0.147%+RPI £160 million due 2058	166	165
1.50% EUR 750m due 2025	665	-
2.850% + RPI £181.75m due 2032	182	-
3.661% CAD500m due 2031	285	-
2.75% GBP450m due 2029	444	-
Total bonds	**13,005**	11,987
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	-	418
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	199	200
Revolving credit facilities	1,150	-
Term notes due 2026-2040	878	723
Loans	4	8
Unsecured		
Debenture payable to Heathrow Finance plc	3,299	2,512
Total non-current	**18,635**	15,948
Total borrowings (excluding interest payable)	**20,309**	16,352

At 31 December 2020, Heathrow SP's consolidated nominal net debt was £13,131 million. It comprised £13,755 million in bond issues, £1,606 million in other term debt, £133 million in index-linked derivative accretion, £1,150 million in revolving credit and working capital facilities and £3 million of additional lease liabilities post transition to IFRS 16. This was offset by £3,516 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,279 million in senior net debt and £1,851 million in junior debt.

At 31 December 2020, total non-current borrowings due after more than 5 years was £10,703 million (2019: £10,883 million), comprising £9,626 million (2019: £9,182m) of bonds and £1,077 million (2019: £1,701 million) in bank facilities, excludes lease liabilities.

Impact of fair value hedge adjustments

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

	31 December 2020		31 December 2019	
	Nominal at hedge rate £m	**Fair value adjustment (1) £m**	Nominal at hedge rate £m	Fair value adjustment (1) £m
Sterling debt	393	(1)	393	(4)
Euro denominated debt	1,615	(145)	1,615	(70)
USD denominated debt	621	(10)	621	(10)
CAD denominated debt	584	(25)	584	(3)
Other currencies debt	779	(23)	779	3
Designated in fair value hedge	**3,992**	**(204)**	3,992	(84)

(1) Fair value adjustment is comprised of fair value loss of £185 million (year ended December 2019: £52 million loss) on continuing hedges and £19 million loss (year ended December 2019: £32 million loss) on discontinued hedges.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

31 December 2019	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	8	-	-	-
Interest rate swaps	738	-	(11)	(11)
Index-linked swaps	313	-	(44)	(44)
	1,059	-	(55)	(55)
Non-current				
Foreign exchange contracts	33	-	(2)	(2)
Interest rate swaps	1,572	-	(386)	(386)
Cross-currency swaps	4,551	482	(25)	457
Index-linked swaps	6,082	57	(814)	(757)
	12,238	539	(1,227)	(688)
Total	13,297	539	(1,282)	(743)

At 31 December 2020, total non-current notional value of Derivative financial instruments due in greater than 5 years was £14,170 million (2019: £9,057 million), comprising £4,926 million (2019: £5,311 million) of Index-linked swaps, £2,942 million (2019: £2,524 million) of Cross-currency swaps, and £6,302 million (2019: £1,222 million) of Interest rate swaps.

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The fair value gains and losses deferred in equity relating to the discontinued cash flow hedge relationships will be continuously released to the income statement over the period of the hedged risk.

Of the total amount deferred in other comprehensive income gross of tax of £205 million (2019: £226 million) related to discontinued cash flow hedges. During the year, £23 million was deferred to the frozen cash flow hedge reserve, with £24 million recycled from the frozen cash flow hedge reserve to the income statement in the period.

The losses deferred of £20 million (2019: £20 million) expected to be released in less than one year, £22 million (2019: £22 million) between one and two years, £64 million (2019: £62 million) between two and five years and £99 million (2019: £121 million) over five years.

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. The losses deferred of £1 million (2019: £0.5 million) are expected to be released in less than one year, losses of £1 million (2019: £0.5 million) between one and two years, £1 million (2019: £1.3 million) between two and five years and gains of £6 million (2019: £1 million) over five years.

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.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

Foreign exchange contracts

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

Fair value estimation

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

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

At 31 December 2020 and 31 December 2019, all fair value estimates on derivative financial instruments are included in level 2.

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

As at 31 December 2020, £261 million (31 December 2019: £206 million) remained capitalised and £28 million (31 December 2019: £32 million) had been recognised in the income statement for the period.

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

The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 31 December:

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

	31 December 2019			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Assets at fair value through income statement	-	76	-	76
Derivatives qualifying for hedge accounting	-	463	-	463
Total assets	**-**	**539**	**-**	**539**
Liabilities				
Liabilities at fair value through income statement	-	(1,236)	-	(1,236)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	**-**	**(1,282)**	**-**	**(1,282)**

10. RETIREMENT BENEFIT OBLIGATIONS

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

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

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Employment costs:		
Defined contribution schemes	14	15
BAA Pension Scheme	24	26
Past service credit - BAA Pension Scheme	(53)	-
	(15)	41
Finance credit - BAA Pension Scheme	-	(1)
Finance charge - Other pension and post retirement liabilities	-	1
Total pension costs	**(15)**	41

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

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
BAA Pension Scheme loss	(125)	(17)
Unfunded schemes	(2)	2
Actuarial loss recognised before tax	(127)	(15)
Tax credit on actuarial loss	23	4
Actuarial loss recognised after tax	**(104)**	(11)

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

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Fair value of plan assets	4,796	4,302
Benefit obligation	(4,784)	(4,269)
Surplus in BAA Pension Scheme	12	33
Unfunded pension obligations	(30)	(28)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(31)	(29)
Net (deficit)/surplus in pension schemes	**(19)**	4
Group share of net (deficit)/surplus in pension schemes	**(19)**	4

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

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

There are no reimbursement rights included within scheme assets which require separate disclosure.

(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 31 December 2020 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 31 December 2020 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2020. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

		Year ended 31 December 2020 £m			Year ended 31 December 2019 £m	
Fair value of plan assets [1]	**Quoted**	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity	**620**	**166**	**786**	573	133	706
Property	**-**	**149**	**149**	-	147	147
Bonds	**476**	**878**	**1,354**	357	863	1,220
Cash	**-**	**191**	**191**	-	111	111
LDI	**-**	**1,545**	**1,545**	-	1,325	1,325
Buy in	**-**	**339**	**339**	-	322	322
Other	**164**	**268**	**432**	200	271	471
Total fair value of plan assets	**1,260**	**3,536**	**4,796**	1,130	3,172	4,302

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

At 31 December 2020, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,545 million (32% of the asset holding at 31 December 2020). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2019, the largest single category of investment was an LDI mandate, with value of £1,325 million (31% of the asset holding at 31 December 2019).

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

Analysis of financial assumptions

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

	Year ended 31 December 2020 %	Year ended 31 December 2019 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	2.60	2.40
Increase to pensions in payment:		
Open section	3.00	3.05
Closed section	3.10	3.15
Discount rate	1.30	2.10
Inflation assumption	3.10	3.15

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

11. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit before tax	**(2,012)**	546
Exceptional items	184	-
(Loss)/profit before tax and exceptional items	**(1,828)**	546
Adjustments for:		
Net finance cost	874	647
Depreciation	730	693
Amortisation on intangibles	44	43
Amortisation on right of use assets	38	35
Fair value loss/(gain) on investment properties	412	(43)
Working capital changes:		
(Increase)/decrease in inventories and trade and other receivables [1]	(240)	57
Increase/(decrease) in trade and other payables	56	(7)
Decrease in provisions	(5)	(7)
Difference between pension charge and cash contributions	(51)	(22)
Cash generated from operations before exceptional items	**30**	1,942
Cash payments in respect of exceptional items	(125)	-
Cash (used in)/generated from operations	**(95)**	1,942

(1) The increase in trade and other receivables includes £247 million relating to prepayments made to suppliers at 31 December 2020. The total includes a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. These prepayments were made in order to manage banking covenant ratios. Judgement is required in classifying these prepayments within the statement of cash flows. Management have concluded these should be presented within operating activities as they represent operational prepayments to suppliers (operating cash flows) as opposed to cash advances to other parties (financing activities).

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Contracted for, but not accrued:		
Baggage systems	49	111
Terminal restoration and modernisation	78	168
Tunnels refurbishments	28	-
Capacity optimisation	27	51
IT projects	2	15
Other projects	8	45
	192	390

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

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	**Year ended 31 December 2020 £m**	Year ended 31 December 2019 £m
Amey OWR Ltd	-	1
Ferrovial Agroman	28	44
Heathrow Finance plc[(1)]	125	102
	153	147

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

13. RELATED PARTY TRANSACTIONS CONTINUED

Sales to related party	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Harrods International Limited	6	23
Qatar Airways	22	36
	28	59

Balances outstanding with related parties were as follows:	31 December 2020		31 December 2019	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	3,344	-	2,540
Qatar Airways	-	-	2	-
	-	**3,344**	2	2,540

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

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

Alternative Performance Measures

The Group presents its results in accordance with International Financial Reporting Standards (IFRS). Management also use other financial measures not defined by the IFRS as APMs (Alternative Performance Measures). Management relies on these APMs for decision-making and for evaluating the Group's performance. Below we provide an explanation of each APM.

EBITDA

EBITDA is loss or profit before interest, taxation, depreciation and amortisation. EBITDA is a useful indicator as it is widely used by investors, analysts and rating agencies to assess operating performance.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit for the period	**(1,785)**	413
Add: Tax (credit)/charge	(227)	133
Add: Net finance cost	874	647
Operating (loss)/profit	(1,138)	1,193
Add: depreciation and amortisation	812	771
EBITDA	**(326)**	1,964

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties and exceptional items. Adjusted EBITDA is an approximation of pre-tax operating cash flow and reflects cash generation before changes in working capital and investment. The APM assists investors to value the business (valuation using multiples) and rating agencies and creditors to gauge levels of leverage by comparing Adjusted EBITDA with net debt.

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

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

Adjusted EBITDA *continued*

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit for the period	**(1,785)**	413
Add: Tax (credit)/charge	(227)	133
Add: Net finance cost	874	647
Operating (loss)/profit	(1,138)	1,193
Add: depreciation and amortisation	812	771
Add: exceptional items	184	-
Add: fair value loss/(gain) on investment properties	412	(43)
Adjusted EBITDA	**270**	1,921

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash (used in)/generated from operations	**(95)**	1,942
Exclude:		
Increase/(decrease) trade and other receivables	239	(57)
Increase in inventories	1	-
(increase)/decrease in trade other payables	(56)	7
Decrease in provisions	5	7
Difference between pension charge and cash contributions	51	22
Cash payments in respect of exceptional items	125	-
Adjusted EBITDA	**270**	1,921

Adjusted operating (loss)/profit

Adjusted operating (loss)/profit shows operating results excluding fair value gains and losses on investment properties and exceptional items. These are excluded as they can vary significantly from one year to the next due to market perceptions of the value of the property and the accounting method used to calculate the fair value. The adjusted measure is used to assess underlying performance of the trading business.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Operating (loss)/profit[1]	**(1,138)**	1,193
Add: exceptional items	184	-
Add: fair value loss/(gain) on investment properties	412	(43)
Adjusted operating (loss)/profit	**(542)**	1,150

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

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

Net finance cost before certain re-measurements

Net finance cost before certain re-measurements exclude fair value adjustments on financial instruments. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next. A significant portion of the fair value adjustments on financial instruments occur due to the business entering into arrangements to hedge against future inflation. As these contracts do not meet hedge criteria under IFRS 9, fair value adjustments create significant volatility in our IFRS income statement.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Finance income	12	9
Finance cost	(886)	(656)
Net finance cost including certain remeasurements	**(874)**	(647)
Add: fair value loss/(gain) arising on re-measurement of financial instruments	202	(128)
Net Finance cost before certain remeasurements	**(672)**	(775)

Adjusted (loss)/profit before tax

Adjusted (loss)/profit before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items. Excluding these can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit before tax	**(2,012)**	546
Add: exceptional items	184	-
Add: fair value loss/(gain) on investment properties	412	(43)
Add: fair value loss/(gain) arising on re-measurement of financial instruments	202	(128)
Adjusted (loss)/profit before tax	**(1,214)**	375

Adjusted (loss)/profit after tax

Adjusted (loss)/profit after tax excludes fair value gains and losses on investment properties and financial instruments, exceptional items and the associated tax. Excluding these can be useful to investors and financial analysts when assessing the Group's underlying profitability, because they can vary significantly from one year to the next.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit after tax	**(1,785)**	413
Add: exceptional items	184	-
Add: fair value loss/(gain) on investment properties	412	(43)
Add: fair value loss/(gain) arising on re-measurement of financial instruments	202	(128)
Less: tax (credit)/charge on fair value loss on investment properties and re-measurement of financial instruments	(110)	29
Less tax credit on exceptional items	(18)	-
Add: change in tax rate	112	-
Adjusted (loss)/profit after tax	**(1,003)**	271

Notes to the condensed consolidated financial statements for the year ended 31 December 2020

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

Heathrow (SP) Limited consolidated nominal net debt

Consolidated nominal net debt is a measure of financial position used by our creditors when assessing covenant compliance.

Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits. It includes index linked swap accretion and hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash and cash equivalents	280	815
Term deposits	3,236	725
Current debt (excluding interest payable)	(1,674)	(404)
Current lease liability	(43)	(38)
Non-current debt	(15,336)	(13,436)
Non-current lease liability	(349)	(346)
Accounting value of Net debt	**(13,886)**	(12,684)
Index-linked swap accretion [(1)]	(133)	(345)
Impact of cross currency interest rate swaps [(2)]	591	349
Bond issuance costs [(3)]	(92)	(111)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases [(4)]	389	379
Consolidated nominal net debt	**(13,131)**	(12,412)

(1) Index linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on the Statement of financial position.
(2) Where bonds are issued in currencies other than GBP, the Group has entered into foreign currency swaps to fix the GBP cash outflows on redemption. The impact of these swaps is reflected in nominal net debt.
(3) Capitalised bond issue costs are excluded from nominal net debt.
(4) The lease liability relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) is excluded from nominal net debt. All new leases entered into post transition are included.

Regulatory Asset Base (RAB)

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. By investing efficiently in the Airport, we add to the RAB over time. The RAB represents the invested capital on which Heathrow are authorised to earn a cash return. It is used in key financial ratios and in our regulatory accounts.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Regulatory Asset Base (RAB)	**16,492**	16,598

Regulatory gearing ratio

The regulatory gearing ratio is consolidated nominal net debt to the RAB. It is a financial indicator used by investors, financial analysts, rating agencies, creditors and other parties to ascertain a company's debt position in regulated industries.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Total net debt to RAB	0.796	0.748
Senior net debt to RAB	0.684	0.666

GLOSSARY

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

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

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

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

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

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

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

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

Interest Cover Ratio 'ICR ' – under the Group's financing agreements are calculated as the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid. ICR is trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A ICR trigger ratio is 1.40x; Class A ICR covenant is 1.05x and is calculated as a 3-year trailing average, Class B ICR trigger ratio is 1.20x, Heathrow Finance ICR covenant is 1.00x.

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

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

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

Regulatory asset ratio 'RAR' – is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%. Following the waiver secured in July 2020, Heathrow Finance RAR covenant was revised from 92.5% to 95% and 93.5% for the financial year ending 31 December 2020 and 2021 respectively.

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

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