News release

21 February 2019

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Heathrow (SP) Limited

Results for the year ended 31 December 2018

- **Milestone year as 80.1 million passengers choose Heathrow** – Heathrow climbed to the best year in its history after eight years of consecutive growth. For the first time, Heathrow welcomed a record-breaking 80.1 million passengers (+2.7% vs 2017) whilst delivering excellent service at a lower cost. Airport charges fell 1% to £21.78 and 81.9% of passengers said they had an "Excellent" or "Very Good" experience at Heathrow
- **New routes boost Britain's trading opportunities** – Heathrow doubled its Chinese connections in 2018, adding six new cities including Europe's only flight to Shenzhen, the home of Asia's Silicon Valley. These new services helped to push global trade flowing through Heathrow to 1.7 million tonnes
- **Domestic connections growing** – Heathrow's domestic connections are set to grow to 9 as new services to Newquay begin in April. Following the re-launch of the Inverness services, the UK's two furthest mainland airports will now be connected to the nation's hub boosting trade and travel opportunities
- **Robust financial performance** – Heathrow remains a well-run business in strong financial health with revenues climbing 3% to nearly £3 billion on the back of strong retail spend and increased demand to fly – supporting £793 million of investment into the airport. Adjusted EBITDA climbed 4.4% to £1,837 million. Remaining competitive in the lead-up to expansion remains a priority, with a focus on efficiency resulting in operating costs per passenger falling 2% to £14.14
- **Heathrow bucks the infrastructure investment trend** – Heathrow remains unique amongst global infrastructure assets, raising close to £2.3bn from private investors across seven currencies (up from £1bn in 2017). Growing demand to invest in Heathrow underpins the airport's plans to entirely privately finance expansion and builds the airport's financial resilience ahead of Brexit (extending our liquidity horizon to March 2021)
- **Expansion momentum as masterplan takes shape** – Following one of the largest ever parliamentary majorities on the Airports National Policy Statement, Heathrow's preferred masterplan continues to take shape. The airport will release the detailed plans in further consultation in June 2019, and remains on-track to submit a planning application in 2020 and for the first flights to use the new runway in 2026

At or for year ended 31 December	2017	**2018**	Change (%)
(£m unless otherwise stated)			
Revenue	2,884	**2,970**	3.0
Adjusted EBITDA(1)	1,760	**1,837**	4.4
EBITDA(2)	1,909	**1,954**	2.4
Cash generated from operations	1,733	**1,787**	3.1
Cash flow after investment and interest(3)	484	**420**	(13.2)
Adjusted profit before tax(4)	217	**267**	23.0
Heathrow (SP) Limited consolidated nominal net debt(5)	12,372	**12,407**	0.3
Heathrow Finance plc consolidated net debt(5)	13,674	**13,980**	2.2
Regulatory Asset Base(5)	15,786	**16,200**	2.6
Passengers (million)(6)	78.0	**80.1**	2.7
Retail revenue per passenger (£)(6)	8.45	**8.94**	5.8

Notes 1-6: see page 2

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

"2018 was the best ever year at Heathrow. We were voted best airport in Western Europe by passengers, while continuing to drive down costs. We improved safety and closed our gender pay gap. We were named "Responsible Business of the Year" and won an overwhelming parliamentary majority in support of Heathrow expansion. We remain on track to open the new runway in 2026. I am very proud of the outstanding work of 76,000 colleagues across the airport, who are delivering for Britain"

Heathrow
Making every journey better

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

Heathrow (SP) Limited is the holding company of a group of companies that 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.

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Creditors and credit analysts conference call hosted by John Holland-Kaye, Chief Executive Officer and Javier Echave, Chief Financial Officer

21 February 2019

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

UK: +44 (0)33 3300 0804

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Dial in access list

Participant PIN code: 24342360#

The presentation can be accessed online or through the webcast password: 301276601

Review of the year

We continued to deliver strong performance in 2018 and welcomed a record 80 million passengers travelling through the UK's only hub airport, up 2.7% on last year. We are one of only seven airports in the world to have exceeded 80 million passengers per annum and the only airport to achieve this milestone with only 2 runways. Whilst continuing to deliver growth, we also sustained our high customer satisfaction scores and were named 'Best Airport in Western Europe' for the fourth year running, and 'Best Airport for Shopping' for the ninth year in the most recent Skytrax World Airport Awards.

We also progressed the four strategic priorities underpinning our vision to give our passengers the best airport service in the world: making Heathrow a great place to work, transforming our service to passengers and airlines, beating the business plan over the current regulatory period and operating and growing Heathrow sustainably today and in the future. Critical to the success of our vision is attracting, retaining and developing high quality talent. This is why making Heathrow a great place to work and creating careers where people can fulfil their potential is at the very heart of our strategy. In 2018 an outstanding 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We delivered outstanding services to our passengers during our busiest year ever. We achieved an excellent 4.15 out of 5.0 score in the global Airport Service Quality (ASQ) survey in 2018 while maintaining our high levels of successful baggage connections and departures punctuality. In addition, reflecting the success of our pricing strategy to boost domestic connectivity, short haul traffic grew by 2.2% and intercontinental grew by 3.1%. Intercontinental growth continued to be driven by strong growth in routes to North America, through increased flight frequency and aircraft size to a number of destinations, while passenger numbers to and from the Asia Pacific region grew strongly driven by our new Chinese routes.

As part of our Heathrow 2.0 plan for sustainable growth we released our Carbon Neutral Growth Roadmap, setting out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. We also launched our Living Wage Roadmap, which shows how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Despite continuing to invest in winter resilience, special passenger assistance, security and expansion, we have continued to deliver declining costs per passenger. On the revenue side, aeronautical revenues grew by 1.7% compared to 2017 despite a delivering a 1% reduction in aeronautical revenue per passenger. Retail revenues grew by an outstanding 8.6% as passengers responded strongly to several successful retail initiatives. We are seeing more passengers participating in our retail offering with each spending more on average. As a result of these dynamics, total revenues were almost £3 billion, up 3% compared to 2017. We raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14 billion consolidated debt.

2018 also saw the commencement of our plans to deliver expansion following the UK Parliament passing the airports National Policy Statement in June by a substantial majority.

We continue engaging with our regulator and airline stakeholders to define the regulatory framework that will enable expansion that is affordable, sustainable and financeable. Following the launch of our initial planning consultation in January 2018, we also launched a consultation on airspace changes in January 2019 and are making final preparations for the statutory consultation on our masterplan for expansion in mid 2019. These consultations provide an opportunity for our local community and other stakeholders to help us shape Heathrow's future.

Strategic priorities

MOJO

We are committed to making Heathrow a great place to work. We provide an environment where colleagues feel safe, proud, motivated and enjoy what they do. We were recently voted as one of the top 10 employers at the MI5 British LGBT+ awards. We continue to enhance our leadership capabilities and provide great career opportunities supported by some of the best development and training. In 2018, 472 colleagues were promoted and 755 colleagues attended training to advance their managerial skills.

We take a pragmatic and proactive approach to improving our Health and Safety credentials through engaging our colleagues. We have seen a positive shift in our culture and behaviours which remains a significant driver in achieving great results and preventing or reducing the likelihood of incidents occurring. In 2018, our lost time injuries metric improved to 0.33 (2017: 0.48).

TRANSFORM CUSTOMER SERVICE

In 2018, we continued to deliver strong levels of service across the passenger journey. Over the period, our service standards remained high, with limited or no disruption to our operations, despite passenger growth putting pressure on some key processes such as check in, security, immigration and baggage.

In 2018, we achieved a score an ASQ of 4.15 out of 5.00 (2017: 4.16) compared to 3.97 just five years ago. In addition, 81.9% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2017: 82.5%) illustrating the strength and resilience of our operations. As part of our drive to provide the best airport service in the world we introduced our Service Signatures programme highlighting a set of behaviours that help guide the way in which we all deliver an even better service to our passengers, customers, and also our colleagues.

Service standard performance indicators[1]	2017	**2018**
ASQ	4.16	**4.15**
Baggage connection	99.0%	**98.8%**
Departure punctuality	80.2%	**77.6%**
Security queuing	97.3%	**96.8%**

(1) For the twelve months ended 31 December 2018

Investing in Heathrow

We invested £666 million in 2018 (2017: £604 million) on a variety of programmes to improve the passenger experience, airport resilience and work through a broad asset replacement programme. We also continue to develop our plans for expanding Heathrow for which investments amounted to an additional £127 million in the year (2017: £83 million).

Safety continued to be our priority and 2018 was the busiest and safest year in the quinquennium for our capital investment teams working across the airport, with the best ever performance on Safe Days (no. of days without a lost-time incident), peaking at 148 (2017: 112).
The next stage of Passenger Flow Monitoring went live, continuing the focus on passenger experience improvements by enabling the Airport Operations Centre to monitor passenger numbers and flow, predict congestion in key areas and direct resources in the most efficient manner. The roll out of self-service bag drops maintained its momentum with 48 units going live in Terminals 5 alone.

We completed a significant project to install Oyster card electronic passenger gates at the Heathrow terminals of the Heathrow Express enabling easier transfer for our passengers to and from London and have also received all relevant approvals to install the gates at Paddington in 2019.

The Hold Baggage Screening (HBS) upgrade works progressed well in 2018. Terminal 2 was certified as Standard 3 Department for Transport (DfT) compliant and Terminal 5 met the DfT target of 83% screened at Standard 3 by September 2018. The Terminal 5 programme remains on plan for the target of 100% screening at Standard 3 by April 2019.

BEAT THE PLAN

New intercontinental routes

W added 6 direct routes to China, doubling the number of connections from Heathrow, the UK's only hub airport and primary gateway to China. New routes were also announced to North America with British Airways announcing a new direct route to Pittsburgh and American Airways announcing a new route to Phoenix. Both routes will commence in April 2019.

Record passenger traffic

During 2018, we welcomed a record 80.1 million passengers, an increase of 2.7% on 2017 (2017: 78.0 million). December 2018 was the 26th consecutive month of record passenger numbers. Aircraft continue to fly fuller with load factors increasing to 79.4% (2017: 78.0%). The average number of seats per passenger aircraft also increased to 213.4 (2017: 212.3) driven by aircraft upgrades on European and Middle Eastern routes.

Reflecting the success of our pricing strategy to fill short haul seats and boost connectivity, short haul traffic grew by 2.2% and intercontinental traffic grew by 3.1%. Intercontinental growth continues to be driven by North America, through increasing flight frequency and aircraft size to a number of destinations, while passenger numbers to and from the Asia Pacific region grew strongly driven by our new Chinese routes and increased frequency to India.

(Millions)	2017	**2018**	Var %[1]
UK	4.8	**4.8**	(0.1)
Europe	32.4	**33.3**	2.6
North America	17.4	**18.1**	4.3
Asia Pacific	11.3	**11.5**	2.4
Middle East	7.6	**7.7**	0.5
Africa	3.2	**3.3**	5.3
Latin America	1.3	**1.4**	4.4
Total passengers	78.0	**80.1**	2.7

(1) Calculated using unrounded passenger figures

Other traffic performance indicators	2017	**2018**	Var %
Passenger ATM	471,082	**472,744**	0.4
Load factors (%)	78.0	**79.4**	1.8
Seats per ATM	212.3	**213.4**	0.5
Cargo tonnage ('000)	1,698	**1,685**	(0.8)

SUSTAINABLE GROWTH

Heathrow 2.0

As part of our Heathrow 2.0 plan for sustainable growth, we released our Carbon Neutral Growth Roadmap in November 2018. This set out a comprehensive set of measures that will become our plan for how, over the next decade, we will deliver our aspiration to make growth from our new runway carbon neutral. The Roadmap outlines four key action areas including cleaner aircraft technology, improvements to airspace and ground operations, sustainable aviation fuels, and carbon offsetting methods. As an important step towards encouraging the development of commercial electric technology, in October we announced that the first electric-hybrid aircraft to be put into regular service at Heathrow will not have to pay landing charges for a year, a prize worth nearly £1 million.

2018 was a busy year for our charity partnerships as we launched a new partnership with CARE International UK. Through colleague and passenger fundraising, we are supporting CARE's 'Lendwithcare' programme which enables donors to make loans to entrepreneurs in developing countries, helping to build a business and lift themselves and their families out of poverty. We also ran our third 'Race the Plane' event, with funds raised benefitting the Duke of Edinburgh's Award Scheme and the Heathrow Community Fund. Over 400 cyclists raced a United Airlines flight form Heathrow to New York, with the teams working together to complete 30-minute sessions on stationary bikes outside Terminal 2. The teams managed to beat the plane, raising over £100,000 in the process.

In November we held the annual flagship Heathrow Business Summit, welcoming over 250 local Small and Medium Enterprises (SME)'s to discuss contract opportunities with our business partners, as well as to gain insight on how businesses can export their products through Heathrow. We also progressed towards our commitment to open four Logistics Hubs across the UK to support delivery of an expanded Heathrow, with airport delegates visiting all 65 sites on the longlist. The shortlist will be announced in Spring 2019.

We also launched our Living Wage Roadmap, which shows how we will ensure that our supply chain will guarantee their employees the Living Wage. Building on Heathrow achieving Living Wage accreditation in 2017, the Roadmap sets ambitious goals for 100% of target contracts to be amended by the end of 2020.

Throughout 2018, we have been considering how we can best engage our passengers with our sustainability strategy. Building on some detailed research carried out at the start of the year, in November we launched a campaign to highlight some of our key areas of focus and the actions passengers can take to contribute. For example, we have raised awareness that passengers can bring their own water bottles with them when they travel through Heathrow as we offer free refill points after security. We've partnered with 'Refill' to make sure that all the refill points at the airport are included on their free to use smart phone app.

Task force for climate related financial disclosures (TCFD)

We take seriously our responsibility to help develop a transparent, consistent and effective system for climate related financial disclosures. We already publish substantial quantities of information in publicly available sustainability reports, including in our Climate Change Adaption report, in Annual sustainability progress reports, and in our Carbon Footprint reporting. We will expand and improve our climate related disclosures within our Annual Report and financial statements in 2019 and beyond to ensure Heathrow provides clear and useful disclosures relevant to the lifespan of an Expanded Heathrow.

Key Expansion developments

We continue to make significant progress in developing proposals to expand the airport following the overwhelming vote in Parliament in favour of the Airports National Policy Statement ('NPS') in June 2018. Initial ground surveys at 650 sites across the land required for the project have been completed and the airport is moving towards confirming its preferred masterplan.

We have incorporated feedback from a successful initial public consultation at the start of 2018, and will hold two consultations in 2019 to seek further views on our plans. The first of those consultations in 2019 is on airspace and future runway operations and is running from 8 January until 4 March 2019. It will be followed by a statutory consultation in June 2019 which will include information on all aspects of expansion, including outlining our preferred masterplan in detail as well as setting out the likely environmental effects of the proposals and the ways we intend to deal with them. The announcement of these consultations comes as the latest independent polling from

Populus released in September 2018 continued to show that more local people around Heathrow support than oppose Heathrow expansion – a result which has been consistent since polling started in 2015. After reviewing and assessing feedback from the two consultations in 2019, we will prepare a final masterplan and submit a development consent order application to the Secretary of State in 2020, commencing a consenting process which will take approximately 18 months from submission to decision. If Heathrow is granted development consent, the new runway is expected to open in 2026.

We are continuing strong engagement with businesses across the UK. In 2018 we hosted 10 Business Summits at various locations across the UK. These summits help to increase the number of SMEs in the airport's multi-billion-pound supply chain. We have completed visits to all 65 longlisted Logistics Hubs sites and in 2019 we expect to draw up a shortlist of sites which will be invited to formal tender this year. The final selected sites will help deliver expansion efficiently by pioneering large-scale offsite manufacturing. We have also announced an Innovation Partnership programme calling for third parties to bring forward innovative ideas to deliver the airport's expansion plans more affordably and sustainably. After reviewing over 150 entries, we have announced a shortlist of 37, including local authorities, retail giants and airline partners which are now working on business cases for final consideration.

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

In parallel with the ongoing development consent process outlined above, we will continue to participate in the judicial review proceedings relating to the Government's decision to designate the Airports NPS – the hearing for which has now been set for March 2019. We are confident that the Government's decision-making process in designating the NPS was robust. To date, there have been no successful challenges against the designation of a NPS.

Expansion – H7 Regulatory developments

The CAA's fundamental objectives in developing the framework for the next regulatory period (known as H7) are to accelerate delivery of new capacity, drive competition and choice for the benefit of consumers and to strike an appropriate balance between affordability and financeability to support capacity expansion in the best interest of consumers. Guided by this objective, the CAA continues to progress its thinking on the H7 framework with a new consultation launched in October 2018: 'Economic regulation of capacity expansion at Heathrow: policy update and consultation' (CAP1722). In this consultation the CAA discusses a number of areas outlined below.

a) H7 is due to start in January 2022 and the CAA confirms that Heathrow should produce a Business Plan for H7 by the end of 2019 to commence the price setting process
b) the CAA assesses that there are merits to the case for a potential modification to Heathrow's licence by means of a new condition promoting economy and efficiency in the operation, maintenance and development of the airport
c) the CAA provides a further update on its approach to issues raised by potential alternative arrangements for delivering new capacity at Heathrow airport
d) the CAA also consults on its decision regarding its surface access policy and confirms the "user pays" principle.

Alongside the consultation documents, the CAA published a report assessing representations on the scarcity rents accruing to airlines operating at Heathrow. The report acknowledges the existence of scarcity rents and considers that further work is required in order to value them. It also dismisses the position that scarcity rents are competed away on a route by route basis.

The CAA plans to provide additional clarity on the regulatory framework in mid 2019 when it publishes its next consultation papers.

Expansion – iH7 Regulatory developments

Delivering an affordable expanded Heathrow is a very important issue for consumers and airlines. We've worked closely with our airline partners as we refine our master plan to meet the government's challenge to deliver expansion with average charges close to 2016 levels in real terms. In addition to the work under way on the H7 framework, based on an MoU agreed with major carriers, a Formal Agreement has been finalised between Heathrow and airlines on the aeronautical charges to be applied prior to the start of H7. The Formal Agreement has been signed recently by a number of key carriers from multiple alliances and groups representing well over half of Heathrow's traffic with most other carriers expected to sign in coming days as they complete internal governance. Under the Formal Agreement, we will offer a rebate to all airlines depending on actual passenger traffic volumes. The rebate creates an incentive for airlines to make better use of our existing capacity by way of a volume discount while also providing protection in the event that passenger volumes were to fall below current levels prior to 2022. Another benefit of the Formal Agreement is that it will enable all parties to concentrate on the longer term aim of securing a regulatory settlement for H7 which will support affordable and financeable expansion of Heathrow. The Formal Agreement remains subject to consultation by the CAA and will maintain all existing regulatory protections to investors.

Brexit

We continue to monitor progress made by the UK Parliament as it debates the proposed Withdrawal Agreement. While the continued delays in reaching an agreement increase uncertainty for UK businesses, the aviation industry remains well positioned as a result of the EU aviation contingency plans.

These plans ensure that in a potential no deal scenario and subject to a reciprocal offer by the UK, airlines will be able to continue to fly between the EU and UK. In addition, UK citizens will be permitted to travel visa free in the EU for up to 90 days and the EU will continue to recognise the UK for the 'EU One Stop Aviation Security Regime'. While these contingency arrangements are only intended to be in place until the end of 2019, if enacted, we anticipate that there will be very little, if any, impact on flights if the UK departs the E.U. without a deal.

Separately, the UK Government is continuing work to implement replacement Air Service Agreements (ASAs) for the 17 countries which are currently covered by the UK's membership of the EU. The Government has already indicated that a number of these ASAs, including the agreement with the US, have been agreed and the remaining agreements will be put in place well in advance of the termination of the EU contingency plans or the UK leaving the EU. These new ASAs, combined with the existing 111 bilateral agreements with international destinations, will ensure that the vast majority of traffic at Heathrow is unaffected by the outcome of the negotiations on the transition agreement.

We have a unique position as we are the UK's only hub airport and global gateway. We benefit from a very well diversified traffic mix, more stable passenger traffic and demand than any other European airport and a robust regulatory framework. We have taken an extremely responsible approach to both operational and financial planning for 2019. Extensive operational contingency plans have been developed which will help to minimise any potential impact on passengers. In addition to maintaining substantial headroom to our covenant levels, we raised close to £2.3 billion from global investors in 2018. This extends our liquidity horizon until March 2021 and ensures that Heathrow has sufficient resources to cope with a no-deal Brexit and still meet its obligations, including progressing our expansion plans.

Financial Review

Basis of presentation of financial results

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

Summary performance

In the year ended 31 December 2018, the Group's operating profit before certain re-measurements was £1,094 million (2017: £1,069 million) and its profit after tax was £333 million (2017: £484 million).

Year ended 31 December	2017 £m	**2018 £m**
Revenue	2,884	**2,970**
Adjusted operating costs	(1,124)	**(1,133)**
Adjusted EBITDA[(1)]	1,760	**1,837**
Depreciation and amortisation	(691)	**(743)**
Adjusted operating profit[(2)]	1,069	**1,094**
Net finance costs before certain re-measurements	(852)	**(827)**
Adjusted profit before tax[(3)]	217	**267**
Tax charge on profit before certain re-measurements	(48)	**(58)**
Adjusted profit after tax[(3)]	169	**209**
Including certain re-measurements		
Fair value gain on investment properties	149	**117**
Fair value gain on financial instruments	213	**38**

Tax charge on certain re-measurements	(47)	**(31)**
Profit after tax	484	**333**

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

For the year ended 31 December 2018, Adjusted EBITDA was £1,837 million (2017: £1,760 million) and EBITDA was £1,954 million (2017: £1,909 million) after adjusting for fair value gain/(loss) on investment properties.

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

Certain re-measurements comprise fair value movements on investment properties, which are mainly market-driven and over which management has little influence; fair value gains and losses on financial instruments which are subject to external financial market fluctuations; tax associated with these items and the effects of changes in tax rates, which are set by statute.

Revenue

In the year ended 31 December 2018, revenue increased 3.0% to £2,970 million (2017: £2,884 million).

Year ended 31 December	2017 £m	**2018 £m**	Var. %
Aeronautical	1,716	**1,745**	1.7
Retail	659	**716**	8.6
Other	509	**509**	0.0
Total revenue	2,884	**2,970**	3.0

Aeronautical income continues to benefit from record traffic growth offset by recoverable yield dilution as airlines employ cleaner and quieter aircraft as incentivised by our tariff structure. We continue to deliver strong value for passengers with average aeronautical revenue per passenger decreasing by 1% to £21.78. (2017: £22.00).

Year ended 31 December	2017 £m	**2018 £m**	Var. %
Retail concessions	304	**323**	6.3
Catering	56	**61**	8.9
Other retail	109	**128**	17.4
Car parking	120	**126**	5.0
Other services	70	**78**	11.4
Total retail revenue	659	**716**	8.6

Retail revenue growth was strong across all revenue streams with retail concession reflecting higher passenger numbers as well as our call to gate initiative which increases passenger dwell time in the departure lounge. Retail concessions were additionally boosted by the roll out of new digital capability on Heathrow boutique, allowing customers to reserve and collect their shopping, with 52 brands now offering this service. Catering also benefitted from the call to gate initiative, and strong performance in the year was further enhanced by refurbishments in Terminals 3 and 5, as well as "Grab & Go" offerings for passengers to take meals on flights. Other retail reflects a significant increase in advertising income from improved utilisation of advertising spaces. Retail revenue per passenger rose 5.8% to £8.94 (2017: £8.45).

Year ended 31 December	2017 £m	**2018 £m**	Var. %
Other regulated charges	240	**243**	1.3
Heathrow Express	127	**123**	(3.1)
Property and other	142	**143**	0.7
Total other revenue	509	**509**	0.0

Other revenue remained consistent with last year. Other regulated charges grew as a result of more passengers travelling through the airport resulting in more baggage being processed. Heathrow Express revenue declined with the cession of Heathrow connect services.

Operating costs before depreciation and amortisation

Operating costs before depreciation and amortisation increased 0.8% to £1,133 million (2017: £1,124 million). Operating costs per passenger excluding depreciation and amortisation declined by 1.9% to £14.14 (2017: £14.41).

Year ended 31 December	2017 £m	**2018 £m**	Var. %
Employment	374	**378**	1.1
Operational	252	**264**	4.8
Maintenance	176	**176**	0.0
Rates	126	**122**	(3.2)
Utilities and Other	196	**193**	(1.5)
Operating costs before depreciation and amortisation	1,124	**1,133**	0.8

Operating cost increases were primarily driven by expansion and investment in safety, security and resilience. In the early part of the year, we spent over £5 million in ensuring operations ran with limited disruption during one of the worst winters in recent years which impacted both maintenance and other costs. We also increased investment in our special assistance services, security costs to aid operational resilience and upgrading drone defence capabilities.

On a per passenger basis, costs have declined through cost efficiencies in people-related areas and a decline in Business Rates, offsetting increased pension charges of over £5m including one-off industry wide Guaranteed Minimum Payment equalisation of past service costs, and higher staff numbers to manage service and resilience while passenger numbers continue to increase.

Adjusted operating profit(1)

For year ended 31 December 2018, Heathrow SP recorded an operating profit before certain re-measurements of £1,094 million (2017: £1,069 million). Adjusted EBITDA increased 4.4% to £1,837 million (2017: £1,760million), resulting in an Adjusted EBITDA margin of 61.9% (2017: 61.0%). Depreciation and amortisation increased to £743 million (2017: £691 million).

Year ended 31 December	2017 £m	**2018 £m**	Var. %
Adjusted EBITDA	1,760	**1,837**	4.4
Depreciation and amortisation	(691)	**(743)**	7.5
Adjusted operating profit(1)	1,069	**1,094**	2.3

(1) Adjusted operating profit is operating profit before certain re-measurements

Taxation

The tax charge for the period, before certain re-measurements, was £58 million (2017: £48 million) resulting in an effective tax rate of 21.7% (2017: 22.1%), compared to the UK statutory rate of 19% (2017: 19.25%). The effective tax rate being higher than the statutory rate reflects the fact that a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief. The total tax charge for the year was £89 million (2017: £95 million). For the period ended 31 December 2018, the Group paid £70 million (2017: £53 million) in corporation tax.

Cash flow

In the year ended 31 December 2018, there was an increase of £78 million in cash and cash equivalents compared with an increase of £233 million in 2017.

At 31 December 2018, the Group had £711 million (2017: £525 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £591 million (2017: £513 million).

Cash generated from operations

In the year ended 31 December 2018, cash generated from operations increased 3.1% to £1,787 million (2017: £1,733 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2017 £m	**2018 £m**
Adjusted EBITDA	1,760	**1,837**
Increase in receivables and inventories(1)	(6)	**(46)**
Increase in payables	8	**10**
(Decrease)/Increase in provisions	(7)	**1**
Difference between pension charge and cash contributions	(22)	**(15)**
Cash generated from operations	1,733	**1,787**

(1) Excludes movement in group deposits

Restricted payments

In the year ended 31 December 2018, our ultimate shareholders received £500 million (2017: £525 million) in dividends reflecting the continued strong performance of the business. Total restricted payments paid by Heathrow SP in the period amounted to £222 million (net) or £786 million (gross). Other than the £485 million (2017: £506 million) payment made by Heathrow SP to Heathrow Finance to fund dividends to ultimate shareholders, net restricted payments related mainly to meeting £99 million (2017: £67 million) of interest on the debenture between Heathrow SP and Heathrow Finance and net cash flow of £363 million from Heathrow Finance to Heathrow SP.

RECENT FINANCING ACTIVITY

We have raised close to £2.3 billion of debt financing globally in 2018, further strengthening our liquidity position and providing additional duration and diversification to our £14 billion debt portfolio. Of the £2.3 billion of debt raised, just over £1,124 million was in Class A debt excluding extensions to existing facilities, £381 million in Class B debt and £786 million of new debt at Heathrow Finance.

Class A financing activity included:

a) a £145 million 18-year Class A US private placement and a £55 million US Private Placement due in 2043

b) a C$400 million 10-year public bond and a second C$400 million 12-year bond issuance. This was the first issuance by a UK based company with a maturity date beyond 10 years in the Canadian market

c) a £160 million 40-year Class A inflation-linked bond

d) an A$175 million 10-year Class A bond which was our debut issuance in the Australian market

e) a £200 million 10-year Class A term loan facility with Export Development Canada ('EDC'), the Canadian Export Credit Agency with a 12 month availability period; and

f) an amendment to an existing £418 million term loan facility to extend its maturity from March 2020 to October 2021, and restructured the £600 million liquidity facility to a 5 year rolling facility.

Class B financing activity included:

a) a £255 million private placement which matures between 2036 and 2041; and

b) a dual tranche £126 million inflation-linked bond with maturities of 15 years and 18 years which will fund in March 2020.

Finally, financing activity at Heathrow Finance included:

a) a £300 million 5.5 year bond

b) £486 million in loan facilities which will be drawn between 2018 and 2020; and

c) subsequent to the year-end, we also issued an irrevocable redemption notice for our 2019 Heathrow Finance bond on 28 January 2019.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 December 2018, Heathrow SP's nominal net debt was £12,407 million (31 December 2017: £12,372 million). It comprised £11,498 million in bond issues, £1,132 million in other term debt and £488 million in index-linked derivative accretion. This was offset by £711 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,054 million in senior net debt and £1,353 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 December 2018 was 3.63 % (31 December 2017: 3.92%). This includes interest rate, cross-currency and index-linked hedge impacts and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 31 December 2018 was 5.40% (31 December 2017: 5.75%). The reduction in the average cost of debt since the end of 2017 is mainly due to:

a) the replacement in 2018 of relatively high cost maturing legacy debt with newer lower cost debt; and

b) recent moves in inflation with the retail price index ('RPI') inflation falling from a high of 3.9% in September 2017 to 3.4% in June 2018.

The average life of Heathrow SP's gross debt as at 31 December 2018 was 12 years (2017: 11.4 years).

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

The accounting value of Heathrow SP's net debt was £12,158 million at 31 December 2018 (2017: £12,311 million). This includes £711 million of cash and cash equivalents and term deposits as reflected in the statement of financial position and excludes accrued interest.

We have sufficient liquidity to meet all our forecast needs in full until March 2021. This includes forecast capital investment (including expected investment over the period related to potential expansion), debt service costs, debt maturities and distributions. This liquidity position takes into account £2.9 billion in undrawn loan facilities and term debt as well as cash resources at 31 December 2018 together with expected operating cash flow over the period.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £13,980 million (2017: £13,674 million). This comprises the Heathrow SP's £12,407 million nominal net debt, Heathrow Finance's nominal gross debt of £1,577 million and cash held at Heathrow Finance of £4 million.

Net finance costs and net interest paid

In the year ended 31 December 2018, the Group's net finance costs before certain re-measurements from operations were £827 million (2017: £852 million) and net interest paid was £574 million (2017: £562 million). Reconciliation from net finance costs on the income statement to net interest paid on the cash flow statement is provided below.

Year ended 31 December	2017 £m	**2018 £m**
Net finance costs before certain re-measurements	852	**827**
Amortisation of financing fees and other items	(30)	**(21)**
Borrowing costs capitalised	46	**50**
Underlying net finance costs	868	**856**
Non-cash accretion on index-linked instruments	(270)	**(254)**
Other movements	(36)	**(28)**
Net interest paid	562	**574**

Underlying net finance costs were £856 million (2017: £868 million) after adjusting for capitalised borrowing costs of £50 million (2017: £46 million) and non-cash amortisation of financing fees, discounts and fair value adjustments of debt of £21 million (2017: £30 million).

Net interest paid was £574 million (2017: £562 million) of which £475 million (2017: £495 million) related to external debt. The remaining £99 million (2017: £67 million) of interest paid related to the debenture between Heathrow (SP) and Heathrow Finance.

Net interest paid is lower than underlying net finance costs primarily due to non-cash accretion on index-linked instruments.

Certain re-measurements include a £38 million fair value gain on financial instruments (2017: £213 million) driven mainly by an increase in long term Libor interest rate expectations.

Financial ratios

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

At 31 December 2018, Heathrow's RAB was £16,200 million (31 December 2017: £15,786 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 68.2% and 76.6% respectively (31 December 2017: 67.3% and 78.4% respectively). Heathrow Finance's gearing ratio was 86.3% (31 December 2017: 86.6%).

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme), which closed to new members in June 2008. At 31 December 2018, the defined benefit pension scheme, as measured under IAS 19, was funded at 100.7% (31 December 2017: 97.1%). This translated into a surplus of £28 million (31 December 2017: £124 million deficit). The £152 million increase in surplus in the year is primarily due to net actuarial gains of £141 million, attributable to an increase in the net discount rate of 0.45% over the year offset by assets having underperformed relative to the discount rate. In 2018, Heathrow contributed £48 million (31 December 2017: £50 million) into the defined benefit pension scheme including £23 million (31 December 2017: £23 million) in deficit repair contributions. Management believes that the scheme has no significant plan specific or concentration risks.

OUTLOOK

The outlook for our Adjusted EBITDA performance in 2019 remains consistent with the forecast set out in the Investor Report published on 20 December 2018. We also forecast to maintain comfortable covenant headroom.

2019 will see significant progress on our expansion plans including the recent launch of a consultation on airspace change in January, and the launch of the formal statutory consultation on our expansion masterplan in June.

KEY MANAGEMENT CHANGES

Chris Garton joined the company as Chief Operating Officer ('COO') in April 2018. He held a similar position for nine years at Dubai Airport until late 2016. He was most recently Director of Asset Management at Associated British Ports. During his career, Chris has also held a number of roles in engineering and change management at Gatwick Airport, INEOS and ICI. Mr Garton replaced Mr Derek Provan, who had been interim COO since October 2017.

Appendix 1 Financial information

Heathrow (SP) Limited

Consolidated income statement
for the year ended 31 December 2018

		Audited Year ended 31 December 2018			Audited Year ended 31 December 2017		
	Note	**Before certain re-measurements £m**	**Certain re-measurements[a] £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements[a] £m	Total £m
Continuing operations							
Revenue	*1*	**2,970**	**-**	**2,970**	2,884	-	2,884
Operating costs	*2*	**(1,876)**	**-**	**(1,876)**	(1,815)	-	(1,815)
Other operating items							
Fair value gain on investment properties		**-**	**117**	**117**	-	149	149
Operating profit		**1,094**	**117**	**1,211**	1,069	149	1,218
Financing							
Finance income[b]		**2**	**-**	**2**	3	-	3
Finance costs[b]		**(829)**	**38**	**(791)**	(855)	213	(642)
Net finance cost	*3*	**(827)**	**38**	**(789)**	(852)	213	(639)
Profit before tax		**267**	**155**	**422**	217	362	579
Taxation charge	*4*	**(58)**	**(31)**	**(89)**	(48)	(47)	(95)
Profit for the period		**209**	**124**	**333**	169	315	484

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

[b] Prior year finance income and finance costs have been restated by (£198) million and £198 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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Heathrow (SP) Limited

Consolidated statement of comprehensive income for the year ended 31 December 2018

	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Profit for the period	**333**	484
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions net of tax:		
(Loss)/gain on plan assets	**(192)**	62
Decrease/(increase) in scheme liabilities	**310**	(116)
Tax relating to indexation of operational land	**-**	2
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges:		
Losses taken to equity	**(162)**	(105)
Transfer to finance costs	**198**	121
Other comprehensive income/(loss) for the period net of tax	**154**	(36)
Total comprehensive income for the period[a]	**487**	448

[a] Attributable to owners of the parent.

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Heathrow (SP) Limited

Consolidated statement of financial position as at 31 December 2018

	Note	**Audited 31 December 2018 £m**	Audited 31 December 2017 £m
Assets			
Non-current assets			
Property, plant and equipment		**11,405**	11,307
Investment properties		**2,472**	2,350
Intangible assets		**173**	175
Retirement benefit surplus		**28**	-
Derivative financial instruments		**543**	444
Trade and other receivables		**20**	18
		14,641	14,294
Current assets			
Inventories		**13**	11
Trade and other receivables		**302**	258
Derivative financial instruments		**-**	170
Term deposits		**120**	12
Cash and cash equivalents		**591**	513
		1,026	964
Total assets		**15,667**	15,258
Liabilities			
Non-current liabilities			
Borrowings	*5*	**(14,813)**	(13,567)
Derivative financial instruments		**(1,523)**	(1,459)
Deferred income tax liabilities		**(907)**	(870)
Retirement benefit obligations		**(32)**	(158)
Provisions		**(1)**	(8)
Trade and other payables		**(7)**	(7)
		(17,283)	(16,069)
Current liabilities			
Borrowings	*5*	**(496)**	(1,363)
Derivative financial instruments		**(39)**	(7)
Provisions		**(13)**	(6)
Current income tax liabilities		**(39)**	(30)
Trade and other payables		**(433)**	(418)
		(1,020)	(1,824)
Total liabilities		**(18,303)**	(17,893)
Net liabilities		**(2,636)**	(2,635)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(216)**	(252)
Retained earnings		**828**	865
Total shareholder's equity		**(2,636)**	(2,635)

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Heathrow (SP) Limited

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Attributable to owners of the Company (Audited)					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2017	11	499	(3,758)	(268)	1,537	(1,979)
Comprehensive income:						
Profit for the period					484	484
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				16		16
Actuarial gain on pension net of tax:						
Gain on plan assets					62	62
Increase in scheme liabilities					(116)	(116)
Tax relating to indexation of operational land					2	2
Total comprehensive income	-	-	-	16	432	448
Transaction with owners:						
Dividends paid to Heathrow Finance plc	-	-	-	-	(1,104)	(1,104)
Total transaction with owners	-	-	-	-	(1,104)	(1,104)
31 December 2017	11	499	(3,758)	(252)	865	(2,635)
1 January 2018 (previously reported)	**11**	**499**	**(3,758)**	**(252)**	**865**	**(2,635)**
Adjustment in respect of:						
Transition to IFRS 15					**(1)**	**(1)**
Transition to IFRS 9					**(2)**	**(2)**
1 January 2018 (re-stated)	**11**	**499**	**(3,758)**	**(252)**	**862**	**(2,638)**
Comprehensive income:						
Profit for the period					**333**	**333**
Other comprehensive income:						
Fair value gain on cash flow hedges net of tax				**36**		**36**
Actuarial gain on pension net of tax:						
Loss on plan assets					**(192)**	**(192)**
Decrease in scheme liabilities					**310**	**310**
Total comprehensive income	**-**	-	-	**36**	**451**	**487**
Transaction with owners:						
Dividends paid to Heathrow Finance plc	**-**	-	-	-	**(485)**	**(485)**
Total transaction with owners	**-**	-	-	-	**(485)**	**(485)**
31 December 2018	**11**	**499**	**(3,758)**	**(216)**	**828**	**(2,636)**

Heathrow (SP) Limited

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Cash flows from operating activities			
Cash generated from continuing operations	*6*	**1,787**	1,733
Taxation:			
Corporation tax paid		**(70)**	(53)
Group relief paid		**(6)**	(12)
Net cash from operating activities		**1,711**	1,668
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(769)**	(669)
Investment properties		**(4)**	(1)
Intangible assets		**(20)**	(17)
(Increase)/decrease in term deposits[1]		**(108)**	368
Decrease in group deposits[2]		**-**	11
Interest received		**2**	5
Net cash used in investing activities		**(899)**	(303)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc		**(485)**	(1,104)
Increase in amount owed to Heathrow Finance plc		**363**	485
Proceeds from issuance of bonds		**771**	443
Repayment of bonds		**(910)**	(856)
Proceeds from issuance of other term debt		**245**	518
Repayment of facilities and other financing items		**(32)**	(41)
Settlement of accretion on index-linked swaps		**(110)**	(10)
Interest paid		**(576)**	(567)
Net cash used in financing activities		**(734)**	(1,132)
Net increase in cash and cash equivalents		**78**	233
Cash and cash equivalents at beginning of period		**513**	280
Cash and cash equivalents at end of period		**591**	513

[1] Term deposits with an original maturity of over three months are invested at Heathrow Airport Limited.
[2] Group deposits are amounts settled with LHR Airports Limited during the period under the terms of the Shared Services Agreement.

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Heathrow (SP) Limited

General information and accounting policies for the year ended 31 December 2018

General information

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

Accounting policies

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

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

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

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

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

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Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2018

1 Segment information

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

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis, before certain re-measurements and exceptional items.

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Segment Revenue		
Under IFRS 15		
Aeronautical		
Landing charges	**482**	470
Parking charges	**67**	63
Departing charges	**1,196**	1,183
Total Aeronautical revenue	**1,745**	1,716
Other regulated charges	**243**	240
Other revenue	**276**	260
Rail Income		
Heathrow Express	**123**	127
Other	**14**	9
Revenue reported under IFRS 15	**2,401**	2,352
Revenue recognised at a point in time	**2,275**	2,232
Revenue recognised over time	**126**	120
Total revenue reported under IFRS 15	**2,401**	2,352
Under IAS 17		
Retail (lease-related income)	**569**	532
Total revenue	**2,970**	2,884
Adjusted EBITDA		
Heathrow	**1,772**	1,688
Heathrow Express	**65**	72
Total adjusted EBITDA	**1,837**	1,760
Reconciliation to statutory information:		
Unallocated income and expense		
Depreciation and amortisation	**(743)**	(691)
Operating profit (before certain re-measurements)	**1,094**	1,069
Fair value gain on investment properties (certain re-measurements)	**117**	149
Operating profit	**1,211**	1,218
Finance income[1]	**2**	3
Finance costs[1]	**(791)**	(642)
Profit before tax	**422**	579
Taxation charge	**(89)**	(95)
Profit for the period	**333**	484

[1] Prior year finance income and finance costs have been restated by (£198) million and £198 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2018

2 Operating costs – ordinary

	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Employment	**378**	374
Operational	**264**	252
Maintenance	**176**	176
Rates	**122**	126
Utilities	**90**	86
Other	**103**	110
Total operating costs before depreciation and amortisation	**1,133**	1,124
Depreciation and amortisation	**743**	691
Total operating costs	**1,876**	1,815

3 Financing

	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Finance income		
Interest on deposits	**2**	3
Total finance income[4]	**2**	3
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(541)**	(574)
Bank loans and overdrafts and related hedging instruments	**(58)**	(61)
Interest payable on derivatives not in hedge relationship[2]	**(160)**	(184)
Facility fees and other charges	**(7)**	(7)
Net pension finance costs	**(4)**	(3)
Interest on debenture payable to Heathrow Finance plc	**(109)**	(71)
Unwinding of discount on provisions	**-**	(1)
	(879)	(901)
Less: capitalised borrowing costs[3]	**50**	46
Total finance costs[4]	**(829)**	(855)
Net finance costs before certain re-measurements[4]	**(827)**	(852)
Fair value gain on financial instruments		
Interest rate swaps: not in hedge relationship	**83**	61
Index-linked swaps: not in hedge relationship	**(90)**	134
Cross-currency swaps: ineffective portion of cash flow hedges	**21**	4
Cross-currency swaps: ineffective portion of fair value hedges	**24**	14
	38	213
Net finance costs	**(789)**	(639)

[1] Includes accretion of £47 million (2017: £48 million) on index-linked bonds.
[2] Includes accretion of £207 million (2017: £222 million) on index-linked swaps.
[3] Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 5.66 % (2017: 5.37%) to expenditure incurred on such assets.
[4] Prior year finance income and finance costs have been restated by (£198) million and £198 million respectively to present interest payable and receivable on derivatives not in a hedge accounting relationship as a single unit of account (net) through finance cost.

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Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2018

4 Taxation

	Audited Year ended 31 December 2018			Audited Year ended 31 December 2017		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax						
Current tax charge at 19% (2017: 19.25%)	**(87)**	**(3)**	**(90)**	(63)	(2)	(65)
Over provision in respect of prior years	**5**	**-**	**5**	-	-	-
Deferred tax:						
Current year (charge)/credit	**13**	**(21)**	**(8)**	3	(54)	(51)
Prior year credit/(charge)[1]	**11**	**(7)**	**4**	12	9	21
Taxation charge for the period	**(58)**	**(31)**	**(89)**	(48)	(47)	(95)

[1] Prior year credit includes a £7 million debit adjustment in relation to revaluations of property, plant and equipment and an £11 million credit adjustment for accelerated capital allowances (2017 includes a £9 million credit adjustment primarily in relation to investment properties and a £12 million credit adjustment primarily for accelerated capital allowances).

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting profits of the Group for the reasons set out in the following reconciliation:

	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Profit before tax (before certain re-measurements)	**267**	217
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2017: 19.25%)	**(51)**	(42)
Adjustments in respect of current income tax of previous years	**5**	
Effect of change in tax rate	**(2)**	-
Net non-deductible expenses	**(21)**	(18)
Adjustments in respect of deferred income tax of previous years[1]	**11**	12
Total tax charge before certain re-measurements excluding change in UK corporation tax rate	**(58)**	(48)
Tax charge on certain re-measurements[2]	**(31)**	(47)
Taxation charge for the year	**(89)**	(95)

[1] 2018 prior year adjustment relates primarily to accelerated capital allowances.

[2] This consists of the tax impact arising from fair value gains/losses on investment property revaluations, fair value gains/losses on financial instruments and a prior year adjustment relating to the revaluations of property, plant and equipment.

The total tax charge recognised for the year ended 31 December 2018 was £89 million (2017: £95 million). Based on a profit before tax for the year of £422 million (2017: £579 million loss), this results in an effective tax rate of 21.1% (2017: 16.4%).

The total tax charge before certain re-measurements for the year ended 31 December 2018 was £58 million (2017: £48 million), which includes an £11 million prior year deferred tax credit adjustment (2017: £12 million prior year deferred tax credit adjustment) relating primarily to accelerated capital allowances. Based on a profit before tax and certain re-measurements of £267 million (2017: £217 million), this results in an effective tax rate of 21.7% (2017: 22.1%). The tax charge for 2018 is more (2017: more) than implied by the statutory rate of 19% (2017: 19.25%) primarily due to non-deductible expenses and because a substantial proportion of Heathrow's capital expenditure does not qualify for tax relief.

In addition, there was a £31 million tax charge (2017: £47 million tax charge) reflecting the tax impact arising from fair value gains on investment property revaluations and fair value gains/losses on financial instruments and there was a prior year adjustment relating to the revaluations of property, plant and equipment.

The headline UK corporation tax rate was 20% up until 1 April 2017, when it reduced to 19%. This is due to fall to 17% with effect from 1 April 2020. The effect of these rate reductions has been reflected in the deferred tax balances in the financial statements.

In November 2017 the Finance (No.2) Act 2017 received Royal Assent, giving effect to a new interest deductibility regime. This regime is in response to the Organisation for Economic Co-operation and Development (OECD) reports on base erosion and profit shifting (BEPS). As a result of the new legislation, from 1 April 2017, interest deductions are limited to 30% of tax based EBITDA, with the ability to apply a group ratio rule (GRR) and a public infrastructure exemption (PIE). The Heathrow Group is to a large extent protected from the 30% of tax based EBITDA cap therefore no material interest disallowance has been reflected in the 2018 tax charge (2017: nil).

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

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

Heathrow
Making every journey better

Heathrow (SP) Limited

Notes to the consolidated financial information for the year ended 31 December 2018

5 Borrowings

	Audited 31 December 2018 £m	Audited 31 December 2017 £m
Current borrowings		
Secured		
Heathrow Airport Limited debt:		
Loans	**17**	33
Heathrow Funding Limited bonds:		
4.600% €750 million due 2018	**-**	665
6.250% £400 million due 2018	**-**	399
4.000% C$400 million due 2019	**230**	-
Total current (excluding interest payable)	**247**	1,097
Interest payable – external	**213**	239
Interest payable – owed to group undertakings	**36**	27
Total current	**496**	1,363
Non-current borrowings		
Secured		
Heathrow Funding Limited bonds		
4.000% C$400 million due 2019	**-**	235
6.000% £400 million due 2020	**399**	398
9.200% £250 million due 2021	**260**	266
3.000% C$450 million due 2021	**256**	260
4.875% US$1,000 million due 2021	**783**	748
1.650%+RPI £180 million due 2022	**213**	206
1.875% €600 million due 2022	**549**	545
5.225% £750 million due 2023	**691**	683
7.125% £600 million due 2024	**593**	592
0.500% CHF400 million due 2024	**310**	293
3.250% C$500 million due 2025	**281**	286
4.221% £155 million due 2026	**155**	155
6.750% £700 million due 2026	**693**	693
2.650% NOK1,000 million due 2027	**90**	90
3.400% C$400 million bond due 2028	**232**	-
7.075% £200 million due 2028	**198**	198
4.150% A$175 million due 2028	**99**	-
2.500% NOK1,000 million due 2029	**79**	81
3.782% C$400 million bond due 2030	**229**	-
1.500% €750 million due 2030	**629**	624
6.450% £900 million due 2031	**853**	851
Zero-coupon €50 million due January 2032	**59**	57
1.366%+RPI £75 million due 2032	**85**	82
Zero-coupon €50 million due April 2032	**58**	56
1.875% €500 million due 2032	**447**	442
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**50**	49
1.061%+RPI £180 million due 2036	**197**	191
1.382%+RPI £50 million due 2039	**56**	55
3.334%+RPI £460 million due 2039	**626**	608
1.238%+RPI £100 million due 2040	**111**	107
5.875% £750 million due 2041	**738**	738
2.926% £55million due 2043	**55**	-
4.625% £750 million due 2046	**742**	742
1.372%+RPI £75 million due 2049	**85**	82
2.750% £400 million due 2049	**392**	392
0.147%+RPI £160 million due 2058	**164**	-

5 Borrowings *continued*

	Audited 31 December 2018 £m	Audited 31 December 2017 £m
Total bonds	**11,507**	10,855
Heathrow Airport Limited debt:		
Class A1 term loan due 2020	**418**	416
Class A2 term loan due 2024	**100**	-
Term note due 2026-2037	**585**	439
Loans	**12**	29
Unsecured		
Debenture payable to Heathrow Finance plc	**2,191**	1,828
Total non-current	**14,813**	13,567
Total borrowings (excluding interest payable)	**15,060**	14,664

6 Cash generated from operations

	Audited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Operating activities		
Profit before tax	**422**	579
Adjustments for:		
Finance costs	**791**	642
Finance income	**(2)**	(3)
Depreciation and amortisation	**743**	691
Fair value gain on investment properties	**(117)**	(149)
Working capital changes:		
Increase in inventories and trade and other receivables	**(46)**	(6)
Increase in trade and other payables	**11**	8
Decrease in provisions	**-**	(7)
Difference between pension charge and cash contributions	**(15)**	(22)
Cash generated from operations	**1,787**	1,733

Glossary

ADI Finance 2 Limited – ‘ADIF2’

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

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

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

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

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

Regulatory asset ratio ‘RAR’ is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 90.0% until Heathrow Finance 2019 Notes either mature, are repaid or consent is obtained to change covenant level from when covenant moves to 92.5%

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

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