HEATHROW (SP) LIMITED

RESULTS FOR THE 6 MONTHS ENDED 30th JUNE 2023

Great service and resilient demand drive a strong start to 2023 – Our teams welcomed 37 million passengers in the first half, which included some of the busiest days on record. We are giving great passenger service, with almost all passengers waiting less than five minutes at security as the summer peak gets underway. Overall passenger numbers still remain consistently below pre-pandemic levels, and the cost of living crisis is a material headwind for second-half demand. We have also now agreed on a fair two-year pay deal for all frontline colleagues.

Connecting all of Britain to global growth – Passengers can choose from over 225 destinations this summer as airlines add more routes and frequencies to their Heathrow networks. Loganair has taken advantage of our lower domestic charges to increase routes, and 12 UK airports are now connected to the UK's hub airport. Heathrow remains the best gateway in Europe for flights to the US, with 248 daily flights to 31 US destinations, and is currently better connected to India and China than European hub competitors. British Airways has launched a new route to Cincinnati, JetBlue added another service to New York, and LATAM has been allocated slots to begin a new non-stop connection to Lima, Peru.

Investing in passenger service to maintain Britain's hub – While we await the outcome of the CMA appeal, we are preparing to kick off the next phase of our investment in Heathrow to improve service. Plans for up to £3.7 billion of passenger improvements will include the replacement of the Terminal 2 baggage system and streamlining security in all terminals.

Losses halved to £139 million – Adjusted losses before tax narrowed to £139 million in the first half, but we remain lossmaking due to the CAA setting too low a revenue allowance in the H7 regulatory settlement to generate enough cashflow, and this has been appealed. Our balance sheet is strong, with gearing well below pre-pandemic levels and £4bn of liquidity, sufficient to cover all of our commitments for at least the next 24 months. We are not forecasting any dividends in 2023.

We continue to lead the industry in reducing the use of fossil fuels – We are the first airport in the world to issue a sustainability-linked bond which includes ambitious targets for reducing carbon emissions from aircraft as well as on the ground. We look forward to Virgin Atlantic's flight from Heathrow to JFK later this year, powered entirely by Sustainable Aviation Fuel. We urge policymakers to create a domestic sustainable aviation fuels industry which will create new green jobs, reduce costs for UK consumers and help achieve net zero targets.

New CEO appointed – John Holland-Kaye will step down as CEO in October after nine years, during which time he has transformed customer service at Heathrow, built a strong and diverse team, secured parliamentary support for expansion and established Heathrow as a leader in sustainability. Thomas Woldbye, the current boss of Copenhagen Airport, will take over from John, bringing fantastic experience from turning it into the hub of choice for passengers in Northern Europe.

At or for 6 months ended 30 June	2022	2023	Change (%)
Passengers (million)[6]	26.1	37.1	42.1
(£m unless otherwise stated)			
Revenue	1,280	1,742	36.1
Adjusted EBITDA[2][4]	744	1,070	43.8
Cash generated from operations	755	887	17.5
Profit before tax	263	279	6.1
Adjusted Loss before tax[1][4]	(321)	(139)	56.7
Heathrow (SP) Limited consolidated nominal net debt[3][4]	14,579	14,774	1.3
Heathrow Finance plc consolidated nominal net debt[3][4]	15,786	15,960	1.1
Regulatory Asset Base[5]	19,182	19,945	4.0

"The summer getaway has got off to a great start, thanks to planning and close collaboration with airlines and their ground handlers. I am immensely proud of what we have achieved as a team in the last nine years, transforming Heathrow into a world-class airport that Britain can be proud of. Heathrow is now a leader in sustainability, with a diverse culture that reflects our local community and can attract the best talent from around the world."

John Holland-Kaye | Heathrow CEO

Heathrow
Making every journey better

NOTES

(1) Adjusted loss before tax excludes non-cash fair value adjustments on investment properties and financial instruments
(2) EBITDA (30 June 2023: £1,210m, 30 June 2022: £962m is profit before interest, taxation, depreciation and amortisation. Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties
(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. 2022 figures are as at 31 December 2022
(4) A reconciliation of our Alternative Performance Measures ('APMs') can be found in note 14
(5) The Regulatory Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital uplifted by inflation on which we are authorised to earn a cash return. 2022 figures are as at 31 December 2022
(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 and presentation hosted by John Holland-Kaye, CEO and Javier Echave, CFO

Wednesday July 26th, 2023

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

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Webcast Audience URL:

https://onlinexperiences.com/Launch/QReg/ShowUUID=4F57B11C-BF3A-484F-B98D-0667F1EFB048

This link gives participants access to the live event.

Audio Conference Call Access:

https://register.vevent.com/register/BI66d6270b39d54ca7a5869930905d1b5e

This link allows participants to register to obtain their personal audio conference call details.

STRATEGIC PRIORITIES

Our vision remains to give passengers the best airport service in the world and our plan is centred around four strategic priorities which are fundamental to achieving our vision:

- **Mojo:** making Heathrow a great place to work;
- **Transform customer service:** driving excellent service;
- **Beat the plan:** creating long-term sustainable value for all stakeholders and remaining highly competitive; and
- **Sustainable growth:** pursuing our options to grow by building back better.

The following performance metrics provide a picture of each of the four priorities for the six months ended 30 June 2023. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2022	2023
Colleague promotions	227	338
Managerial training	180	739
Lost time injuries	0.51	0.29

(1) For the 6 months ended 30 June

Our goal is to ensure that Heathrow remains an excellent workplace, offering exceptional opportunities for our employees to advance their careers. We have continued building strong leadership capability with 338 colleagues (2022: 227) promoted and 739 (2022: 180) assigned to training and development programmes in the first six months of the year. Our initiatives to promote internal talent, such as the internal careers hub and career champions, combined with our recently launched 'Lead the Way' training programme, has driven a large increase in managerial training and a significant number of promotions. We are also committed to the safety of our passengers and colleagues to ensure everyone goes home safely every day. For the six months ended 30 June 2023, our lost time injuries metric was 0.29 (2022: 0.51), a significant reduction compared to 2022.

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2022	2023
Airport Service Quality - ASQ (2)	4.05	3.99
Helpfulness/Attitude of Airport Staff (QSM) (2)	4.41	4.38
Arrival punctuality %	73.0	68.6
Departure punctuality %	63.6	63.5
Security queuing %	80.7	94.1
Baggage connection %	98.7	98.2

(1) For the 6 months ended 30 June
(2) 2022 comparative restated to be comparable H1 number

Over the first six months, the majority of passengers had a great experience at the airport. Service levels were improved and our strong contingency plans kept the airport running smoothly during the periods of industrial action in April and May. We achieved an overall ASQ rating of 3.99 out of 5.00 in the first half of the year. This represents a further improvement on the second half of last year (H2 2022: 3.89) but remains below the same period in 2022 (H1 2022: 4.05) and 2019 (H1 2019: 4.18), as passenger volumes have continued to recover. Overall, 74% of passengers surveyed in H1 2023 rated their Heathrow experience as either 'Excellent' or 'Very good', a 3% pts decline versus 2022, with more passengers rating 'Good' and 'Fair'. The proportion of 'Poor' ratings remained low at only 1%.

For the six months ended 30 June 2023, satisfaction with Helpfulness/Attitude of Airport Staff ('QSM') declined to 4.38, slightly lower than last year (2022: 4.41) as the airport welcomed 42% more passengers. However, levels were marginally higher than the same period in 2019 (4.36). Overall, 44% of passengers rated Helpfulness/Attitude of Airport Staff as 'Excellent' during the first half, a 5% pts increase vs. the same period in 2019, with the proportion of 'Poor/Extremely Poor' ratings remaining extremely low at 1%.

Overall operational resilience was strong in the first six months of the year. Security performance has been very good, with 94.1% (2022: 80.7%) of passengers through security within 5 minutes. Punctuality has come under pressure with a number of weather events, strike action within Europe and airspace congestion contributing to 63.5% (2022: 63.6%) of flights departing within 15 minutes of their schedule. Baggage connection performance has remained robust at 98.2% (2022: 98.7%). Our efforts to restore capacity are proceeding as planned, and resources are back to pre-pandemic levels. We are ready for the Summer getaway and will continue focusing on building experience and operational resilience over the second half of the year.

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2022	2023	Var % (2)
UK	1.6	2.1	31.3
Europe	11.2	14.7	31.3
North America	6.2	9.3	50.0
Asia Pacific	2.0	4.5	125.0
Middle East	3.0	3.7	23.3
Africa	1.3	1.8	38.5
Latin America	0.8	1.0	25.0
Total passengers	**26.1**	**37.1**	**42.1**

(1) For the 6 months ended 30 June
(2) Calculated using unrounded passenger figures

Other traffic performance indicators (1)	2022	2023	Var % (2)
Passenger ATM	166,094	217,135	30.7
Load factors (%)	72.9	77.3	6.0
Seats per ATM	215.2	220.8	2.6
Cargo tonnage ('000) (3)	711	663	(6.8)

(1) For the 6 months ended 30 June
(2) Calculated using unrounded passenger figures
(3) Cargo tonnage includes mail volumes

The first six months saw further passenger growth, as a total of 37.1 million passengers travelled through the airport (2022: 26.1 million), an increase of 42.1% versus 2022 and 96% of pre-pandemic levels.

There was an increase in inbound tourism and the proportion of business travel also increased from 27% in the first half of 2022 to 29% in 2023, compared to 34% in 2019.

Several markets are showing strong performance compared to 2019. These markets include Africa, North and Latin America, the Middle East, and South Asia. The benefits of these trade and tourism links demonstrate the critical importance of Heathrow as the UK's gateway to the world. The Asia Pacific region has also experienced significant recovery from the fuller reopening of borders this year, with June standing at 87% of the same month in 2019.

The average number of seats per passenger aircraft remained higher than last year and pre-pandemic at 221 versus 215 in 2022 and 213 in 2019. This increase offsets some of the decrease in passenger air traffic movements ('PATMs') compared to 2019, resulting in a net increase in passengers per movement.

Our cargo tonnage decreased by 6.8% compared to the first six months of 2022. Even with belly hold capacity back to normal on many routes, tonnage remains down as the global air cargo industry is suffering the effects of various macroeconomic factors resulting in weak demand.

SUSTAINABLE GROWTH

Net zero aviation – Decarbonising the aviation sector remains a key priority for Heathrow. We are pleased to have achieved science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. Heathrow is the first airport to achieve this status with SBTi's updated 1.5 degrees standard. Additionally, a key milestone was reached in June for the H7 Carbon and Sustainability capital programme – with the programme now defined and its business case approved.

The Sustainable Aviation Fuels ('SAF') incentive scheme continues to make SAF a regular feature of fuel supply at the airport. A success in 2022, the incentive has been increased from 0.5% to 1.5% in 2023 of total fuel forecasted for 2023, and it has once again been oversubscribed. In 2023, 14 airlines (7 new) submitted bids, 114% of the year's goal. The scheme contributes to both keeping Heathrow highly competitive with other airports with regular SAF supply outside the UK and it signals real increased demand for SAF domestically, even more relevant following the Government's second SAF mandate consultation.

To progress the '30 by 30' campaign, which urges corporates to purchase 30% SAF by 2030 for their business travel, we have developed a plan and criteria to engage with organisations to secure their commitment. We anticipate announcing signatories of the campaign at COP28 in Q4. Current policies do not cover all the SAF needed by 2030, so organisations can act through campaigns like '30 by 30' to help signal demand in the market. Corporations coming together demonstrating they want to be part of the solution to achieve net zero air travel sends a demand signal for SAF to governments, which can develop policies to escalate its production.

Heathrow is a member of the UK industry coalition Sustainable Aviation ('SA'). In April 2023, SA published its latest decarbonisation roadmap, confirming UK aviation can grow and get to net zero. This latest analysis shows aviation can reduce 87% of its emissions in-sector by 2050, more than was previously thought.

In June, we published our Sustainability-Linked Bond ('SLB') framework, before issuing our debut SLB in July. Further details can be found in the Recent Financing Activity section below. This demonstrates our commitment to sustainability by incorporating it in our funding strategy.

A great place to live and work – We are committed to Heathrow being a great place to live and work. It is critical to ensure our airport is a diverse and inclusive workplace for all, and that we provide the skills, education and long-term employment opportunities that make the airport the local employer of choice. We must also be a valuable neighbour for those who live closest to us, making sure these communities benefit from cleaner air, quieter nights and improved quality of life.

A range of key stakeholders have been consulted to inform the development of Heathrow's draft Noise Action Plan 2024-28. Public consultation on the draft took place from June to July and the final Noise Action Plan will be submitted to Defra for approval by the end of September.

In June 2023, we held the second in a series of Heathrow Lift-Off events scheduled to take place throughout 2023. These are designed to give local small and medium-sized businesses the opportunity to present to Heathrow and to a group of our tier 1 suppliers.

Since the launch of Heathrow's Giving Back Programme in January, colleagues have already delivered over 1,500 hours of volunteering to benefit local communities, with further opportunities planned for the rest of the year.

We have delivered over 4,000 work experience opportunities since the start of the year through a combination of T-Levels placements, Essential Skills Masterclasses for students with additional learning needs, and an engineering insights experience for local students.

Key regulatory developments - On 8 March 2023, the CAA published its Final Decision for the H7 regulatory period. The decision sets an average price cap of £23.06 (2020 CPI) across H7. This will be implemented through a flat charge of £21.03 (2020 CPI) across 2024 to 2026, with the current interim price cap (£31.57 nominal) retained for 2023.

Following the publication of the Final Decision, we filed an appeal of the CAA's decision to the CMA, formally requesting the CMA to review the following parts of the CAA's decision:

- The decision on WACC, specifically on the asset beta and the cost of embedded debt;
- The decision to only apply a £300m RAB adjustment following the impact of COVID-19;
- The decision to apply an additional K- Factor to claw back over recovery against the yield per passenger in 2020 and 2021, effectively returning 25% of Heathrow's aeronautical revenue over those years; and

- The CAA's new capital incentive framework which will be more costly and complex.

Alongside Heathrow's appeal, British Airways, Virgin Atlantic and Delta also appealed the CAA's H7 Final Decision to the CMA. Airlines also appealed the decisions on WACC and the RAB adjustment alongside appealing additional grounds on the CAA's passenger forecast and the asymmetric risk allowance. On 11 May 2023, the CMA granted permission for both Heathrow and the airlines to appeal on all grounds. The CMA has also granted permission for Heathrow to intervene in the grounds appealed by the airlines, allowing Heathrow to make representations on the passenger forecast and asymmetric risk allowance grounds.

Hearings on each of the grounds of appeal will take place through July 2023, with a decision being taken by the CMA by 17 October 2023. In advance of its decision, the CMA will publish a provisional determination to all parties in early September. All parties will be able to make representations on the provisional determination through September.

Expansion developments - We are conducting an internal review of the work that we have carried out and the different circumstances we find the aviation industry in, and this will enable us to progress with appropriate recommendations. The Government's ANPS continues to provide policy support for our plans for a third runway and the related infrastructure required to support an expanded airport.

PRINCIPAL RISKS

The principal strategic, corporate and operational risks at 30 June 2023 remain consistent with those presented in the Annual Report and Finance Statements for the year ended 31 December 2022.

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 UK adopted international accounting standards.

The financial information presented within these financial statements has been prepared on a going concern basis. More detail can be found in the going concern statement on page 16.

Alternative performance measures

Management uses Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. A reconciliation of our APMs has been included in note 14.

Summary performance

In the six months ended 30 June 2023, the Group's revenue increased by 36.1% to £1,742 million (2022: £1,280 million). Adjusted EBITDA increased to £1,070 million (2022: £744 million). The Group recorded an adjusted loss before tax of £139 million (2022: £321 million) after adjusting for non-cash fair value gains on financial instruments and investment properties and the related tax charge. Without these adjustments, the Group recorded a profit before tax of £279 million (2022: £263 million). Profit after tax for the period was £181 million (2021: £183 million).

6 months ended 30 June	2022 £m	2023 £m
Revenue	1,280	1,742
Adjusted operating costs(1)	(536)	(672)
Adjusted EBITDA(2)	**744**	**1,070**
Depreciation and amortisation	(372)	(367)
Adjusted operating profit(3)	**372**	**703**
Net finance costs before certain re-measurements	(693)	(842)
Adjusted loss before tax(4)	**(321)**	**(139)**
Tax credit on loss before certain re-measurements	67	7
Adjusted loss after tax(4)	**(254)**	**(132)**
Including certain re-measurements(5):		
Fair value gain on investment properties	218	140
Fair value gain on financial instruments	366	278
Tax charge on certain re-measurements	(147)	(105)
Profit after tax	**183**	**181**

(1) Adjusted operating costs exclude depreciation, amortisation and fair value adjustments on investment properties.
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(3) Adjusted operating profit excludes non-cash fair value adjustments on investment properties.
(4) Adjusted loss before and after tax excludes non-cash fair value adjustments on investment properties and financial instruments.
(5) Certain re-measurements consist of non-cash 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.

Revenue

In the six months ended 30 June 2023, revenue increased 36.1% to £1,742 million (2022: £1,280 million). Revenue increased by 21.5% during the second quarter in isolation compared to the same period last year, reflecting the strong increase in passenger numbers.

6 months ended 30 June	2022 £m	2023 £m	Var. %
Aeronautical	810	1,160	43.2
Retail	247	322	30.4
Other	223	260	16.6
Total revenue	**1,280**	**1,742**	**36.1**

Aeronautical revenue increased by 43.2%. This increase continues to be driven by higher passenger numbers, an increase in aero charges, set by the CAA's interim tariff, and air traffic movements. Aeronautical revenue per passenger increased 0.7% to £31.29 (2022: £31.07).

6 months ended 30 June	2022 £m	2023 £m	Var. %
Retail concessions	89	117	31.5
Catering	24	37	54.2
Other retail	24	31	29.2
Car parking	65	82	26.2
Other services	45	55	22.2
Total retail revenue	**247**	**322**	**30.4**

Retail revenue increased by 30.4%, with all areas seeing strong growth driven by higher departing passengers. Retail revenue per passenger decreased 8.3% to £8.68 (2022: £9.47), due to the removal of duty free shopping.

6 months ended 30 June	2022 £m	2023 £m	Var. %
Other regulated charges – ORCs	109	112	2.8
Heathrow Express	41	49	19.5
Property and other	73	99	35.6
Total other revenue	**223**	**260**	**16.6**

Other revenue increased by 16.6%. The strong growth in Heathrow Express revenue is attributed to increased passenger numbers. Property revenue increases were a result of terminal facility lease renewals.

Adjusted operating costs

Adjusted operating costs increased 25.4% to £672 million (2022: £536 million). Operating costs increased 17.4% during the second quarter in isolation compared to the same period last year. Adjusted operating costs per passenger decreased by 11.9% to £18.11 (2022: £20.56). The adjusted operating costs per passenger are largely distorted by the fixed nature of our cost base, as we saw lower passenger numbers in the prior year.

6 months ended 30 June	2022 £m	2023 £m	Var. %
Employment	173	192	11.0
Operational	142	196	38.0
Maintenance	82	103	25.6
Rates	59	58	(1.7)
Utilities and Other	80	123	53.8
Adjusted operating costs	**536**	**672**	**25.4**

Employment costs have increased in line with rebuilding capacity due to building resources for higher passenger volumes. This includes costs associated with additional colleagues, overtime, recruitment and training. The rise in operational costs is mainly due to third party resourcing, supporting operational resilience, and service quality rebates incurred. The increase in maintenance is largely driven by terminal cleaning and conservation of baggage, terminal and airside areas. Rates continue to be in line with previous years. Finally, utilities and other costs have been impacted by higher consumption and higher energy prices.

Operating profit and Adjusted EBITDA

In the six months ended 30 June 2023, the Group recorded an operating profit of £843 million (2022: £590 million). The operating profit was driven by higher revenue. Adjusted EBITDA increased to £1,070 million (2022: £744 million).

6 months ended 30 June	2022 £m	2023 £m
Operating profit	**590**	**843**
Depreciation and amortisation	372	367
EBITDA	**962**	**1,210**
Exclude:		
Fair value gain on investment properties	(218)	(140)
Adjusted EBITDA	**744**	**1,070**

Profit after tax

In the six months ended 30 June 2023, the Group recorded a profit before tax of £279 million (2022: £263 million) and a profit after tax of £181 million (2021: £183 million).

6 months ended 30 June	2022 £m	2023 £m
Operating profit	**590**	**843**
Net finance cost before certain remeasurements	(693)	(842)
Fair value gain on financial instruments	366	278
Profit before tax	**263**	**279**
Taxation charge	(80)	(98)
Profit after tax	**183**	**181**

Net finance cost before certain re-measurements was £842 million (2022: £693 million) driven by an 11.3% annual RPI growth rate as published in June 2023, and the associated increase in inflation accretion expense.

A non-cash fair value gain on financial instruments of £278 million (2022: £366 million) arose primarily due to an average increase in forward interest rates expectations of 91 bps following Bank of England rate rises leading to a gain in interest rate swaps and a decrease in the net present value of debt. In addition, an average 21bps decrease in forward inflation expectations has reduced the liability value of index-linked swaps.

Taxation

The total tax charge for the six-month period ended 30 June 2023 was £98 million (2022: £80 million). This total tax charge consists of two components:

Firstly, a tax credit on losses before certain re-measurements of £7 million (2022: £67 million), based on an effective tax rate of 5.0% (2022: 20.9%), applied to the losses before certain re-measurements for the six-month period. This rate represents Heathrow's current best estimate of the effective tax rate expected for the full year. The tax credit is significantly lower than the blended statutory rate of 23.5% primarily due to a large amount of depreciation which is unallowable for tax purposes. As the loss before certain re-measurements for the six months ended 30 June 2023 is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

Secondly, a deferred tax charge of £105 million was recognised on gains on certain remeasurements (fair value movements on financial instruments and investment properties) for the six months ended 30 June 2023 (2022: £147 million tax charge), based on a rate of 25% applied to the gains on certain re-measurements for the six-month period.

See note 4, page 22, for detail on corporation tax rates applied.

Cash position

At 30 June 2023, the Group had £1,163 million (31 December 2022: £1,833 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £228 million (31 December 2022: £285 million). In the six months ended 30 June 2023, there was a decrease of £57 million in cash and cash equivalents (2022: an increase of £5 million). In addition, in the six months ended 30 June 2023, there was a decrease of £613 million in term deposits (2022: a decrease of £1,340 million) mainly due to the repayment of the £750 million Class A bond in February.

Cash generated from operations

In the six months ended 30 June 2023, cash generated from operations increased 17.5% to £887 million (2022: £755 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

6 months ended 30 June	2022 £m	2023 £m
Cash generated from operations	**755**	**887**
Exclude:		
Increase in inventories and trade and other receivables	31	99
(Increase)/decrease in payables	(43)	82
Decrease in provisions	1	-
Difference between pension charge and cash contributions	(1)	2
Cash payments in respect of exceptional items	1	-
Adjusted EBITDA	**744**	**1,070**

Capital expenditure

Total cash spent on capital expenditure in the six months ended 30 June 2023 was £279 million (2022: £215 million), versus total capital additions of £296 million (2022: £249 million) which includes capital creditor movements. Our H7 capital investment plan is centred around six core programmes which will run throughout the regulatory period – asset management and compliance, replacing the Terminal 2 baggage system, next generation security, investing in our commercial proposition, investing in carbon and sustainability to deliver our Net Zero goals and investment to improve efficiency and service.

During the first six months of 2023, we have invested £295 million across our 6 core programmes to ensure the airport's safety, resilience and compliance whilst continuing to invest in our customer proposition and strategic initiatives.

We also invested £1 million in the period (2022: £1 million) on projects related to expansion under the property hardship scheme. Expansion-related capital expenditure includes Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Heathrow has invested £396 million in Category B costs and £137 million in Category C costs, equalling £533 million (after £10 million of re-work impairment recognised in 2020 and including capitalised interest).

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 six months ended 30 June 2023, total restricted payments (gross and net) made by Heathrow SP amounted to £95 million (2022: £1.1 billion). This funded scheduled interest payments on debt at Heathrow Finance and ADIF2 Limited. No payments to ultimate shareholders were made during the period.

RECENT FINANCING ACTIVITY

In the first six months of 2023, we secured £85 million in new Class A debt through the private placement market (settlement occurring in July 2023), with maturities in 2038 and 2043. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio. In February 2023, we repaid a Class A bond of £750 million. Also during the year, we made early paydowns of accretion on our inflation swaps totalling £159 million.

As noted in the Sustainable Growth section above, we published our SLB framework in June, where we have selected Key Performance Indicators ('KPIs') that address 100% of our carbon footprint – including those from airlines, coherent with a science-based 1.5 degree carbon emissions reduction trajectory, which is a first for the broader airport sector. We set ambitious Sustainability Performance Targets ('SPTs') for 2026 and 2030 that will help track our progress towards our sustainability objectives over the coming years. Our framework received a second party opinion from DNV Business Assurance Services UK Limited, confirming the KPIs are robust, core and material to our business. In addition, the second party opinion confirmed the framework is aligned with the five core components of the International Capital Market Association Sustainability-linked Bond Principles, June 2023 version.

Following the publication of our framework, in July, we priced our debut SLB, a €650 million 10 year trade using the 2030 SPTs. This transaction reinforces our commitment to sustainability by incorporating it into our funding strategy. The bond proceeds were swapped back to GBP and this included our first Sustainability-Linked Derivative ('SLD'). The SLD has the same 2030 SPTs as the SLB. If the targets are missed, the premium on the cost of the transaction will be paid to the swap counterparty's choice of charity.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 June 2023, Heathrow SP's consolidated nominal net debt was £14,774 million (31 December 2022: £14,579 million). It comprised £13,410 million in bond issues, £1,580 million in other term debt, £897 million in index-linked derivative accretion and £50 million of additional lease liabilities. This was offset by £1,163 million in cash and cash equivalents and term deposits. Nominal net debt comprised £12,604 million in senior net debt and £2,170 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 June 2023 was 3.52% (31 December 2022: 3.64%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 June 2023 was 11.50% (31 December 2022: 10.53%). The increase in the average cost of debt since the end of 2022 is due to the elevated level of inflation, which led to a higher accrual of accretion on our inflation linked debt and swap portfolio versus the comparable period.

The average life of Heathrow SP's gross debt as at 30 June 2023 was 10.5 years (31 December 2022: 10.3 years).

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

The Group has sufficient liquidity to meet its forecast needs for at least the next 24 months. This includes operating cashflows under the base case business plan and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,341 million in cash resources across the wider Heathrow Group as well as undrawn revolving credit facilities of £1,386 million and £85 million of committed but undrawn debt facilities at 30 June 2023. Whilst completed after the half year end, the liquidity position will be improved with the €650 SLB completed in July.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance amounted to £15,960 million (31 December 2022: £15,786 million). This comprised Heathrow SP's £14,774 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million, this was offset by cash and term deposits held at Heathrow Finance of £1,178 million.

Financial ratios

At 30 June 2023, Heathrow SP continued to operate within required financial ratios from the common terms agreement. Heathrow Finance's gearing ratio remains well below pre-pandemic levels. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's RAB.

At 30 June 2023, Heathrow's RAB was £19,945 million (31 December 2022: £19,182 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 63.2% and 74.1% respectively (31 December 2022: 64.9% and 76.0% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 80.0% (31 December 2022: 82.3%) with a covenant of 92.5%.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 30 June 2023, the defined benefit pension scheme, as measured under IAS 19, was funded at 94.8% (31 December 2022: 96.3%). This translated into a deficit of £141 million (31 December 2022: £104 million). The £37 million increase in the deficit in the 6 months is largely due to actuarial losses of £36 million attributable to a loss on assets partially offset by a decrease in liabilities due to a 0.45% increase in the discount rate and experience losses reflecting actual inflation in 2023; service costs of £5 million; a finance charge of £2 million; and, contributions paid in the year. In the 6 months ended 30 June 2023, we contributed £7 million (30 June 2022: £15 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the six months (30 June 2022: £10 million). The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

On 30 June 2023, the Board of Directors of Heathrow Airport Holdings confirmed the appointment of Thomas Woldbye, currently the Chief Executive Officer of Copenhagen Airport, as the person to replace John Holland-Kaye. John will remain in post over the summer getaway until Thomas officially starts in October.

OUTLOOK

The outlook for our adjusted EBITDA performance in 2023 remains consistent with the guidance published in our June Investor Report on 30 June 2023.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' and Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority, and that the interim management report includes a fair review of the information required by DTR 4.2.7, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

This report was approved and authorised by the Board and was issued on behalf of the Board on 25 July 2023.

Javier Echave
Director

Martin Bailey

Martin Bailey
Director

APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

SUMMARY OF ADDITIONAL DISCLOSURES

Leading airport boss appointed as new Heathrow CEO – The Board of Heathrow Airport has confirmed the appointment of Thomas Woldbye, currently the boss of Copenhagen Airport, as the person to replace John Holland-Kaye when he steps down later this year after nearly 10 years in post.

Full RNS available here: Leading airport boss appointed as new Heathrow CEO - 08:00:01 30 Jun 2023 - News article | London Stock Exchange

Publication of Prospectus - The following prospectus (the "Prospectus") has been approved by the Financial Conduct Authority and is available for viewing: Prospectus dated 30 June 2023 relating to the multicurrency programme for the issuance of bonds by Heathrow Funding Limited.

Full RNS available here: Heathrow Funding Limited Base Prospectus - 13:07:25 30 Jun 2023 - News article | London Stock Exchange

Publication of Sustainability-Linked Bond Framework and related Second Party Opinion - Heathrow is delighted to announce the publication of its new Sustainability-Linked Bond Framework (the "Framework") which will allow the issuance of sustainability-linked financing note instruments, which may include public bonds, private placements ("PPs"), US private placements ("USPPs") and any other sustainability-linked bond instruments.

Full RNS available here: Sustainability-Linked Bond Framework and SPO - 07:00:05 03 Jul 2023 - News article | London Stock Exchange

Heathrow
Making every journey better

Condensed consolidated income statement for the six months ended 30 June 2023

		Unaudited Six months ended 30 June 2023			Unaudited Six months ended 30 June 2022		
		Before certain re-measurements [1]	Certain re-measurements [2]	Total	Before certain re-measurements [1]	Certain re-measurements [2]	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	*1*	**1,742**	**-**	**1,742**	1,280	-	1,280
Operating costs [3]	*2*	(1,039)	-	(1,039)	(908)	-	(908)
Other operating items:							
Fair value gain on investment properties	*6*	-	140	140	-	218	218
Operating profit		**703**	**140**	**843**	372	218	590
Finance income		27	-	27	9	-	9
Finance costs		(869)	278	(591)	(702)	366	(336)
Net finance costs	*3*	**(842)**	**278**	**(564)**	(693)	366	(327)
(Loss)/profit before tax		**(139)**	**418**	**279**	(321)	584	263
Taxation credit/(charge)	*4*	**7**	**(105)**	**(98)**	67	(147)	(80)
(Loss)/profit for the period [4]		**(132)**	**313**	**181**	(254)	437	183

(1) Amounts stated before certain re-measurements 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.
(3) Included within Operating costs is a £3 million credit (2022: £3 million credit) for the release of impairment of trade receivables.
(4) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2023

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Profit for the period	181	183
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
Loss on plan assets	(111)	(1,029)
Decrease in scheme liabilities	84	1,024
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gain/(loss) taken to equity	71	(55)
Transfer to finance costs	9	9
Other comprehensive income/(expense) for the period net of tax	**53**	(51)
Total comprehensive income for the period[1]	**234**	132

(1) Attributable to owners of the parent.

Condensed consolidated statement of financial position as at 30 June 2023

	Note	Unaudited as at 30 June 2023 £m	Audited (1) as at 31 December 2022 £m
Assets			
Non-current assets			
Property, plant and equipment	*5*	10,334	10,380
Right of use assets		301	279
Investment properties	*6*	2,372	2,230
Intangible assets		240	194
Derivative financial instruments	*8*	1,181	1,145
Trade and other receivables		55	29
		14,483	14,257
Current assets			
Inventories		15	16
Trade and other receivables		336	270
Current income tax assets		4	4
Derivative financial instruments	*8*	66	1
Term deposits		935	1,548
Cash and cash equivalents		228	285
		1,584	2,124
Total assets		**16,067**	16,381
Liabilities			
Non-current liabilities			
Borrowings	*7*	(16,541)	(17,456)
Derivative financial instruments	*8*	(2,555)	(2,436)
Lease liabilities		(365)	(341)
Deferred income tax liabilities		(787)	(671)
Retirement benefit obligations	*9*	(162)	(126)
Provisions		(1)	(1)
Trade and other payables		(4)	(4)
		(20,415)	(21,035)
Current liabilities			
Borrowings	*7*	(1,170)	(997)
Derivative financial instruments	*8*	(6)	(40)
Lease liabilities		(35)	(37)
Provisions		(2)	(2)
Trade and other payables		(405)	(470)
		(1,618)	(1,546)
Total liabilities		**(22,033)**	(22,581)
Net liabilities		**(5,966)**	(6,200)
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		45	(35)
Accumulated losses		(2,763)	(2,917)
Total shareholders' equity		**(5,966)**	(6,200)

(1) This column is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2022.

Condensed consolidated statement of changes in equity for the six months ended 30 June 2023

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Accumulated losses £m**	**Total equity £m**
Balance as at 1 January 2022	11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:						
Profit for the period	-	-	-	-	183	183
Other comprehensive (expense)/income:						
Fair value loss on cash flow hedges net of tax	-	-	-	(46)	-	(46)
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,029)	(1,029)
Decrease in scheme liabilities	-	-	-	-	1,024	1,024
Total comprehensive (expense)/income	-	-	-	(46)	178	132
Balance as at 30 June 2022 (unaudited)	11	499	(3,758)	(151)	(2,510)	(5,909)
Balance as at 31 December 2022 (audited) [(1)]	11	499	(3,758)	(35)	(2,917)	(6,200)
Comprehensive income:						
Profit for the period	-	-	-	-	181	181
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	80	-	80
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(111)	(111)
Decrease in scheme liabilities	-	-	-	-	84	84
Total comprehensive income	**-**	**-**	**-**	**80**	**154**	**234**
Balance as at 30 June 2023 (unaudited)	**11**	**499**	**(3,758)**	**45**	**(2,763)**	**(5,966)**

(1) This row is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2022.

Condensed consolidated statement of cash flows for the six months ended 30 June 2023

	Note	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Cash flows from operating activities			
Cash generated from operations	*10*	887	755
Taxation:			
Corporation tax paid		(1)	(1)
Group relief received		-	1
Net cash generated from operating activities		**886**	755
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(278)	(215)
Investment properties		(1)	-
Decrease in term deposits [1]		613	1,340
Interest received		31	6
Net cash generated from investing activities		**365**	1,131
Cash flows from financing activities			
Net proceeds from issuance of bonds		-	136
Repayment of bonds		(750)	(730)
Issuance of term note		-	200
Amounts paid to Heathrow Finance plc		-	(1,000)
Interest paid to Heathrow Finance plc		-	(110)
External interest paid[2]		(293)	(92)
Settlement of accretion on index-linked swaps		(84)	(17)
Early settlement of accretion on index-linked swaps[3]		(159)	(250)
Payment of lease liabilities		(22)	(18)
Net cash used in financing activities		**(1,308)**	(1,881)
Net (decrease)/increase in cash and cash equivalents		**(57)**	5
Cash and cash equivalents at beginning of period		285	216
Cash and cash equivalents at end of period		**228**	221

(1) Term deposits with an original maturity of over three months are invested by Heathrow Airport Limited.
(2) Includes £8 million of lease interest paid (six months ended 30 June 2022: £8 million).
(3) The group has elected to early pay £159 million (2022: £250 million) of accrued accretion, which were due to be settled within the next 4 years in line with the liquidity profile assessment of the Group.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

General information

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

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' which management separates from the underlying operations of the Group. By isolating certain re-measurements, 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)

Accounting policies

Basis of preparation

The financial information covers the six-month period ended 30 June 2023 and has been prepared in accordance with UK-adopted International Accounting Standard 34 'Interim Financial Reporting' and Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. This condensed set of financial statements comprises the unaudited financial information for the six months ended 30 June 2023 and its comparatives, together with the unaudited consolidated statement of financial position as at 30 June 2023 and the audited consolidated statement of financial position as at 31 December 2022.

The interim financial information does not include all the notes of the type normally included in the annual financial statements. The financial information for the six-month period ended 30 June 2023 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 December 2022, which were prepared in accordance with UK-adopted international accounting standards and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified, did not contain an emphasis of matter and did not contain a statement under section 498 of the Companies Act 2006.

Where financial information in the notes to the condensed consolidated financial statements for year ended 31 December 2022 is labelled audited, the amounts have been extracted from the Group's audited financial statements for the year ended 31 December 2022.

The financial information for the six-month period ended 30 June 2023 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2023. The financial statements for the six-month period ended 30 June 2023 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2022 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 within the interim consolidated financial statements on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Background

In considering the going concern assessment, the Directors have considered the wider Heathrow group given the corporate structure, which involves cash generation across the group and within the main operating company, Heathrow Airport Limited. Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and this has been utilised in the modelling of going concern. Whilst the H7 Final decision contains a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they do not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time.

This critical relationship between H7 prices and forecast passenger numbers, as well as the potential resultant impact to liquidity and debt covenant compliance have been considered in assessing the appropriateness of preparing these interim consolidated financial statements on a going concern basis.

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt.

Notes to the condensed consolidated financial statements for the three months ended 30 June 2023

Going concern *continued*

Base case

In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the potential impacts on cash flow, liquidity and debt covenant compliance over the next 12 months. This involves the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 traffic forecasts.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- 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.
- The risk of high inflation and higher interest rates on consumer spending

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly in the first six months of 2023; with total passengers to 30 June increasing by 42% versus 2022 to 37.1 million (96% of 2019 levels). Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong. This is represented by the base case traffic forecast increasing to 74 million for the full year (from 67.2 million previously).

The base case uses the CAA's Interim Tariff for the entirety of 2023, with a 2024 nominal tariff of £25.43 based on the tariff set out in the CAA's Final Decision. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Despite more challenging and volatile market conditions, in April this year, an £85 million private placement was completed with settlement of funds taking place in July. Also, in July 2023, the Group successfully raised €650 million through an inaugural Sustainability Linked Bond. These transactions complete over 86% of the Group's funding plan for 2023 and demonstrate continued support and confidence in the Group's credit. As at 30 June 2023, the Group had total liquidity available of £3.8 billion, comprising £1.2 billion of cash held at Heathrow SP, £1.2 billion of cash held at Heathrow Finance as well as a £1.38 billion undrawn revolving credit facility. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2023 is £0.9 billion. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios in the preparation of the interim consolidated financial statements. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers, particularly in a highly inflationary economic environment impacting the disposable income of passengers on cash flow generation, liquidity and debt covenant compliance.

Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2023 and 2024 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. For the remainder of 2023, the low range of passengers represents an 8% reduction against the base case. The tariff and capex assumptions remain the same as in the base case.

Under this scenario, the Group has sufficient liquidity to meet all forecast cash flow needs with no breach of its covenants in the going concern period.

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 Company's funding requirements for at least 12 months from the date of the interim consolidated financial statements and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

Accounting policies in addition to those included in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2022

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 2022.

Notes to the condensed consolidated financial statements for the three months ended 30 June 2023

New IFRS accounting standards and interpretations adopted in the period

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. These new or amended standards did not have a material impact on the condensed consolidated financial statements.

On 23 May 2023, the IASB issued narrow-scope amendments to IAS 12. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments to IAS 12 are required to be applied immediately (subject to any local endorsement processes) and retrospectively in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', including the requirement to disclose the fact that the exception has been applied if the entity's income taxes will be affected by enacted or substantively enacted tax law that implements the OECD's Pillar two model rules. The UK Endorsement Board endorsed this amendment on 19 July 2023 which will be applied prospectively. There is no impact in these interim condensed consolidated financial statements.

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing the six-month condensed consolidated interim financial information, the areas where judgement has been exercised by Directors in applying the Group's accounting policies remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 2022.

Key sources of estimation uncertainty

In preparing the six-month condensed consolidated interim financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 2022.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

1. SEGMENT INFORMATION

The Group is organised into business units according to the nature of the services provided. Most revenue is derived from the activities carried out within the Airport. The exception to this is Heathrow Express, which is a separately identifiable operating segment under IFRS 8, with separately identifiable assets and liabilities, and hence management aggregates these units into two operating segments, as follows:

- Heathrow Airport (Aeronautical and commercial operations within the Airport and its boundaries)
- Heathrow Express (Rail income from the Heathrow Express rail service between Heathrow and London)

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

Table (a)	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Segment revenue		
Aeronautical		
Movement charges	454	308
Parking charges	44	42
Passenger charges	662	460
Total aeronautical revenue	1,160	810
Other regulated charges	112	109
Retail services revenue	322	247
Property revenue	16	16
Property (lease-related income)	58	55
Rail Income		
Heathrow Express	49	41
Other	25	2
Total revenue	**1,742**	**1,280**
Heathrow Airport	*1,693*	*1,239*
Heathrow Express	*49*	*41*
Adjusted EBITDA	**1,070**	**744**
Heathrow Airport	*1,055*	*729*
Heathrow Express	*15*	*15*
Reconciliation to statutory information:		
Depreciation and amortisation	(367)	(372)
Operating profit (before certain re-measurements)	**703**	**372**
Fair value gain on investment properties (certain re-measurements)	140	218
Operating profit	**843**	**590**
Finance income	27	9
Finance costs	(591)	(336)
Profit before tax	**279**	**263**

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Six months ended 30 June 2023		Unaudited Six months ended 30 June 2022	
	Depreciation & amortisation (1) £m	**Fair value gain (2) £m**	**Depreciation & amortisation (1) £m**	**Fair value gain (2) £m**
Heathrow Airport	(354)	140	(358)	218
Heathrow Express	(13)	-	(14)	-
Total	**(367)**	**140**	(372)	218

(1) Includes intangible amortisation charge of £20 million (six months ended 30 June 2022: £17 million).
(2) Reflects fair value gain on investment properties only.

Table (c)	Unaudited 30 June 2023		Audited 31 December 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow Airport	12,799	(404)	12,557	(454)
Heathrow Express	553	(8)	562	(23)
Total operations	**13,352**	**(412)**	13,119	(477)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	1,163	(15,049)	1,833	(15,869)
Retirement benefit obligations	-	(162)	-	(126)
Derivative financial instruments	1,247	(2,561)	1,146	(2,476)
Deferred and current tax assets/(liabilities)	4	(787)	4	(671)
Amounts owed to group undertakings	-	(2,662)	-	(2,584)
Right of use asset and lease liabilities	301	(400)	279	(378)
Total	**16,067**	**(22,033)**	16,381	(22,581)

2. OPERATING COSTS

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Employment	**192**	173
Operational[1]	**196**	142
Maintenance	**103**	82
Rates	**58**	59
Utilities	**71**	46
Other	**52**	34
Total operating costs before depreciation and amortisation	**672**	536
Depreciation and amortisation:		
Property, plant and equipment	**325**	335
Intangible assets	**20**	17
Right of Use assets	**22**	20
Total operating costs	**1,039**	908

[1] For the six months ended 30 June 2022, £4 million was received through the Airport and Ground Operations Support Scheme which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants. No amounts were received in 2023.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

3. FINANCING

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Finance income		
Interest on deposits	26	7
Pension finance income	-	2
Interest receivable from group undertakings	1	-
Total finance income	**27**	9
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments(1)	(384)	(378)
Bank loans and overdrafts and related hedging instruments	(41)	(25)
Net interest expense on derivatives not in hedge relationship(2)	(398)	(210)
Facility fees and other charges	(5)	(5)
Interest on debenture payable to Heathrow Finance plc	(78)	(91)
Net pension finance costs	(3)	-
Unwinding of discount on provisions	(2)	-
Finance costs on lease liabilities	(9)	(8)
	(920)	(717)
Less: capitalised borrowing costs(3)	51	15
Total finance costs	**(869)**	(702)
Net finance costs before certain re-measurements	**(842)**	(693)
Certain re-measurements		
Fair value gain/(loss) on financial instruments		
Interest rate swaps: not in hedge relationship	120	107
Index-linked swaps: not in hedge relationship (4), (5)	163	249
Cross-currency swaps and debt: not in hedge relationship (4), (5)	6	(30)
Cross-currency swaps and debt: ineffective portion of cash flow hedges (5)	(8)	7
Cross-currency swaps and debt: ineffective portion of fair value hedges (5)	(4)	30
Foreign exchange contracts	1	3
	278	366
Net finance costs	**(564)**	(327)

(1) Includes accretion of £107 million for six months ended 30 June 2023 (six months ended 30 June 2022: £120 million) on index-linked bonds.

(2) Includes accretion of £431 million for six months ended 30 June 2023 (six months ended 30 June 2022: £387 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 11.17% (six months ended 30 June 2022: 4.40%) to expenditure incurred on such assets.

(4) Includes gain on foreign exchange retranslation on the currency bonds of £4 million for the six months ended 30 June 2023 (six months ended 30 June 2022: £3 million gain) 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 six months ended 30 June 2023

4. TAX CREDIT/(CHARGE)

	Unaudited Six months ended 30 June 2023			Unaudited Six months ended 30 June 2022		
	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 23.5% (2022: 19%)	-	-	-	(2)	-	(2)
Deferred tax:						
Current year credit/(charge)	7	(105)	(98)	69	(147)	(78)
Taxation credit/(charge)	**7**	**(105)**	**(98)**	**67**	**(147)**	**(80)**

The total tax charge recognised for the six months ended 30 June 2023 was £98 million (six months ended 30 June 2022: £80 million), based on a profit before tax for the six months ended 30 June 2023 of £279 million (six months ended 30 June 2022: £263m).

The tax credit before certain remeasurements for the six months ended 30 June 2023 was £7 million (six months ended 30 June 2022: £67 million). Based on a loss before tax, certain re-measurements and exceptional items of £139m (six months ended 30 June 2022: £321m), this results in an effective tax rate of 5.0% (six months ended 30 June 2022: 20.9%). The tax credit is less than implied by the blended statutory rate of 23.5% primarily due to a large amount of depreciation which is unallowable for tax purposes. As the loss before certain re-measurements for the six months ended 30 June 2023 is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

In addition, there was a £105m tax charge (six months ended 30 June 2022: 147 million) recognised on certain remeasurements arising from fair value movements on financial instruments and investment properties.

The UK corporation tax rate changed from 19% to 25% with effect from the beginning of April 2023, resulting in an average rate of corporation tax of 23.5% applying for the year ending 31 December 2023. As deferred tax items represent timing differences, profits or losses which will be taxed or relieved in future periods, the tax rate applied for deferred tax purposes is 25% since this will be the corporation tax rate in future periods.

Despite a strong passenger recovery during the six months ended 30 June 2023, the impact of higher accretion charges, which are driven by high inflation on financial instruments, has resulted in the Group making losses before certain re-measurements during the six month period ended 30 June 2023. Therefore, in this period, there have been no quarterly instalment payments made in relation to corporation tax.

Based on the non-cash fair value gains which have arisen on financial instruments and investment properties and the improved trading performance in the six months to June 2023, Management has concluded that the deferred tax assets as at 30 June 2023 may be recognised against the unwind of existing deferred tax liabilities and future forecast taxable profits.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group does not account for deferred tax on top-up taxes and therefore, there was no impact on the recognition and measurement of deferred tax balances as a result of the legislation being substantively enacted.

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

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

5. PROPERTY, PLANT AND EQUIPMENT

	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2023	**12,192**	**2,085**	**1,112**	**370**	**1,241**	**1,450**	**18,450**
Additions	-	-	-	-	-	295	295
Borrowing costs capitalised	-	-	-	-	-	51	51
Disposals	(223)	(16)	(57)	-	(32)	-	(328)
Transfer to investment property	-	-	-	-	-	(1)	(1)
Transfer to intangible assets	-	-	-	-	-	(66)	(66)
Transfers to completed assets	84	(22)	17	3	-	(82)	-
30 June 2023 (Unaudited)	**12,053**	**2,047**	**1,072**	**373**	**1,209**	**1,647**	**18,401**
Depreciation							
1 January 2023	**(5,989)**	**(641)**	**(728)**	**(138)**	**(574)**	**-**	**(8,070)**
Depreciation charge	(236)	(27)	(40)	(7)	(15)	-	(325)
Disposals	223	16	57	-	32	-	328
30 June 2023 (Unaudited)	**(6,002)**	**(652)**	**(711)**	**(145)**	**(557)**	**-**	**(8,067)**
Net book value							
30 June 2023 (Unaudited)	**6,051**	**1,395**	**361**	**228**	**652**	**1,647**	**10,334**

The Regulatory Asset Base (RAB), the regulated mechanism made up of existing and new capital investment by which the group makes a cash return, was £19,945 million at 30 June 2023 (31 December 2022: £19,182 million).

	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2022	12,276	2,053	1,103	372	1,233	1,177	18,214
Additions	-	-	-	-	-	455	455
Impairment charge	-	-	-	-	-	(4)	(4)
Impairment reversals	-	-	-	-	-	14	14
Capital write-offs	-	-	-	-	-	(16)	(16)
Borrowing costs capitalised	-	-	-	-	-	44	44
Disposals	(128)	(28)	(17)	(4)	(1)	-	(178)
Transfer to intangible assets	-	-	-	-	-	(79)	(79)
Transfer to completed assets	44	60	26	2	9	(141)	-
31 December 2022 (Audited)	12,192	2,085	1,112	370	1,241	1,450	18,450
Depreciation							
1 January 2022	(5,615)	(612)	(660)	(128)	(545)	-	(7,560)
Depreciation charge	(502)	(57)	(85)	(14)	(30)	-	(688)
Disposals	128	28	17	4	1	-	178
31 December 2022 (Audited)	(5,989)	(641)	(728)	(138)	(574)	-	(8,070)
Net book value							
31 December 2022 (Audited)	6,203	1,444	384	232	667	1,450	10,380

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

6. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2022	2,297
Additions	2
Fair value movements	(69)
31 December 2022 (Audited)	**2,230**
Additions	1
Transfers from property, plant and equipment	1
Fair value movements	140
30 June 2023 (Unaudited)	**2,372**

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 and 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 valuations 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. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues also.

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

By their nature, investment property valuations incorporate long-term passenger trends which in turn include market assumptions on climate change.

The Investment Property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 69% (31 December 2022: 67%) of the fair value of the investment property portfolio at 30 June 2023. 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 the income statement within other operating costs.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

7. BORROWINGS

	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
5.225% £750 million due 2023	**-**	747
7.125% £600 million due 2024	**599**	-
0.500% CHF400 million due 2024	**345**	-
Total current (excluding interest payable)	**944**	747
Interest payable – external	**172**	199
Interest payable – owed to group undertakings	**54**	51
Total current	**1,170**	997
Non-current		
Secured		
Heathrow Funding Limited bonds		
7.125% £600 million due 2024	**-**	598
0.500% CHF400 million due 2024	**-**	349
3.250% C$500 million due 2025	**282**	292
1.500 % €750 million due 2025	**641**	660
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**172**	174
6.750% £700 million due 2026	**697**	696
2.650% NOK1,000 million due 2027	**66**	79
2.694% C$650 million due 2027	**385**	396
1.800% CHF165 million due 2027	**145**	147
3.400% C$400 million due 2028	**237**	243
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**86**	91
2.625% £350 million due 2028	**347**	347
2.500% NOK1,000 million due 2029	**59**	71
2.750% £450 million due 2029	**446**	446
1.500% €750 million due 2030	**561**	571
3.782% C$400 million due 2030	**231**	239
1.125% €500 million due 2030	**425**	437
6.450% £900 million due 2031	**865**	863
3.661% C$500 million due 2031	**296**	304
Zero-coupon €50 million due January 2032	**69**	70
1.366%+RPI £75 million due 2032	**110**	104
Zero-coupon €50 million due April 2032	**68**	68
1.875% €500 million due 2032	**428**	441
0.101%+RPI £182 million due 2032	**229**	218
3.726% C$625 million due 2033	**376**	386
1.875% €650 million due 2034	**443**	445
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**56**	57
0.347%+RPI £75 million due 2035	**95**	91
0.337%+RPI £75 million due 2036	**95**	91
1.061%+RPI £180 million due 2036	**256**	245

Notes to the condensed consolidated financial statements for the three months ended 30 June 2023

7. BORROWINGS *CONTINUED*

	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
0.419%+RPI £51 million due 2038	**64**	61
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**73**	69
Zero-coupon €86 million due 2039	**82**	84
3.334%+RPI £460 million due 2039	**804**	765
0.800% JPY1,000 million due 2039	**50**	52
1.238%+RPI £100 million due 2040	**144**	137
0.362%+RPI £75 million due 2041	**95**	91
3.500% A$125 million due 2041	**65**	70
5.875% £750 million due 2041	**740**	739
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
4.702% £60 million due 2047	**60**	60
1.372%+RPI £75 million due 2049	**110**	104
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**205**	197
Total bonds	**12,356**	13,346
Heathrow Airport Limited debt:		
Class A2 term loan due 2025	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026-2052	**1,277**	1,277
Total other debt	**1,577**	1,577
Unsecured		
Debenture payable to Heathrow Finance plc	**2,608**	2,533
Total non-current	**16,541**	17,456
Total borrowings (excluding interest payable)	**17,485**	18,203

At 30 June 2023, Heathrow SP's consolidated nominal net debt was £14,774 million (31 December 2022: £14,579 million). It comprised £13,410 million (31 December 2022: £14,053 million) in bond issues, £1,580 million (31 December 2022: £1,580 million) in other term debt, £897 million (31 December 2022: £726 million) in index-linked derivative accretion and £50 million (31 December 2022: £53 million) of additional lease liabilities post transition to IFRS 16. This was offset by £1,163 million (31 December 2022: £1,833 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £12,604 million (31 December 2022: £12,447 million) in senior net debt and £2,170 million (31 December 2022: £2,132 million) in junior debt.

At 30 June 2023, total non-current borrowings due after more than 5 years was £10,606 million (31 December 2022: £11,177 million), comprising £9,229 million (31 December 2022: £9,800 million) of bonds and £1,377 million (31 December 2022: £1,377 million) in bank facilities, excludes lease liabilities. This excludes the £2,608 million (31 December 2022: £2,533 million) debenture payable to Heathrow Finance plc.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

7. BORROWINGS *CONTINUED*

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was, EUR 1,400 million, C$ 620 million, CHF 610 million, A$ 175 million, JPY 10,000 million and NOK 2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 30 June 2023		Audited 31 December 2022	
	Nominal £m	Fair value adjustment [1] £m	Nominal £m	Fair value adjustment [1] £m
Euro denominated debt	1,125	187	1,125	211
CAD denominated debt	337	19	337	16
Other currencies debt	780	52	780	61
Designated in fair value hedge	**2,242**	**258**	2,242	288

(1) Fair value adjustment comprises of fair value gain of £263 million (year ended December 2022: £293 million gain on continuing hedges and £5 million loss (year ended December 2022: £5 million loss) on discontinued hedges.

8. DERIVATIVE FINANCIAL INSTRUMENTS

Unaudited 30 June 2023	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	5	-	-	-
Cross-currency swaps	277	66	-	66
Index-linked swaps	100	-	(6)	(6)
	382	**66**	**(6)**	**60**
Non-current				
Foreign exchange contracts	1	-	-	-
Interest rate swaps	7,378	779	(1,017)	(238)
Cross-currency swaps	5,256	266	(252)	14
Index-linked swaps	5,547	136	(1,286)	(1,150)
	18,182	**1,181**	**(2,555)**	**(1,374)**
Total	**18,564**	**1,247**	**(2,561)**	**(1,314)**

Audited 31 December 2022	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	29	1	(1)	-
Index-linked swaps	160	-	(39)	(39)
	189	**1**	**(40)**	**(39)**
Non-current				
Interest rate swaps	7,378	662	(1,010)	(348)
Cross-currency swaps	5,533	337	(185)	152
Index-linked swaps	5,547	146	(1,241)	(1,095)
	18,458	**1,145**	**(2,436)**	**(1,291)**
Total	**18,647**	**1,146**	**(2,476)**	**(1,330)**

At 30 June 2023, total non-current notional value of derivative financial instruments due in greater than 5 years was £12,082 million (31 December 2022: £12,567 million), comprising £4,469 million (31 December 2022: £4,727 million) of Index-linked swaps, £3,328 million (31 December 2022: £3,555 million) of cross-currency swaps, and £4,285 million (31 December 2022: £4,285 million) of Interest rate swaps.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

8. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

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 £151 million (30 June 2022: £172 million; 31 December 2022: £161 million) related to discontinued cash flow hedges.

Losses deferred of £21 million (30 June 2022: £21 million; 31 December 2022: £21 million) expected to be released in less than one year, £21 million (30 June 2022: £21 million; 31 December 2022: £21 million) between one and two years, £51 million (30 June 2022: £59 million; 31 December 2022: £55 million) between two and five years and £58 million (30 June 2022: £71 million; 31 December 2022: £64 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.

Index-linked swaps

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

Foreign exchange contracts

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

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 30 June 2023 and 31 December 2022, 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;
- applicable market-quoted swap yield curves adjusted for relevant basis and credit default spreads;
- the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps);
- the fair value of derivatives and certain financial instruments are calculated as the present value of the estimated future cash flows based on observable market inputs such as RPI and CDS curves;
- 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.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

8. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

As at 30 June 2023, £195 million (30 June 2022: £221 million; 31 December 2022: £208 million) remained capitalised and £13 million (30 June 2022: £13 million; 31 December 2022: £26 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:

	30 June 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through income statement	-	930	-	930
Derivatives qualifying for hedge accounting	-	317	-	317
Total assets	**-**	**1,247**	**-**	**1,247**
Liabilities				
Liabilities at fair value through income statement	-	(2,326)	-	(2,326)
Derivatives qualifying for hedge accounting	-	(235)	-	(235)
Total liabilities	**-**	**(2,561)**	**-**	**(2,561)**

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through income statement	-	821	-	821
Derivatives qualifying for hedge accounting	-	325	-	325
Total assets	-	1,146	-	1,146
Liabilities				
Liabilities at fair value through income statement	-	(2,308)	-	(2,308)
Derivatives qualifying for hedge accounting	-	(168)	-	(168)
Total liabilities	-	(2,476)	-	(2,476)

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

9. RETIREMENT BENEFIT OBLIGATIONS

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

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

Income statement - pension and other pension related liabilities costs

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Employment costs:		
Defined contribution schemes	9	6
BAA Pension Scheme	5	11
Past service charge- BAA Pension Scheme	-	5
	14	22
Finance charge/(credit) - BAA Pension Scheme	2	(2)
Finance charge - Other pension and post retirement liabilities	1	-
Total pension charge	**17**	20

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

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
BAA Pension Scheme loss	(36)	(7)
Actuarial loss recognised before tax	(36)	(7)
Tax credit on actuarial loss	9	2
Actuarial loss recognised after tax	**(27)**	(5)

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

	Unaudited 30 June 2023 £m	Audited 31 December 2022 £m
Fair value of plan assets	2,590	2,735
Benefit obligation	(2,731)	(2,839)
Deficit in BAA Pension Scheme	(141)	(104)
Unfunded pension obligations	(20)	(21)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(21)	(22)
Net deficit in pension schemes	**(162)**	(126)
Group share of net deficit in pension schemes	**(162)**	(126)

The Company has the ability to recognise any 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.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

9. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

(a) BAA Pension Scheme

The BAA Pension Scheme ('the 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 Group and are administered by the Pension Trustee Board.

The value placed on the Scheme's obligations as at 30 June 2023 is based on the full actuarial valuation carried out at 30 September 2021. This has been updated at 30 June 2023 by ISIO Group Limited to take account of changes in economic and demographic assumptions and other movements in accordance with IAS 19R. The Scheme assets are stated at their bid value at 30 June 2023. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

	Unaudited 30 June 2023 £m			Audited 31 December 2022 £m		
Fair value of plan assets [1]	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity	60	375	435	57	324	381
Property	-	-	-	-	134	134
Bonds	197	180	377	135	198	333
Cash	-	152	152	-	305	305
LDI	-	919	919	-	852	852
Buy in	-	402	402	-	430	430
Other	-	305	305	-	300	300
Total fair value of plan	**257**	**2,333**	**2,590**	192	2,543	2,735

[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 30 June 2023, the largest single category of investment was a liability driven instrument ('LDI') mandate, with a value of £919 million (36% of the asset holding at 30 June 2023). At 31 December 2022, the largest single category of investment was a LDI mandate, with a value of £852 million (31% of the asset holding at 31 December 2022). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk.

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:

	Unaudited 30 June 2023 %	Audited 31 December 2022 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	3.45	3.30
Increase to pensions in payment:		
Open section	3.05	3.00
Closed section	3.45	3.40
Discount rate	5.15	4.70
Inflation assumption	3.45	3.40

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

10. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2023 £m	**Unaudited Six months ended 30 June 2022 £m**
Profit before tax	**279**	263
Adjustments for:		
Net finance costs	564	327
Depreciation	325	335
Amortisation on intangibles	20	17
Amortisation on right of use assets	22	20
Fair value gain on investment properties	(140)	(218)
Working capital changes[(1)]*:*		
Increase in inventories and trade and other receivables	(99)	(31)
(Decrease)/increase in trade and other payables	(82)	43
Decrease in provisions	-	(1)
Difference between pension charge and cash contributions	(2)	1
Cash generated from operations before exceptional items	**887**	756
Cash payments in respect of exceptional items	-	(1)
Cash generated from operations	**887**	755

(1) Changes in working capital include intercompany payments of £95 million made by Heathrow Airport Limited to fund scheduled interest payments on external debt held at Heathrow Finance plc and ADI Finance 2 Limited.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Unaudited 30 June 2023 £m	**Audited 31 December 2022 £m**
Contracted for, but not accrued:		
Asset management and compliance	171	128
Carbon and sustainability	3	1
Commercial proposition	5	3
Improve efficiency and service	2	3
Terminal 2 baggage system	8	4
Next generation security	63	17
	252	156

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

Contingent liabilities

As at 30 June 2023 the Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £1 million (31 December 2022: £2 million).

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

12. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Ferrovial Construction	23	29
Heathrow Enterprises Limited	1	-
LHR Airports Limited	9	7
Heathrow Finance plc[(1)]	78	91
	111	127

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

Sales to related parties	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Harrods International Limited	4	13
LHR Airports Limited	1	-
Qatar Airways	31	23
	36	36

Balances outstanding with related parties were as follows:	Unaudited 30 June 2023		Audited 31 December 2022	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	2,662	-	2,584
LHR Airports Limited	40	-	-	54
Qatar Airways	3	-	3	-
	43	**2,662**	3	2,638

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.

13. SUBSEQUENT EVENTS

In July 2023 the Group successfully priced its debut Sustainability-Linked bond, amounting to EUR 650 million and 10 years in tenor.

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 uses other financial measures not defined by IFRS and known 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.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

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

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Profit for the period	181	183
Adjusted for:		
Tax charge	98	80
Net finance costs	564	327
Operating profit	843	590
Adjusted for:		
Depreciation and amortisation	367	372
EBITDA	**1,210**	962

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties. Fair value gains and losses on investment properties 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. 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.

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Profit for the period	**181**	183
Adjusted for:		
Tax charge	98	80
Net finance costs	564	327
Operating profit	843	590
Adjusted for:		
Depreciation and amortisation	367	372
Fair value gain on investment properties	(140)	(218)
Adjusted EBITDA	**1,070**	744

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Cash generated from operations	**887**	755
Exclude:		
Increase in inventories and trade and other receivables	99	31
Decrease/(increase) in trade other payables	82	(43)
Decrease in provisions	-	1
Difference between pension charge and cash contributions	2	(1)
Cash payments in respect of exceptional items	-	1
Adjusted EBITDA	**1,070**	744

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

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

Adjusted operating profit

Adjusted operating profit shows operating results excluding fair value gains on investment properties. 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 the underlying performance of the trading business.

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Operating profit[1]	**843**	590
Adjusted for:		
Fair value gain on investment properties	(140)	(218)
Adjusted operating profit	**703**	372

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

Net finance costs 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, as measured by Adjusted EBITDA, because they are not cash-settled and 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.

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Finance income	27	9
Finance costs	(591)	(336)
Net finance costs including certain re-measurements	**(564)**	(327)
Adjusted for:		
Fair value gain arising on re-measurement of financial instruments	(278)	(366)
Net finance costs before certain re-measurements	**(842)**	(693)

Adjusted loss before tax

Adjusted loss before tax excludes fair value adjustments on investment properties and financial instruments. 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.

	Unaudited Six months ended 30 June 2023 £m	Unaudited Six months ended 30 June 2022 £m
Profit before tax	**279**	263
Adjusted for:		
Fair value gain on investment properties	(140)	(218)
Fair value gain arising on re-measurement of financial instruments	(278)	(366)
Adjusted loss before tax	**(139)**	(321)

Notes to the condensed consolidated financial statements for the six months ended 30 June 2023

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

Adjusted loss after tax

Adjusted loss after tax excludes fair value gains and losses on investment properties and financial instruments and the associated tax. 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.

	Unaudited Six months ended 30 June 2023 £m	**Unaudited Six months ended 30 June 2022 £m**
Profit after tax	**181**	183
Adjusted for:		
Fair value gain on investment properties	(140)	(218)
Fair value gain arising on re-measurement of financial instruments	(278)	(366)
Tax charge on fair value gain on investment properties and re-measurement of financial instruments	105	147
Adjusted loss after tax	**(132)**	(254)

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.

Nominal net debt is short and long term debt less cash and cash equivalents and term deposits, it is an important measure as it is used as a metric in assessing covenant compliance for the group. It includes index linked swap accretion and hedging impact of cross currency interest rate swaps. It includes additional lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Unaudited 30 June 2023 £m	**Audited 31 December 2022 £m**
Net debt	(16,722)	(16,748)
Index-linked swap accretion (1)	(897)	(726)
Impact of cross-currency interest rate swaps (2)	(94)	64
Bond issuance costs (3)	(19)	(27)
IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases (4)	350	325
Intercompany	2,608	2,533
Consolidated nominal net debt	**(14,774)**	(14,579)

(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.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

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

Regulatory Asset Base (RAB)

The RAB is a regulatory construct, based on predetermined principles not based on IFRS. By investing efficiently in the Airport, we add to the RAB as we invest. The RAB is an important measure as it represents the invested capital on which Heathrow are authorised to earn a cash return and is used in the financial ratios used to assess covenant compliance as detailed in the financial review. It is used in key financial ratios and in our regulatory financial statements.

	Unaudited 30 June 2023 £m	**Audited 31 December 2022 £m**
Regulatory Asset Base (RAB)	**19,945**	19,182

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.

	Unaudited 30 June 2023	**Audited 31 December 2022**
Total net debt to RAB	**0.741**	0.760
Senior net debt to RAB	**0.632**	0.649

Independent review report to Heathrow (SP) Limited
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Heathrow (SP) Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Results of Heathrow (SP) Limited for the 6 month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed consolidated statement of financial position of Heathrow (SP) Limited as at 30 June 2023;
- the Condensed consolidated income statement and the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the results of Heathrow (SP) Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Watford
25 July 2023

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 ' – 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%; Heathrow Finance RAR covenant is 92.5%.

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

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