HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

UK's hub flies high in 2023 with much improved service and strong growth – 2023 was a strong year for Heathrow, with passenger numbers recovering to 79.2 million, the third highest year in Heathrow's history. The UK's hub outperformed all other European hubs by being rated as the "best airport in Europe", claimed the title of the world's "most connected" hub and broke into the top five largest airports in the world. These achievements are a great credit to the teamwork and commitment of colleagues across Team Heathrow and set a strong foundation for 2024 as we attempt to welcome a record 81.4 million – more passengers than ever before.

Small adjusted profit recorded for the first time since 2019 – A strong Q4 performance helped us reach our first adjusted profit in four years with £38 million adjusted profit before tax. Our balance sheet remains strong, with gearing below pre-pandemic levels and £3.8 billion of liquidity. Airport charges were reduced by 20% in real terms at the start of 2024 in line with the CAA's H7 settlement, which means maintaining even a small profit will require us to close a £400 million gap with efficiencies and investment trade-offs over the next three years. We are finalising a refreshed business strategy, which will be shared in the months ahead. No dividends were paid in 2023, and none are currently forecast for 2024, although it is plausible subject to financial performance. We will continue to review optionality through the year.

New investments to improve service and boost resilience – Behind-the-scenes investments are underway across the airport to boost passenger experience and operational resilience. We are upgrading 146 security lanes as part of our £1 billion investment in next generation security equipment, and we have appointed a lead contractor to replace the T2 baggage system.

Sustainability remains at the heart of Heathrow – Significant strides were made towards our Heathrow 2.0 commitments, including launching the Giving Back Programme which will deliver activities to nearly 100,000 local people. Record amounts of Sustainable Aviation Fuel (SAF) were used at Heathrow during 2023, including powering the inaugural 100% SAF transatlantic flight, and we committed to incentivising the use of up to 155,000 tonnes of SAF in 2024.

Ministers should use the Spring Budget to stand up for Britain – UK consumers will pay more to travel in the future if Ministers do not speed up the delivery of a domestic SAF industry, and the Chancellor makes the UK a magnet for international tourism spend by levelling the playing field with the UK's European rivals and bringing back tax free shopping. The Spring Budget should not miss the chance to deliver change on both of these key issues for the economy.

At year ended 31 December	2023	2022	Change (%)
(£m unless otherwise stated)			
Revenue	**3,687**	2,913	26.6
Adjusted EBITDA(1) (4)	**2,228**	1,684	32.3
Cash generated from operations	**2,092**	1,719	21.7
Profit before tax	**701**	169	314.8
Adjusted profit/(loss) before tax(2) (4)	**38**	(684)	105.6
Heathrow (SP) Limited consolidated nominal net debt(3) (4)	**14,795**	14,579	1.5
Heathrow Finance plc consolidated nominal net debt(3) (4)	**16,806**	15,786	6.5
Regulatory Asset Base(5)(4)	**19,804**	19,182	3.2
Passengers (million)(6)	**79.2**	61.6	28.6

"2023 was a good year for Heathrow from a challenging start to a great finish – We delivered much improved service for our customers, and managed to turn a small profit after three consecutive years of losses. That's a great platform to build on, although in 2024, we are expected to deliver even further improved service to more passengers, but with airport charges cut by 20% in real terms. We will have to pull every lever to become more efficient and make tough choices on where we spend and invest our money to overcome the huge cost challenge set by the CAA and remain profitable over the next three years."

Thomas Woldbye | Heathrow CEO

Heathrow
Making every journey better

NOTES

(1) EBITDA (2023: £2,437m, 2022: £1,629m) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items.
(2) Adjusted profit/(loss) before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items.
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index-linked swap accretion and the hedging impact of cross-currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans.
(4) Alternative Performance Measures ('APMs'): the performance of the Group is assessed using a number of APMs, including Adjusted EBITDA, Adjusted loss before tax, Consolidated nominal net debt, Consolidated net debt and the Regulatory Asset Base. Management believe that APMs provide investors with an understanding of the underlying performance of the Group. A reconciliation of our APMs can be found in note 14.
(5) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return.
(6) Changes in passengers are calculated using rounded 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 Thomas Woldbye, CEO and Javier Echave, CFO

Wednesday February 21st, 2024

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Webcast Audience URL:
https://onlinexperiences.com/Launch/QReg/ShowUUID=C2034ACF-43CB-4E34-9304-7DC1770E8066
This link gives participants access to the live event.

Audio Conference Call Access:
https://register.vevent.com/register/BI56c0b8b009b44623b67711fcfd56d9ca
This link allows participants to register to obtain their personal audio conference call details.

REVIEW OF THE YEAR

2023 was a strong year for Heathrow with passenger numbers recovering to 79.2 million, an increase of 29% on the previous year and the third highest in our history. We were rated the "best airport in Europe" and reclaimed our position as "the most connected airport in the world", underscoring the pivotal role Heathrow plays in connecting all of Britain to global growth.

From a financial perspective, the increase in passengers resulted in an Adjusted EBITDA of £2.2 billion and we returned a small adjusted profit before tax of £38 million after three years of losses. We successfully raised £780 million of new funding, including our first sustainability-linked bond. This supported our year end liquidity position of £3.8 billion, and with gearing remaining below pre-pandemic levels, our balance sheet remained strong.

In March, the CAA published their final decision on the H7 price control. We chose to appeal to the CMA certain parts of the CAA's decision, including the WACC allowance, the £300 million RAB adjustment and the application of an additional K-factor. Unfortunately, the CMA determined that the CAA was not wrong in most of the aspects of the final decision, which had been subject to appeal. Three specific elements have been referred to the CAA for further consideration, including the additional K-factor, although the CMA have indicated that they do not expect any changes which may arise to have a material impact on the final decision.

While the final decision sets a more challenging settlement under which to operate, we continued to progress our next phase of investment in the airport with £636 million of capital additions during the year. Work commenced across all six capital programmes with projects including the first new security lanes going live, the appointment of a lead contractor to replace the T2 baggage system and ongoing runway resurfacing work.

With an ongoing commitment to sustainability, we were pleased to be the first airport to achieve science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. We also expanded our Sustainable Aviation Fuel (SAF) initiatives, building on the success of the previous year's incentive scheme. Our SAF incentive was set at 1.5% of the airport's fuel. Slightly less was delivered due to delays in supply, however we have plans for continued growth to 2.5% in 2024. We have seen a clear sign of the growing adoption of SAF with the world's first 100% SAF powered transatlantic flight departing Heathrow to New York in November, a landmark achievement for the UK aviation industry. With our financing framework directly linked to our sustainability strategy, Heathrow 2.0, we are making significant strides towards our carbon reduction targets "in the air" and "on the ground".

Our overall success is highly dependent on our colleagues, which is why we prioritise making Heathrow a great place to work and provide career opportunities that allow people to reach their full potential. As we welcomed back even more passengers during the year and with detailed planning and close collaboration across all Team Heathrow, we rebuilt resourcing to capture this increased demand. Despite experiencing industrial action in April and May, our contingency plans enabled us to maintain the airport's smooth operation and we successfully signed a new two-year pay deal with our front-line colleagues.

We have started to see the benefit of the investments made in recruitment and training over the past two years, with much improved service for our customers. We achieved a score of 3.99 out of 5.00 in the global Airport Service Quality (ASQ) survey, which was an improvement over the previous year, despite having almost one-third more passengers. We also made significant progress in security performance, with 92.8% of direct passengers passing through security within 5 minutes, compared to 69.4% in 2022. Our baggage connection rates remained stable, and we were able to reduce the gap between departures and arrivals punctuality from 11.2% in 2022 to 3.6% in 2023.

Lastly, in October, John Holland-Kaye stepped down after nine years as Chief Executive Officer. During his time, he transformed customer service at Heathrow, built a strong and diverse team and established Heathrow as a leader in sustainability. At the same time, our dedicated colleagues have exhibited exceptional commitment, working tirelessly in close collaboration with all Team Heathrow partners. Their collective efforts have played a pivotal role in supporting the recovery and with the pandemic now firmly behind us, we have a great foundation on which to build an even stronger hub for the United Kingdom.

Thomas Woldbye – Heathrow CEO

STRATEGIC PRIORITIES

The following performance metrics provide a picture on each of the four priorities, Mojo, Transforming Customer Service, Beating the Plan and Sustainable Growth, for the full year ended 31 December 2023. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2023	2022
Colleague promotions	**594**	576
Managerial training	**2,465**	285
Lost time injuries	**0.41**	0.35

(1) For the year ended 31 December 2023
(2) Lost time injuries include verbal and physical abuse absence from 2023.

Throughout 2023 we continued to grow the organisation, with a focus on upskilling our colleagues and offering career development through new opportunities. Our career and talent strategy focuses on identifying potential, offering career support and a range of learning and development programmes, underpinned by an effective and efficient resourcing service that facilitates internal mobility. We introduced new leadership development programmes, an internal careers advice service and a colleague internship programme, aimed at giving colleagues experience in different functions to grow their capability. In total during the year, we promoted 594 colleagues (2022: 576) and had 2,465 individuals engaged in training and development programmes (2022: 285).

We also remain committed to the safety of our passengers and colleagues to ensure everyone goes home safely every day. For the year ended 31 December 2023 our lost time injuries metric was 0.41 (2022: 0.35), an increase compared to 2022. The increase was predominantly due to loss time injuries being reported for verbal and physical abuse incidents. As we focus on continuous improvement, close call internal reporting has continued to increase, and we have finished above the 2023 target.

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2023	2022
ASQ	**3.99**	3.97
Helpfulness/Attitude of Airport Staff (QSM)	**4.38**	4.38
Arrival punctuality %	**67.0**	70.2
Departure punctuality %	**63.4**	59.0
Security queuing %	**92.8**	69.4
Baggage connection %	**98.1**	98.0

(1) For the year ended 31 December 2023

In 2023, we achieved an overall ASQ rating of 3.99 out of 5.00 (2022: 3.97). This shows a slight improvement compared to 2022 despite a 28.6% increase in total passenger numbers. Overall, 74% of passengers surveyed between January and December rated their overall satisfaction with Heathrow as either 'Excellent' or 'Very good', marking a slight improvement compared to 2022 (2022: 73%), with the proportion of 'Poor' ratings remaining low at just 1%.

For the year ended 31 December 2023, satisfaction with the Helpfulness/Attitude of Airport Staff ('QSM') remained stable at 4.38, despite handling more than 17 million passengers over the year. Overall, 95% of passengers rated Helpfulness/ Attitude of Airport Staff as 'Excellent/Good', again consistent with last year. The proportion of 'Poor/Extremely Poor' ratings remained low at 1%.

Overall operational resilience was strong in 2023. Security performance has been very good, with 92.8% (2022: 69.4%) of direct passengers passing through security within 5 minutes. Despite a significant increase in demand and unfavourable external factors including weather, strikes and airspace congestion, we have improved overall punctuality during the year. Since the start of the winter schedule, we have seen a stronger performance with departure punctuality exceeding arrival punctuality, proving good turnaround performance. This has also been reflected in the punctuality gap between departures and arrivals, narrowing from 11.2% in 2022 to 3.6% in 2023. Flights are considered punctual if they have left the stand within 15 minutes of their schedule or arrived on stand within 15 minutes. Baggage connection performance has remained stable at 98.1% (2022: 98.0%).

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2023	2022	Var % (2)
UK	4.2	3.4	23.5
Europe	31.5	25.7	22.6
North America	20.0	15.4	29.9
Asia Pacific	9.8	5.5	78.2
Middle East	8.0	6.9	15.9
Africa	3.6	2.9	24.1
Latin America	2.1	1.7	23.5
Total passengers	**79.2**	**61.6**	**28.6**

(1) For the year ended 31 December 2023
(2) Calculated using rounded passenger figures

Other traffic performance indicators (1)	2023	2022	Var % (2)
Passenger ATM	450,194	367,160	22.6
Load factors (%)	79.6	77.0	3.4
Seats per ATM	221.0	218.0	1.4
Cargo tonnage ('000)(3)	1,431	1,400	2.2

(1) For the year ended 31 December 2023
(2) Calculated using rounded passenger figures
(3) Cargo tonnage includes mail volumes

Passenger Traffic – In 2023, Heathrow welcomed 79.2 million passengers, an increase of 17.6 million compared to the prior year (2022: 42.2 million increase). This included a very strong Christmas period with our busiest ever December. We outperformed all other European hubs by being rated as the "best airport in Europe" and the world's "most connected" hub.

Our main markets continued to demonstrate strong performance, with our transatlantic routes performing particularly well. New York (JFK) maintained its position as our most popular destination, serving over three million passengers for the first time since 2019. In total, we had 24 routes which served over a million passengers this year. Latin America, Africa and Asia Pacific also experienced a significant rebound in traffic figures, in particular the Asia Pacific region, considering that borders only fully reopened earlier in the year. Terminal 5 experienced its busiest year ever, with more than 33 million passengers. By the end of the year, we were connected to 207 destinations in 88 countries and territories, up from 189 and 84 respectively last year.

Passenger air transport movements ("ATMs") grew by 22.6%, slightly behind the increase in passenger numbers. This resulted from aircraft operating with slightly higher seats per ATM (221 compared to 218 in the prior year) and higher load factors (79.6% compared to 77.0% in the prior year). This combination of higher load factors and the use of bigger aircrafts provides further opportunities for growth.

Our cargo tonnage, including mail, experienced an increase of 2.2% compared to 2022. Despite the return of belly hold capacity to normal levels on numerous routes, cargo tonnage continues to lag due to the global air cargo industry grappling with the impacts of various macroeconomic factors, which have led to subdued demand.

Finally, we saw an increase in inbound tourism during 2023, and the percentage of business travel also recovered slightly, rising from 26% in 2022 to 27% in 2023. This figure, while on the rise, remains below the pre-pandemic level of 32% in 2019.

SUSTAINABLE GROWTH

Heathrow 2.0 – Connecting People and Planet is our sustainability strategy in which we focus on the environmental, social and governance ('ESG') issues where the airport needs to make the biggest difference by 2030. We recognise that success against our goals and targets is only possible by working collaboratively with partners.

2023 saw another strong year of recovery after the pandemic and we have been able to make considerable progress towards our sustainability goals.

Net zero aviation – Decarbonising the aviation sector remains a key priority for Heathrow and we have stretching goals to reduce carbon emissions from flights by up to 15% by 2030. To support this, we continue to make Sustainable Aviation Fuel ('SAF') a regular feature of fuel supply at the airport. We aim to progressively increase the volume of SAF used by airlines at the airport each year through our incentive scheme, targeting 11% by 2030, ahead of the UK Government's 2025 proposed mandate of 10% by 2030. We have seen a clear sign of the growing adoption of SAF with the world's first 100% SAF-powered transatlantic flight taking off from Heathrow to New York in November. SAF has a fundamental role to play in aviation's pathway to net zero, but currently there's not enough supply. For net zero to be a reality, we need the Government and industry to work together to kickstart a domestic SAF industry.

In July, Heathrow became the first airport in the world to launch an innovative Sustainability Linked Bond ('SLB'). The SLB is linked to Heathrow 2.0, specifically to our carbon reduction targets 'in the air' and 'on the ground'. Underpinning the bond performance is our Science Based Targets Initiative ('SBTi') accreditation which validates that Heathrow's carbon reduction goals are aligned with a 1.5-degree pathway. The mechanism is particularly progressive as it incorporates Heathrow's scope 3 emissions, most materially those relating to emissions from aircraft, which account for 99% of Heathrow's carbon footprint.

As well as focusing on reducing our direct carbon impact during 2023, we worked hard to ensure our supply chain also reflect our sustainability objectives. We launched a balanced scorecard to clearly communicate priorities and standards to our strategic suppliers. The scorecard focuses on several key areas, including net zero, social value, community, local innovation and growth. It will help us collect baseline data so we can then monitor and engage with our supply chain on sustainability issues.

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 successfully launched our Giving Back Programme at the start of the year which outlines how we will reach our commitment to benefit a million local people by 2030. This will be achieved through eight community investment initiatives to connect our community to the opportunities they need and want. Across the year over 1,000 Heathrow colleagues participated in the Giving Back Programme by volunteering over 3,800 hours of their time to support local schools, education partners and community groups. Through our Heathrow World of Work programme, we also delivered 5,340 (2022: 3,037) experiences of workdays to local young people from primary school to University age.

To further our support our partners, the 25th Heathrow Business Summit was held in November, and attended by over 450 guests and over 45 exhibitors. The event aimed to connect local SMEs with Heathrow's key suppliers and identify tangible opportunities to do business in the future. An awards ceremony celebrated the contribution our supply chain makes to Heathrow's continuing success.

We continued to deliver our Equality, Diversity and Inclusion ('ED&I') strategy through initiatives including dedicated learning intervention and our established mentoring platform. We also launched a colleague-facing campaign focused on the concept of belonging and encouraged a diverse range of colleagues to share positive stories about the inclusive culture at Heathrow. Our colleague engagement survey results show a 6% year-on-year increase in colleagues feeling Heathrow is inclusive to all.

As aviation has recovered, it has presented a unique opportunity for the airport to create employment for our local communities. We delivered and supported 3,117 (2022: 2,746) employment opportunities across the year. These opportunities represent a significant achievement towards our longer-term goal of 10,000 opportunities.

Key regulatory developments – In March, the CAA published its final decision for the H7 price control period – after a process and period of consultation and decision making, which saw delays of around 18 months, lasting in total over six years.

Heathrow, British Airways, Virgin Atlantic and Delta submitted appeals, and in October, the CMA published its final determination on these appeals. Overall, the CMA considered that the CAA was not wrong in most of the aspects of its final decision which had been subject to appeal. However, the CMA considered that the CAA had erred on three specific elements:

- The CAA's mechanistic implementation of the AK Factor, which was introduced by the CAA to claw back revenue which, in its view, was 'over-recovered' against the maximum allowable yield in 2020 and 2021.
- The CAA made an error in a relatively minor aspect of its cost of debt calculation.
- In the passenger forecast, the CAA was wrong in relation to the calculation of the shock factor.

The CMA has issued an order to the CAA for these three elements to be reconsidered in sufficient time for any amendments to be incorporated into the price cap from 2025. The CAA has committed to reviewing the three elements during H1 2024.

Earlier in the year, Heathrow provided a submission to the Department for Transport's (DfT) independent review into the effectiveness and efficiency of the CAA – with the final publication delivered in July 2023. With the ongoing H7 process and subsequent CMA appeals taking place at that time, it did not allow for sufficient analysis into the delivery of the CAA's economic regulatory functions. However, amongst its recommendations, the DfT set out that the CAA's process for conducting economic regulation should be reviewed - considering the process, governance and 'mechanics' of its economic regulation activity.

We expect the CAA to complete its lessons learned review in the first half of 2024 – before the commencement of any discussions on the next regulatory period. The CAA timelines for H8 are also uncertain and have not been communicated, although we expect to see an initial timetable set out in Spring 2024.

Alongside the DfT's independent review into the CAA, there are several cross-government consultations and calls for evidence via the Department for Business and Trade (DBT) which are seeking to review and improve the UK's economic regulation framework and to boost future infrastructure investment. Heathrow welcomes the review, analysis and collaboration in this area and supports further proposals and developments in 2024.

Expansion developments - We are conducting an internal review of the work we have carried out and the different circumstances we find the aviation industry in, and this will enable us to progress with appropriate recommendations and ways forward. 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.

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 Financial Statements are prepared in accordance with UK adopted international accounting standards.

The financial information presented within these condensed consolidated financial statements has been prepared on a going concern basis. More detail can be found in the going concern statement on page 17.

Alternative performance measures

Management uses Alternative Performance Measures ('APMs') to monitor the performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. These remain consistent with those included and defined in the Annual Report and Financial Statements for the year ended 31 December 2023.

Summary performance

For the year ended 31 December 2023, the Group's revenue increased by 26.6% to £3,687 million (2022: £2,913 million). Adjusted EBITDA increased 32.3% to £2,228 million (2022: £1,684 million). The Group recorded a £522 million profit after tax (2022: £114 million).

Year ended 31 December	**2023 £m**	**2022 £m**
Revenue(1)	3,687	2,913
Adjusted operating costs(2)	(1,459)	(1,229)
Adjusted EBITDA(3)	**2,228**	**1,684**
Depreciation and amortisation	(730)	(770)
Adjusted operating profit(4)	**1,498**	**914**
Net finance costs before certain re-measurements and exceptional items	(1,460)	(1,598)
Adjusted profit/(loss) before tax(6)	**38**	**(684)**
Tax (charge)/credit on profit/(loss) before certain re-measurements and exceptional items	(32)	119
Adjusted profit/(loss) after tax(6)	**6**	**(565)**
Including certain re-measurements(5) and exceptional items:		
Fair value gain/(loss) on investment properties	209	(69)
Fair value gain on financial instruments	454	908
Exceptional items	-	14
Tax charge on certain re-measurements and exceptional items	(147)	(200)
Change in tax rate	-	26
Profit after tax(6)	**522**	**114**

(1) Revenue does not contain any adjustments for non-GAAP items.

(2) Adjusted operating costs exclude depreciation, amortisation, fair value adjustments on investment properties and exceptional items which are explained further in note 2.
(3) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation, fair value adjustments on investment properties and exceptional items.
(4) Adjusted operating profit excludes fair value adjustments on investment properties and exceptional items.
(5) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these, including the impact of the UK corporation tax rate change.
(6) Adjusted profit/(loss) before and after tax excludes fair value adjustments on investment properties and financial instruments, exceptional items and the associated tax impact of these, including the impact of the UK corporation tax rate change.

Revenue

For the year ended 31 December 2023, revenue increased to £3,687 million (2022: £2,913 million), a 26.6% increase compared to 2022.

Year ended 31 December	2023 £m	2022 £m	Var. %
Aeronautical	2,473	1,879	31.6
Retail	698	564	23.8
Other	516	470	9.8
Total revenue[1]	**3,687**	**2,913**	**26.6**

(1) Revenue does not contain any adjustments for non-GAAP items.

Aeronautical revenue increased by 31.6%. This is predominantly due to higher passenger numbers and the increase in aero charges. Our aeronautical yield per passenger was £31.25 (2022: £30.50), consistent with price caps set by the CAA for 2023.

Year ended 31 December	2023 £m	2022 £m	Var. %
Retail concessions	257	206	24.8
Catering	83	59	40.7
Other retail	64	54	18.5
Car parking	170	143	18.9
Other services	124	102	21.6
Total retail revenue	**698**	**564**	**23.8**

Airport retail revenue increased by 23.8%, driven by higher departing passengers, car parking revenue, terminal drop off, premium passenger services and the mix of retail services available in 2023. Income per passenger decreased 3.8% to £8.81 (2022: £9.16), as passengers increased their usage of public transport post-pandemic and following the opening of the Elizabeth Line.

Year ended 31 December	2023 £m	2022 £m	Var. %
Other regulated charges	240	247	(2.8)
Heathrow Express	101	92	9.8
Property and other	175	131	33.6
Total other revenue	**516**	**470**	**9.8**

Other revenue increased by 9.8%, driven by increased passenger numbers contributing to Heathrow Express revenue growth and an increase in property revenue following renewals of terminal facility leases on improved terms, as well as new lets.

Adjusted operating costs

Adjusted operating costs increased 18.7% to £1,459 million (2022: £1,229 million).

Year ended 31 December	2023 £m	2022 £m	Var. %
Employment	433	378	14.6
Operational	402	331	21.5
Maintenance	214	180	18.9
Rates	113	116	(2.6)
Utilities and other	297	224	32.6
Adjusted operating costs[1]	**1,459**	**1,229**	**18.7**

(1) Unadjusted operating costs for the year were £1,980 million (2022: £2,054 million). This included depreciation & amortisation of £730 million (2022: £770 million), a fair value gain on investment properties of £209 million (2022: £69 million loss) and in 2022 an exceptional item gain of £14 million.

Employment costs have increased in line with rebuilding capacity for higher passenger numbers. 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 "Measure, Target, Incentive" rebates incurred (previously known as Service Quality Rebates). The increase in maintenance is largely driven by terminal cleaning and conservation of terminal, airside, and baggage areas. Finally, utilities and other costs have been impacted by higher consumption and higher energy prices. Adjusted operating costs per passenger decreased by 7.7% to £18.42 (2022: £19.96) given the large increase in passenger numbers over the year.

Operating profit and Adjusted EBITDA

For the year ended 31 December 2023, the Group recorded an operating profit of £1,707 million (2022: £859 million). The increase in operating profit was mainly driven by higher revenue.

Adjusted EBITDA was £2,228 million (2022: £1,684 million), resulting in an Adjusted EBITDA margin of 60.4% (2022: 57.8%).

Year ended 31 December	2023 £m	2022 £m
Operating profit	1,707	859
Depreciation and amortisation	730	770
EBITDA	2,437	1,629
Exclude:		
Exceptional items	-	(14)
Fair value (gain)/loss on investment properties	(209)	69
Adjusted EBITDA	**2,228**	**1,684**

Profit after tax

For the year ended 31 December 2023, the Group recorded a profit before tax of £701 million (2022: £169 million) and a profit after tax of £522 million (2022: £114 million).

Year ended 31 December	2023 £m	2022 £m
Operating profit	1,707	859
Net finance costs before certain re-measurements	(1,460)	(1,598)
Fair value gain on financial instruments	454	908
Profit before tax	701	169
Taxation charge	(179)	(55)
Profit after tax	**522**	**114**

Net finance costs before certain re-measurements decreased to £1,460 million (2022: £1,598 million) primarily because of a significant year on year decrease in RPI from 14% to 5.3%, reducing accretion expenses. This was partially offset by a higher swap interest expense, following the end of the benefit received from the swap reprofiling programme put in place to manage cash flows and covenant compliance through the pandemic.

Non-cash fair value gains on financial instruments of £454 million (2022: £908 million) follows a smaller reduction in index-linked swap liabilities than in the prior year. The liability is measured with reference to market expectations of inflation and interest rates, and inflation forwards decreased by an average of 69bps and interest rate forwards decreased by an average of 45bps in the year.

Taxation

The total Group tax charge for the year was £179 million (2022: £55 million), resulting in an effective tax rate of 25.5% (2022: 32.5%). This is made up of:

- A tax charge on profits before certain re-measurements of £32 million (2022: £119 million tax credit) equating to an effective tax rate before certain re-measurements of 84.2% (2022: 17.4%). The tax charge is significantly higher (2022: lower) than implied by the statutory rate of 23.5% (2022: 19%) due to depreciation which is unallowable for tax purposes. As the profit before tax and certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate before certain re-measurements.
- A tax charge of £147 million (2022: £200 million) arising from fair value gains on derivative financial instruments and investment property revaluations.
- The tax charge for 2022 also included a £26 million tax credit relating to the substantive enactment of the increase in the corporation tax rate from 19% to 25%, which took effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase was reflected in the deferred tax balances in the financial statements in 2022.

The Group paid £1 million in corporation tax in the year (2022: £1 million).

Cash position

At 31 December 2023, the Heathrow SP Group had £1,941 million (31 December 2022: £1,833 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £191 million (31 December 2022: £285 million).

This equated to a £94 million decrease in cash and cash equivalents for the year, compared with a £69 million increase in the year ended 2022.

Cash generated from operations

For the year ended 31 December 2023, cash generated from operations increased to £2,092 million (2022: £1,719 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2023 £m	2022 £m
Cash generated from operations	2,092	1,719
Exclude:		
Impairment	(7)	(20)
Increase in receivables	99	57
Increase in inventories	1	3
Decrease/(increase) in trade and other payables	37	(89)
Difference between pension charge and cash contributions	6	12
Cash payments in respect of exceptional items	-	2
Adjusted EBITDA	**2,228**	**1,684**

Capital expenditure

Total cash spent on capital expenditure in the year ended 31 December 2023, which includes movements in capital creditors, was £604 million (2022: £442 million). Total capital additions were £636 million (2022: £457 million). 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 year, we invested across these six core programmes to ensure the airport's safety, resilience and compliance whilst continuing to invest in our customer proposition and strategic initiatives. We saw our next generation security programme start work across all terminals within the estate. Further drivers of capital expenditure have been the investment in our cargo and main tunnel projects connecting vehicles and passengers across the estate, our runway resurfacing projects and ensuring our assets remain resilient with a new virtual contingency facility.

We also invested £3 million in the period (2022: £3 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. As at 31 December 2023, £506 million of expansion related assets in the course of construction are recognised on the balance sheet, of which £396 million are Category B and £110 million are Category C (after £10 million of re-work impairment recognised in 2020 and including capitalised interest). In addition, £111 million of expansion related assets are recognised within investment properties.

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.

For the year ended 31 December 2023, total restricted payments (gross and net) made by Heathrow SP amounted to £200 million (2022: £1.1 billion). This funded scheduled interest payments on debt held at Heathrow Finance and ADI Finance 2 Limited. No payments to ultimate shareholders were made during the financial year.

RECENT FINANCING ACTIVITY

In the year ended 31 December 2023, we raised £780 million of new Class A debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio.

Class A financing activities included:-

- the scheduled repayment of a £750 million public bond in February;
- £85 million of new private placement debt in July, with maturities in 2038 and 2043;
- the issuance of our debut Sustainability-Linked Bond in July, a €650 million 10-year trade using the 2030 Sustainability Performance Targets as set out in our Sustainability Linked Bond Framework;
- the exercise of an option in September to extend our Revolving Credit Facility by one year, extending the maturity to 2027;
- the issuance of a dual tranche £140 million wrapped bond in November, with maturities in 2056 and 2057; and
- finally, in December, we received unanimous lender approval for the conversion of our Revolving Credit Facility and Working Capital Facility to a Sustainability Linked Loan.

During the year, we made early paydowns of accretion on our inflation swaps totalling £484 million. In December, we redeemed in full the outstanding £750 million of debt held at ADI Finance 2 Limited.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 December 2023, Heathrow SP's consolidated nominal net debt was £14,795 million (31 December 2022: £14,579 million). It comprised £14,155 million in bond issues, £1,665 million in other term debt, £807 million in index-linked derivative accretion and £64 million of additional lease liabilities post-transition to IFRS 16. This was offset by qualifying cash and term deposits under the financing documentation of £1,896 million. Nominal net debt comprised £12,607 million in senior net debt and £2,188 million in junior debt.

The average cost of Heathrow SP's nominal gross debt as at 31 December 2023 was 3.68% (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 31 December 2023 was 9.11% (31 December 2022: 10.53%). The decrease in the average cost of debt including index-linked accretion since the end of 2022 is due to inflation cooling off from its peak. This led to lower accretion accruals in our inflation-linked debt and swap portfolios compared to the comparable period.

The average life of Heathrow SP's gross debt as at 31 December 2023 was 10.2 years (31 December 2022: 10.3 years).

Nominal net debt excludes any restricted cash, non-qualifying deposits 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 12 months. In making this assessment, the Directors have considered both the Heathrow SP Group of companies, as well as the wider Heathrow Finance plc group of companies (the "Heathrow Finance Group"). 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 £2,371 million in cash resources across the Heathrow Finance Group as well as undrawn revolving credit facilities of £1,386 million.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £16,806 million (31 December 2022: £15,786 million). This comprised Heathrow SP's £14,795 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and offset by qualifying cash and term deposits under the financing documentation held at Heathrow Finance of £353 million.

Financial ratios

At 31 December 2023, Heathrow SP and Heathrow Finance continue to operate within the required financial ratios from the common terms agreement. Heathrow Finance's gearing ratio has now returned below pre-pandemic levels. Gearing ratios and interest coverage ratios are defined within the Glossary.

At 31 December 2023, Heathrow's RAB was £19,804 million (31 December 2022: £19,182 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 63.7% and 74.7% 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 84.9% (31 December 2022: 82.3%) with a covenant of 92.5%.

In the year ended 31 December 2023, the Group's senior and junior interest cover ratios were 3.72x and 3.24x respectively (2022: 10.97x and 6.97x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 2.86x (2022: 4.44x) compared to a covenant level of 1.00x under its financing agreements.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2023, the defined benefit pension scheme, as measured under IAS 19, was funded at 95.6% (31 December 2022: 96.3%). This translated into a deficit of £128 million (31 December 2022: £104 million). The £24 million decrease in the deficit in the year is largely due to total actuarial losses of £24 million attributable to an increase in liabilities and experience losses reflecting actual inflation in 2023 offset by a gain on assets and gains from changes in the underlying demographic assumptions, as well as; service costs of £10 million; a finance charge of £4 million; and, contributions paid in the year. In the 12 months ended 31 December 2023, we contributed £14 million (31 December 2022: £29 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the 12 months (31 December 2022: £15 million). The Directors believe that the scheme has no significant plan-specific or concentration risks.

CLIMATE CHANGE

Climate change will have a significant impact on the aviation industry and Heathrow in the years to come, and we have both a responsibility to continue to be ambitious in our endeavours to take carbon out of flying, as well as a responsibility to minimise risk to the business in the long-term. As part of our work over Climate-Related Financial Disclosures ('CFD') as described in our Annual Report and Financial Statements, we have considered our transition risks and have ensured that they are factored fully and consistently into our future financial long-term forecasts for those areas of the balance sheet whose recoverability is assessed based on expected future cash flows, including property, plant and equipment, expansion assets in the course of construction, intangible assets, investment properties and deferred tax assets. In addition, we have ensured that the useful economic lives of our existing assets are appropriate, particularly with regard to the physical risks identified in the CFD as well as with regard to our net zero sustainability strategy as described in our Annual Report and Financial Statements.

KEY MANAGEMENT CHANGES

There have been no key management changes since the last results announcement on 26 October 2023.

ULTIMATE SHAREHOLDER UPDATE

On 28 November 2023, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund (PIF), who would acquire Ferrovial's shareholding in c.15% and c.10% stakes respectively, through separate vehicles.

On 16 January, Ferrovial announced that, pursuant to the FGP Topco Shareholders Agreement, certain other FGP Topco shareholders have exercised their tag-along rights which resulted in 60% of the total issued share capital of FGP Topco being available for sale. The parties are currently investigating options to satisfy the exercised rights.

While we acknowledge the existence of a change of control clause in the bonds issued by Heathrow Finance plc. and the continuing nature of the negotiations, we are not at this time privy to any information that would lead us to believe that the change of control clause would be triggered.

OUTLOOK

The performance outlook for 2024 remains consistent with the forecasts published in our Investor Report on 15 December 2023. We will continue to monitor performance and provide a further update on our Q1 results in April.

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SUMMARY OF ADDITIONAL DISCLOSURES

Publication of Supplement to Base Prospectus - The following supplement dated 27 October 2023 (the "Supplemental Prospectus") to the "Heathrow Funding Limited: Multicurrency programme for the issuance of bonds" base prospectus dated 30 June 2023 (the "Base Prospectus") (the Base Prospectus and the Supplemental Prospectus together, the "Prospectus") has been approved by the Financial Conduct Authority and is available for viewing.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/publication-of-suppl-prospcts/16186273

Publication of Documents Incorporated by Reference - The following document, which is incorporated by reference in a supplement (the "Supplemental Prospectus") to the "Heathrow Funding Limited: Multicurrency programme for the issuance of bonds" base prospectus dated 30 June 2023 (the "Base Prospectus") (the Base Prospectus and the Supplemental Prospectus together, the "Prospectus") which has been approved by the Financial Conduct Authority on 27 October 2023 and published by Heathrow Funding Limited (the Issuer), is available for viewing:

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/documents-incorporated-by-reference/16186277

Publication of Drawdown Prospectus and Final Terms appended thereto - The final terms ("Final Terms") for the issue of Sub-Class A-58 £70,000,000 6.07 per cent. Fixed Rate Wrapped Bonds due 2058 and Sub-Class A-59 £70,000,000 6.07 per cent. Fixed Rate Wrapped Bonds due 2059 (the "Bonds") by Heathrow Funding Limited (the "Issuer") under its multicurrency programme for the issuance of Bonds guaranteed by Assured Guaranty Municipal Corp. and Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc) are available for viewing.

Full RNS available here: Publication of Final Terms - 16:36:46 14 Nov 2023 - News article | London Stock Exchange

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the year ended 31 December 2023

		Year ended 31 December 2023			Year ended 31 December 2022			
		Before certain re-measurements[1]	**Certain re-measurements[2]**	**Total**	Before certain re-measurements and exceptional items[1]	Certain re-measurements[2]	Exceptional items[3]	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m	£m
Continuing operations								
Revenue	*1*	**3,687**	**-**	**3,687**	2,913	-	-	2,913
Operating costs[4]	*2*	**(2,189)**	**209**	**(1,980)**	(1,999)	(69)	14	(2,054)
Operating profit/(loss)		**1,498**	**209**	**1,707**	914	(69)	14	859
Financing								
Finance income		**88**	**-**	**88**	34	-	-	34
Finance costs		**(1,548)**	**454**	**(1,094)**	(1,632)	908	-	(724)
Net finance costs	*4*	**(1,460)**	**454**	**(1,006)**	(1,598)	908	-	(690)
Profit/(loss) before tax		**38**	**663**	**701**	(684)	839	14	169
Taxation (charge)/credit		**(32)**	**(147)**	**(179)**	119	(200)	-	(81)
Change in tax rate		**-**	**-**	**-**	-	26	-	26
Taxation (charge)/credit	*5*	**(32)**	**(147)**	**(179)**	119	(174)	-	(55)
Profit/(loss) for the year[5]		**6**	**516**	**522**	(565)	665	14	114

(1) Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these.
(3) Exceptional items are one-off material or unusual non-recurring impairment reversals relating to previously raised impairment charges. There were no exceptional items in 2023.
(4) Included within Operating costs is a £3 million credit (2022: £4 million) for the impairment of trade receivables.
(5) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the year ended 31 December 2023

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit for the year	**522**	114
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions		
Gain/(loss) on plan assets[1]	**28**	(1,582)
(Increase)/decrease in scheme liabilities[1]	**(47)**	1,239
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges		
(Loss)/gain taken to equity[1]	**(5)**	11
Transfer to finance costs[1]	**5**	59
Impact of cost of hedging[2]		
Loss taken to equity[1]	**(2)**	-
Other comprehensive expense for the year	**(21)**	(273)
Total comprehensive income/(expense) for the year[3]	**501**	(159)

(1) Items in the statement above are disclosed net of tax.
(2) The Group applied IFRS 9 cost of hedging to the newly issued €650 million which was designated in a fair value hedge, to separately account for the fair value movement attributable to the currency basis element under other comprehensive income (OCI), thereby excluding its impact from the hedge designation.
(3) Attributable to owners of the parent.

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Condensed consolidated statement of financial position as at 31 December 2023

	Note	31 December 2023 £m	31 December 2022 £m
Assets			
Non-current assets			
Property, plant and equipment	*6*	**10,385**	10,380
Right of use asset		**304**	279
Investment properties	*7*	**2,449**	2,230
Intangible assets		**223**	194
Derivative financial instruments	*9*	**952**	1,145
Trade and other receivables		**180**	29
		14,493	14,257
Current assets			
Inventories		**17**	16
Trade and other receivables		**379**	270
Current income tax assets		**-**	4
Derivative financial instruments	*9*	**92**	1
Term deposits		**1,750**	1,548
Cash and cash equivalents		**191**	285
		2,429	2,124
Total assets		**16,922**	16,381
Liabilities			
Non-current liabilities			
Borrowings	*8*	**(17,512)**	(17,456)
Derivative financial instruments	*9*	**(2,010)**	(2,436)
Lease liabilities		**(371)**	(341)
Deferred income tax liabilities		**(818)**	(671)
Retirement benefit obligations	*10*	**(151)**	(126)
Provisions		**(1)**	(1)
Trade and other payables		**(1)**	(4)
		(20,864)	(21,035)
Current liabilities			
Borrowings	*8*	**(1,210)**	(997)
Derivative financial instruments	*9*	**(27)**	(40)
Lease liabilities		**(32)**	(37)
Provisions		**(2)**	(2)
Current income tax liabilities		**(20)**	-
Trade and other payables		**(466)**	(470)
		(1,757)	(1,546)
Total liabilities		**(22,621)**	(22,581)
Net liabilities		**(5,699**	(6,200)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Hedging reserve		**(37)**	(35)
Accumulated losses		**(2,414)**	(2,917)
Total shareholders' equity		**(5,699)**	(6,200)

Condensed consolidated statement of changes in equity for the year ended 31 December 2023

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Hedging 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 year	-	-	-	-	114	114
Other comprehensive income/(expense):						
Fair value gain net of tax on:						
Cash flow hedges	-	-	-	70	-	70
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,582)	(1,582)
Increase in scheme liabilities	-	-	-	-	1,239	1,239
Total comprehensive income/(expense)	-	-	-	70	(229)	(159)
Balance as at 31 December 2022	**11**	**499**	**(3,758)**	**(35)**	**(2,917)**	**(6,200)**
Comprehensive income:						
Profit for the year	**-**	**-**	**-**	**-**	**522**	**522**
Other comprehensive (expense)/income:						
Fair value losses net of tax on:						
Impact of cost of hedging	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	**-**	**-**	**-**	**-**	**28**	**28**
Increase in scheme liabilities	**-**	**-**	**-**	**-**	**(47)**	**(47)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(2)**	**503**	**501**
Balance as at 31 December 2023	**11**	**499**	**(3,758)**	**(37)**	**(2,414)**	**(5,699)**

Condensed consolidated statement of cash flows for the year ended 31 December 2023

	Note	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Cash flows from operating activities			
Cash generated from operations	*11*	**2,092**	1,719
Taxation:			
Corporation tax paid		**(1)**	(1)
Group relief received		**-**	1
Net cash generated from operating activities		**2,091**	1,719
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(601)**	(440)
Investment properties		**(3)**	(2)
Capital advance on purchase of building		**(127)**	-
(Increase)/decrease in term deposits [(1)]		**(202)**	862
Interest received		**52**	15
Net cash (used in)/generated from investing activities		**(881)**	435
Cash flows from financing activities			
Proceeds from issuance of bonds		**695**	196
Repayment of bonds		**(751)**	(732)
Fees and other financing items		**(4)**	(1)
Issuance of term note		**85**	350
Amounts paid to Heathrow Finance plc		**-**	(1,000)
Interest paid to Heathrow Finance plc		**(105)**	(110)
External interest paid [(2)]		**(604)**	(211)
Settlement of accretion on index-linked swaps		**(93)**	(44)
Early settlement of accretion on index-linked swaps [(3)]		**(484)**	(490)
Payment of lease liabilities		**(43)**	(43)
Net cash used in financing activities		**(1,304)**	(2,085)
Net (decrease)/increase in cash and cash equivalents		**(94)**	69
Cash and cash equivalents at beginning of year		**285**	216
Cash and cash equivalents at end of year		**191**	285

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

(2) Includes £18 million of lease interest paid (2022: £17 million). By class, includes £71 million (2022: £70 million) of interest paid on junior (Class B) debt.

(3) The Group has elected to early pay £484 million (2022: £490 million) of accrued accretion, which was due to be settled within the next 2 years in line with the liquidity profile assessment of the Group.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2023 or any other period. The annual financial information presented herein for the year ended 31 December 2023 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the year ended 31 December 2023. The auditors' report on the 2023 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Primary financial statements format

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

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

Accounting policies

Basis of preparation

The Group's financial statements comply in accordance with UK adopted international accounting standards and are prepared under the historic cost convention, except for investment properties, financial assets, derivative financial instruments and financial liabilities that qualify as hedged items under fair value hedge accounting. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Companies Act accounting regulations.

The financial statements for the year ended 31 December 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 any additional accounting policies and significant accounting judgements and estimates detailed below.

Going concern

The Directors have prepared the financial information presented within these 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

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. The H7 price control period commenced on 1 January 2022 and during 2023 the CAA published their Final Decision of tariffs to cover the period from 1 January 2022 to 31 December 2026. The average H7 tariff of £23.06 in 2020 CPI real terms has been arrived at based on a set of assumptions which has led to a lower tariff than the Group believes is appropriate. However, the Final Decision and the results of the subsequent CMA appeal does remove previous uncertainty over cash flows for the H7 period related to tariffs. Please refer to the Annual Report and Financial Statements for the year ended 31 December 2023 for further information on the CAA final decision.

Through the course of 2023, the macro-economic environment has changed, and passengers are now impacted by high inflation and high interest rates. Passenger forecasts are fundamental to the going concern analysis, and the Directors have considered trends in future expected passenger numbers. During the year actuals recovered more quickly than expected, demonstrating strong passenger demand for travel. This gives us confidence in our future expected passenger numbers.

Heathrow (SP) operates as an independent securitised group. The Directors have considered the wider Heathrow Group, 'FGP Topco Limited', given the corporate structure, which involves cash generation across the Group and within the main operating company, Heathrow Airport Limited, including any covenants as described below in assessing the liquidity.

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. On that basis the Directors have assessed going concern for the period to December 2025.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

Base case

In determining an appropriate base case, the Directors have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2024 traffic forecasts of 81.4 million passengers;
- Forecast level of capital expenditure based on the CAA's H7 Final Decision; and
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and projected covenant requirements.
- The assumption of no future funding or access to capital markets.

Base case passenger forecast

There is inherent subjectivity in modelling future passenger numbers, nevertheless, passenger numbers have improved significantly in 2023 with total passengers for the year being 79.2 million (98% of 2019 levels). Despite a high-inflationary economic environment impacting the cost-of-living of passengers, demand has remained strong which signals that passengers are prioritising travel spend.

Base case tariffs

The base case uses a 2024 nominal tariff of £26.74 and 2025 nominal tariff of £24.70 based on the tariff methodology 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, Heathrow issued its debut sustainability-linked bond for €650 million, an £85 million private placement and a £140 million bond guaranteed by a third party, raising total funding of £780 million during 2023. These issuances demonstrate the continued support and confidence in the Group's credit. As at 31 December 2023, the wider group has total liquidity available of £3.8 billion, comprising of £2.4 billion of cash held at FGP Topco group and a £1.4 billion undrawn revolving credit facility. Total debt maturity for the period to December 2025 is £1.9 billion at Heathrow SP and £0.6 billion at Heathrow Finance. 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 as part of the going concern assessment. 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 2024 and 2025 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. The low range of passengers represents a 4.3% reduction against the base case for 2024 and 4.5% for 2025. The tariff assumptions remain the same as in the base case since these are now fixed subject to inflation.

While deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding should there be any risk of credit downgrade in this scenario.

Under the severe but plausible scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until at least December 2025, with no breach of its covenants in the same period.

Reverse stress testing

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test which determines the earliest point of failure for the group, which would be a covenant breach in the next tested period in December 2024, where sufficient liquidity will remain intact. This involved modelling the breakeven level of passengers which would result in a covenant breach as at 31 December 2024. The model is based on a reduction in passenger numbers with no impact on costs. The Heathrow Finance plc ICR covenant is the most restrictive to operating performance, and for there to be a breach at this level, forecast passenger numbers would need to decrease by over 25.4% versus the base case for 2024, and 24.9% for 2025. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors.

Should circumstances arise that require Management to take corrective action, the majority of previously utilised tactical actions could be available, including cost reduction, deferral of investment or temporary reprofiling of interest payments.

Conclusion

Having had regard to both liquidity and debt covenants, and considering a severe but plausible downside and reverse stress testing, the Directors have concluded that there is sufficient liquidity available to meet the Group and Company's funding requirements for at least 12 months from the date of these consolidated financial statements and that it is accordingly appropriate to adopt a going concern basis for their preparation.

These consolidated financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

Accounting policies in addition to those included in the consolidated financial statements for the year ended 31 December 2022

The accounting policies applied by the Group in these financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2022.

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 Group's 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 twelve-month condensed consolidated 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 twelve-month condensed consolidated 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, with the exception of changes in estimates that are required in determining the valuation of car park investment properties.

Notes to the condensed consolidated financial statements for the year ended 31 December 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)	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 £m
Segment revenue		
Aeronautical		
Movement charges	**934**	673
Parking charges	**90**	86
Passenger charges	**1,449**	1,120
Total aeronautical revenue	**2,473**	1,879
Retail		
Retail concessions	**257**	206
Catering	**83**	59
Other retail	**64**	54
Car parking	**170**	143
Other services	**124**	102
Total retail revenue	**698**	564
Other		
Other regulated charges	**240**	247
Property revenue	**27**	27
Property (lease related income)	**119**	102
Other rail income	**29**	2
Heathrow Express	**101**	92
Total other revenue	**516**	470
Total revenue	**3,687**	2,913
Heathrow Airport	***3,586***	*2,821*
Heathrow Express	***101***	*92*
Adjusted EBITDA	**2,228**	1,684
Heathrow Airport	***2,194***	*1,646*
Heathrow Express	***34***	*38*
Reconciliation to statutory information:		
Depreciation and amortisation	**(730)**	(770)
Operating profit (before certain re-measurements and exceptional items)	**1,498**	914
Exceptional items	**-**	14
Fair value gain/(loss) on investment properties (certain re-measurements)	**209**	(69)
Operating profit	**1,707**	859
Finance income	**88**	34
Finance costs (after certain re-measurements)	**(1,094)**	(724)
Profit before tax	**701**	169

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	**Year ended 31 December 2023 £m**	Year ended 31 December 2022 **£m**
Property income charged in advance	**12**	10
Retail and other income charged in advance	**7**	10
Total	**19**	20

All unsatisfied performance obligations at 31 December 2022 were satisfied during 2023 and are included within total revenue for the year. Management expects that the transaction price allocated to the unsatisfied contracts as of the year ended 31 December 2023 will be recognised as revenue in full during the next reporting period.

Table (c)	**Year ended 31 December 2023**		Year ended 31 December 2022	
	Depreciation & amortisation (1) £m	**Fair value gain (2) £m**	Depreciation & amortisation (1) £m	Fair value loss (2) £m
Heathrow Airport	**(702)**	**209**	(738)	(69)
Heathrow Express	**(28)**	**-**	(32)	-
Total	**(730)**	**209**	(770)	(69)

(1) Includes amortisation charge on intangibles of £44 million (2022: £41 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (d)	**31 December 2023**		31 December 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow Airport	**13,095**	**(464)**	12,557	(454)
Heathrow Express	**538**	**(6)**	562	(23)
Total operations	**13,633**	**(470)**	13,119	(477)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	**1,941**	**(16,079)**	1,833	(15,869)
Retirement benefit assets/(obligations)	**-**	**(151)**	-	(126)
Derivative financial instruments	**1,044**	**(2,037)**	1,146	(2,476)
Deferred and current tax (liabilities)/assets	**-**	**(838)**	4	(671)
Amounts owed to group undertakings	**-**	**(2,643)**	-	(2,584)
Right of use asset and lease liabilities	**304**	**(403)**	279	(378)
Total	**16,922**	**(22,621)**	16,381	(22,581)

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

2. OPERATING COSTS

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Employment	**433**	378
Operational[1], [2]	**402**	331
Maintenance	**214**	180
Rates	**113**	116
Utilities	**138**	105
Other[3]	**159**	119
Operating costs before depreciation, amortisation, certain re-measurements and exceptional items	**1,459**	1,229
Depreciation and amortisation:		
Property, plant and equipment	**643**	688
Intangible assets	**44**	41
Right of use assets	**43**	41
	730	770
Operating costs before certain re-measurements and exceptional items	**2,189**	1,999
Fair value (gain)/loss on investment properties (certain re-measurements)	**(209)**	69
Exceptional items (note 3)	**-**	(14)
Total operating costs	**1,980**	2,054

(1) Operational costs consist of expenditure in relation to the standard operations of the airport.
(2) During 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.
(3) Other operating costs consist of primarily marketing costs and other general expenditure.

3. EXCEPTIONAL ITEMS

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Impairment reversal	**-**	14
Gain on exceptional items after tax	**-**	14

Year ended 31 December 2023 exceptional items

There were no exceptional items in 2023.

Year ended 31 December 2022 exceptional items

Following a significant recovery in the business from the COVID-19 pandemic in 2022, and further certainty of H7 capital activities, the Group has reversed £14 million of previously recognised impairment from 2020 and 2021. These reversals represent previously paused projects that have either restarted, have been agreed with airlines to restart during H7, or have a high likelihood of restart within reasonable timescales subject to the ongoing consultation with the CAA on the H7 settlement.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

4. FINANCING

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Finance income		
Interest on deposits	**85**	28
Net pension finance income	**-**	6
Interest receivable from group undertakings	**3**	-
Total finance income	**88**	34
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments [1]	**(745)**	(803)
Bank loans, overdrafts and unwind of hedging reserves	**(87)**	(64)
Net interest expense on external derivatives not in hedge relationship [2]	**(620)**	(623)
Facility fees and other charges	**(10)**	(4)
Net pension finance costs	**(6)**	-
Interest on debenture payable to Heathrow Finance plc	**(164)**	(165)
Finance costs on lease liabilities	**(18)**	(17)
Total borrowing costs	**(1,650)**	(1,676)
Less: capitalised borrowing costs [3]	**102**	44
Total finance costs	**(1,548)**	(1,632)
Net finance costs before certain re-measurements	**(1,460)**	(1,598)
Certain re-measurements **Fair value gain/(loss) on financial instruments**		
Interest rate swaps: not in hedge relationship	**83**	266
Index-linked swaps: not in hedge relationship	**369**	660
Cross-currency swaps: not in hedge relationship [4, 5]	**8**	(31)
Ineffective portion of cash flow hedges [5]	**(3)**	20
Ineffective portion of fair value hedges [5]	**(3)**	(11)
Foreign exchange contracts	**-**	4
	454	908
Net finance costs	**(1,006)**	(690)

(1) Includes accretion of £157 million for 2023 (2022: £260 million) on index-linked bonds.

(2) Includes accretion of £701 million for 2023 (2022: £931 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 10.87% (2022: 5.72%) to expenditure incurred on such assets.

(4) Includes foreign exchange retranslation loss on the currency bonds of £3 million (2022: £6 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.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

5. TAXATION (CHARGE)/CREDIT

	Year ended 31 December 2023			Year ended 31 December 2022		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Total £m
UK corporation tax:						
Current tax (charge)/credit at 23.5% (2022: 19%)	(19)	(2)	(21)	1	(1)	-
(Under)/over provision in respect of prior years	(4)	-	(4)	1	-	1
Deferred tax:						
Current year (charge)/credit	(13)	(145)	(158)	114	(199)	(85)
Prior year credit	4	-	4	3	-	3
Change in tax rate	-	-	-	-	26	26
Taxation (charge)/credit	**(32)**	**(147)**	**(179)**	119	(174)	(55)

The total tax charge recognised for the year ended 31 December 2023 was £179 million (2022: £55 million) on a profit before tax for the year ended 31 December 2023 of £701 million (2022: £169 million).

The tax charge before certain re-measurements for the year ended 31 December 2023 was £32 million (2022: £119 million tax credit). Based on a profit before tax and certain re-measurements of £38 million (2022: £684 million loss), this results in an effective tax rate of 84.2% (2022: 17.4%). The tax charge for 2023 is significantly higher (2022: lower) than implied by the statutory rate of 23.5% (2022: 19%) primarily due to a large amount of depreciation which is unallowable for tax purposes. As the profit before tax and certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

In addition, a tax charge of £147 million (2022: £200 million) arises from fair value gains on derivatives and investment property revaluations of £663 million (2022: £839 million). The tax charge for 2022 also included a £26 million tax credit relating to the substantive enactment of the increase in the corporation tax rate from 19% to 25%, which took effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase was reflected in the deferred tax balances in the financial statements in 2022 and 2021.

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 ("DTT") and a multinational top-up tax ("MTT"), effective for accounting periods starting on or after 31 December 2023. We have performed an assessment of the impact of the UK's DTT and MTT rules based on the Group's 2022 qualifying Country-by-Country Reporting ("CbCR") data. These measures constitute the UK's adoption of a qualifying Income Inclusion Rule and a Qualifying Domestic Minimum Top-up Tax (part of the Pillar II rules). Based on the 2022 CbCR data, no top-up tax is expected to arise due to the application of the transitional safe harbour provisions. In addition, the non-UK entities are both within the UK Controlled Foreign Companies ("CFC") rules, i.e., both entities are non-exempt CFC's and a CFC tax charge on their equivalent UK taxable profits is already apportioned to the respective UK parent entities. As the economy begins to recover post-pandemic, the Group is expected to reach levels of pre-pandemic profitability, which may not be reflected in the 2022 CbCR results. The Group's 2023 financial statements show an ETR of 25.5% which preliminarily indicates that the impact of the Pillar II top-up tax should be minimal. We will continue to monitor the 2024 Pillar II impact as further information becomes available. The Group has applied the exemption under the IAS 12 'Income Taxes' amendment for recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

6. PROPERTY, PLANT AND EQUIPMENT

	Terminal complex	Airfields	Plant and equipment	Other land and buildings	Rail	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 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-off	-	-	-	-	-	(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	**12,192**	**2,085**	**1,112**	**370**	**1,241**	**1,450**	**18,450**
Additions	**-**	**-**	**-**	**-**	**-**	**633**	**633**
Capital write-off	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Borrowing costs capitalised	**-**	**-**	**-**	**-**	**-**	**102**	**102**
Disposals	**(402)**	**(27)**	**(73)**	**(3)**	**(35)**	**-**	**(540)**
Transfer to investment properties	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Transfer to intangible assets	**-**	**-**	**-**	**-**	**-**	**(73)**	**(73)**
Transfer to completed assets	**215**	**139**	**46**	**11**	**10**	**(421)**	**-**
31 December 2023	**12,005**	**2,197**	**1,085**	**378**	**1,216**	**1,677**	**18,558**
Accumulated 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	**(5,989)**	**(641)**	**(728)**	**(138)**	**(574)**	**-**	**(8,070)**
Depreciation charge	**(465)**	**(56)**	**(79)**	**(14)**	**(29)**	**-**	**(643)**
Disposals	**402**	**27**	**73**	**3**	**35**	**-**	**540**
31 December 2023	**(6,052)**	**(670)**	**(734)**	**(149)**	**(568)**	**-**	**(8,173)**
Net book value							
31 December 2023	**5,953**	**1,527**	**351**	**229**	**648**	**1,677**	**10,385**
31 December 2022	6,203	1,444	384	232	667	1,450	10,380

The Regulatory Asset Base (RAB), the regulated mechanism made up of existing and new capital investment by which the group makes a cash return, at 31 December 2023 was £19,804 million (2022: £19,182 million).

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2022	2,297
Additions	2
Investment property fair value movements	(69)
31 December 2022	**2,230**
Additions	**3**
Transfer from property, plant and equipment	**7**
Investment property fair value movements	**209**
31 December 2023	**2,449**

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 valuation incorporated rent free and void periods where relevant in order to determine the most reasonable valuation.

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 89% (2022: 92%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

By their nature, investment property valuations incorporate long-term passenger trends that incorporate market assumptions on climate change.

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 69% (2022: 67%) of the fair value of the investment property portfolio at 31 December 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 profit or loss as part of other income.

The investment property asset class balance consists of 52% (2022: 49%) car parks, 21% (2022: 23%) airport operations and 27% (2022: 28%) land and others. Level 2 to 3 is split according to the following percentiles respectively: 55% (2022: 59%) and 45% (2022: 41%).

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

8. BORROWINGS

	31 December 2023 £m	31 December 2022 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
5.225% £750 million due 2023	-	747
7.125% £600 million due 2024	600	-
0.500% CHF400 million due 2024	370	-
Total current (excluding interest payable)	970	747
Interest payable – external	182	199
Interest payable – owed to group undertakings	58	51
Total current	1,210	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	287	292
1.500% €750 million due 2025	648	660
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	189	174
6.750% £700 million due 2026	697	696
2.650% NOK1,000 million due 2027	73	79
2.694% C$650 million due 2027	385	396
1.800% CHF165 million due 2027	153	147
3.400% C$400 million due 2028	236	243
7.075% £200 million due 2028	199	199
4.150% A$175 million due 2028	90	91
2.625% £350 million due 2028	347	347
2.500% NOK1,000 million due 2029	66	71
2.750% £450 million due 2029	446	446
1.500% €750 million due 2030	594	571
3.782% C$400 million due 2030	233	239
1.125% €500 million due 2030	429	437
6.450% £900 million due 2031	866	863
3.661% C$500 million due 2031	295	304
Zero-coupon €50 million due January 2032	71	70
1.366%+RPI £75 million due 2032	113	104
Zero-coupon €50 million due April 2032	69	68
1.875% €500 million due 2032	432	441
0.101%+RPI £182 million due 2032	234	218
3.726% C$625 million due 2033	375	386
4.500% €650 million sustainability-linked bond due 2033[(1)]	590	-
1.875% €650 million due 2034	471	445
4.171% £50 million due 2034	50	50

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

8. BORROWINGS *CONTINUED*

	31 December 2023 £m	31 December 2022 £m
Zero-coupon €50 million due 2034	**57**	57
0.347%+RPI £75 million due 2035	**96**	91
0.337%+RPI £75 million due 2036	**97**	91
1.061%+RPI £180 million due 2036	**262**	245
0.419%+RPI £51 million due 2038	**66**	61
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**75**	69
Zero-coupon €86 million due 2039	**84**	84
3.334%+RPI £460 million due 2039	**822**	765
0.800% JPY1,000 million due 2039	**49**	52
1.238%+RPI £100 million due 2040	**147**	137
0.362%+RPI £75 million due 2041	**97**	91
3.500% A$125 million due 2041	**67**	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	**113**	104
2.750% £400 million due 2049	**393**	393
6.070% £70 million due 2056	**70**	-
6.070% £70 million due 2057	**70**	-
0.147%+RPI £160 million due 2058	**206**	197
Total bonds	**13,265**	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	**1,362**	1,277
Unsecured		
Debenture payable to Heathrow Finance plc due 2030	**2,585**	2,533
Total non-current	**17,512**	17,456
Total borrowings (excluding interest payable)	**18,482**	18,203

(1) Further details on the Sustainability Performance Targets can be found in our Sustainability-Linked Bond Framework at the Heathrow Investor Centre website.

At 31 December 2023, SP Group consolidated nominal net debt was £14,795 million (2022: £14,579 million). It comprised £14,155 million (2022: £14,053 million) in bond issues, £1,665 million (2022: £1,580 million) in other term debt, £807 million (2022: £726 million) in index-linked derivative accretion and £64 million (2022: £53 million) of additional lease liabilities post transition to IFRS 16. This was offset by £1,896 million (2022: £1,833 million) in qualifying cash and term deposits under the financing documentation. Nominal net debt comprised £12,607 million (2022: £12,447 million) in senior net debt and £2,188 million (2022: £2,132 million) in junior debt.

At 31 December 2023, the carrying value of non-current borrowings due after more than 5 years was £11,268 million (2022: £11,177 million), comprising £9,806 million (2022: £9,800 million) of bonds and £1,462 million (2022: £1,377 million) in bank facilities, excludes lease liabilities.

In July 2023 the Group issued a Sustainability-Linked Bond with two Sustainability Performance Targets (SPTs) that together address 100% of the carbon footprint at the airport, including those from airlines. The SPTs align with two headline 2030 headline goals in the net zero aviation pillar of the Heathrow 2.0 strategy, whereby Heathrow commits to reducing carbon emissions 'in the air' by 15% and carbon emissions 'on the ground' by 46.2%, by 2030, using 2019 as the baseline year.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was, €2,050 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:

	31 December 2023		31 December 2022	
	Nominal [1] £m	**Fair value adjustment [2] £m**	Nominal [1] £m	Fair value adjustment [2] £m
Euro denominated debt	**1,682**	**106**	1,125	211
CAD denominated debt	**337**	**11**	337	16
Other currencies debt	**779**	**37**	780	61
Designated in fair value hedge	**2,798**	**154**	2,242	288

(1) Nominal values are based on initial FX rates at time of hedge designation.
(2) Fair value adjustment is comprised of fair value gain of £159 million (2022: £293 million) on continuing hedges and £5 million loss (2022: £5 million) on discontinued hedges.

9. DERIVATIVE FINANCIAL INSTRUMENTS

31 December 2023	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts	**15**	**-**	**(1)**	**(1)**
Cross-currency swaps	**277**	**92**	**-**	**92**
Index-linked swaps	**100**	**-**	**(26)**	**(26)**
	392	**92**	**(27)**	**65**
Non-current				
Interest rate swaps	**7,378**	**555**	**(811)**	**(256)**
Cross-currency swaps	**5,813**	**245**	**(200)**	**45**
Index-linked swaps	**5,447**	**152**	**(999)**	**(847)**
	18,638	**952**	**(2,010)**	**(1,058)**
Total	**19,030**	**1,044**	**(2,037)**	**(993)**

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 31 December 2023, total non-current notional value of derivative financial instruments due in greater than 5 years was £12,243 million (2022: £12,567 million), comprising £4,369 million (2022: £4,727 million) of index-linked swaps, £3,789 million (2022: £3,555 million) of cross-currency swaps, and £4,085 million (2022: £4,285 million) of interest rate swaps.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

9. 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 gross of tax was £140 million (2022: £161 million) related to discontinued cash flow hedges. During the year, £21 million recycled from the frozen hedging reserve to the income statement in the period.

Of the losses deferred, £21 million (2022: £21 million) expected to be released in less than one year, £21 million (2022: £21 million) between one and two years, £47 million (2022: £55 million) between two and five years and £51 million (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.

The gains deferred of £95 million (2022: £116 million), of which of £19 million (2022: £19 million) are expected to be released in less than one year, gains of £18 million (2022: £19 million) between one and two years, £33 million (2022: £46 million) between two and five years and gains of £25 million (2022: £32 million) over five years.

Index-linked swaps

Index-linked swaps have been entered into in order to economically hedge RPI linked revenue and the Regulatory Asset Base ('RAB') 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 31 December 2023 and 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 and inputs 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; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

As at 31 December 2023, £182 million (2022: £208 million) remained capitalised and £26 million (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 year 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:

	31 December 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through income statement	**-**	**723**	**-**	**723**
Derivatives qualifying for hedge accounting	**-**	**321**	**-**	**321**
Total assets	**-**	**1,044**	**-**	**1,044**
Liabilities				
Liabilities at fair value through income statement	**-**	**(1,850)**	**-**	**(1,850)**
Derivatives qualifying for hedge accounting	**-**	**(187)**	**-**	**(187)**
Total liabilities	**-**	**(2,037)**	**-**	**(2,037)**

	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 year ended 31 December 2023

10. RETIREMENT BENEFIT OBLIGATIONS

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

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

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Employment costs:		
Defined contribution schemes	**22**	14
BAA Pension Scheme	**9**	20
Past service charge/(credit)- BAA Pension Scheme	**1**	(2)
	32	32
Finance charge/(credit) - BAA Pension Scheme	**5**	(6)
Finance charge - Other pension and post-retirement liabilities	**1**	-
Total pension charge	**38**	26

Other comprehensive income – (loss)/gain on pension and other pension related liabilities

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
BAA Pension Scheme loss	**(24)**	(464)
Unfunded schemes (loss)/gain	**(1)**	7
Actuarial loss recognised before tax	**(25)**	(457)
Tax credit on actuarial loss	**6**	114
Actuarial loss recognised after tax	**(19)**	(343)

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Fair value of plan assets	**2,782**	2,735
Benefit obligation	**(2,910)**	(2,839)
Deficit in BAA Pension Scheme	**(128)**	(104)
Unfunded pension obligations	**(22)**	(21)
Post-retirement medical benefits	**(1)**	(1)
Deficit in other pension related liabilities	**(23)**	(22)
Net deficit in pension schemes	**(151)**	(126)
Group share of net deficit in pension schemes	**(151)**	(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 year ended 31 December 2023

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

(a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2023 is based on the full actuarial valuation carried out at 30 September 2021. This has been updated at 31 December 2023 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2023 as required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

Analysis of fair value of plan assets			**31 December 2023 £m**			31 December 2022 £m
Fair value of plan assets	**Quoted[(1)]**	**Unquoted**	**Total**	Quoted[(1)]	Unquoted	Total
Equity	**68**	**423**	**491**	57	324	381
Property	**-**	**-**	**-**	-	134	134
Bonds	**224**	**183**	**407**	135	198	333
Cash	**-**	**33**	**33**	-	305	305
LDI	**-**	**1,104**	**1,104**	-	852	852
Buy in	**-**	**410**	**410**	-	430	430
Other[(2)]	**-**	**337**	**337**	-	300	300
Total fair value of plan assets	**292**	**2,490**	**2,782**	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.
(2) Other assets include multi-strategy funds which include diverse holdings in a number of small markets.

At 31 December 2023, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £1,104 million (40% of the asset holding at 31 December 2023). At 31 December 2022, the largest single category of investment was an LDI mandate, with 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:

	31 December 2023 %	**31 December 2022 %**
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**3.30**	3.30
Increase to pensions in payment:		
Open section	**3.05**	3.00
Closed section	**3.30**	3.40
Discount rate	**4.50**	4.70
Inflation assumption	**3.30**	3.40

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

11. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit before tax	**701**	169
Exceptional items	**-**	(14)
Profit before tax and exceptional items	**701**	155
Adjustments for:		
Net finance costs	**1,006**	690
Depreciation	**643**	688
Amortisation on intangibles	**44**	41
Amortisation on right of use assets	**43**	41
Fair value (gain)/loss on investment properties	**(209)**	69
Asset impairment and write-off	**7**	20
Working capital changes[(1)]*:*		
Increase in inventories and trade and other receivables	**(100)**	(60)
(Decrease)/increase in trade and other payables	**(37)**	89
Difference between pension charge and cash contributions	**(6)**	(12)
Cash generated from operations before exceptional items	**2,092**	1,721
Cash payments in respect of exceptional items[(2)]	**-**	(2)
Cash generated from operations	**2,092**	1,719

(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.
(2) These are cash payments for reorganisation costs incurred through the COVID-19 pandemic. As at 31 December 2023 all provisions for exceptional items have been fully utilised.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	31 December 2023 £m	31 December 2022 £m
Contracted for, but not accrued:		
Asset management and compliance	**226**	128
Carbon and sustainability	**7**	1
Commercial proposition	**10**	3
Improve efficiency and service	**2**	3
Terminal 2 baggage system	**23**	4
Next generation security	**112**	17
	380	156

During 2023, the Group entered into a financial commitment for the acquisition of property amounting to £127 million. As disclosed in note 12 of Heathrow (SP) Limited Financial Statements, the amount was paid in December 2023 and recognised in other receivables. The property transaction was completed on the 2nd of January 2024 at which point the property is reflected as an addition to Property, Plant and Equipment.

Contingent liabilities

As at 31 December 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 £nil million at 31 December 2023 (2022: £2 million).

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Ferrovial Construction	59	72
Heathrow Enterprises Limited	3	2
LHR Building Control Services Limited	1	1
LHR Airports Limited	20	16
Heathrow Finance plc (1)	164	165
	247	256

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

Sales to related parties	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Harrods International Limited(1)	10	8
LHR Airports Limited	3	-
Qatar Airways	68	55
	81	63

(1) The balance for Harrods International Limited for the prior year 31 December 2022 has been corrected to reflect actual sales.

Balances outstanding with related parties were as follows:	31 December 2023		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	-	2,643	-	2,584
LHR Airports Limited	41	-	-	54
Ferrovial Construction	-	6	-	-
Qatar Airways	6	-	3	-
	47	2,649	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.

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 produces APMs (Alternative Performance Measures) which are other financial measures not defined by IFRS. 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 profit or loss before interest, taxation, depreciation and amortisation. EBITDA is a useful indicator as it is widely used by investors, analysts and rating agencies to assess operating performance.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit for the year	522	114
Adjusted for:		
Tax charge	179	55
Net finance costs	1,006	690
Operating profit	1,707	859
Adjusted for:		
Depreciation and amortisation	730	770
EBITDA	2,437	1,629

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

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

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties and exceptional items. 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. Exceptional items are outlined in Note 3. These are excluded due to their size and the fact that they are not representative of a normal trading year. 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.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit for the year	**522**	114
Adjusted for:		
Tax charge	**179**	55
Net finance costs	**1,006**	690
Operating profit	**1,707**	859
Adjusted for:		
Depreciation and amortisation	**730**	770
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Adjusted EBITDA	**2,228**	1,684

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Cash generated from operations	**2,092**	1,719
Adjusted for:		
Impairment	**(7)**	(20)
Increase trade and other receivables	**99**	57
Increase in inventories	**1**	3
Decrease/(increase) in trade other payables	**37**	(89)
Difference between pension charge and cash contributions	**6**	12
Cash payments in respect of exceptional items	**-**	2
Adjusted EBITDA	**2,228**	1,684

Adjusted operating profit or loss

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Operating profit (1)	**1,707**	859
Adjusted for:		
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Adjusted operating profit	**1,498**	914

(1) Operating profit is presented on the Group income statement, it is not defined per IFRS, however it is a generally accepted profit measure.

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

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

Net finance costs before certain re-measurements

Net finance costs 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 can vary significantly from one year to the next. A significant portion of the fair value adjustments on financial instruments occur due to the business entering into arrangements to hedge against future inflation. As these contracts do not meet hedge criteria under IFRS 9, fair value adjustments create significant volatility in our IFRS income statement.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Finance income	**88**	34
Finance costs	**(1,094)**	(724)
Net finance costs after certain re-measurements	**(1,006)**	(690)
Adjusted for:		
Fair value gain arising on re-measurement of financial instruments	**(454)**	(908)
Net finance costs before certain re-measurements	**(1,460)**	(1,598)

Adjusted profit or loss before tax

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit before tax	**701**	169
Adjusted for:		
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Fair value gain arising on re-measurement of financial instruments	**(454)**	(908)
Adjusted profit/(loss) before tax	**38**	(684)

Adjusted profit or loss after tax

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

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Profit for the year	**522**	114
Adjusted for:		
Exceptional items	**-**	(14)
Fair value (gain)/loss on investment properties	**(209)**	69
Fair value gain arising on re-measurement of financial instruments	**(454)**	(908)
Tax charge on fair value gain on investment properties and re-measurement of financial instruments	**147**	200
Change in tax rate	**-**	(26)
Adjusted profit/(loss) after tax	**6**	(565)

Notes to the condensed consolidated financial statements for the year ended 31 December 2023

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

Heathrow (SP) Limited consolidated nominal net debt

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

Nominal net debt is short and long term debt less qualifying 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 the hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Net debt	**(16,944)**	(16,748)
Adjusted for:		
Available but non-qualifying cash [1]	**(45)**	-
Index-linked swap accretion [2]	**(807)**	(726)
Impact of cross-currency interest rate swaps [3]	**91**	64
Bond issuance costs [4]	**(14)**	(27)
IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases [5]	**339**	325
Intercompany	**2,585**	2,533
Consolidated nominal net debt	**(14,795)**	(14,579)

(1) Available but non-qualifying cash relates to cash held by the Group that is available but does not qualify as cash for covenant purposes under our financing agreements.
(2) Index-linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on the Group's statement of financial position.
(3) 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.
(4) Capitalised bond issue costs are excluded from nominal net debt.
(5) The lease liability relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) is excluded from nominal net debt. All new leases entered into post-transition are included.

Regulatory Asset Base (RAB)

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. By investing efficiently in the Airport, we add to the RAB over time. The RAB 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.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Regulatory Asset Base (RAB)	**19,804**	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.

	Year ended 31 December 2023	Year ended 31 December 2022
Total net debt to RAB	**0.747**	0.760
Senior net debt to RAB	**0.637**	0.649

GLOSSARY

ADIF 2 - ADI Finance 2 Limited

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 and covenant event at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5% and covenant level is 92.5%; 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.