26TH APRIL 2022

HEATHROW (SP) LIMITED

RESULTS FOR THE 3 MONTHS ENDED 31ST MARCH 2022

Q1 passengers on forecast – Heathrow welcomed 9.7 million passengers in Q1 2022 in line with our forecasts. January and February were much weaker than expected due to Omicron-related travel restrictions, while March demand increased after the unexpectedly quick removal of all UK travel restrictions on 18th March

Heathrow will remain lossmaking in 2022 as COVID losses top £4 billion – Despite increased outbound demand, Heathrow is not forecasting a return to profit and dividends in 2022. Although Q1 2022 revenue climbed to £516m and adjusted EBITDA turned positive to reach £273 million, total pandemic losses have now topped £4.0 billion. Heathrow liquidity remains strong with gearing decreasing to pre-pandemic levels

Easter fuelled by last-minute bookings as we plan for a safe and smooth summer getaway – Once it became clear UK travel restrictions would be fully lifted, our colleagues worked extremely hard putting in place a plan to welcome back a surge of last-minute bookings for the Easter getaway – with over 95% of passengers through security within 5 minutes. We are planning to continue delivering a good service over a busy summer, opening up Terminal 4 by July and recruiting over 1,000 new security officers. We are also assisting airlines, ground handlers and retailers to fill over 12,000 vacancies across the airport. A smooth arrival journey is more important than ever as many people begin travelling again for the first time, and we rely on Border Force having the right plans and resources in place for the summer peak

Summer travel bubble, but winter freeze on horizon – We are seeing a temporary increase in demand driven by UK outbound leisure passengers taking advantage of removed UK travel restrictions and redeeming travel vouchers accrued during the pandemic. As a result, we are updating our 2022 passenger forecast from 45.5 million to 52.8 million, which represents a return to 65% of pre-pandemic traffic this year. However, demand remains very volatile and we expect these passenger numbers to drop off significantly after the summer. We are already seeing airlines cancelling services into the autumn and the realities of higher fuel costs, lower GDP growth, the war in Ukraine and the ongoing pandemic will drag on demand. We are still in a pandemic with many markets still closed, nearly 80% with testing and vaccination requirements and another variant of concern could see the return of UK travel restrictions

Passengers want a good experience, the CAA's proposal will make it worse – The operational challenges seen across the UK's aviation industry in April show how much passengers want easy, quick and reliable journeys every time they travel. Our H7 plan prioritises investments in keeping passenger journeys flowing safely, smoothly and for less than a 2% increase in ticket prices – far less than the extra hundreds of pounds airlines have implemented during the initial weeks of the recovery. We do not accept the CAA's current proposals which will see passengers faced with longer queues and more frequent delays, as well as threatening Heathrow's ability to fund itself affordably. This view is echoed by ratings agencies which have raised concerns that the regulator's plans put the airport's financeability under strain and risk its credit rating being downgraded for a second time

Sustainable Aviation Fuels Incentive starts delivering lower-carbon flights from Heathrow – Heathrow introduced a SAF incentive in 2022 to encourage airlines to shift to lower-carbon fuels. Already this year, we have transitioned 0.5% of the airport's fuel to SAF, making Heathrow the largest user of SAF out of any major airport globally. This is only the start, and we recognise there is much further to go – so we will be scaling-up our incentive programme over the coming years and will continue to seek a UK mandate for 10% SAF use by 2030

At or for 3 months ended 31 March	2021	2022	Change (%)
(£m unless otherwise stated)			
Revenue	165	516	212.7
Cash generated from operations	132	278	110.6
Loss before tax	(307)	(191)	(37.8)
Adjusted EBITDA(1)	(20)	273	1,465.0
Adjusted loss before tax(2)	(329)	(223)	(32.2)
Heathrow (SP) Limited consolidated nominal net debt(3)	13,332	13,523	1.4
Heathrow Finance plc consolidated net debt(3)	15,440	15,576	0.9
Regulatory Asset Base(4)	17,474	17,675	1.1
Passengers (million)(5)	1.7	9.7	474.9

"I want to thank colleagues who worked very hard to ensure the start of 2022 has gone to plan, and I want to reassure passengers that we're redoubling our efforts to ensure this summer's journeys go safely and smoothly. These past few weeks have only reinforced our view that passengers want easy, quick and reliable journeys every time they travel and we can continue to deliver that for less than a 2% increase in ticket prices. The CAA should be aiming to secure this win for passengers instead of pushing plans which will cut investment in service, increase queues and make delays a permanent feature post-COVID. We have a lot of work to do to reclaim Heathrow's crown as Europe's largest airport which will deliver more competition and choice for passengers and more growth for Britain, and we need the regulator to help us do it."

John Holland-Kaye | Heathrow CEO

NOTES

(1) EBITDA (2022: £412m, 2021: £(21)m is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties
(2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments
(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. 2021 figures are as at 31 December 2021.
(4) The Regulatory 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. 2021 figures are as at 31 December 2021.
(5) Changes in passengers are calculated using unrounded passenger numbers.

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

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

Tuesday April 26th, 2022

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

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These materials must be read in conjunction with the Heathrow (SP) Limited Annual Report and Accounts for the year ended 31 December 2021.

STRATEGIC PRIORITIES

Our vision remains to give passengers the best airport service in the world. As we transition from protecting the business over the past two years to winning the recovery, our plan remains centred around four strategic priorities which are fundamental to us achieving our vision:

- **Mojo:** making Heathrow a great place to work;
- **Transforming customer service:** maintaining our service and reputation;
- **Beating the plan:** delivering long-term value to ensure we are viable, financeable and competitive;
- **Sustainable growth:** expanding the benefits of aviation in a world free of carbon.

MOJO

The pandemic and the rapid change we have experienced over the past two years continues to place a strain on everyone, so we know we need to double our focus on passengers and colleagues safety and wellbeing. Our aim is to ensure that everyone goes home safe and well every day. In the first three months of 2022, our lost time injuries metric was 0.50 (2021: 0.08).

We want Heathrow to be a great place to work, providing fantastic opportunities for our talented colleagues to develop their careers. We have continued building strong leadership capability and in the first three months of the year 100 colleagues (2021: 42) were promoted and 69 colleagues (2021: nil) were assigned to training and development programmes.

To reflect the diversity of our local communities we will take action on equality, diversity and inclusion. We have recently extended the London Living Wage across Team Heathrow, which means that all our direct supply chain are receiving at least the London Living Wage from April 2022.

Mojo performance indicators [1]	2021	2022
Colleague promotions	42	**100**
Managerial training	0	**69**
Lost time injuries	0.08	**0.50**

(1) For the three months ended 31 March 2022

TRANSFORM CUSTOMER SERVICE

To deliver our vision, we will work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience. We want to standardise and simplify the way we deliver passenger, bag, plane and cargo flows.

In the first quarter of 2022, Heathrow welcomed 9.7 million passengers, an increase of 8 million compared to the first quarter of 2021. Over the quarter the vast majority of passengers have had a great experience through the airport, reflecting the ramp-up plan we put in place during the second half of last year. We have seen some challenge in our operational metrics, in particular on departure punctuality, which was impacted by a shortage in ground handlers and colleague absence due to COVID-19. However, despite some of the operational challenges, satisfaction with Courtesy and Helpfulness of Airport Colleagues remained high at 4.45 (2021: 4.55).

We achieved an ASQ rating of 4.13 out of 5.00 (2021: 4.25) and 79% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2021: 81%).

Service standard performance indicators [1]	2021	2022
ASQ	4.25	**4.13**
Experience as "excellent" or "very good" %	81	**79**
Baggage connection %	99.0	**98.5**
Departure punctuality %	82.5	**72.0**
Security queuing %	98.3	**95.0**
Courtesy & Helpfulness of Airport Colleagues (QSM)	4.55[2]	**4.45**

(1) For the three months ended 31 March
(2) Courtesy & Helpfulness of Airport Staff replaced the Cleanliness KPI for 2022

BEAT THE PLAN

To secure future investment, we will 'beat the plan' and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments and financing efficiently.

Passenger Traffic – Following a slower start to the year given continued travel restrictions and the uncertainty over Omicron, passenger numbers in March were the highest since the start of the pandemic. This followed the UK Government's removal of all travel restrictions. Over the first quarter of 2022, a total of 9.7 million passengers travelled through the airport (2021: 1.7 million), 0.1 million behind the forecast set out in our January Investor Report.

Demand continues to be driven by outbound leisure at weekends and school holidays, as people take advantage of the removal of restrictions and utilise travel vouchers from cancelled trips over the past two years. Inbound leisure and business travel remain weak due to the high levels of COVID-19 which remain in the UK and the requirement to test before returning home.

Passenger growth was seen in all regions, with North America and Europe in particular driving the increase in passenger numbers compared to 2021. Two airlines have launched flights from Heathrow - Bamboo Airways with a twice weekly service to Hanoi and WestJet with a four days a week service to Calgary.

Our cargo tonnage increased by 9% compared to the first quarter of 2021. This was driven by the increase in flights and the fact that the majority of cargo is carried in the belly hold of planes. Load factors also significantly increased compared to the first quarter of Q1 2021, in line with the overall increase in demand.

(Millions) (1)	2021	2022	Var % (2)
UK	0.2	0.7	304.0
Europe	0.6	3.9	574.3
North America	0.2	1.9	970.1
Asia Pacific	0.3	0.8	187.7
Middle East	0.2	1.4	429.0
Africa	0.2	0.6	224.0
Latin America	0.0	0.4	1,727.0
Total passengers	**1.7**	**9.7**	**474.9**

(1) For the three months ended 31 March
(2) Calculated using unrounded passenger figures

Other traffic performance indicators (1)	2021	2022	Var % (2)
Passenger ATM	17,852	66,230	271.0
Load factors (%)	39.8	66.7	67.6
Seats per ATM	236.6	218.7	(7.6)
Cargo tonnage ('000)	321	349	9.2

(1) For the three months ended 31 March
(2) Calculated using unrounded passenger figures

Gearing up for growth – Over the first quarter of the year, we have continued to work on a robust, safe and secure ramp-up plan. Following the lifting of travel restrictions in the UK, we saw a surge in demand across late March. As we have been rebuilding capacity ahead of the Summer, resources have been stretched at peak times, but we have worked closely with airlines, ground handlers and Border Force to remediate the impact of the higher flow of passengers and flight cancellations during this peak period.

80% of our markets still require some form of additional checks prior to departure which is causing congestion at check-in during peak times, but other airport processes are working, with only short delays, if any. Our plan is now focused on capacity, resourcing and infrastructure.

We continue to concentrate on process improvements to unlock capacity and improve flow through the terminals. At check-in, we are working with the airlines to increase the use of automation to check documentation and reduce wait times.

We are investing substantial efforts in recruitment and training for the Summer, in an extremely challenging market. Our plan remains on track, and we expect to have over 1,000 new security officers in place across the airport before the Summer peak.

Finally, in relation to Terminal 4, our infrastructure works are on track to be completed so that we can reopen by July.

Protecting revenue streams – As traffic recovers, we continue to optimise our revenue and minimise the impact of COVID-19 restrictions, whilst continuing to face ongoing challenges with the Government's removal of tax-free shopping.

We have improved the digital passenger experience to create a more seamless journey. Heathrow Click & Collect continues to extend its offerings with over 5,000 product lines from the duty-free range. In Food & Beverage, Shan Shui opened in T2 providing a Halal offering and Fullers in T2 has reopened following a facelift and we continue to welcome new retailers across the estate in our terminals.

The terminal drop-off charge has been live for five months, and the scheme is performing well with high compliance rates. Commercial parking continues to see high demand as passengers resume travel and additional car parks have been opened to account for the increase in demand. Heathrow Express also continues to perform strongly as passengers look for easy access to London.

Finally, we continue to work with our retailers to mitigate the impact of the removal of tax-free shopping as we continue to believe this places UK tourism at a competitive disadvantage by making this the only country in Europe not to offer tax-free shopping.

SUSTAINABLE GROWTH

Climate change is an existential threat and we aim to use our role as a global hub to ensure that the aviation sector achieves net zero by 2050. We are an integral part of our local community and we are committed to minimising the negative impacts of the airport operation and to maximising the benefits for local people, for example by providing well paid careers.

Heathrow 2.0 – In February, we released an update to our sustainability plan, Heathrow 2.0: Connecting People and Planet, adapting it for the new reality Heathrow is operating in as we recover from the pandemic. Our refreshed strategy sets out the goals we will work towards this decade. It focuses on delivering outcomes that align with the most material colleague, community and environmental issues for the airport namely:

- **Net zero aviation** – decarbonising the aviation sector remains a key priority for Heathrow.
- **A great place to live and work** – delivering on the issues that are most important to local communities, managing the environmental impacts of the airport and championing equality, diversity and inclusion are critical factors to Heathrow's success.

Net zero aviation – Our net zero plan sets out how to get to net zero carbon emissions for our own operations and our contribution to decarbonising wider UK aviation. It includes stretching targets to cut carbon "in the air" by up to 15% and "on the ground" by at least 45% by 2030. Its eight goals show where we will cut our emissions and how we plan to do that, including how we will work in partnership and influence others where we do not directly control emissions.

Our Revised Business Plan includes £188 million of investment in carbon and sustainability improvements which will allow us to deliver the essential projects up to 2026 that will keep us on track to hit these net zero goals.

Following the first deliveries of SAF into Heathrow's main fuel supply in 2021, Heathrow's 2022 landing charges include a new financial incentive for airlines to help make SAF more affordable. The incentive is designed to support 0.5% SAF of total jet fuel at Heathrow in its first year, climbing steadily in the following years. The incentive was oversubscribed for the whole of 2022 by the deadline of 31 January 2022.

Through our offsetting partner CHOOOSE, we started offering companies and passengers the chance to buy SAF in 2021. Customers can select to offset their flights by paying for SAF which is used on existing scheduled flights. Heathrow is the first airport in the UK to offer passengers this opportunity.

Heathrow's work to accelerate the use of SAF will complement a new UK Jet Zero policy the UK Government is planning to introduce following a final consultation due to conclude in April 2022.

The World Economic Forum's 'Clean Skies for Tomorrow' and the Prince of Wales' Sustainable Markets Initiative (SMI) continue to co-ordinate net zero 'high ambition' coalitions for aviation towards a global net zero target at the International Civil Aviation Organisation General Assembly in September 2022 and pressing for urgent support for SAF to enable its achievement.

A great place to live and work - We are committed to Heathrow being a great place to live and work and taking action to deliver positive changes this decade.

Alongside the launch of Heathrow 2.0: Connecting People and Planet, Heathrow announced an extension of the London Living Wage. Heathrow already pays at least this rate to directly employed colleagues, and this latest development ensures everyone working in Heathrow's direct supply chain is guaranteed to earn at least the London Living Wage from the start of April 2022. At least 1,300 colleagues at the airport have benefitted from the wage increase, with over £4.5 million extra now in the pay packets of people at direct suppliers including Mitie and Apcoa.

Heathrow has also announced the launch of its Sustainable Travel Zone, a network of subsidised travel routes to and from the airport to make it more attractive for colleagues and passengers to take public transport, reducing congestion on local roads and improving local air quality. New interventions are being delivered every month, including improvements to public transport and new ways to save money.

Expansion developments - While we have paused work to expand Heathrow during COVID-19, the pandemic has shown the pent-up demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK's trade routes and the risk to the economy of Britain relying on EU hubs which can close borders overnight. We will plan our restart for expansion later this year.

Key regulatory developments - In October 2021, the CAA published its Initial Proposal for the next regulatory period to start in 2022, known as H7. The CAA also published working papers on Outcomes Based Regulation (OBR) and the H7 draft licence in November and December, which we responded to in January 2022.

We submitted our response to the CAA's Initial Proposals on 17 December. Alongside our response we also submitted the second update to our December 2020 Revised Business Plan, known as RBP Update 2. Our response and Update are consistent with our previous submissions in calling for the CAA to recognise the need for a RAB adjustment following the impact of COVID-19, implement forward looking risk sharing to prevent the type of impact seen from COVID-19 happening again and set a WACC of 8.5% for the H7 period.

Our RBP Update 2 proposed an average H7 charge of £41.95 (2018p) reflecting new forecasts of operating costs, commercial revenues and a revised passenger forecast of 317.1m over the H7 period. We also set out that there is an opportunity to reduce the charge to £34 if the CAA enables deferral of regulatory depreciation beyond H7.

The CAA will continue its H7 process through 2022 with the H7 price control due to be implemented by the end of the year. The next step in the process is the publication of the CAA's Final Proposals. The timetable for this publication is currently under review.

Brexit - The UK exited the European Union on 1 January 2021. As part of the Withdrawal Agreement, flights can continue without disruption between the UK and EU. Aviation connectivity is seen as a priority for both parties and will continue to be so in the future.

From a border perspective, the UK's Border Operating Model (BOM) outlines a phased approach for cargo, with full checks rolled out from 1 January 2022. From July 2022, live animals and germinal products imported from the EU will be subject to new import controls and will have document, identity and physical checks. This will stretch Animal and Plant Health Agency (APHA) resource and Heathrow is urging the Government to ensure APHA have the right levels of resource to minimise delays and safeguard the welfare of animals.

EU citizens can continue to use electronic gates at immigration upon arrival into the UK. However, unless they hold EU Settled Status, EU arrivals must now present their passport at the UK border as valid ID. Heathrow has been working with Government and UK Border Force to manage changes to border and passenger processes, including the end of using EU ID cards to enter the UK.

Longer-term post-EU Exit, Heathrow is working with the Government to deliver on their objective of 'a world class border for people and goods'. As the UK's biggest port by value and only hub airport, Heathrow has an integral role to play in helping the Government make 'Global Britain' a reality.

From a passenger perspective, we continue to urge the Government to ensure Border Force has the right resource and processes in place, as well as increase the number of eligible cohorts using e-Gates, and we are introducing new security scanners that will make the passenger journey faster and smoother than today. From a freight perspective, we are pushing Government to remove outdated legacy processes, thereby making the cargo processing time at Heathrow quicker – in some cases halving the processing time for goods. Heathrow is playing an active role in shaping the Government's 2025 Border Strategy and these asks sit alongside wider improvements to increase digitisation and efficiency at the border.

FINANCIAL REVIEW

Basis of presentation of financial results

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

The Directors have prepared the financial information presented within this Q1 Press Release 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.

Cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance Plc ('Heathrow Finance'). Whilst Heathrow SP operates as an independent securitised group, the Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the potential impact of COVID-19 on cash flow and liquidity over the next 12 months, together with the mitigations that regulation could provide as Heathrow enters the next regulatory period (H7). The Directors have also considered the period beyond 12 months to December 2023.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit has enabled Heathrow to maintain strong liquidity throughout; Heathrow SP held cash of circa. £2.7 billion as at 31 March 2022. Total debt maturity within Heathrow SP for the next 12 months from 31 March 2022 is £1.5 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa £3.0 billion available. No debt matures outside of Heathrow SP for the next 12 months from 31 March 2022. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the base case cash flow forecast or until at least April 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments. Nevertheless, regulatory uncertainties over the final H7 regulatory period have led Standard & Poor's to place the Group's Class A and Class B debt on CreditWatch negative during Q1. An unfavourable H7 price settlement could lead to a further downgrade, affecting Heathrow SP and/or Heathrow Finance's future ability to access capital markets at an affordable rate.

Heathrow's Regulatory Business Plan

The Directors have modelled future cash flows for the period beyond 12 months, to December 2023 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations,
- forecast level of capital expenditure, and
- the overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

In modelling the impact of COVID-19, there remains a significant degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry. Therefore, there is inherent subjectivity in our forecasting. For the year ended 31 December 2021, passenger traffic for the Group declined 12.2% to 19.4 million when compared with 22.1 million in 2020, and by 76.0% compared to 2019. In Q1 2022, passenger traffic was 9.7 million, however demand remains volatile.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have certainty over passenger tariffs for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026), which is set by the Civil Aviation Authority (the "CAA"). As described on page 5 of this Q1 Press Release, a range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

The cash flows in Heathrow's current regulatory business plan RBP Update 2 reflect the Directors' view of the expected CAA passenger tariff for the H7 regulatory period, as outlined on page 5. RBP Update 2 assumes the interim tariff will remain in place for the entirety of 2022 and that the overall tariff for the H7 period will be £41.95 (in 2018 prices). This is above the CAA's high charge as set out in their Initial Proposals. It is the Directors' view that its own RBP Update 2 is devoid of the errors made in the CAA's Initial Proposals and is therefore a realistic tariff supported by a detailed assessment of each individual block which form part of the tariff calculation. Under RBP Update 2, the Group will meet all covenants associated with its financial arrangements.

The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least April 2023.

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the range of CAA H7 tariffs and further decreases in passenger numbers and a resulting drop in EBITDA.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals (£22.94 in 2018 prices). This scenario also assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of over 8 million versus RBP Update 2 under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADI Finance 2 Limited (ADIF2) in December 2022.

Should there be a covenant breach, the Directors would need to undertake additional actions including identifying additional cashflow mitigations and / or seeking a further covenant waiver or amendment from creditors. During Q3 2021, the Group successfully agreed a further ICR covenant waiver at Heathrow Finance for the period ended 31 December 2021 which follows the agreement of a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. Whilst the Directors are confident Heathrow would continue to receive support from its creditors if required, there is no certainty a further covenant waiver would be agreed particularly since unfavourable passenger tariffs may impact access to liquidity due to weaker access to debt capital markets at affordable prices. These factors indicate the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Conclusion

Having had regard to both liquidity and debt covenants, and considering severe but plausible downsides, the Directors have concluded that there will be funds available to meet the Group and Company's funding requirements for at least 12 months from the date of signing the Q1 Press Release, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

The Directors consider that the underlying credit quality of the business means that it can secure, if necessary and in the event of a severe but plausible downside, the timely support of its debtholders as it successfully secured in 2020 and 2021.

Nevertheless, the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period. Specifically, if passenger pricing was such that the Group were unable to secure minimum cashflow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised. These uncertainties may result in the Group needing to take further action, including seeking further covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern.

The Q1 Press Release does not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Alternative performance measures

Management uses Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations. These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2021.

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

Summary performance

In the three months ended 31 March 2022, the Group's revenue increased by 212.7% to £516 million (2021: £165 million). Adjusted EBITDA increased to £273 million (2021: £20 million loss). The Group recorded a £155 million loss after tax (2021: £258 million loss).

Three months ended 31 March	**2021 £m**	**2022 £m**
Revenue	165	516
Adjusted operating costs(1)	(185)	(243)
Adjusted EBITDA(2)	**(20)**	**273**
Depreciation and amortisation	(185)	(188)
Adjusted operating (loss)/profit(3)	**(205)**	**85**
Net finance costs before certain re-measurements	(124)	(308)
Adjusted loss before tax(4)	**(329)**	**(223)**
Tax credit on profit before certain re-measurements	53	44
Adjusted loss after tax(4)	**(276)**	**(179)**
Including certain re-measurements		
Fair value (loss)/gain on investment properties	(1)	139
Fair value gain/(loss) on financial instruments	23	(107)
Tax charge on certain re-measurements	(4)	(8)
Loss after tax	**(258)**	**(155)**

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

Revenue

In the three months ended 31 March 2022, revenue increased 212.7% to £516 million (2021: £165 million).

Three months ended 31 March	2021 £m	2022 £m	Var. %
Aeronautical	78	326	317.9
Retail	27	101	274.1
Other	60	89	48.3
Total revenue	**165**	**516**	**212.7**

Aeronautical revenue increased by 317.9%. Aeronautical revenue per passenger decreased 27% to £33.75 (2021: £46.42). The significant increase in aeronautical revenue is due to higher passenger numbers. The average revenue per passenger is largely distorted by the significant change in passenger numbers and increased cargo movements charged on a per movement basis.

Three months ended 31 March	2021 £m	2022 £m	Var. %
Retail concessions	6	35	483.3
Catering	3	10	233.3
Other retail	8	11	37.5
Car parking	4	26	550.0
Other services	6	19	216.7
Total retail revenue	**27**	**101**	**274.1**

Retail revenue increased by 274.1%, driven by higher passenger numbers and the mix of retail services available in the first quarter of 2022, compared to last year when the governmental restrictions on non-essential shops were in place. Retail revenue per passenger decreased 35% to £10.46 (2021: £16.07). The retail income per passenger is largely distorted due to the significant change in passenger numbers.

Three months ended 31 March	2021 £m	2022 £m	Var. %
Other regulated charges (‘ORCs’)	28	45	60.7
Heathrow Express	1	14	1,300.0
Property and other	31	30	(3.2)
Total other revenue	**60**	**89**	**48.3**

Other revenue increased by 48.3%. Other regulated charges increased 60.7%, predominantly because of higher passengers and aircraft movements. The significant increase in Heathrow Express revenue is distorted by the lower level of services in 2021 due to lockdown.

Adjusted operating costs

In the three months ended 31 March 2022, adjusted operating costs increased 31.4% to £243 million (2021: £185 million). Adjusted operating costs per passenger decreased by 77% to £25.16 (2021: £110.11). The adjusted operating costs per passenger is largely distorted by the fixed nature of our cost base as passenger numbers recover.

Three months ended 31 March	2021 £m	2022 £m	Var. %
Employment	60	79	31.7
Operational	41	62	51.2
Maintenance	29	38	31.0
Rates	29	30	3.4
Utilities and Other	26	34	30.8
Adjusted operating costs	**185**	**243**	**31.4**

Adjusted operating costs have increased by over 31% due to business resilience costs and additional operational ramp-up costs. We are spending more on employment costs following the end of the Government’s furlough scheme and incurring costs associated with recruitment and training. The increase in operational and maintenance results from the reopening of operations, compared to last year when we were operating with only one runway and two terminals. Utilities and other costs have also been impacted by higher energy prices and inflation. Government business rates increased by 3.4% due to inflation.

Operating Profit and Adjusted EBITDA

In the three months ended 31 March 2022, the Group recorded an operating profit of £224 million (2021: operating loss of £206 million). The profit was driven by higher revenue and increase in fair value on investment properties.

Adjusted EBITDA returned to profitability at £273 million (2021: £20 million loss).

Three months ended 31 March	2021 £m	2022 £m
Operating (loss)/profit	**(206)**	**224**
Depreciation and amortisation	185	188
EBITDA	**(21)**	**412**
Exclude:		
Fair value (loss)/gain on investment properties	(1)	139
Adjusted EBITDA	**(20)**	**273**

Loss after tax

In the three months ended 31 March 2022, the Group recorded a loss before tax of £191 million (2021: £307 million loss) and a loss after tax of £155 million (2021: £258 million loss).

Three months ended 31 March	2021 £m	2022 £m
Operating (loss)/profit	**(206)**	**224**
Net finance costs before certain remeasurements	(124)	(308)
Fair value gain/(loss) on financial instruments	23	(107)
Loss before tax	**(307)**	**(191)**
Taxation credit	49	36
Loss after tax	**(258)**	**(155)**

Net finance costs before certain re-measurements increased to £308 million (2021: £124 million) driven by additional inflation accretion expense as RPI reached 8.2% annualised growth for the period, up from 7.1% at 31 December 2021.

There was a fair value loss on financial instruments of £107 million (2021: £23 million fair value gain) explained by an increase in interest rate by an average 79bps (2021: 56 bps) as a result of the recent Bank of England interest rate increase, which is partially offset by the increases in inflation, an average 39 bps increase.

Taxation

The total tax credit for the three-month period ended 31 March 2022 was £36 million (2021: £49 million). The tax credit before certain re-measurements was £44 million (2021: £53 million), at an effective tax rate of 19.7% (2021: 16.1%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the three-month period, before certain re-measurements. The tax credit is higher than the statutory rate of 19% (2021: 19%) primarily due to the current year deferred tax movements at a rate of 25% (2021: 19%), offset by non-deductible expenses reducing the tax credit for the year (2021: non-deductible expenses reducing the tax credit for the year).

For the three months ended 31 March 2022, the tax charge of £8 million was recognised on certain re-measurements (fair value movements on financial instruments and investment properties) (three months ended 31 March 2021: £4 million tax charge).

Cash position

In the three months ended 31 March 2022, there was a decrease of £20 million in cash and cash equivalents compared with an increase of £219 million in the three months ended 31 March 2021.

At 31 March 2022, the Heathrow SP Group had £2,656 million (31 December 2021: £2,626 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £196 million (31 December 2021: £216 million).

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

Cash generated from operations

In the three months ended 31 March 2022, cash generated from operations increased to £278 million (2021: generated £132 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Three months ended 31 March	2021 £m	2022 £m
Cash generated from operations	**132**	**278**
Exclude:		
(Decrease)/increase in inventories and trade and other receivables	(171)	6
Decrease/(increase) in trade and other payables	19	(10)
Decrease in provisions	-	1
Difference between pension charge and cash contributions	(6)	(3)
Cash payments in respect of FY20 exceptional items	6	1
Adjusted EBITDA	**(20)**	**273**

Capital expenditure

Total capital expenditure in the first three months of 2022 was £134 million (2021: £47 million) excluding capital creditors movements or £74 million (2021: £52 million) including capital creditors movements, which equates to purchases in the statement of cashflows.

We have invested £133.7 million on various programmes to ensure the airport's safety and resilience. Investment has focused on main tunnel works, design and installation for cargo tunnel refurbishment to ensure fire safety standards are maintained, back office systems upgrades and renewal of assets that have come to the end of their economic life.

We also invested £0.6 million in the period (2021: £3 million) on projects related to expansion. Expansion-related capital expenditure includes Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Since 2016, Heathrow has invested £383 million in Category B costs and £131 million in Category C costs, with a total of £514 million (before capitalised interest and after £10m of re-work impairment) carried on the balance sheet as assets in the course of construction.

Restricted payments

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

In the three months ended 31 March 2022, total restricted payments (gross and net) made by Heathrow SP amounted to £110 million (2021: nil), following the end of the trigger event that occurred in relation to the historic ICR for senior and junior debt for the year ending 31 December 2020. This comprised the payment of interest on the debenture between Heathrow SP and Heathrow Finance and increased the liquidity position at Heathrow Finance to £311 million. No payments to ultimate shareholders were made during the period.

RECENT FINANCING ACTIVITY

In the first three months of 2022, we priced £200 million of new Class A debt in the private placement market across 20-year and 30-year tranches, which is due to settle in June 2022. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 March 2022, Heathrow SP's consolidated nominal net debt was £13,523 million (31 December 2021: £13,332 million). It comprised £14,377 million in bond issues, £1,230 million in other term debt, £537 million in index-linked derivative accretion, and £35 million of additional lease liabilities. This was offset by £2,656 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,468 million in senior net debt and £2,055 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 March 2022 was 1.02% (31 December 2021: 1.25%). 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 March 2022 was 4.90% (31 December 2021 1.43%). The increase in the average cost of debt since the end of 2021 is largely due to a recent increase in the inflation rate, which led to a higher accrual of accretion on our inflation linked debt and swap portfolio versus the comparable period. Excluding the impact of our swap portfolio reprofiling initiated in 2020, Heathrow SP's average cost of debt at 31 March 2022 was 2.49% excluding index-linked accretion and 6.37% including index-linked accretion.

The average life of Heathrow SP's gross debt as at 31 March 2022 was 10.3 years (31 December 2021: 10.5 years).

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

We have sufficient liquidity to meet all our forecast needs for at least 12 months under the extreme stress-test scenario of no revenue, or into 2025 under all traffic scenarios considered. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,656 million in cash resources as well as liquidity at Heathrow Finance plc as at 31 March 2022.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance amounted to £15,576 million (31 December 2021: £15,440 million). This comprised Heathrow SP's £13,523 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £311 million.

Financial ratios

At 31 March 2022, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios and interest coverage ratios are defined within the Glossary.

At 31 March 2022, Heathrow's RAB was £17,675 million (31 December 2021: £17,474million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.9% and 76.5% respectively (31 December 2021: 64.6% and 76.3% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 88.1% (31 December 2021: 88.4%) with a covenant of 92.5%.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 March 2022, the defined benefit pension scheme, as measured under IAS 19, was funded at 109.0% (31 December 2021: 107.6%). This translated into an accounting surplus of £363 million (31 December 2021: £343 million). The £20 million increase in the surplus in the 3 months is largely due to actuarial gains of £20 million, attributable to an increase in the discount rate of 0.85% offset by an increase the inflation assumption of 0.3%, current service costs in excess of contributions of £2 million and a finance credit of £2 million. In the 3 months ended 31 March 2022, we contributed £7 million (2021: nil) into the defined benefit pension scheme including £5 million (2021: nil) in deficit repair contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

Mark Brooker joined the Board of Heathrow Airport Holdings Limited as a Non-Executive Director in April. Mr Brooker brings a wealth of digital, financial and transport expertise to the Board as the airport gears up for growth, post-pandemic.

Mr Brooker has a wide breadth of experience across high-profile, operational and strategic roles including Chief Operating Officer for Trainline and Betfair Group Plc. Mr Brooker will support the airport in navigating the challenges associated with rapid growth, whilst remaining focused on providing excellent service and taking advantage of digitalisation in a post-COVID era.

OUTLOOK

We have revised our 2022 traffic forecast to 52.8 million passengers, an increase of 7.3 million versus our previous forecast of 45.5 million. We have seen an increase in demand over Easter which we expect to continue into Summer, and so this traffic increase reflects the strength of short-term demand. However, our medium-term outlook remains highly uncertain with some significant potential headwinds for later in the year, including the possibility of new COVID variants, high fuel prices, increases in cost of living and the impact of the ongoing war in Ukraine.

We will continue to monitor passenger numbers and will provide a further update alongside a revised financial forecast as part of our June Investor Report.

Heathrow Funding Ltd credit ratings update - Credit rating agency Standards & Poor's has put Heathrow Funding Limited's Class A and B debt on CreditWatch with negative implications, pending the CAA's final decision on H7 this summer. Based on the regulator's statutory duty, S&P's assessment relies on the CAA taking a balanced approach such that Heathrow can recover and sustain credit metrics in a timely manner. Following an initial credit downgrade in 2020, the agency has taken this action because of the significant uncertainty over the H7 regulatory package.

Full RNS available here: Heathrow Funding Ltd credit ratings update - 17:22:52 24 Feb 2022 - News article | London Stock Exchange

Heathrow appoints Mark Brooker to its Board - Heathrow Airport Holdings Ltd has today announced that Mark Brooker joined the airport's Board as a Non-Executive Director in April. Mr Brooker brings a wealth of digital, financial and transport expertise to the Board as the airport gears up for growth, post-pandemic.

Full RNS available here: Heathrow appoints Mark Brooker to its Board - 09:00:01 06 Apr 2022 - News article | London Stock Exchange

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the three months ended 31 March 2022

		Unaudited Three months ended 31 March 2022			Unaudited Three months ended 31 March 2021		
		Before certain re-measurements [(1)]	**Certain re-measurements [(2)]**	**Total**	Before certain re-measurements [(1)]	Certain re-measurements [(2)]	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Continuing operations							
Revenue	*1*	**516**	**-**	**516**	165	-	165
Operating costs	*2*	**(431)**	**-**	**(431)**	(370)	-	(370)
Other operating items:							
Fair value gain/(loss) on investment properties		**-**	**139**	**139**	-	(1)	(1)
Operating profit/(loss)		**85**	**139**	**224**	(205)	(1)	(206)
Financing							
Finance income		**4**	**-**	**4**	2	-	2
Finance cost		**(312)**	**(107)**	**(419)**	(126)	23	(103)
Net finance cost	*3*	**(308)**	**(107)**	**(415)**	(124)	23	(101)
Loss before tax		**(223)**	**32**	**(191)**	(329)	22	(307)
Taxation credit/(charge)	*4*	**44**	**(8)**	**36**	53	(4)	49
Loss for the period [(3)]		**(179)**	**24**	**(155)**	(276)	18	(258)

(1) Amounts stated before certain remeasurements 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) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the three months ended 31 March 2022

	Unaudited Three months ended 31 March 2022 £m	Unaudited Three months ended 31 March 2021 £m
Loss for the period	**(155)**	(258)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain on pensions:		
Loss on plan assets [(1)]	**(359)**	(251)
Decrease in scheme liabilities [(1)]	**376**	299
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges:		
Gains taken to equity [(1)]	**(37)**	4
Transfer to finance cost [(1)]	**4**	11
Other comprehensive income for the period	**(16)**	63
Total comprehensive expense for the period [(2)]	**(171)**	(195)

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

Condensed consolidated statement of financial position as at 31 March 2022

	Note	Unaudited as at 31 March 2022 £m	Audited (1) as at 31 December 2021 £m
Assets			
Non-current assets			
Property, plant and equipment		**10,625**	10,654
Right of use asset		**276**	270
Investment properties		**2,436**	2,297
Intangible assets		**149**	156
Retirement benefit surplus		**363**	343
Derivative financial instruments		**497**	421
Trade and other receivables		**21**	23
		14,367	14,164
Current assets			
Inventories		**13**	13
Trade and other receivables		**209**	201
Current income tax assets		**2**	3
Derivative financial instruments		**24**	25
Term deposits		**2,460**	2,410
Cash and cash equivalents		**196**	216
		2,904	2,868
Total assets		**17,271**	17,032
Liabilities			
Non-current liabilities			
Borrowings	5	**(17,603)**	(18,341)
Derivative financial instruments		**(2,660)**	(2,225)
Lease liabilities		**(335)**	(331)
Deferred income tax liabilities		**(664)**	(706)
Retirement benefit obligations		**(30)**	(30)
Provisions		**-**	(1)
Trade and other payables		**(4)**	(3)
		(21,296)	(21,637)
Current liabilities			
Borrowings	5	**(1,669)**	(1,008)
Derivative financial instruments		**(37)**	(19)
Lease liabilities		**(42)**	(40)
Provisions		**(3)**	(4)
Trade and other payables		**(436)**	(365)
		(2,187)	(1,436)
Total liabilities		**(23,483)**	(23,073)
Net liabilities		**(6,212)**	(6,041)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(138)**	(105)
Accumulated losses		**(2,826)**	(2,688)
Total shareholder's equity		**(6,212)**	(6,041)

(1) This column is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2021.

Condensed consolidated statement of changes in equity for the three months ended 31 March 2022

	Attributable to owners of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Cash flow hedge reserve £m**	**Accumulated losses £m**	**Total equity £m**
1 January 2021	11	499	(3,758)	(173)	(1,336)	(4,757)
Comprehensive income:						
Loss for the period	-	-	-	-	(1,613)	(1,613)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	56	-	56
Change in tax rate	-	-	-	12	-	12
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	141	141
Decrease in scheme liabilities	-	-	-	-	125	125
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(4)	(4)
Total comprehensive income/(expense)	-	-	-	68	(1,352)	(1,284)
31 December 2021 (audited) [(1)]	11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:						
Loss for the period	**-**	**-**	**-**	**-**	**(155)**	**(155)**
Other comprehensive (expense)/income:						
Fair value loss on cash flow hedges net of tax	**-**	**-**	**-**	**(33)**	**-**	**(33)**
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	**-**	**-**	**-**	**-**	**(359)**	**(359)**
Decrease in scheme liabilities	**-**	**-**	**-**	**-**	**376**	**376**
Total comprehensive expense	**-**	**-**	**-**	**(33)**	**(138)**	**(171)**
31 March 2022 (unaudited)	**11**	**499**	**(3,758)**	**(138)**	**(2,826)**	**(6,212)**

(1) This row is labelled audited as the amounts have been extracted from the company's audited financial statements for the year ended 31 December 2021.

Condensed consolidated statement of cash flows for the three months ended 31 March 2022

	Note	**Unaudited Three months ended 31 March 2022 £m**	Unaudited Three months ended 31 March 2021 £m
Cash flows from operating activities			
Cash generated from operations	*6*	**278**	132
Net cash generated from operating activities		**278**	132
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(74)**	(50)
Investment properties		**-**	(2)
Proceeds on disposals of:			
Property, plant and equipment		**-**	14
(Increase)/decrease in term deposits [(1)]		**(50)**	66
Interest received		**2**	3
Net cash (used in)/generated from investing activities		**(122)**	31
Cash flows from financing activities			
Proceeds from issuance of bonds		**-**	348
Repayment of bonds		**-**	(250)
Repayment of facilities and other financing items		**-**	(3)
Increase in amount owed to Heathrow Finance plc		**-**	71
Interest paid [2]		**(159)**	(71)
Settlement of accretion on index-linked swaps		**(8)**	(31)
Payment of lease liabilities		**(9)**	(8)
Net cash (used in)/generated from financing activities		**(176)**	56
Net (decrease)/increase in cash and cash equivalents		**(20)**	219
Cash and cash equivalents at beginning of period		**216**	280
Cash and cash equivalents at end of period		**196**	499

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

(2) Includes £4 million of lease interest paid (three months ended 31 March 2021: £4 million) and £110m of interest paid under the debenture payable to Heathrow Finance plc (three months ended 31 March 2021: nil)".

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

General information

The financial information set out herein does not constitute the Group's statutory financial statements for the three-month period ended 31 March 2022 or any other period. The annual financial information presented herein for the three-month period ended 31 March 2022 is based on, and is consistent with, the audited consolidated financial statements of Heathrow (SP) Limited (the 'Group') for the twelve-month period ended 31 December 2021. The auditors' report on the 2021 financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies

Basis of preparation

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

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

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

Table (a)	**Unaudited Three months ended 31 March 2022 £m**	Unaudited Three months ended 31 March 2021 £m
Revenue reported under IFRS 15		
Aeronautical		
Movement charges	**127**	38
Parking charges	**20**	11
Passenger charges	**179**	29
Total aeronautical revenue	**326**	78
Other regulated charges	**45**	28
Retail services revenue	**101**	27
Property revenue	**5**	1
Rail Income		
Heathrow Express	**14**	1
Other	**-**	3
Total revenue reported under IFRS 15	**491**	138
Revenue reported under IFRS 16		
Property (lease-related income)	**25**	27
Total revenue	**516**	165
Heathrow	**502**	164
Heathrow Express	**14**	1
Adjusted EBITDA	**273**	(20)
Heathrow	**272**	(14)
Heathrow Express	**1**	(6)
Reconciliation to statutory information:		
Depreciation and amortisation	**(188)**	(185)
Operating profit/(loss) (before certain re-measurements)	**85**	(205)
Fair value gain/(loss) on investment properties (certain re-measurements)	**139**	(1)
Operating profit/(loss)	**224**	(206)
Finance income	**4**	2
Finance cost	**(419)**	(103)
Loss before tax	**(191)**	(307)

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Three months ended 31 March 2022		Unaudited Three months ended 31 March 2021	
	Depreciation & amortisation (1) £m	Fair value gain (2) £m	Depreciation & amortisation (1) £m	Fair value loss (2) £m
Heathrow	**(180)**	**139**	(175)	(1)
Heathrow Express	**(8)**	**-**	(10)	-
Total	**(188)**	**139**	(185)	(1)

(1) Includes intangible amortisation charge of £8 million (three months ended 31 March 2021: £9 million).
(2) Reflects fair value gain/(loss) on investment properties only.

Table (c)	Unaudited 31 March 2022		Audited 31 December 2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	**12,873**	**(419)**	12,750	(346)
Heathrow Express	**580**	**(24)**	594	(27)
Total operations	**13,453**	**(443)**	13,344	(373)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	**2,656**	**(15,807)**	2,626	(15,819)
Retirement benefit assets/(obligations)	**363**	**(30)**	343	(30)
Derivative financial instruments	**521**	**(2,697)**	446	(2,244)
Deferred and current tax assets/(liabilities)	**2**	**(664)**	3	(706)
Amounts owed to group undertakings	**-**	**(3,465)**	-	(3,530)
Right of use asset and lease liabilities	**276**	**(377)**	270	(371)
Total	**17,271**	**(23,483)**	17,032	(23,073)

2. OPERATING COSTS

	Unaudited Three months ended 31 March 2022 £m	Unaudited Three months ended 31 March 2021 £m
Employment (1)	**79**	60
Operational (2)	**62**	41
Maintenance	**38**	29
Rates	**30**	29
Utilities	**19**	14
Other	**15**	12
Total operating costs before depreciation and amortisation	**243**	185
Depreciation and amortisation:		
Property, plant and equipment	**170**	166
Intangible assets	**8**	9
Right of Use (RoU) assets	**10**	10
Total operating costs	**431**	370

(1) For the three months ended 31 March 2021, Government grants of £7 million were received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. Following the end of the scheme in September 2021, no equivalent payments were received in the three months ended 31 March 2022.
(2) For the three months ended 31 March 2022, £4 million was received through the Airport and Ground Operations Support Scheme (three months ended 31 March 2021: £nil) which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

3. FINANCING

	Unaudited Three months ended 31 March 2022 £m	Unaudited Three months ended 31 March 2021 £m
Finance income		
Interest on deposits	**2**	2
Pension finance income	**2**	-
Total finance income	**4**	2
Finance cost		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(178)**	(117)
Bank loans and overdrafts and unwind of hedging reserves	**(12)**	(14)
Net interest expense on derivatives not in hedge relationship[2]	**(74)**	51
Facility fees and other charges	**(3)**	(2)
Interest on debenture payable to Heathrow Finance plc	**(47)**	(42)
Finance cost on lease liabilities	**(4)**	(4)
	(318)	(128)
Less: capitalised borrowing costs[3]	**6**	2
Total finance cost	**(312)**	(126)
Net finance cost before certain re-measurements	**(308)**	(124)
Fair value (loss)/gain on financial instruments		
Interest rate swaps: not in hedge relationship	**39**	50
Index-linked swaps: not in hedge relationship	**(170)**	(12)
Cross-currency swaps and debt: not in hedge relationship[4]	**(10)**	(8)
Cross-currency swaps and debt: ineffective portion of cash flow hedges[5]	**10**	(7)
Cross-currency swaps and debt: ineffective portion of fair value hedges[5]	**24**	-
	(107)	23
Net finance cost	**(415)**	(101)

(1) Includes accretion of £49 million for three months ended 31 March 2022 (three months ended 31 March 2021: £4 million) on index-linked bonds.
(2) Includes accretion of £164 million for three months ended 31 March 2022 (three months ended 31 March 2021: £15 million) on index-linked swaps.
(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 3.68% (for three months ended 31 March 2021: 1.45%) to expenditure incurred on such assets.
(4) Includes foreign exchange retranslation loss on the currency bonds of £1 million (three months ended 31 March 2021: £10 million gain) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
(5) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

4. INCOME TAX CREDIT/(CHARGE)

	Unaudited Three months ended 31 March 2022			Unaudited Three months ended 31 March 2021		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax						
Current tax credit/(charge) at 19% (2021: 19%)	**-**	**-**	**-**	-	-	-
Deferred tax:						
Current year credit/(charge)	**44**	**(8)**	**36**	53	(4)	49
Taxation credit/(charge)	**44**	**(8)**	**36**	53	(4)	49

The total tax credit recognised for the three months ended 31 March 2022 was £36 million (three months ended 31 March 2021: £49 million), based on a loss before tax for the year of £191 million (three months ended 31 March 2021: £307 million).

The total tax credit before certain re-measurements for the three months ended 31 March 2022 was £44 million (three months ended 31 March 2021: £53 million). Based on a loss before tax and certain re-measurements of £223 million (three months ended 31 March 2021: £329 million), this results in an effective tax rate of 19.7% (three months ended 31 March 2021: 16.1%). The tax credit is more than implied by the statutory rate of 19% (2021: 19%) primarily due to the current year deferred tax movements at the 25% tax rate (2021: 19%), offset by non-deductible expenses reducing the tax credit for the year (2021: non-deductible expenses reducing the tax credit for the year).

In addition, there was an £8 million tax charge (three months ended 31 March 2021: £4 million tax charge) arising from fair value movements on investment property revaluations and financial instruments.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. The increase in the tax rate was enacted in Finance Act 2021 and the effects of the increase on the brought forward deferred tax balances were included in the results for the year ended 31 December 2021.

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

5. BORROWINGS

	Unaudited 31 March 2022 £m	Audited 31 December 2021 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
1.650%+RPI £180 million due 2022	**239**	234
1.875% €600 million due 2022	**507**	507
5.225% £750 million due 2023	**736**	-
Total current (excluding interest payable)	**1,482**	741
Interest payable – external	**186**	203
Interest payable – owed to group undertakings	**1**	64
Total current	**1,669**	1,008
Non-current		
Secured		
Heathrow Funding Limited bonds		
5.225% £750 million due 2023	**-**	732
7.125% £600 million due 2024	**597**	597
0.500% CHF400 million due 2024	**328**	326
3.250% C$500 million due 2025	**286**	294
1.500 % €750 million due 2025	**627**	625
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**167**	170
6.750% £700 million due 2026	**695**	695
2.650% NOK1,000 million due 2027	**82**	84
2.694% C$650 million due 2027	**394**	379
3.400% C$400 million due 2028	**242**	233
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**97**	99
2.625% £350 million due 2028	**346**	346
2.500% NOK1,000 million due 2029	**74**	77
2.750 % £450 million due 2029	**445**	445
1.500% €750 million due 2030	**611**	656
3.782% C$400 million due 2030	**238**	235
1.125% €500 million due 2030	**415**	414
6.450% £900 million due 2031	**861**	860
3.661% C$500 million due 2031	**303**	291
Zero-coupon €50 million due January 2032	**64**	63
1.366%+RPI £75 million due 2032	**94**	92
Zero-coupon €50 million due April 2032	**63**	62
1.875% €500 million due 2032	**419**	418
0.101%+RPI £182 million due 2032	**197**	192
3.726% C$625 million due 2033	**386**	371
1.875% €650 million due 2034	**509**	555
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**53**	52
0.347%+RPI £75 million due 2035	**82**	80
0.337%+RPI £75 million due 2036	**82**	80
1.061%+RPI £180 million due 2036	**221**	216
0.419%+RPI £51 million due 2038	**55**	54

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

5. BORROWINGS *CONTINUED*

	Unaudited 31 March 2022 £m	Audited 31 December 2021 £m
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**63**	61
Zero-coupon €86 million due 2039	**79**	78
3.334%+RPI £460 million due 2039	**694**	679
0.800% JPY1,000 million due 2039	**57**	64
1.238%+RPI £100 million due 2040	**124**	121
0.362%+RPI £75 million due 2041	**82**	80
3.500% A$125 million due 2041	**71**	67
5.875% £750 million due 2041	**739**	739
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
1.372%+RPI £75 million due 2049	**94**	92
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**178**	175
Total bonds	**12,912**	13,647
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	**100**	100
Class A3 term loan due 2029	**199**	200
Term notes due 2026-2040	**928**	928
Total other debt	**1,227**	1,228
Unsecured		
Debenture payable to Heathrow Finance plc	**3,464**	3,466
Total non-current	**17,603**	18,341
Total borrowings (excluding interest payable)	**19,085**	19,082

At 31 March 2022, Heathrow SP's consolidated nominal net debt was £13,523 million (31 December 2021: £13,332 million). It comprised £14,377 million (31 December 2021: £14,327 million) in bond issues, £1,230 million (31 December 2021: £1,230 million) in other term debt, £537 million (31 December 2021: £381 million) in index-linked derivative accretion and £35 million (31 December 2021: £20 million) of additional lease liabilities. This was offset by £2,656 million (31 December 2021: £2,626 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,468 million (31 December 2021: £11,294 million) in senior net debt and £2,055 million (31 December 2021: £2,038 million) in junior debt.

At 31 March 2022, total non-current external borrowings due after more than 5 years was £11,084 million (31 December 2021: £11,083 million), comprising £10,056 million of bonds (31 December 2021: £10,055 million) and £1,028 million (31 December 2021: £1,028 million) in bank facilities.

Impact of fair value hedge adjustments

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

	Unaudited 31 March 2022		Audited 31 December 2021	
	Nominal at hedge rate £m	**Fair value adjustment [1] £m**	Nominal at hedge rate £m	Fair value adjustment [1] £m
Euro denominated debt	**1,615**	**44**	1,615	(52)
CAD denominated debt	**337**	**20**	337	(5)
Other currencies debt	**780**	**34**	780	2
Designated in fair value hedge	**2,732**	**98**	2,732	(55)

(1) Fair value adjustment is comprised of fair value loss of £105 million (year ended 31 December 2021: £46 million loss) on continuing hedges and £7 million loss (year ended 31 December 2021: £9 million loss) on discontinued hedges.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2022

6. CASH GENERATED FROM OPERATIONS

	Unaudited Three months ended 31 March 2022 £m	Unaudited Three months ended 31 March 2021 £m
Loss before tax	**(191)**	(307)
Adjustments for:		
Net finance cost	**415**	101
Depreciation	**170**	166
Amortisation on intangibles	**8**	9
Amortisation on right of use assets	**10**	10
Fair value gain/(loss) on investment properties	**(139)**	1
Working capital changes:		
(Increase)/decrease in inventories and trade and other receivables [1]	**(6)**	171
Increase/(decrease) in trade and other payables	**10**	(19)
Decrease in provisions	**(1)**	-
Difference between pension charge and cash contributions	**3**	6
Cash generated from operations before exceptional items	**279**	138
Cash payments in respect of prior year exceptional items	**(1)**	(6)
Cash generated from operations	**278**	132

GLOSSARY

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

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

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

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

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

Consolidated nominal net debt – 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

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

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

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

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

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

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

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

Regulatory asset ratio 'RAR' – is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%. 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.