HEATHROW (SP) LIMITED

RESULTS FOR THE 3 MONTHS ENDED 31ST MARCH 2023

Strong start to 2023 – We welcomed 16.9 million passengers in Q1, beating Paris, Frankfurt and Schiphol to retain our position as Europe's busiest airport and second in the world for international travel.

Delivering excellent and consistent passenger service – Passengers also rated Heathrow's service ahead of our main EU hub rivals, with a strong performance during the half term and Easter holidays. Our robust contingency plans kept the airport running smoothly throughout a period of industrial action over the Easter peak. Passengers can expect to travel as normal during the Coronation and half term peaks, regardless of further unnecessary strike action by Unite. We are working with partners on further improvements to service, such as Border Force's successful trial of extending eGates to 10+ year-olds over Easter.

Heathrow remains loss-making and we do not forecast any dividends in 2023 – Heathrow has not yet returned to profit with Adjusted losses of £139 million in Q1 due to the revenue allowance in the CAA's H7 settlement being set too low. We have appealed the H7 settlement to the CMA.

Supporting the UK's competitiveness – We have worked to better connect all of the UK to global markets, with Loganair taking advantage of our domestic charges discount to open up new routes to Northern Ireland and Scotland, as well as opening up connections to 10 Chinese cities as borders reopen. Frequencies to Beijing and Shanghai will increase to twice daily before the summer. We urge Ministers to make the UK more competitive for overseas visitors versus the EU by removing the 'tourist tax' of VAT on shopping which will drive more spend in shops, restaurants and attractions across Britain.

Continued steady progress towards sustainability goals – We were pleased to be the first airport to achieve science-based validation from the SBTi for our 2030 carbon reduction goals. As the global aviation sector starts to decarbonise, we urge the government to move faster to bring production of Sustainable Aviation Fuel onshore, increasing energy security and creating skilled green jobs in levelling up areas.

At or for 3 months ended 31 March	2022	2023	Change (%)
(£m unless otherwise stated)			
Revenue	516	814	57.8
Cash generated from operations	278	374	34.5
Loss before tax	(191)	(60)	68.6
Adjusted EBITDA[1]	273	486	78.0
Adjusted loss before tax[2]	(223)	(139)	37.7
Heathrow (SP) Limited consolidated nominal net debt[3]	14,579	14,681	0.7
Heathrow Finance plc consolidated nominal net debt[3]	15,786	15,881	0.6
Regulatory Asset Base[4]	19,182	19,591	2.1
Passengers (million)[5]	9.7	16.9	74.2

"2023 has got off to a strong start, and I'm proud of the way colleagues are working together to deliver great passenger service every day. We are building our route network to connect all of Britain to the growing markets of the world – now we need the government to lure international visitors back to the UK by scrapping the 'tourist tax'."

John Holland-Kaye | Heathrow CEO

NOTES

(1) EBITDA (2023: £492m, 2022: £412m 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 loss 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. 2022 figures are as at 31 December 2022.
(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. 2022 figures are as at 31 December 2022.
(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

Wednesday April 26th, 2023

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

Investor enquiries

Tim Allen
+44 7568 604 873

Media enquiries

Weston Macklem
+44 7525 825 516

Audio Conference Call Access:
https://register.vevent.com/register/BI299abb182c0945549b046502aed9f0e1
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This link gives participants access to the live event.

STRATEGIC PRIORITIES

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

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

The following performance metrics provide a picture on each of the four priorities for the three months ended 31 March 2023. All indicator definitions are available in the glossary section of this report

MOJO

Mojo performance indicators (1)	2022	2023
Colleague promotions	100	**156**
Managerial training	69	**363**
Lost time injuries	0.50	**0.33**

(1) For the three months ended 31 March 2023

We want Heathrow to be a great place to work and continue to provide fantastic opportunities for our talented colleagues to develop their careers. We have continued building strong leadership capability with 156 colleagues (2022: 100) promoted and 363 (2022: 69) assigned to training and development programmes in the first quarter of the year. Our recently launched 'Lead the Way' training programme has driven the large increase in managerial training. We are also committed to the safety of our passengers and colleagues, to ensure everyone goes home safely every day. For the three months ended 31 March 2023, our lost time injuries metric was 0.33 (2022: 0.50), a significant reduction compared to 2022. We continue to work internally on our incident reduction plans.

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2022	2023
ASQ	4.13	**4.01**
Courtesy & Helpfulness of Airport Colleagues (QSM)	4.45	4.38
Arrival punctuality %	79.9	69.7
Departure punctuality %	72.0	63.5
Security queuing %	95.0	85.5
Baggage connection %	98.5	98.2

(1) For the three months ended 31 March

Over the first quarter, the majority of passengers had a great experience through the airport. 31 March was one of our busiest days since 2019, with 221,606 passengers travelling through the airport. Service levels were excellent, despite this being the first day of industrial action. Our strong contingency plans kept the airport running smoothly throughout the strike period.

During the first quarter of 2023, we achieved an overall ASQ rating of 4.01 out of 5.00 (Q1 2022: 4.13). Whilst this is down on the same quarter last year when passenger numbers were significantly lower, it reflects a steady improvement over the previous three quarters as passenger numbers have grown rapidly. 75% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (Q1 2022: 79%), although more passengers rated their Heathrow experience as 'Very Good', 'Good' or 'Fair' compared to the 'Excellent' rating we were seeing in 2022.

For the three months ended 31 March 2023, satisfaction with Courtesy & Helpfulness of Airport Colleagues (QSM) declined slightly as the airport welcomed 77% more departing passengers. However, service levels were on a par with the same period in 2019 and above the 2023 target of 4.36. Overall, 44% of passengers rated this service aspect as 'Excellent' during the first quarter, a 4% increase versus the first quarter in 2019, with the proportion of 'Poor/Extremely Poor' ratings remaining extremely low at 1%.

Progress remains on track in terms of building back capacity, and we delivered a smooth operation over the Easter getaway, despite the industrial action. Resource levels have almost recovered to pre-pandemic levels and we continue to focus on building experience and operational resilience to ensure we are ready for the summer peaks.

BEAT THE PLAN

(Millions) (1)	2022	2023	Var % (2)
UK	0.7	1.0	51.4
Europe	3.9	6.6	71.1
North America	1.9	3.8	93.6
Asia Pacific	0.8	2.2	160.6
Middle East	1.4	1.9	39.2
Africa	0.6	0.9	48.5
Latin America	0.4	0.5	41.4
Total passengers	**9.7**	**16.9**	**75.0**

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

Other traffic performance indicators (1)	2022	2023	Var % (2)
Passenger ATM	66,230	103,173	55.8
Load factors (%)	66.7	74.3	11.4
Seats per ATM	218.7	220.7	0.9
Cargo tonnage ('000)	349	317	(9.0)

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

Passenger Traffic – The first quarter saw continued passenger growth, and a total of 16.9 million passengers travelled through the airport (2022: 9.7 million).

Although inbound leisure and business travel are showing good signs of recovery, demand for outbound leisure travel continues to be the main driver of passenger growth. During the first quarter of 2023, business travel accounted for 29% of overall traffic, compared to 35% in the same period before the pandemic.

Passenger growth was seen in all regions, with North America and Asia Pacific driving the increase in passenger numbers compared to 2022. Asia Pacific has benefited from the reopening of borders in the region, with Shenzhen Airlines and Air China restarting their Heathrow routes.

The number of air traffic movements (ATMs) increased by 55.8% which is in line with the overall increase in demand. Additionally, load factors increased to 74.3% for the first quarter, although this is below the full year level for 2019 and provides further growth opportunities. The average number of seats per passenger aircraft remained broadly in line with last year at 220.7 (2022: 218.7).

Our cargo tonnage decreased by 9% compared to the first quarter of 2022. Even with belly hold capacity back to normal on many routes, tonnage remains down as the global air cargo industry is suffering the effects of various macroeconomic factors resulting in weak demand.

SUSTAINABLE GROWTH

Heathrow 2.0 – In March 2023, we published our 2022 Sustainability Report. This details the progress we have made towards our 2030 goals, as well as some of the challenges we have faced. You can access the full report on our Investor Centre.

Net zero aviation – Decarbonising the aviation sector remains a key priority for Heathrow. We are pleased to have achieved science-based validation from the SBTi for our 2030 carbon reduction goals, confirming they are consistent with a 1.5-degree carbon reduction trajectory. Heathrow is the first airport to achieve this status with SBTi's updated 1.5 degrees standard.

The Sustainable Aviation Fuels (SAF) incentive scheme continues to make SAF a regular feature of fuel supply at the airport. A success in 2022, the incentive has been increased from 0.5% to 1.5% in 2023, and it has once again been oversubscribed. In Q1 2023, 14 airlines (7 new) submitted bids, 114% of the year's goal. The scheme contributes to both keeping Heathrow highly competitive with other airports with regular SAF supply outside the UK and it signals real increased demand for SAF domestically, even more relevant at the time the government has just published its SAF mandate consultation.

Our CEO's Chairship of the Sustainable Markets Initiative (SMI) Aviation Task Force continues building momentum for SAF purchases from corporates. He recently participated in a panel discussion on building supply and demand for SAF alongside industry leaders from finance and sustainable fuel production during the March SMI CEO Summit. To progress the '30 by 30' campaign, which urges corporates to purchase 30% SAF by 2030 for their business travel, we have developed a plan and criteria to engage with organisations to secure their commitment. We anticipate announcing signatories of the campaign at COP28 in Q4. The current policies do not cover all the SAF needed by 2030, indicating that there is a necessity for corporations to act through campaigns like '30 by 30' and the opportunity to deliver meaningful results. Corporations coming together demonstrating they want to be part of the solution to achieve net zero air travel sends a demand signal for SAF to governments, which can develop policies to escalate its production.

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

In January 2023, we published Heathrow's new Giving Back Programme which will collectively benefit at least one million local residents by 2030, focusing on employability, nature and the local environment. The Giving Back Programme builds on our history of community investment over many years.

We have continued to roll out the Sustainable Travel Zone, launched in 2022. Highlights include reduced journey times from Reading to Heathrow on RailAir coach and new early morning and late evening National Express coaches from Luton and Hemel Hempstead, to meet shift patterns.

Heathrow's revised noise insulation and Vortex scheme was launched in early April. The new scheme will simplify our offer and be based on a single boundary. Through it we will offer funding for noise insulation and ventilation costs for residential and community buildings. Eligibility will be based on noise footprints known as contours, based on UK noise policy.

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

We have delivered over 200 work experience opportunities since the start of the year through a combination of T-Levels placements, Essential Skills Masterclasses for students with additional learning needs, and an engineering insights experience for local students.

Key regulatory developments - On 8 March 2023, the CAA published its Final Decision for the H7 regulatory period. The decision sets an average price cap of £23.06 (2020 CPI) across H7. This will be implemented through a flat charge of £21.03 (2020 CPI) across 2024 to 2026, with the current interim price cap (£31.57 nominal) retained for 2023. Overall, forecasts in the Final Decision build on the CAA's Final Proposals and it is largely based on the same assumptions. Key elements of the price control decision include:

- Passenger forecast of 375.5 million over H7; reflecting actual passenger performance in 2022 and an increase in 2024 outlook;
- Opex forecast of £5,995 million (2020 CPI) across H7 taking account of higher passenger numbers, inflation, real wage inflation and energy prices;
- Commercial revenue forecast of £5,159 million (2020 CPI) over H7 taking account of higher passenger numbers, corrections for errors in the calculation of

surface access revenues and updated inflation assumptions leading to a commercial revenues and cargo allowance;
- Pre-tax WACC of 4.04% (3.18% vanilla) due to updated forecasts of the risk-free rate, the cost of debt and inflation; and
- RAB (Regulatory Asset Base) adjustment of £300 million continuing to implement the RAB adjustment decision taken by the CAA in April 2021.

Alongside the H7 charge, the CAA also confirmed the regulatory framework for H7. This retains a RAB-based, single till approach as the basis of the regulatory framework alongside new developments, including:

- Implementing a traffic risk sharing mechanism with symmetrical sharing of both out- and under-performance against the H7 passenger forecast. If outturn passenger volumes in a year are within a 10% variance to the H7 forecast, 50% of the exceeded aeronautical revenue per passenger is shared with airlines. If outturn passenger performance is over a 10% variance to forecast, 105% of the exceeded aeronautical revenues per passenger are shared.
- A new outcomes-based approach to service quality implementing a set of wider reputational and financial measures intended to measure Heathrow's delivery of the key outcomes passengers expect from their airport experience.
- An ex-ante capital incentives framework with a symmetrical 25% sharing rate of out and underperformance against the cost estimate for each of Heathrow's projects. This is combined with the introduction of Delivery Obligations, to be agreed with the airline community, to ensure that Heathrow delivers the costed scope, quality requirements and to time.

Following the publication of the Final Decision, we assessed the forecasts and evidence put forward by the CAA in detail. While we continue to disagree with a number of conclusions reached by the CAA, we are now focusing on ensuring that we can deliver the right outcomes for passengers through our own H7 plan.

There are, however, a number of areas in which the CAA has made clear errors which will undermine the investment needed to deliver the airport service and resilience consumers want. Given this, on 18 April we filed an appeal of the CAA's decision to the CMA, formally requesting the CMA to review the following parts of the CAA's decision:

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

The CMA will now decide whether to accept any or all of our grounds for appeal – we expect a decision in mid-May. If the CMA proceeds with hearing the appeal, a final decision is expected between August and October.

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

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 financial statements has been prepared on a going concern basis. More detail can be found in the going concern statement on page 15.

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 2022.

Summary performance

In the three months ended 31 March 2023, the Group's revenue increased by 58% to £814 million (2022: £516 million). Adjusted EBITDA increased to £486 million (2022: £273 million). The Group recorded a £50 million loss after tax (2022: £155 million loss).

Three months ended 31 March	2022 £m	2023 £m
Revenue	516	814
Adjusted operating costs(1)	(243)	(328)
Adjusted EBITDA(2)	**273**	**486**
Depreciation and amortisation	(188)	(183)
Adjusted operating profit(3)	**85**	**303**
Net finance costs before certain re-measurements	(308)	(442)
Adjusted loss before tax(4)	**(223)**	**(139)**

Tax credit on loss before certain re-measurements	44	30
Adjusted loss after tax[4]	**(179)**	**(109)**
Including certain re-measurements:		
Fair value gain on investment properties	139	6
Fair value (loss)/gain on financial instruments	(107)	73
Tax charge on certain re-measurements	(8)	(20)
Loss after tax	**(155)**	**(50)**

(1) Adjusted operating costs excludes depreciation, amortisation and fair value adjustments on investment properties
(2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(3) Adjusted operating profit excludes fair value adjustments on investment properties
(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 2023, revenue increased by 57.8% to £814 million (2022: £516 million).

Three months ended 31 March	2022 £m	2023 £m	Var. %
Aeronautical	326	545	67.2
Retail	101	149	47.5
Other	89	120	34.8
Total revenue	**516**	**814**	**57.8**

Aeronautical revenue increased by 67.2%. This increase is predominantly due to higher passenger numbers, the 2023 interim price cap implemented by the CAA and higher ATMs. This has been partially offset by an adverse mix of aircraft, cargo volume and SAF funds. Aeronautical revenue per passenger decreased by 4.1% to £32.25 (2022: £33.75).

Three months ended 31 March	2022 £m	2023 £m	Var. %
Retail concessions	35	54	54.3
Catering	10	17	70.0
Other retail	11	14	27.3
Car parking	26	40	53.8
Other services	19	24	26.3
Total retail revenue	**101**	**149**	**47.5**

Retail revenue increased by 47.5%, driven by higher departing passengers, car parking revenue and premium services. Retail revenue per passenger decreased by 15.7% to £8.82 (2022: £10.46).

Three months ended 31 March	2022 £m	2023 £m	Var. %
Other regulated charges ('ORCs')	45	54	20.0
Heathrow Express	14	22	57.1
Property and other	30	44	46.7
Total other revenue	**89**	**120**	**34.8**

Other revenue increased by 34.8%. Other regulated charges increased by 20.0% predominantly because of higher passenger numbers. The significant increase in Heathrow Express revenue is also attributed to increased passenger numbers. Property revenue increases were a result of terminal facility lease renewals.

Adjusted operating costs

In the three months ended 31 March 2023, adjusted operating costs increased 35.0% to £328 million (2022: £243 million). Adjusted operating costs per passenger decreased by 23% to £19.41 (2022: £25.16). The adjusted operating costs per passenger are largely distorted by the fixed nature of our cost base, as we saw lower passenger numbers in the prior year.

Three months ended 31 March	2022 £m	2023 £m	Var. %
Employment	79	93	17.7
Operational	62	97	56.5
Maintenance	38	50	31.6
Rates	30	29	(3.3)
Utilities and Other	34	59	73.5
Adjusted operating costs	**243**	**328**	**35.0**

Employment costs have increased by 17.7% due to ramp up costs. This includes costs associated with additional colleagues, overtime, recruitment and training. The rise in operational and maintenance is mainly due to ramp up, including Passengers Requiring Support (PRS) resourcing, cleaning and maintenance and service quality rebates paid. Finally, utilities and other costs have been impacted by higher consumption and higher energy prices.

Operating Profit and Adjusted EBITDA

In the three months ended 31 March 2023, the Group recorded an operating profit of £309 million (2022: £224 million). The operating profit was driven by higher revenue.

Adjusted EBITDA increased in line with revenue to £486 million (2022: £273 million).

Three months ended 31 March	2022 £m	2023 £m
Operating profit	**224**	**309**
Depreciation and amortisation	188	183
EBITDA	**412**	**492**
Exclude:		
Fair value gain on investment properties	(139)	(6)
Adjusted EBITDA	**273**	**486**

Loss after tax

In the three months ended 31 March 2023, the Group recorded a loss before tax of £60 million (2022: £191 million loss) and a loss after tax of £50 million (2022: £155 million loss).

Three months ended 31 March	2022 £m	2023 £m
Operating profit	**224**	**309**
Net finance costs before certain remeasurements	(308)	(442)
Fair value (loss)/gain on financial instruments	(107)	73
Loss before tax	**(191)**	**(60)**
Taxation credit	36	10
Loss after tax	**(155)**	**(50)**

Net finance costs before certain re-measurements increased to £442 million (2022: £308 million) driven by additional inflation accretion expense as the RPI annual growth rate reached 13.8% as published in March 2023.

There was a fair value gain on financial instruments of £73 million (2022: £107 million fair value loss) explained by an increase in interest rates by an average 26bps (2022: 79 bps) as a result of the recent Bank of England interest rate increase, which is partially offset by the increases in inflation, an average 23 bps increase.

Taxation

The total tax credit for the three-month period ended 31 March 2023 was £10 million (2022: £36 million). The tax credit before certain re-measurements was £30 million (2022: £44 million), at an effective tax rate of 21.6% (2022: 19.7%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax loss of the three-month period, before certain re-measurements. The tax credit is less than the statutory rate of 23.5% (2022: more than implied by the statutory rate of 19%) primarily due to non-deductible expenses reducing the tax credit for the year offset by current year deferred tax movements at the 25% tax rate (2022: deferred tax movements at the 25% tax rate offset by non-deductible expenses reducing the tax credit for the year).

For the three months ended 31 March 2023, a tax charge of £20 million was recognised on certain remeasurements (fair value movements on financial instruments and investment properties) (2022: £8 million tax charge).

Cash position

In the three months ended 31 March 2023, there was an increase of £110 million in cash and cash equivalents compared with a decrease of £20 million in the three months ended 31 March 2022.

At 31 March 2023, the Heathrow SP Group had £1,088 million (31 December 2022: £1,833 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £395 million (31 December 2022: £285 million).

Cash generated from operations

In the three months ended 31 March 2023, cash generated from operations increased to £374 million (2022: generated £278 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Three months ended 31 March	2022 £m	2023 £m
Cash generated from operations	**278**	**374**
Exclude:		
Increase in inventories and trade and other receivables	6	6
(Increase)/decrease in trade and other payables	(10)	105
Decrease in provisions	1	-
Difference between pension charge and cash contributions	(3)	1
Cash payments in respect of prior year exceptional items	1	-
Adjusted EBITDA	**273**	**486**

Capital expenditure

Total capital expenditure in the first three months of 2023 was £169 million (2022: £134 million) excluding capital creditors movements which equates to capital additions, or £101 million (2022: £74 million) including capital creditors movements, which equates to purchases in the statement of cashflows.

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, replacing security lanes, investing in our commercial proposition, investing in carbon and sustainability to deliver our Net Zero goals and investment in improving efficiency and service. During the first quarter, we have invested over £150 million on various programmes to ensure the airport's safety and resilience, further work on new security lanes in Terminals 2, 3 and 5, initial work on the Terminal 2 baggage system and investment in our commercial proposition, including surface access routes.

We also invested £0.5 million in the period (2022: £0.6 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. Heathrow has invested £396 million in Category B costs and £136 million in Category C costs, equalling £532 million (after £10 million of re-work impairment recognised in 2020).

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 2023, total restricted payments (gross and net) made by Heathrow SP amounted to £95 million (2022: £110 million). This funded scheduled interest payments on debt at Heathrow Finance and ADIF2 Limited. No payments to ultimate shareholders were made during the period.

RECENT FINANCING ACTIVITY

In the three months ended 31 March 2023, we have not raised any new debt. Class A financing activity included the scheduled repayment of a £750 million bond in February. During the quarter, early paydowns of accretion on our inflation swaps were made totalling £81 million.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 March 2023, Heathrow SP's consolidated nominal net debt was £14,681 million (31 December 2022: £14,579 million). It comprised £13,357 million in bond issues, £1,580 million in other term debt, £783 million in index-linked derivative accretion, and £49 million of additional lease liabilities. This was offset by £1,088 million in cash and cash equivalents and term deposits. Nominal net debt comprised £12,530 million in senior net debt and £2,151 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 March 2022 was 3.53% (31 December 2022: 3.64%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. The decrease was due to a bond maturing during the quarter and an increase in the floating interest rate, which resulted in a net positive impact on our swap portfolio. Including index-linked accretion, Heathrow SP's average cost of debt at 31 March 2023 was 11.77% (31 December 2022 10.53%). The increase in the average cost of debt since the end of 2022 is due to the elevated level of inflation, which led to a higher accrual of accretion on our inflation linked debt and swap portfolio versus the comparable period.

The average life of Heathrow SP's gross debt as at 31 March 2023 was 10.7 years (31 December 2022: 10.3 years).

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

We have sufficient liquidity to meet all our forecast needs for at least 12 months. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,252 million in cash resources across the wider Heathrow Group as well as undrawn revolving credit facilities of £1,386 million at 31 March 2023.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance amounted to £15,881 million (31 December 2022: £15,786 million). This comprised Heathrow SP's £14,681 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £1,164 million.

Financial ratios

At 31 March 2023, 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 2023, Heathrow's RAB was £19,591 million (31 December 2022: £19,182 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.0% and 74.9% 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 81.1% (31 December 2022: 82.3%) with a covenant of 92.5%.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 March 2023, the defined benefit pension scheme, as measured under IAS 19, was funded at 97.2% (31 December 2022: 96.3%). This translated into a deficit of £82 million (31 December 2022: £104 million). The £22 million reduction in the deficit in the 3 months is largely due to actuarial gains of £23 million attributable to a return on assets partially offset by a 0.1% increase in the inflation assumption and experience losses reflecting actual inflation in 2023; service costs of £3 million; a finance charge of £1 million; and, contributions paid in the year. In the 3 months ended 31 March 2023, we contributed £3 million (2022: £2 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the three months (2022: £5 million). The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

There have been no key management changes since the last results announcement on 23 February 2023.

OUTLOOK

We have revised our 2023 traffic forecast to a range of 70 million to 78 million passengers. We have seen a strong recovery in demand over the first quarter, which we expect to continue over the rest of the year.

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.

Announcement on CEO of Heathrow Airport - After nine years as CEO of Heathrow Airport, John Holland-Kaye has informed the Board of his intention to stand down as CEO during 2023.

Full RNS available here: Announcement on CEO of Heathrow - 09:00:02 02 Feb 2023 - News article | London Stock Exchange

Heathrow
Making every journey better

Condensed consolidated income statement for the three months ended 31 March 2023

	Note	Unaudited Three months ended 31 March 2023 Before certain re-measurements (1) £m	Certain re-measurements (2) £m	Total £m	Unaudited Three months ended 31 March 2022 Before certain re-measurements (1) £m	Certain re-measurements (2) £m	Total £m
Continuing operations							
Revenue	*1*	**814**	**-**	**814**	516	-	516
Operating costs	*2*	**(511)**	**-**	**(511)**	(431)	-	(431)
Other operating items:							
Fair value gain on investment properties		**-**	**6**	**6**	-	139	139
Operating profit		**303**	**6**	**309**	85	139	224
Financing							
Finance income		**13**	**-**	**13**	4	-	4
Finance costs		**(455)**	**73**	**(382)**	(312)	(107)	(419)
Net finance cost	*3*	**(442)**	**73**	**(369)**	(308)	(107)	(415)
(Loss)/profit before tax		**(139)**	**79**	**(60)**	(223)	32	(191)
Taxation credit/(charge)	*4*	**30**	**(20)**	**10**	44	(8)	36
(Loss)/profit for the period (3)		**(109)**	**59**	**(50)**	(179)	24	(155)

(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 2023

	Unaudited Three months ended 31 March 2023 £m	Unaudited Three months ended 31 March 2022 £m
Loss for the period	**(50)**	(155)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial gain/(loss) on pensions:		
Gain/(loss) on plan assets [1]	**54**	(359)
(Increase)/decrease in scheme liabilities [1]	**(34)**	376
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges:		
Gains taken to equity [1]	**(2)**	(37)
Transfer to finance cost [1]	**8**	4
Other comprehensive income/(expense) for the period	**26**	(16)
Total comprehensive expense for the period [2]	**(24)**	(171)

(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 2023

	Note	Unaudited as at 31 March 2023 £m	Audited[(1)] as at 31 December 2022 £m
Assets			
Non-current assets			
Property, plant and equipment		**10,351**	10,380
Right of use asset		**268**	279
Investment properties		**2,236**	2,230
Intangible assets		**242**	194
Derivative financial instruments		**997**	1,145
Trade and other receivables		**57**	29
		14,151	14,257
Current assets			
Inventories		**16**	16
Trade and other receivables		**242**	270
Current income tax assets		**4**	4
Derivative financial instruments		**1**	1
Term deposits		**693**	1,548
Cash and cash equivalents		**395**	285
		1,351	2,124
Total assets		**15,502**	16,381
Liabilities			
Non-current liabilities			
Borrowings	*5*	**(16,946)**	(17,456)
Derivative financial instruments		**(2,394)**	(2,436)
Lease liabilities		**(335)**	(341)
Deferred income tax liabilities		**(669)**	(671)
Retirement benefit obligations		**(99)**	(126)
Provisions		**(1)**	(1)
Trade and other payables		**(4)**	(4)
		(20,448)	(21,035)
Current liabilities			
Borrowings	*5*	**(791)**	(997)
Derivative financial instruments		**(19)**	(40)
Lease liabilities		**(32)**	(37)
Provisions		**(2)**	(2)
Trade and other payables		**(434)**	(470)
		(1,278)	(1,546)
Total liabilities		**(21,726)**	(22,581)
Net liabilities		**(6,224)**	(6,200)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(29)**	(35)
Accumulated losses		**(2,947)**	(2,917)
Total shareholder's equity		**(6,224)**	(6,200)

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

Condensed consolidated statement of changes in equity for the three months ended 31 March 2023

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Accumulated losses £m	Total equity £m
1 January 2022	11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:						
Profit for the period	-	-	-	-	114	114
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	70	-	70
Actuarial (loss)/ gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,582)	(1,582)
Decrease in scheme liabilities	-	-	-	-	1,239	1,239
Total comprehensive income/(expense)	-	-	-	70	(229)	(159)
31 December 2022 (audited) [(1)]	11	499	(3,758)	(35)	(2,917)	(6,200)
Comprehensive income:						
Loss for the period	**-**	**-**	**-**	**-**	**(50)**	**(50)**
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	**-**	**-**	**-**	**6**	**-**	**6**
Actuarial (loss)/gain on pension net of tax:						
Gain on plan assets	**-**	**-**	**-**	**-**	**54**	**54**
Increase in scheme liabilities	**-**	**-**	**-**	**-**	**(34)**	**(34)**
Total comprehensive income/(expense)	**-**	**-**	**-**	**6**	**(30)**	**(24)**
31 March 2023 (unaudited)	**11**	**499**	**(3,758)**	**(29)**	**(2,947)**	**(6,224)**

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

Condensed consolidated statement of cash flows for the three months ended 31 March 2023

	Note	Unaudited Three months ended 31 March 2023 £m	Unaudited Three months ended 31 March 2022 £m
Cash flows from operating activities			
Cash generated from operations	6	**374**	278
Net cash generated from operating activities		**374**	278
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(101)**	(74)
Decrease/(increase) in term deposits [1]		**855**	(50)
Interest received		**18**	2
Net cash generated/(used in) from investing activities		**772**	(122)
Cash flows from financing activities			
Repayment of bonds		**(750)**	-
Interest paid [2]		**(109)**	(159)
Settlement of accretion on index-linked swaps		**(85)**	(8)
Early settlement of accretion on index-linked swaps [3]		**(81)**	-
Payment of lease liabilities		**(11)**	(9)
Net cash used in from financing activities		**(1,036)**	(176)
Net increase/(decrease) in cash and cash equivalents		**110**	(20)
Cash and cash equivalents at beginning of period		**285**	216
Cash and cash equivalents at end of period		**395**	196

(1) Term deposits with an original maturity of over three months are invested by Heathrow Airport Limited.
(2) Includes £4 million of lease interest paid (2022: £4 million) and nil interest paid under the Debenture payable to Heathrow Finance plc (2022: £110 million).
(3) The Group has elected to early pay £81 million (2022: £nil) of accrued accretion, which were due to be settled within the next 4 years in line with the liquidity profile assessment of the Group.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

General information

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

Primary financial statements format

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

The column 'certain re-measurements' in the consolidated income statement contains the following: i. fair value gains and losses on investment property revaluations and disposals; ii. derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship; iii. the associated tax impacts of the items in (i) and (ii).

Accounting policies

Basis of preparation

The financial information covers the three-month period ended 31 March 2023 and has been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting'. This condensed set of financial statements comprises the unaudited financial information for the three months ended 31 March 2023 and its comparatives, together with the unaudited consolidated statement of financial position as at 31 March 2023 and the audited consolidated statement of financial position as at 31 December 2022.

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

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

The financial information for the three-month period ended 31 March 2023 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2023. The financial statements for the three-month period ended 31 March 2023 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2022 with the exception of the additional accounting policies and significant accounting judgements and estimates which have been detailed below.

Going concern

The Directors have prepared the financial information presented within 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.

Background

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and has been arrived at based on a set of assumptions such as higher passenger numbers, lower operating costs and higher commercial revenues versus those forecast by the Group, which has led to a lower tariff than the Group believes is appropriate. Whilst the H7 Final decision contains a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they do not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time.

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

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

Going concern *continued*

Base case

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 regulatory uncertainty described above, as well as the potential impact of any further COVID-19 impacts on cash flow, liquidity and debt covenant compliance over the next 12 months.

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 traffic forecasts of 67.2 million.
- Forecast level of capital expenditure based on the CAA's H7 Final Decision.
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

Base case passenger forecast

In modelling passenger number recovery from COVID-19, there remains a degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Nevertheless, passenger numbers have increased significantly in the first quarter of 2023; Q1 passenger numbers were at 94% of 2019 levels. Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong. Management's base case uses passenger forecasts of 67.2 million for 2023, equating to 83% of 2019 passenger levels.

Base case tariffs

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

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ("Heathrow SP") and Heathrow Finance plc ("Heathrow Finance"). Despite a continued challenging market, there continues to be confidence and support for the Group's credit with £546 million of new debt raised in FY22 in addition to the successful refinancing of the group £1.38bn revolving credit facility in Q4 2022. No additional debt was raised in Q1. Consequently, Heathrow SP held cash of £1.1 billion as at 31 March 2023. Total debt maturity within Heathrow SP for the next 12 months from 31 March 2023 is £0.6 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £2.3bn available at 31 March 2023. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios in the preparation of this Q1 press release. 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 disposal income of passengers; and the resultant impact of the CAA's H7 Final Decision on cash flow generation, liquidity and debt covenant compliance.

Under the Group's severe but plausible downside scenario, the Directors have modelled passenger numbers at the low end of Heathrow's 2023 passenger forecast of 57.7 million (a 14% reduction on the base case). This takes into account the Group's views of plausible impacts caused by a combination of reduced passenger economic confidence as well as potential reduced confidence from any future COVID-19 variants of concern caused by the recent opening of Chinese borders to international departures and arrivals.

The tariff assumptions remain the same as in the base case as this is derived from the CAA's Final Decision.

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 this Q1 Press Release and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

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

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

New IFRS accounting standards and interpretations adopted in the period

There have been no new standards, interpretations and amendments, issued by the IASB or by the IFRS Interpretations Committee (IFRIC), that are applicable for the period commencing on 1 January 2023 that have had a material impact on the Group's results.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

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

Key sources of estimation uncertainty

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 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 (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 2023 £m**	Unaudited Three months ended 31 March 2022 £m
Segment revenue		
Aeronautical		
Movement charges	**215**	127
Parking charges	**22**	20
Passenger charges	**308**	179
Total aeronautical revenue	**545**	326
Other regulated charges	**54**	45
Retail services revenue	**149**	101
Property revenue	**9**	5
Property (lease-related income)	**29**	25
Rail Income		
Heathrow Express	**22**	14
Other	**6**	-
Total revenue	**814**	516
Heathrow	**792**	502
Heathrow Express	**22**	14
Adjusted EBITDA	**486**	273
Heathrow	**480**	272
Heathrow Express	**6**	1
Reconciliation to statutory information:		
Depreciation and amortisation	**(183)**	(188)
Operating profit (before certain re-measurements)	**303**	85
Fair value gain on investment properties (certain re-measurements)	**6**	139
Operating profit	**309**	224
Finance income	**13**	4
Finance cost	**(382)**	(419)
Loss before tax	**(60)**	(191)

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Three months ended 31 March 2023		Unaudited Three months ended 31 March 2022	
	Depreciation & amortisation (1) £m	Fair value gain (2) £m	Depreciation & amortisation (1) £m	Fair value gain (2) £m
Heathrow	(175)	6	(180)	139
Heathrow Express	(8)	-	(8)	-
Total	**(183)**	**6**	(188)	139

(1) Includes intangible amortisation charge of £10 million (three months ended 31 March 2022: £8 million).
(2) Reflects fair value gain on investment properties only.

Table (c)	Unaudited 31 March 2023		Audited 31 December 2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow	12,588	(429)	12,557	(454)
Heathrow Express	556	(12)	562	(23)
Total operations	**13,144**	**(441)**	13,119	(477)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	1,088	(15,115)	1,833	(15,869)
Retirement benefit obligations	-	(99)	-	(126)
Derivative financial instruments	998	(2,413)	1,146	(2,476)
Deferred and current tax assets/(liabilities)	4	(669)	4	(671)
Amounts owed to group undertakings	-	(2,622)	-	(2,584)
Right of use asset and lease liabilities	268	(367)	279	(378)
Total	**15,502**	**(21,726)**	16,381	(22,581)

2. OPERATING COSTS

	Unaudited Three months ended 31 March 2023 £m	Unaudited Three months ended 31 March 2022 £m
Employment	**93**	79
Operational(1)	**97**	62
Maintenance	**50**	38
Rates	**29**	30
Utilities	**38**	19
Other	**21**	15
Total operating costs before depreciation and amortisation	**328**	243
Depreciation and amortisation:		
Property, plant and equipment	**162**	170
Intangible assets	**10**	8
Right of use assets	**11**	10
Total operating costs	**511**	431

(1) For the three months ended 31 March 2022, £4 million was received through the Airport and Ground Operations Support Scheme which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants. No amounts were received in 2023.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

3. FINANCING

	Unaudited Three months ended 31 March 2023 £m	Unaudited Three months ended 31 March 2022 £m
Finance income		
Interest on deposits	**13**	2
Pension finance income	**-**	2
Total finance income	**13**	4
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(161)**	(178)
Bank loans and overdrafts and unwind of hedging reserves	**(47)**	(12)
Net interest expense on derivatives not in hedge relationship[2]	**(223)**	(74)
Facility fees and other charges	**(4)**	(3)
Interest on debenture payable to Heathrow Finance plc	**(38)**	(47)
Pension finance costs	**(1)**	-
Finance cost on lease liabilities	**(4)**	(4)
	(478)	(318)
Less: capitalised borrowing costs[3]	**23**	6
Total finance cost	**(455)**	(312)
Net finance cost before certain re-measurements	**(442)**	(308)
Certain re-measurements		
Fair value gain/(loss) on financial instruments		
Interest rate swaps: not in hedge relationship	**(14)**	39
Index-linked swaps: not in hedge relationship	**88**	(170)
Cross-currency swaps and debt: not in hedge relationship[4]	**5**	(10)
Cross-currency swaps and debt: ineffective portion of cash flow hedges[5]	**(5)**	10
Cross-currency swaps and debt: ineffective portion of fair value hedges[5]	**(1)**	24
	73	(107)
Net finance cost	**(369)**	(415)

(1) Includes accretion of £54 million for three months ended 31 March 2023 (three months ended 31 March 2022: £49 million) on index-linked bonds.
(2) Includes accretion of £232 million for three months ended 31 March 2023 (three months ended 31 March 2022: £164 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 10.69% (for three months ended 31 March 2022: 3.68%) to expenditure incurred on such assets.
(4) Includes foreign exchange retranslation loss on the currency bonds of £1 million (three months ended 31 March 2022: £1 million loss) 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 2023

4. INCOME TAX CREDIT/(CHARGE)

	Unaudited Three months ended 31 March 2023			Unaudited Three months ended 31 March 2022		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax						
Current tax credit/(charge) at 23.5% (2022: 19%)	**-**	**-**	**-**	-	-	-
Deferred tax:						
Current year credit/(charge)	**30**	**(20)**	**10**	44	(8)	36
Taxation credit/(charge)	**30**	**(20)**	**10**	44	(8)	36

The total tax credit recognised for the three months ended 31 March 2023 was £10 million (three months ended 31 March 2022: £36 million).

The total tax credit before certain remeasurements for the three months ended 31 March 2023 was £30 million (three months ended 31 March 2022: £44 million). Based on a loss before tax, certain re-measurements and exceptional items of £139m (three months ended 31 March 2022: £223m), this results in an effective tax rate of 21.6% (three months ended 31 March 2022: 19.7%). The tax credit is less than implied by the statutory rate of 23.5% (2022: more than implied by the statutory rate of 19%) primarily due to non-deductible expenses reducing the tax credit for the year offset by current year deferred tax movements at the 25% tax rate (31 March 2022: primarily due to deferred tax movements at the 25% tax rate offset by non-deductible expenses reducing the tax credit for the year).

In addition, there was a £20m tax charge recognised on certain remeasurements arising from fair value movements on financial instruments and investment properties (three months ended 31 March 2022: £8 million).

The combination of continual recovery to pre-pandemic operational levels as well as the impact of high inflation and higher interest rates on financial instruments has resulted in the Group making losses during the three month period ended 31 March 2023. Therefore, in this period, there have been no quarterly instalment payments made in relation to corporation tax.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these 'Pillar 2' rules with effect from 1 January 2024. The Group is reviewing these draft rules to understand any potential impacts.

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 2023

5. BORROWINGS

	Unaudited 31 March 2023 £m	Audited 31 December 2022 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
5.225% £750 million due 2023	**-**	747
7.125% £600 million due 2024	**599**	-
Total current (excluding interest payable)	**599**	747
Interest payable – external	**178**	199
Interest payable – owed to group undertakings	**14**	51
Total current	**791**	997
Non-current		
Secured		
Heathrow Funding Limited bonds		
7.125% £600 million due 2024	**-**	598
0.500% CHF400 million due 2024	**345**	349
3.250% C$500 million due 2025	**288**	292
1.500 % €750 million due 2025	**656**	660
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**174**	174
6.750% £700 million due 2026	**696**	696
2.650% NOK1,000 million due 2027	**72**	79
2.694% C$650 million due 2027	**389**	396
1.800% CHF165 million due 2027	**146**	147
3.400% C$400 million due 2028	**239**	243
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**92**	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	**576**	571
3.782% C$400 million due 2030	**236**	239
1.125% €500 million due 2030	**434**	437
6.450% £900 million due 2031	**864**	863
3.661% C$500 million due 2031	**299**	304
Zero-coupon €50 million due January 2032	**70**	70
1.366%+RPI £75 million due 2032	**107**	104
Zero-coupon €50 million due April 2032	**68**	68
1.875% €500 million due 2032	**438**	441
0.101% + RPI £182 million due 2032	**224**	218
3.726% C$625 million due 2033	**380**	386
1.875% €650 million due 2034	**452**	445
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**57**	57
0.347%+RPI £75 million due 2035	**92**	91
0.337%+RPI £75 million due 2036	**93**	91
1.061%+RPI £180 million due 2036	**250**	245

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

5. BORROWINGS *CONTINUED*

	Unaudited 31 March 2023 £m	Audited 31 December 2022 £m
0.419%+RPI £51 million due 2038	**63**	61
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**71**	69
Zero-coupon €86 million due 2039	**84**	84
3.334%+RPI £460 million due 2039	**785**	765
0.800% JPY1,000 million due 2039	**56**	52
1.238%+RPI £100 million due 2040	**141**	137
0.362%+RPI £75 million due 2041	**93**	91
3.500% A$125 million due 2041	**68**	70
5.875% £750 million due 2041	**739**	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	**107**	104
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**200**	197
Total bonds	**12,761**	13,346
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026-2052	**1,277**	1,277
Total other debt	**1,577**	1,577
Unsecured		
Debenture payable to Heathrow Finance plc	**2,608**	2,533
Total non-current	**16,946**	17,456
Total borrowings (excluding interest payable)	**17,545**	18,203

At 31 March 2023, Heathrow SP's consolidated nominal net debt was £14,681 million (31 December 2022: £14,579 million). It comprised £13,357 million (31 December 2022: £14,053 million) in bond issues, £1,580 million (31 December 2022: £1,580 million) in other term debt, £783 million (31 December 2022: £726 million) in index-linked derivative accretion and £49 million (31 December 2022: £53 million) of additional lease liabilities. This was offset by £1,088 million (31 December 2022: £1,833 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £12,530 million (31 December 2022: £12,447 million) in senior net debt and £2,151 million (31 December 2022: £2,132 million) in junior debt.

At 31 March 2023, total non-current external borrowings due after more than 5 years was £10,631 million (31 December 2022: £11,177 million), comprising £9,254 million of bonds (31 December 2022: £9,800 million) and £1,377 million (31 December 2022: £1,377 million) in bank facilities.

Impact of fair value hedge adjustments

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

	Unaudited 31 March 2023		Audited 31 December 2022	
	Nominal at hedge rate £m	**Fair value adjustment [(1)] £m**	Nominal at hedge rate £m	Fair value adjustment [(1)] £m
Euro denominated debt	**1,125**	**190**	1,125	211
CAD denominated debt	**337**	**13**	337	16
Other currencies debt	**780**	**48**	780	61
Designated in fair value hedge	**2,242**	**251**	2,242	288

(1) Fair value adjustment is comprised of fair value gain of £256 million (year ended 31 December 2022: £293 million gain) on continuing hedges and £5 million loss (year ended 31 December 2022: £5 million loss) on discontinued hedges.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2023

6. CASH GENERATED FROM OPERATIONS

	Unaudited Three months ended 31 March 2023 £m	Unaudited Three months ended 31 March 2022 £m
Loss before tax	**(60)**	(191)
Adjustments for:		
Net finance cost	**369**	415
Depreciation	**162**	170
Amortisation on intangibles	**10**	8
Amortisation on right of use assets	**11**	10
Fair value gain on investment properties	**(6)**	(139)
Working capital changes [(1)]:		
Increase in inventories and trade and other receivables	**(6)**	(6)
(Decrease)/increase in trade and other payables	**(105)**	10
Decrease in provisions	**-**	(1)
Difference between pension charge and cash contributions	**(1)**	3
Cash generated from operations before exceptional items	**374**	279
Cash payments in respect of prior year exceptional items	**-**	(1)
Cash generated from operations	**374**	278

(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.

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.