HEATHROW (SP) LIMITED

RESULTS FOR THE 3 MONTHS ENDED 31 MARCH 2024

Record-breaking start to 2024 – 18.5 million passengers travelled through Heathrow during Q1, more than ever before. The strong performance during what is traditionally a quieter period of the year was in part driven by growth on key business routes like Delhi and Mumbai, strong North American traffic and surging East Asian demand growing 40% versus Q1 2023. The summer getaway is expected to be the busiest on record, and we have a robust operating plan in place to keep the airport running smoothly, even if unnecessary industrial action materialises. Reflecting the strong performance, our 2024 passenger outlook has been bumped up to 82.4 million.

Refreshed business strategy launched – Setting the ambition to be an extraordinary airport, fit for the future, while renewing our commitment to making every journey better. We are focused on enabling a more efficient operation, that supports more passengers while delivering on our Heathrow 2.0 sustainability commitments. To support our new strategy and ensure we are delivering for our customers, we have streamlined roles and accountabilities across the Executive team. Javier Echave will become Chief Operating Officer on 26 April, and Ross Baker will become Chief Customer Officer on 1 May.

Investing in the UK's hub – Our £1 billion next-generation security programme continues apace as we install 146 lanes across the airport, works have begun to replace the baggage system in Terminal 2 with a new state-of-the-art system, and we will shortly begin on a once-in-a-decade job to resurface both runways without impacting the airport's operating day. These improvements will help enhance the service and resilience of the UK's hub airport.

Prioritising for an efficient operation – We made a £83 million adjusted profit before tax in Q1. We have strong liquidity of £3.8 billion, and our focus remains on delivering excellent service to our customers while maintaining strong cost control and delivering efficiencies to close the £400 million gap in the H7 settlement set by the CAA. No dividends are currently forecast for 2024, although it is plausible subject to financial performance. We will continue to review optionality throughout the year.

Current Government policy is curtailing the UK's growth and competitiveness – Ministers should rethink anti-growth policies like the "tourist tax" that discourage international visitors from spending in the UK; and unnecessary travel visas for transiting passengers that risk the UK's global connectivity and Heathrow's hub status. A supportive policy environment for aviation would deliver a much-needed economic boost by encouraging people to visit, spend and do business here in the UK.

At or for 3 months ended 31 March	2024	2023	Change (%)
(£m unless otherwise stated)			
Revenue	808	814	(0.7)
Adjusted EBITDA[1]	443	486	(8.8)
Cash generated from operations	460	374	23.0
Profit/(loss) before tax	189	(60)	415.0
Adjusted profit/(loss) before tax[2]	83	(139)	159.7
Heathrow (SP) Limited consolidated nominal net debt[3]	14,646	14,795	(1.0)
Heathrow Finance plc consolidated nominal net debt[3]	16,605	16,806	(1.2)
Regulatory Asset Base[4]	20,058	19,804	1.3
Passengers (million)[5]	18.5	16.9	9.5

"It has been a successful start to the year thanks to colleagues delivering a consistent, reliable service to our passengers. As I close the chapter on eight years as CFO, I'm proud that Heathrow is on a strong financial footing with a clear flightpath ahead. On the horizon is Heathrow's busiest summer yet with more passengers and destinations served than ever before. We're ready to continue delivering."

Javier Echave | Heathrow CFO

NOTES

(1) EBITDA (2024: £450 million, 2023: £492 million) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding 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. 2023 figures are as at 31 December 2023.
(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. 2023 figures are as at 31 December 2023.
(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
Javier Echave, CFO and Sally Ding, Director of Treasury & Corporate Finance.

Wednesday April 24th, 2024

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

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Webcast Audience URL:
https://onlinexperiences.com/Launch/QReg/ShowUUID=B0FDC711-BE1A-4455-848A-C59C76F1613E
This link gives participants access to the live event.

Audio Conference Call Access:
https://emportal.ink/3SSYjES
This link allows participants to register to obtain their personal audio conference call details.

STRATEGIC UPDATE

Heathrow New Strategy

After nearly a decade, we have refreshed our strategy to align our efforts and ensure collective progress towards a common objective. Starting with our purpose, which continues to be *Making Every Journey Better*, it now means something to everyone, whatever their role in our business. Central to our renewed focus is our new vision: "*To be an extraordinary airport, fit for the future*". This aspirational goal sets the stage for where we envision Heathrow in the future. To translate this vision into reality, we have identified six Beacons, formerly known as our Strategic Priorities, which serve as the driving forces behind our vision. These Beacons have been carefully selected to address the most pressing needs in the short to medium term, providing a clear roadmap for achieving our objectives. At the heart of our strategy lie our Foundations, the core principles that are indispensable to our business. These foundational elements serve as the base upon which our entire plan is built, underscoring their non-negotiable importance in every aspect of our business. Finally, our six Values remain unchanged. Heathrow values were developed by our colleagues, for our colleagues, as a common set of qualities describing the culture we want to experience at Heathrow. Through these values, we will strive for excellence, champion and respect the diversity and talent of our people, care for one another and deliver our vision. In the coming months, we will share more details about our Beacons and Foundations.

BUSINESS UPDATE

In assessing our performance for the three months ending 31 March 2024, we have outlined key performance metrics that illustrate our progress. The glossary section of this report provides detailed definitions for each indicator.

Passenger Traffic

(Millions) [1]	2024	2023	Var % [2]
UK	1.1	1.0	10.0
Europe	7.2	6.6	9.1
North America	4.1	3.8	7.9
Asia Pacific	2.6	2.2	18.2
Middle East	2.0	1.9	5.3
Africa	0.9	0.9	0.0
Latin America	0.6	0.5	20.0
Total passengers	**18.5**	**16.9**	**9.5**

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

Other traffic performance indicators [1]	2024	2023	Var % [2]
Passenger ATM	112,766	103,173	9.3
Load factors (%)	75.1	74.3	1.1
Seats per ATM	220.8	220.7	0.0
Cargo tonnage ('000)	394	317	24.3

(1) For the three months ended 31 March
(2) Calculated using rounded passenger figures
(3) Cargo tonnage including mail

The increase in passenger traffic is driven by a significant increase in passenger ATMs compared to last year and some small load factor increases. Almost all markets exceed 2023's numbers, with double-digit growth for the UK, Asia Pacific and Latin America. Africa is aligned with 2023 figures, with fewer passengers travelling to Egypt and Algeria. At the end of March, our summer season kicked off, and passengers will have even more options with six new airline routes to Abu Dhabi, Kos, Izmir, Bangalore, Barcelona and Paris-Orly. This is the first time Heathrow has served the route to Paris-Orly since 2017. The normalisation of belly hold capacity has led to increased cargo tonnage.

Service and Operational performance

Service standard performance indicators [1]	2024	2023
ASQ	4.02	4.01
Arrival punctuality %	73.6	69.7
Departure punctuality %	76.9	63.5
Security performance %	93.6	85.5
Baggage connection %	98.5	98.2

(1) For the three months ended 31 March

In the first three months of 2024, overall passenger satisfaction achieved the highest score since Q1 2022 while welcoming 11% more departing passengers this year compared to last year. Many attributes demonstrated an improvement compared to Q1 2023, including 'Wi-Fi Service Quality', 'Availability of Water Filling Stations', 'Ease of Making Connections with other Flights', Waiting Time at 'Security' and 'Check-in'. In contrast, attributes including 'Restaurant/Bars/Cafes', 'Shops', and 'Signage to Access to the Terminal' saw a decrease.

Operational resilience started strong in 2024. Security performance has been very good, with the vast majority of direct passengers passing through security within 5 minutes. Improved operational performance across the airfield has seen improved aircraft turnarounds, resulting in departure punctuality outperforming arrivals. Although, overall punctuality continues to be impacted by airspace closures and weather. Baggage performance remains stable.

Capital expenditure

During the first quarter of 2024, £320 million (2023: £169 million) of capital expenditure was recognised. This included £127 million for the acquisition of a building, as well as £7 million in capital creditors movements (2023: £68 million). We are continuing to invest in the H7 Capital Plan, comprising over 450 projects across six programmes. Our next-generation Security Programme is progressing well, as we continue to make good progress across all terminals, and we move towards completing a total of 146 lanes. In the T2 Baggage Programme, the new baggage system is being designed by our newly appointed strategic baggage partner, and IT replacement works have begun. The Commercial Revenue Programme has seen an investment of £12 million across commercial propositions in retail, digital and surface access. In the Carbon and Sustainability Programme, the roll-out of electric vehicle (EV) chargers continues along with plans for the new carbon-efficient pre-conditioned air units for aircraft stands. In the Asset Management and Compliance Programme, we are making good progress on the current portfolio of 160 live projects, with seven additional projects completed in Q1. Finally, the mobilisation of the Efficient Airport Programme has begun with multiple opportunities identified to improve passenger satisfaction whilst driving efficiencies across the airport-wide operation.

Key regulatory developments

On 28 March 2024, Heathrow submitted its formal response to the CAA's consultation on 'Setting future price controls – review of approach'. It follows on from the DfT independent review of the CAA published in 2023, that recommended the regulator should review the process, governance and 'mechanics' for conducting economic regulation. Whilst the overall CAA review is considerably broad, Heathrow has outlined where improvements in approach, guidance and decision-making are needed. The CAA has committed to issue their response during Spring 2024. This should trigger further actions for H8, including more detailed timetable plans from the CAA's initial high-level indicative plan.

In addition, on 20 March 2024, the CAA published a further consultation on 'H7 Final Issues'. The consultation deals with both the matters that were remitted to the CAA by the CMA through its October 2023 Final Determinations of the appeals of the H7 Final Decision on price control (FD), as well as the matters the CAA was not able to resolve prior to making the March 2023 FD. Amongst other issues, the consultation is proposing adjustments to a number of elements in the FD, including the approach to calculating the "AK" adjustment to revenues for 2020-2021 and the "index-linked premium" used to calculate the cost of debt for the H7 WACC, for instance. According to the CAA, taken together, proposed changes would result in a revenue reduction of c. £184 million (2020 CPI) and lead to 6% lower nominal tariffs for 2025 and 2026. We are now reviewing in detail the approach and calculations set out by the CAA and will respond to the consultation ahead of the 1 May deadline.

Long-term growth and Capacity developments

We are conducting an internal review of the work we have carried out previously and the different circumstances we find the aviation industry in. This will enable us to progress with appropriate recommendations to create capacity at Heathrow Airport. 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.

Heathrow 2.0 – Connecting People and Planet

During the first quarter of the year, Heathrow maintained momentum across carbon and sustainability. As an inaugural adopter of the Taskforce on Nature-related Financial Disclosures (TNFD), we will be better positioned to transparently measure our impact on nature. Our World of Work program, which includes the STEM Generation activity and Essential Skills Masterclasses, has been instrumental in benefiting local students and colleges. Additionally, we successfully launched the first Lift-off event of 2024, with a strong focus on Zero Waste and Construction & Energy.

We gained further understanding of Sustainable Aviation Fuel (SAF) uplifted in 2023, supporting us to track annual progress in this critical area. Last year, we extended the deadline of our SAF incentive to the end of September 2024 due to a delay in global supply. In a strategic move, we joined a major hydrogen technology hub led by Cranfield University, which will contribute to our preparation for a hydrogen-powered future. The release of the 2023 Sustainable Travel Zone (STZ) Annual Report highlights Heathrow's initiatives to promote sustainable travel among passengers and colleagues, emphasising their positive impacts.

Key Management Changes

Chris Annetts, Chief Strategy Officer, will leave the company at the end of April. With effect from 1 May 2024, Nigel Milton's title will change from Chief of Staff and Carbon to Chief Communications and Sustainability Officer and Ross Baker's title will change from Chief Commercial Officer to Chief Customer Office. Emma Gilthorpe, our Chief Operating Officer (COO), has also decided to depart from Heathrow, and her last day will be 26 April 2024. Drawing on the strength of internal talent, we are delighted to announce that Javier Echave, currently our Chief Financial Officer (CFO) will take over from Emma and become our new COO from 26 April 2024. Sally Ding, currently our Director of Treasury & Corporate Finance, will be acting CFO whilst a permanent recruitment process completes.

Ultimate Shareholder Update

On 28 November 2023, Ferrovial announced that an agreement has been reached for the sale of its entire stake (c.25%) in FGP Topco Limited, the parent company of Heathrow Airport Holdings Limited, for £2,368 million. The agreement has been reached with two different buyers, Ardian and The Public Investment Fund (PIF), who would acquire Ferrovial's shareholding in c.15% and c.10% stakes, respectively, through separate vehicles. On 16 January 2024, Ferrovial announced that, pursuant to the FGP Topco Shareholders Agreement, certain other FGP Topco shareholders have exercised their tag-along rights, which resulted in 60% of the total issued share capital of FGP Topco being available for sale. The parties are currently investigating options to satisfy the exercised rights. While we acknowledge the existence of a change of control clause in the bonds issued by Heathrow Finance plc. and the continuing nature of the negotiations, we are not at this time privy to any information that would lead us to believe that the change of control clause would be triggered.

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 12.

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 Financial Statements for the year ended 31 December 2023.

Summary performance

Three months ended 31 March	2024 £m	2023 £m
Revenue(1)	808	814
Adjusted operating costs(2)	(365)	(328)
Adjusted EBITDA(3)	**443**	**486**
Depreciation and amortisation	(163)	(183)
Adjusted operating profit(4)	**280**	**303**
Net finance costs before certain re-measurements	(197)	(442)
Adjusted profit/(loss) before tax(6)	**83**	**(139)**
Tax (charge)/credit on profit/(loss) before certain re-measurements	(38)	30
Adjusted profit/(loss) after tax(6)	**45**	**(109)**
Including certain re-measurements(5) :		
Fair value gain on investment properties	7	6
Fair value gain on financial instruments	99	73
Tax charge on certain re-measurements	(27)	(20)
Profit/(loss) after tax(6)	**124**	**(50)**

(1) Revenue does not contain any adjustments for non-GAAP items.
(2) Adjusted operating costs exclude depreciation, amortisation and fair value adjustments on investment properties.
(3) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(4) Adjusted operating profit excludes fair value adjustments on investment properties.
(5) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these.
(6) Adjusted profit/(loss) before and after tax excludes fair value adjustments on investment properties and financial instruments and the associated tax impact of these.

Revenue

Three months ended 31 March	2024 £m	2023 £m	Var. %
Aeronautical	515	545	(5.5)
Retail	168	149	12.8
Other	125	120	4.2
Total revenue	**808**	**814**	**(0.7)**

The decrease in aeronautical revenue is driven by lower H7 charges set by the CAA, partially offset by higher passenger numbers. Retail income, which includes Retail concessions and Car Parking, has increased, driven by higher departing passengers and overall stronger car parking performance. Other revenue has increased due to higher Other regulated charges (ORCs) from higher passenger numbers offset by lower surface access revenue.

Adjusted operating costs

Three months ended 31 March	2024 £m	2023 £m	Var. %
Employment	114	93	22.6
Operational	107	97	10.3
Maintenance	57	50	14.0
Rates	28	29	(3.4)
Utilities and Other	59	59	0.0
Adjusted operating costs(1)	**365**	**328**	**11.3**

(1) Unadjusted operating costs were £521 million (2023: £505 million). This included depreciation & amortisation of £163 million (2023: £183 million) and a fair value gain on investment properties of £7 million (2023: £6 million).

Employment costs, which includes overtime, recruitment and training, have increased due to additional colleagues being needed to accommodate the higher demand. The rise in operational and maintenance is mainly due to higher levels of Passengers Requiring Support (PRS) resourcing, cleaning and maintenance and service quality rebates paid. Finally, tight cost controls and stable energy prices have resulted in stable Utilities and Other costs.

Net Finance Costs

Net finance costs before certain re-measurements decreased to £197 million (2023: £442 million). The RPI annual growth rate has decreased year on year from 13.5% to 4.5%, resulting in a lower inflation accretion expense.

Taxation

The total tax charge for the three-month period ended 31 March 2024 was £65 million (2023: £10 million tax credit) on a profit before tax of £189 million (2023: £60 million loss).

The tax charge before certain re-measurements was £38 million (2023: £30 million tax credit). Based on a profit before tax and certain re-measurements of £83 million (2023: £139 million loss), this results in an effective tax rate of 45.8% (2023: 21.6%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax profit before certain re-measurements for the three-month period. The tax charge is significantly higher than the statutory rate of 25% (2023: lower than the statutory rate of 23.5%) primarily due to the non-qualifying depreciation forecast for 2024 compared to the relatively low profits forecast, increasing the tax charge for the year (2023: non-deductible expenses reducing the tax credit for the year offset by current year deferred tax movements at the 25% tax rate).

In addition, for the three months ended 31 March 2024, a tax charge of £27 million (2023: £20 million) was recognised on certain re-measurements arising from fair value movements on financial instruments and investment properties of £106 million (2023: £79 million).

Restricted payments

In the three months ended 31 March 2024, total restricted payments (gross and net) made by Heathrow SP amounted to £66 million (2023: £95 million). This funded scheduled interest payments on debt at Heathrow Finance. No payments to ultimate shareholders were made during the period.

Recent Financing Activity

In the first three months of 2024, we successfully issued a £350 million, 8-year, Class B sustainability-linked bond (SLB). It was our debut GBP SLB and the first SLB in the Sterling market to include all scopes of emissions. We also issued a £400 million, 7-year Holdco bond at Heathrow Finance, the largest notional that Heathrow Finance has ever completed. Redemptions in the first quarter of 2024, comprised the repayment of a Class B bond of £600 million in February and a Heathrow Finance bond of £300 million in March.

Debt and Liquidity at Heathrow (SP) Limited

Three months ended 31 March	2024 £m	2023 [(1)] £m
Consolidated nominal gross debt	**16,492**	**16,691**
Bond issuances	13,918	14,155
Other term debt	1,665	1,665
Index-linked derivative accretion	846	807
Lease liabilities[(2)]	63	64
Qualifying cash and cash equivalents and term deposits	(1,846)	(1,896)
Consolidated nominal net debt	**14,646**	**14,795**
Senior net debt	12,703	12,607
Junior net debt	1,943	2,188

(1) 2023 figures are as at 31 December 2023.
(2) Lease liabilities relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) are excluded from Consolidated nominal net debt. All new leases entered into post-transition are included.

The average cost of Heathrow SP's nominal gross debt at 31 March 2024 was 3.74% (31 December 2023: 3.68%). 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 2024 was 7.80% (31 December 2023 9.11%).

The average life of Heathrow SP's gross debt as at 31 March 2024 was 10.3 years (31 December 2023: 10.2 years).

The Group has sufficient liquidity to meet its forecast needs for at least the next 18 months. In making this assessment, the Directors have considered both the Heathrow SP Group of companies, as well as the wider Heathrow Finance plc group of companies (the "Heathrow Finance Group"). This includes operating cashflows under the base case business plan and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,360 million in cash resources across the Heathrow Finance Group as well as undrawn revolving credit facilities of £1,386 million.

Debt at Heathrow Finance plc

Three months ended 31 March	2024 £m	2023 [(1)] £m
Heathrow SP's nominal net debt	14,646	14,795
Heathrow Finance's nominal gross debt	2,464	2,364
Heathrow Finance's qualifying cash and cash equivalents and term deposits	(505)	(353)
Consolidated nominal net debt	**16,605**	**16,806**

(1) 2023 figures are as at 31 December 2023.

Financial ratios

At 31 March 2024, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios and interest coverage ratios are defined within the Glossary.

Three months ended 31 March	2024 £m	2023 [(1)] £m
Heathrow's RAB	**20,058**	**19,804**
Regulatory asset ratio 'RAR'		
Heathrow SP's senior (Class A)	63.3%	63.7%
Heathrow SP's (Class B)	73.0%	74.7%
Heathrow Finance's gearing ratio	82.8%	84.9%

(1) 2023 figures are as at 31 December 2023.

Pension scheme

We operate a defined benefit pension scheme (the 'BAA Pension Scheme'), which closed to new members in June 2008. At 31 March 2024, the defined benefit pension scheme, as measured under IAS 19, was funded at 97.7% (31 December 2023: 95.6%). This translated into a deficit of £64 million (31 December 2023: £128 million). The £64 million reduction in the deficit in the three months is largely due to actuarial gains of £64 million attributable to a reduction in liabilities driven by a 0.3% increase in the discount rate partially offset by a loss on assets; service costs of £3 million; a finance charge of £1 million; and, contributions paid in the year. In the three months ended 31 March 2024, we contributed £4 million (2023: £3 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the three months (2023: nil). The Directors believe that the scheme has no significant plan-specific or concentration risks.

Outlook

The strong demand in Q1 and the continuing trend will likely see us outperforming the current passenger forecast. We, therefore, have revised our 2024 traffic outlook to 82.4 million passengers. Consequently, adjusted EBITDA for 2024 is expected to be £1,938 million. We will provide revised forecast and associated financial forecast in the June investor report.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Condensed consolidated income statement for the three months ended 31 March 2024

		Unaudited Three months ended 31 March 2024			Unaudited Three months ended 31 March 2023		
		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
Revenue	*1*	**808**	**-**	**808**	814	-	814
Operating costs (3)	*2*	**(528)**	**7**	**(521)**	(511)	6	(505)
Operating profit		**280**	**7**	**287**	303	6	309
Financing							
Finance income		**28**	**-**	**28**	13	-	13
Finance costs		**(225)**	**99**	**(126)**	(455)	73	(382)
Net finance costs	*3*	**(197)**	**99**	**(98)**	(442)	73	(369)
Profit/(loss) before tax		**83**	**106**	**189**	(139)	79	(60)
Taxation (charge)/credit	*4*	**(38)**	**(27)**	**(65)**	30	(20)	10
Profit/(loss) for the period (4)		**45**	**79**	**124**	(109)	59	(50)

(1) Amounts stated before certain re-measurements are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these.
(3) Included within operating costs is a £3 million credit (three months ended 31 March 2023: £2 million) for the impairment of trade receivables.
(4) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the three months ended 31 March 2024

	Unaudited Three months ended 31 March 2024 £m	Unaudited Three months ended 31 March 2023 £m
Profit/(loss) for the period	**124**	(50)
Items that will not be subsequently reclassified to the consolidated income statement		
Actuarial (loss)/gain on pensions:		
(Loss)/gain on plan assets[1]	**(11)**	54
Decrease/(increase) in scheme liabilities[1]	**59**	(34)
Items that may be subsequently reclassified to the consolidated income statement		
Cash flow hedges:		
Gain/(loss) taken to equity[1]	**12**	(2)
Transfer (from)/to finance cost[1]	**(1)**	8
Impact of cost of hedging[2]	**1**	-
Other comprehensive income for the period	**60**	26
Total comprehensive income/(expense) for the period [3]	**184**	(24)

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

Condensed consolidated statement of financial position as at 31 March 2024

	Note	Unaudited 31 March 2024 £m	Audited [1] 31 December 2023 £m
Assets			
Non-current assets			
Property, plant and equipment		**10,578**	10,385
Right of use assets		**299**	304
Investment properties		**2,457**	2,449
Intangible assets		**220**	223
Derivative financial instruments		**943**	952
Trade and other receivables		**53**	180
		14,550	14,493
Current assets			
Inventories		**15**	17
Trade and other receivables		**330**	379
Derivative financial instruments		**68**	92
Term deposits		**1,791**	1,750
Cash and cash equivalents		**55**	191
		2,259	2,429
Total assets		**16,809**	16,922
Liabilities			
Non-current liabilities			
Borrowings	*5*	**(17,772)**	(17,512)
Derivative financial instruments		**(2,107)**	(2,010)
Lease liabilities		**(371)**	(371)
Deferred income tax liabilities		**(890)**	(818)
Retirement benefit obligations		**(87)**	(151)
Provisions		**(1)**	(1)
Trade and other payables		**(1)**	(1)
		(21,229)	(20,864)
Current liabilities			
Borrowings	*5*	**(559)**	(1,210)
Derivative financial instruments		**(26)**	(27)
Lease liabilities		**(27)**	(32)
Provisions		**(2)**	(2)
Current income tax liabilities		**(26)**	(20)
Trade and other payables		**(455)**	(466)
		(1,095)	(1,757)
Total liabilities		**(22,324)**	(22,621)
Net liabilities		**(5,515)**	(5,699)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Hedging reserve		**(25)**	(37)
Accumulated losses		**(2,242)**	(2,414)
Total equity		**(5,515)**	(5,699)

(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 2023.

Condensed consolidated statement of changes in equity for the three months ended 31 March 2024

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Accumulated losses £m	Total equity £m
Balance as at 1 January 2023	11	499	(3,758)	(35)	(2,917)	(6,200)
Comprehensive income:						
Loss for the period	-	-	-	-	(50)	(50)
Other comprehensive income/(expense):						
Fair value gains net of tax on:						
Cash flow hedges	-	-	-	6	-	6
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	54	54
Increase in scheme liabilities	-	-	-	-	(34)	(34)
Total comprehensive income/(expense)	-	-	-	6	(30)	(24)
Balance as at 31 March 2023 (unaudited)	11	499	(3,758)	(29)	(2,947)	(6,224)
Balance as at 31 December 2023 (audited) (1)	**11**	**499**	**(3,758)**	**(37)**	**(2,414)**	**(5,699)**
Comprehensive income:						
Profit for the period	**-**	**-**	**-**	**-**	**124**	**124**
Other comprehensive income:						
Fair value gains net of tax on:						
Impact of cost of hedging	**-**	**-**	**-**	**1**	**-**	**1**
Cash flow hedges	**-**	**-**	**-**	**11**	**-**	**11**
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Decrease in scheme liabilities	**-**	**-**	**-**	**-**	**59**	**59**
Total comprehensive income	**-**	**-**	**-**	**12**	**172**	**184**
Balance as at 31 March 2024 (unaudited)	**11**	**499**	**(3,758)**	**(25)**	**(2,242)**	**(5,515)**

(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 2023.

Condensed consolidated statement of cash flows for the three months ended 31 March 2024

	Note	Unaudited Three months ended 31 March 2024 £m	Unaudited Three months ended 31 March 2023 £m
Cash flows from operating activities			
Cash generated from operations	*6*	**460**	374
Taxation:			
Corporation tax paid		**(8)**	-
Net cash generated from operating activities		**452**	374
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(186)**	(101)
(Increase)/decrease in term deposits [1]		**(41)**	855
Interest received		**39**	18
Net cash (used in)/generated from investing activities		**(188)**	772
Cash flows from financing activities			
Proceeds from issuance of bonds		**349**	-
Repayment of bonds		**(600)**	(750)
Fees and other financing items		**(3)**	-
Interest paid to Heathrow Finance plc		**(66)**	-
External interest paid [2]		**(85)**	(109)
Settlement of accretion on index-linked swaps		**-**	(85)
Early settlement of accretion on index-linked swaps [3]		**-**	(81)
Inflation swap restructuring [4]		**14**	-
Payment of lease liabilities		**(9)**	(11)
Net cash used in financing activities		**(400)**	(1,036)
Net (decrease)/increase in cash and cash equivalents		**(136)**	110
Cash and cash equivalents at beginning of period		**191**	285
Cash and cash equivalents at end of period		**55**	395

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

(2) Includes £4 million of lease interest paid (three months ended 31 March 2023: £4 million). By class, includes £56 million (three months ended 31 March 2023: £56 million) of interest paid on junior (Class B) debt.

(3) In the three months ended 31 March 2023 the Group elected to early pay £81 million of accrued accretion paydowns, which were due to be settled within the next 2 years in line with the liquidity profile assessment of the Group.

(4) The Group restructured two inflation-linked swaps by shortening the maturities from 2035. This resulted in a cash inflow to the Group of £14 million made up of £68 million net future interest and £54 million future accretion.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

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 condensed interim financial statements cover the three-month period ended 31 March 2024 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 2024 and its comparatives, together with the unaudited consolidated statement of financial position as at 31 March 2024 and the audited consolidated statement of financial position as at 31 December 2023.

The condensed interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, the financial information should be read in conjunction with the statutory accounts for the year ended 31 December 2023, which were prepared in accordance with UK adopted international accounting standards and the requirements of Companies Act 2006. 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 interim financial statements, relating to year ended 31 December 2023, is labelled audited, the amounts have been extracted from the Group's audited financial statements for the year ended 31 December 2023.

The condensed interim financial statements for the three-month period ended 31 March 2024 have been prepared on a basis consistent with that applied in the preparation of the consolidated financial statements for the year ended 31 December 2023, except for the following amendments which apply for the first time in 2024. However, not all are expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

The following new standards and amendments are effective for the period beginning 1 January 2024:

- Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1); and
- Non-current Liabilities with Covenants (Amendments to IAS 1).

These amendments haven't had any effect on the measurement and disclosures of any items included in the condensed interim financial statements of the Group.

Going concern

The Directors have prepared the financial information presented within the condensed interim financial statements for the three-month period ended 31 March 2024 on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Background

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. The H7 price control period commenced on 1 January 2022 and during 2023 the CAA published their Final Decision of tariffs to cover the period from 1 January 2022 to 31 December 2026 with an average H7 tariff of £23.06 in 2020 CPI real terms.

Through the course of 2023 and heading into 2024, the macro-economic environment has changed, and passengers are now impacted by high inflation and high interest rates. Passenger forecasts are fundamental to the going concern analysis, and the Directors have considered trends in future expected passenger numbers. Through 2023 and the first quarter of 2024, there has been strong passenger demand for travel which gives confidence in our future expected passenger numbers.

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

Going concern *continued*

The wider Heathrow Group is bound by two types of debt covenants, tested on 31 December each year: the Regulatory Asset Ratio ("RAR"), a measure of the ratio of consolidated nominal net debt to the Regulatory Asset Base ("RAB"); and Interest Cover Ratios ("ICR"), a measure of operating cashflows to debt interest charge. These covenants exist at different levels within the Group's Class A and Class B debt. On that basis the Directors have assessed going concern for the period to December 2025.

Base case

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

- Forecast revenue and operating cash flows from the underlying operations, based on 2024 traffic forecasts of 82.4 million passengers;
- 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 and projected covenant requirements; and
- The assumption of no future funding or access to capital markets.

Base case passenger forecast

There is inherent subjectivity in modelling future passenger numbers, nevertheless, passenger demand now exceeds post-pandemic levels with total passengers in Q1 being 18.5 million (10% increase from Q1 2023). Despite a high-inflationary economic environment impacting the cost-of-living of passengers, demand has remained strong which signals that passengers are prioritising travel spend.

Base case tariffs

The base case uses a 2024 nominal tariff of £26.74 and 2025 nominal tariff of £24.70 based on the tariff methodology set out in the CAA's Final Decision. The tariff also includes the conservative downwards adjustment as part of the CMA appeals and determination. 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"). Continued support for the Group's credit enabled Heathrow to successfully raise £750 million of debt in Q1 2024: a Class B GBP sustainability-linked bond of £350 million and £400 million of Heathrow Finance public debt. As at 31 March 2024, the wider group has total liquidity available of £3.8 billion, comprising of £2.4 billion of cash held at FGP Topco group and a £1.4 billion undrawn revolving credit facility. Total debt maturity for the period to December 2025 is £1.3 billion at Heathrow SP and £0.3 billion at Heathrow Finance. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs for the going concern period. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Severe but plausible downside case

The Directors are required to consider severe but plausible downside scenarios as part of the going concern assessment. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers – particularly in a highly inflationary economic environment impacting the disposable income of passengers – on cash flow generation, liquidity, and debt covenant compliance. Under the Group's downside scenario, the Directors have considered passenger numbers at the low end of Heathrow's 2024 and 2025 passenger forecast to be a severe but plausible outcome. This considers the Group's views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 5.5% reduction against the base case for 2024 and 4.5% for 2025. The tariff assumptions remain the same as in the base case since these are now fixed subject to inflation. While deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding should there be any risk of credit downgrade in this scenario. Under the severe but plausible scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until at least December 2025, with no breach of its covenants in the same period.

Reverse stress test

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test which determines the earliest point of failure for the group, which would be a covenant breach in the next tested period in December 2024, where sufficient liquidity will remain intact. This involved modelling the breakeven level of passengers which would result in a covenant breach as at 31 December 2024. The model is based on a reduction in passenger numbers with no impact on costs. The Heathrow Finance plc ICR covenant is the most restrictive to operating performance, and for there to be a breach at this level, forecast passenger numbers would need to decrease by over 26.3% versus the base case for 2024, and 24.9% for 2025. An even greater passenger number decrease would be required for the Group to breach its RAR covenants. These passenger levels are below the low end of the Group's passenger forecast and are not considered plausible by the Directors. Should circumstances arise that require Management to take corrective action, the majority of previously utilised tactical actions could be available, including cost reduction, deferral of investment or temporary reprofiling of interest payments.

Conclusion

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing the three-month condensed 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 2023.

Key sources of estimation uncertainty

In preparing the three-month condensed 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 2023.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

1. SEGMENT INFORMATION

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

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

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

Table (a)	**Unaudited Three months ended 31 March 2024 £m**	Unaudited Three months ended 31 March 2023 £m
Segment revenue		
Aeronautical		
Movement charges	**205**	215
Parking charges	**19**	22
Passenger charges	**291**	308
Total aeronautical revenue	**515**	545
Retail		
Retail concessions	**61**	54
Catering	**17**	17
Other retail	**17**	14
Car parking	**44**	40
Other services	**29**	24
Total retail revenue	**168**	149
Other		
Other regulated charges	**66**	54
Property revenue	**5**	9
Property (lease related income)	**30**	29
Other rail income	**4**	6
Heathrow Express	**20**	22
Total other revenue	**125**	120
Total revenue	**808**	814
Heathrow Airport	***788***	*792*
Heathrow Express	***20***	*22*
Adjusted EBITDA	**443**	486
Heathrow Airport	***439***	*480*
Heathrow Express	***4***	*6*
Reconciliation to statutory information:		
Depreciation and amortisation	**(163)**	(183)
Operating profit (before certain re-measurements)	**280**	303
Fair value gain on investment properties (certain re-measurements)	**7**	6
Operating profit	**287**	309
Finance income	**28**	13
Finance costs	**(126)**	(382)
Profit/(loss) before tax	**189**	(60)

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Three months ended 31 March 2024		Unaudited Three months ended 31 March 2023	
	Depreciation & amortisation [(1)] £m	Fair value gain [(2)] £m	Depreciation & amortisation [(1)] £m	Fair value gain [(2)] £m
Heathrow Airport	**(158)**	**7**	(175)	6
Heathrow Express	**(5)**	**-**	(8)	-
Total	**(163)**	**7**	(183)	6

(1) Includes intangible asset amortisation charges of £10 million (three months ended 31 March 2023: £10 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (c)	Unaudited 31 March 2024		Audited 31 December 2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow Airport	**13,118**	**(451)**	13,095	(464)
Heathrow Express	**535**	**(8)**	538	(6)
Total operations	**13,653**	**(459)**	13,633	(470)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	**1,846**	**(15,713)**	1,941	(16,079)
Retirement benefit assets/(obligations)	**-**	**(87)**	-	(151)
Derivative financial instruments	**1,011**	**(2,133)**	1,044	(2,037)
Deferred and current tax assets/(liabilities)	**-**	**(916)**	-	(838)
Amounts owed to group undertakings	**-**	**(2,618)**	-	(2,643)
Right of use asset and lease liabilities	**299**	**(398)**	304	(403)
Total	**16,809**	**(22,324)**	16,922	(22,621)

2. OPERATING COSTS

	Unaudited Three months ended 31 March 2024 £m	Unaudited Three months ended 31 March 2023 £m
Employment	**114**	93
Operational[(1)]	**107**	97
Maintenance	**57**	50
Business rates	**28**	29
Utilities	**35**	38
Other[(2)]	**24**	21
Operating costs before depreciation and amortisation	**365**	328
Depreciation and amortisation		
Property, plant and equipment	**143**	162
Intangible assets	**10**	10
Right of use assets	**10**	11
	163	183
Operating costs before certain re-measurements	**528**	511
Fair value gain on investment properties (certain re-measurements)	**(7)**	(6)
Total operating costs	**521**	505

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

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

3. FINANCING

	Unaudited Three months ended 31 March 2024 £m	Unaudited Three months ended 31 March 2023 £m
Finance income		
Interest on deposits	**27**	13
Interest receivable from group undertakings	**1**	-
Total finance income	**28**	13
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(161)**	(161)
Bank loans, overdrafts and unwind of hedging reserves	**(22)**	(47)
Net interest expense on external derivatives not in hedge relationship[2]	**(17)**	(223)
Facility fees and other charges	**-**	(4)
Net pension finance costs	**(2)**	(1)
Interest on debenture payable to Heathrow Finance plc	**(41)**	(38)
Finance costs on lease liabilities	**(5)**	(4)
Total borrowing costs	**(248)**	(478)
Less: capitalised borrowing costs[3]	**23**	23
Total finance costs	**(225)**	(455)
Net finance costs before certain re-measurements	**(197)**	(442)
Certain re-measurements		
Fair value gain/(loss) on financial instruments		
Interest rate swaps: not in hedge relationship	**86**	(14)
Index-linked swaps: not in hedge relationship	**18**	88
Cross-currency swaps: not in hedge relationship[4, 5]	**-**	5
Ineffective portion of cash flow hedges[5]	**(2)**	(5)
Ineffective portion of fair value hedges[5]	**(3)**	(1)
	99	73
Net finance costs	**(98)**	(369)

(1) Includes accretion of £12 million for three months ended 31 March 2024 (three months ended 31 March 2023: £54 million) on index-linked bonds.
(2) Includes accretion of £39 million for three months ended 31 March 2024 (three months ended 31 March 2023: £232 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 8.25% (for three months ended 31 March 2023: 10.69%) to expenditure incurred on such assets.
(4) Includes foreign exchange retranslation gain on the currency bonds of £2 million (three months ended 31 March 2023: £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 movement.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

4. TAXATION (CHARGE)/CREDIT

	Unaudited Three months ended 31 March 2024			Unaudited Three months ended 31 March 2023		
	Before certain re-measurements £m	Certain re-measurements £m	Total £m	Before certain re-measurements £m	Certain re-measurements £m	Total £m
UK corporation tax:						
Current tax charge at 25% (2023: 23.5%)	**(12)**	**-**	**(12)**	-	-	-
Deferred tax:						
Current year (charge)/credit	**(26)**	**(27)**	**(53)**	30	(20)	10
Taxation (charge)/credit	**(38)**	**(27)**	**(65)**	30	(20)	10

The total tax charge for the three-month period ended 31 March 2024 was £65 million (2023: £10 million tax credit) on a profit before tax of £189 million (2023: £60 million loss).

The tax charge before certain re-measurements was £38 million (2023: £30 million tax credit). Based on a profit before tax and certain re-measurements of £83 million (2023: £139 million loss), this results in an effective tax rate of 45.8% (2023: 21.6%). This represents the best estimate of the annual effective tax rate expected for the full year, applied to the pre-tax profit before certain re-measurements for the three-month period. The tax charge is significantly higher than the statutory rate of 25% (2023: lower than the statutory rate of 23.5%) primarily due to the non-qualifying depreciation forecast for 2024 compared to the relatively low profits forecast increasing the tax charge for the year (2023: non-deductible expenses reducing the tax credit for the year offset by current year deferred tax movements at the 25% tax rate).

In addition, for the three months ended 31 March 2024, a tax charge of £27 million (2023: £20 million) was recognised on certain re-measurements arising from fair value movements on financial instruments and investment properties of £106 million (2023: £79 million).

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax ("DTT") and a multinational top-up tax ("MTT"), effective for accounting periods starting on or after 31 December 2023. We have performed an assessment of the impact of the UK's DTT and MTT rules based on the Group's 2022 qualifying Country-by-Country Reporting ("CbCR") data. These measures constitute the UK's adoption of a qualifying Income Inclusion Rule and a Qualifying Domestic Minimum Top-up Tax (part of the Pillar II rules). Based on the 2022 CbCR data, no top-up tax is expected to arise due to the application of the transitional safe harbour provisions. In addition, both of Heathrow's non-UK entities are both within the UK Controlled Foreign Companies ("CFC") rules, i.e., both entities are non-exempt CFC's and a CFC tax charge on their equivalent UK taxable profits is already apportioned to the respective UK parent entities. The Group's 2023 financial statements show an ETR of 25.5% which preliminarily indicates that the impact of the Pillar II top-up tax should be minimal. We will continue to monitor the 2024 Pillar II impact as further information becomes available. The Group has applied the exemption under the IAS 12 'Income Taxes' amendment for recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

There are no items which would materially affect the future tax charge.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

5. BORROWINGS

	Unaudited 31 March 2024 £m	Audited [1] 31 December 2023 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
7.125% £600 million due 2024	**-**	600
0.500% CHF400 million due 2024	**351**	370
Total current (excluding interest payable)	**351**	970
Interest payable – external	**196**	182
Interest payable – owed to group undertakings	**12**	58
Total current	**559**	1,210
Non-current		
Secured		
Heathrow Funding Limited bonds:		
3.250% C$500 million due 2025	**284**	287
1.500% €750 million due 2025	**639**	648
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**179**	189
6.750% £700 million due 2026	**697**	697
2.650% NOK1,000 million due 2027	**68**	73
2.694% C$650 million due 2027	**380**	385
1.800% CHF165 million due 2027	**145**	153
3.400% C$400 million due 2028	**233**	236
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**86**	90
2.625% £350 million due 2028	**348**	347
2.500% NOK1,000 million due 2029	**62**	66
2.750% £450 million due 2029	**446**	446
1.500% €750 million due 2030	**580**	594
3.782% C$400 million due 2030	**229**	233
1.125% €500 million due 2030	**423**	429
3.661% C$500 million due 2031	**291**	295
6.450% £900 million due 2031	**867**	866
Zero-coupon €50 million due January 2032	**71**	71
1.366%+RPI £75 million due 2032	**113**	113
Zero-coupon €50 million due April 2032	**69**	69
1.875% €500 million due 2032	**426**	432
0.101%+RPI £182 million due 2032	**236**	234
6.000% £350 million sustainability-linked bond due 2032 [2]	**346**	-
3.726% C$625 million due 2033	**370**	375
4.500% €650 million sustainability-linked bond due 2033 [2]	**573**	590
1.875% €650 million due 2034	**462**	471
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**57**	57
0.347%+RPI £75 million due 2035	**97**	96
0.337%+RPI £75 million due 2036	**97**	97
1.061%+RPI £180 million due 2036	**263**	262

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

5. BORROWINGS *CONTINUED*

	Unaudited 31 March 2024 £m	Audited [1] 31 December 2023 £m
3.460% £105 million due 2038	**105**	105
0.419%+RPI £51 million due 2038	**66**	66
1.382%+RPI £50 million due 2039	**75**	75
Zero-coupon €86 million due 2039	**83**	84
3.334%+RPI £460 million due 2039	**826**	822
0.800% JPY1,000 million due 2039	**47**	49
1.238%+RPI £100 million due 2040	**148**	147
0.362%+RPI £75 million due 2041	**97**	97
3.500% A$125 million due 2041	**64**	67
5.875% £750 million due 2041	**740**	740
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**743**	742
4.702% £60 million due 2047	**60**	60
1.372%+RPI £75 million due 2049	**113**	113
2.750% £400 million due 2049	**393**	393
6.070% £70 million due 2056	**70**	70
6.070% £70 million due 2057	**70**	70
0.147%+RPI £160 million due 2058	**208**	206
Total bonds	**13,503**	13,265
Heathrow Airport Limited debt:		
Class A2 term loan due 2025	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026-2052	**1,363**	1,362
Unsecured		
Debenture payable to Heathrow Finance plc due 2030	**2,606**	2,585
Total non-current	**17,772**	17,512
Total borrowings (excluding interest payable)	**18,123**	18,482

(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 2023.

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

At 31 March 2024, SP Group consolidated nominal net debt was £14,646 million (31 December 2023: £14,795 million). It comprised £13,918 million (31 December 2023: £14,155 million) in bond issues, £1,665 million (31 December 2023: £1,665 million) in other term debt, £846 million (31 December 2023: £807 million) in index-linked derivative accretion and £63 million (31 December 2023: £64 million) of additional lease liabilities post transition to IFRS 16. This was offset by £1,846 million (31 December 2023: £1,896 million) in qualifying cash and term deposits under the financing documentation. Nominal net debt comprised £13,053 million (31 December 2023: £12,607 million) in senior net debt and £1,593 million (31 December 2023: £2,188 million) in junior debt.

At 31 March 2024, the carrying value of non-current borrowings due after more than 5 years was £11,553 million (31 December 2023: £11,268 million), comprising £10,091 million (31 December 2023: £9,806 million) of bonds and £1,462 million (31 December 2023: £1,462 million) in bank facilities, excludes lease liabilities.

Notes to the condensed consolidated financial statements for the three months ended 31 March 2024

5. BORROWINGS *CONTINUED*

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was €2,050 million, C$620 million, CHF610 million, A$175 million, JPY10,000 million and NOK2,000 million. Where debt qualifies for fair value hedge accounting, hedged item adjustments have been applied as follows:

	Unaudited 31 March 2024		Audited 31 December 2023	
	Nominal (1) £m	**Fair value adjustment (2) £m**	Nominal (1) £m	Fair value adjustment (2) £m
Euro denominated debt	**1,682**	**121**	1,682	106
CAD denominated debt	**337**	**12**	337	11
Other currencies debt	**779**	**35**	779	37
Designated in fair value hedge	**2,798**	**168**	2,798	154

(1) Nominal values are based on initial FX rates at time of hedge designation.

(2) Fair value adjustment is comprised of fair value gain of £172 million (31 December 2023: £159 million) on continuing hedges and £4 million loss (31 December 2023: £5 million) on discontinued hedges.

6. CASH GENERATED FROM OPERATIONS

	Unaudited Three months ended 31 March 2024 £m	Unaudited Three months ended 31 March 2023 £m
Profit/(loss) before tax	**189**	(60)
Adjustments for:		
Net finance costs	**98**	369
Depreciation	**143**	162
Amortisation on intangibles	**10**	10
Amortisation on right of use assets	**10**	11
Fair value gain on investment properties	**(7)**	(6)
Working capital changes (1):		
Decrease/(increase) in inventories and trade and other receivables	**37**	(6)
Decrease in trade and other payables	**(17)**	(105)
Difference between pension charge and cash contributions	**(3)**	(1)
Cash generated from operations	**460**	374

(1) For the three months ended 31 March 2023, 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

ADIF 2 - ADI Finance 2 Limited

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

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

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

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

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

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

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

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

Interest Cover Ratio 'ICR ' – is trigger event and covenant at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A ICR trigger ratio is 1.40x; Class A ICR covenant is 1.05x and is calculated as a 3-year trailing average, Class B ICR trigger ratio is 1.20x, Heathrow Finance ICR covenant is 1.00x.

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

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

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

Regulatory asset ratio 'RAR' – is trigger event and covenant event at Class A, trigger event at Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5% and covenant level is 92.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%; Heathrow Finance RAR covenant is 92.5%.

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

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