HEATHROW (SP) LIMITED

RESULTS FOR THE 9 MONTHS ENDED 30th SEPTEMBER 2023

Heathrow is back at its best after a super summer - Our colleagues welcomed 29 million passengers this summer, taking the total for the first nine months of the year to 59 million. Passenger satisfaction levels have continued to exceed 2022 levels.

Britain's hub "the most connected airport" globally - Britain's hub airport reclaimed the crown as "the most connected airport in the world", providing a boost to the country's growth potential and prosperity. With connections to over 214 destinations and more coming on board with flights to Peru and Turkmenistan commencing this winter season, Heathrow connects all of Britain to global growth.

Multi-billion pound investment in Britain's hub is underway – The CAA has set a challenging settlement, but we plan to continue investing in key upgrades to the airport with our transformative security programme, which is underway, and the supplier for the new Terminal 2 baggage system, which will be announced by the end of the year. Over the next three years, we will also invest over £200 million to reduce our carbon emissions.

Losses narrow to £19 million - Overall losses have fallen to £19 million as we continue to focus on our strategy to manage costs and drive growth within a tight regulatory framework. Gearing is at historically low levels and our balance sheet is strong, with £4.6 billion of liquidity sufficient to cover all obligations for at least 24 months. No dividends are forecast for 2023.

Ministers should back British growth in the Autumn Statement - The Government should back growth in the Autumn Statement and create new jobs in Britain by pressing ahead at pace with a domestic Sustainable Aviation Fuels industry, re-instating tax-free shopping for Britain's retailers, and committing support to Southern and Western rail links to Heathrow which will increase connectivity to the nation's hub. Britain is in a race for the growth and new jobs of the future, and Ministers must take action now to avoid the UK falling behind its competitors.

Successful recovery caps tenure of transformational CEO - Earlier this month, John Holland-Kaye stepped down as Heathrow CEO after nine transformative years in post. He made Heathrow into a customer service business with a clear path to net zero by 2050 and a plan to grow and connect all of Britain to global growth. Thomas Woldbye has taken the helm, spending his first weeks building relationships with colleagues, Team Heathrow partners and local communities.

At or for 9 months ended 30 September	2022	2023	Change (%)
Passengers (million)[5]	44.2	59.4	34.4
(£m unless otherwise stated)			
Revenue	2,106	2,739	30.1
Adjusted EBITDA[2]	1,252	1,701	35.9
Cash generated from operations	1,252	1,540	23.0
Profit before tax	643	618	(3.9)
Adjusted loss before tax[1]	(442)	(19)	95.7
Heathrow (SP) Limited consolidated nominal net debt[3]	14,579	14,664	0.6
Heathrow Finance plc consolidated nominal net debt[3]	15,786	15,845	0.4
Regulatory Asset Base[4]	19,182	19,953	4.0

"Heathrow is already a great national asset for Britain - and our best days still lie ahead. We've got a clear plan to connect all of Britain to global growth, a flight path to net zero by 2050, and while we have a tight settlement from the CAA, we will upgrade the airport for our customers. I'm excited to take on the challenge and looking forward to working with Team Heathrow to build an even stronger hub for Britain in the next decade."

Thomas Woldbye | Heathrow CEO

NOTES

(1) Adjusted loss before tax excludes non-cash fair value adjustments on investment properties and financial instruments.
(2) EBITDA (30 September 2023: £1,899 million; 30 September 2022: £1,398 million) is profit before interest, taxation, depreciation and amortisation. Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index-linked swap accretion and the hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans. 2022 figures are as at 31 December 2022.
(4) The Regulatory Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital uplifted by inflation on which we are authorised to earn a cash return. 2022 figures are as at 31 December 2022.
(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

Thursday October 26th, 2023

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

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Webcast Audience URL:

https://onlinexperiences.com/Launch/QReg/ShowUUID=A0BAE4F0-090B-47E6-BBB9-36314C83405D

This link gives participants access to the live event.

Audio Conference Call Access:

https://register.vevent.com/register/BI63cadb72794a4875bec09234de407f8d

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

STRATEGIC PRIORITIES

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

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

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

MOJO

Mojo performance indicators (1)	2022	2023
Colleague promotions	185	**464**
Managerial training	314	**1,233**
Lost time injuries	0.36	**0.31**

(1) For the nine months ended 30 September

Over the first nine months of this year we have built strong leadership capability, resulting in 464 colleagues being promoted (2022: 185) and 1,233 individuals being engaged in training and development programs (2022: 314). We have been re-growing the organisation following the pandemic, which has meant we have been able to offer a wide variety of opportunities for our colleagues to achieve promotions. We continue to offer a good level of opportunities to colleagues to develop and grow, and the number of promotions naturally varies across the year. We actively support our colleagues to develop their careers and are introducing new initiatives in aid of this, such as our colleague intern and career champion support programmes.

We remain committed to the safety of our passengers and colleagues to ensure everyone goes home safely every day. For the nine months ended 30 September 2023 our lost time injuries metric was 0.31 (2022: 0.36), a significant reduction compared to 2022, due to improving colleagues' safety competence and a stronger focus on prevention of incidents through the internal close call reporting programme.

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2022	2023
Airport Service Quality - ASQ	3.99	**3.99**
Helpfulness/Attitude of Airport Staff (QSM)	4.39	**4.37**
Arrival punctuality %	70.8	**67.5**
Departure punctuality % (2)	59.4	**62.1**
Security queuing %	70.1	**90.7**
Baggage connection %	98.0	**98.1**

(1) For the nine months ended 30 September
(2) 2022 comparative has been re-presented to be comparable for the 9 months to September

We provided an excellent summer getaway for millions of passengers. Heathrow was named "Best Airport in Europe" and number 3 in the World by Business Traveller. Our commitment to delivering improved service, combined with robust contingency plans, ensured the smooth operation of the airport over the summer months. This also reflected the significant investment made by Heathrow, airlines, and their ground handling teams in recruitment and training.

During the first nine months of 2023, we achieved an overall ASQ rating of 3.99 out of 5.00. This is in line with the same period last year despite increasing passenger numbers, but below the levels seen in 2019. Overall, 74% of passengers surveyed between January and September 2023 rated their Overall Satisfaction with Heathrow as either 'Excellent' or 'Very good', a stable result versus 2022, with the proportion of 'Poor' ratings remaining low at only 1%.

For the nine months ended 30 September 2023, satisfaction with the Helpfulness/Attitude of Airport Staff ('QSM') stood at 4.37, slightly lower than last year due to increasing passenger numbers, but higher than the same period in 2019 (4.35). Overall, 95% of passengers rated Helpfulness/Attitude of Airport Staff as 'Excellent/Good' between January and September 2023, a stable result versus 2022 as 'Excellent' ratings shifted towards 'Good'. The proportion of 'Poor/Extremely Poor' ratings remained low at 1%.

Overall operational resilience was strong in the first nine months of the year. Security performance has been very good, with 90.7% (2022: 70.1%) of passengers passing through security within 5 minutes. Arrival and departure punctuality continues to be impacted by adverse weather events, strike action within Europe and airspace congestion. We have seen a narrowing of the punctuality gap between departures and arrivals to 5.4% (2022: 11.4%) – 62.1% (2022: 59.4%) of flights departed within 15 minutes of their schedule, and 67.5% (2022: 70.8%) arrived within 15 minutes. Baggage connection performance has remained stable at 98.1% (2022: 98.0%).

BEAT THE PLAN

(Millions) (1)	2022	2023	Var % (2)
UK	2.4	3.1	29.2
Europe	18.8	23.7	26.1
North America	11.1	15.1	36.0
Asia Pacific	3.7	7.3	97.3
Middle East	5.0	5.9	18.0
Africa	2.0	2.7	35.0
Latin America	1.2	1.6	33.3
Total passengers	**44.2**	**59.4**	**34.4**

(1) For the nine months ended 30 September
(2) Calculated using unrounded passenger figures

Other traffic performance indicators (1)	2022	2023	Var % (2)
Passenger ATM	265,458	335,702	26.5
Load factors (%)	76.6	80.0	4.4
Seats per ATM	217.3	221.0	1.7
Cargo tonnage ('000) (3)	1,044	1,024	(1.9)

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

Passenger Traffic - During the first nine months of the year, the strong recovery in traffic continued, with a total of 59.4 million passengers passing through the airport (2022: 44.2 million). This represented a substantial increase of 34.4% compared to the same period in 2022 and 97.4% of pre-pandemic levels. We also reclaimed our position as the world's most internationally connected airport in OAG's annual report.

Our markets are displaying robust performance compared to 2019, with notable strengths observed in North and Latin America, Africa and Asia Pacific. The positive impact of these trade and tourism routes underscores the pivotal role Heathrow plays in connecting all of Britain to global growth. The Asia Pacific region has experienced a significant rebound in passenger numbers, especially given borders only reopened earlier in the year. In September, the region reached 94% of the passenger volume seen during the same month in 2019, signifying a substantial recovery.

Aircraft have been consistently operating with high passenger numbers, with load factors showing a steady rise to 80.0% in 2023, marking an increase from 76.6% in 2022. Similarly, the average number of seats per ATM has continued to rise in 2023 to 221, surpassing both the prior year (217) and pre-pandemic levels (213). This combination of increasing load factors and larger aircraft provides further opportunity for growth.

Our cargo tonnage, including mail, experienced a decline of 1.9% when compared to the first nine months of 2022. Despite the return of belly hold capacity to normal levels on numerous routes, cargo tonnage continues to lag due to the global air cargo industry grappling with the impacts of various macroeconomic factors, which have led to subdued demand.

Finally, inbound tourism experienced a notable increase during this period, and the percentage of business travel also saw an increase, rising from 25% in the first nine months of 2022 to 27% in 2023. This figure, while on the rise, remains below the pre-pandemic level of 32% recorded in 2019.

SUSTAINABLE GROWTH

Net zero aviation – Decarbonising the aviation sector remains a key priority for Heathrow. To get there, we will need to work closely with our airline customers, energy companies and government. We continue to make Sustainable Aviation Fuels ('SAF') a regular feature of fuel supply at the airport with major airlines committing to using at least 10% SAF by 2030, supported by our incentive scheme.

Corporate customers are also being encouraged to sign up to the Sustainable Markets Initiative's '30 by 30' campaign, which targets using 30% of SAF for their travel by 2030. We have developed a plan and criteria to engage with organisations and secure their commitment. We anticipate announcing signatories of the campaign at COP28 in Q4.

SAF demand currently exceeds supply which requires a significant scale up of production. Together with industry partners, we have been advocating for price support to accelerate the development of a domestic SAF industry. In early September, the Department for Transport committed to introducing a revenue certainty mechanism to support SAF production in the UK. As part of the Energy Bill, the government has tabled legislation that will launch a consultation on options for designing and implementing the scheme within six months of the amended Bill receiving assent.

As a further sign of the increasing use of SAF, the first transatlantic Virgin flight fuelled by 100% SAF will depart from Heathrow to New York in late November. This follows a successful ground test on the Rolls-Royce engine in July.

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. Following public consultation in June and July, Heathrow's final Noise Action Plan 2024-28 will be submitted to the Department for Environment, Food & Rural Affairs (Defra) for approval in October.

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

Since the launch of Heathrow's Giving Back Programme in January, over 600 colleagues have already delivered over 1,750 hours of volunteering to benefit local communities. We have also delivered over 2,000 external jobs, apprenticeships and early career opportunities and over 4,000 experiences of workdays.

Key regulatory developments – On 17 October, the CMA published its Final Determination on the H7 appeals submitted by Heathrow, British Airways, Virgin Atlantic and Delta. Overall, the CMA considered that the CAA was not wrong in most of the aspects of its H7 Final Decision which had been subject to appeal. However, the CMA considered that the CAA had erred on three specific elements:

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

The CMA confirmed that all three errors have been remitted back to the CAA for reconsideration. The CMA will issue an order requiring the CAA to ensure that these are considered promptly, although it is expected that any outcome will form part of Heathrow's price cap from 2025.

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

PRINCIPAL RISKS

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

FINANCIAL REVIEW

Basis of presentation of financial results

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

The financial information presented within these condensed consolidated financial statements has been prepared on a going concern basis. More detail can be found in the going concern statement on page 14.

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 2022.

Summary performance

In the nine months ended 30 September 2023, the Group's revenue increased by 30.1% to £2,739 million (2022: £2,106 million). Adjusted EBITDA increased to £1,701 million (2022: £1,252 million). The Group recorded a £460 million profit after tax (2022: £463 million).

Nine months ended 30 September	2022 £m	2023 £m
Revenue	2,106	2,739
Adjusted operating costs(1)	(854)	(1,038)
Adjusted EBITDA(2)	**1,252**	**1,701**
Depreciation and amortisation	(567)	(555)
Adjusted operating profit(3)	**685**	**1,146**
Net finance costs before certain re-measurements	(1,127)	(1,165)
Adjusted loss before tax(4)	**(442)**	**(19)**
Tax credit on loss before certain re-measurements	91	1
Adjusted loss after tax(4)	**(351)**	**(18)**
Including certain re-measurements(5):		
Fair value gain on investment properties	146	198
Fair value gain on financial instruments	939	439
Tax charge on certain re-measurements	(271)	(159)
Profit after tax	**463**	**460**

(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 non-cash fair value adjustments on investment properties.
(4) Adjusted loss before and after tax excludes non-cash fair value adjustments on investment properties and financial instruments, and the associated tax impact of these including, in the prior year, the impact of the UK corporation tax change.
(5) Certain re-measurements consist of non-cash fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship.

Revenue

In the nine months ended 30 September 2023, revenue increased 30.1% to £2,739 million (2022: £2,106 million).

Nine months ended 30 September	2022 £m	2023 £m	Var. %
Aeronautical	1,351	1,839	36.1
Retail	413	514	24.5
Other	342	386	12.9
Total revenue	**2,106**	**2,739**	**30.1**

Total Aeronautical revenue has gone up by 36.1%, driven by passenger growth as well as an increase in passenger yield as set by the CAA's tariff. This is offset slightly by non-passenger Aeronautical revenue due to lower Cargo air traffic movements. The total aeronautical revenue per passenger has increased by 1.3% to £30.96 (2022: £30.56).

Nine months ended 30 September	2022 £m	2023 £m	Var. %
Retail concessions	143	187	30.8
Catering	42	60	42.9
Other retail	40	48	20.0
Car parking	104	127	22.1
Other services	84	92	9.5
Total retail revenue	**413**	**514**	**24.5**

Retail revenue increased by 24.5%, with all areas seeing strong growth driven by higher departing passengers. However, retail revenue per passenger decreased by 7.4% to £8.65 (2022: £9.34), mainly because of the removal of VAT-free shopping and car parking revenue. Compared to 2022, there is now greater travel choice and price competition. This includes the Elizabeth Line and an increase in third-party car parking operators. As a result, the use of car parking and other services like terminal drop-off and car rental has become more normalised.

Nine months ended 30 September	2022 £m	2023 £m	Var. %
Other regulated charges ('ORCs')	178	179	0.6
Heathrow Express	64	74	15.6
Property and other	100	133	33.0
Total other revenue	**342**	**386**	**12.9**

Other revenue increased by 12.9%. Heathrow Express revenue growth is attributed to increased passenger numbers, offset by the mode of passenger travel normalising and increased competition from the Elizabeth Line. Property revenue increased due to terminal facility lease renewals and new lets.

Adjusted operating costs

In the nine months ended 30 September 2023, adjusted operating costs increased by 21.5% to £1,038 million (2022: £854 million). Adjusted operating costs per passenger decreased by 9.6% to £17.47 (2022: £19.32).

Nine months ended 30 September	2022 £m	2023 £m	Var. %
Employment	277	**305**	10.1
Operational	233	**296**	27.0
Maintenance	130	**163**	25.4
Rates	88	**85**	(3.4)
Utilities and Other	126	**189**	50.0
Adjusted operating costs	**854**	**1,038**	**21.5**

Employment costs have increased in line with rebuilding capacity due to building resources for higher passenger volumes. This includes costs associated with additional colleagues, overtime, recruitment, and training. The rise in operational costs is mainly due to third-party resourcing, supporting operational resilience, and "Measure, Target, Incentive" rebates incurred (previously known as Service Quality Rebates). The increase in maintenance is largely driven by terminal cleaning and conservation of terminal, airside, and baggage areas. Rates continue to be in line with previous years. Finally, utilities and other costs have been impacted by higher consumption due to the ramp-up and higher energy prices.

Operating profit and Adjusted EBITDA

In the nine months ended 30 September 2023, the Group recorded an operating profit of £1,344 million (2022: £831 million profit). The profit was driven mainly by higher revenue. Adjusted EBITDA was £1,701 million (2022: £1,252 million).

Nine months ended 30 September	2022 £m	2023 £m
Operating profit	**831**	**1,344**
Depreciation and amortisation	567	555
EBITDA	**1,398**	**1,899**
Exclude:		
Fair value gain on investment properties	(146)	(198)
Adjusted EBITDA	**1,252**	**1,701**

Profit after tax

In the nine months ended 30 September 2023, the Group recorded a profit before tax of £618 million (2022: £643 million) and a profit after tax of £460 million (2022: £463 million).

Nine months ended 30 September	2022 £m	2023 £m
Operating profit	**831**	**1,344**
Net finance costs before certain re-measurements	(1,127)	(1,165)
Fair value gain on financial instruments	939	439
Profit before tax	**643**	**618**
Taxation charge	(180)	(158)
Profit after tax	**463**	**460**

Net finance costs before certain re-measurements increased to £1,165 million (2022: £1,127 million), driven by a 9.1% annual RPI growth rate as published in August 2023, and the associated increase in inflation accretion expense.

The non-cash fair value gain on financial instruments of £439 million (2022: £939 million) included a £182 million gain on interest rate swaps attributable to a 63 bps average increase in forward interest rates and a £261 million gain on index linked swaps due to an average 16bps decrease in forward inflation rates resulting in a reduction of the fair value liability on the index linked swap portfolio.

Taxation

The total tax charge for the nine-month period ended 30 September 2023 was £158 million (2022: £180 million). This total tax charge consists of two components:

Firstly, a tax credit on losses before certain re-measurements of £1 million (2022: £91 million), based on an effective tax rate of 5.3% (2022: 20.6%), applied to the losses before certain re-measurements for the nine-month period of £19 million (2022: £442 million). This rate represents Heathrow's current best estimate of the effective tax rate expected for the full year. The tax credit is significantly lower than the blended statutory rate of 23.5% primarily due to a large amount of depreciation which is unallowable for tax purposes. As the forecast loss before certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

Secondly, a deferred tax charge of £159 million was recognised on gains on certain re-measurements (fair value movements on financial instruments and investment properties) for the nine months ended 30 September 2023 (2022: £271 million), based on a rate of 25% applied to the gains on certain re-measurements for the nine-month period of £637 million (2022: £1,085 million). In the period, the Group paid £1 million of Corporation Tax (2022: £nil).

Cash position

At 30 September 2023, the Group had £2,037 million (31 December 2022: £1,833 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £210 million (31 December 2022: £285 million). In the nine months ended 30 September 2023, there was a decrease of £75 million in cash and cash equivalents (2022: a decrease of £6 million). In addition, in the nine months ended 30

September 2023, there was an increase of £279 million in term deposits (2022: a decrease of £937 million).

Cash generated from operations

In the nine months ended 30 September 2023, cash generated from operations increased to £1,540 million (2022: generated £1,252 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Nine months ended 30 September	2022 £m	2023 £m
Cash generated from operations	**1,252**	**1,540**
Exclude:		
Increase in inventories and trade and other receivables	36	53
(Increase)/decrease in trade and other payables	(44)	104
Decrease/(increase) in provisions	1	(1)
Difference between pension charge and cash contributions	5	5
Cash payments in respect of FY20 exceptional items	2	-
Adjusted EBITDA	**1,252**	**1,701**

Capital expenditure

Total cash spent on capital expenditure in the nine months ended 30 September 2023, which includes movements in capital creditors, was £418 million (2022: £318 million). Total capital additions were £461 million (2022: £360 million). Our H7 capital investment plan is centred around six core programmes which will run throughout the regulatory period – asset management and compliance, replacing the Terminal 2 baggage system, next generation security, investing in our commercial proposition, investing in carbon and sustainability to deliver our Net Zero goals and investment to improve efficiency and service.

During the first nine months of 2023, we have invested £459 million across our six core programmes to ensure the airport's safety, resilience and compliance whilst continuing to invest in our customer proposition and strategic initiatives.

We also invested £2 million in the period (2022: £2 million) on projects related to expansion under the property hardship scheme. Expansion-related capital expenditure includes Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. As at 30 September 2023, £506 million of expansion related assets in the course of construction are recognised on the balance sheet, of which £396 million are Category B and £110 million are Category C (after £10 million of re-work impairment recognised in 2020 and including capitalised interest). In addition, £109 million of expansion related assets are recognised within investment properties.

Restricted payments

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

In the nine months ended 30 September 2023, total restricted payments (gross and net) made by Heathrow SP amounted to £200 million (2022: £1.1 billion). This funded scheduled interest payments on debt at Heathrow Finance and ADIF2 Limited. No payments to ultimate shareholders were made during the period.

RECENT FINANCING ACTIVITY

In the first nine months of 2023, we raised £640 million in new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £17 billion debt portfolio. In July, we closed £85 million in new Class A debt through the private placement market with maturities in 2038 and 2043. In the same month, we priced our debut Sustainability-Linked Bond, a €650 million 10-year trade using the 2030 Sustainability Performance Targets set out in our Sustainability Linked Bond Framework. The bond proceeds were swapped back to GBP, and this included our first Sustainability-Linked Derivative. In September, we exercised an option to extend our Revolving Credit Facility by one year, extending the maturity to 2027.

In February, we repaid a Class A bond of £750 million. Also, during the first nine months of the year, we made early paydowns of accretion on our inflation swaps totalling £219 million.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 30 September 2023, Heathrow SP's consolidated nominal net debt was £14,664 million (31 December 2022: £14,579 million). It comprised £13,994 million in bonds, £1,665 million in other term debt, £977 million in index-linked derivative accretion, and £65 million of additional lease liabilities. This was offset by £2,037 million in cash and cash equivalents and term deposits. Nominal net debt comprised £12,481 million in senior net debt and £2,183 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 September 2023 was 3.71% (31 December 2022: 3.64%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 September 2023 was 10.35% (31 December 2022 10.53%). The decrease in the average cost of debt since the end of 2022 is due to inflation cooling off from its peak. This led to lower accrual in accretion in our inflation-linked debt and swap portfolios compared to the comparable period.

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

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

The Group has sufficient liquidity to meet its forecast needs for at least the next 24 months. This includes operating cashflows under the base case business plan and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £3,220 million in cash resources across the wider Heathrow Group as well as undrawn revolving credit facilities of £1,386 million.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance amounted to £15,845 million (31 December 2022: £15,786 million). This comprised Heathrow SP's £14,664 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million, this was offset by cash and term deposits held at Heathrow Finance of £1,183 million.

Financial ratios

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

At 30 September 2023, Heathrow's RAB was £19,953 million (31 December 2022: £19,182 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 62.6% and 73.5% 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 79.4% (31 December 2022: 82.3%) with a covenant of 92.5%.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 30 September 2023, the defined benefit pension scheme, as measured under IAS 19, was funded at 95.5% (31 December 2022: 96.3%). This translated into a deficit of £117 million (31 December 2022: £104 million). The £13 million increase in the deficit in the nine months is largely due to actuarial losses of £14 million attributable to a loss on assets partially offset by a decrease in liabilities due to a 0.75% increase in the discount rate and experience losses reflecting actual inflation in 2023; service costs of £7 million; a finance charge of £3 million; and contributions paid in the year. In the nine months ended 30 September 2023, we contributed £11 million (30 September 2022: £24 million) into the defined benefit pension scheme. No deficit repair contributions have been paid in the nine months (30 September 2022: £15 million). The Directors believe that the scheme has no significant plan-specific or concentration risks.

KEY MANAGEMENT CHANGES

Thomas Woldbye assumed the position of Heathrow Chief Executive Officer on 18 October.

Shawn Kinder was appointed as a Non-Executive Director on 21 September. Shawn is global Corporate Development and Strategy Director at Ferrovial Airports.

OUTLOOK

Following a strong Summer, we have revised our 2023 traffic forecast to 79.3 million passengers and we expect 2024 traffic will be in line with 2019. Consequently, adjusted EBITDA for 2023 is expected to be around £2.2 billion. We will provide an updated financial forecast for both 2023 and 2024 in our next Investor Report, due to be published in December.

Heathrow
Making every journey better

Condensed consolidated income statement for the nine months ended 30 September 2023

		Unaudited Nine months ended 30 September 2023			Unaudited Nine months ended 30 September 2022		
		Before certain re-measurements (1)	Certain re-measurements (2)	Total	Before certain re-measurements (1)	Certain re-measurements (2)	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	*1*	2,739	-	2,739	2,106	-	2,106
Operating costs (3)	*2*	(1,593)	-	(1,593)	(1,421)	-	(1,421)
Other operating items:							
Fair value gain on investment properties		-	198	198	-	146	146
Operating profit		1,146	198	1,344	685	146	831
Financing							
Finance income		54	-	54	19	-	19
Finance costs		(1,219)	439	(780)	(1,146)	939	(207)
Net finance costs	*3*	(1,165)	439	(726)	(1,127)	939	(188)
(Loss)/profit before tax		(19)	637	618	(442)	1,085	643
Taxation credit/(charge)	*4*	1	(159)	(158)	91	(271)	(180)
(Loss)/profit for the period (4)		(18)	478	460	(351)	814	463

(1) Amounts stated before certain re-measurements are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these.
(3) Included within Operating costs is a £3 million credit (2022: £4 million) for the release of impairment of trade receivables.
(4) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the nine months ended 30 September 2023

	Unaudited Nine months ended 30 September 2023 £m	Unaudited Nine months ended 30 September 2022 £m
Profit for the period	**460**	463
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
Loss on plan assets	**(167)**	(1,396)
Decrease in scheme liabilities	**157**	1,362
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
(Loss)/gain taken to equity	**(7)**	129
Transfer to/(from) finance costs	**8**	(15)
Other comprehensive (expense)/income for the period net of tax	**(9)**	80
Total comprehensive income for the period (1)	**451**	543

(1) Attributable to owners of the parent.

Condensed consolidated statement of financial position as at 30 September 2023

	Note	**Unaudited as at 30 September 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		**310**	279
Investment properties		**2,439**	2,230
Intangible assets		**229**	194
Derivative financial instruments		**1,100**	1,145
Trade and other receivables		**62**	29
		14,491	14,257
Current assets			
Inventories		**16**	16
Trade and other receivables		**302**	270
Current income tax assets		**4**	4
Derivative financial instruments		**70**	1
Term deposits		**1,827**	1,548
Cash and cash equivalents		**210**	285
		2,429	2,124
Total assets		**16,920**	16,381
Liabilities			
Non-current liabilities			
Borrowings	*5*	**(17,213)**	(17,456)
Derivative financial instruments		**(2,451)**	(2,436)
Lease liabilities		**(377)**	(341)
Deferred income tax liabilities		**(827)**	(671)
Retirement benefit obligations		**(139)**	(126)
Provisions		**(1)**	(1)
Trade and other payables		**(2)**	(4)
		(21,010)	(21,035)
Current liabilities			
Borrowings	*5*	**(1,210)**	(997)
Derivative financial instruments		**(5)**	(40)
Lease liabilities		**(33)**	(37)
Provisions		**(2)**	(2)
Trade and other payables		**(409)**	(470)
		(1,659)	(1,546)
Total liabilities		**(22,669)**	(22,581)
Net liabilities		**(5,749)**	(6,200)
Equity			
Capital and reserves			
Share capital		**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(34)**	(35)
Accumulated losses		**(2,467)**	(2,917)
Total shareholders' equity		**(5,749)**	(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 nine months ended 30 September 2023

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Accumulated losses £m	Total equity £m
Balance as at 1 January 2022	11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:						
Profit for the period	-	-	-	-	463	463
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	114	-	114
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,396)	(1,396)
Decrease in scheme liabilities	-	-	-	-	1,362	1,362
Total comprehensive income	-	-	-	114	429	543
Balance as at 30 September 2022 (unaudited)	11	499	(3,758)	9	(2,259)	(5,498)
Balance as at 31 December 2022 (audited) (1)	**11**	**499**	**(3,758)**	**(35)**	**(2,917)**	**(6,200)**
Comprehensive income:						
Profit for the period	**-**	**-**	**-**	**-**	**460**	**460**
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	**-**	**-**	**-**	**1**	**-**	**1**
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	**-**	**-**	**-**	**-**	**(167)**	**(167)**
Decrease in scheme liabilities	**-**	**-**	**-**	**-**	**157**	**157**
Total comprehensive income	**-**	**-**	**-**	**1**	**450**	**451**
Balance as at 30 September 2023 (unaudited)	**11**	**499**	**(3,758)**	**(34)**	**(2,467)**	**(5,749)**

(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 nine months ended 30 September 2023

	Note	Unaudited Nine months ended 30 September 2023 £m	Unaudited Nine months ended 30 September 2022 £m
Cash flows from operating activities			
Cash generated from operations	6	**1,540**	1,252
Taxation:			
Corporation tax paid		**(1)**	(1)
Group relief received		**-**	1
Net cash generated from operating activities		**1,539**	1,252
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(415)**	(318)
Investment properties		**(3)**	-
(Increase)/decrease in term deposits [(1)]		**(279)**	937
Interest received		**39**	11
Net cash (used in)/generated from investing activities		**(658)**	630
Cash flows from financing activities			
Net proceeds from issuance of bonds		**555**	196
Repayment of bonds		**(751)**	(732)
Fees and other financing items		**(4)**	(1)
Issuance of term note		**85**	200
Amounts paid to Heathrow Finance plc		**-**	(1,000)
Interest paid to Heathrow Finance plc		**(105)**	(110)
External interest paid [(2)]		**(401)**	(142)
Settlement of accretion on index-linked swaps		**(84)**	(17)
Early settlement of accretion on index-linked swaps [(3)]		**(219)**	(250)
Payment of lease liabilities		**(32)**	(32)
Net cash used in financing activities		**(956)**	(1,888)
Net decrease in cash and cash equivalents		**(75)**	(6)
Cash and cash equivalents at beginning of period		**285**	216
Cash and cash equivalents at end of period		**210**	210

(1) Term deposits with an original maturity of over three months are invested by Heathrow Airport Limited.
(2) Includes £13 million of lease interest paid (nine months ended 30 September 2022: £13 million).
(3) The Group has elected to early pay £219 million (nine months ended 30 September 2022: £250 million) of accrued accretion, which were due to be settled within the next 3 years in line with the liquidity profile assessment of the Group.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 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; and iii. the associated tax impacts of the items in (i) and (ii).

Accounting policies

Basis of preparation

The financial information covers the nine-month period ended 30 September 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 nine months ended 30 September 2023 and its comparatives, together with the unaudited consolidated statement of financial position as at 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 2023 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2023. The condensed consolidated financial statements for the nine-month period ended 30 September 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 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

In considering the going concern assessment, the Directors have considered the wider Heathrow group given the corporate structure, which involves cash generation across the group and within the main operating company, Heathrow Airport Limited. Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026. Due to its delays in making a final decision, the CAA put in place an interim tariff (the "2023 Interim Tariff") from 1 January 2023 to 31 December 2023 of £31.57 in nominal terms, ahead of a Final Decision which was subsequently published on 8th March 2023. This Final Decision provides an average H7 tariff of £23.06 in 2020 CPI real terms and 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 wider Heathrow 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. The permission to appeal certain grounds of the CAA's Final Decision was granted to the Group by the CMA in May 2023. The CMA published their final determination on 17 October 2023 and asked the CAA to reconsider three specific areas of their Final Decision, although the net impact to pricing is expected to be small. The Directors have considered the final determination and concluded that it does not present a risk for going concern purposes.

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.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2023

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.

Base case

The Directors have considered the wider Heathrow Group when assessing going concern. In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the impact of high inflation and rising interest rates 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 and 2024 traffic forecasts.

Forecast level of capital expenditure based on the CAA’s H7 Final Decision.

The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

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 nine months of 2023; with total passengers to 30 September being 59.4 million (97% of 2019 levels). Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong.

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 more challenging and volatile market conditions. Following the end of the half year, Heathrow issued its debut Sustainability Linked Bond for €650 million with related KPI's to reduce both carbon in the air and on the ground by 2030, together with a Sustainability-Linked Cross Currency Derivative to hedge the issuance. This bond demonstrates the continued support and confidence in the Group’s credit. At the 30 September 2023, the Group has total liquidity available of £4.6 billion, comprising £2.0 billion of cash held at Heathrow SP, £1.2 billion of cash held at Heathrow Finance as well as a £1.38 billion undrawn revolving credit facility. Total debt maturity for the next 12 months from 30 September 2023 is £0.9 billion at Heathrow SP and £0.4 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 in the preparation of the Q3 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 disposable income of passengers on cash flow generation, liquidity and debt covenant compliance.

Under the Group’s downside scenario, the Directors have considered passenger numbers at the low end of Heathrow’s 2023 and 2024 passenger forecast to be a severe but plausible outcome. This considers the Group’s views of plausible impacts caused by reduced passenger confidence and other economic factors. The low range of passengers represents a 10% reduction against the base case for 2023 and 5% for 2024. The tariff assumptions remain the same as in the base case.

Reverse stress test

In forming their assessment, the Directors deemed it best practice to perform a reverse stress test as part of their going concern assessment. A reverse stress test has been modelled showing 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. For there to be an ICR covenant breach at ADI Funding 2 Limited, forecast passenger numbers would need to decrease by over 14 million (18.9%). 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.

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 Q3 press release and that it is accordingly appropriate to adopt a going concern basis for the preparation of these results.

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2023

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

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

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

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing the nine-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 nine-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 nine months ended 30 September 2023

1. SEGMENT INFORMATION

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

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

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

Table (a)	**Unaudited Nine months ended 30 September 2023 £m**	Unaudited Nine months ended 30 September 2022 £m
Segment revenue		
Aeronautical		
Movement charges	**701**	494
Parking charges	**67**	65
Passenger charges	**1,071**	792
Total aeronautical revenue	**1,839**	1,351
Other regulated charges	**179**	178
Retail services revenue	**514**	413
Property revenue	**21**	21
Property (lease-related income)	**87**	77
Rail Income		
Heathrow Express	**74**	64
Other	**25**	2
Total revenue	**2,739**	2,106
Heathrow Airport	***2,665***	*2,042*
Heathrow Express	***74***	*64*
Adjusted EBITDA	**1,701**	1,252
Heathrow Airport	***1,680***	*1,228*
Heathrow Express	***21***	*24*
Reconciliation to statutory information:		
Depreciation and amortisation	**(555)**	(567)
Operating profit (before certain re-measurements)	**1,146**	685
Fair value gain on investment properties	**198**	146
Operating profit	**1,344**	831
Finance income	**54**	19
Finance costs	**(780)**	(207)
Profit before tax	**618**	643

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2023

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Nine months ended 30 September 2023		Unaudited Nine months ended 30 September 2022	
	Depreciation & amortisation (1) £m	Fair value gain (2) £m	Depreciation & amortisation (1) £m	Fair value gain (2) £m
Heathrow Airport	**(537)**	**198**	(543)	146
Heathrow Express	**(18)**	**-**	(24)	-
Total	**(555)**	**198**	(567)	146

(1) Includes amortisation charge on intangibles of £33 million (nine months ended 30 September 2022: £26 million).
(2) Reflects fair value gain on investment properties only.

Table (c)	Unaudited 30 September 2023		Audited 31 December 2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow Airport	**12,853**	**(405)**	12,557	(454)
Heathrow Express	**546**	**(9)**	562	(23)
Total operations	**13,399**	**(414)**	13,119	(477)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	**2,037**	**(15,824)**	1,833	(15,869)
Retirement benefit assets/(obligations)	**-**	**(139)**	-	(126)
Derivative financial instruments	**1,170**	**(2,456)**	1,146	(2,476)
Deferred and current tax assets/(liabilities)	**4**	**(827)**	4	(671)
Amounts owed to group undertakings	**-**	**(2,599)**	-	(2,584)
Right of use asset and lease liabilities	**310**	**(410)**	279	(378)
Total	**16,920**	**(22,669)**	16,381	(22,581)

2. OPERATING COSTS

	Unaudited Nine months ended 30 September 2023 £m	Unaudited Nine months ended 30 September 2022 £m
Employment	**305**	277
Operational (1)	**296**	233
Maintenance	**163**	130
Rates	**85**	88
Utilities	**101**	69
Other	**88**	57
Total operating costs before depreciation and amortisation	**1,038**	854
Depreciation and amortisation:		
Property, plant and equipment	**491**	510
Intangible assets	**33**	26
Right of Use assets	**31**	31
Total operating costs	**1,593**	1,421

(1) For the nine months ended 30 September 2022, £4 million was received through the Airport and Airline 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 nine months ended 30 September 2023

3. FINANCING

	Unaudited Nine months ended 30 September 2023 £m	Unaudited Nine months ended 30 September 2022 £m
Finance income		
Interest on deposits	**52**	14
Net pension finance income	**-**	5
Interest receivable from group undertakings	**2**	-
Total finance income	**54**	19
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments[1]	**(565)**	(586)
Bank loans and overdrafts and unwind of hedging reserves	**(64)**	(41)
Net interest expense on external derivatives not in hedge relationship[2]	**(524)**	(401)
Facility fees and other charges	**(7)**	(5)
Interest on debenture payable to Heathrow Finance plc	**(120)**	(125)
Net pension finance costs	**(4)**	-
Finance costs on lease liabilities	**(13)**	(16)
	(1,297)	(1,174)
Less: capitalised borrowing costs[3]	**78**	28
Total finance costs	**(1,219)**	(1,146)
Net finance costs before certain re-measurements	**(1,165)**	(1,127)
Certain re-measurements **Fair value gain on financial instruments**		
Interest rate swaps: not in hedge relationship	**182**	322
Index-linked swaps: not in hedge relationship[5]	**261**	510
Cross-currency swaps: not in hedge relationship[4, 5]	**(3)**	(33)
Ineffective portion of cash flow hedges[5]	**(4)**	93
Ineffective portion of fair value hedges[5]	**3**	41
Foreign exchange contracts	**-**	6
	439	939
Net finance costs	**(726)**	(188)

(1) Includes accretion of £136 million for nine months ended 30 September 2023 (nine months ended 30 September 2022: £189 million) on index-linked bonds.
(2) Includes accretion of £577 million for nine months ended 30 September 2023 (nine months ended 30 September 2022: £658 million) on index-linked swaps.
(3) Capitalised interest included in the cost of qualifying assets arose on the general borrowing pool and is calculated by applying an average capitalisation rate of 11.16% (nine months ended 30 September 2022: 5.10%) to expenditure incurred on such assets.
(4) Includes gain on foreign exchange retranslation on the currency bonds of £3 million for the nine months ended 30 September 2023 (nine months ended 30 September 2022: £5 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 nine months ended 30 September 2023

4. TAX CREDIT/(CHARGE)

	Unaudited Nine months ended 30 September 2023			Unaudited Nine months ended 30 September 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)	**1**	**(159)**	**(158)**	91	(271)	(180)
Taxation credit/(charge)	**1**	**(159)**	**(158)**	91	(271)	(180)

The total tax charge recognised for the nine months ended 30 September 2023 was £158 million (nine months ended 30 September 2022: £180 million), based on a profit before tax for the nine months ended 30 September 2023 of £618 million (nine months ended 30 September 2022: £643 million).

The tax credit before certain re-measurements for the nine months ended 30 September 2023 was £1 million (nine months ended 30 September 2022: £91 million). Based on a loss before tax and certain re-measurements of £19 million (nine months ended 30 September 2022: £442 million), this results in an effective tax rate of 5.3% (nine months ended 30 September 2022: 20.6%). The tax credit is less than implied by the blended statutory rate of 23.5% primarily due to a large amount of depreciation which is unallowable for tax purposes. As the forecast loss before certain re-measurements for the year is relatively small, this unallowable depreciation has a significant distorting impact on the effective tax rate for the year.

In addition, there was a £159 million tax charge (nine months ended 30 September 2022: £271 million) recognised on certain re-measurements arising from fair value movements on financial instruments and investment properties.

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

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

Management has concluded that the deferred tax assets as at 30 September 2023 may continue to be recognised against the unwind of existing deferred tax liabilities and future forecast taxable profits.

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

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

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2023

5. BORROWINGS

	Unaudited 30 September 2023 £m	Audited 31 December 2022 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
5.225% £750 million due 2023	**-**	747
7.125% £600 million due 2024	**599**	-
0.500% CHF400 million due 2024	**354**	-
Total current (excluding interest payable)	**953**	747
Interest payable – external	**243**	199
Interest payable – owed to group undertakings	**14**	51
Total current	**1,210**	997
Non-current		
Secured		
Heathrow Funding Limited bonds		
7.125% £600 million due 2024	**-**	598
0.500% CHF400 million due 2024	**-**	349
3.250% C$500 million due 2025	**287**	292
1.500% €750 million due 2025	**647**	660
4.221% £155 million due 2026	**155**	155
0.450% CHF210 million due 2026	**178**	174
6.750% £700 million due 2026	**697**	696
2.650% NOK1,000 million due 2027	**69**	79
2.694% C$650 million due 2027	**392**	396
1.800% CHF165 million due 2027	**147**	147
3.400% C$400 million due 2028	**241**	243
7.075% £200 million due 2028	**199**	199
4.150% A$175 million due 2028	**86**	91
2.625% £350 million due 2028	**347**	347
2.500% NOK1,000 million due 2029	**62**	71
2.750% £450 million due 2029	**446**	446
1.500% €750 million due 2030	**559**	571
3.782% C$400 million due 2030	**233**	239
1.125% €500 million due 2030	**429**	437
6.450% £900 million due 2031	**865**	863
3.661% C$500 million due 2031	**301**	304
Zero-coupon €50 million due January 2032	**70**	70
1.366%+RPI £75 million due 2032	**111**	104
Zero-coupon €50 million due April 2032	**69**	68
1.875% €500 million due 2032	**432**	441
0.101%+RPI £182 million due 2032	**232**	218
3.726% C$625 million due 2033	**382**	386
4.500% €650 million sustainability-linked bond due 2033[(1)]	**539**	-
1.875% €650 million due 2034	**431**	445
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**57**	57
0.347%+RPI £75 million due 2035	**96**	91
0.337%+RPI £75 million due 2036	**96**	91
1.061%+RPI £180 million due 2036	**260**	245

Notes to the condensed consolidated financial statements for the nine months ended 30 September 2023

5. BORROWINGS *CONTINUED*

	Unaudited 30 September 2023 £m	Audited 31 December 2022 £m
0.419%+RPI £51 million due 2038	**65**	61
3.460% £105 million due 2038	**105**	105
1.382%+RPI £50 million due 2039	**74**	69
Zero-coupon €86 million due 2039	**83**	84
3.334%+RPI £460 million due 2039	**813**	765
0.800% JPY1,000 million due 2039	**48**	52
1.238%+RPI £100 million due 2040	**146**	137
0.362%+RPI £75 million due 2041	**96**	91
3.500% A$125 million due 2041	**66**	70
5.875% £750 million due 2041	**740**	739
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
4.702% £60 million due 2047	**60**	60
1.372%+RPI £75 million due 2049	**111**	104
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**205**	197
Total bonds	**12,966**	13,346
Heathrow Airport Limited debt:		
Class A2 term loan due 2025	**100**	100
Class A3 term loan due 2029	**200**	200
Term notes due 2026-2052	**1,362**	1,277
Total other debt	**1,662**	1,577
Unsecured		
Debenture payable to Heathrow Finance plc	**2,585**	2,533
Total non-current	**17,213**	17,456
Total borrowings (excluding interest payable)	**18,166**	18,203

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

At 30 September 2023, Heathrow SP's consolidated nominal net debt was £14,664 million (31 December 2022: £14,579 million). It comprised £13,994 million (31 December 2022: £14,053 million) in bonds, £1,665 million (31 December 2022: £1,580 million) in other term debt, £977 million (31 December 2022: £726 million) in index-linked derivative accretion and £65 million (31 December 2022: £53 million) of additional lease liabilities. This was offset by £2,037 million (31 December 2022: £1,833 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £12,481 million (31 December 2022: £12,447 million) in senior net debt and £2,183 million (31 December 2022: £2,132 million) in junior debt.

At 30 September 2023, total non-current borrowings due after more than 5 years was £11,069 million (31 December 2022: £11,177 million), comprising £9,607 million (31 December 2022: £9,800 million) of bonds and £1,462 million (31 December 2022: £1,377 million) in bank facilities, excludes lease liabilities. This excludes the £2,585 million (31 December 2022: £2,533 million) debenture payable to Heathrow Finance plc.

Impact of fair value hedge adjustments

The nominal value of debt designated in fair value hedge relationship was, €2,050 million (includes €650 million 10 year sustainability-linked bond issued and swapped back to GBP sustainability-linked derivatives), 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 30 September 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	**1,682**	**231**	1,125	211
CAD denominated debt	**337**	**22**	337	16
Other currencies debt	**779**	**52**	780	61
Designated in fair value hedge	**2,798**	**305**	2,242	288

(1) Fair value adjustment is comprised of fair value gain of £310 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 nine months ended 30 September 2023

6. CASH GENERATED FROM OPERATIONS

	Unaudited Nine months ended 30 September 2023 £m	Unaudited Nine months ended 30 September 2022 £m
Profit before tax	**618**	643
Adjustments for:		
Net finance cost	**726**	188
Depreciation	**491**	510
Amortisation on intangibles	**33**	26
Amortisation on right of use assets	**31**	31
Fair value gain on investment properties	**(198)**	(146)
Working capital changes[1]:		
Increase in inventories and trade and other receivables	**(53)**	(36)
(Decrease)/increase in trade and other payables	**(104)**	44
Increase/(decrease) in provisions	**1**	(1)
Difference between pension charge and cash contributions	**(5)**	(5)
Cash generated from operations before exceptional items	**1,540**	1,254
Cash payments in respect of prior year exceptional items	**-**	(2)
Cash generated from operations	**1,540**	1,252

(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.

7. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Unaudited 30 September 2023 £m	Audited 31 December 2022 £m
Contracted for, but not accrued:		
Asset management, compliance and property[1]	**331**	128
Carbon and sustainability	**8**	1
Commercial proposition	**8**	3
Improve efficiency and service	**3**	3
Terminal 2 baggage system	**18**	4
Next generation security	**117**	17
	485	156

(1) Includes capital commitments relating to land and buildings.

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

Contingent liabilities

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory asset ratio 'RAR' – is trigger event 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.