HEATHROW (SP) LIMITED

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

Heathrow grew more than any other airport in the world last year – Passenger numbers in 2022 trebled to 62 million, as borders reopened in March after two years of closures which were tougher in the UK than in other major markets. This increase alone was equivalent to fitting virtually all of Frankfurt's 2022 passengers into Heathrow. The rapid growth was challenging operationally for all companies on the airport, but we were successful in getting as many people on their way as possible by keeping supply and demand in balance. Feedback from the vast majority of passengers was that they received great service, and we were pleased to be named "best airport in Europe". This is a great credit to the teamwork and commitment of colleagues across Team Heathrow.

Service is getting back to pre-pandemic levels - The border closures and loss of skills deeply scarred the global aviation sector and it will take some time to fully recover. Over 25,000 people have started work at Heathrow in the last 18 months and resource levels are now close to pre-pandemic levels. The focus is now on improving skills, experience and building resilience. We are seeing the benefits in a successful Christmas and half-term getaway. In 2019, passengers ranked Heathrow as one of the top 10 in the world and we are determined to get back there.

We continued to be loss making throughout 2022 – Annual losses have reduced from (£1,270) million to (£684) million, but inflation, lower passenger numbers and insufficient regulated charges impacted underlying profitability. No dividends were paid in 2022 and none are planned for 2023. Our financing remains conservative, with strong liquidity and gearing falling below pre-pandemic levels. The final decision on the H7 settlement from the CAA, which will determine investment levels in passenger service over coming years, is expected in March.

We are making good progress on decarbonising global aviation – We worked hard to secure the global agreement of net zero aviation by 2050 at ICAO. Sustainable aviation fuel (SAF) will play a critical role in decarbonising the sector and we have created a £38 million incentive scheme to encourage airlines to switch out kerosene for SAF - making us one of world's largest users of SAF. This year we have tripled our SAF target, and this has been oversubscribed. Later this year Virgin Atlantic will operate the first 100% SAF-powered transatlantic flight from Heathrow to New York, which will demonstrate that the faster we scale up SAF production the faster we can decarbonise aviation.

At year ended 31 December	2021	2022	Change (%)
(£m unless otherwise stated)			
Revenue	1,214	2,913	140.0
Cash generated from operations	613	1,719	180.4
(Loss)/Profit before tax	(1,792)	169	109.4
Adjusted loss before tax(2) (4)	(1,270)	(684)	46.1
Adjusted EBITDA(1) (4)	384	1,684	338.8
Heathrow (SP) Limited consolidated nominal net debt(3) (4)	13,332	14,579	9.4
Heathrow Finance plc consolidated nominal net debt(3) (4)	15,440	15,786	2.2
Regulatory Asset Base(5)(4)	17,474	19,182	9.8
Passengers (million)(6)	19.4	61.6	217.6

"2022 may have been a year of recovery, but 2023 is shaping up to be a year of renewal for Heathrow. Our teams have already delivered a successful Christmas and half-term getaway, and with a great investment plan in place, we are determined to once again rank in the top 10 airports for service. I couldn't be prouder of how far Team Heathrow has come in my nine years as CEO – from transforming customer service, to securing Parliamentary approval for expansion to surviving two years of border closures and rebuilding the business. My successor will take on a fantastic team who are making Heathrow a world leading hub that Britain can be proud of"

John Holland-Kaye | Heathrow CEO

NOTES

(1) EBITDA (2022: £1,629m, 2021: £527m) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items. These Alternative Performance Measures ('APMs') are reconciled in note 14.
(2) Adjusted profit before tax excludes fair value adjustments on investment properties and financial instruments and exceptional items
(3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index-linked swap accretion and the hedging impact of cross-currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans
(4) Alternative Performance Measures ('APMs'): the performance of the Group is assessed using a number of APMs, including Adjusted EBITDA, Adjusted loss before tax, Consolidated nominal net debt, Consolidated net debt and the Regulatory Asset Base. Management believe that APMs provide investors with an understanding of the underlying performance of the Group. A reconciliation of our APMs can be found in note 14
(5) The Regulated Asset Base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return
(6) Changes in passengers are calculated using unrounded passenger numbers

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

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

Thursday February 23rd 2023

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

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Audio Conference Call Access:
https://register.vevent.com/register/BI60973e9f41bf403c96c4793d6f1a3742
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https://onlinexperiences.com/Launch/QReg/ShowUUID=03F1EACD-BE6C-4A62-AC07-CEAEE4EB1148
This link gives participants access to the live event.

REVIEW OF THE YEAR

2022 has been a year of significant recovery at Heathrow – we welcomed 61.6 million passengers, an increase of 42.2 million versus 2021, which represented the highest passenger increase of any major airport globally. Whilst we delivered this significant growth, we also successfully provided very good service to our passengers.

Looking at 2022 more closely, we continued to progress all four strategic priorities – mojo, transforming customer service, beating the plan and sustainable growth – which underpin our vision to give passengers the best airport service in the world.

We had a very slow start to the year, given ongoing travel restrictions and uncertainty over Omicron. When the UK Government removed all travel restrictions in March, we saw a surge in pent-up demand with passenger numbers climbing to the highest level since the start of the pandemic. Q1 also saw the introduction of our Sustainable Aviation Fuel (SAF) incentive to encourage airlines to shift to lower carbon fuels. This was oversubscribed, and we transitioned 0.5% of the airport's fuel. We plan to do more in the coming years, steadily increasing the use of SAF at the airport and complementing the Government's Jet Zero policy.

As the UK aviation sector continued to recover, passenger demand increased through Q2. Given the ramp-up plan we initiated in November 2021, we were able to successfully manage the peaks across Easter and the Jubilee bank holiday and all operations, including Terminal 4, were open before the summer peak.

However, by late June, we started to experience increased pressure across the entire airport ecosystem. Despite our best efforts, we saw periods where service dropped to a level that was not acceptable. This was due to a combination of reduced arrivals punctuality (as a result of delays at other airports and in European airspace) and increased passenger numbers starting to exceed the combined capacity of airlines, airline ground handlers and the airport. We took swift action in early July to protect consumers by applying a temporary capacity limit on departing passenger numbers to better align capacity and demand.

Over the summer, 18 million passengers travelled through the airport, making Heathrow the busiest out of any European hub airport. The departing cap successfully improved passenger journeys with fewer last-minute cancellations, better punctuality, and shorter queue times. Overall, the vast majority of passengers who travelled through Heathrow over the summer had a very good experience. We were therefore able to remove the temporary cap at the end of October.

Following our experience in the summer, we established a 'Build Back Capacity' programme in Q3 covering all aspects of the airport ecosystem. This was designed to get capacity, service levels and resilience back to the high levels that they were before the pandemic. Team Heathrow ended 2022 with nearly 75,000 people, and we continue to work alongside airlines and their ground handlers to boost recruitment in 2023 through our programme.

Forward planning and close collaboration with airport partners ensured we provided a smooth and efficient service to travellers during the busiest Christmas getaway since 2019. 92% of passengers passed through security in under ten minutes during the Christmas peak, service for passengers requiring support improved, and arriving travellers reported a friendly and efficient journey through immigration, in spite of industrial action.

From a financial perspective, the growth in passenger numbers led to an Adjusted EBITDA of £1.7 billion for the year. We raised £546 million of debt financing throughout 2022 and successfully concluded the refinancing of our Revolving Credit Facility at a size of £1.4 billion.

In terms of regulation, the CAA published its Final Proposals for the H7 period in June. Our analysis shows that the CAA's Final Proposals, as currently set out, are not deliverable due to errors in the CAA's forecasts of key regulatory building blocks. We responded to the CAA's consultation in August, detailing why implementation of its Final Proposals would result in an airport that falls far short of what our passengers expect. As we wait for a Final Decision in March, the CAA has confirmed an interim tariff of £31.57 for 2023.

Throughout the year, we made tangible progress in delivering our sustainability agenda. An historic global agreement on net zero international aviation by 2050 was reached at the ICAO Assembly in October. It brings the global industry in line with UK aviation, which committed to this in 2020. In addition to the introduction of our first SAF incentive, we continue to support the Government on its plans to introduce the mandates and consult on the price incentives needed to stimulate domestic investment in SAF. We also published our Surface Access Strategy in August which set out plans to increase passenger public transport mode share, reduce colleague single-occupancy-car mode share, reduce carbon emissions, improve air quality and increase public transport catchment, to support the delivery of the goals and targets set out in both key pillars of Heathrow 2.0.

Above all, our talented colleagues have worked tirelessly and in close partnership with the airlines and all of Team Heathrow to support the recovery and this sets a strong foundation from which we will provide great service to our passengers.

John Holland-Kaye – Heathrow CEO

STRATEGIC PRIORITIES

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

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

The following performance metrics provide a picture on each of the four priorities for the full year ended 31 December 2022. All indicator definitions are available in the glossary section of this report.

MOJO

Mojo performance indicators (1)	2021	2022
Colleague promotions	298	247
Managerial training	245	285
Lost time injuries	0.35	0.35

(1) For the year ended 31 December

We want Heathrow to be a great place to work and continue to provide fantastic opportunities for our talented colleagues to develop their careers. We have continued building strong leadership capability and across the year 247 colleagues (2021: 298) were promoted and 285 colleagues (2021: 245) were assigned to training and development programmes. We also want to ensure everyone goes home safely every day and maintain our focus on the safety and wellbeing for our passengers and colleagues. For the year ended 31 December 2022, our lost time injuries metric was 0.35 (2021: 0.35), flat compared to 2021. We continue to work internally on our incident reduction plans.

TRANSFORM CUSTOMER SERVICE

Service standard performance indicators (1)	2021	2022
ASQ	4.23	3.97
Experience as “excellent” or “very good” %	82.0	71.0
Baggage connection %	99.0	98.0
Departure punctuality %	80.9	59.0
Security queuing %	97.1	69.4
Courtesy & Helpfulness of Airport Colleagues (QSM)	4.58 (3)	4.38 (3)

(1) For the year ended 31 December
(2) Courtesy & Helpfulness of Airport Staff replaced the Cleanliness KPI for 2022

Over the last quarter, the majority of passengers had a good experience through the airport. Our forward planning and close collaboration with airport partners ensured we provided a smooth and efficient service to travellers throughout the festive period. Service for passengers requiring support improved, and arriving travellers reported a friendly and efficient journey through immigration despite industrial action.

In 2022, we achieved an overall ASQ rating of 3.97 out of 5.00 (2021: 4.23), reflecting operational pressure across parts of the year. This is consistent with our European competitors, who also saw decreases in levels of passenger satisfaction. 73% of passengers surveyed rated their Heathrow experience ‘Excellent’ or ‘Very good’ (2021: 82%). The main reason for the decrease was that more passengers rated their Heathrow experience as 'Very Good', ‘Good’ or ‘Fair’ compared to the ‘Excellent’ rating we were seeing in 2021. Lower satisfaction levels were driven by a decline in aspects in the passenger journey such as, 'Shops', 'Waiting Time at Security' and 'Ease of Making Connections' when compared to 2019.

Satisfaction with the Courtesy and Helpfulness of Airport Colleagues decreased to 4.38 versus 2021 (4.58) but represented an improvement versus 2019 (4.35) and exceeded the 2022 target of 4.37. Overall, 45% of passengers rated Heathrow on this metric as ‘Excellent’ during 2022, an 18% points decrease versus 2021 and 6% points increase versus 2019, with the proportion of ‘Poor/Extremely Poor’ ratings being very low at 1%.

BEAT THE PLAN

Passenger traffic

(Millions) (1)	2021	2022	Var % (2)
UK	1.8	3.4	89.8
Europe	8.8	25.7	192.8
North America	3.3	15.4	361.4
Asia Pacific	1.8	5.5	219.9
Middle East	2.3	6.9	201.9
Africa	1.0	2.9	176.8
Latin America	0.4	1.7	317.5
Total passengers	**19.4**	**61.6**	**217.6**

(1) For the 12 months ended 31 December
(2) Calculated using unrounded passenger figures

Other traffic performance indicators (1)	2021	2022	Var % (2)
Passenger ATM	160,744	367,160	128.4
Load factors (%)(3)	55.8	77.0	38.0
Seats per ATM	216.3	218.0	0.8
Cargo tonnage (‘000)	1,403	1,351	(3.7)

(1) For the 12 months ended 31 December
(2) Calculated using unrounded passenger figures
(3) 2021 Load factor % has been restated to correct historical reporting error

In 2022, Heathrow welcomed 61.6 million passengers, an increase of 42.2 million compared to the prior year (+217.6%). This was the highest passenger increase of any major airport globally. Passenger numbers in December were close to 5.8 million, which was 11% below 2019 levels, the highest since the start of the pandemic. Demand continues to be driven by outbound leisure, although inbound leisure and business travel are showing good signs of recovery. During the fourth quarter, business travel reached 28% of overall traffic, compared to 32% in the same period pre-pandemic.

Air traffic movements (“ATMs") grew 128%, in line with the overall increase in demand as more markets are now open. In addition, we saw a 38% of increase in load factors, which still provides a significant growth opportunity. The average number of seats per passenger aircraft remained broadly in line with last year at 218.0 (2021: 216.3). Passenger growth was seen in all regions, with Europe, the Middle East, and North America, in particular, driving the increase compared to 2021. Two airlines have launched flights from Heathrow during the year, including WestJet with a service to Calgary which initially started as 4 flights a week but has increased to 7 flights a week due to strong demand.

Our cargo tonnage was 3.7% lower compared to the same period in 2021. This was due to an increase in flights offset by airlines shifting focus towards passenger flights, where cargo is carried in the belly hold of planes.

Build Back Capacity – Following removal of the temporary capacity cap at the end of October, we established our 'Build Back Capacity' programme last year with the aim of progressively and swiftly build back capacity, resilience and service, without compromising safety and security. Progress has been good although we have now reassessed the programme priorities in light of learnings from the summer and winter. To ensure we are ready for the easter and summer peaks, we are focussing on the critical areas of ground handling, check-in, security, the ID centre and passengers requiring support.

SUSTAINABLE GROWTH

Heathrow 2.0 – We believe sustainability in all its aspects is fundamental to our long-term business success. In 2022, we released an updated version of "Heathrow 2.0", our plan to connect people and planet. Our strategy reflects the new reality in which Heathrow is operating, and focuses on delivering outcomes that align with the most material colleague, community and environmental issues for the airport, namely:

- Net zero aviation – decarbonising the aviation sector remains a key priority for Heathrow.
- A great place to live and work – delivering on the issues that are most important to local communities, managing the environmental impacts of the airport and championing equality, diversity and inclusion are critical factors to Heathrow's success.
- Responsible business foundations – our commitment to continue to do the right thing across a range of key issues including safety, security and governance through our strategies and policies.

Net zero aviation – Our net zero plan sets out how to get to net zero carbon emissions for our own operations and our contribution to decarbonising wider UK aviation. It includes stretching goals to cut carbon "in the air" by up to 15% and "on the ground" by at least 45% against 2019 levels by 2030. Its eight goals show where we will cut our emissions and how we plan to do that, including how we will work in partnership and influence others where we do not directly control emissions.

Investment is key to delivering our net zero plan. As part of our "H7" business plan, we put forward £207 million of capital expenditure in a carbon programme, covering everything from modernising airspace to electric vehicle charging. Our regulator, the CAA, backed notionally the full programme in its final proposals, although our proposals risk being not deliverable unless we reach a fair and balanced regulatory settlement for the H7 period.

A historic global aviation net zero deal was reached at the ICAO Assembly on 7 October. This agreement on a net zero 2050 goal marks a pivotal moment in the sector. Committed advocacy work by our CEO and leadership team has played an important role, including our CEO's Chairship of the Sustainable Markets Initiative (SMI) Aviation Taskforce on behalf of HRH the King. Alongside WEF's Clean Skies for Tomorrow and other industry partners, SMI activity, such as engaging States at the Commonwealth Heads of Government Meeting in Kigali in June, helped to make it possible.

Following the publication of its Jet Zero Strategy in July, we continue to support the Government on its plans to introduce the mandates and consult on the price incentives needed to stimulate domestic investment in SAF. We look forward to the Jet Zero Strategy aim to have five new SAF facilities in development in the UK by 2025 and working with the government on SAF's wider commercialisation and scale-up, alongside investment in new technology, including zero-emission aircraft, delivery of critical airspace modernisation and supporting carbon removal technologies.

In 2022 we moved beyond isolated demonstrations of SAF use, making SAF a regular feature of fuel supply at the airport. Our 2022 landing charges included a new financial incentive to help make SAF more affordable for airlines. The 2022 scheme was fully subscribed and designed to ensure that at least 0.5% of total aviation fuel delivered at Heathrow during the year was SAF. Airlines took part in a consultation regarding the 2023 aeronautical charges during Q3 and it is agreed that a 1.5% target incentive is to be implemented for 2023, with plans to rise steadily each year. This will be reviewed when UK Government SAF policy is confirmed.

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. Since launching the refreshed strategy in February 2022, we have made good progress on putting in place the foundations that will be required for success by the end of the decade.

We continued to roll out the Sustainable Travel Zone, launched earlier in the year. Highlights included the introduction of free travel between Hatton Cross and Heathrow terminals on the Piccadilly line and improved timetables on several bus and coach routes to the north, west and south of the airport. We were encouraged to see the percentage of passengers using public transport increase steadily through the year to over 43% in September, before falling back slightly in the final quarter due to disruption to rail services (2022: 38%, 2021: 33%). Although the average at the end of year is lower than our target for 2026, it indicates that passenger demand for public transport is continuing to return in line with recovery and is a positive step towards meeting our longer-term goals.

In July, it was confirmed that Heathrow successfully retained the Wildlife Trust's Biodiversity Benchmark Award for the 14th year running, recognising our continued commitment to biodiversity and nature and we also celebrated passing a milestone as 4,000 species have now been identified on Heathrow's biodiversity sites. In 2023, we will build on this by developing and publishing a nature positive plan for the airport.

Over the year, the Heathrow Employment and Skills Academy supported over 2,500 employment opportunities, representing a significant achievement towards our longer-term goal of 10,000 opportunities by 2030. 2,731 experiences of workdays were also delivered during the year through the Virtual Work Experience programme, T-Level placements, and Essential Skills Masterclasses for young people with additional learning needs. An additional 300 experience of workdays were delivered to primary school children as part of the Heathrow Young Explorers activity. This supports the target within Heathrow 2.0 of 15,000 by 2030

In November, the 24th edition of the Heathrow Business Summit was attended by over 300 people including 100 Heathrow tier 1 suppliers and more than 100 local SMEs. The event, which received positive feedback from stakeholders, connected local businesses with new business opportunities at the airport. We have also launched CompeteFor, a platform that enables businesses (particularly SMEs) to compete for contract opportunities. The platform already features opportunities to do business directly with Heathrow, and this will be extended to our Tier 1 suppliers in 2023.

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

Key regulatory developments - The CAA published its Final Proposals for the next five-year regulatory period to start in 2022, known as H7, on 28 June 2022. This proposed an average charge of £24.14 (2020 CPI) across the H7 period. Our analysis shows that the CAA's proposals, as currently set out, are not deliverable due to errors in the CAA's forecasts of key regulatory building blocks. If these errors are not rectified, we will not be able to implement the investment set out in our Revised Business Plan (RBP), which delivers what passengers want and need on their journey through Heathrow.

We responded to the CAA's Final Proposals on 9 August, detailing why implementation of its Final Proposals for H7 would result in an airport that falls far short of what our passengers expect. We are aligned with the CAA on the key outcomes consumers expect in H7 – but in advance of its Final Decision, the CAA must now reconsider its forecast of the key building blocks to ensure the price control is deliverable and can deliver on these outcomes.

On 16 December, we provided the CAA with an update to our RBP. This update flowed through the impacts of changes in external inputs, such as updated energy prices, inflation forecasts and interest rates, on our building blocks. This update is not a new plan but ensures that the building blocks of our RBP are based on the most robust and up to date information and ensures that the CAA has the most up to date information on which to base its Final Decision for H7.

The CAA will continue the H7 process into Q1 of 2023 with a final decision expected in March. Given the longer than anticipated timetable for setting a Final Decision, on 1 February the CAA confirmed its decision to implement a price cap of £31.57 for 2023. This is in line with the price cap for 2023 set out by the CAA in its Final Proposals. This will be in place for the entirety of 2023 with any difference between the interim cap and the price cap in the CAA's Final Decision trued up through the remaining years of the price control.

Expansion developments - While we have paused work to expand Heathrow during COVID-19, recovery from the pandemic has shown the pent-up demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK's trade routes. We are currently conducting an internal review of the work that we have carried out and the different circumstances we find the aviation industry in, and this will enable us to progress with appropriate recommendations. The Government's ANPS continues to provide policy support for our plans for a third runway and the related infrastructure required to support an expanded airport.

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

From a border perspective, EU citizens can continue to use electronic gates at immigration upon arrival into the UK. Since 1 October 2021, unless they hold EU Settled Status, EU arrivals must now present their passport at the UK border as a valid ID. Heathrow has worked with Government and Border Force to manage changes to border and passenger processes and ensure minimal disruption. Longer-term, Heathrow is working with the Government to deliver on its objective of 'the world's most effective border' through the 2025 UK Border Strategy. As the UK's biggest port by value and only hub airport, Heathrow has an integral role to play in helping the Government make 'Global Britain' a reality.

From a passenger perspective, we continue to make the case to Government to expand the number of eligible cohorts using e-Gates – such as visa holders and those with Electronic Travel Authorisation (ETA) and e-visas – as well as ensure sufficient resourcing of Border Force.

From a freight perspective, we are pushing the Government to remove outdated 'Canalisation' regulations, thereby making the cargo processing time at Heathrow quicker – in some cases halving the time it takes to process goods at the airport. Additionally, the Government believes now is the right time to review and reset the UK's import controls. It will publish a new Target Operating Model (TOM), which will set out a new regime of global border import controls. This will apply equally to goods from the EU and goods from the Rest of the World, and will target the end of 2023 as the revised delivery date.

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. The Group's Q3 Press Release published on 26 October 2022 was prepared on a basis of going concern with material uncertainty. Since then, over the fourth quarter, the Group has experienced strong passenger number growth. This growth provided significantly increased confidence over covenant compliance in future periods. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. More detail can be found in the going concern statement on page 19.

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

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

For the year ended 31 December 2022, the Group's revenue increased by 140.0% to £2,913 million (2021: £1,214 million). Adjusted EBITDA increased 338.5% to £1,684 million (2021: £384 million). The Group recorded a £114 million profit after tax (2021: £1,613 million loss).

Year ended 31 December	2021 £m	2022 £m
Revenue	1,214	2,913
Adjusted operating costs(1)	(830)	(1,229)
Adjusted EBITDA(2)	**384**	**1,684**
Depreciation and amortisation	(797)	(770)
Adjusted operating (loss)/profit(3)	**(413)**	**914**
Net finance costs before certain re-measurements and exceptional items	(857)	(1,598)
Adjusted loss before tax(4)	**(1,270)**	**(684)**
Tax credit on loss before certain re-measurements and exceptional items	254	119
Adjusted loss after tax(4)	**(1,016)**	**(565)**
Including certain re-measurements(5) and exceptional items:		
Fair value gain/(loss) on investment properties	174	(69)
Fair value (loss)/gain on financial instruments	(665)	908
Exceptional items	(31)	14
Tax credit/(charge) on certain re-measurements and exceptional items	139	(200)
Change in tax rate	(214)	26
(Loss)/profit after tax	**(1,613)**	**114**

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

Revenue

For the year ended 31 December 2022, revenue increased 140.0% to £2,913 million (2021: £1,214 million). Revenue increased by 55.5% during the fourth quarter in isolation compared to the same period last year.

Year ended 31 December	2021 £m	2022 £m	Var. %
Aeronautical	554	1,879	239.2
Retail	217	564	159.9
Other	443	470	6.1
Total revenue	**1,214**	**2,913**	**140.0**

Aeronautical revenue increased by 239.2%. This is predominantly due to the recovery of passenger traffic following the easing of COVID restrictions and an increase in aero charges. Our maximum allowable yield for 2022 was £30.19 per passenger (2021: £19.36), as per the holding price cap set by the CAA for 2022.

Year ended 31 December	2021 £m	2022 £m	Var. %
Retail concessions	79	206	160.8
Catering	21	59	181.0
Other retail	32	54	68.8
Car parking	47	143	204.3
Other services	38	102	168.4
Total retail revenue	**217**	**564**	**159.9**

Retail revenue increased by 159.9% driven by higher departing passengers, car parking revenue, terminal drop off, premium services and the mix of retail services available in 2022, compared to last year when governmental restrictions on non-essential shops were in place for the first five months of the year. Retail revenue per passenger decreased 18.1% to £9.16 (2021: £11.19).

Year ended 31 December	2021 £m	2022 £m	Var. %
Other regulated charges	297	247	(16.8)
Heathrow Express	26	92	253.8
Property and other	120	131	9.2
Total other revenue	**443**	**470**	**6.1**

Other revenue increased by 6.1%. The decrease of 16.8% in other regulated charges (ORCs) is mainly due to 2021 ORC revenue being impacted by the brought forward under-recovery from prior periods, which was recouped through the Airport Cost Recovery Charge. This was not applicable in 2022. It was partially offset by higher ORCs due to an increase in passengers on baggage, hold baggage system and passengers requiring support. The significant increase in Heathrow Express revenue is distorted by the lower level of services in 2021 due to the lockdown. Property and other revenue increased 9.2%.

Adjusted operating costs

Adjusted operating costs increased 48.1% to £1,229 million (2021: £830 million). Adjusted operating costs per passenger decreased by 53.4% to £19.96 (2021: £42.80). The adjusted operating costs per passenger is largely distorted by the fixed nature of our cost base as we saw lower passenger numbers in the prior year.

Year ended 31 December	2021 £m	2022 £m	Var. %
Employment	256	378	47.7
Operational	197	331	68.0
Maintenance	133	180	35.3
Rates	119	116	(2.5)
Utilities and Other	125	224	79.2
Adjusted operating costs	**830**	**1,229**	**48.1**

Employment costs have increased by 47.7% due to the ramp-up of operations, mainly in Terminal 3 and Terminal 4. This includes costs associated with additional colleagues, overtime, recruitment and training. We are also spending more on employment costs following the end of the Government's furlough scheme. For the full year ended 31 December 2021, Government grants of £21 million were received for reimbursement of employee costs relating to staff furloughed due to COVID-19. Following the end of the scheme in September 2021, no equivalent payments were received in the full year ended 31 December 2022. The rise in operational and maintenance is mainly due to the full reopening of operations across the year, higher inflation and service quality rebates paid. Finally, utilities and other costs have been impacted by higher consumption and higher energy prices.

Operating (loss)/profit and Adjusted EBITDA

For the year ended 31 December 2022, the Group recorded an operating profit of £859 million (2021: £270 million loss). The increase in operating profit was mainly driven by higher revenue .

Adjusted EBITDA increased 338.5% to £1,684 million (2021: £384 million), resulting in an Adjusted EBITDA margin of 57.8% (2021: 31.6%).

Year ended 31 December	2021 £m	2022 £m
Operating (loss)/profit	(270)	859
Depreciation and amortisation	797	770
EBITDA	527	1,629
Exclude:		
Exceptional items[(1)]	31	(14)
Fair value (gain)/loss on investment properties	(174)	69
Adjusted EBITDA	**384**	**1,684**

(1) Please see exceptional items section for further information.

Exceptional Items

For the year ended 31 December 2022, there was a gain on exceptional items of £14 million (2021: £31 million loss).

Year ended 31 December	2021 £m	2022 £m
Asset impairment and write-off	(31)	-
Impairment reversal	-	14
(Loss)/gain on exceptional items after tax	**(31)**	**14**

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

(Loss)/profit after tax

For the year ended 31 December 2022, the Group recorded a profit before tax of £169 million (2021: £1,792 million loss) and a profit after tax of £114 million (2021: £1,613 million loss).

Year ended 31 December	2021 £m	2022 £m
Operating (loss)/profit	(270)	859
Net finance costs before certain re-measurements	(857)	(1,598)
Fair value (loss)/gain on financial instruments	(665)	908
(Loss)/profit before tax	(1,792)	169
Taxation credit / (charge)	179	(55)
(Loss)/profit after tax	**(1,613)**	**114**

Net finance costs before certain re-measurements increased to £1,598 million (2021: £857 million), driven by additional inflation accretion expense as the RPI annual growth rate reached 14.0% as published in December 2022, up from 7.1% as published in December 2021.

Fair value gains on financial instruments were £908 million (2021: £665 million loss), resulting from increased volatility in financial markets, in particular at the end of Q3 following the UK Government's minibudget announcement, and a sharp rise in interest rate expectations in the UK. As interest rates increased during the period and the group uses overnight index swap (OIS) rates as the underlying basis for discounting the derivative and hedging instruments, this also resulted in substantial fair value gains through the income statement and lower present values on the derivative swaps portfolio valuations.

Taxation

The total tax charge for the Group for the year ended 31 December 2022 was £55 million (2021: £179 million credit). This is based on a Group profit before tax of £169 million (2021: £1,792 million loss), which results in an effective tax rate of 32.5% (2021: 10.0%). The total tax charge consists of the following components:

- A tax credit before certain re-measurements and exceptional items for the year ended 31 December 2022 of £119 million (2021: £254 million). Based on a loss before tax, certain re-measurements and exceptional items of £684 million (2021: £1,270 million), this results in an effective tax rate of 17.4% (2021: 20.0%).

  The tax credit for 2022 is less (2021: more) than implied by the statutory rate of 19% (2021: 19%) primarily due to non-deductible expenses reducing the tax credit for the year, offset partly by current year deferred tax movements at the higher 25% tax rate increasing the tax credit for the year (2021: some of the current year deferred tax movements at the higher 25% tax rate, offset partly by non-deductible expenses reducing the tax credit for the year). The most significant non-deductible expense for the Group relates to depreciation on those assets which do not qualify for capital allowances. This means the Group does not receive tax relief on this expense and so the relative tax credit is lower (or tax charge is higher) as a result.
- A £200 million tax charge (2021: £139 million credit) arising from fair value losses on investment property revaluations and fair value gains on financial instruments.
- A £26 million tax credit (2021: £214 million charge) associated with the impact on deferred tax balances from the substantive enactment of the increase in the corporation tax rate from 19% to 25%, to take effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase has been reflected in the deferred tax balances in the financial statements in 2022 and the prior year.

For the period, the Group paid £1 million in corporation tax (2021: paid £1 million). Due to the exceptional adverse impact of the COVID-19 pandemic, the Group continued to experience significant losses during the year ended 31 December 2022. Therefore, there have been no quarterly instalment payments made in relation to corporation tax for the year ended 31 December 2022.

Cash position

In the year ended 31 December 2022, there was an increase of £69 million in cash and cash equivalents compared with a decrease of £64 million in the year ended 31 December 2021.

At 31 December 2022, the Heathrow SP Group had £1,833 million (31 December 2021: £2,626 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £285 million (31 December 2021: £216 million).

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

Cash generated from operations

For the year ended 31 December 2022, cash generated from operations increased to £1,719 million (2021: £613 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2021 £m	2022 £m
Cash generated from operations	613	1,719
Exclude:		
Impairment	-	(20)
(Decrease)/increase in receivables[(1)]	(283)	57
(Decrease)/increase in inventories	(1)	3
Decrease/(increase) in trade and other payables	66	(89)
Difference between pension charge and cash contributions	(22)	12
Cash payments in respect of exceptional items	11	2
Adjusted EBITDA	**384**	**1,684**

(1) The overall movement in working capital of £218m in 2021 is primarily driven by the unwind of prepayments made in 2020 offset by an increase in trade debtors

Capital expenditure

Total capital expenditure in the year ended 31 December 2022 was £457 million (2021: £289 million) excluding capital creditors movements, which equates to capital additions or, £442 million (2021: £252 million) including capital creditors movements, which equates to purchases in the statement of cash flows.

We have invested £365 million on various programmes to ensure the airport's safety and resilience.

Investment has focused on main tunnel works, design for cargo tunnel refurbishment to ensure fire safety standards are maintained, airport apron development (Kilo taxiway area), back-office systems upgrades and renewal of assets that have come to the end of their economic life.

We also invested £3 million in the period (2021: £5 million) on projects related to expansion. Expansion-related capital expenditure included Category B costs associated with the consent process and early Category C costs predominantly relating to early design costs. Heathrow has invested £383 million in Category B costs and £133 million in Category C costs, equalling £516 million (after £10 million of re-work impairment recognised in 2020). In addition, £16 million of associated capitalised interest is carried in our balance sheet within assets in the course of construction.

Restricted payments

The financing arrangements of the Group and Heathrow Finance plc ("Heathrow Finance") restrict certain payments unless specified conditions are satisfied. These restricted payments include, among other things, payments of dividends, distributions and other returns on share capital, any redemptions or repurchases of share capital, and payments of fees, interest or principal on any intercompany loans. No dividends to ultimate shareholders were made during the year.

For the year ended 31 December 2022, total restricted payments (gross and net) made by Heathrow SP amounted to £1.1 billion (2021: nil). This comprised the payment of interest and principal on the debenture between Heathrow SP and Heathrow Finance. This rebalanced liquidity across the Group, leaving Heathrow Finance with £1.2 billion of liquidity at year end.

RECENT FINANCING ACTIVITY

In the year ended 31 December 2022, we raised £546 million of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio.

Class A financing activities included:-

- £200 million of new private placement debt across 20-year and 30-year tranches;
- the scheduled repayment of a £180 million RPI-linked bond in April;
- a return to the CHF market in May, raising £136 million equivalent maturing in 2027;
- the scheduled repayment of a €600 million public bond in May;
- in August, we priced £60 million of new debt in the private placement market with a maturity of 2047;
- the successful refinancing of our Revolving Credit Facility in September at a size of £1.39 billion, up from £1.15 billion previously; and
- £150 million of new debt in October across 10-year and 30-year tranches.

During the year, £650 million of new interest rate swaps and extensions on existing swaps were executed to provide headroom to our fixed rate hedging requirements, with tenors between 10 and 18 years. Early paydowns of accretion on our inflation swaps totalling £490 million were also made during the year.

FINANCING POSITION

Debt and liquidity at Heathrow (SP) Limited

At 31 December 2022, Heathrow SP's consolidated nominal net debt was £14,579 million (31 December 2021: £13,332 million). It comprised £14,053 million in bond issues, £1,580 million in other term debt, £726 million in index-linked derivative accretion and £53 million of additional lease liabilities post transition to IFRS 16. This was offset by £1,833 million in cash and cash equivalents and term deposits. Nominal net debt comprised £12,447 million in senior net debt and £2,132 million in junior debt.

The average cost of Heathrow SP's nominal gross debt as at 31 December 2022 was 3.64% (31 December 2021: 1.25%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. The increase was due to rising interest rates and the benefit from the swap reprofiling exercise having now ended. Including index-linked accretion, Heathrow SP's average cost of debt at 31 December 2022 was 10.53% (31 December 2021: 3.64%). The increase in the average cost of debt since the end of 2021 is largely due to a recent increase in the inflation rate, which led to a higher accrual of accretion on our inflation linked debt and swap portfolio versus the comparable period.

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

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

The Group has sufficient liquidity to meet its base case cash flow into the start of 2026. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments. This liquidity position takes into account £2,990 million in cash resources across the wider Heathrow Group as well as undrawn revolving credit facilities of £1,386 million at 31 December 2022.

Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,786 million (31 December 2021: £15,440 million). This comprised Heathrow SP's £14,579 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £1,157 million.

Financial ratios

At 31 December 2022, Heathrow SP and Heathrow Finance continue to operate within the required financial ratios from the common terms agreement. Heathrow Finance's gearing ratio has now returned below pre-pandemic levels. Gearing ratios and interest coverage ratios are defined within the Glossary.

At 31 December 2022, Heathrow's RAB was £19,182 million (31 December 2021: £17,474 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.9% and 76.0% respectively (31 December 2021: 64.6% and 76.3% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 82.3% (31 December 2021: 88.4%) with a covenant of 92.5%.

In the year ended 31 December 2022, the Group's senior and junior interest cover ratios were 10.97x and 6.97x respectively (2021: 10.36x and 3.15x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 4.44x (2021: 1.37x) compared to a covenant level of 1.00x under its financing agreements.

CLIMATE CHANGE

Climate change will have a significant impact on the aviation industry and Heathrow in the years to come and we have both a moral responsibility to continue to be ambitious in our endeavours to take carbon out of flying, as well as a responsibility to minimise risk to the business in the long-term. As part of our work over Taskforce for Climate Related

Financial Disclosures ('TCFD') as described in our Annual Report and Financial Statements, we have considered our transition risks and ensured that are factored fully and consistently into our future financial long-term forecasts for those areas of the balance sheet whose recoverability is assessed based on expected future cash flows, including property, plant and equipment, expansion assets in the course of construction, intangible assets, investment properties and deferred tax assets. In addition, we have ensured that the useful economic lives of our existing assets are appropriate, particularly with regard to the physical risks identified in TCFD as well as with regard to our recently published net zero sustainability strategy as described in our Annual Report and Financial Statements.

PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 31 December 2022, the defined benefit pension scheme, as measured under IAS 19, was funded at 96.3% (31 December 2021: 107.6%). This translated into a deficit of £104 million (31 December 2021: £343 million). The £447 million decrease in the surplus in the year is largely due to actuarial losses of £464 million, attributable to a loss on assets which outstripped actuarial gains on scheme liabilities resulting from a 2.90% increase in discount rate and a 0.10% reduction in inflation assumptions; experience losses in allowing for actual inflation in 2022; service costs of £18 million offset by finance income of £6 million; and, contributions paid in the year. In the year ended 31 December 2022, we contributed £29 million (2021: nil) into the defined benefit pension scheme including £15 million (2021: nil) in deficit repair contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks. Further details can be found in Note 10.

KEY MANAGEMENT CHANGES

On 2nd February 2023, John Holland-Kaye announced his intention to step down as CEO of Heathrow and as an Executive Director of the HAHL Board during 2023. A process to appoint a new CEO has been commenced by the HAHL Board.

OUTLOOK

The performance outlook for 2023 remains consistent with the forecasts published in our Investor Report on 16 December 2022. We will continue to monitor performance and provide a further update in our Q1 results in April.

SUMMARY OF ADDITIONAL DISCLOSURES

Publication of Documents Incorporated by Reference - The following documents, which are incorporated by reference in a prospectus which has been approved by the Financial Conduct Authority on 25 November 2022 and published by Heathrow Funding Limited (the Issuer) in connection with the multicurrency programme for the issuance of bonds by the Issuer (the Prospectus), are available for viewing.

Full RNS available here: https://www.londonstockexchange.com/news-article/market-news/documents-incorporated-by-reference/15732069

Publication of a Prospectus - The following prospectus (the "Prospectus") has been approved by the Financial Conduct Authority and is available for viewing: Prospectus dated 25 November 2022 relating to the multicurrency programme for the issuance of bonds by Heathrow Funding Limited.

Full RNS available here: Publication of a Prospectus - 14:51:32 25 Nov 2022 - News article | London Stock Exchange

Condensed consolidated income statement for the year ended 31 December 2022

		Year ended 31 December 2022				Year ended 31 December 2021			
		Before certain re-measurements and exceptional items (1)	Certain re-measurements (2)	Exceptional items (3)	Total	Before certain re-measurements and exceptional items (1)	Certain re-measurements (2)	Exceptional items (3)	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations									
Revenue	1	2,913	-	-	2,913	1,214	-	-	1,214
Operating costs (4)	2	(1,999)	-	14	(1,985)	(1,627)	-	(31)	(1,658)
Other operating items:									
Fair value (loss)/gain on investment properties	7	-	(69)	-	(69)	-	174	-	174
Operating profit/(loss)		**914**	**(69)**	**14**	**859**	(413)	174	(31)	(270)
Financing									
Finance income		34	-	-	34	7	-	-	7
Finance costs		(1,632)	908	-	(724)	(864)	(665)	-	(1,529)
Net finance costs	4	**(1,598)**	**908**	**-**	**(690)**	(857)	(665)	-	(1,522)
(Loss)/profit before tax		**(684)**	**839**	**14**	**169**	(1,270)	(491)	(31)	(1,792)
Taxation credit/(charge)		119	(200)	-	(81)	254	139	-	393
Change in tax rate		-	26	-	26	-	(214)	-	(214)
Taxation credit/(charge)	5	**119**	**(174)**	**-**	**(55)**	254	(75)	-	179
(Loss)/profit for the year (5)		**(565)**	**665**	**14**	**114**	(1,016)	(566)	(31)	(1,613)

(1) Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
(3) Exceptional items are one-off material or unusual non-recurring impairment reversals relating to previously raised impairment charges.
(4) Included within Operating costs is a £4 million credit (2021: £3 million charge) for the impairment of trade receivables.
(5) Attributable to owners of the parent.

Condensed consolidated statement of comprehensive income for the year ended 31 December 2022

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) for the period	**114**	(1,613)
Items that will not be subsequently reclassified to the consolidated income statement:		
Actuarial (loss)/gain on pensions net of tax:		
(Loss)/gain on plan assets[(1)]	**(1,582)**	141
Decrease in scheme liabilities[(1)]	**1,239**	125
Change in tax rate	-	(1)
Items that may be subsequently reclassified to the consolidated income statement:		
Cash flow hedges net of tax:		
Gains taken to equity[(1)]	**11**	18
Transfer to net finance costs[(1)]	**59**	38
Change in tax rate	**-**	12
Change in tax rate on other opening balances	**-**	(4)
Other comprehensive (expense)/income for the period net of tax	**(273)**	329
Total comprehensive expense for the period[(2)]	**(159)**	(1,284)

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

Condensed consolidated statement of financial position as at 31 December 2022

	Note	31 December 2022 £m	31 December 2021 £m
Assets			
Non-current assets			
Property, plant and equipment	*6*	10,380	10,654
Right of use asset		279	270
Investment properties	*7*	2,230	2,297
Intangible assets		194	156
Retirement benefit surplus	*10*	-	343
Derivative financial instruments	*9*	1,145	421
Trade and other receivables		29	23
		14,257	14,164
Current assets			
Inventories		16	13
Trade and other receivables		270	201
Current income tax assets		4	3
Derivative financial instruments	*9*	1	25
Term deposits		1,548	2,410
Cash and cash equivalents		285	216
		2,124	2,868
Total assets		**16,381**	17,032
Liabilities			
Non-current liabilities			
Borrowings	*8*	(17,456)	(18,341)
Derivative financial instruments	*9*	(2,436)	(2,225)
Lease liabilities		(341)	(331)
Deferred income tax liabilities		(671)	(706)
Retirement benefit obligations	*10*	(126)	(30)
Provisions		(1)	(1)
Trade and other payables		(4)	(3)
		(21,035)	(21,637)
Current liabilities			
Borrowings	*8*	(997)	(1,008)
Derivative financial instruments	*9*	(40)	(19)
Lease liabilities		(37)	(40)
Provisions		(2)	(4)
Trade and other payables		(470)	(365)
		(1,546)	(1,436)
Total liabilities		**(22,581)**	(23,073)
Net liabilities		**(6,200)**	(6,041)
Equity			
Capital and reserves			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(35)	(105)
Accumulated losses		(2,917)	(2,688)
Total shareholder's equity		**(6,200)**	(6,041)

Condensed consolidated statement of changes in equity for the year ended 31 December 2022

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Accumulated losses £m	Total equity £m
1 January 2021	11	499	(3,758)	(173)	(1,336)	(4,757)
Comprehensive income:						
Loss for the period	-	-	-	-	(1,613)	(1,613)
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	56	-	56
Change in tax rate	-	-	-	12	-	12
Actuarial gain/(loss) on pension net of tax:						
Gain on plan assets	-	-	-	-	141	141
Decrease in scheme liabilities	-	-	-	-	125	125
Change in tax rate	-	-	-	-	(1)	(1)
Change in tax rate on other opening balances	-	-	-	-	(4)	(4)
Total comprehensive income/(expense)	-	-	-	68	(1,352)	(1,284)
31 December 2021	11	499	(3,758)	(105)	(2,688)	(6,041)
Comprehensive income:						
Profit for the period	-	-	-	-	114	114
Other comprehensive income/(expense):						
Fair value gain on cash flow hedges net of tax	-	-	-	70	-	70
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,582)	(1,582)
Increase in scheme liabilities	-	-	-	-	1,239	1,239
Total comprehensive income/(expense)	**-**	**-**	**-**	**70**	**(229)**	**(159)**
31 December 2022	**11**	**499**	**(3,758)**	**(35)**	**(2,917)**	**(6,200)**

Condensed consolidated statement of cash flows for the year ended 31 December 2022

	Note	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Cash flows from operating activities			
Cash generated from operations[1]	11	1,719	613
Taxation:			
Corporation tax paid		(1)	(1)
Group relief received		1	-
Net cash generated from operating activities		**1,719**	612
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		(440)	(248)
Investment properties		(2)	(4)
Proceeds on disposal of:			
Property, plant and equipment		-	14
Decrease in term deposits[2]		862	826
Interest received		15	7
Net cash generated from investing activities		**435**	595
Cash flows from financing activities			
Proceeds from issuance of bonds		196	1,582
Repayment of bonds		(732)	(1,119)
Repayment of facilities and other financing items		(1)	(1,590)
Issuance of term notes		350	50
(Decrease)/increase in amount owed to Heathrow Finance plc[3]		(932)	166
Interest[4]		(389)	(258)
Settlement of accretion on index-linked swaps		(44)	(69)
Early settlement of accretion on index-linked swaps[5]		(490)	-
Payment of lease liabilities[1]		(43)	(33)
Net cash used in financing activities		**(2,085)**	(1,271)
Net increase/(decrease) in cash and cash equivalents		**69**	(64)
Cash and cash equivalents at beginning of year		216	280
Cash and cash equivalents at end of year		**285**	216

(1) Cash generated from operations and payment of lease liabilities in 2021 are impacted by the unwind of the prepayments made by the Group in December 2020 to manage banking covenant ratios.

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

(3) The change in amounts owed to Heathrow Finance plc includes £67 million (2021: £166 million) of interest capitalised on the Debenture.

(4) Includes £17 million of lease interest paid (2021: £16 million), £110 million of interest paid under the Debenture payable to Heathrow Finance plc (2021: nil) and £67 million interest capitalised on Debenture (2021: £166 million).

(5) The Group has elected to early pay £490 million of accrued accretion, which were due to be settled within the next 4 years in line with the liquidity profile assessment of the Group

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

General information

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

Primary financial statements format

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

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

Accounting policies

Basis of preparation

The Group's financial statements comply in accordance with UK adopted international accounting standards and are prepared under the historic cost convention, except for investment properties, financial assets, derivative financial instruments and financial liabilities that qualify as hedged items under fair value hedge accounting. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

The financial statements for the year ended 31 December 2022 have been prepared on a basis consistent with that applied in the preparation of the financial statements for the year ended 31 December 2021 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 these consolidated financial statements on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Background

Heathrow is economically regulated by the CAA which controls Heathrow's maximum airport charges. On 1 January 2022 the H7 price control period commenced, running to 31 December 2026, without the CAA having made a final decision on charges. Further details of the latest developments are included on page 6 of these consolidated financial statements. The CAA's Final Proposals, published on 28 June 2022, provide an average H7 tariff of £24.14 in 2020 prices, with a final decision on the H7 settlement expected in March 2023. Until the H7 settlement is finalised, the CAA has put in place an interim tariff (the '2023 Interim Tariff') from 1 January 2023 of £31.57 in nominal terms. In arriving at the average H7 tariff in its Final Proposals, the CAA has considered a set of assumptions such as higher passenger numbers, lower operating costs and higher commercial revenues versus those forecast by the Group, which leads to a lower tariff than the Group thinks is appropriate. Whilst the H7 Final Proposals contain proposals for a new traffic risk sharing mechanism and other mechanisms to deal with asymmetric risk and cost uncertainty, they would not fully protect against lost cash flows and would lead to partial recovery of lost revenue over time. The combination of lower traffic and regulatory uncertainty led to Standard & Poor's placing the Group's Class A and Class B debt on CreditWatch negative during Q1 2022.

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 these consolidated financial statements on a going concern basis.

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

The Group's Q3 Press Release published on 26 October 2022 was prepared on a basis of going concern with material uncertainty. Since then, the Group has experienced strong passenger number growth in Q4 2022, reaching 87% of Q4 2019 levels. It is this growth and the significantly increased confidence that it provides over covenant compliance in future periods that underpinned the Directors decision to prepare the 2022 Annual Report and Financial Statements on a going concern basis with the absence of material uncertainty.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

Base case

Whilst Heathrow SP operates as an independent securitised group, the Directors have considered the wider group when assessing going concern. In assessing the going concern position, the Directors have considered the regulatory uncertainty described above, as well as the potential impact of any further COVID-19 impacts on cash flow, liquidity and debt covenant compliance over the next 12 months. The Directors have also considered the period beyond 12 months to December 2024. Specifically, the Directors have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on 2023 and 2024 traffic forecasts of 67.2 million and 69.8 million respectively.
- Forecast level of capital expenditure based on H7 plans proposed by the CAA.
- The overall Group liquidity position including cash resources, the remaining committed 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 through 2022; Q1 passenger numbers were at 54% of 2019 levels, compared with 87% in Q4. In total, 61.6 million passengers travelled through the airport in 2022, compared with 19.4 million in 2021. Despite a high-inflationary economic environment, impacting the cost-of-living of passengers, demand has remained strong. Management's base case uses passenger forecasts of 67.2 million for 2023, equating to 83% of 2019 passenger levels.

Base case tariffs

The base case uses the CAA's Interim Tariff for the entirety of 2023, with a 2024 nominal tariff of £28.43 based on the methodology set out by the CAA in their Final Proposals. Under the base case, the Group will meet all covenants associated with its financial arrangements.

Base case cash flow and liquidity

The wider Heathrow Group can raise finance at both Heathrow SP Limited ('Heathrow SP') and Heathrow Finance plc ('Heathrow Finance'). Despite a continued challenging market, confidence and support for the Group's credit enabled Heathrow to raise £0.55 billion of debt in the 12 months to 31 December 2022 with £410 million of class A private placement transactions and a CHF165 million Class A public transaction being successfully executed. The Group also refinanced its Revolving Credit Facility in Q4, increasing to £1.39 billion and extending the maturity to 2026. Consequently, Heathrow SP held cash of £1.8 billion as at 31 December 2022. Total debt maturity within Heathrow SP for the next 12 months from 31 December 2022 is £0.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £3.0bn available at 31 December 2022. Taking this into account, the Group has sufficient liquidity to meet its base case cash flow needs into the start of 2026. 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 these consolidated financial statements. In considering a severe but plausible downside, the Directors have considered the inherent judgement in forecasting future passenger numbers, particularly in a highly inflationary economic environment impacting the disposal income of passengers; and the resultant impact of the CAA's H7 Final Proposals on cash flow generation, liquidity and debt covenant compliance.

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

The tariff assumptions remain the same as in the base case as this is derived from the CAA's Final Proposals. Whilst there is a risk, the Directors consider it unlikely that the CAA's Final Decision will see tariffs below those in the Final Proposals. The CAA confirmed on 1 February 2023 that the 2023 Interim Tariff will remain in place for the remainder of 2023.

Whilst deemed unlikely, the Directors have also assumed that the Group would be unable to access debt markets for any new funding, due to the risk of credit downgrade in this severe but plausible downside scenario.

Under this scenario, the Group has sufficient liquidity to meet all forecast cash flow needs until July 2025, with no breach of its covenants in the period to December 2024.

Reverse stress testing

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 2023. 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 13 million (19.3%) to 54.1 million; and for there to be an ICR covenant breach at Heathrow Finance plc, forecast passenger numbers would need to decrease by nearly 15 million (22.3%) to 52.6 million. 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 based on the recovery experienced through 2022.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

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 approved date of these consolidated financial statements and that it is accordingly appropriate to adopt a going concern basis with no material uncertainty for the preparation of these results.

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

The accounting policies applied by the Group in these financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 December 2021, with the exception of the following:

Cost of hedging

The Group has applied IFRS 9 'Cost of Hedging' principles prospectively from 1 January 2022 for the fair value movement of all hedging instruments, whereby the movements will be recognised within the equity, to the extent that they relate to the hedged item.

New IFRS accounting standards and interpretations adopted in the period

There have been no new standards, interpretations and amendments, issued by the IASB or by the IFRS Interpretations Committee (IFRIC), that are applicable for the period commencing on 1 January 2022 that have had a material impact on the Group's results.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

Significant accounting judgements and changes in estimates

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

Critical judgments in applying the Group's accounting policies

In preparing twelve-month condensed consolidated financial information, the areas where judgement has been exercised by Directors in applying the Group's accounting policies remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 2021.

Going concern

The impact of post-pandemic recovery and regulatory uncertainty on the going concern assessment was considered in some detail. Further information can be found within the 'Basis of preparation' section above.

Expansion assets

IAS 16 Property, Plant & Equipment requires it to be probable that future economic benefits associated with an item will flow to the entity for an item to be capitalised. The Directors have considered the impact of the delay to Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement) and the potential impact of COVID-19 on long term passenger demand and the impact of climate change and have concluded that expansion remains probable.

The policy and regulatory frameworks required to expand Heathrow remain in place. In December 2020, the Supreme Court unanimously ruled that the policy framework governing Expansion – the Airports National Policy Statement ('ANPS') – is lawful UK Government policy. In addition, following third-party requests to review the ANPS, on 6 September 2021, the Secretary for State for Transport concluded that it was not appropriate to review at this time. On 26 May 2022, the Department of Transport published its paper 'Flightpath to the future: a strategic framework for the aviation sector', in which it reaffirmed that the Airports National Policy Statement continues to have full effect and that the UK Government remains supportive of airport expansion where it can be delivered within environmental obligations. Furthermore, the CAA continues to support Expansion on the basis that they believe it furthers the interests of consumers.

COVID-19 has created uncertainty of when passenger demand will recover to pre-pandemic levels, however Management's current long-term passenger modelling still supports the business case. Long-term passenger forecasts are continually reviewed by Management and the Board, which still support the fact that Expansion would be affordable and financeable. This explains why, following Board approval as well as consultation with our airline community and the CAA, we reopened our Interim Property Hardship Scheme in May 2021 and continue to engage with our local communities.

In order to obtain planning consent for the third runway, we will have to demonstrate that expanding Heathrow is compatible with the UK's climate change obligations, including the Paris Climate Agreement. The Government has made decarbonising aviation a central part of its green growth agenda, through wider use of Sustainable Aviation Fuel as well as new technology, and such widespread innovation is incorporated into our long-term forecasting.

The Directors have carefully considered the risks to Expansion, particularly future demand recovery following COVID-19 in addition to climate change risk on long-term passenger numbers, the legislative and regulatory environment, and any likely financeability risks. We still consider Expansion as a probable outcome. The Directors will continue to test this judgement as we formalise next steps with investors, Government, airline customers, local communities and regulators. These next steps include the continued validation of the underlying business case (traffic demand and pricing proposition); ensuring a fair and stable economic regulatory framework; the confirmation or a review of the ANPS by the Secretary of State for Transport; and continued assessment and demonstration that expansion is compatible with the UK's climate change obligations.

As at 31 December 2022, £516 million of Expansion-related assets in the course of construction, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission, and £16 million of allocated capitalised interest are recognised on the balance sheet. The ability to recognise the majority of these assets is supported by the view that Expansion remains probable, and any future change to this critical judgement would result in an impairment of these assets. Management has also considered whether there is any obsolescence associated with the continued programme delay. Any obsolescence is likely isolated to potential areas of exploratory groundwork rework, as well as any rework caused by subsequent changes in planning laws or regulations. In 2020, £10 million of impairment was recognised associated with future rework, and the judgements and assumptions utilised in this assessment did not change in 2021 and have not changed in the current period, with no further impairment recognised.

Key sources of estimation uncertainty

In preparing the twelve-month condensed consolidated financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 2020.

In preparing the twelve-month condensed consolidated financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 2021 with the exception of the following update:

Loss given default and assumed recovery rates

Accounting standards require that the fair value of financial instruments reflect their credit quality, and also the assumed recovery rate which then implies a loss given default rate. The credit risk associated with the Group's derivatives is updated monthly based on current market data, and industry standard default rates. However certain derivatives are ranked higher in the waterfall priority payments schedule such as interest rate swaps and inflation linked swaps and therefore apply a super senior recovery rate of 85% (31 December 2021: 87%).

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

1. SEGMENT INFORMATION

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

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

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

Table (a)	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 (*restated*) £m
Segment revenue		
Aeronautical		
Movement charges [(1)]	673	239
Parking charges	86	57
Passenger charges [(1)]	1,120	258
Total aeronautical revenue	1,879	554
Other regulated charges	247	297
Retail services revenue	564	217
Property revenue	27	13
Property (lease-related income)	102	103
Rail Income		
Heathrow Express	92	26
Other	2	4
Total revenue	**2,913**	1,214
Heathrow Airport	*2,821*	*1,188*
Heathrow Express	*92*	*26*
Adjusted EBITDA	1,684	384
Heathrow Airport	*1,646*	*395*
Heathrow Express	*38*	*(11)*
Reconciliation to statutory information:		
Depreciation and amortisation	(770)	(797)
Operating profit/(loss) (before certain re-measurements and exceptional items)	**914**	(413)
Exceptional items	14	(31)
Fair value (loss)/gain on investment properties (certain re-measurements)	(69)	174
Operating profit/(loss)	**859**	(270)
Finance income	34	7
Finance costs	(724)	(1,529)
Profit/(loss) before tax	**169**	(1,792)

(1) In the prior year, £128 million of revenue for passenger charges was incorrectly categorised as movement charges. This caused passenger charges and movement charges to be equally understated and overstated respectively. These balances for 31 December 2021 have been restated for comparative purposes in the annual report and financial statements for the year ended 31 December 2022.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Property income charged in advance	10	7
Retail and other income charged in advance	10	30
Total	**20**	37

All unsatisfied performance obligations at 31 December 2021 were satisfied during 2022 and are included within total revenue for the year. Management expects that the transaction price allocated to the unsatisfied contracts as of the year ended 2022 will be recognised as revenue in full during the next reporting period.

Table (c)	Year ended 31 December 2022		Year ended 31 December 2021	
	Depreciation & amortisation [1] £m	Fair value loss [2] £m	Depreciation & amortisation [1] £m	Fair value gain [2] £m
Heathrow Airport	(738)	(69)	(764)	174
Heathrow Express	(32)	-	(33)	-
Total	**(770)**	**(69)**	(797)	174

(1) Includes intangible amortisation charge of £41 million (year ended 31 December 2021: £37 million).
(2) Reflects fair value gain and loss on investment properties only.

Table (d)	31 December 2022		31 December 2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow Airport	12,557	(454)	12,750	(346)
Heathrow Express	562	(23)	594	(27)
Total operations	**13,119**	**(477)**	13,344	(373)
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	1,833	(15,869)	2,626	(15,819)
Retirement benefit assets/(obligations)	-	(126)	343	(30)
Derivative financial instruments	1,146	(2,476)	446	(2,244)
Deferred and current tax assets/(liabilities)	4	(671)	3	(706)
Amounts owed to group undertakings	-	(2,584)	-	(3,530)
Right of use asset and lease liabilities	279	(378)	270	(371)
Total	**16,381**	**(22,581)**	17,032	(23,073)

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

2. OPERATING COSTS

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Employment [1]	378	256
Operational[2]	331	197
Maintenance	180	133
Rates	116	119
Utilities	105	59
Other	119	66
Total operating costs before depreciation and amortisation	**1,229**	830
Depreciation and amortisation:		
Property, plant and equipment	688	720
Intangible assets	41	37
Right of Use (RoU) assets	41	40
	770	797
Operating costs before exceptional items	**1,999**	1,627
Exceptional items (note 3)	(14)	31
Total operating costs	**1,985**	1,658

(1) In 2021, government grants of £21 million were received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. The grants received are included within the wages and salaries line above and reduce the total expense recognised in the year. No amounts were received in 2022 following closure of the scheme in September 2021.

(2) £4 million was received through the Airport and Ground Operations Support Scheme (year ended 31 December 2021: £11 million) which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants.

3. EXCEPTIONAL ITEMS

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Asset impairment and write-off	-	(31)
Impairment reversal	14	-
Gain/(loss) on exceptional items after tax	**14**	(31)

Year ended 31 December 2022 exceptional items

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

Year ended 31 December 2021 exceptional items

As a consequence of the impact of the COVID-19 pandemic, the Group has recognised a non-cash impairment and write-off charge of £24 million on assets in the course of construction and £7 million on intangible assets. A number of partially complete projects have been placed on hold, some of which are unlikely to be restarted in the foreseeable future or are unlikely to be restarted without material changes to the original proposed design. Costs incurred to date on these projects have been impaired.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

4. FINANCING

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Finance income		
Interest on deposits	28	7
Net pension finance income	6	-
Total finance income	34	7
Finance costs		
Interest on borrowings:		
Bonds and related hedging instruments (1)	(803)	(609)
Bank loans, overdrafts and unwind of hedging reserves	(64)	(60)
Net interest expense on external derivatives not in hedge relationship (2)	(623)	5
Facility fees and other charges	(4)	(9)
Net pension finance costs	-	(1)
Interest on debenture payable to Heathrow Finance plc	(165)	(184)
Finance cost on lease liabilities	(17)	(16)
	(1,676)	(874)
Less: capitalised borrowing costs (3)	44	10
Total finance costs	(1,632)	(864)
Net finance costs before certain re-measurements	**(1,598)**	(857)
Certain re-measurements **Fair value gain/(loss) on financial instruments**		
Interest rate swaps: not in hedge relationship	266	(102)
Index-linked swaps: not in hedge relationship	660	(529)
Cross-currency swaps: not in hedge relationship (4), (5)	(31)	(15)
Ineffective portion of cash flow hedges (5)	20	(10)
Ineffective portion of fair value hedges (5)	(11)	(9)
Foreign exchange contracts	4	-
	908	(665)
Net finance costs	**(690)**	(1,522)

(1) Includes accretion of £260 million for year ended 31 December 2022 (year ended 31 December 2021: £111 million) on index-linked bonds.
(2) Includes accretion of £931 million for year ended 31 December 2022 (year ended 31 December 2021: £318 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 5.72% (year ended 31 December 2021: 1.91%) to expenditure incurred on such assets.
(4) Includes foreign exchange retranslation gain on the currency bonds of £6 million (2021: £7 million gain) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
(5) The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

5. TAXATION (CHARGE)/CREDIT

	Year ended 31 December 2022			Year ended 31 December 2021		
	Before certain re-measurements and exceptional items £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Total £m
UK corporation tax:						
Current tax credit/(charge) at 19% (2021: 19%)	1	(1)	-	4	(2)	2
Overprovision in respect of prior years	1	-	1	-	-	-
Deferred tax:						
Current year credit/(charge)	114	(199)	(85)	251	141	392
Prior year credit/(charge)	3	-	3	(1)	-	(1)
Change in tax rate	-	26	26	-	(214)	(214)
Taxation credit/(charge)	**119**	**(174)**	**(55)**	**254**	**(75)**	**179**

The total tax charge recognised for the year ended 31 December 2022 was £55 million (2021: £179 million tax credit) on a profit before tax for the year ended 31 December 2022 of £169 million (2021: £1,792 million loss).

The tax credit before certain re-measurements for the year ended 31 December 2022 was £119 million (2021: £254 million). Based on a loss before tax, certain re-measurements and exceptional items of £684 million (2021: £1,270 million), this results in an effective tax rate of 17.4% (2021: 20.0%). The tax credit for 2022 is less (2021: more) than implied by the statutory rate of 19% (2021: 19%) primarily due to non-deductible expenses reducing the tax credit for the year, offset partly by current year deferred tax movements at the 25% tax rate (2021: some of the current year deferred tax movements at the 25% tax rate, offset partly by non-deductible expenses reducing the tax credit for the year).

In addition, there was a £200 million tax charge (2021: £139 million tax credit) arising from fair value losses on investment property revaluations and fair value gains on financial instruments, along with a £26 million tax credit (2021: £214 million tax charge) associated with the impact on deferred tax balances of the substantive enactment of the increase in the corporation tax rate from 19% to 25%, to take effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

Due to the exceptional adverse impact of the COVID-19 pandemic, the Group continued to experience significant losses during the year ended 31 December 2022. Therefore, there have been no quarterly instalment payments made in relation to corporation tax for the year ended 31 December 2022.

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

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

6. PROPERTY, PLANT AND EQUIPMENT

	Terminal complex	Airfields	Plant and equipment	Other land and buildings	Rail	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 2021	12,207	2,067	1,061	296	1,407	1,103	18,141
Additions	-	-	-	-	-	285	285
Borrowing costs capitalised	-	-	-	-	-	10	10
Disposals	(2)	-	(2)	(1)	(174)	-	(179)
Capital write-offs	-	-	-	-	-	(24)	(24)
Transfer from investment properties	-	-	-	-	-	(1)	(1)
Transfer to intangible assets	-	-	-	-	-	(18)	(18)
Reclassification	-	-	-	29	-	(29)	-
Transfer to completed assets	71	(14)	44	48	-	(149)	-
31 December 2021	12,276	2,053	1,103	372	1,233	1,177	18,214
Additions	**-**	**-**	**-**	**-**	**-**	**455**	**455**
Impairment charge	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Impairment reversals	**-**	**-**	**-**	**-**	**-**	**14**	**14**
Capital write-offs	**-**	**-**	**-**	**-**	**-**	**(16)**	**(16)**
Borrowing costs capitalised	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Disposals	**(128)**	**(28)**	**(17)**	**(4)**	**(1)**	**-**	**(178)**
Transfer to intangible assets	**-**	**-**	**-**	**-**	**-**	**(79)**	**(79)**
Transfer to completed assets	**44**	**60**	**26**	**2**	**9**	**(141)**	**-**
31 December 2022	**12,192**	**2,085**	**1,112**	**370**	**1,241**	**1,450**	**18,450**
Depreciation							
1 January 2021	(5,120)	(553)	(568)	(108)	(656)	-	(7,005)
Depreciation charge	(497)	(59)	(94)	(21)	(49)	-	(720)
Disposals	2	-	2	1	160	-	165
31 December 2021	**(5,615)**	**(612)**	**(660)**	**(128)**	**(545)**	**-**	**(7,560)**
Depreciation charge	**(502)**	**(57)**	**(85)**	**(14)**	**(30)**	**-**	**(688)**
Disposals	**128**	**28**	**17**	**4**	**1**	**-**	**178**
31 December 2022	**(5,989)**	**(641)**	**(728)**	**(138)**	**(574)**	**-**	**(8,070)**
Net book value							
31 December 2022	**6,203**	**1,444**	**384**	**232**	**667**	**1,450**	**10,380**
31 December 2021	6,661	1,441	443	244	688	1,177	10,654

The Regulatory Asset Base (RAB) at 31 December 2022 was £19,182 million (31 December 2021 was £17,474 million).

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

7. INVESTMENT PROPERTIES

	£m
Valuation	
1 January 2021	2,118
Additions	4
Transfers from property, plant and equipment	1
Fair value movements	174
31 December 2021	2,297
Additions	**2**
Fair value movements	**(69)**
31 December 2022	**2,230**

Investment properties valuations are prepared in accordance with the valuation manual issued by the Royal Institution of Chartered Surveyors and appraised by our property management company CBRE Limited, who are independent and have appropriate recognised qualifications and experience in the categories and location of our investment properties being valued.

Management conducts a detailed review of each property to ensure the correct assumptions and inputs have been used. Meetings with the valuers are held on a periodic basis to review and challenge the assumptions used in the valuation techniques, where they are classified into 3 categories as follows:

Level 1 inputs are quoted prices from active markets at the measurement date using relevant information generated by market transactions involving identical or comparable (similar) assets.

Level 2 inputs are other quoted market prices directly or indirectly observable and involve a combination of inputs. The car parks, sites and non-operational land valuations, and residential were generated by a market approach involving similar observable transactions along with land value reversion whilst the other assets were valued using the capitalised income approach incorporating net initial and equivalent yield. Some of the valuation incorporated rent free and void periods where relevant in order to determine the most reasonable valuation.

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 92% (2021: 89%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

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

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 67% (2021: 68%) of the fair value of the investment property portfolio at 31 December 2022. The valuation of maintenance hangers is largely based on long term contractual terms and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

The investment property asset class balance consists of 49% (2021: 49%) car parks, 23% (2021: 23%) airport operations and 28% (2021: 28%) land and others. Level 2 to 3 is split according to the following percentiles respectively: 59% (2021: 59%) and 41% (2021: 41%).

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

8. BORROWINGS

	31 December 2022 £m	31 December 2021 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
1.650%+RPI £180 million due 2022	-	234
1.875% €600 million due 2022	-	507
5.225% £750 million due 2023	747	-
Total current (excluding interest payable)	**747**	741
Interest payable – external	199	203
Interest payable – owed to group undertakings	51	64
Total current	**997**	1,008
Non-current		
Secured		
Heathrow Funding Limited bonds		
5.225% £750 million due 2023	-	732
7.125% £600 million due 2024	598	597
0.500% CHF400 million due 2024	349	326
3.250% C$500 million due 2025	292	294
1.500 % €750 million due 2025	660	625
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	174	170
6.750% £700 million due 2026	696	695
2.650% NOK1,000 million due 2027	79	84
2.694% C$650 million due 2027	396	379
1.810% CHF165 million due 2027	147	-
3.400% C$400 million due 2028	243	233
7.075% £200 million due 2028	199	199
4.150% A$175 million due 2028	91	99
2.625% £350 million due 2028	347	346
2.500% NOK1,000 million due 2029	71	77
2.750 % £450 million due 2029	446	445
1.500% €750 million due 2030	571	656
3.782% C$400 million due 2030	239	235
1.125% €500 million due 2030	437	414
6.450% £900 million due 2031	863	860
3.661% C$500 million due 2031	304	291
Zero-coupon €50 million due January 2032	70	63
1.366%+RPI £75 million due 2032	104	92
Zero-coupon €50 million due April 2032	68	62
1.875% €500 million due 2032	441	418
2.850% + RPI £181.75 million due 2032	218	192
3.726% C$625 million due 2033	386	371
1.875% €650 million due 2034	445	555
4.171% £50 million due 2034	50	50

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

8. BORROWINGS *CONTINUED*

	31 December 2022 £m	31 December 2021 £m
Zero-coupon €50 million due 2034	57	52
0.347%+RPI £75 million due 2035	91	80
0.337%+RPI £75 million due 2036	91	80
1.061%+RPI £180 million due 2036	245	216
0.419%+RPI £51 million due 2038	61	54
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	69	61
Zero-coupon €86 million due 2039	84	78
3.334%+RPI £460 million due 2039	765	679
0.800% JPY1,000 million due 2039	52	64
1.238%+RPI £100 million due 2040	137	121
0.362%+RPI £75 million due 2041	91	80
3.500% A$125 million due 2041	70	67
5.875% £750 million due 2041	739	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
4.702% £60 million due 2047	60	-
1.372%+RPI £75 million due 2049	104	92
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	197	175
Total bonds	**13,346**	13,647
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	200
Term notes due 2026-2052	1,277	928
Unsecured		
Debenture payable to Heathrow Finance plc	2,533	3,466
Total non-current	**17,456**	18,341
Total borrowings (excluding interest payable)	**18,203**	19,082

At 31 December 2022, SP Group consolidated nominal net debt was £14,579 million (2021: £13,332 million). It comprised £14,053 million (2021: £14,327 million) in bond issues, £1,580 million (2021: £1,230 million) in other term debt, £726 million (2021: £381 million) in index-linked derivative accretion and £53 million (2021: £20 million) of additional lease liabilities post transition to IFRS 16. This was offset by £1,833 million (2021: £2,626 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £12,447 million (2021: £11,294 million) in senior net debt and £2,132 million (2021: £2,038 million) in junior debt.

At 31 December 2022, total non-current borrowings due after more than 5 years was £11,177 million (2021: £11,083 million), comprising £9,800 million (2021: £10,055 million) of bonds and £1,377 million (2021: £1,028 million) in bank facilities, excludes lease liabilities.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

Impact of fair value hedge adjustments

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

	31 December 2022		31 December 2021	
	Nominal (1) £m	Fair value adjustment (2) £m	Nominal at hedge rate £m	Fair value adjustment (1) £m
Euro denominated debt	1,125	211	1,615	(52)
CAD denominated debt	337	16	337	(5)
Other currencies debt	780	61	780	2
Designated in fair value hedge	**2,242**	**288**	2,732	(55)

(1) Nominal values are based on initial designation FX rates.

(2) Fair value adjustment is comprised of fair value gain of £337 million (year ended December 2021: £46 million loss) on continuing hedges and £5 million loss (year ended December 2021: £9 million loss) on discontinued hedges.

9. DERIVATIVE FINANCIAL INSTRUMENTS

31 December 2022	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	29	1	(1)	-
Index-linked swaps	160	-	(39)	(39)
	189	**1**	**(40)**	**(39)**
Non-current				
Interest rate swaps	7,378	662	(1,010)	(348)
Cross-currency swaps	5,533	337	(185)	152
Index-linked swaps	5,547	146	(1,241)	(1,095)
	18,458	**1,145**	**(2,436)**	**(1,291)**
Total	**18,647**	**1,146**	**(2,476)**	**(1,330)**

31 December 2021	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	83	-	(2)	(2)
Cross-currency swaps	490	25	-	25
Index-linked swaps	100	-	(17)	(17)
	673	25	(19)	6
Non-current				
Foreign exchange contracts	29	-	-	-
Interest rate swaps	7,500	113	(665)	(552)
Cross-currency swaps	5,398	255	(98)	157
Index-linked swaps	5,707	53	(1,462)	(1,409)
	18,634	421	(2,225)	(1,804)
Total	19,307	446	(2,244)	(1,798)

At 31 December 2022, total non-current notional value of Derivative financial instruments due in greater than 5 years was £12,567 million (2021: £13,543 million), comprising £4,727 million (2021: £4,777 million) of index-linked swaps, £3,555 million (2021: £4,013 million) of cross-currency swaps, and £4,285 million (2021: £4,753 million) of interest rate swaps. The Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate transactions which will help to reduce interest payments over the next few years. This gives rise to fair value differences at inception or restructuring of derivatives between the transaction price and calculated fair value of the derivatives.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

Interest rate swaps

Interest rate swaps are maintained by the Group and designated as hedges, where they qualify against variability in interest cash flows on current and future floating or fixed rate borrowings. The gains and losses deferred in equity on the cash flow hedges will be continuously released to the income statement over the period of the hedged risk. The fair value gains and losses deferred in equity relating to the discontinued cash flow hedge relationships will be continuously released to the income statement over the period of the hedged risk.

Of the total amount deferred in other comprehensive income gross of tax was £161 million (2021: £183 million) related to discontinued cash flow hedges. During the year, £22 million recycled from the frozen cash flow hedge reserve to the income statement in the period.

Losses deferred of £21 million (2021: £21 million) expected to be released in less than one year, £21 million (2021: £21 million) between one and two years, £55 million (2021: £62 million) between two and five years and £64 million (2021: £79 million) over five years.

Cross-currency swaps

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds.

The gains deferred of £116 million, of which of £19 million (2021: £7 million) are expected to be released in less than one year, losses of £19 million (2020: £7 million) between one and two years, £46 million (2020: £22 million) between two and five years and gains of £33 million (2020: £7 million) over five years.

Index-linked swaps

Index-linked swaps have been entered into in order to economically hedge RPI linked revenue and the Regulatory Asset Base ('RAB') but are not designated in a hedge relationship.

Foreign exchange contracts

Foreign exchange contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are classified by the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 31 December 2022 and 2021, all fair value estimates on derivative financial instruments are included in level 2.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques and inputs used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- applicable market-quoted swap yield curves adjusted for relevant basis and credit default spreads;
- the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps);
- the fair value of derivatives and certain financial instruments are calculated as the present value of the estimated future cash flows based on observable market inputs such as RPI and CDS curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

9. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

As at 31 December 2022, £208 million (31 December 2021: £234 million) remained capitalised and £26 million (31 December 2021: £27 million) had been recognised in the income statement for the period.

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year there were no transfers between the levels in the fair value hierarchy.

The tables below present the Group's assets (other than investment properties) and liabilities that are measured at fair value as at 31 December:

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Assets at fair value through income statement	**-**	**821**	**-**	**821**
Derivatives qualifying for hedge accounting	**-**	**325**	**-**	**325**
Total assets	**-**	**1,146**	**-**	**1,146**
Liabilities				
Liabilities at fair value through income statement	**-**	**(2,308)**	**-**	**(2,308)**
Derivatives qualifying for hedge accounting	**-**	**(168)**	**-**	**(168)**
Total liabilities	**-**	**(2,476)**	**-**	**(2,476)**

	31 December 2021			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Assets at fair value through income statement	-	189	-	189
Derivatives qualifying for hedge accounting	-	257	-	257
Total assets	-	446	-	446
Liabilities				
Liabilities at fair value through income statement	-	(2,146)	-	(2,146)
Derivatives qualifying for hedge accounting	-	(98)	-	(98)
Total liabilities	-	(2,244)	-	(2,244)

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

10. RETIREMENT BENEFIT OBLIGATIONS

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

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

Income statement - pension and other pension related liabilities costs

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Employment costs:		
Defined contribution schemes	14	12
BAA Pension Scheme	20	22
Past service credit - BAA Pension Scheme	(2)	-
	32	34
Finance credit - BAA Pension Scheme	(6)	-
Finance charge - Other pension and post retirement liabilities	-	-
Total pension charge	**26**	34

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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
BAA Pension Scheme (loss)/gain	(464)	355
Unfunded schemes gain	7	-
Actuarial (loss)/gain recognised before tax	(457)	355
Tax credit/(charge) on actuarial (loss)/gain	114	(90)
Actuarial (loss)/gain recognised after tax	**(343)**	265

Statement of financial position – net defined benefit pension (deficit)/surplus and other pension related liabilities

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Fair value of plan assets	2,735	4,886
Benefit obligation	(2,839)	(4,543)
(Deficit)/surplus in BAA Pension Scheme	(104)	343
Unfunded pension obligations	(21)	(29)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(22)	(30)
Net (deficit)/surplus in pension schemes	**(126)**	313
Group share of net (deficit)/surplus in pension schemes	**(126)**	313

The Company has the ability to recognise any surplus in the BAA Pension Scheme in full, because the Company has an unconditional right to a refund of surplus upon gradual settlement of liabilities.

There are no reimbursement rights included within scheme assets which require separate disclosure.

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

10. RETIREMENT BENEFIT OBLIGATIONS *CONTINUED*

(a) BAA Pension Scheme

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

The value placed on the Scheme's obligations as at 31 December 2022 is based on the full actuarial valuation carried out at 30 September 2021. This has been updated at 31 December 2022 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The Scheme assets are stated at their bid value at 31 December 2022 as required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

	Year ended 31 December 2022 £m			Year ended 31 December 2021 £m		
Fair value of plan assets[1]	**Quoted**	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity	**57**	**324**	**381**	185	179	364
Property	**-**	**134**	**134**	-	166	166
Bonds	**135**	**198**	**333**	502	1,051	1,553
Cash	**-**	**305**	**305**	-	155	155
LDI	**-**	**852**	**852**	-	2,024	2,024
Buy in	**-**	**430**	**430**	-	311	311
Other	**-**	**300**	**300**	-	313	313
Total fair value of plan assets	**192**	**2,543**	**2,735**	687	4,199	4,886

[1] Quoted assets have prices in active markets in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

At 31 December 2022, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £852 million (31% of the asset holding at 31 December 2022). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk. At 31 December 2021, the largest single category of investment was an LDI mandate, with value of £2,024 million (41% of the asset holding at 31 December 2021).

LDI holdings are portfolios of bonds, repurchase agreements, interest rate and inflation derivatives which are intended to protect the Scheme from movements in interest rates and inflation, so that the fair value of this element of the portfolio moves in the same way as the fair value of Scheme's obligations.

Analysis of financial assumptions

The financial assumptions used to calculate Scheme assets and liabilities under IAS 19R were:

	Year ended 31 December 2022 %	Year ended 31 December 2021 %
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**3.30**	3.00
Increase to pensions in payment:		
Open section	**3.00**	3.40
Closed section	**3.40**	3.50
Discount rate	**4.70**	1.80
Inflation assumption	**3.40**	3.50

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

11. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) before tax	**169**	(1,792)
Exceptional items	(14)	31
Profit/(loss) before tax and exceptional items	**155**	(1,761)
Adjustments for:		
Net finance cost	690	1,522
Depreciation	688	720
Amortisation on intangibles	41	37
Amortisation on right of use assets	41	40
Fair value loss/(gain) on investment properties	69	(174)
Asset impairment and write-off	20	-
Working capital changes:		
(Increase)/decrease in inventories and trade and other receivables [(1)]	(60)	284
Increase/(decrease) in trade and other payables	89	(66)
Difference between pension charge and cash contributions	(12)	22
Cash generated from operations before exceptional items	**1,721**	624
Cash payments in respect of exceptional items [(2)]	(2)	(11)
Cash generated from operations	**1,719**	613

(1) The overall movement in working capital of £218m for the year ended 31 December 2021 is primarily driven by the unwind of prepayments made in 2020, in order to manage banking covenant ratios, offset by an increase in trade debtors.

(2) These are cash payments for reorganisation costs incurred through the COVID-19 pandemic. As at 31 December 2022 all provisions for exceptional items have been fully utilised. Refer to note 19.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Group commitments for property, plant and equipment

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Contracted for, but not accrued:		
Baggage systems	**5**	35
Terminal restoration and modernisation	**34**	59
Tunnels refurbishments	**70**	65
Capacity optimisation	**28**	9
IT projects	**17**	15
Other projects	**1**	1
Carbon & Sustainability	**1**	-
	156	184

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

Contingent liabilities

As at 31 December 2022 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 £2 million at 31 December 2022 (2021: £2 million).

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

13. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services from related parties	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Ferrovial Agroman	72	50
Heathrow Finance plc [1]	165	184
	237	234

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

Sales to related parties	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Harrods International Limited	35	3
Qatar Airways	55	23
	90	26

Balances outstanding with related parties were as follows:	31 December 2022		31 December 2021	
	Amounts owed by related parties £m	Amounts owed to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Heathrow Finance plc	-	2,584	-	3,530
Qatar Airways	3	-	5	-
	3	**2,584**	5	3,530

The related parties outlined above are related through ownership by the same parties. The transactions relate primarily to construction projects, loans and interest payable, and are conducted on an arm's length basis.

14. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

Alternative Performance Measures

The Group presents its results in accordance with International Financial Reporting Standards (IFRS). Management also use other financial measures not defined by the IFRS as APMs (Alternative Performance Measures). Management relies on these APMs for decision-making and for evaluating the Group's performance. Below we provide an explanation of each APM.

EBITDA

EBITDA is loss or profit before interest, taxation, depreciation and amortisation. EBITDA is a useful indicator as it is widely used by investors, analysts and rating agencies to assess operating performance.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) for the period	**114**	(1,613)
(Less)/add: tax charge/(credit)	55	(179)
Add: net finance cost	690	1,522
Operating profit/(loss)	859	(270)
Add: depreciation and amortisation	770	797
EBITDA	**1,629**	527

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

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

Adjusted EBITDA

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties and exceptional items. Fair value gains and losses on investment properties are excluded as they can vary significantly from one year to the next due to market perceptions of the value of the property and the accounting method used to calculate the fair value. Exceptional items are outlined in Note 3. These are excluded due to their size and the fact that they are not representative of a normal trading year. Adjusted EBITDA is an approximation of pre-tax operating cash flow and reflects cash generation before changes in working capital and investment. The APM assists investors to value the business (valuation using multiples) and rating agencies and creditors to gauge levels of leverage by comparing Adjusted EBITDA with net debt.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) for the period	**114**	(1,613)
Add/(less): tax charge/(credit)	55	(179)
Add: net finance cost	690	1,522
Operating profit/(loss)	859	(270)
Add: depreciation and amortisation	770	797
(Less)/add: exceptional items	(14)	31
Add/(less): fair value loss/(gain) on investment properties	69	(174)
Adjusted EBITDA	**1,684**	384

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Cash generated from operations	**1,719**	613
Exclude:		
Impairment	(20)	-
Increase/(decrease) trade and other receivables	57	(283)
Increase/(decrease) in inventories	3	(1)
(Increase)/decrease in trade other payables	(89)	66
Difference between pension charge and cash contributions	12	(22)
Cash payments in respect of exceptional items	2	11
Adjusted EBITDA	**1,684**	384

Adjusted operating profit/(loss)

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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Operating profit/(loss) (1)	**859**	(270)
(Less)/add: exceptional items	(14)	31
Add/(less): fair value loss/(gain) on investment properties	69	(174)
Adjusted operating profit/(loss)	**914**	(413)

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

Notes to the condensed consolidated financial statements for the year ended 31 December 2022

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

Net finance cost before certain re-measurements

Net finance cost before certain re-measurements exclude fair value adjustments on financial instruments. Excluding fair value adjustments can be useful to investors and financial analysts when assessing the Group's underlying profitability, as measured by Adjusted EBITDA, because they can vary significantly from one year to the next. A significant portion of the fair value adjustments on financial instruments occur due to the business entering into arrangements to hedge against future inflation. As these contracts do not meet hedge criteria under IFRS 9, fair value adjustments create significant volatility in our IFRS income statement.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Finance income	34	7
Finance costs	(724)	(1,529)
Net finance costs including certain re-measurements	**(690)**	(1,522)
(Less)/add: fair value gain/(loss) arising on re-measurement of financial instruments	(908)	665
Net finance costs before certain re-measurements	**(1,598)**	(857)

Adjusted loss before tax

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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) before tax	**169**	(1,792)
(Less)/add: exceptional items	(14)	31
Add/(less): fair value loss/(gain) on investment properties	69	(174)
(Less)/add: fair value (gain)/loss arising on re-measurement of financial instruments	(908)	665
Adjusted loss before tax	**(684)**	(1,270)

Adjusted loss after tax

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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit/(loss) after tax	**114**	(1,613)
(Less)/add: exceptional items	(14)	31
Add/(Less): fair value loss/(gain) on investment properties	69	(174)
(Less)/Add: fair value (gain)/loss arising on re-measurement of financial instruments	(908)	665
Add/(less): tax charge/(credit) on fair value (loss)/profit on investment properties and re-measurement of financial instruments	200	(139)
(Less)/add: change in tax rate	(26)	214
Adjusted loss after tax	**(565)**	(1,016)

Notes to the condensed consolidated financial statements for the year ended 31 December 2021

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

Heathrow (SP) Limited consolidated nominal net debt

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

Nominal net debt is short and long term debt less cash and cash equivalents and term deposits, it is an important measure as it is used as a metric in assessing covenant compliance for the group. It includes index linked swap accretion and hedging impact of cross currency interest rate swaps. It includes additional lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Net debt	(16,748)	(16,827)
Index-linked swap accretion (1)	(726)	(381)
Impact of cross-currency interest rate swaps (2)	64	124
Bond issuance costs (3)	(27)	(65)
IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases (4)	325	351
Intercompany	2,533	3,466
Consolidated nominal net debt	**(14,579)**	(13,332)

(1) Index-linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments in the statement of financial position.
(2) Where bonds are issued in currencies other than GBP, the Group has entered into foreign currency swaps to fix the GBP cash outflows on redemption. The impact of these swaps is reflected in nominal net debt.
(3) Capitalised bond issue costs are excluded from nominal net debt.
(4) The lease liability relating to leases that existed at the point of transition to IFRS 16 (1 January 2019) is excluded from nominal net debt. All new leases entered into post-transition are included.

Regulatory Asset Base (RAB)

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. By investing efficiently in the Airport, we add to the RAB over time. The RAB is an important measure as it represents the invested capital on which Heathrow are authorised to earn a cash return and is used in the financial ratios used to assess covenant compliance as detailed in the financial review. It is used in key financial ratios and in our regulatory financial statements.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Regulatory Asset Base (RAB)	**19,182**	17,474

Regulatory gearing ratio

The regulatory gearing ratio is consolidated nominal net debt to the RAB. It is a financial indicator used by investors, financial analysts, rating agencies, creditors and other parties to ascertain a company's debt position in regulated industries.

	Year ended 31 December 2022	Year ended 31 December 2021
Total net debt to RAB	0.760	0.763
Senior net debt to RAB	0.649	0.646

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

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

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

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

Regulatory asset ratio 'RAR' – is trigger event at Class A and Class B and financial covenant at Heathrow Finance; Class A RAR trigger ratio is 72.5%; two Class B triggers apply: at Heathrow Finance it is 82.0% and at Heathrow (SP) Limited it is 85.0%. Following the waiver secured in July 2020, Heathrow Finance RAR covenant was revised from 92.5% to 95% and 93.5% for the financial year ending 31 December 2020 and 2021 respectively.

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.