

# HEATHROW (SP) LIMITED

## RESULTS FOR THE 6 MONTHS ENDED 30<sup>th</sup> JUNE 2022

**Summer getaway has started well** – Everyone at Heathrow is working hard to get passengers on their journeys and we'd like to thank everyone across Team Heathrow for their efforts. The actions we have taken to ramp up our own resources, and the cap we have introduced to keep demand in balance with airline ground handler capacity mean that people travelling through Heathrow since schools broke up on Thursday have had a smooth and reliable journey. This builds on the success of previous peaks at Easter and the Jubilee Bank Holiday, when Heathrow operated smoothly while there was disruption at other airports. The airport is busy during peak times, but any queues are well managed and kept moving.

**We started planning 9 months ago for the summer peak, and our own resources are on track** – We started ramping up our own operations in November 2021, and encouraged airlines and their ground handlers to do the same. Planning has been based on summer peak demand exceeding 85% of 2019, broadly in line with actuals. All parts of the airport are now fully operational. We have hired 1,300 people in the last 6 months and will have a similar level of security resource by the end of July as pre-pandemic. We have additional service colleagues and our entire management team is deployed on "Here to Help" shifts to support passengers in the terminals this summer.

**Airline ground handling shortage is now the constraint on Heathrow's capacity** – The number of people employed in ground handling fell sharply over the last 2 years, as airlines cut costs during the pandemic. We have been raising our concerns over lack of handler resource for 9 months. We estimate that airline ground handlers have no more than 70% of pre-pandemic resource, and there has been no increase in numbers since January. In the second half of June, as departing passenger numbers regularly exceeded 100,000 a day, we started to see a worrying increase in unacceptable service levels for some passengers; an increase in delays to get planes on to stand, bags not travelling with passengers or being delivered very late to the baggage hall, low departure punctuality and some flights being cancelled after passengers had boarded. This showed us that demand had started to exceed the capacity of airline ground handlers and we took swift action to protect consumers by applying a cap on departing passenger numbers, better aligned with their resources. Airline ground handler performance has been much more stable since the cap came into effect, and we have seen a marked improvement in punctuality and baggage performance. Heathrow's cap is 50% higher than Schiphol, which shows how much better the airport and airlines have planned at Heathrow than our competitors. The cap will remain in place until airlines increase their ground handler resource.

**Heathrow remains loss making and we do not forecast any dividends in 2022** – Our adjusted loss before tax reduced by £466m to £321m as a result of higher passenger numbers, higher aeronautical charges offset by increased costs as we invested ahead of demand. Passenger numbers, operating costs and revenues are in line with the H7 business plan submitted to the CAA. Our balance sheet remains strong with gearing ratios now below pre-pandemic levels and strong liquidity.

**The CAA's H7 Final Proposal will deliver worse outcomes for passengers** – It focuses on cost cutting to improve airline margins when we should be rebuilding capacity, with a focus on safety, consumer service, resilience and efficiency. It contains errors, such as the wrong opening gearing, and disallowing investment in service to vulnerable passengers that both passengers and the CAA itself tell us we should do. Overall, it doesn't provide enough cashflow to allow us to invest in operations and capital investments, such as a new T2 baggage system or new security lanes to meet the DFT's 2024 deadline, at a time when they should be encouraging investment. The CAA took a similar approach in the 2000s, which led to years of "Heathrow hassle" for consumers and high margins for airlines. It is not too late to correct these errors and we will submit a detailed assessment in early August.

**We welcome the Government's commitment to a 10% SAF mandate by 2030** – Sustainable Aviation Fuel is the only pathway to decarbonise long haul aviation, but it needs a massive increase in production. The new mandate will give investors the demand signal to scale up production and should lead to a significant UK based SAF industry. At Heathrow, we have already put in place a SAF incentive for 2022, which has been over subscribed, and will see more SAF uploaded at Heathrow this year than any other airport in the world. Our aim is to use the incentive to progressively increase the use of SAF at Heathrow.

At or for 6 months ended 30 June	2021	2022	Change (%)
(£m unless otherwise stated)			
Revenue	348	1,280	267.8
Cash generated from operations	177	755	326.6
(Loss)/Profit before tax	(868)	263	--
Adjusted Loss before tax <sup>(1)(4)</sup>	(787)	(321)	59.2
Adjusted EBITDA <sup>(2)(4)</sup>	(33)	744	--
Heathrow (SP) Limited consolidated nominal net debt <sup>(3)(4)</sup>	13,332	14,507	8.8
Heathrow Finance plc consolidated nominal net debt <sup>(3)(4)</sup>	15,440	15,561	0.8
Regulatory Asset Base <sup>(5)</sup>	17,474	18,425	5.4
Passengers (million) <sup>(6)</sup>	3.9	26.1	577.5

*"The summer getaway has started well at Heathrow, thanks to early planning and keeping demand in line with airline ground handler capacity. I'm proud of the hard work everyone at Heathrow is doing which has helped millions of people get away already, and will help millions more travel on their well-earned summer breaks in the weeks ahead. We can't ignore that COVID has left the aviation sector deeply scarred, and the next few years will need investment to rebuild capacity, with a focus on safety, consumer service, resilience and efficiency. Airlines need to recruit and train more ground handlers; airports need catch up on underinvestment during the COVID years – at Heathrow, that means replacing the T2 baggage system and new security lanes. Recent months have shown that passengers value easy, quick and reliable journeys, not penny pinching, and the CAA should be encouraging the investment that will deliver for consumers."*

**John Holland-Kaye | Heathrow CEO**

## NOTES

- (1) Adjusted loss before tax excludes fair value adjustments on investment properties and financial instruments
- (2) EBITDA (30 June 2022: £962m, 30 June 2021: £(8)m) is profit before interest, taxation, depreciation, amortisation, Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties
- (3) Consolidated nominal net debt is short and long-term debt less cash and cash equivalents and term deposits, it includes index linked swap accretion and the hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, bond issue costs and intra-group loans. 2021 figures are as at 31 December 2021
- (4) A reconciliation of our Alternative Performance Measures ('APMs') can be found in note 13
- (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. 2021 figures are as at 31 December 2021
- (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 Tuesday July 26th, 2022

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

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

# STRATEGIC PRIORITIES

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

- **Mojo:** making Heathrow a great place to work;
- **Transforming customer service:** driving excellent service;
- **Beating the plan:** creating long-term 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 6 months ended 30 June 2022. All indicator definitions are available in the glossary section of this report.

## MOJO

Mojo performance indicators <sup>(1)</sup>	2021	2022
Colleague promotions <sup>(2)</sup>	93	<b>227</b>
Managerial training	52	<b>180</b>
Lost time injuries	0.15	<b>0.51</b>

(1) For the 6 months ended 30 June

The pandemic and the rapid changes we have experienced over the past two years continue to place a strain on everyone, so we know we need to maintain our objective of improving colleague facilities and wellbeing. We want Heathrow to be a great place to work, providing fantastic opportunities for our talented colleagues to develop their careers. We have continued building strong leadership capability and in the first six months of the year 227 colleagues (2021: 93) were promoted and 180 colleagues (2021: 52) were assigned to training and development programmes. We also want to ensure everyone goes home safely every day. In the first six months of 2022 our lost time injuries metric was 0.51 (2021: 0.15). The increase was predominantly due to the substantial increase in passenger numbers and the ramp-up across our operations. We continue to work internally on our incident reduction plans.

## TRANSFORM CUSTOMER SERVICE

In the first half of 2022, Heathrow welcomed 26.1 million passengers, an increase of 22.2 million, or around 7 times, compared to the first half of 2021. Over this period the vast majority of passengers have had a great experience through the airport, reflecting the ramp-up plan we put in place during Quarter 4 of last year. We have seen some challenge in our operational metrics, in particular on departure punctuality, which was impacted by delays at other airports, airspace congestion across Europe and lack of airline's ground handler resources at Heathrow and around the world. Due to operational pressures, passenger satisfaction ratings declined. We achieved an ASQ rating of 3.98 out of 5.00 (2021: 4.29), remaining ahead of our European competitors including

Amsterdam and Paris. 74% of passengers surveyed rated their Heathrow experience 'Excellent' or 'Very good' (2021: N/A). The main reason for the decrease was that more passengers rated their Heathrow experience as 'Very Good' or 'Good' compared to the 'Excellent' rating we were seeing in 2019. Our European competitor airports also recorded decreases in levels of passenger satisfaction. Despite the operational challenges, satisfaction with Courtesy and Helpfulness of Airport Colleagues remained resilient at 4.47 (2021:4.56).

Service standard performance indicators <sup>(1)</sup>	2021	2022
Airport Service Quality - ASQ	4.29	<b>3.98</b>
Experience as "excellent" or "very good" %	--- <sup>(2)</sup>	<b>74</b>
Baggage connection %	99.1	<b>98.7</b>
Departure punctuality %	86.3	<b>63.6</b>
Security queuing %	98.2	<b>80.7</b>
Courtesy & Helpfulness of Airport Colleagues (QSM) <sup>(3)</sup>	4.56	<b>4.47</b>

(1) For the 6 months ended 30 June

(2) Passenger satisfaction and research was suspended in 2021

(3) Courtesy & Helpfulness of Airport Staff replaced the Cleanliness KPI for 2022

## BEAT THE PLAN

**Passenger Traffic** – Passenger numbers in June were the highest since the start of the pandemic with almost 6 million passengers. Over the first half of 2022, a total of 26.1 million passengers travelled through the airport (2021: 3.9 million). We have seen unprecedented growth in passenger numbers over the last six months, with June at 83% of 2019 levels. Demand continues to be driven by outbound leisure at weekends and school holidays, as people take advantage of the removal of restrictions and utilise travel vouchers from cancelled trips over the past two years. Inbound leisure and business travel remained subdued, but as more markets have opened up we have seen signs of recovery towards the end of the first half of the year. Passenger growth was seen in all regions, with North America and Europe in particular driving the increase in passenger numbers compared to prior year. Two airlines have launched flights from Heathrow - Bamboo Airways with a twice weekly service to Hanoi and WestJet with a four days per week service to Calgary. Our cargo tonnage increased by 3.5% compared to the first half of 2021. This slight increase 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. Load factors also significantly increased compared to the first half of 2021, in line with the overall increase in demand.

## Passenger traffic

(Millions) <sup>(1)</sup>	2021	2022	Var % <sup>(2)</sup>
UK	0.5	1.6	243.4
Europe	1.5	11.2	627.1
North America	0.5	6.2	1214.0
Asia Pacific	0.5	2.0	283
Middle East	0.4	3.0	589
Africa	0.4	1.3	260
Latin America	0.1	0.8	1384.5
<b>Total passengers</b>	<b>3.9</b>	<b>26.1</b>	<b>577.5</b>

(1) For the 6 months ended 30 June

(2) Calculated using unrounded passenger figures

Other traffic performance indicators <sup>(1)</sup>	2021	2022	Var % <sup>(2)</sup>
Passenger ATM <sup>(3)</sup>	42,824	166,094	171.2
Load factors (%)	40.0	72.9	82.2
Seats per ATM <sup>(3)</sup>	224.5	215.2	37.1
Cargo tonnage ('000)	665	688	3.5

(1) For the 6 months ended 30 June

(2) Calculated using unrounded passenger figures

(3) 2021 comparative restated to be comparable

**Our ramp up plan** – After a slow start of the year, given the travel restrictions in the UK and the impact of Omicron, we saw a surge in demand and a steady build in traffic. As a result, in the past four months Heathrow experienced over 40 years of passenger growth.

We started recruiting in November last year in anticipation of capacity recovering this summer and by the end of July we will have as many people working in security as we had pre-pandemic. We have also reopened and moved 25 airlines to Terminal 4 to support airlines' check-in and provide more space for passengers.

Rebuilding capacity quickly is very challenging after the significant reductions in resource across the entire aviation supply chain. Arrivals punctuality is very low as a result of delays at other airports and airspace congestion across Europe and these factors have compounded the challenge of our own resource constraints as well as the resource constraints for the airlines, ground handlers and government agencies. We have been able to provide a good level of service for the vast majority of passengers, including Easter and half term peaks.

Over the past few weeks, as departing passenger numbers have regularly exceeded 100,000 a day, we have started to see periods when service drops to a level that is not acceptable: long queue times, delays for passengers requiring assistance, bags not travelling with passengers or arriving late, low punctuality and last-minute cancellations.

In June, the Department for Transport and the Civil Aviation Authority (CAA) asked the aviation sector to review summer schedules, including implementing a slot amnesty to encourage airlines to remove flights without penalty, in order to minimise further disruption for passengers over the summer getaway.

Our assessment is that the maximum number of daily departing passengers that airlines, airline ground handlers and the airport can collectively serve over the summer is no more than 100,000 and we have therefore introduced a capacity cap at this level.

## SUSTAINABLE GROWTH

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

- **Net zero aviation** – decarbonising the aviation sector remains a key priority for Heathrow.

- **A great place to live and work** – delivering on the issues that are most important to local communities, managing the environmental impacts of the airport and championing equality, diversity and inclusion are critical factors to Heathrow's success.

**Net zero aviation** - Our net zero plan sets out how to get to net zero carbon emissions for our own operations and our contribution to decarbonising wider UK aviation. It includes stretching 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 will be 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 the overall plan is not financeable and our proposals risk being not deliverable.

We continue to advocate for a global net zero deal at the ICAO General Assembly in September and for governments to introduce the mandates and price incentives needed to stimulate investment in Sustainable Aviation Fuel (SAF). As part of the Prince of Wales's Sustainable Markets Initiative, (SMI) our CEO engaged on net zero aviation with leaders at the Commonwealth Heads of Government Meeting in Kigali in June. Through the SMI we are also building an alliance of corporates committed to purchasing SAF – helping in the early stage of market development.

Heathrow continues to work to accelerate the use of SAF at the airport. Our SAF landing charges incentive – designed to deliver 0.5% SAF at Heathrow during 2022 – was over-subscribed and we plan to increase it steadily in the coming years, complementing the UK Government's new Jet Zero policy. Over 50% of the target of SAF as per the Heathrow SAF incentive guideline was delivered to the airport during the first half of 2022.

We are pleased to see the Government's newly published Jet Zero Strategy reflecting our call to action, with a commitment to a 10% SAF mandate by 2030. We look forward to working with government on the commercialisation and scale-up of SAF in the UK, investment in technology including zero-emission aircraft, delivery of critical airspace modernisation and supporting carbon removal technologies. We hope this will include policy support to quickly deliver a mandate and the right commercial incentives to enable investment in SAF plants here in the UK whilst ensuring the wider technology solutions are developed and implemented.

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

In April we released an update to the Heathrow Local Recovery Plan. First published in 2020, the plan outlines how Heathrow will share the benefits of aviation's recovery with our neighbours through jobs, skills development and education

and business opportunities. To build on achievements across the initial recommendations the Heathrow Local Recovery Forum, chaired by Lord David Blunkett, has agreed nine new actions to increase employment levels, open up procurement opportunities and support the development of a local carbon offset market.

Since their launch in May, 171 local residents have already attended half-day Heathrow Careers and Essential Skills workshops with local colleges and employment support groups to learn about jobs and career opportunities at the airport with many going on to be interviewed for roles. The Heathrow Employment and Skills Academy has brokered more than 400 interviews for local candidates in the first half of 2022, with at least 259 job offers being made.

We continue to expand the scope of Heathrow's Sustainable Travel Zone to make it more attractive for colleagues and passengers to take public transport, reducing congestion on local roads and improving local air quality. First launched in January 2022, new interventions are being delivered every month with more agreed with public transport operators for introduction in the second half of this year. The highlights from April to June included improved timetables on several bus and coach routes, expansion of the offers available to colleagues at the Heathrow Cycle Hub, free travel for Heathrow colleagues on the Heathrow Express and the launch of the Elizabeth line in May, bringing connectivity via Paddington through central London.

**Expansion developments** - While we have paused work to expand Heathrow during COVID-19, the pandemic has shown the pent-up demand from airlines to fly from Heathrow, as well as how critical Heathrow is for the UK's trade routes. We will continue to develop our plans for expansion in due course.

**Key regulatory developments** - In June, the CAA published its Final Proposals for the next five-year regulatory period to start in 2022, known as H7. The CAA's proposals are not financeable and will restrict investment in the UK's hub airport just when the country's economic recovery needs it most, and if it goes ahead, it will erode passenger service and result in an airport that falls far short of what passengers expect.

Our previous Revised Business Plan (RBP) Update 2, submitted to the CAA in December 2021, set out a £43.42 (2020p) or £41.95 (2018p) charge to deliver for passengers in H7, with the potential for the CAA to reduce this to £35.27 (2020p) or £34.07 (2018p) if the CAA implemented tools such as depreciation profiling. This is in contrast to the CAA's latest H7 charge proposal of £24.14 (2020 CPI). The CAA has confirmed in its latest proposals that the interim holding charge of £29.50 (2020 CPI) will remain in place for 2022, implementing a decreasing price profile from this starting point through the H7 period. We are currently assessing the CAA's latest proposal in more detail and will provide a further evidence-based response to their consultation in early August. Our response will include updated forecasts for H7 passenger traffic as set out in our June 2022 investor report. We will request first the CAA correct basic errors in their proposals and continue to reiterate key points made in our previous submissions in calling for the CAA to recognise the inherent uncertainty when calibrating its price control and the need to set an appropriate Weighted Average Cost of Capital (WACC) for the period which reflects

the risk to which Heathrow is exposed. We will also continue to make the case for an appropriate Regulatory Asset Base (RAB) adjustment following the impact of COVID-19.

Before making a final decision, we have encouraged the CAA to think again about our plan, which has been carefully crafted over the past two years to deliver for our passengers and other stakeholders. For less than the equivalent of a 2% increase in ticket prices, we can give passengers the service they want, drive the sector's recovery and equip the UK with the hub airport it needs to thrive. By pushing irrational cost cuts and erasing fair incentives to invest, the CAA will prioritise airline's profit over passenger's service and perpetuate the broken model airlines have pursued with ground handlers which is resulting in the current problems at airports across the world. There is still time to secure a better outcome for passengers.

The CAA will continue its H7 process through 2022. Subject to CAA timelines, we currently expect it to publish its Final Determination on the H7 settlement in early Q4 2022 before implementing the H7 licence towards the end of the year.

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

From a border perspective, the UK's Border Operating Model (BOM) had outlined a phased approach for cargo to limit immediate inbound changes at the UK border as a result of EU Exit. In September 2021, the UK Government revised this timeline again, with checks on some imports being required from 1 January 2022 and further checks from 1 March and 1 July 2022. However, in April 2022, the Government said it would be wrong to impose new administrative burdens and risk disruption at ports and to supply chains at this point, given the rising costs for British businesses caused by Russia's war in Ukraine and in energy prices. Instead, 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) in the Autumn which will set out a new regime of global border import controls which 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.

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 valid ID. Heathrow has been working with Government and UK Border Force to manage changes to border and passenger processes, including the end of using EU ID cards to enter the UK.

Longer-term post-EU Exit, Heathrow is working with the Government to deliver on their objective of '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 number of eligible cohorts using e-Gates – such as visa holders and those who will be eligible for Electronic Travel Authorisation (ETA) from next year, better resource colleagues at the border, and introduce new security

scanners that would make the passenger journey faster and smoother than today. From a freight perspective, we are pushing Government to remove outdated 'Canalisation' regulation, thereby making the cargo processing time at Heathrow quicker – in some cases halving the processing time for goods. Heathrow is playing an active role in shaping the Government's 2025 UK Border Strategy and these asks sit alongside wider improvements to increase digitisation and efficiency at the border.

### Principal Risks

The principal strategic, corporate and operational risks at 30 June 2022 remain consistent with those presented in the Annual Report and Accounts for the year ended 31 December 2021.

# FINANCIAL REVIEW

## Basis of presentation of financial results

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

The financial information presented within these financial statements has been prepared on a going concern basis. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. Nevertheless, there is uncertainty regarding the final decision from the CAA on passenger tariffs for the H7 period, as well as uncertainty of forecast passenger numbers due to the significant increase in inflation and the corresponding impact to cost of living, coupled with ongoing uncertainty about the ongoing global recovery from COVID-19. These uncertainties may result in the Group needing to take further action, including seeking future covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast significant doubt upon the Group and Company's ability to continue as a going concern. More detail can be found in the going concern statement on page 17.

## 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. A reconciliation of our APMs has been included in note 13.

## Summary performance

In the 6 months ended 30 June 2022, the Group's revenue increased by 268% to £1,280 million (2021: £348 million). Adjusted EBITDA increased to £744 million (2021: £33 million loss). The Group recorded a £183 million profit after tax (2021:

£917 million loss). When adjusting for non-recurrent, non-cash, fair value gains on financial instruments and investment properties, the Group recorded an adjusted loss before tax of £321 million.

6 months ended 30 June	2021 £m	2022 £m
Revenue	348	1,280
Adjusted operating costs <sup>(1)</sup>	(381)	(536)
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>(33)</b>	<b>744</b>
Depreciation and amortisation	(409)	(372)
<b>Adjusted operating (loss)/profit<sup>(3)</sup></b>	<b>(442)</b>	<b>372</b>
Net finance costs before certain re-measurements	(345)	(693)
<b>Adjusted loss before tax<sup>(4)</sup></b>	<b>(787)</b>	<b>(321)</b>
Tax credit on loss before certain re-measurements	143	67
<b>Adjusted loss after tax<sup>(4)</sup></b>	<b>(644)</b>	<b>(254)</b>
Including certain re-measurements <sup>(5)</sup> :		
Fair value gain on investment properties	25	218
Fair value (loss)/gain on financial instruments	(106)	366
Tax credit/(charge) on certain re-measurements	20	(147)
Change in tax rate	(212)	-
<b>(Loss)/profit after tax</b>	<b>(917)</b>	<b>183</b>

- (1) Adjusted operating costs exclude depreciation, amortisation and fair value adjustments on investment properties.
- (2) Adjusted EBITDA is profit before interest, taxation, depreciation, amortisation and fair value adjustments on investment properties.
- (3) Adjusted operating (loss)/profit excludes fair value adjustments on investment properties.
- (4) Adjusted (loss)/profit before and after tax excludes fair value adjustments on investment properties and financial instruments and, in the prior year 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 in the prior year the associated tax impact on these including the impact of the UK corporation tax rate change.

## Revenue

In the 6 months ended 30 June 2022, revenue increased 268% to £1,280 million (2021: £348 million). Revenue increased by 317% during the second quarter in isolation compared to the same period last year, reflecting the strong increase of passengers.

6 months ended 30 June	2021 £m	2022 £m	Var. %
Aeronautical	169	810	379.3
Retail	59	247	318.6
Other	120	223	85.8
<b>Total revenue</b>	<b>348</b>	<b>1,280</b>	<b>267.8</b>

Aeronautical revenue increased by 379.3%. This increase is predominantly due to higher passenger numbers and an increase in aero charges, set by the CAA's H7 interim tariff. This has been partially offset by an adverse mix of passengers and cargo volume. Aeronautical revenue per passenger decreased 29.3% to £31.07 (2021: £43.92).

6 months ended 30 June	2021 £m	2022 £m	Var. %
Retail concessions	17	89	423.5
Catering	6	24	300.0
Other retail	16	24	50.0
Car parking	9	65	622.2
Other services	11	45	309.1
<b>Total retail revenue</b>	<b>59</b>	<b>247</b>	<b>318.6</b>

Retail revenue increased by 318.6%, driven by higher departing passengers, car parking revenue, premium services and the mix of retail services available in the six months of 2022, compared to last year when the governmental restrictions on non-essential shops were in place in the first five months. However, our luxury business is showing early signs of the softening we anticipated as a result of the removal of VAT free shopping. Retail revenue per passenger decreased 38.2% to £9.47 (2021: £15.33).

6 months ended 30 June	2021 £m	2022 £m	Var. %
Other regulated charges - ORCs	57	109	91.2
Heathrow Express	4	41	925.0
Property and other	59	73	23.7
<b>Total other revenue</b>	<b>120</b>	<b>223</b>	<b>85.8</b>

Other revenue increased by 85.8%. Other regulated charges increased 91.2% predominantly because of higher passenger numbers. The significant increase in Heathrow Express revenue is distorted by the lower level of services in 2021 due to lockdown.

### Adjusted operating costs

Adjusted operating costs increased 40.7% to £536 million (2021: £381 million). Operating costs increased 49.5% during the second quarter in isolation compared to the same period last year. Adjusted operating costs per passenger decreased by 79% to £20.56 (2021: £99.01). The adjusted operating costs per passenger is distorted by the significant change in passenger numbers over 2021 and 2022.

6 months ended 30 June	2021 £m	2022 £m	Var. %
Employment	121	173	43.0
Operational	89	142	59.6
Maintenance	60	82	36.7
Rates	60	59	(1.7)
Utilities and Other	51	80	56.9
<b>Adjusted operating costs</b>	<b>381</b>	<b>536</b>	<b>40.7</b>

Employment costs have increased by 43.0% as we ramp up the operation to meet the increased passenger demand, including operations 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 six months ended 30 June 2021, Government grants of £16 million were received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. Following the end of the scheme in September 2021, no equivalent payments were received in the six months ended 30 June 2022. The increase in operational and maintenance

results from the reopening of operations and higher passengers compared to last year, when we were operating with only one runway and two terminals. In addition, utilities and other costs have been impacted by higher energy prices and inflation.

### Operating (loss)/profit and Adjusted EBITDA

In the 6 months ended 30 June 2022, the Group recorded an operating profit of £590 million (2021: operating loss of £417 million). The profit follows a recovery driven increase in revenue to above our fixed cost base, as well as an increase in the fair value of investment properties, whose value has increased following the improvement in passenger numbers and from increases in the market value of industrial land.

Adjusted EBITDA increased to £744 million (2021: £33 million loss).

6 months ended 30 June	2021 £m	2022 £m
<b>Operating (loss)/profit</b>	<b>(417)</b>	<b>590</b>
Depreciation and amortisation	409	372
<b>EBITDA</b>	<b>(8)</b>	<b>962</b>
<i>Exclude:</i>		
Fair value gain on investment properties	(25)	(218)
<b>Adjusted EBITDA</b>	<b>(33)</b>	<b>744</b>

### (Loss)/profit after tax

In the 6 months ended 30 June 2022, the Group recorded a profit before tax of £263 million (2021: £868 million loss) and a profit after tax of £183 million (2021: £917 million loss).

6 months ended 30 June	2021 £m	2022 £m
<b>Operating (loss)/profit</b>	<b>(417)</b>	<b>590</b>
Net finance cost before certain re-measurements	(345)	(693)
Fair value (loss)/gain on financial instruments	(106)	366
<b>(Loss)/profit before tax</b>	<b>(868)</b>	<b>263</b>
Taxation charge	(49)	(80)
<b>(Loss)/profit after tax</b>	<b>(917)</b>	<b>183</b>

Net finance cost before certain re-measurements were £693 million (2021: £345 million) relating mainly to an increase in accretion for bonds and swaps. This is due to the RPI growth rate increasing from 7.1% as published in December 2021 to 11.7% as published in June 2022, partly offset by the impact of the swap restructuring programme. The fair value gain on financial instruments increased to £366 million (2021: £106 million loss) which are primarily valued based on market expectations of future interest rates.

### Taxation

The tax credit for the 6-month period ended 30 June 2022, before certain re-measurements, was £67 million (2021: £143 million), at an effective tax rate of 20.9% (2021: 18.2%). This rate represents the best estimate of the effective tax rate expected for the full year, applied to the pre-tax loss of the 6-month period, before certain re-measurements. The effective tax rate is higher (2021: lower) than the statutory rate of 19% (2021: 19%). This is because most of the current year tax movements relate to deferred tax which is measured at the 25% post-April 2023 statutory tax rate. This is partially offset

by non-deductible expenses primarily related to non-qualifying depreciation.

The total tax charge for the 6-month period ended 30 June 2022, after certain re-measurements is £80 million (6 months ended 30 June 2020: £49 million), representing the sum of the tax credit on the loss before certain re-measurements of £67million and the deferred tax charge of £147 million on certain re-measurements. In the period, the Group paid £1 million of Corporation Tax (6 months ended 30 June 2021: £nil million).

### Cash position

At 30 June 2022, the Group had £1,291 million (31 December 2021: £2,626 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £221 million (31 December 2021: £216 million). In the 6 months ended 30 June 2022, there was an increase of £5 million in cash and cash equivalents (2021: an increase of £6 million). In addition, in the 6 months ended 30 June 2022, there was a decrease of £1,340 million in term deposits (2021: an increase of £920 million) mainly due to the payment of interest and principal on the debenture between Heathrow SP and Heathrow Finance. We continue to strengthen our cash management which includes enhanced monitoring across our commercial partners and further diversification of our bank counterparties with whom we have cash deposits.

### Cash generated from operations

In the 6 months ended 30 June 2022, cash generated from operations increased 327% to £755 million (2021: £177 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

6 months ended 30 June	2021 £m	2022 £m
<b>Cash generated from operations</b>	<b>177</b>	<b>755</b>
<i>Exclude:</i>		
(Decrease)/increase in inventories and trade and other receivables	(256)	31
Decrease/(increase) in payables	48	(43)
Decrease in provisions	1	1
Difference between pension charge and cash contributions	(11)	(1)
Cash payments in respect of exceptional items	8	1
<b>Adjusted EBITDA</b>	<b>(33)</b>	<b>744</b>

### Capital expenditure

Total capital expenditure in the 6 months ended 30 June 2022 was £249 million (2021: £96 million) excluding capital creditors movements, which equates to capital additions or £215 million (2021: £96 million) including capital creditors movements, which equates to purchases in the statement of cash flows. We have invested £164 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 £1 million in the period (2021: £7 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. Since 2016, Heathrow has invested £383 million in Category B costs and £131 million in Category C costs, a total of £514 million (before capitalised interest and after £10 million of re-work impairment) is carried in our balance sheet as assets in the course of construction.

### Restricted payments

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

In the first 6 months ended 30 June 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 rebalances liquidity across the Group, increasing the liquidity position at Heathrow Finance to £1.3 billion.

## RECENT FINANCING ACTIVITY

In the first 6 months of 2022 we raised £336 million of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio.

In March we priced £200 million of new Class A debt in the private placement market across 20-year and 30-year tranches, which settled in June 2022. In May we returned to the CHF market raising £136 million equivalent maturing in 2027. Additionally, in June we made an early payment of accretion on our inflation swaps totalling £250 million.

## FINANCING POSITION

### Debt and liquidity at Heathrow (SP) Limited

At 30 June 2022, Heathrow SP's consolidated nominal net debt was £14,507 million (31 December 2021: £13,332 million). It comprised £13,854 million in bond issues, £1,430 million in other term debt, £480 million in index-linked derivative accretion and £34 million of additional lease liabilities. This was offset by £1,291 million in cash and cash equivalents and term deposits. Nominal net debt comprised £12,426 million in senior net debt and £2,081 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 30 June 2022 was 1.14% (31 December 2021: 1.25%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 30 June 2022 was 6.13% (31 December 2021: 3.64%). The increase in the average cost of debt since the end of 2021 is



mainly due to an increase in inflation, partially offset by savings from interest rate swaps that were re-profiled in 2020. Excluding the impact of our swap portfolio reprofiling initiated in 2020, Heathrow SP's average cost of debt at 30 June 2022 was 2.55% excluding index-linked accretion and 7.55% including index-linked accretion.

The average life of Heathrow SP's gross debt as at 30 June 2022 was 10.6 years (31 December 2021: 10.5 years).

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

We have sufficient liquidity to meet all our forecast needs well into 2025 under our traffic forecast and our revised business plan, or until at least June 2023 under the extreme stress-test scenario of no revenue. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £2,601 million in cash resources, which includes balances held at Heathrow Finance plc as at 30 June 2022.

### Debt at Heathrow Finance plc

The consolidated nominal net debt of Heathrow Finance increased to £15,561 million (31 December 2021: £15,440 million). This comprised Heathrow SP's £14,507 million nominal net debt, Heathrow Finance's nominal gross debt of £2,364 million and cash and term deposits held at Heathrow Finance of £1,310 million.

### Financial ratios

At 30 June 2022, Heathrow SP continues to operate within required financial ratios from the common terms agreement. Heathrow Finance's gearing ratio has now returned below pre-pandemic levels. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's RAB.

At 30 June 2022, Heathrow's RAB was £18,425 million (31 December 2021: £17,474 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 67.4% and 78.7% 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 84.5% (31 December 2021: 88.4%) with a covenant of 92.5%.

## PENSION SCHEME

We operate a defined benefit pension scheme (the BAA Pension Scheme) which closed to new members in June 2008. At 30 June 2022, the defined benefit pension scheme, as measured under IAS 19, was funded at 110.7% (31 December 2021: 107.6%). This translated into a surplus of £337 million (31 December 2021: £343 million). The £6 million decrease in the surplus in the 6 months is largely due to actuarial losses of £7 million, attributable to a loss on assets which outstripped actuarial gains on scheme liabilities resulting from a 1.85% increase in discount rate and a 0.15% decrease in inflation assumptions and service costs of £16 million offset by finance income of £2 million. In the 6 months ended 30 June 2022, we contributed £15 million (2021: nil) into the defined benefit pension scheme including £10 million (2021: nil) in deficit repair contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks.

## KEY MANAGEMENT CHANGES

There have been no key management changes since the last results announcement on 26 April 2022.

## OUTLOOK

The outlook for our adjusted EBITDA performance in 2022 remains consistent with the revised guidance published in our June Investor Report on 23 June 2022.

## DIRECTORS' RESPONSIBILITIES STATEMENT

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

This report was approved and authorised by the Board and was issued on behalf of the Board on 25 July 2022.



**Javier Echave**

Director



**Martin Bailey**

Director

## APPENDIX 1 SUMMARY OF ADDITIONAL DISCLOSURES

## SUMMARY OF ADDITIONAL DISCLOSURES

**Heathrow comment on CAA's H7 Final Proposal** - The CAA released its Final Proposals for the H7 price control period which runs from January 2022 - December 2026. The CAA is now undertaking a consultation on the proposal to which Heathrow will respond. The CAA will consider the feedback it receives during this consultation before making a final decision on the H7 price control which is expected later this year.

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/heathrow-comment-on-caa-s-h7-final-proposal/15514292>

**Publication of Final Terms** - The final terms ("Final Terms") for the issue of A-55 CHF 165,000,000 1.80 per cent. Fixed Rate Bonds due 2029 (the "A-55 Bonds") issued by Heathrow Funding Limited (the "Issuer") under the Issuer's multicurrency programme for the issuance of bonds (the "Programme") are available for viewing.

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/publication-of-final-terms/15473135>

**Documents Incorporated by reference** - The following document, which is incorporated by reference in a supplement (the "Supplemental Prospectus") to the "Heathrow Funding Limited: Multicurrency programme for the issuance of bonds" base prospectus dated 4 October 2021 (the "Base Prospectus") (the Base Prospectus together with the Supplemental Prospectus, the "Prospectus") which has been approved by the Financial Conduct Authority on 11 May 2022 and published by Heathrow Funding Limited (the Issuer), is available for viewing:

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/documents-incorporated-by-reference/15449302>

**Publication of Supplement to Base Prospectus** - The following supplement dated 11 May 2022 (the "Supplemental Prospectus") to the "Heathrow Funding Limited: Multicurrency programme for the issuance of bonds" base prospectus dated 4 October 2021 (the "Base Prospectus", together with the Supplemental Prospectus, the "Prospectus") has been approved by the Financial Conduct Authority and is available for viewing:

Full RNS available here: <https://www.londonstockexchange.com/news-article/market-news/publication-of-suppl-prospects/15449301>

## APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

## Condensed consolidated income statement for the six months ended 30 June 2022

	Note	Unaudited Six months ended 30 June 2022			Unaudited Six months ended 30 June 2021		
		Before certain re-measurements <sup>(1)</sup>	Certain re-measurements <sup>(2)</sup>	Total	Before certain re-measurements <sup>(1)</sup>	Certain re-measurements <sup>(2)</sup>	Total
		£m	£m	£m	£m	£m	£m
<b>Continuing operations</b>							
Revenue	1	1,280	-	1,280	348	-	348
Operating costs <sup>(3)</sup>	2	(908)	-	(908)	(790)	-	(790)
Other operating items:							
Fair value gain on investment properties	6	-	218	218	-	25	25
<b>Operating profit/(loss)</b>		372	218	590	(442)	25	(417)
Finance income		9	-	9	4	-	4
Finance costs		(702)	366	(336)	(349)	(106)	(455)
<b>Net finance costs</b>	3	(693)	366	(327)	(345)	(106)	(451)
<b>(Loss)/profit before tax</b>		(321)	584	263	(787)	(81)	(868)
Taxation credit/(charge)		67	(147)	(80)	143	20	163
Change in tax rate		-	-	-	-	(212)	(212)
<b>Taxation credit/(charge)</b>	4	67	(147)	(80)	143	(192)	(49)
<b>(Loss)/profit for the period <sup>(4)</sup></b>		(254)	437	183	(644)	(273)	(917)

(1) Amounts stated before certain re-measurements are non-GAAP measures.

(2) Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including, in the prior year, the impact of the UK corporation tax rate change.

(3) Included within Operating costs is a £3 million credit (2021: £1 million credit) for the release of impairment of trade receivables.

(4) Attributable to owners of the parent.

## Condensed consolidated statement of comprehensive income for the six months ended 30 June 2022

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Profit/(loss) for the period	183	(917)
<b>Items that will not be subsequently reclassified to the consolidated income statement:</b>		
Actuarial (loss)/gain on pensions net of tax:		
Loss on plan assets	(1,029)	(119)
Decrease in scheme liabilities	1,024	206
Change in tax rate	-	(1)
<b>Items that may be subsequently reclassified to the consolidated income statement:</b>		
<b>Cash flow hedges net of tax:</b>		
(Loss)/gain taken to equity	(55)	4
Transfer to finance costs	9	21
Change in tax rate	-	(12)
Change in tax rate on other opening balances	-	(5)
Other comprehensive (expense)/income for the period net of tax	<b>(51)</b>	<b>94</b>
Total comprehensive income/(expense) for the period <sup>(1)</sup>	<b>132</b>	<b>(823)</b>

(1) Attributable to owners of the parent.

## Condensed consolidated statement of financial position as at 30 June 2022

<i>Note</i>	Unaudited as at 30 June 2022 £m	Audited <sup>(1)</sup> as at 31 December 2021 £m	
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	10,580	10,654
Right of use assets		286	270
Investment properties	6	2,515	2,297
Intangible assets		143	156
Retirement benefit surplus	9	337	343
Derivative financial instruments	8	711	421
Trade and other receivables		26	23
		<b>14,598</b>	<b>14,164</b>
<b>Current assets</b>			
Inventories		14	13
Trade and other receivables		228	201
Current income tax assets		1	3
Derivative financial instruments	8	3	25
Term deposits		1,070	2,410
Cash and cash equivalents		221	216
		<b>1,537</b>	<b>2,868</b>
<b>Total assets</b>		<b>16,135</b>	<b>17,032</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	7	(17,062)	(18,341)
Derivative financial instruments	8	(2,333)	(2,225)
Lease liabilities		(344)	(331)
Deferred income tax liabilities		(767)	(706)
Retirement benefit obligations	9	(29)	(30)
Provisions		-	(1)
Trade and other payables		(4)	(3)
		<b>(20,539)</b>	<b>(21,637)</b>
<b>Current liabilities</b>			
Borrowings	7	(971)	(1,008)
Derivative financial instruments	8	(45)	(19)
Lease liabilities		(42)	(40)
Provisions		(3)	(4)
Trade and other payables		(444)	(365)
		<b>(1,505)</b>	<b>(1,436)</b>
<b>Total liabilities</b>		<b>(22,044)</b>	<b>(23,073)</b>
<b>Net liabilities</b>		<b>(5,909)</b>	<b>(6,041)</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital		11	11
Share premium		499	499
Merger reserve		(3,758)	(3,758)
Cash flow hedge reserve		(151)	(105)
Accumulated losses		(2,510)	(2,688)
<b>Total shareholders' equity</b>		<b>(5,909)</b>	<b>(6,041)</b>

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

## Condensed consolidated statement of changes in equity for the six months ended 30 June 2022

	Attributable to owners of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings/ (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)
<b>Total comprehensive income/(expense)</b>	-	-	-	68	(1,352)	(1,284)
31 December 2021 (audited) <sup>(1)</sup>	<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(105)</b>	<b>(2,688)</b>	<b>(6,041)</b>
<b>Comprehensive income:</b>						
Profit for the period	-	-	-	-	183	183
<b>Other comprehensive (expense)/income:</b>						
Fair value loss on cash flow hedges net of tax	-	-	-	(46)	-	(46)
Actuarial (loss)/gain on pension net of tax:						
Loss on plan assets	-	-	-	-	(1,029)	(1,029)
Decrease in scheme liabilities	-	-	-	-	1,024	1,024
<b>Total comprehensive (expense)/income</b>	-	-	-	<b>(46)</b>	<b>178</b>	<b>132</b>
<b>30 June 2022 (unaudited)</b>	<b>11</b>	<b>499</b>	<b>(3,758)</b>	<b>(151)</b>	<b>(2,510)</b>	<b>(5,909)</b>

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

## Condensed consolidated statement of cash flows for the six months ended 30 June 2022

<i>Note</i>	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Cash flows from operating activities</b>		
Cash generated from operations	755	177
Taxation:		
Corporation tax paid	(1)	-
Group relief received	1	-
<b>Net cash generated from operating activities</b>	<b>755</b>	<b>177</b>
<b>Cash flows from investing activities</b>		
Purchase of:		
Property, plant and equipment	(215)	(93)
Investment properties	-	(3)
Disposal of:		
Property, plant and equipment	-	14
Decrease/(increase) in term deposits <sup>(1)</sup>	1,340	(920)
Interest received	6	4
<b>Net cash generated from/(used in) investing activities</b>	<b>1,131</b>	<b>(998)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from issuance of bonds	136	1,379
Repayment of bonds	(730)	(496)
Repayment of facilities and other financing items	-	(2)
Issuance of term note	200	-
(Decrease)/increase in amount owed to Heathrow Finance plc	(1,000)	71
Interest paid <sup>(2)</sup>	(202)	(79)
Settlement of accretion on index-linked swaps	(17)	(30)
Early settlement of accretion on index-linked swaps <sup>(3)</sup>	(250)	-
Payment of lease liabilities	(18)	(16)
<b>Net cash (used in)/generated from financing activities</b>	<b>(1,881)</b>	<b>827</b>
<b>Net increase in cash and cash equivalents</b>	<b>5</b>	<b>6</b>
Cash and cash equivalents at beginning of period	216	280
<b>Cash and cash equivalents at end of period</b>	<b>221</b>	<b>286</b>

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

(2) Includes £8 million of lease interest paid (six months ended 30 June 2021: £8 million) and £110 million of interest paid under the debenture payable to Heathrow Finance plc (six months ended 30 June 2021: nil).

(3) The group has elected to early pay £250 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 six months ended 30 June 2022

**General information**

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

**Primary financial statements format**

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

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

**Accounting policies**

**Basis of preparation**

The financial information covers the six-month period ended 30 June 2022 and has been prepared in accordance with UK adopted international accounting standards. This condensed set of financial statements comprises the unaudited financial information for the six months ended 30 June 2022 and 2021, together with the unaudited consolidated statement of financial position as at 30 June 2022 and the audited consolidated statement of financial position as at 31 December 2021.

The financial information for the six-month period ended 30 June 2022 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 December 2021, which were prepared in accordance with UK adopted international accounting standards, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified, did not contain an emphasis of matter and did not contain a statement under section 498 of the Companies Act 2006.

Where financial information in the notes to the condensed consolidated financial statements for year ended 31 December 2021 is labelled audited, the amounts have been extracted from the Group's audited financial statements for the year ended 31 December 2021.

The financial information for the six-month period ended 30 June 2022 has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 December 2022. The financial statements for the six-month period ended 30 June 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 interim 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.

**Cash flow and liquidity**

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

Despite a challenging market backdrop, given the long recovery from the COVID-19 pandemic and the uncertainty surrounding tariffs for the H7 regulatory period, continued confidence and support for our credit enabled Heathrow to raise £0.3 billion of debt in the 6 months to 30 June 2022 with new £200 million and CHF165 million Class A transactions being successfully executed. Consequently, Heathrow SP held cash of £1.3 billion as at 30 June 2022. Total debt maturity within Heathrow SP for the next 12 months from 30 June 2022 is £0.8 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of £2.6 billion available. No debt matures outside of Heathrow SP for the next 12 months from 30 June 2022. Taking this into account, the Group has sufficient liquidity to meet all forecast cash flow needs well into 2025 under the current regulatory business plan cash flow forecast or until at least June 2023 even under the most extreme scenario of no revenue. This includes forecast operational costs, capital investment, debt service costs, scheduled debt maturities and repayments.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

**Going concern** *continued*

**Heathrow's Regulatory Business Plan**

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 and have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based on a 2022 traffic forecast of 54.4 million passengers;
- Forecast level of capital expenditure; and
- The overall Group liquidity position including cash resources, the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios, projected covenant requirements, and its ability to access the debt markets.

In modelling the recovery from COVID-19, there remains a significant degree of uncertainty given the wide range of potential traffic forecasts being formed by various stakeholders in the global aviation industry, including the CAA. Therefore, there is inherent subjectivity in our forecasting. Passenger traffic continued to increase through H1, with 26.1 million having travelled through the airport in the 6 months to 30 June 2022 (6 months to 30 June 2021: 3.9m). Demand continues to be driven by outbound leisure as passengers take advantage of the removal of restrictions and travel vouchers from cancelled trips over the past two years, with inbound demand weaker due to COVID-19 restrictions in other countries. However, the degree of uncertainty is still significant due to steep inflation and the resultant increase in cost of living particularly for voucher-led outbound leisure, coupled with uncertainty of future travel restrictions caused by potential new COVID-19 variants of concern.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have full certainty over passenger tariffs for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026), which is set by the Civil Aviation Authority (the "CAA"). As described on page 5 of these interim consolidated financial statements, the CAA's Final Proposals provide an average H7 tariff of £24.14 in 2020 prices, with a final decision expected later in 2022. Until the H7 tariff is finalised, the CAA has put in place an interim tariff (the "interim tariff") from 1 January 2022.

The cash flows in Heathrow's current regulatory business plan RBP Update 2, updated for latest passenger forecasts and inflation, reflect the Directors' view of the expected CAA passenger tariff for the H7 regulatory period, as outlined on page 5. RBP Update 2 assumes the interim tariff will remain in place for the entirety of 2022 and that the overall tariff for the H7 period will be £42.63 (in 2020 prices) or £38.45 (2018p). This is above the CAA's tariff set out in the Final Proposals. It is the Directors' view that its own RBP Update 2 has been carefully crafted to deliver for our passengers and other stakeholders and is therefore a realistic tariff supported by a detailed assessment of each individual block which form part of the tariff calculation. Under RBP Update 2, the Group will meet all covenants associated with its financial arrangements. The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

**Stress testing**

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

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the CAA's H7 tariff from the Final Proposals and further decreases in passenger numbers and a resulting drop in EBITDA. In addition, the Directors have modelled out to December 2023 given the close proximity to the subsequent covenant testing period.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff in line with the CAA's Final Proposals (£24.14 in 2020 prices). This scenario assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022 and 2023. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of under 15 million in 2022 or over 8 million in 2023 (27% and 12% reduction versus RBP Update 2, respectively) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2023. A reduction in passenger numbers of over 16 million in 2022 or over 12 million in 2023 (30% and 20% reduction versus RBP Update 2, respectively) is forecast to result in an ICR covenant breach at Heathrow Finance. The Directors consider these reductions to be severe but plausible due to the continued uncertainty over passenger demand for the reasons outlined above.

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

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

**Going concern** *continued*

**Conclusion**

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

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

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

These interim consolidated financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Accounting policies in addition to those included in the consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2021

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

**Significant accounting judgements and changes in estimates**

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

**Critical judgments in applying the Group's accounting policies**

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

**Retirement benefit scheme surplus**

At 30 June 2022, the BAA Pension Scheme is in a net surplus position of £337 million, comprised of scheme assets measured at fair value of £3,490 million and scheme liabilities of £3,153 million. The Directors have deemed it appropriate to recognise the surplus in full on the basis that there is an unconditional right to refund and therefore no requirement to restrict the surplus as measured under IAS 19.

**Going concern**

The impact of COVID-19 on going concern was considered in some detail. Further information can be found within the 'Basis of preparation and accounting standards, interpretations and amendments' section.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

Critical judgments in applying the Group's accounting policies *continued*

**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 30 June 2022, £514 million of Expansion-related assets in the course of construction are recognised on the balance sheet, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission. 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 year, with no further impairment recognised.

**Key sources of estimation uncertainty**

In preparing the six-month condensed consolidated interim financial information, the key sources of estimation uncertainty remain consistent with those applied to the Annual Report and Financial Statements for the year ended 31 December 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 six months ended 30 June 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)	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Revenue reported under IFRS 15</b>		
Aeronautical		
Movement charges	308	84
Parking charges	42	24
Passenger charges	460	61
Total aeronautical revenue	810	169
Other regulated charges	109	57
Retail revenue	247	59
Property revenue	16	5
Rail Income		
Heathrow Express	41	4
Other	2	2
<b>Total revenue reported under IFRS 15</b>	<b>1,225</b>	<b>296</b>
<b>Revenue reported under IFRS 16</b>		
Property (lease-related income)	55	52
<b>Total revenue</b>	<b>1,280</b>	<b>348</b>
<i>Heathrow Airport</i>	<i>1,239</i>	<i>344</i>
<i>Heathrow Express</i>	<i>41</i>	<i>4</i>
<b>Adjusted EBITDA</b>	<b>744</b>	<b>(33)</b>
<i>Heathrow Airport</i>	<i>729</i>	<i>(21)</i>
<i>Heathrow Express</i>	<i>15</i>	<i>(12)</i>
<b>Reconciliation to statutory information:</b>		
Depreciation and amortisation	(372)	(409)
<b>Operating profit/(loss) (before certain re-measurements)</b>	<b>372</b>	<b>(442)</b>
Fair value gain on investment properties	218	25
<b>Operating profit/(loss)</b>	<b>590</b>	<b>(417)</b>
Finance income	9	4
Finance costs	(336)	(455)
<b>Profit/(loss) before tax</b>	<b>263</b>	<b>(868)</b>

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

1. SEGMENT INFORMATION *CONTINUED*

Table (b)	Unaudited Six months ended 30 June 2022		Unaudited Six months ended 30 June 2021	
	Depreciation & amortisation <sup>(1)</sup> £m	Fair value gain <sup>(2)</sup> £m	Depreciation & amortisation <sup>(1)</sup> £m	Fair value gain <sup>(2)</sup> £m
Heathrow Airport	(358)	218	(392)	25
Heathrow Express	(14)	-	(17)	-
<b>Total</b>	<b>(372)</b>	<b>218</b>	<b>(409)</b>	<b>25</b>

(1) Includes intangible amortisation charge of £17 million (six months ended 30 June 2021: £17 million).

(2) Reflects fair value gain and loss on investment properties only.

Table (c)	Unaudited 30 June 2022		Audited 31 December 2021	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Heathrow Airport	12,931	(431)	12,750	(346)
Heathrow Express	575	(20)	594	(27)
<b>Total operations</b>	<b>13,506</b>	<b>(451)</b>	<b>13,344</b>	<b>(373)</b>
Unallocated assets and liabilities:				
Cash, term deposits and external borrowings	1,291	(15,524)	2,626	(15,819)
Retirement benefit assets/(obligations)	337	(29)	343	(30)
Derivative financial instruments	714	(2,378)	446	(2,244)
Deferred and current tax assets/(liabilities)	1	(767)	3	(706)
Amounts owed to group undertakings	-	(2,509)	-	(3,530)
Right of use asset and lease liabilities	286	(386)	270	(371)
<b>Total</b>	<b>16,135</b>	<b>(22,044)</b>	<b>17,032</b>	<b>(23,073)</b>

## 2. OPERATING COSTS

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Employment <sup>1</sup>	173	121
Operational <sup>2</sup>	142	89
Maintenance	82	60
Rates	59	60
Utilities	46	28
Other	34	23
Total operating costs before depreciation and amortisation	536	381
<b>Depreciation and amortisation:</b>		
Property, plant and equipment	335	372
Intangible assets	17	17
Right of Use (RoU) assets	20	20
<b>Total operating costs</b>	<b>908</b>	<b>790</b>

<sup>1</sup> For the six months ended 30 June 2021, Government grants of £16 million were received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. Following the end of the scheme in September 2021, no equivalent payments were received in the six months ended 30 June 2022.

<sup>2</sup> For the six months ended 30 June 2022, £4 million was received through the Airport and Ground Operations Support Scheme (six months ended 30 June 2021: £8 million) which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

3. FINANCING

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Finance income</b>		
Interest on deposits	7	4
Pension finance income	2	-
<b>Total finance income</b>	<b>9</b>	<b>4</b>
<b>Finance costs</b>		
Interest on borrowings:		
Bonds and related hedging instruments <sup>(1)</sup>	(378)	(279)
Bank loans and overdrafts and related hedging instruments	(25)	(30)
Net interest (payable)/receivable on derivatives not in hedge relationship <sup>(2)</sup>	(210)	57
Facility fees and other charges	(5)	(6)
Interest on debenture payable to Heathrow Finance plc	(91)	(88)
Finance costs on lease liabilities	(8)	(8)
	<b>(717)</b>	<b>(354)</b>
Less: capitalised borrowing costs <sup>(3)</sup>	15	5
<b>Total finance costs</b>	<b>(702)</b>	<b>(349)</b>
<b>Net finance costs before certain re-measurements</b>	<b>(693)</b>	<b>(345)</b>
<b>Certain re-measurements</b>		
<b>Fair value gain/(loss) on financial instruments</b>		
Interest rate swaps: not in hedge relationship	107	(11)
Index-linked swaps: not in hedge relationship <sup>(4), (5)</sup>	249	(71)
Cross-currency swaps and debt: not in hedge relationship <sup>(4), (5)</sup>	(30)	(11)
Cross-currency swaps and debt: ineffective portion of cash flow hedges <sup>(5)</sup>	7	(12)
Cross-currency swaps and debt: ineffective portion of fair value hedges <sup>(5)</sup>	30	(1)
Foreign exchange contracts	3	-
	<b>366</b>	<b>(106)</b>
<b>Net finance costs</b>	<b>(327)</b>	<b>(451)</b>

(1) Includes accretion of £120 million for six months ended 30 June 2022 (six months ended 30 June 2021: £30 million) on index-linked bonds.

(2) Includes accretion of £387 million for six months ended 30 June 2022 (six months ended 30 June 2021: £78 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 4.40% (six months ended 30 June 2021: 1.50%) to expenditure incurred on such assets. The increase in the average cost of debt since the end of 2021 is mainly due to an increase in inflation, partially offset by savings from further swap repricing in the first 6 months of the year.

(4) Includes gain on foreign exchange retranslation on the currency bonds of £3 million for the six months ended 30 June 2022 (six months ended 30 June 2021: £9 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 six months ended 30 June 2022

## 4. TAX CREDIT/(CHARGE)

	Unaudited Six months ended 30 June 2022			Unaudited Six months ended 30 June 2021		
	Before certain re- measurements £m	Certain re- measurements £m	Total £m	Before certain re- measurements £m	Certain re- measurements £m	Total £m
<b>UK corporation tax</b>						
Current tax charge at 19% (2021: 19%)	(2)	-	(2)	-	-	-
Deferred tax:						
Current year credit/(charge)	69	(147)	(78)	143	20	163
Change in tax rate	-	-	-	-	(212)	(212)
<b>Taxation credit/(charge)</b>	<b>67</b>	<b>(147)</b>	<b>(80)</b>	<b>143</b>	<b>(192)</b>	<b>(49)</b>

The total tax charge recognised for the six months ended 30 June 2022 was £80 million (six months ended 30 June 2021: £49 million), based on a profit before tax for the six months ended 30 June 2022 of £263 million (six months ended 30 June 2021: loss before tax £868 million).

The total tax credit before certain re-measurements for the six months ended 30 June 2022 was £67 million (six months ended 30 June 2021: £143 million). Based on a loss before tax and certain re-measurements of £321 million (six months ended 30 June 2021: £787 million), this results in an effective tax rate of 20.9% (six months ended 30 June 2021: 18.2%). The effective tax rate is higher (2021: lower) than the statutory rate of 19% (2021: 19%). This is because most of the current year tax movements relate to deferred tax which is measured at the 25% post April 2023 statutory tax rate. This is partially offset by non-deductible expenses primarily related to non-qualifying depreciation.

In addition, there was a £147 million tax charge (six months ended 30 June 2021: £20 million tax credit) arising on fair value movements on investment property revaluations and financial instruments.

The increase in the statutory tax rate from 19% to 25% was enacted in Finance Act 2021 and the effects of the increase on the brought forward deferred tax balances were included in the results for the six months to 30 June 2021, resulting in a tax charge of £212 million.

Based on the fair value gains which have arisen on financial instruments and the improved trading performance in the six months to June 2022, Management has concluded that the deferred tax assets as at 30 June 2022, may be recovered against the unwind of existing deferred tax liabilities and future forecast taxable profits.

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

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.



## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

## 5. PROPERTY, PLANT AND EQUIPMENT

	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
<b>Cost</b>							
<b>1 January 2022</b>	<b>12,276</b>	<b>2,053</b>	<b>1,103</b>	<b>372</b>	<b>1,233</b>	<b>1,177</b>	<b>18,214</b>
Additions	-	-	-	-	-	249	249
Borrowing costs capitalised	-	-	-	-	-	16	16
Disposals	(59)	-	(1)	-	-	-	(60)
Transfer to intangible assets	-	-	-	-	-	(4)	(4)
Transfers to completed assets	19	5	19	-	1	(44)	-
<b>30 June 2022 (Unaudited)</b>	<b>12,236</b>	<b>2,058</b>	<b>1,121</b>	<b>372</b>	<b>1,234</b>	<b>1,394</b>	<b>18,415</b>
<b>Depreciation</b>							
<b>1 January 2022</b>	<b>(5,615)</b>	<b>(612)</b>	<b>(660)</b>	<b>(128)</b>	<b>(545)</b>	-	<b>(7,560)</b>
Depreciation charge	(245)	(28)	(40)	(7)	(15)	-	(335)
Disposals	59	-	1	-	-	-	60
<b>30 June 2022 (Unaudited)</b>	<b>(5,801)</b>	<b>(640)</b>	<b>(699)</b>	<b>(135)</b>	<b>(560)</b>	-	<b>(7,835)</b>
<b>Net book value</b>							
<b>30 June 2022 (Unaudited)</b>	<b>6,435</b>	<b>1,418</b>	<b>422</b>	<b>237</b>	<b>674</b>	<b>1,394</b>	<b>10,580</b>

The Regulatory Asset Base (RAB), the regulated mechanism made up of existing and new capital investment by which the group makes a cash return, was £18,425 million at 30 June 2022 (31 December 2021: £17,474 million).

	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
<b>Cost</b>							
<b>1 January 2021</b>	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-off	-	-	-	-	-	(24)	(24)
Transfer to investment properties	-	-	-	-	-	(1)	(1)
Transfer to intangible assets	-	-	-	-	-	(18)	(18)
Reclassification	-	-	-	29	-	(29)	-
Transfer to completed assets	71	(14)	44	48	-	(149)	-
<b>31 December 2021 (Audited)</b>	<b>12,276</b>	<b>2,053</b>	<b>1,103</b>	<b>372</b>	<b>1,233</b>	<b>1,177</b>	<b>18,214</b>
<b>Depreciation</b>							
<b>1 January 2021</b>	<b>(5,120)</b>	<b>(553)</b>	<b>(568)</b>	<b>(108)</b>	<b>(656)</b>	-	<b>(7,005)</b>
Depreciation charge	(497)	(59)	(94)	(21)	(49)	-	(720)
Disposals	2	-	2	1	160	-	165
<b>31 December 2021 (Audited)</b>	<b>(5,615)</b>	<b>(612)</b>	<b>(660)</b>	<b>(128)</b>	<b>(545)</b>	-	<b>(7,560)</b>
<b>Net book value</b>							
<b>31 December 2021 (Audited)</b>	<b>6,661</b>	<b>1,441</b>	<b>443</b>	<b>244</b>	<b>688</b>	<b>1,177</b>	<b>10,654</b>

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

6. INVESTMENT PROPERTIES

	£m
<b>Valuation</b>	
1 January 2021	2,118
Additions	4
Transfers from property, plant and equipment	1
Fair value movements	174
<b>31 December 2021 (Audited)</b>	<b>2,297</b>
Fair value movements	218
<b>30 June 2022 (Unaudited)</b>	<b>2,515</b>

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 appropriate 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. Non-commercial car parks, sites, non-operational land and residential properties were valued 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 valuations 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 commercial car parks. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues also.

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

The Investment Property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (31 December 2021: 68%) of the fair value of the investment property portfolio at 30 June 2022. The valuation of maintenance hangars 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 the income statement within other operating costs.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

7. BORROWINGS

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
<b>Current</b>		
<b>Secured</b>		
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	<b>739</b>	-
<b>Total current (excluding interest payable)</b>	<b>739</b>	741
Interest payable – external	<b>187</b>	203
Interest payable – owed to group undertakings	<b>45</b>	64
<b>Total current</b>	<b>971</b>	1,008
<b>Non-current</b>		
<b>Secured</b>		
Heathrow Funding Limited bonds		
5.225% £750 million due 2023	-	732
7.125% £600 million due 2024	<b>597</b>	597
0.500% CHF400 million due 2024	<b>338</b>	326
3.250% C\$500 million due 2025	<b>295</b>	294
1.500% €750 million due 2025	<b>641</b>	625
4.221% £155 million due 2026	<b>155</b>	155
0.450% CHF210 million due 2026	<b>170</b>	170
6.750% £700 million due 2026	<b>695</b>	695
2.650% NOK1,000 million due 2027	<b>77</b>	84
2.694% C\$650 million due 2027	<b>414</b>	379
1.800% CHF165 million due 2027	<b>140</b>	-
3.400% C\$400 million due 2028	<b>254</b>	233
7.075% £200 million due 2028	<b>199</b>	199
4.150% A\$175 million due 2028	<b>93</b>	99
2.625% £350 million due 2028	<b>347</b>	346
2.500% NOK1,000 million due 2029	<b>70</b>	77
2.750% £450 million due 2029	<b>445</b>	445
1.500% €750 million due 2030	<b>584</b>	656
3.782% C\$400 million due 2030	<b>246</b>	235
1.125% €500 million due 2030	<b>425</b>	414
6.450% £900 million due 2031	<b>861</b>	860
3.661% C\$500 million due 2031	<b>318</b>	291
Zero-coupon €50 million due January 2032	<b>66</b>	63
1.366%+RPI £75 million due 2032	<b>97</b>	92
Zero-coupon €50 million due April 2032	<b>65</b>	62
1.875% €500 million due 2032	<b>429</b>	418
0.101%+RPI £182 million due 2032	<b>204</b>	192
3.726% C\$625 million due 2033	<b>404</b>	371
1.875% €650 million due 2034	<b>464</b>	555
4.171% £50 million due 2034	<b>50</b>	50
Zero-coupon €50 million due 2034	<b>54</b>	52
0.347%+RPI £75 million due 2035	<b>85</b>	80
0.337%+RPI £75 million due 2036	<b>85</b>	80
1.061%+RPI £180 million due 2036	<b>229</b>	216

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

7. BORROWINGS *CONTINUED*

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
0.419%+RPI £51 million due 2038	57	54
3.460% £105 million due 2038	105	105
1.382%+RPI £50 million due 2039	65	61
Zero-coupon €86 million due 2039	81	78
3.334%+RPI £460 million due 2039	717	679
0.800% JPY10,000 million due 2039	52	64
1.238%+RPI £100 million due 2040	129	121
0.362%+RPI £75 million due 2041	85	80
3.500% A\$125 million due 2041	71	67
5.875% £750 million due 2041	739	739
2.926% £55 million due 2043	54	54
4.625% £750 million due 2046	742	742
1.372%+RPI £75 million due 2049	97	92
2.750% £400 million due 2049	393	393
0.147%+RPI £160 million due 2058	187	175
<b>Total bonds</b>	<b>13,170</b>	<b>13,647</b>
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	100	100
Class A3 term loan due 2029	200	200
Term notes due 2026-2040	1,128	928
<b>Total other debt</b>	<b>1,428</b>	<b>1,228</b>
<b>Unsecured</b>		
Debtenture payable to Heathrow Finance plc	2,464	3,466
<b>Total non-current</b>	<b>17,062</b>	<b>18,341</b>
<b>Total borrowings (excluding interest payable)</b>	<b>17,801</b>	<b>19,082</b>

At 30 June 2022, Heathrow SP's consolidated nominal net debt was £14,507 million (31 December 2021: £13,332 million). It comprised £13,854 million (31 December 2021: £14,327 million) in bond issues, £1,430 million (31 December 2021: £1,230 million) in other term debt, £480 million (31 December 2021: £381 million) in index-linked derivative accretion and £34 million (31 December 2021: £20 million) of additional lease liabilities. This was offset by £1,291 million (31 December 2021: £2,626 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £12,426 million (31 December 2021: £11,294 million) in senior net debt and £2,081 million (31 December 2021: £2,038 million) in junior debt.

At 30 June 2022, total non-current borrowings due after more than 5 years was £13,830 million (31 December 2021: £11,083 million), comprising £10,138 million (31 December 2021: £10,055 million) of bonds, £2,464 million debtenture payable to Heathrow Finance plc and £1,228 million (31 December 2021: £1,028 million) in bank facilities, excludes lease liabilities.

**Interest Rate Benchmark Reform**

At 30 June 2022, all debt has transitioned across to iBOR SONIA rates.

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

7. BORROWINGS *CONTINUED*

**Impact of fair value hedge adjustments**

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

	Unaudited 30 June 2022		Audited 31 December 2021	
	Nominal at hedge rate £m	Fair value adjustment <sup>(1)</sup> £m	Nominal at hedge rate £m	Fair value adjustment <sup>(1)</sup> £m
Euro denominated debt	1,125	144	1,615	(52)
CAD denominated debt	337	30	337	(5)
Other currencies debt	780	53	780	3
<b>Designated in fair value hedge</b>	<b>2,242</b>	<b>227</b>	<b>2,732</b>	<b>(54)</b>

(1) Fair value adjustment is comprised of fair value gain of £232 million (year ended December 2021: £45 million loss) on continuing hedges and £5 million loss (year ended December 2021: £9 million loss) on discontinued hedges.

8. DERIVATIVE FINANCIAL INSTRUMENTS

Unaudited 30 June 2022	Notional £m	Assets £m	Liabilities £m	Total £m
<b>Current</b>				
Foreign exchange contracts	79	3	(2)	1
Index-linked swaps	160	-	(43)	(43)
	<b>239</b>	<b>3</b>	<b>(45)</b>	<b>(42)</b>
<b>Non-current</b>				
Interest rate swaps	7,921	383	(844)	(461)
Cross-currency swaps	5,533	283	(195)	88
Index-linked swaps	5,647	45	(1,294)	(1,249)
	<b>19,101</b>	<b>711</b>	<b>(2,333)</b>	<b>(1,622)</b>
<b>Total</b>	<b>19,340</b>	<b>714</b>	<b>(2,378)</b>	<b>(1,664)</b>

  

Audited 31 December 2021	Notional £m	Assets £m	Liabilities £m	Total £m
<b>Current</b>				
Foreign exchange contracts	83	-	(2)	(2)
Cross-currency swaps	490	25	-	25
Index-linked swaps	100	-	(17)	(17)
	<b>673</b>	<b>25</b>	<b>(19)</b>	<b>6</b>
<b>Non-current</b>				
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)
	<b>18,634</b>	<b>421</b>	<b>(2,225)</b>	<b>(1,804)</b>
<b>Total</b>	<b>19,307</b>	<b>446</b>	<b>(2,244)</b>	<b>(1,798)</b>

At 30 June 2022, total non-current notional value of Derivative financial instruments due in greater than 5 years was £14,100 million (31 December 2021: £13,543 million), comprising £4,778 million (31 December 2021: £4,777 million) of Index-linked swaps, £4,149 million (31 December 2021: £4,013 million) of cross-currency swaps, and £5,173 million (31 December 2021: £4,753 million) of Interest rate swaps.

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

8. 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 losses deferred of £21 million (30 June 2021: £22 million; 31 December 2021: £21 million) expected to be released in less than one year, £21 million (30 June 2021: £21 million; 31 December 2021: £21 million) between one and two years, £59 million (30 June 2021: £63 million; 31 December 2021: £62 million) between two and five years and £71 million (30 June 2021: £87 million; 31 December 2021: £79 million) over five years. Of the total amount deferred in other comprehensive income £172 million (30 June 2021: £193 million; 31 December 2021: £183 million) related to discontinued cash flow hedges.

**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.

**Index-linked swaps**

Index-linked swaps have been entered into in order to economically hedge RPI linked revenue and the Regulatory Asset Base 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 30 June 2022 and 31 December 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 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;
- 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 six months ended 30 June 2022

8. DERIVATIVE FINANCIAL INSTRUMENTS *CONTINUED*

As at 30 June 2022, £221 million (30 June 2021: £193 million; 31 December 2021: £234 million) remained capitalised and £13 million (30 June 2021: £13 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 period 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 30 June:

30 June 2022				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Assets</b>				
Assets at fair value through income statement	-	441	-	441
Derivatives qualifying for hedge accounting	-	273	-	273
<b>Total assets</b>	<b>-</b>	<b>714</b>	<b>-</b>	<b>714</b>
<b>Liabilities</b>				
Liabilities at fair value through income statement	-	(2,196)	-	(2,196)
Derivatives qualifying for hedge accounting	-	(182)	-	(182)
<b>Total liabilities</b>	<b>-</b>	<b>(2,378)</b>	<b>-</b>	<b>(2,378)</b>
31 December 2021				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Assets</b>				
Assets at fair value through income statement	-	189	-	189
Derivatives qualifying for hedge accounting	-	257	-	257
<b>Total assets</b>	<b>-</b>	<b>446</b>	<b>-</b>	<b>446</b>
<b>Liabilities</b>				
Liabilities at fair value through income statement	-	(2,146)	-	(2,146)
Derivatives qualifying for hedge accounting	-	(98)	-	(98)
<b>Total liabilities</b>	<b>-</b>	<b>(2,244)</b>	<b>-</b>	<b>(2,244)</b>

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

## 9. 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*

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Employment costs:		
Defined contribution schemes	6	6
BAA Pension Scheme	11	12
Past service charge	5	-
	<b>22</b>	<b>18</b>
Finance credit - BAA Pension Scheme	(2)	-
<b>Total pension costs</b>	<b>20</b>	<b>18</b>

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

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
BAA Pension Scheme (loss)/gain	(7)	116
Actuarial (loss)/gain recognised before tax	(7)	116
Tax credit/(charge) on actuarial (loss)/gain	2	(30)
<b>Actuarial (loss)/gain recognised after tax</b>	<b>(5)</b>	<b>86</b>

*Statement of financial position - net defined benefit pension deficit and other pension related liabilities*

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
Fair value of plan assets	3,490	4,886
Benefit obligation	(3,153)	(4,543)
Surplus in BAA Pension Scheme	337	343
Unfunded pension obligations	(28)	(29)
Post-retirement medical benefits	(1)	(1)
Deficit in other pension related liabilities	(29)	(30)
<b>Net surplus in pension schemes</b>	<b>308</b>	<b>313</b>
<b>Group share of net surplus in pension schemes</b>	<b>308</b>	<b>313</b>



Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

9. 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 Group and are administered by the Trustee.

The value placed on the Scheme's obligations as at 30 June 2022 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 30 June 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 30 June 2022. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

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

	Unaudited 30 June 2022 £m			Audited 31 December 2021 £m		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fair value of plan assets <sup>1</sup>						
Equity	160	536	696	185	179	364
Property	-	174	174	-	166	166
Bonds	453	584	1,037	502	1,051	1,553
Cash	-	138	138	-	155	155
LDI	-	625	625	-	2,024	2,024
Buy in	-	500	500	-	311	311
Other	-	320	320	-	313	313
<b>Total fair value of plan</b>	<b>613</b>	<b>2,877</b>	<b>3,490</b>	<b>687</b>	<b>4,199</b>	<b>4,886</b>

<sup>1</sup> 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 30 June 2022, the largest single category of investment was a portfolio of bonds, with a value of £1,037 million (30% of the asset holding at 30 June 2022). At 31 December 2021, the largest single category of investment was a liability driven investment ('LDI') mandate, with a value of £2,024 million (41% of the asset holding at 31 December 2021). The purpose of the Scheme entering into this mandate is to reduce asset/liability mismatch risk.

LDI holdings are portfolios of 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:

	Unaudited 30 June 2022 %	Audited 31 December 2021 %
Rate of increase in pensionable salaries	1.90	1.90
Increase to deferred benefits during deferment	3.15	3.00
Increase to pensions in payment:		
Open section	3.25	3.40
Closed section	3.35	3.50
Discount rate	3.65	1.80
Inflation assumption	3.35	3.50

APPENDIX 2 FINANCIAL INFORMATION HEATHROW (SP) LIMITED

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

10. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Profit/(loss) before tax</b>	<b>263</b>	(868)
<i>Adjustments for:</i>		
Net finance costs	327	451
Depreciation	335	372
Amortisation on intangibles	17	17
Amortisation on right of use assets	20	20
Fair value gain on investment properties	(218)	(25)
<i>Working capital changes:</i>		
(Increase)/decrease in inventories and trade and other receivables	(31)	256
Increase/(decrease) in trade and other payables	43	(48)
Decrease in provisions	(1)	(1)
Difference between pension charge and cash contributions	1	11
<b>Cash generated from operations before exceptional items</b>	<b>756</b>	185
Cash payments in respect of exceptional items	(1)	(8)
<b>Cash generated from operations</b>	<b>755</b>	177

11. COMMITMENTS AND CONTINGENT LIABILITIES

**Group commitments for property, plant and equipment**

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
<b>Contracted for, but not accrued:</b>		
Baggage systems	7	35
Terminal restoration and modernisation	50	59
Tunnels refurbishments	66	65
Capacity optimisation	4	9
IT projects	20	15
Other projects	2	1
	<b>149</b>	184

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

**Contingent liabilities**

As at 30 June 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 (31 December 2021: £2 million).

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

## 12. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties:

Purchase of goods and services	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Ferrovial Construction	29	11
Heathrow Finance plc <sup>(1)</sup>	91	88
	<b>120</b>	99

(1) Relates to interest on the debenture payable to Heathrow Finance plc (note 3).

Sales to related party	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Harrods International Limited	13	1
Qatar Airways	23	9
	<b>36</b>	10

Balances outstanding with related parties were as follows:	Unaudited 30 June 2022		Audited 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	-	2,509	-	3,530
	-	<b>2,509</b>	-	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.

## 13. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs)

**Alternative Performance Measures**

The Group presents its results in accordance with UK adopted international accounting standards. Management also uses other financial measures not defined by IFRS and known 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.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Profit/(loss) for the period</b>	183	(917)
Add: Tax charge	80	49
Add: Net finance costs	327	451
Operating profit/(loss)	590	(417)
Add: depreciation and amortisation	372	409
<b>EBITDA</b>	<b>962</b>	(8)

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

13. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED***EBITDA** *continued*

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Cash generated from operations</b>	<b>755</b>	177
<i>Exclude:</i>		
Increase/(decrease) in inventories and trade and other receivables	31	(256)
(Increase)/decrease in trade other payables	(43)	48
Decrease in provisions	1	1
Difference between pension charge and cash contributions	(1)	(11)
Cash payments in respect of exceptional items	1	8
Add: Fair value gain on investment properties	218	25
<b>EBITDA</b>	<b>962</b>	(8)

**Adjusted EBITDA**

Adjusted EBITDA is loss or profit before interest, taxation, depreciation, amortisation and fair value gains and losses on investment properties. 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.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Profit/(loss) for the period</b>	<b>183</b>	(917)
Add: Tax charge	80	49
Add: Net finance costs	327	451
Operating profit/(loss)	590	(417)
Add: depreciation and amortisation	372	409
Less: fair value gain on investment properties	(218)	(25)
<b>Adjusted EBITDA</b>	<b>744</b>	(33)

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Cash generated from operations</b>	<b>755</b>	177
<i>Exclude:</i>		
Increase/(decrease) in inventories and trade and other receivables	31	(256)
(Increase)/decrease in trade other payables	(43)	48
Decrease in provisions	1	1
Difference between pension charge and cash contributions	(1)	(11)
Cash payments in respect of exceptional items	1	8
<b>Adjusted EBITDA</b>	<b>744</b>	(33)

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

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

**Adjusted operating profit/(loss)**

Adjusted operating profit/(loss) shows operating results excluding fair value gains and losses to investment properties. 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 underlying performance of the trading business.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Operating profit/(loss)<sup>1</sup></b>	<b>590</b>	(417)
Less: fair value gain on investment properties	(218)	(25)
<b>Adjusted operating profit/(loss)</b>	<b>372</b>	(442)

<sup>1</sup>Operating profit/(loss) is presented on the Group Income statement, it is not defined per IFRS, however it is a generally accepted profit measure

**Net finance costs before certain re-measurements**

Net finance costs 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, 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.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
Finance income	9	4
Finance costs	(336)	(455)
<b>Net finance costs including certain re-measurements</b>	<b>(327)</b>	(451)
Add: fair value (gain)/loss arising on re-measurement of financial instruments	(366)	106
<b>Net finance costs before certain re-measurements</b>	<b>(693)</b>	(345)

**Adjusted loss before tax**

Adjusted profit/(loss) before tax excludes fair value adjustments on investment properties and financial instruments. Excluding fair value adjustments 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.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Profit/(loss) before tax</b>	<b>263</b>	(868)
Less: fair value gain on investment properties	(218)	(25)
Add: fair value (gain)/loss arising on re-measurement of financial instruments	(366)	106
<b>Adjusted loss before tax</b>	<b>(321)</b>	(787)

Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

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

**Adjusted loss after tax**

Adjusted loss after tax excludes fair value gains and losses on investment properties and financial instruments and the associated tax. Excluding fair value adjustments 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.

	Unaudited Six months ended 30 June 2022 £m	Unaudited Six months ended 30 June 2021 £m
<b>Profit/(loss) after tax</b>	<b>183</b>	(917)
Less: fair value gain on investment properties	(218)	(25)
Add: fair value (gain)/loss arising on re-measurement of financial instruments	(366)	106
Add/(less): tax charge/(credit) on fair value re-measurement of investment properties and financial instruments	147	(20)
Add: change in tax rate	-	212
<b>Adjusted loss after tax</b>	<b>(254)</b>	(644)

**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.

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 hedging impact of cross currency interest rate swaps. It excludes pre-existing lease liabilities recognised upon transition to IFRS 16, accrued interest, capitalised borrowing costs and intra-group loans.

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
<b>Net debt</b>	<b>(16,896)</b>	(16,827)
Index-linked swap accretion <sup>(1)</sup>	(480)	(381)
Impact of cross currency interest rate swaps <sup>(2)</sup>	100	124
Bond issuance costs <sup>(3)</sup>	(47)	(65)
Less: IFRS 16 lease liability at 31 December 2019 relating to pre-existing leases <sup>(4)</sup>	352	351
Less: Intercompany	2,464	3,466
<b>Consolidated nominal net debt</b>	<b>(14,507)</b>	(13,332)

(1) Index linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on 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.

## Notes to the condensed consolidated financial statements for the six months ended 30 June 2022

13. RECONCILIATION OF OUR ALTERNATIVE PERFORMANCE MEASURES (APMs) *CONTINUED***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 represents the invested capital on which Heathrow are authorised to earn a cash return. It is used in key financial ratios and in our regulatory accounts.

	Unaudited 30 June 2022 £m	Audited 31 December 2021 £m
<b>Regulatory Asset Base (RAB)</b>	<b>18,425</b>	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.

	Unaudited 30 June 2022 %	Audited 31 December 2021 %
Junior (Class B) gearing ratio	78.7	76.3
Senior (Class A) gearing ratio	67.4	64.6



## **Independent review report to the Directors of Heathrow (SP) Limited Report on the condensed consolidated interim financial statements**

### **Our conclusion**

We have reviewed Heathrow (SP) Limited's condensed consolidated interim financial statements (the "interim financial statements") in the Results of Heathrow (SP) Limited for the 6 month period ended 30 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

The interim financial statements comprise:

- the Condensed consolidated statement of financial position of Heathrow (SP) Limited as at 30 June 2022;
- the Condensed consolidated income statement and the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Results of Heathrow (SP) Limited have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

### **Basis for conclusion**

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

### **Material uncertainty related to going concern**

In forming our conclusion on the interim financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Going concern section of the Accounting policies to the interim financial statements concerning the Heathrow (SP) Limited group's (the "group") ability to continue as a going concern. Heathrow continues to be significantly impacted by





the COVID-19 pandemic and subsequent recovery which has resulted in passenger traffic and cash flow challenges for the group. The ability of Heathrow to continue as a going concern is underpinned by the performance of the wider group. The group's forecast and projections assume the regulatory tariffs as described on page 17 and a gradual recovery in the passenger number forecast in the going concern period which still represents a significant reduction to historical revenue levels. In addition, the group has been impacted by uncertainties in relation to the confirmation of their regulatory tariff from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). In the event there are further waves of the pandemic or implementation of lockdowns, leading to further travel restrictions being imposed worldwide, combined with the uncertainty around H7 tariff, the group, whilst having sufficient liquidity, may require covenant waivers in respect to the interest cover ratio (ICR). These conditions, along with the other matters explained in the Going concern section of the Accounting policies to the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors' have inappropriately applied the going concern basis of accounting in the preparation of the interim financial statements.

## **Responsibilities for the interim financial statements and the review**

### **Our responsibilities and those of the directors**

The results, including the interim financial statements, is the responsibility of, and has been approved by the directors. In preparing the results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the results based on our review. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the directors of the company as a body, for management purposes, in connection with review of the condensed consolidated interim financial information and for no other purpose. Our report may not be made available to any other party without our prior written consent. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over a light blue horizontal line.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Watford  
25 July 2022

## GLOSSARY

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

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

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

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

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

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

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

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

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

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

**NERL** – National Air Traffic Services is split into two main service provision companies, one 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%; Heathrow Finance RAR covenant is 92.5%.

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

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