ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

HEATHROW (SP) LIMITED ANNUAL REPORT AND ACCOUNTS

By keeping Heathrow open and operating safely, our dedicated teams have helped our passengers get away on their journeys, and we've helped businesses continue trading with the world despite unprecedented challenges.

OUR VISION TO GIVE PASSENGERS THE BEST AIRPORT SERVICE IN THE WORLD

OUR PURPOSE TO MAKE EVERY JOURNEY BETTER

SECTION 01

STRATEGIC REPORT

AT A GLANCE

Passenger numbers fell to 19.4m, lowest since 1972

Heathrow was the only European hub to see a reduction in traffic last year, due to tighter travel restrictions than EU countries. Cargo, mainly carried on passenger planes, was 12% down on pre-pandemic levels.

Cost reduction helped to stem losses for the year

We have worked hard to achieve £870m of cost savings over the last two years, however cumulative losses during the pandemic have risen to £3.8bn due to lower passengers and high fixed costs.

Passenger numbers currently 23% behind forecast, but a strong summer for outbound tourism predicted

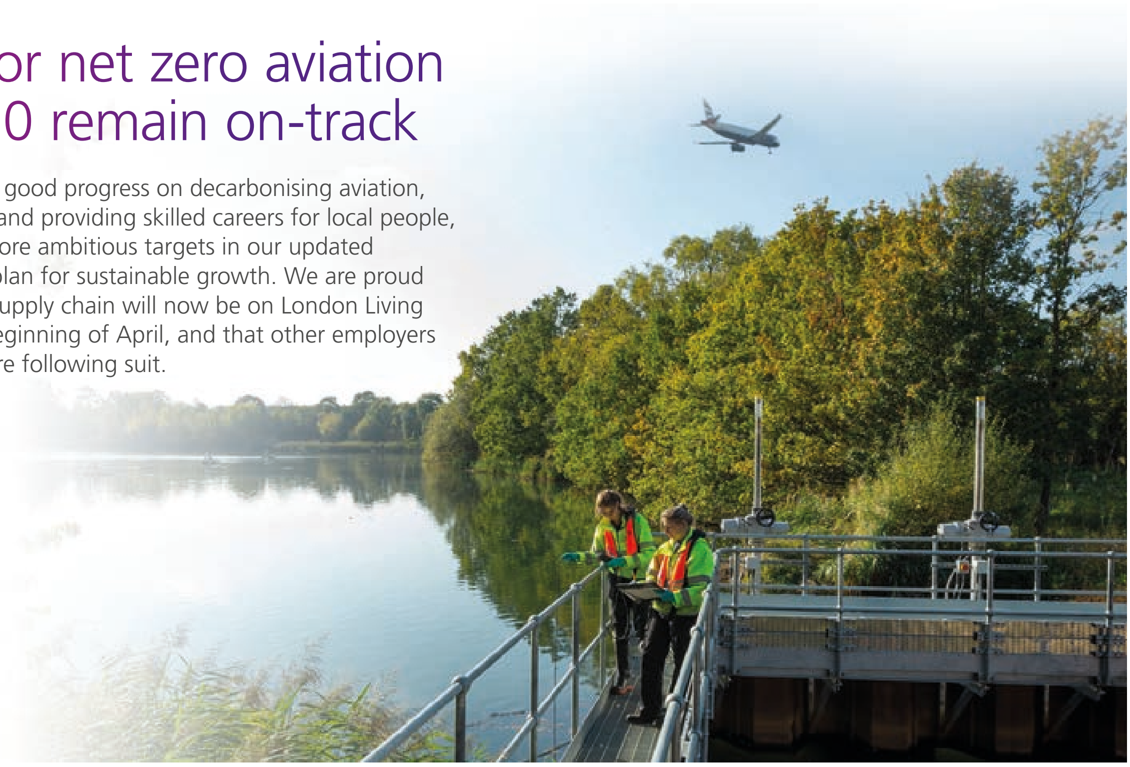
Despite lower than expected passenger numbers in January and February, we are expecting a surge of Brits heading for summer sun and are working with our airline partners to ramp up operations to ensure they have a great experience at Heathrow, including reopening Terminal 4 by July. We expect to meet our 2022 target of 45.5m passengers.

Inbound tourism and business travel remain key challenges

Removing testing restrictions in the UK has boosted outbound tourism demand, but inbound tourism and business travel are suppressed due to testing in other countries. 63% of our markets retain some form of travel restriction or testing requirements, and government responses to Omicron show how uncertain broader travel demand remains. We don't expect travel to return to pre-pandemic levels until all restrictions have been removed, passengers can travel with no checks and are confident they will not be reimposed.

Plans for net zero aviation by 2050 remain on-track

We are making good progress on decarbonising aviation, tackling noise, and providing skilled careers for local people, and have set more ambitious targets in our updated Heathrow 2.0 plan for sustainable growth. We are proud that all of our supply chain will now be on London Living Wage by the beginning of April, and that other employers at the airport are following suit.



Balance sheet remains strong in face of headwinds

Gearing is reducing towards pre-pandemic levels helped by cost savings. Liquidity of £4bn is sufficient to support recovery, but we are keeping a close eye on cashflows to protect financial covenants and credit ratings. Ratings agencies have been clear that the CAA's final H7 settlement will be a key determiner for maintaining Heathrow's investment grade ratings. No dividends were paid in 2021 or forecast to be paid in 2022.

Maintaining passenger service levels key to recovery

Heathrow was rated by passengers as one of the world's top 10 airports in 2021 in the Skytrax survey. Our plan for H7 seeks to maintain this level of service by delivering easy, quick and reliable journeys while keeping the increase in total ticket prices below 2%, despite significantly fewer passengers. We are anxious that the CAA will undercook the investment needed to avoid the return of "Heathrow hassle" with longer queues and delays.

Pandemic has strengthened the strategic case for expansion

While we have paused work to expand Heathrow during COVID-19, the crisis has shown the pent-up demand from airlines to fly from Heathrow, as well as how critical Heathrow is for UK's trade routes and the risk to the economy of Britain relying on EU hubs which can close borders overnight. We will review our plans for expansion over the course of the next year.

Dear All

In the past year, we celebrated 75 years since Heathrow officially became a commercial airport. When reflecting on our long and rich history, the airport has successfully overcome numerous recessions, wars and other geopolitical events which have hit the aviation sector. However, none of these have impacted our business with the same scale and severity as COVID-19. For the second year in a row, UK aviation has been grounded for large parts of the year and only now are we starting to take steps on the road to recovery.

At Heathrow, passenger traffic fell to 19.4 million, the lowest level for nearly 50 years and our 2021 Adjusted EBITDA remains 80% below 2019. Our European rivals continued to steal a march on us given the tighter travel restrictions which remained in place in the UK for much of 2021. Whilst the path ahead remains uncertain and full recovery of the aviation sector will take time, we move forward as a stronger and more resilient organisation, better placed for the actions we have taken over the past two years.

Throughout 2021, we kept a resolute focus on protecting the business. The safety of our colleagues and passengers remained our number one priority. We maintained strong COVID-19 secure standards across the airport and played our role in supporting the Government's mass vaccination programme, by converting part of our head office into an NHS COVID-19 vaccination centre earlier in the year. From a financial perspective, our liquidity position remained strong as we kept a tight control on costs, with operating expenses down 8% versus 2020, and we limited capital expenditure to the minimum level necessary to keep the airport operating safely. At the same time, we continued to access the capital markets, raising just over £1.6 billion in funding, and secured a second waiver from our creditors, protecting our financial covenants.

As we look ahead, there is cause for more optimism now than at any point over the past two years. The success of the vaccine roll-out means the UK is now starting to live with COVID-19; by the Government taking a considered, proportionate, and globally coordinated approach to future variants of concern, it can put aviation at the centre of its economic recovery and Global Britain plans.

With that in mind, we are progressing our plans to support this recovery. Operationally, we are flexing up to meet the expected demand over the coming months; we have refreshed our sustainability strategy, Heathrow 2.0: Connecting People and Planet, with a new set of targets and commitments; and, following COP26, we continue to work with our global industry partners to lead the decarbonisation of aviation. All of this is supported by the recent implementation of our new Enterprise Resource Planning system which lays the foundation for the recovery and ensures our processes are efficient, effective and can support our growth.

However, winning the recovery will also depend on reaching a fair and balanced regulatory settlement for the H7 period. At Heathrow, we want to provide an excellent service to our passengers and we have developed a plan that allows us to do this. To enable the critical investment which underpins our plan, investors need confidence that their capital is protected, and they have an opportunity to earn a fair return. We recognise that balancing the interests of multiple stakeholders is difficult for the CAA but, without this commitment, airport charges will increase and service levels will deteriorate.

Finally, I would like to extend a thank you to all our colleagues for their unwavering commitment over the past year. In many ways 2021 has been tougher than 2020 and without their dedication we wouldn't be in such a strong position to face the next 75 years. I'm confident that we will overcome COVID-19, as we have done with every other challenge throughout our history, and we will continue to make Heathrow such a unique place for every passenger and colleague.

LORD PAUL DEIGHTON
Chairman

OUR KEY PERFORMANCE INDICATORS

FINANCIAL KPIs

REVENUE

£1,214m

Revenue is an indicator of our top-line growth. It consists of aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, and retail and other income from a variety of other sources. Revenue increased 3% in the year, however continued to be heavily impacted by COVID-19 related travel restrictions and passenger demand during 2021, remaining 60% down on 2019 levels.

2021	1,214
2020	1,175
2019	3,070
2018	2,970
2011	2,046

ADJUSTED EBITDA [1,2]

£384m

Adjusted EBITDA is an indicator of how we are delivering top-line revenue growth while remaining efficient and controlling operating costs. The increase in revenue along with year-on-year cost savings, realised through the management initiatives implemented in 2020, resulted in a 42% increase in Adjusted EBITDA.

2021	384
2020	270
2019	1,921
2018	1,837
2011	1,045

CONSOLIDATED NOMINAL NET DEBT [1]

£13,332m

Consolidated nominal net debt is a measure of indebtedness used by our financers. Consolidated nominal net debt increased by 1.5% in the year. Senior (Class A) and junior (Class B) gearing ratios, calculated by dividing consolidated nominal net debt by RAB, were 64.6% and 76.3% respectively (31 December 2020: 68.4% and 79.6% respectively).

2021	13,332
2020	13,131
2019	12,412
2018	12,407
2011	n/a [4]

(LOSS)/PROFIT BEFORE TAX

£(1,792)m

(Loss)/profit before tax is a measure of total return generated before taxation. The loss before tax was £1,792 million in the year.

The loss before tax includes non-cash fair value gain on investment properties and loss on financial instruments of £174 million and £665 million respectively and exceptional costs of £31 million.

2021	(1,792)
2020	(2,012)
2019	546
2018	422
2011	n/a [4]

REGULATORY ASSET BASE [1]

£17,474m

The Regulatory Asset Base ('RAB') is a regulatory construct based on predetermined principles, not based on IFRS. It represents the cumulative net capital invested in Heathrow for which we earn a regulated return. By investing efficiently in our airport and constructively engaging with airlines, we add to our RAB over the long-term which, in turn, contributes to delivering shareholder value.

The RAB increased 6.0% in the year due to the impact of increased year on year inflation on the asset base and the interim £300 million RAB adjustment, offset by assumed regulatory depreciation for the year.

2021	17,474
2020	16,492
2019	16,598
2018	16,200
2011	12,490

1 Alternative Performance Measures ('APMs'): the performance of the Group is assessed using a number of APMs, including Adjusted EBITDA, Regulatory Asset Base and Consolidated nominal net debt. Management believe that APMs provide investors with an understanding of the underlying performance of the Group, while recognising that information on these additional items is available within the financial statements should the reader wish to refer to them. APMs are discussed in detail and defined on page 220 of the financial statements.

2 EBITDA (2021: £527m, 2020: £(326)m) is profit before interest, taxation, depreciation, amortisation. Adjusted EBITDA is EBITDA excluding fair value adjustments on investment properties and exceptional items. These APMs are reconciled on page 220 of the financial statements.

3 This is the passenger satisfaction score for the fourth quarter of 2020 as the ASQ survey was temporarily suspended in March 2020, to limit the spread of COVID-19, before resuming in August 2020.

4 Figures are not available for 2011 as Heathrow (SP) Limited was trading as BAA (SP) Limited and the available information includes the trading results of other airports no longer owned. Results have only been provided where it was possible to separate the trading performance of Heathrow Airport.

5 Scope 1 are all 'direct' CO_2e emissions from activities at Heathrow under our direct control, such as Heathrow's own vehicles, fuel required to heat our terminals and non-carbon emissions including refrigerant gases, and Scope 2 are all 'indirect' CO_2e emissions from the electricity purchased for the organisation. Further detail on our carbon footprint can be found on page 36.

6 A comparable figure is not available as our footprint methodology has changed since 2011.

OPERATIONAL AND CARBON KPIs

PASSENGERS

19.4m

The sum of all arriving, connecting and departing passengers.

In 2019, pre-COVID, we welcomed a record 80.9 million passengers. The continuing impact of COVID-19 in 2021 has led to a 12% decrease in passenger numbers in the year and a 76% decrease compared to 2019.

2021	**19.4**
2020	**22.1**
2019	**80.9**
2018	**80.1**
2011	**69.4**

PASSENGER SATISFACTION

4.23

An independent passenger satisfaction survey that compares our performance against circa 350 airports worldwide. Passengers rate their experience on a scale from 1.00 to 5.00, where one is 'poor' and five is 'excellent'. Our vision is to give passengers the best airport service in the world. In 2021 passenger satisfaction remained at high levels.

2021	**4.23**
2020	**4.24**[3]
2019	**4.17**
2018	**4.15**
2011	**3.88**

DEPARTURE PUNCTUALITY

80.9%

The number of flights that depart from their stand within 15 minutes of the scheduled time.

Departure punctuality decreased to 80.9% but remained higher than historical levels predominantly due to the reduction in passenger demand and flights, resulting from the COVID-19 pandemic.

2021	**80.9**
2020	**85.7**
2019	**78.5**
2018	**77.6**
2011	**79.0**

BAGGAGE CONNECTION

99.0%

To improve service for every 1,000 passengers (direct and connecting), we measure the percentage who successfully travelled with their bags on the same flight. We put a great passenger experience at the heart of what we do; our operational ambition is 'every passenger, every bag, every time'.

99% of bags successfully connected in the current year.

2021	**99.0**
2020	**99.2**
2019	**99.0**
2018	**98.8**
2011	**98.5**

LOST TIME INJURIES

0.35

We measure the number of lost time injuries for every 100,000 hours worked in the last 12 months. In their working life a person works an average of 100,000 hours.

We want everyone at Heathrow to go home safe and well to their loved ones at the end of each day. Lost time from injuries increased to 0.35 in 2021 but were broadly stable against 2019 levels.

2021	**0.35**
2020	**0.14**
2019	**0.34**
2018	**0.33**
2011	**n/a**[4]

SCOPE 1 AND 2 CARBON INTENSITY

1.50

Scope 1 and 2 carbon intensity is a measure of how many kilograms of scope 1 and 2 carbon dioxide is produced per passenger. In 2021 our carbon emissions per passenger were 1.50. This has increased from 1.05 in 2020 and 0.33 in 2019 as, while we have kept the airport open and operational, fewer passengers travelled through Heathrow compared to previous years, with load factors in 2021 being 62% compared with 80% in 2019.

2021	**1.50**
2020	**1.05**
2019	**0.33**
2018	**0.35**
2011	**n/a**[5]

HEATHROW CELEBRATING 75 YEARS

2021 marked a major milestone in the airport's history – Heathrow celebrated 75 years as a commercial airport.

Heathrow was originally built for military purposes during the Second World War and was handed over by the Air Ministry to the Minister of Civil Aviation on 1st January 1946, with the first flight leaving for Buenos Aires. Since that day, Heathrow has welcomed over 2.5 billion passengers through its doors and has played host to some of Britain's most memorable moments: from British ESA astronaut Tim Peake landing at Heathrow following his six-month trip to the International Space Station or the Beatles returning to the UK as global superstars in 1964; to the arrival of Her Majesty the Queen onto sovereign soil for the very first time as the reigning monarch and the iconic Love Actually scenes, filmed at Terminal 3 in 2003.

Heathrow stands tall as an iconic British institution and we are proud of both its history and the vital role it will play in Britain's future success.

Despite 2021 being one of the most difficult years in our history, we used the anniversary to celebrate the past 75 years, and to also look ahead at what the next 75 could bring.

To kick off the commemoration, the airport launched a search for 'Heathrow Historians', highlighting the airport's history through the personal stories and memories of colleagues, passengers and members of the local community.

Having found our Historians – their stories, memorabilia and archive imagery were all made available to view on our Heathrow Historians virtual museum. In addition, we scoured our own archive, based at the University of West London, to showcase a selection of momentous moments from the past 75 years, such as HRH The Prince of Wales and Diana, Princess of Wales opening Terminal 4 in 1986; and the arrival of the first ever A380 to Heathrow in 2006. Longstanding airport partners, British Airways, NATS and WH Smith have also contributed to the virtual museum.

In our 75th year and beyond, Heathrow is looking forward to getting back to what it does best – reuniting friends and families, creating connections and making memories – reminding the nation of the possibility of journeys to come.

Esso aircraft refuellers skating to work.

"My father worked for Esso as an Aircraft Refueller and as a driving/refuelling instructor for new employees. He started working at Heathrow in 1952 and retired in 1991 and was known as 'Raggy' whilst at work.

As a young boy I can remember getting the bus over to his offices to see him and the team. I was lucky enough to be able to go out to the aircraft in one of the refueller trucks with him and the aircraft dispatchers would even let me inside some of the aircraft. I remember going onboard both BEA and Pan Am planes and sitting down in the pilot's seat.

We lived in Southall during this time and when the buses went on strike, my Father decided to skate to work instead. The buses were only on strike for a short period but having heard my Father's skating abilities, a number of media outlets wanted to make a story of it and he appeared in several newspapers and even ESSO company magazine."

Image source: Steven Whitaker

Heathrow 75

The Queens Building

“Heathrow has been my workplace since 2011 but it was my first-ever flight from Terminal 1 at the age of 10 – in a British European Airways Viscount to Guernsey – that sparked what has been a life-long interest in aviation. Over the years, I have amassed around 50 pieces of memorabilia, including items from the 50/60s branded ‘London Airport’, a variety of postcards and display models representing the aircraft I’ve made transatlantic flights on.

I regularly visited the “roof gardens” of the Queens Building in the school holidays. Opening time was 10am and once admitted, on payment of a small fee, you could walk from left to right around the far side of the building to your preferred vantage point, or continue further onto the roof of Terminal 2.

As an inveterate aviation enthusiast, I am familiar with the various locations around Heathrow for watching and photographing various movements over the years. Among the most memorable of these, I would cite: the flypast of the NASA Boeing 747 carrying the space shuttle “Enterprise“ in 1983; and the delivery flight of Qantas’s first Boeing 747-400 in 1989, which made the first ever non-stop flight between London and Sydney.”

Image source: Keith Bollands

Heathrow in the 1960s

“My family has been involved with Heathrow for more than 60 years. My Dad (Bob Le Blond) was a Duty Officer for British European Airways, moving from Northolt in 1954. This of course meant that we went on many flights as part of our holidays. The photo below is from the 60s - the BEA Viscount from the wonderful roof gardens on Terminal 2 and the Queens Building.

My career included several spells at Heathrow, working at the Cargo Terminal, two roles at Terminal 2 – the second as General Manager – and also at Terminal 5. My last jobs at the airport were with Heathrow Express, first as Project Manager and later as Director of Strategy and I left in 2001. What changes we have seen over 75 years!”

Image Source: Paul Le Blond

Heathrow CEO **John Holland Kaye** said:

“Over the past 75 years Heathrow has undergone an incredible transformation, from a once military airport, to a national asset and globally recognised brand. Our 75th anniversary provided us with the opportunity to celebrate the people who make Heathrow possible, and to commemorate the long-serving connections many of our colleagues, passengers and local community members share with the airport. As we cast our eyes forward to the next 75 years, I look forward to watching Heathrow recover from its worst year to grow from strength to strength, protecting the benefits of aviation for future generations to come.”

OUR BUSINESS

WHAT WE DO

We are a service business which seeks to give passengers the best airport service in the world. Heathrow is the UK's only hub airport. Hub airports combine direct passengers, transfer passengers and freight to enable long-haul aircraft to fly to destinations all over the world. These destinations could not be served with regular, year-round flights by point-to-point airports which rely on local demand alone.

In 2019, prior to COVID-19, we served 80.9 million passengers and were the seventh busiest airport globally and the busiest airport in Europe in terms of total passengers. In 2021, with the continued impact of COVID-19 on passenger numbers, we served 19.4 million passengers (2020: 22.1 million).

We serve a range of market segments, including business and leisure travellers, direct and transfer passengers, and long and short-haul routes operated by a diverse range of major airlines. As well as earning aeronautical income from airlines, we also generate income from a variety of other sources. They include concession fees from retail operators, income from car parks, advertising revenue, rents from property space and income from the provision of airport facilities and transportation services notably the Heathrow Express rail service.

We maintain a strong focus on operational performance, improving the passenger experience and investing in new and upgraded facilities. At the 2021 Skytrax World Airport Awards we were named 'Best Airport in Western Europe', eighth overall in the category of 'World's Best Airport' and we were the only UK airport to win the COVID-19 Airport Excellence Award. In addition, in May 2021, Heathrow was certified with a four-star COVID-19 Airport Safety Rating by Skytrax, the highest achieved by a UK airport. This was accomplished by investing in COVID-19 secured technologies in order to prioritise the safety of passengers and colleagues at Heathrow.

We benefit from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow; they have also tended to increase their cargo offer when passengers movements soften. Our position as the UK's only hub airport ensures that we remain resilient, maintaining the UK's critical trade and passenger connectivity during COVID-19. This underlying characteristic means that we are well placed to return to growth once travel restrictions are eased and passenger demand increases.

Long haul passenger flights from Heathrow provide the trading routes which carry the UK's exports and supply chain. Heathrow is the largest UK port by value with 1.5 million tonnes of cargo valued at £153 billion passing through it in 2021 (2020: 1.2 million tonnes, valued at £159 billion).

EMMA GILTHORPE
Chief Operating Officer

Sustainability is core to our strategy. In early 2022, we released an updated version of "Heathrow 2.0", our plan to connect people and planet. Our strategy reflects the new reality in which Heathrow is operating, and focuses on delivering outcomes that align with the most material colleague, community and environmental issues for the airport, namely:

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

Further details of our commitment to sustainable growth can be found in the section starting on page 31.

INVESTMENT AND INFRASTRUCTURE

We have invested over £12 billion of private money, at no cost to taxpayers, transforming Heathrow's infrastructure since privatisation in 2006. In 2020, in response to COVID-19 and to protect our liquidity position, we enacted a reduced capital plan and invested £521 million. In 2021, we have continued our reduced capital plan and have invested £252 million, the majority of this being in a variety of programmes to ensure the safety and resilience of the airport.

Terminals

Each of our four operational terminals is either relatively new or recently refurbished. In April 2020, due to the reduction in passenger demand resulting from the COVID-19 pandemic, operations from Terminals 3 and 4 were temporarily consolidated into Terminal 2 and Terminal 5. In June 2021, Terminal 4 was converted to a dedicated facility for arrivals from 'red list' countries and in July 2021, we recommenced operations in Terminal 3.

We have a total of approximately 58,600 square metres of retail space served, prior to COVID-19, by over 450 retail outlets. Many of our retail outlets closed in late March 2020, leaving only essential retailers open. Following Government guidelines, stores began to reopen in late June 2020. In December 2020, all non-essential stores closed due to the national lockdown. Following the restart of international travel in May 2021, many stores re-opened, and subsequently we have continued to see increased retail occupancy.

Runways

We operate two parallel runways, generally operating in 'segregated mode', with arriving aircraft allocated to one runway, and departing aircraft to the other. In April 2020, with the impact of COVID-19 on passenger numbers, we moved to single runway operations. In July 2021, Heathrow recommenced operations from two runways.

The airport is permitted to schedule up to 480,000 air-traffic movements ('ATMs') per year. In 2019 we operated at 99.1% of this cap and had been operating close to the limit for many years prior to COVID-19. In 2021 we operated at only 39.6% of this cap (2020: 41.9%), given the effects of COVID-19 on traffic restrictions.

Other infrastructure

We own railway infrastructure including stations, tunnels, rolling stock and track from Heathrow as far as Airport Junction on the Great Western Mainline.

We also own public car-park spaces that are available to passengers and the general public. The terminals and their approaches provide advertising space, which yields further income.

HELEN ELSBY
Chief Solutions Officer

REGULATORY ENVIRONMENT

We are subject to economic regulation by the Civil Aviation Authority ('CAA'), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection. As the economic regulator for UK airports, the CAA assesses the market power of airports and if an airport passes the market power test(s) set out in the Civil Aviation Act 2012 (the 'Civil Aviation Act'), the airport is regulated by means of a licence. Heathrow has been determined, by the CAA, to hold significant market power and operates under a licence granted by the CAA in February 2014. The licence includes a price cap on Heathrow's airport charges.

Economic regulation is designed to allow the UK's regulated airports to generate revenues which are sufficient to finance their operating and capital expenditure requirements and provide a regulated rate of return on their RAB. Each regulatory period is set for defined periods of time, known as 'price control periods', the duration of which is determined by the CAA. Return on investment set by the CAA is meant to provide a fair, symmetric, remuneration of risk with limited upside to keep charges low as well as limited downside.

The economic regulatory framework sees the CAA setting the maximum level of airport charges for Heathrow using a per-passenger price-cap mechanism in real terms (RPI +/- X) which incorporates an allowed return on RAB.

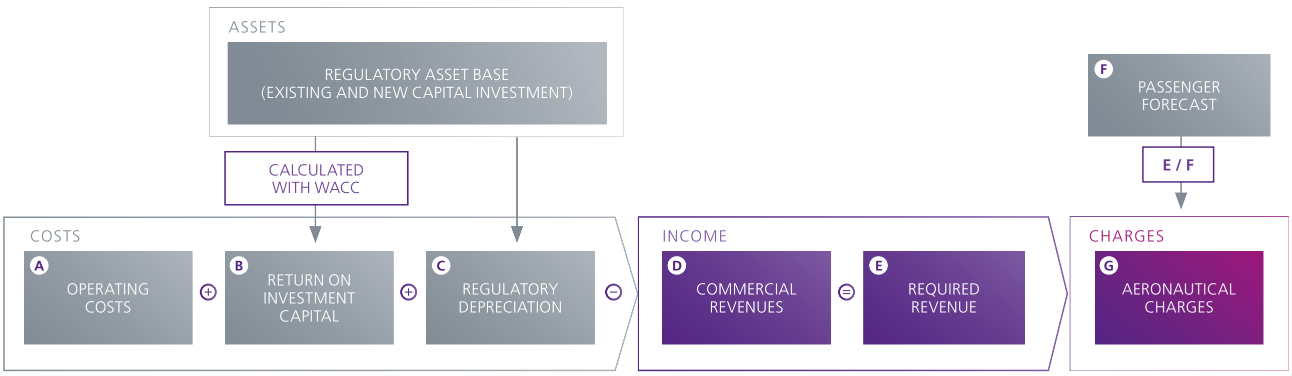
The building blocks of this 'Single Till' calculation are illustrated below. The CAA first determines the regulated 'revenue requirement'.

This is calculated as the sum of all our forecast costs (including operating expenditure, the required return using the cost of capital determined by the CAA on the forecast RAB and regulatory depreciation) less projected non-aeronautical revenue. The resulting revenue requirement is divided by forecast passenger numbers to produce the per passenger maximum allowable yield. The calculations are performed in real prices and indexed every year based on RPI as of April.

Our regulatory framework is consistent with the economic regulation of other UK regulated industries (such as water and the energy sector). This form of economic regulation is sometimes referred to as 'incentive regulation', in that we have an incentive to invest in better facilities for consumers and outperform the economic settlement by attracting more passengers, reducing operating costs or delivering higher commercial revenues. In the opposite case, we must absorb negative financial impact, with no automatic adjustment for shortfalls in our passenger numbers or additional costs unless in exceptional circumstances and agreed with the CAA.

The regulatory environment provides cash flow predictability which supports external investment. Other key factors and protections include:

- The CAA has the statutory duty to set a return that secures financeability of our operations.
- Building blocks rebaseline at the start of every regulatory period which restricts long-term risk exposure.
- Certainty and defined timing for recoverability of efficiently incurred capital investments through the RAB.
- Pricing and asset value linked to inflation ('RPI').
- Some protection against exceptional circumstances, for example changes in security regulation proposed by the Government, changes in traffic mix, intra-period movements in property rates costs and capital investment risk in early phases of maturity.
- The Q6 settlement also expressly set out the ability for Heathrow and other parties to request that the price control be reopened in the event of exceptional circumstances under Section 22 of the Civil Aviation Act.



Building blocks for maximum allowable yield calculation

2021 REGULATORY DEVELOPMENTS

CAA Initial Proposals for H7

On 19 October 2021 we received the CAA's Initial Proposals for the H7 period (CAP2265). The CAA's Proposals set out the following draft policy positions for the H7 price control:

- A range of cost and revenue forecasts leading to an upper quartile H7 charge of £34.40 (2020p) and a lower quartile estimate of £24.50 (2020p).
- Three potential capital expenditure plans ranging from £1.6 billion to £3 billion.
- A pre-tax WACC range of between 7.09% and 4.38%.
- The continued implementation of the £300 million RAB adjustment set out in the CAA's April 2021 decision (CAP2140).
- A new traffic risk sharing mechanism and mechanisms to deal with asymmetric risk and cost uncertainty.
- Proposals for an ex-ante capital efficiency framework with an incentive of between 20% and 30%.
- Movement towards an outcomes-based service quality framework.

Alongside its Initial Proposals document, the CAA published two additional working papers for consultation:

- CAP2274 on Outcomes Based Regulation.
- CAP2275 on the CAA's draft H7 licence.

These documents form part of the CAA's Initial Proposals and focus in more detail on the CAA's proposed service quality targets for the H7 period and the implementation of the CAA's price control proposals through Heathrow's licence.

Heathrow response and RBP Update 2

We submitted our response to the CAA's Initial Proposals on 17 December. Alongside our response we also submitted the second update to our December 2020 Revised Business Plan (RBP), known as RBP Update 2.

In our response and RBP Update 2, we set out our responses to the CAA's policy proposals and H7 building block forecasts and provided our updated view of passenger volumes and cost and revenue forecasts for the H7 period. Key updates include:

- An H7 charge of £41.95 (2018p) reflecting new forecasts of operating expenditure, commercial revenues and a revised passenger forecast of 317.1 million over the H7 period.
- Opportunity to reduce charge to £34.00 if CAA enables deferral of regulatory depreciation beyond H7 by providing a full RAB adjustment.
- A pre-tax WACC of 8.5%.
- A capital plan of £4.1 billion (2018p), allowing us to invest in key programmes such as Regulated Security Compliance, the refurbishment of the Terminal 2 baggage system and decarbonisation and sustainability.
- Continuing to request a full RAB adjustment of £2.5 billion to fully implement the CAA's regulatory framework following the impact of COVID-19.
- Proposed changes to the CAA's risk sharing mechanism to ensure it reflects the commercial revenue risk inherent in the single till model.

The CAA will continue its H7 process through 2022 with the H7 price control due to be implemented in summer 2022. The next step in the process is the publication of the CAA's Final Proposals, currently due for Q2 2022.

2022 airport charges decision

The price control condition in Heathrow's licence, which is used to calculate the annual yield per passenger, expired on 31 December 2021 – meaning that, without the conclusion of the H7 review, interim measures were required for pricing in 2022.

On 22 December, following consultation alongside its Initial Proposals, the CAA published its licence modifications to set an interim price cap of £30.19 for 2022 (CAP2305). This price cap will be in place until the CAA's final decision on H7 is published. 2022 charges are linked to CPI while RAB will continue being indexed to RPI (as confirmed in CAP2275). On implementation of the H7 price cap, the CAA has stated that it will perform a 'true up' to account for the difference between this interim holding cap and the final H7 decision.

As set out in our response to the CAA, we remain concerned about the process followed by the CAA in coming to this decision and the lack of robustness in the CAA's evidence base for its forecasts of key building blocks. However, in the interests of consumers and certainty for our airline consumers, we reflected the CAA's decision in our airport charges decision and structure of charges for 2022 published in December 2021.

GENERATING REVENUE

We generate three types of income: aeronautical income, which is generated from fees charged to airlines for use of the airport's facilities, retail income and other income from a variety of other sources.

YEAR ENDED 31 DECEMBER 2021

AERONAUTICAL	RETAIL	OTHER
£554m	**£217m**	**£443m**

TOTAL REVENUE **£1,214m**

RETAIL CONCESSIONS	CATERING	OTHER RETAIL	CAR PARKING	OTHER SERVICES
£79m	**£21m**	**£32m**	**£47m**	**£38m**

TOTAL RETAIL REVENUE **£217m**

OTHER REGULATED CHARGES	HEATHROW EXPRESS	PROPERTY AND OTHER
£297m	**£26m**	**£120m**

TOTAL OTHER REVENUE **£443m**

AERONAUTICAL INCOME

Aeronautical income reflects the fees charged by Heathrow to the airport's airline customers. The tariff structure can vary in consultation with stakeholders, but includes three key elements:

Passenger charges

Passenger charges are based on the number of passengers per aircraft and levied in respect of all departing passengers. There is no charge for crew members. Charges vary by route area (European, domestic and rest-of-world) and type (transfer and non-transfer passengers). These are passed on directly by airlines to passengers.

Movement charges

Movement charges are applied to each aircraft on both take-off and landing. These are calculated in accordance with the certified maximum take-off weight of the aircraft and are banded into categories for aircraft weighing less than and those weighing more than sixteen metric tonnes, which includes nearly all commercial aircraft. These charges are broken into further categories based on the noise chapter rating of each aircraft with the quietest aircraft within their category attracting a lower charge. The noise rating component of these charges also include a multiplier effect for any movements that are unscheduled between 23h30 and 6h00. Arriving aircrafts are also subject to emissions charge based on their nitrogen oxide (NOx) rating.

Parking charges

Parking charges are levied for each 15-minute slot after 30 and 90 minutes (narrow and wide-bodied aircraft respectively).

RETAIL AND OTHER INCOME

The 'Single Till' means that higher retail and other income reduces per-passenger charges. Retail and other income is generated from a variety of sources. These include:

- **Retail** – concession fees from retail and commercial concessionaires and direct income from car parks, advertising and premium products.
- **Other regulated charges** – the recovery of certain costs incurred for the provision of facilities such as baggage handling and passenger check-in.
- **Heathrow Express** – fare revenue from the Heathrow Express rail service.
- **Property and other** – income from rental of airport property space, such as aircraft hangars, warehouses, cargo storage-facilities, maintenance facilities, offices and airline lounges.

ROSS BAKER
Chief Commercial Officer


Departures
Arrivals

While 2021 was the worst year in Heathrow's history, I am very proud of the way that colleagues focussed on passengers, and we were able to maintain our position as one of the top 10 airports in the world for service. Demand is now starting to recover and we are working closely with airlines to scale-up our operations and reopen Terminal 4 for the summer travel peak. We're excited to welcome more passengers back to Heathrow to experience the joys of travel and get Britain's economy firing on all cylinders again. To deliver this, we have outlined an investment plan for the next five years which meets the needs of passengers, drives fast traffic recovery and incentivises investment in a critical national asset, while keeping the increase in ticket prices below 2% despite significantly fewer passengers. I am anxious that the CAA will undercook the investment needed to avoid the return of "Heathrow hassle" with longer queues and delays.

JOHN HOLLAND-KAYE
Chief Executive Officer

REVIEW OF THE YEAR

Looking back on 2021, it is remarkable how far we have come. The year started with a third lockdown, significant travel restrictions and a continued focus on protecting the business. As we slowly returned to some sense of normality across the second half of the year, the arrival of Omicron in December reminded us all that the pandemic was far from over. Only 19.4 million passengers travelled through Heathrow in 2021 – less than one quarter of 2019 and the lowest annual volume since 1972. We have more reasons to be optimistic as we look ahead to 2022. However, recovery of the aviation industry will take time, and we will not fully recover until all travel restrictions are removed in all the markets we serve, and consumers are confident they will not be reimposed at short notice at both ends. While this creates enormous uncertainty for the CAA in setting a new 5-year regulatory settlement, the regulator needs to focus on an outcome that improves service, incentivises growth and maintains affordable private financing.

The safety of our colleagues and passengers remained our number one priority throughout the year and we were delighted that our COVID-19 safe programme was recognised externally by the Airports Council International, the CAA and Skytrax. With travel largely closed in the first quarter of the year, we played our part in the Government's vaccination drive in March by transforming part of our head office building into an NHS COVID-19 vaccination centre. In the same month, we submitted our proposal to the Global Travel Taskforce for the safe reopening of international travel and we were pleased to see this aligned with the traffic light system implemented by the UK Government in May.

Following our request for a £2.5 billion RAB adjustment, the CAA published its interim decision in April confirming that a £300 million adjustment should be made to Heathrow's RAB immediately. We continue to believe that this interim adjustment does not go far enough, and the CAA's decision damages confidence in the principle that all efficiently incurred investment is recovered at some point.

In the same month, the CAA published its 'Way Forward' document that set out the CAA's initial assessment of our Revised Business Plan ('RBP') and provided further thinking on key policy issues for the H7 period.

May was a landmark month in more ways than one. We celebrated 75 years since Heathrow officially became a commercial airport, and international travel restarted after several travel restrictions. In the same month, we became one of the largest private testing facilities in the UK, with a capacity for up to 25,000 COVID-19 tests per day.

In June 2021, and in response to changes in the traffic light system, Terminal 4 was converted to a dedicated facility for arrivals from 'red list' countries. We also submitted the first update of our RBP to the CAA and airlines, to ensure that the CAA had the most up to date evidence base available on which it could build its Initial Proposals.

Over the summer months, we saw a steady build in passengers travelling through Heathrow as more countries were added to the 'green list' and fully vaccinated UK residents could travel more freely. To meet this demand, we reopened Terminal 3 and recommenced operations from two runways in July.

However, the reopening of the borders was slightly slower than we expected, in particular with key markets such as the US. Given the caution around border controls and the gradual reopening of travel, we revised our traffic forecast downwards to 21.5 million, and we took the prudent and proactive step to address the risk of a covenant breach by requesting a waiver from Heathrow Finance's creditors, which was successfully approved in August.

In October, the government made significant progress in simplifying the rules for all travellers, moving from the traffic light system to one based on individual vaccination status. By mid-October, we received the CAA's Initial Proposals for the H7 period, the first time we saw a detailed response from the CAA. The CAA recognised that lower passenger numbers, high fixed costs and a higher cost of capital meant there would need to be a step up in charges.

November represented another milestone in the reopening of international travel with the return of flights to the US for the first time in over 18 months. The occasion was marked with a spectacular parallel take-off across both runways. However, with the emergence of the Omicron variant later in the month, the UK Government reintroduced some travel restrictions, damaging passenger confidence in the busiest period of the year. At least 600,000 passengers cancelled travel plans from Heathrow in December due to Omicron and the uncertainty caused by swiftly imposed government travel restrictions which impacted our recovery.

We submitted our response to the CAA's Initial Proposals in mid-December setting out material and basic errors in their proposals. Alongside our response we also submitted the second update to our RBP, known as 'RBP Update 2'. The CAA also published an interim charge for 2022 of £30.19. We were extremely disappointed in the decision, but we continue to work with the CAA to resolve the issues identified ahead of their final decision later in 2022. Despite the pandemic, we also completed our £1.6 billion 2021 funding plan which maintained our strong liquidity position.

Throughout the year, we made tangible progress in decarbonising Heathrow. We integrated sustainable aviation fuels in our operation, and we saw an increased commitment to SAF and net-zero from airlines at Heathrow. We also engaged in several initiatives, including Jet Zero Council, DfT's Net Zero Aviation Consultation and COP26. This progress has laid the foundation for Heathrow 2.0: Connecting People and Planet, our refreshed sustainability strategy that sets out our pathway to 2030 and a long-term sustainable expansion.

Above all, our talented team at Heathrow continued to demonstrate resilience and complete commitment during what has been another challenging year. The hard work and success of our colleagues have put us in the best position to win the recovery, and their actions will make the Heathrow community a better, healthier place to live and work.

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) outlines 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.

EU citizens can continue to use electronic gates at immigration upon arrival into the UK. From 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 'a world class border for people and goods'. 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 plan to increase the number of eligible cohorts using e-Gates, 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 Border Strategy and these tasks sit alongside wider improvements to increase digitization and efficiency at the border.

KEY MANAGEMENT CHANGES

Jorge Gil resigned as a Non-Executive Shareholder Director for the Board, FGP Topco Limited, ADI Finance 1 Limited and ADI Finance 2 Limited, with effect from 23 June 2021, after having provided 9 years of service. Jorge chaired the Remuneration Committee and was also a member of the Audit, SORC, Finance and Nominations Committees. He was replaced by Luke Bugeja as a Non-Executive Shareholder Director for the Board, FGP Topco Limited, ADI Finance 1 Limited and ADI Finance 2 Limited with effect from the same date. Luke has held board positions at London City, Brussels and Bristol Airport, and has over 30 years' experience in the aviation industry.

Joan MacNaughton was appointed to the Board as an independent Non-Executive Director with effect from 14 June 2021. Ms MacNaughton brings a wealth of board experience in industry, government, academia and the third sector to the leadership team of Heathrow and at a critical time in its history. Ms MacNaughton currently chairs the Board of the Climate Group; is a Non-Executive Director of En+Group IPJSC, where she chairs the Health, Safety and Environment Committee; and is a member of the Strategic Advisory Board of Engie UK plc. David Begg resigned as independent Non-Executive Director on 24 November 2021, after 11 years of service. David chaired the Begg review into the 2010 snow incident that led to a significant improvement in the safety and resilience of Heathrow.

As we come into the next phase of our recovery, Carol Hui, Andrew Macmillan and Chris Garton have decided that this is the right time for them to move on in their own careers. I would like to thank them for their contribution to the transformation of Heathrow over the last decade. Our new Executive Committee structure was effective from 1 September 2021, and includes Chris Annetts as a Chief Strategy Officer, Nigel Milton as a Chief of Staff and Carbon, and Helen Elsby as a Chief Solutions Officer.

OUTLOOK

Despite a slower start to the year given the impact of Omicron, we maintain our passenger forecast of 45.5 million for 2022. The outlook for our adjusted EBITDA performance in 2022 also remains consistent with the guidance published in our Investor Report update on 28 January 2022. We will continue to monitor passenger numbers and provide a further update at our Q1 results in April.

We do not forecast any covenant breaches in 2022 under Management's regulatory RBP Update 2 scenario. Given the degree of ongoing uncertainty around traffic recovery, coupled with uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period we have also considered a severe but plausible downside scenario which models the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals. Whilst this scenario is considered unlikely, a reduction in passenger numbers of over 8 million under the severe but plausible downside scenario is forecast to result, without further mitigation, in an ICR covenant breach at ADIF2 debt facility in December 2022. This uncertainty indicates the existence of a material uncertainty.

JOHN HOLLAND-KAYE
Chief Executive Officer

22 February 2022


OUR VISION:
TO GIVE

OUR STRATEGY

With the recovery of international travel hampered by the Omicron variant in the final quarter of the year, we saw 19.4 million passengers travel through the airport in 2021. While we expect increased demand and further recovery in the sector given recent changes to travel restrictions, in particular in the UK, we recognise concerns over potential future variants and the impact this can have on travel policy and consumer confidence. We have taken steps to protect the business over the previous two years and improved the organisation's efficiency and resilience. This provides a platform to look forward with confidence as we prepare for the recovery with sustainability at the centre of our plans.

PROTECT THE BUSINESS

When the COVID-19 crisis started, we took rapid management actions to protect passengers, colleagues and the financial resilience of the business.

Keep people safe

The safety of our colleagues and passengers remains our number one priority. Face coverings and enhanced COVID-19 hygiene measures therefore remain in place despite the former no longer being legally required in the UK. It reinforces our commitment to our COVID-19 safe programme which has been recognised externally by the Airports Council International, the CAA and Skytrax.

Cost mitigation

Despite our operating costs being approximately 95% fixed and semi-fixed, the rapid action we took to reduce cost has resulted in savings of £870 million during 2020 and 2021. Many of these cost savings were temporary, including reduced staffing, consolidation of operations, temporary reductions in pay and bonuses and furlough. In Q4, we started to increase costs again to meet the increase in demand and prepare for ramp up.

Revenue protection and loss mitigation

As traffic recovers, we continue seeking opportunities to optimise our revenue and minimise the impact of COVID-19 restrictions and the removal of tax-free shopping. We have improved the digital passenger experience to create a more seamless journey. Our Reserve and Collect offer improved in 2021 by adding more retailers and more stock to the website, including our first e-commerce only brand Aspinal of London, which is available to collect within 30 minutes from Terminal 5. We continue to welcome new retailers to our terminals, such as JD Sports, InMotion and Accessorize. We also saw a number of existing retailers open new units in the last quarter, for instance, Hugo Boss and Saint Laurent. At the same time, we continue to see an increase in our retail occupancy. In addition, we launched a highly successful pop-up collaboration with Chanel and Dufry. We also expanded our food and beverage proposition with new entrants, increasing our offering and choice for passengers. We introduced a Terminal Drop-Off Charge across the airport's departure forecourts in November 2021. Heathrow is one of the last UK airports to introduce such a charge, as similar access charges are already in place across nine out of the ten largest UK airports. The charge is designed to incentivise the use of public transport wherever possible when accessing Heathrow's terminals as well as reducing road traffic congestion in our local community.

Finally, we continue to work with our retailers to mitigate the impact of the removal of tax-free shopping. We continue to believe this places UK tourism at a competitive disadvantage by making this the only country in Europe not to offer tax-free shopping.

Preserving liquidity

We completed the remainder of our £1.6 billion 2021 funding plan in early October with a C$325 million tap of the 12-year Class A bond issued earlier in the year and a £50 million Class B private placement. These successful transactions demonstrate investors' continued confidence in the airport's strength and resilience. The strength of our liquidity allowed us to repay the Revolving Credit Facility in November, which we had drawn at the start of the pandemic, and we can cover our forecast obligations well into 2025 under our base case forecast, or for at least 12 months until February 2023 in the extreme stress scenario of no revenue.

WIN THE RECOVERY

As travel restrictions are lifted and demand to fly increases, we are moving into the recovery phase of the pandemic. This presents an opportunity to create an environment where passengers feel safe and confident to fly comfortably.

Travel restrictions

We are pleased to see the UK Government remove the requirement for pre-departure tests and day two lateral flow tests for fully vaccinated passengers on arrival in the UK. We believe this is welcome to businesses and families across the country, although travel restrictions remain in many other parts of the world. We are asking the Government to continue progress by seeking a coordinated global approach to testing and frictionless travel in response to any new variants of concern.

Gearing up for growth

Heathrow remains on the path to recovery, and to ensure we can meet demand we continue to operate with two runways and Terminals 2, 3 and 5 are fully operational. At the start of this year, we also completed our largest business transformation programme by implementing a cloud-based Enterprise Resource Planning platform, modernising and automating Finance, HR, Revenue, Service, and Asset Management functions. This will enable us to operate with a more agile infrastructure and efficiently support our growth.

Working to attract as much traffic as possible

To offer as many flights to as many destinations as possible, our work has included:

Incumbent build back: Airlines are continuing to see an increase in passenger numbers and load factors following the re-opening of the US market, and more positive policy developments on border restrictions and testing. Over half (51.1%) of all passengers flying in and out of London airports in 2022 flew at Heathrow. We are executing clear account and ramp-up plans, new for 2022, to help our airlines maximise these opportunities.

London consolidation: Some of our biggest airlines have consolidated their London operation at Heathrow, enabled by slot alleviation conditions put in place by the UK Government during COVID-19.

New entrants: In 2021, we brought in 11 new airlines and flew 57 new routes.

Growing cargo: cargo demand at Heathrow in 2021 surpassed all forecasts, supported by a combination of Heathrow welcoming new entrant freighters and working with existing passenger partners to grow bellyhold capacity.

BUILD BACK BETTER

Our focus remains on beating the pandemic, but we also stand ready to support the Government's efforts to build back better and deliver a cleaner, greener and more resilient economy.

Sustainable growth

Climate change is an existential threat, and we aim to use our role as a global hub to ensure that the aviation sector achieves net zero by 2050. We are an integral part of our local community, and we are committed to minimising the negative impacts of the airport operation and to maximising the benefits for local people, for example by providing well paid careers. Further detail on our commitment to sustainable growth can be found in the section starting on page 31.

Policy and regulatory matters

In October 2021, the CAA published its Initial Proposal for H7. We responded to this consultation on 17 December. The CAA also published working papers on Outcomes Based Regulation (OBR) and the H7 draft licence in November and December, which we responded to in January 2022.

CHRIS ANNETTS
Chief Strategy Officer

HEATHROW'S STRATEGIC FRAMEWORK

We continue to shape our strategy in the context of an overall strategic framework defining who we are and what and how we seek to achieve our long-term aims.

WHO WE ARE

Our strategic framework ensures that our purpose is at the heart of what we do. It reminds us of our priorities and values which reflect a simple business logic: engaged people deliver excellent service and results, which underpin our licence to operate and grow. Excellent service at an affordable price is our differentiator that makes passengers more likely to choose Heathrow again.

OUR PLAN TO ACHIEVE OUR VISION

Our Masterplan is our long-term, high-level development plan agreed with our stakeholders. Our Regulatory Business Plan reflects consumers' views and provides the plan and building blocks for the next regulatory period. Our Management Business Plan contains the actions and resources we need to deliver our strategy.

WHO WE ARE	VISION	To give passengers the best airport service in the world
	PURPOSE	Making every journey better
	PRIORITIES	MOJO; TRANSFORM CUSTOMER SERVICE; BEAT THE PLAN; SUSTAINABLE GROWTH
	VALUES	KEEPING EVERYONE SAFE; TREATING EVERYONE WITH RESPECT; GIVING EXCELLENT SERVICE; WORKING TOGETHER; IMPROVING EVERY DAY; DOING THE RIGHT THING
OUR PLAN TO ACHIEVE OUR VISION	MASTERPLAN	The long-term plan for the layout of an expanded Heathrow
	MANAGEMENT AND REGULATORY BUSINESS PLAN	The consumer outcomes, action and resources we need to deliver our strategy including over the next regulatory period

Our priorities explained

MOJO
To be a great place to work, we will help our diverse colleagues fulfil their potential and work together to lead change across Heathrow with energy and pride.

TRANSFORM CUSTOMER SERVICE
To deliver the world's best passenger experience, we will work with the Heathrow community to transform the service we give to passengers and airlines, improving punctuality and resilience.

BEAT THE PLAN
To secure future investment, we will 'beat the plan' and deliver a competitive return to shareholders by growing revenue, reducing costs and delivering investments efficiently.

SUSTAINABLE GROWTH
To grow and operate our airport sustainably, now and in the future.

Our values explained

DOING THE RIGHT THING

Doing the right thing means acting with **integrity** and thought for others, ourselves and Heathrow. It means living the values in everything we do and underpins all our **actions, decisions and interactions.** Doing the right thing is something that sets us apart. For colleagues at Heathrow, it's something that is ingrained in our culture from our proud history and connects all of us. It enables us to **feel confident in our decisions** and **proud of our actions.** We're **responsible in the way we do business.** We take a lead on Sustainability and doing the right thing by being a good neighbour and delivering against Heathrow 2.0.

'Doing the Right Thing' means…

- Take care, do things right
- Own our actions
- Take pride in what we do

KEEPING EVERYONE SAFE

Caring for ourselves and one another, so that we feel **safe, secure and well** and empowered to **speak up**, across all settings and activities. We notice and care and act with consideration for others, ourselves, Heathrow and the community. The safety of our colleagues and passengers has always been a **non-negotiable.** It's our first and foremost objective to running our business. The **physical and mental wellbeing of ourselves and each other** has never been more important, so they go hand in hand. When we and those around us feel safe, secure and well, we can achieve and enjoy a great place to work.

'Keeping Everyone Safe' means…

- Look out for ourselves and others
- Stop, think and act
- Care and speak up

WORKING TOGETHER

Working together constructively to achieve a common goal. We are stronger and achieve more when we work together. It feels good to be **valued for your contribution,** to **appreciate others and to bring out the best in each other.** Working together supports a sense of **belonging and connection**, with us each playing our part to achieve the best outcomes.

'Working Together' means…

- Connect with others to deliver our best work
- Bring out the best in each other
- Recognise and appreciate others

TREATING EVERYONE WITH RESPECT

In every Heathrow interaction, people are valued, respected, included and treated fairly. Everyone deserves to be treated with respect and consideration. When we feel respected and included, we can **trust one another** and feel **confident to bring our true selves to work and able to speak up.** Trust enables us to have honest conversations and the confidence to face challenging situations to achieve the best solutions. An inclusive culture leads to **diversity of ideas** and helps us to make better decisions.

'Treating Everyone With Respect' means…

- Value everyone's contribution
- Actively listen to understand
- Embrace differences

GIVING EXCELLENT SERVICE

Giving excellent service is about our ambition to lead, to **be our best and give our best.** It means living our **Service Signatures in every interaction** - with colleagues, customers and partners. We give excellent service because we are proud that passengers see Heathrow as the best place to fly from, through and to. By doing this we will achieve our vision of giving passengers the best airport service in the world.

'Giving Excellent Service' means…

- Notice and Care
- Share what we Know
- Make things Better

IMPROVING EVERYDAY

Being ambitious and always striving for the best, with the right tools and mindset to succeed. We feel proud of our ambition and feel fulfilled because we are always **improving, learning and growing** together in the pursuit of it. We **grow and learn** from each other by **sharing our knowledge and experience.** It's **not always about perfection** every time, but a desire to **embrace change** and have a **growth mindset.** We **learn from the past and apply those learnings to the future** to continuously reach the best solutions.

'Improving Everyday' means…

- Keep things simple in every interaction
- Seek out new opportunities
- Learn, adapt and grow

OUR STAKEHOLDER GROUPS

The strategic framework also sets our aspirations for each of the five strategic stakeholderholder groups (passengers, colleagues, airlines, investors, UK communities and environment) and the key components of our Heathrow Ecosystem (statutory authorities, supply chain and commercial partners).

PERFORMANCE AGAINST STRATEGIC PRIORITIES

The following performance metrics were set for each of the four strategic priorities prior to the COVID-19 outbreak and provide a picture for the year.

MOJO

PERFORMANCE INDICATORS

Lost-time injuries[1]

2021	0.35
2020	0.14
2019	0.34
2018	0.33
2011	n/a[2]

Colleague engagement[1]

2021	51%[3]
2020	n/a[3]
2019	74%
2018	73%
2011	n/a[2]

TRANSFORM CUSTOMER SERVICE

PERFORMANCE INDICATORS

Passenger satisfaction ('ASQ')[1]

2021	4.23
2020	4.24[5]
2019	4.17
2018	4.15
2011	3.88

Baggage connection[1]

2021	90.0%
2020	99.2%
2019	99.0%
2018	98.8%
2011	98.5%

Departure punctuality[1]

2021	80.9%
2020	85.7%
2019	78.5%
2018	77.6%
2011	79.0%

Connections satisfaction ('QSM')[1]

2021	n/a[4]
2020	n/a[4]
2019	4.14
2018	4.16
2011	n/a[2]

Security queuing[1]

2021	97.1%
2020	95.2%
2019	96.3%
2018	96.8%
2011	96.9%

[1] Number of lost time injuries for every 100,000 hours worked (Lost time injuries); miniPulse colleague survey results (Colleague engagement); Airport service quality ('ASQ'); percentage of flights departing within 15 minutes of schedule (Departure punctuality); percentage of passengers passing through central security within five-minute period (Security queuing); percentage of connecting bags traveling with the passenger (Baggage connection); quality of service monitor ('QSM').

[2] Figures are not available for 2011 as Heathrow (SP) Limited was trading as BAA (SP) Limited and the available information includes the trading results of other airports no longer owned. Results have only been provided where it was possible to separate the trading performance of Heathrow Airport.

[3] Due to COVID-19, the miniPulse colleague survey was suspended in 2020, before resuming in March 2021. Colleague engagement for 2021 is based on the average from March to December 2021; the decline compared to historical results is predominantly due to the pandemic and the subsequent business impacts.

[4] Due to COVID-19, the connections satisfaction QSM was suspended in 2020 and 2021.

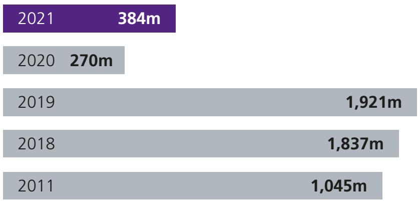
[5] This is the passenger satisfaction score for the fourth quarter of 2020 as the ASQ survey was temporarily suspended in March 2020, to limit the spread of COVID-19, before resuming in August 2020.

PERFORMANCE AGAINST STRATEGIC PRIORITIES (CONTINUED)

BEAT THE PLAN

PERFORMANCE INDICATORS

Adjusted EBITDA[1] £m



Passengers (millions)	2021	2020	Var. %[2]
UK	**1.8**	1.5	21.1
Europe	**8.8**	9.8	(10.6)
North America	**3.3**	3.9	(13.6)
Asia Pacific	**1.8**	2.9	(37.9)
Middle East	**2.3**	2.5	(6.6)
Africa	**1.0**	1.1	(9.4)
Latin America	**0.4**	0.4	(4.3)
Total passengers	**19.4**	**22.1**	**(12.3)**

Key traffic performance indicators	2021	2020	Var. %
Passenger ATM[3]	**160,744**	177,285	(9.3)
Load factors (%)[3]	**61.8**	57.7	7.1
Seats per ATM	**216.3**	216.2	0.1
Cargo tonnage (000s)	**1,403**	1,141	23.0

SUSTAINABLE GROWTH

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

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

We provide details of our Heathrow 2.0 activity and performance in the next section.

[1] Further analysis can be found in the Financial Review on page 46.
[2] Calculated using unrounded passenger figures.
[3] Passenger air-traffic movements ('ATM') includes commercial flights including scheduled, chartered and cargo and excluding positioning and private flights; load factor is a percentage of seats filled by passengers.

OUR COMMITMENT TO SUSTAINABLE GROWTH

Since we published our sustainability strategy Heathrow 2.0 in 2017, we have made significant progress. We have taken a leadership role within our sector's response to the global climate emergency and continued to invest in our local communities, working to upskill local people and support them to access careers at Heathrow.

Within the business, we have explored what equality, diversity and inclusion mean for us and committed to our airport being a place where everyone feels comfortable to be their true self at work. However, COVID-19 has seen the aviation industry confront the biggest challenge in its history. Priorities have shifted and in 2021 we worked on refreshing our strategy to focus on the issues where Heathrow needs to make the biggest difference this decade.

Our refreshed plan is about connecting people and planet. Through it we want to work with our partners to build a better, more successful, and sustainable business for all our stakeholders. Our updated framework is based on two pillars. The first focuses on net zero aviation and contains Heathrow's response to tackling the global climate emergency. The second focuses on making Heathrow a great place to live and work for our colleagues and our local communities and brings together our plans to tackle a range of environmental and social issues. Underpinning these are our responsible business foundations, our ongoing commitment to do the right thing across a range of issues.

We published our refreshed strategy in February 2022, and we are continuing to embed delivery of our goals and targets across the business and within our relationships with partners. In this report we have included 2021 data on several key issues. Some are indicators we have reported in previous years, while others are new. As we continue to establish our refreshed strategy, we will increase the number of indicators we track and report. Later in 2022 we will publish our 2021 Sustainability Report which will contain further detail.

NIGEL MILTON
Chief of Staff and Carbon

SUSTAINABLE DEVELOPMENT GOALS

The United Nations' Sustainable Development Goals ('SDGs') were launched in 2015. They are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. There is strong alignment between the SDGs and Heathrow 2.0 and we have summarised which goals apply to each of the two pillars.

PILLARS

NET ZERO AVIATION

GREAT PLACE TO LIVE AND WORK

OBJECTIVES

Net zero in the air
GOAL BY 2030:
Up to 15% cut in carbon compared to 2019

Clean air at and around the airport
GOAL BY 2030:
Reduce NOx airside by 18% compared to 2019

Quieter nights, quieter flights
GOAL BY 2030:
Limit and where possible reduce the number of people highly sleep disturbed and highly annoyed compared to 2019

Nature positive airport
GOAL BY 2030:
Work with partners to support a nature network around Heathrow

Net zero on the ground
GOAL BY 2030:
At least 45% cut in carbon compared to 2019

Zero waste airport
GOAL BY 2030:
Maximise reuse, recycling and recovery of materials used at Heathrow

Thriving sustainable supply chain
GOAL BY 2030:
Maximise suppliers achieving gold standard against our Balanced Scorecard

Better quality of life in Heathrow's neighbouring communities
GOAL BY 2030:
Give back to 1 million people in our local communities

Inclusive employer of choice for local diverse talent
GOAL BY 2030:
Reflect the diversity of our local community at all levels

Inclusive employer of choice for local diverse talent
GOAL BY 2030:
10,000 external jobs, apprenticeships and early career opportunities

SUSTAINABLE DEVELOPMENT GOALS

7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION

3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 5 GENDER EQUALITY; 6 CLEAN WATER AND SANITATION; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 15 LIFE ON LAND

RESPONSIBLE BUSINESS FOUNDATIONS

SUSTAINABILITY CULTURE

We have embedded sustainability into our culture and through our governance structures. Key aspects include:

- **HAHL Board[1] of Directors:** Our Board also has a dedicated sub-committee which discusses sustainability issues quarterly: the Sustainability and Operational Risk Committee. In 2021, the Chair of the Audit Committee assumed a responsibility for climate change to further strengthen governance on climate at Board level.
- **Executive team:** Our Chief Executive and the Executive leadership team provide strategic direction for the delivery of Heathrow 2.0 through their functions.
- **Our Carbon and Sustainability Leadership Group:** Ensures that Heathrow 2.0 is embedded and implemented across the business and shapes departmental sustainability plans. Its members are senior departmental leaders. In 2022 the CSLG will become a formal sub-committee of the Executive.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 84.

NET ZERO AVIATION

Air travel has brought the world closer and allowed us to experience its considerable wonders. It brings trade and tourism to every corner of the globe. Yet everyone is aware that aviation advancement has come at a cost. It's no longer sustainable for us to expect to keep travelling in years to come in the way we always have. Flight emissions are a significant contributing factor to global CO_2 emissions and our airport, the aviation sector and governments must be bold in making changes if we are to allow future generations to experience the world through air travel.

We must take the carbon out of flying. Heathrow needs to lead the way, embrace innovative ideas and be open to a new way of doing things to make a real difference and tackle the global climate emergency. Ultimately, we must be responsible for all emissions at the airport, whether they are on the ground or in the air to achieve our goal of net zero by 2050. Substantive changes must now happen this decade to allow that to happen so we must work together within Heathrow and across our industry to cut carbon now.

The aviation sector globally is united on where we need to get to: net zero by 2050. We have a clear roadmap to get there. We now need to translate that net zero ambition to action. This is the decade to make a difference. That's why as Heathrow, we've set goals to cut carbon from aircraft and our operations on the ground by 2030. We aim to make 2019 the year of peak carbon. This will require action with urgency and purpose by us and our industry partners – airlines, manufacturers, fuel producers. It will also require the same urgency and purpose from the UK Government and from states around the world at ICAO. But with the right focus and action we can take the carbon out of flying and protect the benefits of aviation for the future.

OUR OBJECTIVES, GOALS AND TARGETS

1

OBJECTIVE:

Net zero in the air

GOAL:

Up to **15% cut** in carbon by 2030 compared to 2019

TARGETS:

- Cut up to 1% by 2030 through more efficient operations and modernising airspace.
- Cut up to 8% by 2030 through improvements to conventional aircraft.
- Cut up to 7% by 2030 through use of Sustainable Aviation Fuel.

2

OBJECTIVE:

Net zero on the ground

GOAL:

At least **45% cut** in carbon by 2030 compared to 2019

TARGETS:

- Cut 49% by 2030 from surface access.
- Cut 35% by 2030 from our supply chain.
- Cut 87% by 2030 from airport vehicles.
- Cut 39% by 2030 from buildings and infrastructure.

More detailed information on our carbon objectives, goals and targets is available in our Net Zero Plan at: www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/Our-Carbon-Strategy.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2021

In February 2022 we published our Net Zero Plan which sets out the actions we will take to achieve our goals 'in the air' and 'on the ground' – our contribution to delivering aviation net zero. Where we do not directly control emissions, our plan details how we will work in partnership and influence others, particularly our airline customers, the many other companies that operate at the airport, and our passengers. We can pull different levers to influence emissions: leadership and advocacy; sending the right financial signals; setting the right standards; and offering the right products and services.

It is positive that during COVID-19 – the worst crisis to face the aviation industry – the sector has backed net zero. As we recover, there is growing momentum on turning commitments into action. Governments are beginning to respond to a call to action from the industry to decarbonise aviation – taking the critical steps for enabling the necessary technological solutions and putting the right policies in place to scale up the production of Sustainable Aviation Fuels (SAF) and stimulate demand to make it more cost competitive with kerosene.

Whilst SAF is the priority for cutting carbon emissions, there is also progress in developing the zero carbon aircraft of the future, supported by government and private investment. We expect these aircraft to begin flying from Heathrow in the 2030s and have started to prepare for their introduction by understanding the infrastructure and operational requirements and including the investment to develop early infrastructure trials to support zero carbon aircraft in our business plan for our next regulatory settlement period which runs from 2022-26.

The major developments during 2021 include the following:

GROWING MOMENTUM FOR A GLOBAL NET ZERO GOAL FOR AVIATION

The International Civil Aviation Authority (ICAO) is a United Nations agency responsible for the global standards governing aviation.

It holds 'Assemblies' of all the world's states every three years. At its 2019 Assembly ICAO agreed to look at options for a long-term aspirational climate goal. The global aviation sector wants that to be an agreement for net zero aviation by 2050, which a growing number of governments around the world are already backing.

In 2020, the UK aviation sector became the first to commit to net zero and publish its roadmap to achieve it by 2050. In 2021, the entire aviation sector globally committed to net zero by 2050 – the first time an entire global sector has made such a commitment, which aligns to the Paris Agreement goal for global warming not to exceed 1.5°C. Later in 2021, at COP26, the UK Government launched an International Aviation 'High Ambition Coalition', pressing for the same goal. It included twenty states from Africa, Latin America, Asia, North America, and Europe.

This is a significant shift in a short space of time, demonstrating the growing momentum behind delivering net zero aviation and sending a strong signal to international governments, through ICAO, to match the ambition of the sector and set a long-term net zero goal for aviation at its next Assembly in September 2022.

SCALING UP SUSTAINABLE AVIATION FUELS (SAF)

A growing number of airlines are making commitments to purchasing Sustainable Aviation Fuels. SAF is a key element of the industry's net-zero roadmap because it can be used in existing infrastructure and aircraft and therefore there is no requirement for significant upgrades to airport infrastructure or operational changes.

Our biggest customer, IAG, wants at least 10% of its fuel to be SAF by 2030. The US airline industry has set a target for around 15% SAF by the same time, helped by strong US Government incentives. The Clean Skies for Tomorrow Coalition – a global group of airlines, manufacturers, airports, fuel companies and users of air travel has backed an ambition of 10% SAF globally by 2030. By the end of 2021, airlines representing 66% of Heathrow's flights had made a commitment to use 10% or more SAF by 2030.

Although we are not in the 'value chain' for SAF – we don't buy, use or supply SAF itself – we have been supporting this critical agenda in several ways:

Policy advocacy

In the UK, we are working with aviation partners to advocate these policies at all levels of government. SAF is a priority focus for the Jet Zero Council – a group of industry leaders chaired by the Government Secretaries of State for transport and business and charged with driving the right policy and business action. Heathrow has been actively involved in the Jet Zero Council throughout 2021. Our CEO, John Holland-Kaye, is a member of the Council, and our COO, Emma Gilthorpe, has been appointed to lead the Council. John Holland-Kaye also leads the aviation taskforce of the 'Sustainable Markets Council' of His Royal Highness The Prince of Wales's Sustainable Markets Initiative (SMI). Launched at the World Economic Forum Annual Meeting in Davos in 2020, it brings together companies acting to collectively accelerate progress in areas essential to the net zero transition.

Globally, we are active members of the World Economic Forum's Clean Skies for Tomorrow Coalition. The coalition has backed at least 10% SAF globally by 2030 and, with five states from Europe, the Middle East, Asia and North America, has published a toolkit of the policies required to scale up SAF.

Demonstrations of SAF use at Heathrow

In June 2021, SAF was delivered to Heathrow for the first time by fuel company Vitol. It was blended into the airport's main fuel supply and distributed through its fuel hydrant system. Consequently, SAF became a small percentage of the fuel supplied to aircraft right across the airport over a period of a few days. Since then, further deliveries have taken place in partnership between airlines and fuel companies, including during COP26 when all British Airways flights between Heathrow and Scottish airports were fuelled with a blend of SAF.

Incentivising SAF use through our landing charges

From 2022, our landing charges include a new financial incentive to help make SAF more affordable for airlines. Fully subscribed for 2022, the incentive means that at least 0.5% of total aviation fuel at Heathrow this year will be SAF, climbing steadily in following years. It is intended to complement a new UK Jet Zero policy the UK Government is planning to introduce.

Offering passengers the opportunity to buy SAF

Through our offsetting partner CHOOOSE, we offered companies and passengers the chance to buy SAF. As an alternative to the forestry projects offered on the platform, customers can also select to offset their flights by paying for SAF which is used on existing scheduled flights. Once the transaction has occurred no other claim can be made for the carbon saved, helping to further stimulate SAF production. Heathrow is the first airport in the UK to offer passengers this opportunity.

We also unveiled an augmented reality Sustainability Showcase in Terminal 5, designed to give passengers the chance to explore new technologies first-hand, stimulating discussion around investment in the technology that can help reduce carbon emissions.

PLANNING FOR ZERO EMISSION AIRCRAFT

In 2020, we led a consortium of aerospace companies, airlines, airports and academics that successfully bid for funding from Innovate UK's 'Future Flight Challenge' programme to research what's needed to introduce zero carbon aircraft. The early findings from 'Project NAPKIN' were published last year which suggest that we could need to be ready to support these aircraft by the end of this decade.

Our focus is understanding the operational and infrastructure requirements for zero carbon airport – most likely hydrogen powered so that we can build these into our long-term plans for the airport. Beyond the airport, the project will identify other requirements – what will work commercially for airlines, for example, or what regulatory requirements will be put in place.

There is a wide range of other research, innovation and demonstration projects taking place globally and in the UK. A major research programme by the Aerospace Technology Institute called "Fly Zero" will also report in spring 2022, setting out how the UK can accelerate zero carbon aircraft. That report will shape the future work of the Jet Zero Council, where zero carbon aircraft technology is the other focus alongside SAF.

We have previously announced that we would waive landing charges for a year for the first regular commercial flight operated by a zero carbon aircraft, an incentive worth up to £1 million.

PUBLISHING OUR NET ZERO PLAN AND PREPARING TO DELIVER

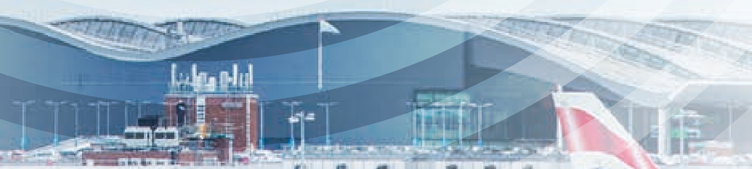
We published our Net Zero Plan in February 2022 to set a clear direction for our company to 2030 on where we will cut our emissions and how we plan to do that. We must cut emissions this decade, therefore turning our plan into action quickly is essential. As a regulated business, we set out our plans for five-year periods to the CAA, our economic regulator, who determine the regulatory settlement for that period.

In the next regulatory settlement period (2022-2026), we have included £188m of investment in carbon and sustainability improvements in our business plan, which will allow us to deliver the essential projects up to 2026 that will keep us on track to hit our net zero goals in the air and on the ground by 2030.

To cut emissions in the air, we have prioritised investment for the infrastructure and systems that will enable the modernisation of airspace and make aircraft movements on the ground more fuel efficient. We will roll out more effective pre-conditioned air (PCA) systems to replace existing units too. Parked aircraft connect to PCA which provides air conditioning, allowing them to switch off on-board auxiliary power engines.

To cut carbon on the ground we will invest in improvements to active travel (cycle and walking routes) and public transport, deliver more electric vehicle charging points, and start work on designing a new zero carbon heating network and upgraded electricity distribution network to support the shift away from fossil fuels to renewable electricity.

This enabling investment, together with setting the right standards, pricing incentives, market engagement and action by Heathrow, airlines and our partners will deliver the carbon savings we need to achieve. Ultimately the CAA decide on the settlement, so strong regulatory backing for cutting the airport footprint is essential. We have engaged the CAA throughout 2021 to explain our plans, the carbon benefits they deliver and how delivering our plans protect consumer interests today and in the future.



OUR CARBON FOOTPRINT

We monitor our carbon footprint and report on our greenhouse gas emissions annually. This helps us to identify opportunities to reduce our emissions and assess our progress in delivering our carbon reduction goals.

Our methodology for carbon reporting follows the Greenhouse Gas Protocol and Airport Carbon Accreditation (ACA) standard. It includes emissions from our infrastructure, travel to and from the airport, and aircraft in the landing and take-off ('LTO') cycle and cruise phase.

This year, we have expanded the scope of our footprint to include fugitive emissions from the use of de-icing products (scope 1 and 3), and emissions from fuel used in construction (scope 3).

In 2021, we improved our data collection and methodology to be able to report our carbon performance alongside our financial performance for the same period. Therefore we have included carbon data for both 2020 and 2021 (last year's report contained data to the end of 2019).

While we have been able to automate some data sets such as emissions from aircraft, our goal is to go further so that we can provide close-to real time carbon reporting. This will help us to monitor our performance more closely.

Bureau Veritas UK Limited have provided verification for Heathrow's greenhouse gas (GHG) emissions data in the Heathrow Carbon Footprints for 2020 and 2021, covering the period 1 January 2020 to 31 December 2021. Further carbon footprint information and verification statements will be available on our website at https://www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-futher-reading.

Net Zero Plan Objective	Emission source	Greenhouse gas emissions 2019	2020	2021
Net zero on the ground	**SCOPE 1** (tonnes CO_2e)	**26,998**	**23,209**	**29,091**
	Fuel consumption utilities – Market based – Location based	21,942 24,335 (134,288.9 MWh)	18,903 18,903 (162,578 MWh)	23,525 23,525 (125,326 MWh)
	Operational vehicles	1,668 (6,732 MWh)	1,121 (4,597 MWh)	1,023 (5,324 MWh)
	LPG for fire training	35 (4.9 MWh)	– (0 MWh)	– (0 MWh)
	Refrigerants	2,871	2,777	2,968
	De-icer	482	407	1,575
	SCOPE 2 (tonnes CO_2e)	–	–	–
	Grid electricity consumption – Market based – Location based	– 71,163 (283,229 MWh)	– 52,392 (224,722 MWh)	– 49,066 (231,082 MWh)
	SCOPE 1 and 2 carbon intensity (kg CO_2e/passenger)	**0.33**	**1.05**	**1.50**
	SCOPE 3 (tonnes CO_2e)	**20,782,605**	**8,845,765**	**8,125,487**
	Passenger Surface Access	632,348	195,040	130,699
	Colleague Surface Access	115,531	66,428	78,537
	Business Travel	1,070	245	28
	Waste	563	1,407	176
	Water	2,068	980	434
	De-icer	4,584	1,517	3,267
	Operational Vehicles & Equipment	33,015	18,075	12,204
	Construction Vehicle Fuels	–	771	1,299
	Third party grid electricity consumption – Market based – Location based	146 43,706	125 28,790	69 23,785
	Fuel Consumption - Utilities	272	266	173
Net zero in the air	Aircraft in the landing and take-off cycle (LTO)	1,250,648	511,056	505,552
	Cruise Emissions from all departure flights	18,742,505	8,049,981	7,393,049
	Total (tonnes CO_2e)	**20,809,603**	**8,868,974**	**8,154,578**

Supporting notes:

We continue to apply the same footprint boundaries to reflect our operational control both at the airport and offsite – including our business parking 'Pod' test track and Business Support Centre ('BSC') – and to align with the Greenhouse Gas Protocol ('GHGP'), which provides accounting and reporting standards, as well as sector guidance from Airport Carbon Accreditation.

Scope 1 emissions

- As of 2020, we have included fugitive emissions from our own de-icer use. We have back calculated de-icer emissions for 2019.

Scope 2 emissions

- Market-based grid electricity consumption: market-based emissions for grid electricity have been used to calculate total emissions.
- Location-based grid electricity: location-based emissions for grid electricity are based on the emissions intensity of the grid and don't take into account the procurement of renewable energy from the market, hence are excluded from the total emissions.
- Renewable Energy Guarantee of Origin ('REGO') contract: the REGO certificate covers Heathrow Airport Limited, our 'Pod' test track and our Business Support Centre (in Glasgow), all of which fall under Scope 2 electricity.
- All scope 1 and 2 emissions are UK based.

Scope 3 emissions

- Third party fuel consumption – utilities: market-based emissions for grid electricity have been used to calculate total emissions.
- As of 2020, we have included fugitive emissions resulting from aircraft and surface de-icer usage from 3rd parties; as well as emissions from fuel used in construction. We have back calculated de-icer and fuel from construction emissions for 2019.

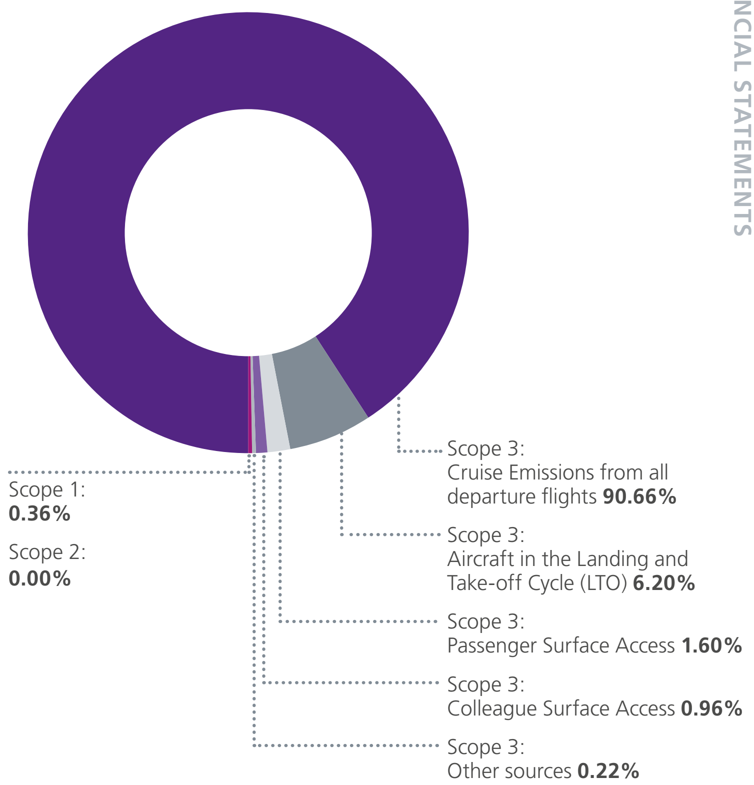
SCOPE 1 AND 2 EMISSIONS

Scope 1 are all 'direct' CO_2e emissions from activities at Heathrow under our direct control, such as Heathrow's own vehicles, fuel required to heat our terminals and non-carbon emissions including refrigerant gases.

Scope 2 are all 'indirect' CO_2e emissions from the electricity purchased for the organisation. Scope 2 market-based emissions for 2021 were zero. This is because our electricity was sourced using a Renewable Energy Guarantee of Origin ('REGO') backed contract. The REGO certificate covers Heathrow Airport Limited, our parking-pod test track and Business Support Centre (in Glasgow), all of which fall under Scope 2 electricity.

SCOPE 3 EMISSIONS

Our scope 3 emissions include all the other indirect activities in relation to the airport, occurring from sources we do not own or directly control. We know that getting our own house in order is only the first step and that we must support decarbonisation across the whole industry, including flights.



ENERGY EFFICIENCY

We have invested over several years to make our airport more energy efficient. In 2020, energy use fell significantly as we worked quickly to consolidate operations to reflect lower passenger numbers due to COVID-19. By implementing opportunities to minimise energy use during this period, we reduced electricity use by 23% and natural gas by 16% compared to 2019. The impact of COVID-19 has also meant energy use has increased in some areas – following government guidelines we have increased the ventilation of our buildings as one example.

During 2021, we started to operate more of our estate as passenger numbers increased, and to support "Red Route" arrivals. We have considered energy efficiency as we prepare our infrastructure for operational readiness, optimising settings and controls, monitoring energy consumption, whilst maintaining COVID-19 measures such as increased ventilation rates.

We continue to maximise the amount of renewable energy we generate on site from our biomass boiler and solar PV.

A GREAT PLACE TO LIVE AND WORK

The people who work in and around Heathrow every day are the lifeblood of the airport. They shape the experience of every passenger and offer excellent airport service, keeping Heathrow safe, secure, and welcoming. It is critical to ensure our airport is a diverse and inclusive workplace for all, and that we provide the skills, education and long-term employment opportunities that make the airport the local employer of choice. We must also be a valuable neighbour for those who live closest to us, making sure these communities benefit from cleaner air, quieter nights and improved quality of life.

OUR OBJECTIVES, GOALS AND TARGETS

3

OBJECTIVE:

Clean air at and around the airport

GOAL:

Reduce NOx airside by **18%** compared to 2019

TARGETS:

- At least 45% passengers using public transport and no more than 57% colleague single occupancy vehicle trip mode share by 2026.
- By 2026 increase the UK population located within 1.5 hours of Heathrow by public transport by 25% and within 3 hours by 12%.
- Airside ULEZ by 2025 and all airport vehicles zero emission or using biofuels by 2030.

4

OBJECTIVE:

Quieter nights, quieter flights

GOAL:

Limit and where possible reduce the number of people highly sleep disturbed and highly annoyed compared to 2019

TARGETS:

- Reduce noise contour areas compared to 2019 by incentivising the use of Chapter 14 aircraft and operational improvements consistent with the ICAO Balanced Approach.
- Introduce easterly alternation by 2028.
- Protected period of the core night by 2025 (no flights except dispensed operations between 00:00 and 04:30) and increase nights without aircraft post 23:45 compared to 2019 levels.

5

OBJECTIVE:

Nature positive airport

GOAL:

Work with partners to support a nature network around Heathrow

TARGETS:

- Develop a Nature Positive plan for Heathrow by 2022.
- Retain Biodiversity Benchmark Award.
- Maximise de-icer recovery through our Clean Water Programme.

6

OBJECTIVE:

Zero waste airport

GOAL:

Maximise reuse, recycling and recovery of materials used at Heathrow

TARGETS:

- Reduce total waste generated compared to 2019.
- Reduce water leakage by 15% compared to 2019.

7

OBJECTIVE:

Thriving sustainable supply chain

GOAL:

Maximise suppliers achieving gold standard against our Balanced Scorecard[1]

TARGETS:

- Deliver business opportunities at Heathrow by growing the proportion of SMEs in our supply chain (from 40%) and the proportion of local SMEs (from 50%).
- Switch on CompeteFor in 2022 and then set a target to grow the level of business with SMEs amongst our Tier 1 & 2 partners and suppliers.

8

OBJECTIVE:

Better quality of life in Heathrow's neighbouring communities

GOAL:

Give back to 1 million people in our local communities

TARGETS:

- Publish a new Giving Back Programme in 2022.
- Publish a target in 2022 to increase the number of Heathrow colleague volunteering/giving back hours made available in local neighbourhoods by 2030.
- At least £6.5million funds generated for the Heathrow Community Trust by 2030.

9

OBJECTIVE:

Inclusive employer of choice for local diverse talent

GOAL:

Reflect the diversity of our local community at all levels

TARGETS:

- At least 43% female colleagues at senior levels by 2026.
- At least 27% Black, Asian and Minority Ethnic colleagues at senior levels by 2026.

GOAL:

10,000 external jobs, apprenticeships and early career opportunities

TARGETS:

- 15,000 experience of work days by 2030.
- Schools programmes available every year to children in all local boroughs.

[1] Heathrow's Balanced Scorecard (to be launched in 2022) will enable clear communication of priorities to strategic partners and a collaborative approach to working together to deliver.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2021

AIR QUALITY

To support sustainable colleague travel to work, and provide better travel options to local communities, during 2021 we focused on developing a new Sustainable Travel Zone (STZ). Funding for early interventions was confirmed and agreements reached with operators to deliver the first improved services from 10th January 2022. In November 2021, we also introduced a £5 Terminal Drop Off Charge, contributing to modal shift from private vehicles to public transport.

We were encouraged to see the percentage of passengers using public transport increase to 37% from 34% in 2020. Although this is still lower than 2019, it indicates that passenger demand for public transport will continue to increase as recovery continues.

Work to develop the Airside ULEZ strategy continued in 2021 with a focus on airside vehicle safety standards, net zero emissions and optimisation of vehicles operating airside. The priority has been engaging business partners and ground handlers to understand their vehicle replacement strategies to ensure we are able to support requirements for electric vehicle charging infrastructure.

PERFORMANCE INDICATOR

Public transport mode share

2021	32.6%
2020	36.7%
2019	41.3%

NOISE

Fewer flights over the past two years has resulted in a reduction in noise exposure for local communities and this will be reflected in the annual noise contours for 2021 which will be published later in 2022. We have used the opportunity to begin a review of key voluntary measures including the Fly Quiet and Green Program and the Noise Insulation Schemes. This will conclude in 2022. In addition, we provided a comprehensive response to the Department for Transport (DfT) night flying public consultation with the aim of balancing the benefits and impacts of night flights. Minimising noise for local communities has remained a key priority for us. During 2021 we have focused on maintaining high levels of compliance with noise abatement procedures and voluntary measures to address noise impacts.

Over 89% of arrivals followed a Continuous Descent Approach (CDA) in 2021, improving on 2020 figures. Although track-keeping figures for departures in 2021 were well over 90%, they were still down slightly due to single runway operations in the first 6 months of the year increasing the use of 09L which is rarely used in normal (pre-2020) operations. Night flights are a key concern for community groups and, in 2021, we continued to drive voluntary initiatives with airlines and NATS to reduce the number of late running aircraft and nights with operations after midnight, as well as ensure that none of the early morning arrivals touched down before 04:30.

PERFORMANCE INDICATOR

Late running aircraft

TARGET	197
2021	86
2020	68
2019	257

In 2021 there were a total of 86 late running departures against the target of 197. 56 of these were in Q4 due to several factors including an increase in movements, operational issues, and resourcing levels, particularly in December.

ENVIRONMENTAL ISSUES

As a member of the Council for Sustainable Business (CSB), in October we were a founding signatory of the Get Nature Positive campaign, committing to build on our strong history of biodiversity management and work towards halting and reversing the decline of nature by 2030. Our work in this space was externally recognised in September when we won the CIRIA (Construction Industry Research and Information Association) Big Biodiversity Challenge Client Award. We also retained the Wildlife Trusts' Biodiversity Benchmark which we've held for over 12 years.

We maintained our focus on environmental standards through ISO14001 in 2021. In November, a regular ISO 14001 Environmental Surveillance Audit took place, with our Engineering department maintaining certification for another year. The auditor commented that there are clear Environmental Controls, a mature integrated system, and a dedicated, enthusiastic, and professional team.

HEATHROW LOCAL RECOVERY PLAN

In 2021 we have continued to collaborate with local authorities, enterprise partnerships, business support organisations and education providers to enable local economic recovery from the impact of the pandemic. Together we have tackled the knock-on effect on the local communities who heavily rely upon the airport through delivering the recommendations in the Heathrow Local Recovery Plan across its four priorities – employment and skills, supply chain opportunities, surface access and green recovery.

By the end of the year, seven recommendations have been successfully delivered, with key milestones reached along the way including simplifying a dedicated website page to provide support for local SMEs to access the Heathrow supply chain and, with the Department of Work and Pensions (DWP), offering a team of four Heathrow JobCentre Plus Work Coaches to support colleagues across Team Heathrow and the local community to access job search support and careers, information, advice and guidance.

At the December Heathrow Local Recovery Forum members agreed on new recommendations to focus on in 2022 and the Local Recovery Plan will be updated with an addendum to reflect these, demonstrating our continued focus on the challenges faced by Heathrow and our local communities.

COMMUNITY INVESTMENT

We continued to invest in our local communities in 2021 through the Heathrow Community Rangers, the Responsible Schools Programme, the Better Neighbour Programme in collaboration with Keep Britain Tidy, and funding local community projects via the Neighbouring Villages Fund.

The Heathrow Community Rangers carry out projects identified by local community members or council representatives that enhance the local area. They are our eyes and ears in the community and can react quickly if urgent support is needed. The Rangers were crucial in 2021 in continuing to deliver our COVID-19 community response, supporting with delivery of laptops to local schools and families, as well as food bank donations. The Rangers continued to support our five local partner schools with enhancements to their facilities, planting trees and bushes, constructing planters for food growing, installing benches, sheds and firepits, as well as larger projects such as painting Pippins Primary School to make it a brighter environment for learning, and constructing a sensory garden at Harmondsworth Primary School which has the highest number of special educational needs and disability (SEND) pupils in the local area. The Rangers also undertake landscaping and greening of local areas, including litter picking and clearing fly tips, particularly on Spout Lane. A key project in 2021 was improvements to the Stanwell Moor Village Hall where the Rangers cleared overgrowth, installed planters for a herb garden and strawberries, and fully re-painted the outside of the hall.

The Heathrow Neighbouring Villages Fund (NVF) provides small donations to local community groups to fund activities which bring communities together, improve quality of life or for resources which communities can benefit from, now and in the future. In 2021 funding supported a wide variety of community projects including an eco-agriculture hydroponics project in Stanwell, music and lighting equipment for Heston Community School to facilitate school clubs, functions and community workshops, and funding for Stanwell Moor Village Hall to upgrade their sign, gate and garden.

The Responsible Schools Programme was scaled down in 2021 due to COVID-19 restrictions, however enterprise and career day workshops were still delivered to all five partner schools and virtual reading sessions were trialled during home schooling periods. Heathrow also supported the partner schools throughout the pandemic by donating school supplies and laptops to aid virtual learning.

The Better Neighbour Programme is delivered in partnership with Keep Britain Tidy to support projects that fall outside of the remit of the Heathrow Community Rangers and require collaboration with councils. The key project delivered in 2021 was the installation of a globe-sized planter structure, as well as a nature trail with benches, at Cranford Community College to encourage students and residents to reconnect with nature and improve their wellbeing.

KEY ACHIEVEMENTS AND PERFORMANCE IN 2021 (CONTINUED)

CHARITY

Following the decision in 2020 to put on hold our partnerships with Care International UK and the Duke of Edinburgh's Award Scheme, activity in 2021 focused on supporting the Heathrow Community Trust (HCT). HCT is an independently run grant-making charity that funds projects that improve quality of life for communities near the airport. In 2021 we contributed £315,532. We donated £125,000 (2020: £725,000) and a further £5,604 (2020: £10,900) was leveraged [1] from colleague and passenger fundraising and levied from noise fines.

£183,000 in funding was also generated from Heathrow achieving sustainability KPIs in 2020 which were linked to our Revolving Credit Facility agreement, thereby incurring a saving on the interest rate which was donated to HCT. HCT was able to distribute grants worth £187,000 in 2021 to 49 local community groups and organisations, including £49,000 in COVID-resilience grants.

In 2021 HCT supported a wide range of community projects and organisations, helping young people to raise their aspirations, bring communities together, reduce isolation for older people and enhance local environments. One beneficiary is Learn English at Home, a charity based in Southwest London, which works to achieve inclusion through language.

They support people whose first language isn't English, including refugees, asylum seekers and people who are unable to access college due to caring responsibilities or suffer from ill health. HCT funding has enabled Learn English at Home to train volunteers to deliver 1:1 support and community classes to help people to integrate into their local community.

The remaining funding will enable the restart of grant programmes in 2022 to support young people, bring communities together and fund sustainability and environment projects.

[1] Leverage is a measure of additional resources contributed to charities from sources other than the company

EQUALITY, DIVERSITY AND INCLUSION (E,D&I)

E,D&I remained a key area of focus in 2021 as we know we need to accelerate our progress. To support the overall goals within Heathrow 2.0, we have also developed a detailed 2030 strategy, including setting interim goals for the end of 2026. Activity in 2021 focused on putting in place the fundamentals that will help us to deliver this plan. For example:

- We launched a new mentoring programme that allows colleagues to easily connect with potential mentors who can support them to develop their career at Heathrow.
- Delivery of a range of tactical E,D&I activity including two E,D&I focused all-company calls, and activity to mark Black History Month, Heathrow's Disability Awareness Month and National Inclusion Week.
- As well as reporting our gender pay gap, we also published our ethnicity pay gap for the first time. The median pay gap for gender was 14.0% (excluding furloughed colleagues) which is below the national median gender pay gap of 15.5% but an increase from 4.5% in 2020. Our mean gender pay gap has decreased to 7.8% (from 8.8% in 2020). Our median ethnicity pay gap was 22.2% and our mean ethnicity pay gap was 22.2% (we are unable to make comparisons for ethnicity as this is our first year of reporting).

The reporting period was from April 2020 and was therefore not a typical year. We had to make some difficult business decisions which saw a reduction of our workforce. The changes affected some roles more than others and although we saw an increase of females from 42.0% to 45.0%, the proportion of women in the highest pay quartile decreased. Despite this, the average pay of women in the highest quartile increased, driving the mean gender pay gap to improve.

Goals	Targets (by 2030)		Performance 2021	2020
Reflect the diversity of the local community at every level for female colleagues	**49%** Female representation at each level	Senior managers	**37.1%**	**37.2%**
		All colleagues	**40.8%**	**40.8%**
Reflect the diversity of the local community at every level for Black, Asian and Minority Ethnic colleagues	**39.9%** Black, Asian, Minority Ethnic representation at each level	Senior managers	**17.1%**	**17.2%**
		All colleagues	**46.0%**	**45.9%**
Create an inclusive culture where colleagues feel confident in recording and sharing their diversity data	**100%** Disclosure rates (including prefer not to say) for: Gender, Disability, Ethnicity and Sexual orientation	Gender	**99.8%**	**98.0%**
		Disability	**21.7%**	**19.1%**
		Ethnicity	**97.7%**	**92.0%**
		Sexual orientation	**26.0%**	**19.1%**

EDUCATION, EMPLOYMENT AND SKILLS

As part of our commitment to providing local young people with experiences of work, 729 local students aged 16-19 completed a Virtual Work Experience pilot in February 2021. Eleven Team Heathrow partners, including companies such as JCDecaux and Mace, took part in the programme which gave students insights into how the airport operates, the diverse range of careers available, and the essential skills needed to succeed.

The online programme was supported with a series of live webinars where students could interact with colleagues and ask questions. Over 90% of students said that, because of the programme, they now feel more confident finding a job in future.

PAULA STANNETT
Chief People Officer

EXPANSION

The pandemic has strengthened the strategic case for expansion. We have seen how an island trading nation relies upon airlinks economically and socially. The hub model has been strengthened, with airlines consolidating operations into Heathrow.

15 new passenger airlines have started operating at Heathrow during the pandemic, more than any other airport worldwide, demonstrating the pent up demand from airlines and the benefits to consumers from greater competition and choice between airlines. We have better understood the critical role of air cargo, mainly carried in the hold of passenger planes from Heathrow, in supporting UK exports and manufacturing and retail supply chains. Most of all, we have seen the risk to the UK's trade routes of becoming dependent on hubs in EU countries which have closed their borders to flights from the UK during the pandemic. Although demand has fallen temporarily, we are confident that it will have recovered to pre-pandemic levels by the time a new runway is operational.

CONNECTING ALL OF BRITAIN TO GLOBAL GROWTH

Expanding Heathrow will add more long-haul and short-haul routes to help drive direct investment and tourism to Britain as well as opening up new markets for our goods and services. For passengers, a third runway will bring new destinations, more choice and lower prices through an increase in competition between airlines. For business people, students and tourists visiting the UK, it would make it easier to reach our shores. Heathrow is an economic catalyst, with many businesses choosing to base themselves in the UK because of the ease of connections from Heathrow.

Heathrow is not only the UK's global gateway, it is the country's biggest port by value for non-EU markets. Anything high value, with a short shelf life or a short supply chain goes on a plane, not a ship and the long haul passenger flights from Heathrow carry 40% of non-EU exports. Daily, year round long-haul flights are only viable from a hub airport, like Heathrow, Schiphol or Charles de Gaulle, where demand is pooled from across a large region.

As the global economy increases, British businesses will need more trading routes with Asia Pacific, Africa and the Americas, which will mean more long haul flights. If there is not more runway capacity at Heathrow, Britain will become increasingly dependent on EU hubs to access long-haul markets, which puts the UK at a competitive disadvantage, and potentially puts trade routes at risk if those countries close their borders, as happened during the pandemic. Expanded capacity and cargo facilities at Heathrow would better connect British exporters to global markets and make it easier for investors to come to the UK.

Heathrow is the UK's hub airport. Easy connections from all parts of the country into Heathrow by rail, road and air make sure that the benefits of growth are felt in all corners of the UK. This is also the reason regional airports across Britain want to connect to Heathrow to enable their local businesses to reach a global market.

POLICY AND REGULATORY SUPPORT

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. Furthermore, the CAA continues to support Expansion on the basis that they believe it furthers the interests of consumers, as included within its Initial Proposals that were published in October 2021.

THE BUSINESS CASE

COVID-19 has created short-term passenger uncertainty, but we know there is strong pent-up demand to travel, as demonstrated when travel restrictions have been eased and testing regimes simplified. We expect to reach operational capacity once again during the H7 regulatory period.

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 in 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 as discussed in our Taskforce for Climate Related Financial Disclosures on page 66. We have an ambition to make 2019 the peak year for carbon emissions at Heathrow and a plan to get to net zero aviation by 2050.

As at 31 December 2021, £513 million of Expansion-related assets in the course of construction are included on the balance sheet, consisting primarily of costs directly associated with, and incurred solely for the purpose of, seeking planning permission. Refer to page 154 for the critical accounting judgements that Management has applied in recognising these assets.

Management has 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 is probable. Management will continue to test this judgement as we formalise next steps with investors, Government, airline customers, local communities and regulators.

Demand for aviation will recover from COVID-19 and the additional capacity at an expanded Heathrow will allow Britain, as a sovereign nation, to compete more effectively. Expansion would help the Government's ambitions for a levelled up and Global Britain to become a reality. By expanding Heathrow, the UK's only hub airport, we would be able to connect all of Britain to the growing markets of the world, creating hundreds of thousands of jobs in every nation and region of the country and giving Britain a competitive advantage over our EU rivals.

FINANCIAL REVIEW

2021 has been another year of protecting our business from the effects of COVID-19 on passenger demand. Nevertheless, we have also taken steps to ready the business for building back better as consumer confidence returns. We are able to do this thanks to decisive management actions that have been made to deliver significant cost savings and to protect liquidity over the last two years.

Revenue increased 3% and Adjusted EBITDA increased 42% to £384 million in 2021. We continue to actively manage our liquidity position having successfully raised £1.6 billion from global capital markets to weather the crisis and prepare for our next phase of growth.

JAVIER ECHAVE
Chief Financial Officer

Year ended 31 December	2021 £m	2020 £m
Revenue	**1,214**	1,175
Adjusted operating costs[1]	**(830)**	(905)
Adjusted EBITDA[2]	**384**	270
Depreciation and amortisation	**(797)**	(812)
Adjusted operating loss[3]	**(413)**	(542)
Net finance costs before certain re-measurements and exceptional items	**(857)**	(672)
Adjusted loss before tax[4]	**(1,270)**	(1,214)
Tax credit on loss before certain re-measurements and exceptional items	**254**	211
Adjusted loss after tax[4]	**(1,016)**	(1,003)
Including certain re-measurements[5] and exceptional items:		
Fair value gain/(loss) on investment properties	**174**	(412)
Fair value loss on financial instruments	**(665)**	(202)
Exceptional items	**(31)**	(184)
Tax credit on certain re-measurements and exceptional items	**139**	128
Change in tax rate	**(214)**	(112)
Loss after tax	**(1,613)**	(1,785)

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

BASIS OF PRESENTATION OF FINANCIAL RESULTS

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

The financial information presented within these financial statements has been prepared on a going concern basis. We have a strong liquidity position and adequate resources to continue in operational existence for the foreseeable future. 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.

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. More detail can be found in the going concern statement on page 137.

Management uses Alternative Performance Measures ('APMs') to monitor performance of the segments as it believes this more appropriately reflects the underlying financial performance of the Group's operations.

These remain consistent with those included and defined in the Annual Report and Accounts for the year ended 31 December 2020. A reconciliation of our APMs has been included on page 220.

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

SUMMARY PERFORMANCE

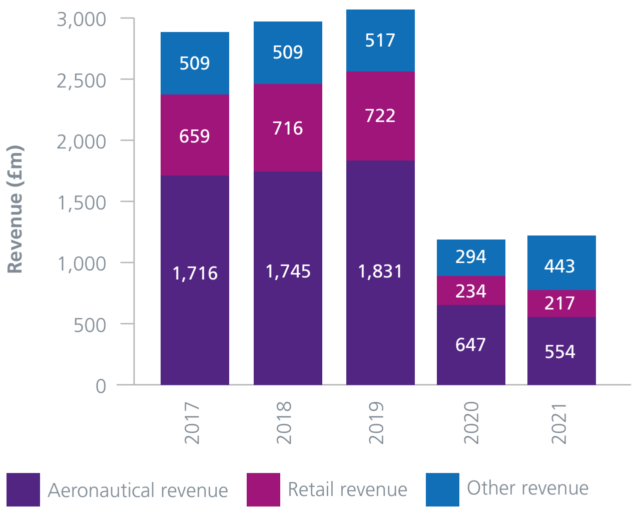
In the year ended 31 December 2021, the Group's revenue increased by 3.3% to £1,214 million (2020: £1,175 million). Adjusted EBITDA increased 42.2% to £384 million (2020: £270 million). The Group recorded a £1,613 million loss after tax (2020: £1,785 million).

REVENUE

For the year ended 31 December 2021, revenue increased 3.3% to £1,214 million (2020: £1,175 million). Revenue increased by 131.7% during the fourth quarter in isolation compared to the same period last year.

Year ended 31 December	**2021 £m**	2020 £m	Var %
Aeronautical	**554**	647	(14.4)
Retail	**217**	234	(7.3)
Other	**443**	294	50.7
Total revenue	**1,214**	1,175	3.3

Aeronautical revenue declined by 14.4%. Aeronautical revenue per passenger decreased 2.4% to £28.57 (2020: £29.26). The decline in aeronautical revenue is predominantly due to reduced passenger numbers. Our maximum allowable yield for 2021 was £19.36 per passenger (2020: £23.56), an 18% reduction versus 2020.



RETAIL REVENUE

Year ended 31 December	**2021 £m**	2020 £m	Var %
Retail concessions	**79**	97	(18.6)
Catering	**21**	19	10.5
Other retail	**32**	43	(25.6)
Car parking	**47**	40	17.5
Other services	**38**	35	8.6
Total retail revenue	**217**	234	(7.3)

Retail revenue declined by 7.3% driven by reduced passenger numbers however there was relative resilience in the last quarter as the relaxation of Government restrictions allowed the reopening of all our units across Terminals 2, 3 and 5 to take advantage of improved passenger numbers. Retail income is also likely to be impacted by the government's decision to abolish VAT free shopping from 1st January 2021. The decision will impact our pricing proposition and that of retailers and an example is the closure of Dixon's Travel in H1 2021. As we see passenger volumes return during 2022 this impact will become more apparent. Retail revenue per passenger increased 5.8% to £11.19 (2020: £10.58).

OTHER REVENUE

Year ended 31 December	**2021 £m**	2020 £m	Var %
Other regulated charges	**297**	118	151.7
Heathrow Express	**26**	26	–
Property and other	**120**	150	(20.0)
Total other revenue	**443**	294	50.7

Other revenue increased by 50.7%. Other regulated charges increased 151.7% predominantly due to revenue under-recovered in prior periods through the Airport Cost Recovery Charge introduced in February 2021 and the higher prices published for certain Other Regulated Charges (ORCs) such as baggage on the General notice which was effective from August 2021. Heathrow Express remained flat mainly due to lower passenger numbers offset by a higher yield. Passengers valued the public transport choices that Heathrow offered in the form of a high-quality product in Heathrow Express that maintained its rating as the highest rated mode of public transport rail option at Heathrow. Property and other revenue decreased 20.0%. Despite having units closed for most of the year we have seen relative resilience in this category due to agreeing rental payment plans with certain operators, spreading payments over the term of their contracts.

ADJUSTED OPERATING COSTS

Adjusted operating costs decreased 8.3% to £830 million (2020: £905 million). Operating costs increased 18.3% during the fourth quarter in isolation compared to the same period last year as we ramped up operations and colleagues returned from furlough.

Year ended 31 December	2021 £m	2020 £m	Var %
Employment	**256**	282	(9.2)
Operational	**197**	224	(12.1)
Maintenance	**133**	140	(5.0)
Rates	**119**	116	2.6
Utilities and other	**125**	143	(12.6)
Adjusted operating costs	**830**	905	(8.3)

Adjusted operational costs decreased by over 8% in 2021, while UK inflation increased 7.5% (December 2021 12-month RPI inflation). This decrease results from the management initiatives implemented throughout 2020, including employment costs due to our organisational restructure, the Government's furlough scheme and AGOSS grant support received, which has been credited against insurance costs within operational costs. In 2021, we received £21 million benefit through the Government's furlough scheme (2020: £36 million). The decline in operational, maintenance, utilities and other costs result mainly from the consolidation of operations, renegotiating our suppliers' contracts and stopping all non-essential costs. In Q4 in isolation, the costs increased 18% due to business resilience costs and additional operational ramp-up costs.

Despite a significant 76% reduction in traffic versus 2019, Government business rates have increased by 2.6%, evidencing limited government support.

OPERATING LOSS AND ADJUSTED EBITDA

For the year ended 31 December 2021, the Group recorded an operating loss of £270 million (2020: £1,138 million). The operating loss was mainly driven by lower revenue and offset by an increase in the non-cash fair value of our investment properties of £174 million.

Adjusted EBITDA increased 42.2% to £384 million (2020: £270 million), resulting in an Adjusted EBITDA margin of 31.6% (2020: 23.0%).

Year ended 31 December	2021 £m	2020 £m
Operating loss	**(270)**	(1,138)
Depreciation and amortisation	**797**	812
EBITDA	**527**	(326)
Exclude:		
Exceptional items[1]	**31**	184
Fair value (gain)/loss on investment properties	**(174)**	412
Adjusted EBITDA	**384**	270

[1] Please see exceptional items section for further information

EXCEPTIONAL ITEMS

For the year ended 31 December 2021, there was an exceptional charge of £31 million (2020: £184 million) to the income statement.

Year ended 31 December	2021 £m	2020 £m
Business transformation	–	92
Asset impairment and write-off	**31**	92
Exceptional pre-tax charge	**31**	184

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

LOSS AFTER TAX

For the year ended 31 December 2021, the Group recorded a loss before tax of £1,792 million (2020: £2,012 million) and a loss after tax of £1,613 million (2020: £1,785 million).

Year ended 31 December	2021 £m	2020 £m
Operating loss	**(270)**	(1,138)
Net finance costs before certain re-measurements	**(857)**	(672)
Fair value loss on financial instruments	**(665)**	(202)
Loss before tax	**(1,792)**	(2,012)
Taxation credit	**179**	227
Loss after tax	**(1,613)**	(1,785)

Net finance costs before certain re-measurements were £857 million (2020: £672 million) due to high inflation, offset by interest income on the recent swap reprofiling transactions and the recent interest rate rise in response to surging inflation.

Fair value losses on financial instruments increased to £665 million (2020: £202 million). £529 million was in relation to our inflation linked swap portfolio as a result of higher inflation and increasing interest rates. The increasing interest rates also caused a fair value loss on our interest rate swap portfolio of £102 million. The remaining £34 million resulted from hedge ineffectiveness and on the cross-currency swap portfolio.

TAXATION

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2021 was £254 million (2020: £211 million). Based on a loss before tax, certain re-measurements and exceptional items of £1,270 million (2020: £1,214 million), this results in an effective tax rate of 20.0% (2020: 17.4%). The tax credit for 2021 is more than implied by the statutory rate of 19% (2020:19%) primarily due to some of the current year deferred tax movements being at the 25% tax rate, offset by non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year). The total tax credit for the year ended 31 December 2021 is £179 million (12 months ended 31 December 2020: £227 million), representing the sum of the tax credit on losses before certain re-measurements and the tax charge on certain re-measurements and exceptional items. For the period, the Group paid £1 million in corporation tax (12 months ended 31 December 2020: received £67 million).

CASH POSITION

In the 12 months ended 31 December 2021, there was a decrease of £64 million in cash and cash equivalents compared with a decrease of £535 million in the 12 months ended 31 December 2020.

At 31 December 2021, the Heathrow SP Group had £2,626 million (31 December 2020: £3,516 million) of cash and cash equivalents and term deposits, of which cash and cash equivalents were £216 million (31 December 2020: £280 million).

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

CASH GENERATED FROM/ (USED IN) FROM OPERATIONS

In the 12 months ended 31 December 2021, cash generated from operations increased to £613 million (2020: negative £95 million). The following table reconciles Adjusted EBITDA to cash generated from operations.

Year ended 31 December	2020 £m	2019 £m
Cash generated from/(used in) operations	**613**	(95)
Exclude:		
(Decrease)/increase in receivables [1]	**(283)**	239
(Decrease)/increase in inventories	**(1)**	1
Decrease/(increase) in trade and other payables	**66**	(56)
Decrease in provisions	**–**	5
Difference between pension charge and cash contributions	**(22)**	51
Cash payments in respect of exceptional items	**11**	125
Adjusted EBITDA	**384**	270

[1] The overall movement in working capital of £218 million is primarily driven by the unwind of prepayments made in 2020 offset by an increase in trade debtors.

CAPITAL EXPENDITURE

Total capital expenditure in 2021 was £289 million (2020: £422 million) excluding capital creditors movements, which equates to capital additions, or £252 million (2020: £521 million) including capital creditors movements, which equates to purchases in the statement of cash flows.

We are investing in 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, Kilo Apron development, back-office systems upgrades and renewal of assets that have come to the end of their economic life. We also invested £5 million in the period (2020: £68 million) on plans to expand the airport.

Expansion-related capital expenditure includes 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 £130 million in Category C costs, a total of £513 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 restricted payments were made out of the Group during the year as a result of the trigger event that occurred in relation to the historic ICR for senior and junior debt for the year ending 31 December 2020. The trigger event means that cash is trapped within the Group and cannot be distributed to Heathrow Finance to service debt, nor to pay dividends to ultimate shareholders.

RECENT FINANCING ACTIVITY

In the full year 2021, we raised £1.6 billion of new debt. This funding complements our robust liquidity position and provides additional duration and diversification to our £16 billion debt portfolio.

Class A financing activities included:

- A new €500 million public bond maturing in 2030.
- A new Canadian Dollar dual tranche transaction comprising a C$650 million public bond maturing in 2027 and a C$300 million public bond maturing in 2033.
- A new C$325 million tap of the 2033 public bond.
- A new A$125 million private placement maturing in 2041.
- The scheduled repayment of a £250 million public bond in March.
- The scheduled repayment of £4 million and a final prepayment of £4 million on the EIB loan.
- The scheduled repayment of a C$450 million public bond in June.
- The scheduled repayment of a USD$1,000 million public bond in July.
- The scheduled repayment of the £418 million A1 private debt facility.
- The repayment of £800 million in the revolving credit facility and £100 million in the working capital facility.

Class B financing activities included:

- A new £350 million public bond maturing in 2028.
- A new £50 million private placement maturing in 2036.
- The repayment of £250 million in the revolving credit facility.

During the year, new interest rate swaps with a notional of £0.8 billion were executed in continuation of the swap reprofiling programme and an additional £0.4 billion executed to maintain hedging ratio compliance.

FINANCING POSITION

DEBT AND LIQUIDITY

At 31 December 2021, Heathrow SP's consolidated nominal net debt was £13,332 million (31 December 2020: £13,131 million). It comprised £14,327 million in bond issues, £1,230 million in other term debt, £381 million in index-linked derivative accretion and £20 million of additional lease liabilities post transition to IFRS 16. This was offset by £2,626 million in cash and cash equivalents and term deposits. Nominal net debt comprised £11,294 million in senior net debt and £2,038 million in junior debt.

The average cost of Heathrow SP's nominal gross debt at 31 December 2021 was 1.25% (31 December 2020: 0.87%). This includes interest rate, cross-currency and index-linked hedge costs and excludes index-linked accretion. Including index-linked accretion, Heathrow SP's average cost of debt at 31 December 2021 was 3.64% (31 December 2020: 1.48%). The increase in the average cost of debt since the end of 2020 is mainly due to an increase in inflation and the impact of swap reprofiling. Excluding the impact of our swap portfolio reprofiling, Heathrow SP's average cost of debt at 31 December 2021 was 2.54% (31 December 2020: 2.67%) excluding index-linked accretion and 4.92% (31 December 2020: 3.27%)including index-linked accretion.

The average life of Heathrow SP's gross debt as at 31 December 2021 was 10.5 years (31 December 2020: 10.3 years).

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

We have sufficient liquidity to meet all our forecast needs well into 2025 under our current traffic forecast or until at least February 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 £2,625 million in cash resources as well as undrawn debt and liquidity at Heathrow Finance plc as at 31 December 2021.

FINANCIAL RATIOS

At 31 December 2021, Heathrow SP and Heathrow Finance continue to operate within required financial ratios. Gearing ratios are calculated by dividing consolidated nominal net debt by Heathrow's Regulatory Asset Base ('RAB'). Interest cover ratios are calculated as the ratio of cashflow from operations (excluding cash exceptional items) less tax paid less 2% of RAB to interest paid.

At 31 December 2021, Heathrow's RAB was £17,474 million (31 December 2020: £16,492 million). Heathrow SP's senior (Class A) and junior (Class B) gearing ratios were 64.6% and 76.3% respectively (31 December 2020: 68.4% and 79.6% respectively) with respective trigger levels of 72.5% and 85%. Heathrow Finance's gearing ratio was 88.4% (31 December 2020: 91.7%) with a covenant of 93.5% following the waiver secured in July 2020.

In the year ended 31 December 2021, the Group's senior and junior interest cover ratios were 10.36x and 3.15x respectively (2020: -0.50x and -0.43x respectively) compared to trigger levels of 1.40x and 1.20x under its financing agreements. Heathrow Finance's interest cover ratio was 1.37x (2020: 0.36x) compared to a covenant level of 1.00x under its financing agreements.

As of 31 December 2021, a forecasting event and trigger event have occurred and are continuing in relation to the historic ICR for senior and junior debt for the year ended 31 December 2020. As a result, a distribution lock-up remains in place within Heathrow SP and will have no adverse effect on Heathrow SP's creditors.

In August, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2021.

CLIMATE CHANGE

Climate change will have a significant impact on the aviation industry and Heathrow in the years to come and we have both a moral responsibility to continue to be ambitious in our endeavours to take carbon out of flying, as well as a responsibility to minimise risk to the business in the long-term. As part of our work over Taskforce for Climate Related Financial Disclosures ('TCFD') as described on pages 66 to 75, we have considered our transition risks and ensured that they are factored fully and consistently into our future financial long-term forecasts for those areas of the balance sheet whose recoverability is assessed based on expected future cash flows, including property, plant and equipment, expansion assets in the course of construction, intangible assets, investment properties and deferred tax assets. In addition, we have ensured that the useful economic lives of our existing assets are appropriate, particularly with regard to the physical risks identified in TCFD as well as with regard to our recently published net zero sustainability strategy as described on pages 33 to 35.

CAA PASSENGER TARIFF UNCERTAINTY

The passenger tariff, which is set by the Civil Aviation Authority (the 'CAA'), has a significant impact on critical accounting judgements such as going concern and impairment. However, there remains uncertainty over this passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). As described on page 17, a range of potential tariffs have been provided by the CAA in their 'Initial Proposals' 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.

Short term projections are based on the latest forecast approved by the Board in December 2021 and incorporate the interim tariff, while longer term forecasts reflect the tariff as determined by the RBP Update 2. This forecasting has been communicated to the CAA as part of ongoing negotiations. The Directors also acknowledge that this is a critical judgement and have therefore sensitised the forecasts to capture the CAA's proposed lowest tariff and have assumed no further RAB settlement, in order to model the potential downside risk. 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.

PENSION SCHEME

We operate a defined benefit pension scheme (the 'BAA Pension Scheme') which closed to new members in June 2008. At 31 December 2021, the defined benefit pension scheme, as measured under IAS 19, was funded at 107.6% (31 December 2020: 100.3%). This translated into an accounting surplus of £343 million (31 December 2020: £12 million). The £331 million increase in the surplus in the year is largely due to actuarial gains of £355 million, attributable to strong asset performance relative to movements in the scheme liabilities offset by current service costs of £21 million. In December 2020, we prepaid £35 million into the defined benefit pension scheme to cover 2021 contributions. The Directors believe that the scheme has no significant plan-specific or concentration risks. Further details can be found in Note 18.

BULK PURCHASE ANNUITY POLICY

On 27 January 2022, the BAA Pension scheme entered into an insurance annuity contract in respect of a proportion of its current pensioners. The annuity policy is recognised as a plan asset with a value equal to the value of the underlying obligations. The estimated impact of the contract results is a reduction in the pension surplus of circa £43 million when measured on 26 January 2022.

JAVIER ECHAVE
Chief Financial Officer

22 February 2022

OUR APPROACH TO CAPITAL ALLOCATION

In order to generate stable long-term returns, significant investment is required and, to make these investments, we must ensure that we have access to appropriate capital in both the short and long-term. An ongoing priority through 2021 has been to protect the financial resilience of the business following the impact of COVID-19, and we have continued to take all reasonable steps to conserve cash, reduce costs and defer investment while keeping assets in safe condition. Our reduced capital plan continues to focus on projects which ensure the safety and resilience of the airport and separately the Board has suspended the payment of dividends to shareholders until Heathrow's financial health is restored to an appropriate standing.

Our primary sources of capital are:

1. Equity investment from our shareholders.
2. Debt provided by third parties.
3. Cash generated from our operations.

Against the backdrop of short-term constraints as a result of the impact of COVID-19, decisions related to the efficient deployment of capital consider the following:

1. Retaining a strong balance sheet.
2. Maintaining investment in the business.
3. Providing our ultimate shareholders with a fair return on their investment.

RETAINING A STRONG BALANCE SHEET

We generate high quality operating cash flows when operating normally. As a result, we have good liquidity and have been able to maintain a positive net current asset position. We seek to ensure that we continue to maintain a strong balance sheet, so that we can comply with debt covenant requirements, regulatory restrictions and respond to long term economic risks.

In order to comply with the CAA's regulatory requirements, the Directors submit, by the end of April following the year end date, an annual "Certificate of Adequacy of Resources" to confirm that we expect to have sufficient financial and other resources, and financial and operational facilities, to enable us to continue to provide airport operation services for a period of at least two years. This submission is required to take into account any dividend or other distribution which might reasonably be expected to be declared; any amounts of principal and interest due under any loan facilities; and any actual or contingent risks which could reasonably be material to our consideration. At the time of these Annual Report and Accounts the 2022 certificate has not been issued. However, consistent with the Directors' assessment of going concern, it is expected that there will continue to be factors which cast doubt on the ability of us to continue to provide airport operation services for the two-year period and these will be brought to the attention of the CAA.

MAINTAINING OUR INVESTMENT IN THE BUSINESS

We use our internal cashflow generation and capital markets (debt and equity) to continue to invest in the airport. Since private ownership we have invested over £12 billion of private money.

Our stakeholders benefit from the investment into the UK's only hub airport. We submitted our Revised Business Plan to the CAA in December 2020, with updates in June 2021 and December 2021, which describe our plans to deliver further investments to improve customer service, increase efficiency, and expand the airport in a sustainable way.

We are incentivised to continue to invest and generate long-term returns, through economic regulation from the CAA, which allows a return on efficient investments. When this return is sufficient, it allows us to access capital markets and obtain the finance required to invest.

Proposed future investment and consideration of the ability to access suitable funds are monitored and managed through our short-term Management Business Plan and its longer-term Regulatory Business Plan and investments are dependent on reaching satisfactory regulatory terms with our regulator.

PROVIDING THE GROUP'S ULTIMATE SHAREHOLDERS WITH A FAIR RETURN ON THEIR INVESTMENT

To access equity investment, we are required to offer a fair return to shareholders. Where we have met our balance sheet requirements and have concluded we have suitable capital to meet our investment plans, the Directors seek to provide shareholders with a fair return through a dividend payment while delivering our commitment to maintain our current investment grade credit rating.

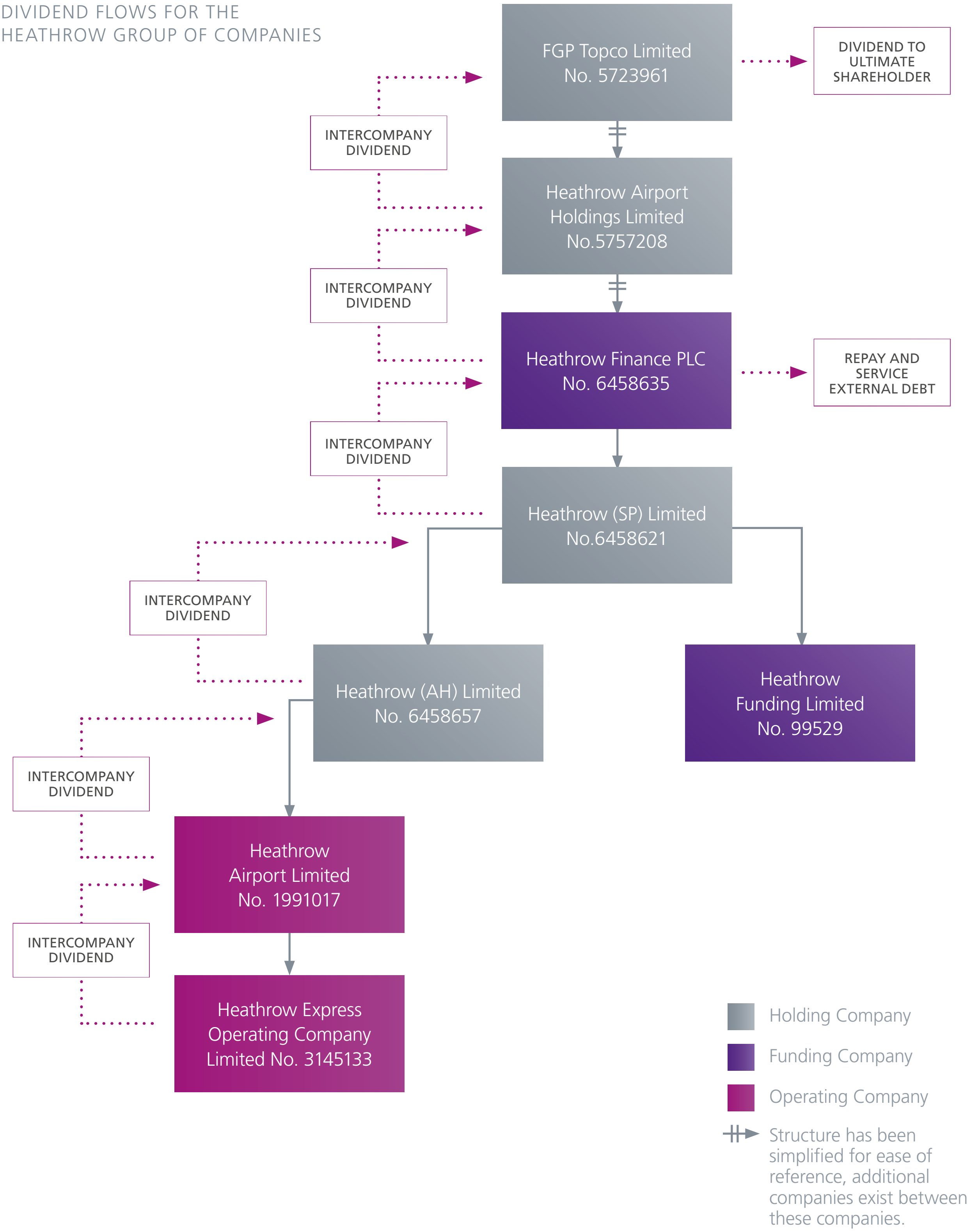
At times of significant investment, the Directors may seek additional capital from the shareholders. To obtain the capital, the Directors are required to demonstrate that they can continue to provide a fair future return in exchange for this investment.

The Directors of each of the companies within the Heathrow group of companies consider the Group's capital structure and distributable reserves before proposing dividends. Dividends are only paid where Heathrow has generated enough allowable distributable reserves.

Dividends are paid up through the structure of the Heathrow group of companies to fund dividends to the Group's ultimate shareholders and to repay and service external debt at the Group's holding companies. The flow of dividends through the Heathrow group of companies is illustrated in the simplified diagram on the opposite page.

In 2021, due to the impact of COVID-19, no dividends were paid to Heathrow Finance Plc (2020: £107 million).

DIVIDEND FLOWS FOR THE HEATHROW GROUP OF COMPANIES



OUR APPROACH TO TAXATION

We have a corporate responsibility to collect and pay tax and have been working hard to promote tax transparency and build trust with our stakeholders.

Our operations, whilst large, are conducted entirely from the UK with no overseas operations. Accordingly, we pay a range of UK taxes, and we are one of the biggest business rates payers in the country, paying c.£1 billion into the public purse over the past decade.

We operate not only within the UK's tax laws, but also within the spirit of them. All profits are subject to UK corporation tax and no funds are routed through tax havens. We have no investments outside the UK that are not subject to UK tax.

TOTAL TAX CONTRIBUTION

The Group's total cash tax contribution for taxes borne during the period ended 31 December 2021 was £150 million (2020: £165 million). The contribution for taxes borne was made up of a range of UK taxes as illustrated below.

COVID RELATED GOVERNMENT SCHEMES

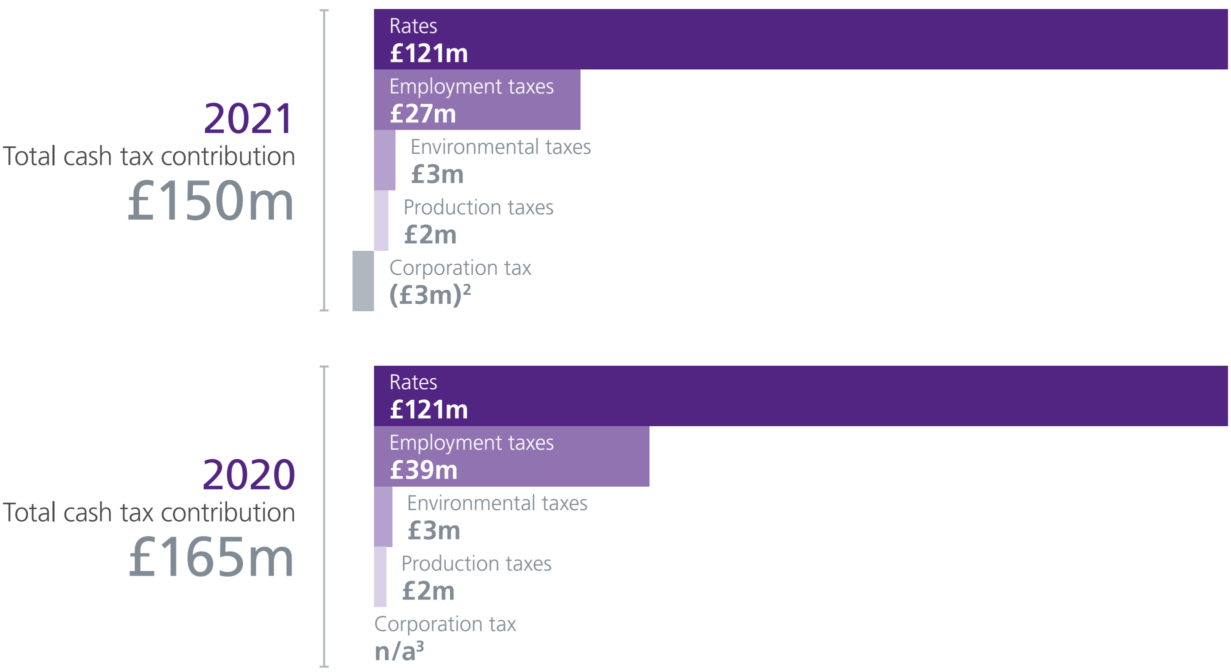
During the year we received £21 million through the Government's furlough scheme (2020: £36 million) and £12 million through the airport and ground operations support scheme (2020: £nil) in order to protect jobs through the pandemic. We have followed all relevant guidance and maintained all necessary records of relevant data and processes.

TAX STRATEGY

Heathrow's tax strategy was approved by the HAHL Board[1] in July 2021 and is published on the Heathrow website. Heathrow's tax strategy confirms:

- How Heathrow ensures the right processes and controls are in place to manage potential tax risks.
- Heathrow's commitment to pay UK tax in accordance with all applicable laws and regulations without the use of arrangements that are contrary to the intentions of Parliament.
- Heathrow's low tax risk appetite and commitment to preventing the facilitation of tax evasion.
- Heathrow's commitment to engage with HMRC in an open and transparent manner.

CASH TAX CONTRIBUTION BY TYPE



The Group also collected taxes of £58 million (2020: £86 million) and paid these over to HMRC, such as PAYE on employee salaries. In 2020, the Group made a prepayment of £60 million for employment taxes in relation to 2021 liabilities. This prepayment is included in the 2021 figures.

Given the significant 76% drop in traffic compared to 2019, the 3.2% reduction in rates paid from 2019 to 2021 is not in line with the rest of our adjusted operating costs, which fell by 31.1%. This is as a result of the lack of material business rate support to the aviation sector from the Government.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 84.
[2] The Group received a £3m corporation tax refund from HMRC in the year.
[3] The corporation tax refund of £67m received in 2020 was reflected in the 2019 comparatives last year, as this related to the corporation tax paid in 2019.

Overall accountability for Heathrow's tax strategy sits with the HAHL Board. The Chief Financial Officer, in his capacity as Senior Accounting Officer, ensures that Heathrow has a tax strategy which supports and directs the appropriate recording and delivery of tax obligations. This strategy is reviewed and approved by the Audit Committee on behalf of the Board.

APPROACH TO RISK MANAGEMENT AND GOVERNANCE

Given the scale of our operations, it is important to ensure the right processes and controls are in place to manage potential tax risks. To achieve this, we ensure that the appropriate policies, processes and systems are in place and that these are reviewed for operational effectiveness.

We are vigilant in the creation and maintenance of robust processes for recording the right amount of tax while ensuring that the tax team is adequately staffed with clearly defined roles, the required skills and the support to carry out their role effectively. Regular training is provided to ensure the team can manage the tax risks, including the encouragement of appropriate skills across the business. Where necessary, external tax advice is sought to ensure that the correct amount of tax is considered in relation to any business restructure, complex transaction or legislative change.

The Audit Committee periodically reviews tax matters affecting Heathrow. Any concerns are addressed in a tax risk register which evaluates identified risks and supports the development of a response strategy to address the given item. All risks are monitored and controlled as appropriate.

ATTITUDE TOWARDS TAX PLANNING

We pay UK tax in accordance with all laws and regulations. As part of the business and commercial operations, we seek to utilise available tax reliefs, incentives and exemptions in line with both the intent and letter of tax legislation whilst not being involved in tax planning other than that which arises from genuine commercial activity. This means that we will not structure transactions in a way which gives a tax result contrary to the intentions of Parliament nor adopt measures to manage its effective tax rate.

ACCEPTED LEVEL OF RISK

Our tax strategy supports our responsible business strategy. It is focused on ensuring both tax and tax risks are managed to provide sustainable outcomes. As a result, we have a low tax risk appetite. The approach is to mitigate any risk by taking reasonable care whilst also considering our brand, reputation and the wider airport community. We are also committed to ensuring that tax evasion is not facilitated and has implemented procedures to prevent such behaviour.

APPROACH TO HM REVENUE & CUSTOMS ('HMRC')

We seek to have an open and transparent relationship with HMRC, creating and maintaining mutual trust.

The tax team is responsible for supporting the business in meeting its tax obligations in an open and transparent manner, ensuring that any inadvertent errors identified are disclosed to HMRC as soon as reasonably practical and processes are put in place to prevent repetition.

We seek to engage in relevant Government initiated tax consultations to ensure that the views of business are represented.

OUR APPROACH TO RISK MANAGEMENT

Identifying, understanding and managing risk is fundamental to our strategy and success.

The Heathrow Risk and Assurance Management framework is an enterprise risk management system that is embedded Group-wide with the principal aim of providing oversight and governance of the key risks that Heathrow faces, and to monitor upcoming and emerging risks.

The framework provides guidance on how risks should be identified, mitigated, reviewed and reported within Heathrow. During 2021, we have continued to improve our risk processes, building on the current risk-management structure, to enhance the data quality, completeness of risk information and control measurement in addition to improving the overall reporting integrity.

The HAHL Board[1] has overall responsibility for the framework and for reviewing the effectiveness of the risk-response system. There are two HAHL Board sub-committees which are responsible for risk: the Audit Committee, which reviews the effectiveness of systems for internal financial and operational control, and the Sustainability and Operational Risk Committee, which reviews the effectiveness of operational reporting and performs an oversight review of the performance against sustainability goals and operational targets.

To achieve a balanced view of our risk landscape in line with wider company objectives, all our risks are evaluated against defined risk appetite levels, which are captured in a formal risk appetite statement which is consolidated and reviewed on an annual basis.

The most significant risks are collated and reported to the Risk and Assurance Committee, a sub-committee of the Executive Committee, which meets every six weeks. The risks are then reviewed by the Executive Committee before being submitted to the Audit Committee and Sustainability and Operational Risk Committee for independent review and challenge. The final Heathrow Risk Outlook Report is then reviewed and approved by the HAHL Board on a quarterly basis.

Principal risks have been identified at an Executive level ensuring a comprehensive top-down approach to risk identification. A Principal Risk is a risk that has been identified by the HAHL Board, its formal committees, the Executive Committee, or the Risk and Assurance Committee, as an important risk that fundamentally affects the business's ability to deliver on its overarching objectives. A Principal Risk is assessed according to the likelihood, consequence and velocity by which the risk may impact Heathrow.

COVID-19 has continued to dampen demand for air travel during 2021 and the risk landscape for Heathrow has therefore remained challenging. The pandemic has continued to have a material impact on our operations and financial performance and management continue to assess and respond to its impact. Safety risks, relating to passengers and colleagues, continued to be at the heart of our response; the significant financial loss due to the continuing material loss of passenger numbers; risks relating to liquidity, and our ability to access finance; failure of key customers and suppliers and operational risks from an increased exposure to cyber-attack all remained critical features of Heathrow's risk landscape.

We have continued to work with our partners, suppliers and customers throughout 2021 to respond to these risks. We have engaged with government to implement their advice so that we keep our passengers, employees, airlines and other stakeholders safe. We have also taken action to secure an additional covenant waiver and have continued to work closely with our airlines and suppliers and other partners to mitigate any risk from failures and to ensure that we continue to provide the service that passengers and our airlines expect.

Towards the end of 2021 our risk landscape shifted towards recovery. Along with our Team Heathrow colleagues, we are now faced with significant risks around resourcing to meet the increased passenger demand as travel testing rules and border restrictions are relaxed. Heathrow also faces significant regulatory risk as we wait for the CAA to issue their final H7 proposals. Our ability to maintain the high levels of investment in service and resilience of our airport are dependent on a satisfactory outcome from the H7 settlement, securing affordable charges to consumers while providing a fair return so Heathrow remains financeable.

We are also faced with the risk of climate change and the impact this will have on our business, and our industry, if global action is not taken. Climate change is an existential risk for Heathrow, and management have continued to take a leadership role on promoting the removal of carbon from aviation on both the national and global stage (see page 33).

MARK OLIVER
INTERIM GENERAL COUNSEL

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 84.

OUR RISK APPETITE STATEMENT

"Heathrow Airport has no appetite for safety risk exposure that could result in injury or loss of life to public, passengers and colleagues.

Similarly, robust controls and contingency measures are in place to contain any potential security, environmental or legal breach within minimal levels of impact.

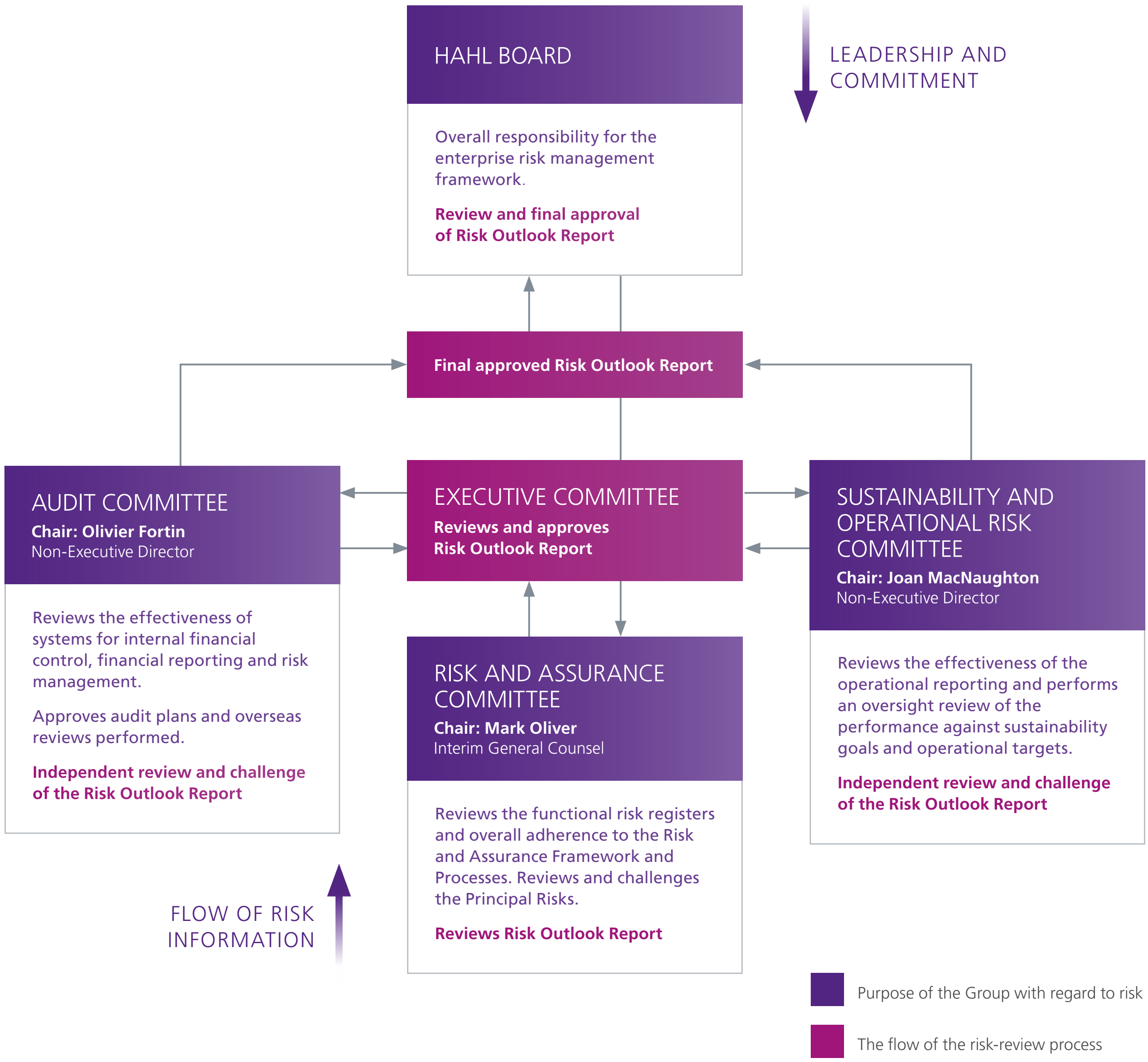
To this extent, risks that are emerging or that could cause critical harm to the business are subject to enhanced executive oversight.

In a dynamic and evolving environment our appetite and tolerance of risk must be progressive and it should be defined in a proportionate and calibrated way.

The business accepts that absolute operational, system and infrastructure resilience is impossible. It will work proactively to mitigate the impacts on the business within the risk/return balance set by the company.

In the pursuit of its objectives, Heathrow Airport is willing to accept, in some circumstances, risks that may result in some financial loss or reputational exposure."

RISK MANAGEMENT



OUR PRINCIPAL RISKS

The risks outlined are the principal strategic, corporate and operational risks identified. This is a current point-in-time assessment of the risk profile that the Group faces as at 31 December 2021. As the risk environment evolves these risks are being constantly reviewed and updated.

PRINCIPAL RISK:

A safe and secure operating environment

STABLE
RISK / IMPACT

PRINCIPAL RISK

Keeping people safe and well is one of our core values and a non-negotiable priority. We have a legal and moral responsibility to ensure that we safeguard the wellbeing of our people, and also our business partners and the public who may be affected by our activities, from the risks relating to fire, health, and safety. An airport as large and complex as Heathrow has a multitude of fire, safety, health and wellbeing risks. Since 2020 COVID-19 added to those risks and the complexity of their management and continues to be an area of specific focus. Failure to operate a safe and healthy environment risks: damaging the health and wellbeing of stakeholders, impacting colleague engagement, operational disruption and costs, inconvenience to passengers and long-term damage to our reputation.

The UK security threat level is substantial. We are responsible for ensuring that our assets, infrastructure, human and electronic systems and processes meet requirements to protect aviation security, deliver high security standards and build confidence with regulators, airlines and passengers.

RISK MITIGATION STRATEGY

Our fire, health and safety ('FHS') management system includes risk assessment processes for all activities that have significant risk and ensures proportionate control measures are used. We set FHS standards for our own operations and companies that work at our airport. Our leaders, managers and colleagues receive the training they need to understand and manage risks associated with their roles. Governance, led by our senior management teams, and assurance processes are used to ensure that controls around health-and-safety risks remain effective and continuous improvement is encouraged. Colleagues' health and wellbeing is promoted and supported by a range of products and services including our Employee Assistance Programme, online GP service and information and tools for managers and colleagues. We also have a confidential reporting line through which concerns of wrongdoing at work can be reported (Safecall). We continue to manage COVID-19 related risks and have been awarded a 4* Skytrax rating and COVID Excellence Award for our related controls.

We work with government agencies to ensure security procedures are appropriate and mitigate evolving threats. Procedures are subject to review through the internal controls mechanism and via independent scrutiny from CAA and other domestic/international agencies.

LINK TO STRATEGIC PRIORITIES

MOJO
TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Information security

INCREASED RISK / IMPACT

PRINCIPAL RISK

Information security, which refers primarily to our systems and information and the data contained in them, continues to be a risk for Heathrow. Malicious cyber-attack is a continued risk given the size and breadth of our network and operating environment. Attacks continue to be more sophisticated, especially around phishing and ransomware which are now a persistent challenge for all industries. In addition, new ways of working following the COVID-19 crisis have also resulted in an increased risk profile.

RISK MITIGATION STRATEGY

Through a Technology and Cyber Security Directorate led cyber improvement programme, we are implementing strong technical and operational measures to enable us to comply with our regulatory and legal requirements. Annual mandatory training has been successfully rolled out along with regular awareness campaigns with emphasis on phishing emails, the use of social media and implementing good cyber security practices. The cyber security programme will introduce a revised training programme in 2022 and oversee the management of cyber risks at Heathrow within the wider business. The Heathrow Acceptable Use Policy has been amended to reflect our information security risks and the organisation's working practices.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Regulation requirements

INCREASED RISK / IMPACT

PRINCIPAL RISK

We are subject to economic regulatory review. Changes to economic regulation could materially impact the performance of the business. Failure to comply with laws and regulations could result in loss of licence, penalties, claims and litigation, reputational damage and loss of stakeholder confidence.

RISK MITIGATION STRATEGY

The risk of an adverse outcome from economic regulatory reviews is mitigated as far as possible by a dedicated regulatory team. This team ensures full compliance with regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and HAHL Board on regulatory matters. The regulatory framework requires formal engagement with airline customers. All airlines are invited to be represented on engagement forums – for example joint steering groups. In addition, key stakeholders are engaged on a joint planning basis which provides the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

We worked closely with airlines, the CAA and other stakeholders as we developed Heathrow's Revised Business Plan for the H7 regulatory period which was published in December 2020, and our Update 1 of this plan that was published in June 2021. In parallel we are engaging on our application for an adjustment to the RAB to recover an appropriate amount of the unexpected losses which occurred due to the impact of COVID-19. Both the H7 settlement and the enactment of any RAB adjustment are highly uncertain at this stage. There is a material risk for both that, based on regulatory publications to date, the regulator could fail in practice to enact established regulatory principles such as a fair balance of risk and return or the return of regulatory depreciation. Beyond engagement with the regulator, these risks are somewhat further mitigated by our right of appeal to the Competition and Markets Authority.

The CAA set out its initial proposals in October 2021, which set out a range of potential charges for H7 and a range of assumptions on traffic, costs, capex, return and commercial revenues alongside a proposed regulatory framework for H7. There is a substantial gap between the CAA proposals and the estimates included in our H7 RBP Update 1. We submitted our response to the CAA's Initial Proposals in Mid-December setting out numerous errors in their proposals. Alongside our response we also submitted the second update to our Revised Business Plan (RBP Update 2).

The CAA completed its review of expansion costs as part of its initial proposals. It has allowed the vast majority of expansion costs to be recovered from 2022 in line with our request. The CAA has identified up to £5m of expenditure that might be disallowed for being potentially inefficient. These costs have been incurred by Heathrow and will be removed from the Opening RAB for H7 by the CAA.

In addition, we engage closely with internal and external legal advisors to ensure that relevant and appropriate advice is received and that our response to reviews and our actions to ensure compliance with regulatory requirements reflect such advice.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN

PRINCIPAL RISK:

Legal status of Airports National Policy Statement (ANPS)

DECREASED RISK / IMPACT

PRINCIPAL RISK

In June 2018 the Secretary of State for Transport designated the ANPS providing policy support for Heathrow Expansion. In February 2020, the Court of Appeal held that the ANPS was not lawfully made because the Secretary of State was required but failed to take into account the Paris Agreement and other climate change matters. The Court of Appeal declared that the ANPS has no legal effect unless and until it is reviewed by the Government under statutory procedures. We appealed this decision. Our appeal was heard by the Supreme Court in October 2020 and judgment issued on 16 December 2020. The Supreme Court unanimously allowed our appeal meaning the ANPS has been reinstated. In September 2021, in response to several requests to review the ANPS, the Government decided that it is not appropriate to review the ANPS at this time. The ANPS is therefore current Government policy and has full effect.

RISK MITIGATION STRATEGY

In 2020 we appealed the Court of Appeal's judgment on legal grounds with a view to reinstating the ANPS. Having won the appeal and restored the ANPS, we have positively reiterated the case for expanding Heathrow in line with Government policy and we are continuing to engage with the Government, the CAA and other stakeholders on the next steps to progress our plans. Heathrow remains committed to a long-term sustainable expansion. When demand returns to pre COVID levels, meeting that demand as the UK's hub airport will be essential to a country with global and levelling up ambitions.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE
SUSTAINABLE GROWTH

PRINCIPAL RISK:

Reduction in global demand and revenues

INCREASED RISK / IMPACT

PRINCIPAL RISK

COVID-19 has led to an unprecedented decline in passenger volumes and revenues. These circumstances have been exacerbated by the regulatory and policy environment – Government has imposed quarantines, delayed the introduction of testing solutions, removed VAT Free shopping and excluded Heathrow from full business rates alleviation. Retail has been the largest non-aeronautical income stream impacted.

Limited revenue growth is currently driven by the lack of certainty over consumer demand recovery in 2022, COVID-19 testing regimes and a continuation of restrictive travel policies in different countries and markets; with dependency on optimal slot outcomes potentially constraining the environment for growth.

RISK MITIGATION STRATEGY

Aviation

Our strategic response to protect revenues and drive passenger volumes has been:

1. Slot strategy in place to secure desired slot recommendation for S22 and for the future, with advocacy plan also in place to influence DfT, ACI (World and Europe), IATA and other stakeholders to align to Heathrow's position.
2. Senior engagement Plan in place with key airlines.
3. Network strategy in place to target, grow and protect vulnerable routes and new entrants.
4. Continuous focus on optimising revenues from Aviation's 4 Strategic Initiatives: Incumbent Build Back, London Consolidation, New Entrants and Cargo Growth.
5. Work with ACL (our coordinator) and Ops Planning on pre-season schedule optimisation.
6. Industry monitoring via daily updates from CAPA, media cuts and other industry events, as well as attendance at Routes (Network) and IATA (slots and cargo) conferences.

Retail

Key measures implemented to contain the impact on retail income include:

1. Close monitoring and balance of assessed debt and contractual fixed income guarantees in order to maximise overall retail revenue.
2. Targeted scouting of the market to identify potential new entrants with the ability to enter into a commercial deed with minimal level of disruption and delays (e.g., lending locations to businesses that could make immediate use of the structure 'as is').
3. Continued dialogue with officials in HMT around the impact and pitching alternative solution for the reintroduction of VAT free shopping for departing passengers and the opportunity to introduce duty free shopping for arriving passengers.

We have legally challenged the Government where we feel that Government decisions have over-reached their powers and will continue to ensure that we vigorously protect our revenue position.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE
SUSTAINABLE GROWTH

PRINCIPAL RISK:

Liquidity and ability to access finance

STABLE RISK / IMPACT

PRINCIPAL RISK

We need to continue to be able to access finance to fund our current operations.

RISK MITIGATION STRATEGY

We produce long-term forecasts which include consideration of significant downside risk to enable our management to conclude that covenant terms are likely to be met, and that we have the ability to access additional future finance as required. We have invested in a suitably skilled Treasury and Investment Finance team who have robust procedures in place to ensure that the best quality investment decisions are made, and that investments can be appropriately financed. Realisation of Principal and other risks, mainly regulatory uncertainty, could deteriorate the quality of our credit rating and increase this risk. 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.

LINK TO STRATEGIC PRIORITIES

MOJO
BEAT THE PLAN
SUSTAINABLE GROWTH

PRINCIPAL RISK:

Resilience of Team Heathrow

INCREASED RISK / IMPACT

PRINCIPAL RISK

The COVID-19 pandemic has had a significant impact on the aviation industry, as well as more widely on the other key customers and stakeholders that support the supply of services and facilities to passengers and airlines. There is a risk that a sustained lack of resilience across the wider Team Heathrow has an impact on our ability to provide the service levels and passenger experience our passengers and airlines expect. Ramp-up resource forecasts coupled with current UK labour market conditions appear to suggest a further potential exacerbation of the scenario.

RISK MITIGATION STRATEGY

We continue to work closely with our airline customers, retailers and wider stakeholders. We monitor the financial health of our key Team Heathrow partners to ensure we have early warning of any concerns so that where possible we can work together to find a solution or provide alternative facilities where this proves to be the more viable option. Regular engagement takes place at both management and operative level across key members of Team Heathrow to discuss future plans and strategies.

Across our supply chain, our Supplier Management function monitors the real-time financial risks associated with our critical suppliers (e.g., financial strength, likelihood of insolvency, liquidity, credit worthiness, compliance with payment terms, etc.). This monitoring enables early sight of potential insolvency risks, which are initially investigated by Supplier Management and highlighted immediately to relevant Commercial Managers, allowing risks to be managed by all relevant stakeholders and mitigated.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE
SUSTAINABLE GROWTH

PRINCIPAL RISK:

Ineffective organisation: systems and people

STABLE RISK / IMPACT

PRINCIPAL RISK

Systems – Technology is evolving rapidly. In order to meet the needs of our business we must constantly adapt to our internal and external requirements. Existing systems and processes become unsuitable, outdated and need to evolve so that we can remain competitive, effective and efficient.

People – Our people ensure that we operate effectively and efficiently. External and internal requirements put pressure on colleagues. This pressure has increased as a result of the COVID-19 pandemic, risk of a threat of industrial action and the challenging external resourcing market (i.e.: the "great resignation" plus the impact of Brexit on the labour market). Recruitment demand has sharply increased with vacancies in the UK peaking at 1.2 million (Sept 2021) however the labour market supply is low.

RISK MITIGATION STRATEGY

Systems – We continuously review systems and processes to ensure they meet the needs of our business. Where benefits exceed the cost, we invest in new systems. In 2019 we launched a project to upgrade our financial and people ERP system to enable working in a simpler, more agile and cost-effective way. Now that the cloud-based system has successfully launched, it will be upgraded quarterly to ensure it remains modern and relevant and provides the opportunity for continuous improvement and benefits.

People – We continue to invest in our people and have a strategy to ensure the development of talent and careers at Heathrow. Policies are in place to engage and motivate our colleagues; as well as maintain accountability and compliance with internal governance, policies and procedures. We provide career opportunities, development and training. Talent and criticality of roles and individuals are reviewed regularly. This supports the retention of talent, skills and business knowledge thus preventing single points of failure.

LINK TO STRATEGIC PRIORITIES

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE · SUSTAINABLE GROWTH

PRINCIPAL RISK:

Political environment

STABLE RISK / IMPACT

PRINCIPAL RISK

Our ability to meet passenger and cargo demand is reliant on political support. Changes to the Government, and therefore to government priorities, can impact material decisions that are taken by us. The implementation of Brexit and COVID-19 related restrictions has the potential to impact airline operations which may cause disruption to our passengers, impact immigration, cargo operations, our supply chain, and our people.

RISK MITIGATION STRATEGY

We continue to make a strong case for our place in aviation and the wider economy and the part we play in Global Britain, and we explain the benefits that our ability to meet the UK's demand for long-haul travel brings. Whilst a change in the Government's focus cannot be controlled, risk is monitored and proposed mitigating actions agreed in advance where necessary. We have a cross functional Policy Coordination Group, reporting to the Executive Committee and HAHL Board, which has implemented a structured approach to the identification and management of all risks related to Brexit and Government COVID-19 policy.

LINK TO STRATEGIC PRIORITIES

MOJO · BEAT THE PLAN · TRANSFORM CUSTOMER SERVICE

PRINCIPAL RISK:

Competition

INCREASED RISK / IMPACT

PRINCIPAL RISK

We compete against other airports both within the UK and across the world for passengers; some make marginal choices, particularly connecting passengers, about which route to fly. The impact of COVID-19 has closed many global aviation markets as governments seek to control the spread of the virus and led many airlines to materially reduce their flying schedules or even cease flying to some airports altogether. As a result, there is currently spare capacity across all of the airports in the 'London system' including Heathrow, and also across our European Hub competitors.

RISK MITIGATION STRATEGY

Our primary focus is to ensure the continuity of safe, secure and efficient airport operations in the interests of all air transport users, with no degradation to the experience of our passengers and colleagues despite the impact of COVID-19. Maintaining commercial strategies that enable us not only to remain affordable but will actually make us more competitive is also important to retain key passenger groups and partners.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE
SUSTAINABLE GROWTH

PRINCIPAL RISK:

Climate change and net zero carbon

INCREASED RISK / IMPACT

PRINCIPAL RISK

Climate change remains the most significant mid to long-term risk facing the aviation sector and Heathrow, working with the wider industry, must set firmly on a path to net zero and demonstrate real progress in this decade. Heathrow follows the TCFD recommendations and climate related risk is therefore considered under the following categories:

Transitional risks – Transitional risks relate to the decarbonisation of Heathrow and the aviation sector to achieve net zero carbon emissions. Political, consumer and investor attitudes to aviation's climate impacts will become more negative without tangible progress to cut emissions and confidence in the sector's net zero plan, threatening our ability to recover, operate and grow.

Physical risks – Physical risks relate to the resilience of our assets, operations and network to the negative impacts of climate change including more extreme weather events

These risks are presented in greater detail in the TCFD section on page 66.

RISK MITIGATION STRATEGY

In 2020, the UK aviation sector, including Heathrow, committed to net zero carbon and published a joint roadmap to get there. The aviation sector roadmap sets a clear industry goal for tackling climate change and focuses attention on the actions that will be needed to meet it. In October 2021, IATA, the international industry airline body also committed to net zero emissions by 2050.

We published our Net Zero Plan in February 2022 to guide our approach to decarbonisation. Our plan is aligned to the broader aviation sector roadmap, and sets clear goals and targets to cut emissions by 2030 and beyond. The significant priority is accelerating net zero flying in the 2020s by securing the right policies for Sustainable Aviation Fuel (SAF) production at scale in the UK and building a high ambition coalition globally for net zero aviation and SAF. To ensure and support the delivery of our Net Zero Plan, climate change has been embedded into our governance structures, business planning development and operational processes and is supported by employee training and targets. We operate ISO 140001 and 50001 management systems which commit us to continuous improvement.

LINK TO STRATEGIC PRIORITIES

BEAT THE PLAN
TRANSFORM CUSTOMER SERVICE
SUSTAINABLE GROWTH

TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES ('TCFD')

Implementing the TCFD recommendations in our business is helping us to fully consider climate related risks as part of our financial decision-making and our long-term strategy.

OLIVIER FORTIN
Non-Executive Shareholder Director

Climate change is an existential threat to aviation as well as to us all personally and must be addressed. The risk to our sector is not just opposition to airport expansion and flight shaming, but real physical impacts. No one will fly to coastal cities or tropical islands in future that are under water. The wider impacts of dangerous global heating – extreme weather, food and water shortages – would have fundamental impacts on society and the economy globally.

Tackling climate change is one of our strategic priorities. We continue to develop our understanding of the long-term risks, embed climate action into how we run our business, and take a lead in our sector in implementing approaches to cut carbon emissions and prepare our airport for the impacts of a changing climate. Climate change is necessarily a theme that runs throughout our annual report.

In this section we set out our latest view on material climate related financial risks and how we are managing them. The table on the following page references other sections of our report which contain further information on our approach to climate change and the action we are taking to address climate related risks.

We recognise the importance and value of the recommendations from the Financial Stability Board's Task Force on Climate Related Financial Disclosures ('TCFD') and we remain committed to open and transparent disclosure. There is more we can do, and we will continue to improve our approach to assessing and managing climate related financial risks, establishing relevant practices and reporting on our progress.

Heathrow is an active member of the Prince of Wales's Accounting for Sustainability Project ('A4S') and this helps guide how we build climate and sustainability into our financial decision-making. Our engagement with A4S helps us to identify leading practice, connect and collaborate, and share our experience with other businesses. We adopted the A4S TCFD maturity criteria to guide, assess and benchmark our progress in implementing the TCFD recommendations.

In our third year, we have continued to improve our climate related risk disclosures using the TCFD maturity guidance issued by Accounting for Sustainability as our guide. The appointment of Joan MacNaughton to the HAHL Board in June 2021 further strengthens the climate experience at Board level. We have developed and published a Net Zero Plan which sets out our goals to cut our carbon footprint by 2030 and beyond, built the requirements into our business plan for the next regulated settlement period and made a robust case for adequate investment in delivering our plan to our economic regulator – the CAA.

Incentive schemes for our colleagues are now linked to delivering our Net Zero Plan, and we have built our long-term climate change scenario into our assessment of balance sheet recoverability in the financial statements (refer to page 141 in the Group's Accounting policies for further detail).

Scenario analysis is an important tool to help us understand the long-term risks from climate change and inform our business strategy. During 2021, we continued to refine our scenario analysis, following TCFD guidance and best practice. We have included published updates to existing net zero transition scenarios for aviation, and included newly published scenarios, so our disclosure is informed by a broad range of external views on the transition pathway for aviation.

In partnership with the Cambridge University Institute of Sustainable Leadership ('CISL'), we are funding a research fellow for a 3-year period who will undertake research to evolve airport climate-risk scenario analysis. The research project will explore the interrelationships between transition and physical risks and the findings will help to improve the airport and aviation sector's understanding, and its ability to assess, the risks that climate change will create.

The research has focused on mapping the aviation sector's exposure to transition and physical risk drivers in its first year. Work has also started to develop the framework to integrate both sets of risks. We look forward to building this fresh insight into our future scenario analysis and risk assessment process.

As well as improving our understanding of climate related financial risks and implementing the TCFD recommendations, we have also strengthened our approach to sustainable financing and promoted sustainable finance more broadly. Our defined benefit pension scheme trustee has adopted an investment policy prioritising sustainable investment.

We have also linked the margin of our revolving credit facilities to ESG performance measures, and we are actively pursuing a sustainability linked investment bond.

Disclosure recommendation	Section reference	Page
Governance		
Describe the Board's oversight of climate related risks and opportunities. Describe management's role in assessing and managing climate related risks and opportunities.	Our commitment to sustainable growth Our approach to risk management Our principal risks TCFD	31 58 60 68-70
Strategy		
Describe the climate related risks and opportunities the organisation has identified over the short, medium and long-term.	TCFD	71-75
Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning.	Our commitment to sustainable growth TCFD	31 69-75
Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario.	TCFD	71-75
Metrics		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities.	TCFD	71
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	Our commitment to sustainable growth	36
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	Our commitment to sustainable growth TCFD	36 71
Risk		
Describe the organisation's processes for identifying and assessing climate related risks.	Our commitment to sustainable growth Our approach to risk management TCFD	31 58 68-70
Describe the organisation's processes for managing climate related risks.	Our commitment to sustainable growth Our approach to risk management TCFD	31 58 68-75
Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.	Our approach to risk management	58

GOVERNANCE

Board oversight

The appointment of Joan MacNaughton to the HAHL Board[1] in June 2021 further strengthens the Director's knowledge and capability to consider the climate change agenda and the risks and opportunities climate change poses to our business. Joan MacNaughton is an influential and respected figure in international energy and climate policy and assumed the Chair of the Sustainability and Operational Risk Committee, a sub-committee of the HAHL Board in November 2021.

The HAHL Board receives regular climate change updates through the CEO's monthly updates to the Board. Climate change has been a material theme in the preparation and submission of our business plan for the H7 regulated settlement, and is regularly included as an agenda item at HAHL Board and Executive strategy days.

The HAHL Board has been involved in shaping and reviewing our Net Zero Plan through 2021 and endorsed the strategy and goals in late 2021. The Plan sets out our strategic response to the climate related risks facing our business – the transition to a net zero economy and the need to limit the physical effects of climate change. Our H7 business plan includes a dedicated carbon and sustainability programme to deliver the investment and operational changes required in our Net Zero Plan during the H7 regulatory settlement period. Three Executive level deep dive strategy sessions were held during the year to inform and engage the Executive Committee on the latest climate thinking, the strategic options and to shape our response which is set out in our Net Zero Plan.

The HAHL Board reviews principal risks, which includes climate related risks, that have been first reviewed by the following committees:

- The Risk and Assurance Committee, a sub-committee of the Executive Committee.
- The Executive Committee.
- The Sustainability and Operational Risk Committee, a sub-committee of the HAHL Board.
- The Audit Committee, a sub-committee of the HAHL Board.

The Audit Committee is a sub-committee of the HAHL Board and chaired by a Non-Executive Shareholder Director. The Committee reviews material financial climate related risks and the preparation and content of our TCFD disclosure. The Chair of the Audit Committee was appointed as the HAHL Board's Climate Change Director in January 2021, following a recommendation at the previous Audit Committee. The appointment strengthens oversight of climate related risks in financial decision-making at board level.

The Sustainability and Operational Risk Committee is a sub-committee of the HAHL Board and chaired by an Independent Non-Executive Director. Its members include the Chief Executive Officer and three shareholder Non-Executive Directors. The quarterly meeting has a regular agenda item on climate change and receives a written and verbal update from the Carbon Strategy Director.

The Committee's responsibilities include:

- Reviewing Heathrow's policies, conduct, performance and risk-management approach against sustainability goals and operational activities.
- Reviewing and challenging the performance and conduct of Heathrow relating to operational risks and the delivery of sustainability goals.
- Monitoring and challenging the appropriateness of sustainability and operational risk-assurance strategies and plans, the execution and results of such plans, and relevant communications.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 84.

Management structure and approach

Our overall approach to climate change and our strategy is led by our Chief of Staff and Carbon who sits on the Executive Committee. He is supported by a dedicated carbon strategy team to provide clear direction and internal capability to shape and drive the climate agenda throughout our company.

Ownership of the climate change agenda across all functions and at all levels within the company is important for delivering our Net Zero Plan. The Carbon and Sustainability Leadership Group (CSLG) represents all the key functions, leads the implementation of our Net Zero Plan and is responsible for ensuring our carbon goals are met. The CSLG also provides the governance for our H7 carbon and sustainability programme. In 2022 the CSLG will become a sub-committee of the Executive Committee.

To empower our workforce and ensure individual colleagues have a stake in delivering our Net Zero Plan, we have included carbon performance metrics in our incentive plans, and we encourage colleagues to take action to support our carbon and sustainability agenda. The carbon metrics for different management grades are linked to cutting material carbon emission sources in our footprint and where colleagues can most influence action.

Our CFO co-chairs the Accounting for Sustainability's UK CFO Leadership Network and is a regular speaker at the A4S Academy to inspire and coach future climate leaders.

RISK MANAGEMENT

Climate risks are included in our overall risk management framework (see page 58). We have aligned our internal assessment and reporting of climate related risks with the TCFD framework. We have adopted similar terminology, clarified our approach to both transition and physical risks and report using a consistent format. In 2022 we plan to align our functional risk registers in the same way, ensuring that climate related risks are managed and reported in a consistent way and making it easier for us to assess climate related risks thematically.

Scenario analysis and the assessment of climate related risks

In line with the TCFD recommendations we have used scenario analysis to assess our material climate related financial risks and have considered 1.5°C and 4°C scenarios to provide a targeted view of possible outcomes for transition and physical risks, respectively. Scenario analysis is used to improve our understanding of Heathrow's climate risk exposure, and the insights are built into our internal assessment of risk following our company's risk management framework. It has also been applied by Management in its consideration of the recoverability of certain balance sheet items as explained further in the climate change section of the Group's accounting policies on page 141.

Our approach to scenario analysis is in line with the Accounting for Sustainability maturity map for TCFD disclosures and the ClimateWise framework.

The datasets that have been used to describe these possible climate futures within which Heathrow could operate are built up using a mixture of publicly available data series and bespoke airport forecasts. The datasets are based on information from the following organisations:

- Australian Department of Infrastructure, Transport, Regional Development and Communications
- Bloomberg New Energy Finance
- European Airport and Airspace Operators Consortium Network for Greening the Financial System
- European Union
- Heathrow climate change assessments
- Intergovernmental Panel on Climate Change
- International Air Transport Association ('IATA')
- International Civil Aviation Organisation ('ICAO')
- International Energy Agency ('IEA')
- International Renewable Energy Agency
- McKinsey
- National Grid Future Energy Scenarios
- Sustainable Aviation
- The Air Transport Action Group ('ATAG')
- UK Climate Change Committee
- UK Climate Projections 2018 ('UKCP18')
- UK Department of Transport Mission Possible Partnership
- United States Federal Aviation Administration
- World Economic Forum

In assessing climate risk, we have considered a wide range of scenarios for aviation to achieve a net zero transition. In total, information from over 30 scenarios in the data sources listed on the previous page have been used this year in developing different projections for carbon emissions and passenger numbers which amounts to a very broad range of outcomes for Heathrow. Scenarios adopt different assumptions on the impact of measures to cut carbon emissions, including efficiency improvements, and the transition to lower or zero carbon fuels. Those scenarios that assume a slower uptake of carbon reduction measures also consider different levels of demand reduction as a measure to cut emissions.

From this broad range of scenarios, a smaller group of three scenarios were identified which most closely describe the specific market conditions for Heathrow based on UK national policy, global aviation market growth, local domestic market conditions, and views on the extent of deployment of carbon mitigation solutions. The three scenarios key to the climate related risks for Heathrow have been issued by the UK's Climate Change Committee (CCC), and the UK Government, all of which achieve net zero carbon. The 3 scenarios are:

Balanced Net Zero Scenario – UK Climate Change Committee

The UK CCC's ‘Balanced Net Zero Scenario’ is a combination of all five of the separate scenarios first published in 2020 by the CCC for the UK's sixth carbon budget and represents the CCC's central scenario which does include limits on passenger growth. It assumes 25% growth in passenger numbers from 2018 to 2050, improvements in fuel efficiency per passenger equivalent to 1.4% per annum, an uptake of SAF reaching 25% by 2050, and a residual level of emissions of 23 $MtCO_2e$ to be removed.

Widespread Innovation Scenarios – UK Climate Change Committee

The UK CCCs ‘Widespread Innovation Scenario’, also published in 2020, includes many of the interventions in the UK aviation sector's net zero roadmap, and delivers net zero while permitting higher passenger growth due to greater use of new technology. The Widespread Innovation scenario assumes 50% growth in passenger numbers, 2.1% per annum improvement in fuel efficiency per passenger, a 51% uptake of SAF, and residual emissions of 15 $MtCO_2e$ to be removed.

High Ambition Scenario – UK Government

The UK Government published four scenarios as part of the Jet Zero Consultation in July 2021, based on updates to the same internal modelling referred to by the Climate Change Committee. The High Ambition Scenario assumes 60% increase in passengers by 2050, 1.5% per annum improvement in fuel efficiency per passenger, a 30% uptake of SAF, and a residual of 15 $MtCO_2e$ to be removed. Whereas the CCC scenarios assume the inclusion of zero carbon emission aircraft (i.e. those using electric or hydrogen propulsion) is negligible by 2050, the High Ambition scenario assumes some 12% of total kilometers travelled by aircraft departing UK airports are by zero carbon emission aircraft in 2050.

The choice of scenarios has been informed and validated by supporting references including the recent direction of policy announcements from the UK and other national governments, more recent issues of published scenarios, and observations of progress in implementing the right conditions to deliver the solutions that will cut aviation carbon.

There are six significant areas of judgement used in assessing the scenarios that underpin the balanced overall view for Heathrow:

1. Consumer sentiment may affect demand – our passenger demand forecasts reflect the consumer sentiment which is linked to price effects through elasticities that represent the effects of increased costs of carbon, fuel duty, VAT and Air Passenger Duty. A view on consumer sentiment additional to these drivers of demand is implicit within Government and international forecasts that have been used when developing our scenarios.
2. Airspace modernisation is delivered throughout the UK. We have built our contribution to delivering airspace modernisation into our H7 Business Plan.
3. Aircraft fuel efficiency – the CCC and UK Government scenarios do not consider the early retirement of inefficient aircraft following COVID-19. We have not adjusted for this as effects are still to be fully understood, however it suggests an element of conservatism in the scenario we have adopted.
4. Uptake of Sustainable Aviation Fuels – this is fundamental to the success of net zero aviation by 2050. Our main role is advocacy and leadership which is described on page 34. Based on industry insights and commitments from our airline customers, we believe the SAF uptake assumed in our climate change scenario analysis is achievable with the right policy support. Nevertheless, it relies on action by government, and we therefore deem it a risk as described further on page 141 in the Group's accounting policies.
5. Zero carbon emission aircraft – whilst we believe future electric and hydrogen fuelled aircraft will play an increasingly important role in future aviation, we do not project that these aircraft will commence operations until the end of this decade at Heathrow, at the earliest, and will take time to grow as a proportion of global aircraft fleets. The scenario information used is based on a relatively low uptake by 2050.
6. Carbon removals – carbon removal will be necessary to address residual emissions.

METRICS AND TARGETS

One of our four strategic priorities is Sustainable Growth and our Heathrow 2.0 Sustainability Plan, first published in 2017 sets out how we will deliver this priority. In February 2022, we published an updated Heathrow 2.0 that focuses on our most material issues. Our Net Zero Plan makes up one of 2 pillars in Heathrow 2.0.

Our Net Zero Plan sets clear goals to cut our emissions 'in the air' and 'on the ground'. There are four solutions to reduce aircraft emissions and four solutions to reduce emissions associated with airport activity on the ground, including how our passengers and colleagues travel to the airport, our supply chain, airport operational vehicle fleets and our buildings and infrastructure. It covers our entire carbon footprint and is focused on delivering tangible progress this decade.

Our plan supports the aviation industry goal to achieve net zero emissions by 2050 and the roadmap to get there. More information on our Net Zero Plan and our carbon performance is available on pages 33 to 37.

We have publicly committed to setting a climate-science-aligned target and our Net Zero Plan has been developed to align with the UK Climate Change Committee's Balanced Net Zero Scenario trajectory for aviation included in their recommendation to the UK Government for the sixth carbon budget.

OUR CLIMATE-RELATED RISKS

Climate change presents a significant set of strategic risks for aviation and for Heathrow. Beginning in the next decade, the risks relate primarily to the transition to a net zero world and changing political, consumer and investor expectations. If we do not demonstrate tangible progress within the next ten years to cut emissions and build confidence in our plan to get to net zero, we could face restrictions from the UK Government, with consumers choosing to fly less, and more difficulty in attracting equity and managing borrowing costs. For that reason, we have chosen to focus on a series of 2030 goals in our Net Zero Plan to drive the action required in the short and medium term. Transition risks in this period could threaten our ability to recover from the pandemic, to operate, and to grow. They also represent a risk to fulfilling the expectations of current and future consumers. Restricting the availability of air travel limits consumer choice and access to a wide range of global destinations, as well as increasing travel costs.

In the longer term, from the 2030s onwards, the physical impacts of a changing climate will also become more apparent, particularly if global efforts to limit emissions are less successful. Our assets and operations do face some risks from more extreme weather. We consider physical risks in our climate adaptation risk assessment which we publish every 5 years. We issued an updated risk assessment in January 2022 which uses the latest UK climate projections and has informed this disclosure. We plan to carry out some further refinement of our risk assessment during 2022 and more detailed flood risk investigations to understand where we might need to strengthen our current level of mitigation.

It is likely that a combination of operational measures and capital investment will be required over the long term to mitigate the impact of physical risks, guided by the outcome of our risk assessment work. We highlighted the likely need to invest in climate adaptation to the CAA during the H7 regulatory settlement process. The physical effects of a changing climate would also affect the interconnected aviation system that we operate in and the global economy, particularly in higher temperature scenarios, with inevitable knock-on impacts for the sector.

In the following section we provide an update to our material financial climate related risks, setting out the nature of the risks to our business, how we are addressing the risks, and their potential impact on Heathrow. While climate change is primarily a risk for aviation and Heathrow, we also identify where opportunities may be created.

TRANSITION RISKS

Market and policy

WHAT IS THE RISK

The market for air travel does not grow as much as we currently forecast for three main reasons:

- The UK Government concludes that it is not possible to sufficiently decarbonise flying in line with the UK's net zero targets and implements additional measures which limit demand for aviation including raising the cost of air travel or limiting airport capacity.
- Policies to price carbon at a UK, European or international level, through taxation or carbon trading schemes, translate to increased ticket prices and therefore reduce demand for aviation.
- Consumer sentiment towards flying becomes more negative and consumers prefer to fly less.

There is also a broader question regarding passengers' continuing propensity to fly in a net zero world. Passenger surveys are increasingly rating climate change as a top issue for consumers and a third of UK consumers claim to avoid flying where possible. There is no evidence to suggest a shift in consumer behaviour today and consumers also acknowledge there is a lack of good alternatives to flying. However, it is important that the sector demonstrates tangible progress in cutting emissions and communicates those to consumers.

While climate change is primarily a risk for aviation and Heathrow, it also creates opportunities. Flights from a hub airport like Heathrow represent a higher value use of scarce carbon. There is a strong case for Government policy to continue to back future growth at Heathrow, and charges to make flights from Heathrow as low-carbon as possible could also attract a greater market share as consumer concern over climate change increases.

HOW WILL THIS RISK AFFECT HEATHROW

We remain confident that it is possible for aviation to grow and to reach net zero emissions. In early 2020, the UK aviation sector set a target of net zero emissions by 2050. It published its roadmap to get there which enables the industry to grow by 70% and achieve net zero by that date. In 2021, the entire global aviation industry committed to net zero emissions by 2050, the first entire sector to do so. The industry backing for net zero builds clear momentum for a net zero deal at ICAO's Assembly in 2022.

In the UK, and globally, a range of expert bodies have set out their analysis of aviation's pathway to net zero emissions. In our scenario analysis we have considered over 30 different emission pathways from respected sources to fully understand the scale of the risk. All sources are listed on page 69.

There is broad agreement on the measures needed to decarbonise aviation but different views on how far it is possible to achieve and how quickly. The key measures are:

1. Taking the carbon out of flying: burning less fossil-based fuel through more efficient aircraft, engines and operations and using lower or zero carbon fuels.
2. Putting any remaining carbon back in the ground: through robust natural and engineered carbon removal measures.

Scenarios that assume a slower uptake of carbon reduction from efficiency improvements, and lower or zero carbon fuels, also consider different levels of demand reduction as a measure to cut emissions.

The UK policy landscape will largely determine how our market evolves in future; therefore, we continue to focus on scenarios from the UK's Climate Change Committee (CCC), supplemented by UK Government scenarios as these reflect our business and future market most accurately. These scenarios include an assessment of the effects on global aviation demand. The basis for our scenario analysis is set out on page 70.

Our ability to grow will depend on making tangible progress on delivering the aviation sector's net zero roadmap in order to maintain political and public support for future growth. The Airports National Policy Statement has always been clear that an application for development consent for the North West Runway scheme will need to provide evidence of the carbon impact of the project such that it can be assessed against the UK Government's carbon obligations, including its carbon budgets as they exist at that time. Furthermore, if an increase in carbon emissions resulting from the project is so significant as to have a material impact on the ability of the Government to meet its carbon reduction targets including carbon budgets as they exist at that time, then that would be a reason to refuse development consent. We recognise this requirement – our Net Zero Plan sets out how we can reach net zero even as we grow and aim to make 2019 the year of peak carbon at Heathrow.

Although we are confident that the overall size of the market can still grow in a 1.5°C world, it is possible that some segments of the market grow less strongly or decline. Companies may seek to build on the trend for videoconferencing post COVID-19 to reduce their own carbon footprints and costs, which will affect the market for business travel. Government policies may also seek to incentivise high-speed rail or limit domestic and shorter distance flights. Many passengers on those flights are connecting to other flights as part of Heathrow's hub business model. Unless the alternatives still allow quick and seamless connections, this could undermine Heathrow's network.

HOW WE ARE ADDRESSING THIS RISK

The whole aviation sector, including airports, has a stake in decarbonising flight. The industry, including Heathrow, has committed to net zero emissions by 2050. The priority is to deliver our Net Zero Plan and work with the industry to deliver its net zero roadmap and demonstrate tangible progress on cutting emissions in the next decade.

Our priority is to work with the industry and UK Government on the policies needed to urgently scale up Sustainable Aviation Fuel (SAF). SAF can be used by existing aircraft fleets and has the potential to cut carbon by at least 70%. It is the quickest way to take the carbon out of flying now while emerging technologies mature, and we begin to see those enter airline fleets.

Currently SAF costs up to five times more than kerosene. The UK Government can address this challenge by creating a commercial framework that makes it viable for airlines to use SAF and enable the business case for private investors to fund production capacity. Building an industry at scale will also rapidly drive down SAF prices. That is why we want to see the UK Government act now, using SAF mandates to scale up supply, and price incentives to lower the cost of SAF. In 2021 there have been positive developments which demonstrate that projections for cutting aviation emissions remain realistic. Policy announcements by the US and Europe to support SAF production will drive up the scale of SAF in two key markets for Heathrow. Similar progress is emerging in the UK, The Government's net zero aviation consultation, published in 2021, was based on scenarios that cut emissions through the deployment of technological solutions and progress on practical implementation is continuing through the work of the UK Government's Jet Zero Council of which Heathrow is a member.

From 2022, our landing charges will include a new financial incentive to help make SAF more affordable for airlines. The incentive will support a 0.5% SAF purchase in its first year, climbing steadily in the following years. It is intended to complement a new UK Jet Zero policy the UK Government is planning to introduce.

Although decarbonising flight is the key enabler for growth in the sector, Heathrow has committed to cutting our entire carbon footprint. Our Net Zero Plan sets out goals for delivering net zero emissions in the air and on the ground, cutting emissions from all sources by 2030 and beyond. We have built the investment required into our H7 Business Plan and our submission to the CAA for the H7 regulatory settlement. Our Net Zero Plan includes delivering the Heathrow enabling works for airspace modernisation, improving aircraft efficiency on the ground, and initial operational trials of zero emission aircraft later this decade. We have also set out investment requirements to transition to zero emission ground-based vehicles and develop the solutions to decarbonise our buildings and infrastructure.

Our Net Zero Plan and our progress during 2021 are covered in more detail on page 33.

FINANCIAL MATERIALITY

Financial materiality: **HIGH**

Passenger numbers are the key driver of revenue at Heathrow and long-term variations in passenger demand will impact future passenger charges. Long-term forecasting is inherently subjective, however in determining Heathrow's long-term climate change scenario we have considered a wide range of external evidence and have adopted a scenario that we believe is appropriate based on the information and forecasts available. Should Heathrow's long-term climate change scenario be overly optimistic, it could materially impact future revenue, profitability, and operating cash flows.

Technology

WHAT IS THE RISK

The adoption of new technologies to decarbonise aviation require investment by Heathrow to gradually upgrade airport infrastructure and introduce operational changes that increase costs or impact revenues based on our current business models.

HOW WILL THIS RISK AFFECT HEATHROW

SAF is a key element of the sector's net zero roadmap. Heathrow is actively promoting a rapid scale up and adoption of SAF to significantly cut emissions in the next decade. SAF can be used in existing infrastructure and aircraft and therefore there is no requirement for significant upgrades to airport infrastructure or operational changes.

SAF is the main way to reduce the carbon intensity of long-haul flight by 2050. SAF also provides similar benefits for short haul flights, though we are also likely to see the development of other propulsion technologies for shorter journeys, including electric and/or hydrogen. We intend to support the introduction of electric and hydrogen aircraft at Heathrow and have included enabling investment in our H7 Business Plan. The adoption of zero carbon emission aircraft at scale is likely to require more substantial changes to airport infrastructure and operations. As the airport implications of those technologies become clearer, Heathrow will consider what changes are necessary to accommodate those aircraft before they enter airline fleets. There is an opportunity for Heathrow to play a role in enabling the transition to zero carbon aircraft. In 2018, we announced a financial incentive, promising that the first electric-hybrid aircraft will not have to pay our landing charges for an entire year when it is put into regular service at Heathrow.

It is not yet clear whether any infrastructure provision would be undertaken primarily by Heathrow or by third parties. We are undertaking further work to build our understanding of the requirements and will consider these as part of our future planning.

HOW WE ARE ADDRESSING THIS RISK

Electric and/or hydrogen aircraft could be operating commercially from Heathrow in the 2030s, and we are watching developments in the sector to understand if this could happen sooner. To prepare, we are building our understanding of the potential infrastructure implications for Heathrow. We are leading a consortium of aviation companies and academics which was awarded funding from the Innovate UK 'Future Flight Challenge' Programme to understand the implications for airport infrastructure from these new technologies. The research concludes in spring 2022 and we are pursuing options to develop the research and use the understanding to inform our future planning.

FINANCIAL MATERIALITY

Financial materiality: **LOW**

Whilst an important development, the transition to zero carbon aircraft will take place over the medium to long-term. While we project the carbon savings by 2050 to be relatively modest, there could still be a significant number of aircraft movements. The nature of our long-term capital programme means that planned investment in infrastructure to support new zero carbon aircraft types is unlikely to represent a significant increase in our long-term investment plans based on current information. We are continuing to participate in research to better understand the transition to zero carbon aircraft and the associated infrastructure requirements which will inform our ongoing assessment of financial materiality.

Reputation

WHAT IS THE RISK

Investors show a preference for businesses that have smaller climate impacts. The cost of borrowing is becoming increasingly linked to company's action on addressing carbon emissions.

HOW WILL THIS RISK AFFECT HEATHROW

Investors' focus on the carbon performance of companies is growing and climate related risks are becoming a more important factor in investment decision-making. We benefit from access to a wide range of investment sources, and low borrowing rates which allows us to invest in improving the airport whilst keeping our costs affordable.

Not decarbonising quickly enough, particularly compared to our peers, could impact investor confidence, and make Heathrow less attractive to investors, pushing up borrowing costs and damaging our competitiveness.

HOW WE ARE ADDRESSING THIS RISK

To maintain investor confidence and support, we must reduce our carbon footprint and play our part in delivering the UK aviation sector net zero roadmap. Our Net Zero Plan sets out how we plan to do that and aims to make 2019 the year of peak carbon at our airport. We have put in place a programme to deliver the initiatives that will cut emissions and put us on the path to achieving our 2030 net zero goals. We have included the investment necessary to deliver our plan during the H7 period in our business plan for the H7 regulatory settlement.

We are committed to transparency, and will continue to assess and disclose our material climate related risks, and report our progress in delivering our Net Zero Plan, to maintain the confidence of investors. We have also strengthened our approach to sustainable financing more broadly by including sustainability in our capital investment appraisal process and we have linked the margin of our revolving credit facilities to ESG performance measures.

FINANCIAL MATERIALITY

Financial materiality: **LOW**

There is currently no indication that investor confidence is impaired with the reputation risk continually appraised through regular dialogue with investors and credit rating agencies.

PHYSICAL RISKS

Property and operations

WHAT IS THE RISK

Changing weather patterns, linked to climate change, affect airport operations and infrastructure.

HOW WILL THIS RISK AFFECT HEATHROW

The most significant physical climate impacts for airports across the world are inundation from sea level rise and extreme temperatures that reduce aircraft lift and restrict take off weights. These are not material risks for Heathrow because of our airport's inland location even under a projected 4°C climate scenario. Our assessment of the climate related risks to our property and operations is based on the 5-yearly climate adaption risk assessments we publish to meet a requirement in the UK Climate Act. The most recent assessment, published in January 2022, sets out our material physical climate risks and the progress we are making in adapting to a changing climate. Based on our risk assessment, Heathrow could expect to see some impact on infrastructure and operations from an increase in flood risk and the impacts from heatwaves. Snow events are less likely with a large decrease in the frequency of snow events in a 4°C climate scenario.

Climate related impacts at other airports, or linked to Heathrow's supporting infrastructure and services, could also lead to operational disruption at Heathrow.

Heathrow has invested heavily in measures to improve the resilience of the airfield in the last decade. Those systems and processes provide a good level of mitigation which should continue to be assessed against projected climate risks.

HOW WE ARE ADDRESSING THIS RISK

Operational resilience supports a high-quality passenger experience at Heathrow. We have invested in new processes, equipment, and infrastructure over the last ten years to allow the airport to respond effectively to adverse events, including those linked to climate and weather, and minimise their impact.

Heathrow is fortunate that our location means sea level rise is not a material risk and temperatures in the UK are not likely to reach levels that directly impact aircraft operations. Heathrow's physical location will experience increased exposure to flood risk and heatwaves and therefore the standards our infrastructure will need to meet will need to increase too.

The development of the airport over 75 years means that standards vary across the site but recent infrastructure at Heathrow is designed to accommodate the expected effects of climate change based on or exceeding the relevant standards at the time of design and construction.

Our latest climate adaption report sets out all the direct and indirect climate risks facing our airport, including the most material risks described above, as well as the mitigations currently in place, and actions we plan to take to strengthen mitigation in future. We will continue to build our understanding of the physical risks we face and the appropriate level of mitigation that will be required. Our initial priority is to conduct more detailed assessment and to stress test the performance of the airport drainage system.

We do not expect material impacts from a changing climate during the H7 period, compared to today. By maintaining a good understanding of the risks based on the latest climate science, and taking early and proportionate action, adaptation can be better aligned with typical asset investment cycles or with sufficient time to plan operational mitigations. The latest climate adaptation risk assessment will be embedded into our functional risk registers to ensure physical climate risks are shaping our overall investment plans and delivering investments efficiently and at the appropriate time to keep pace with the evolving level of risk.

Where mitigations require dedicated investment that cannot be delivered through asset replacement, we will include the requirement as part of our normal business planning process for each regulatory settlement period. We have signalled a likely need to the CAA for investment in climate resilience in future settlement periods.

New infrastructure at the airport will continue to adopt the latest climate change standards, and where improvements to existing assets and infrastructure are identified, these will be built into our business plan and form part of the regulatory settlement. Heathrow Expansion provides the opportunity to raise the standard of infrastructure and operations across the whole site to the levels that will be required to respond to this risk.

FINANCIAL MATERIALITY

Financial materiality: **MEDIUM**

The nature of our long-term capital programme means that investing in the necessary equipment and infrastructure would be added to the Regulatory Asset Base and earn an appropriate return. The increases in operating costs and reductions in revenue from extreme events are not likely to be material to the revenue or cost base of Heathrow based on current available information, although acknowledging a level of unpredictability in assessing impacts from modelled long-term weather related trends. We are continuing to develop and refine our assessment of physical risks which will inform our ongoing assessment of financial materiality.

Network

WHAT IS THE RISK

Climate change impacts may result in increased turbulence or unfavourable flying conditions that may affect the routing, attractiveness or viability of some flight paths.

HOW WILL THIS RISK AFFECT HEATHROW

Climate change will result in significant changes to weather patterns and atmospheric conditions that may affect the routing of aircraft between departure and arrival airports. Although weather already impacts aircraft routing today, in a world that is 4°C warmer, adverse weather conditions such as storms and changes to wind speed and direction become more frequent and unpredictable increasing fuel burn and therefore operating costs for airlines.

There is currently limited research available to support a quantitative assessment of this risk and its impact on Heathrow. This is a risk that has been recognised and disclosed by some airlines and could impact Heathrow's route network and therefore passenger demand so it remains as one of our material risks. The effects of a 4°C rise in global temperatures could be catastrophic for society and therefore airline-led research is necessary to further understand the materiality of this risk.

HOW WE ARE ADDRESSING THIS RISK

Heathrow will continue to monitor this risk and seek wider views across the sector, particularly from airlines, to further develop our assessment and identify where industry-led research may be valuable to understand the likelihood and scale of the impact and the potential effects on Heathrow.

FINANCIAL MATERIALITY

Financial materiality: **LOW**

It is not possible to easily calculate a financial impact of variations to the network if this risk is not mitigated. Our current assessment is based on an initial understanding of the risk and its potential financial impact on Heathrow and will be refined as research evolves.

Destinations

WHAT IS THE RISK

The local physical impacts of climate change at some destinations reduce passenger demand and the profitability and viability of those routes.

HOW WILL THIS RISK AFFECT HEATHROW?

The physical impacts of climate change may affect where people fly to in future if efforts to limit climate change are not successful. In the extreme scenario of a 4°C rise in global average temperatures, the physical effects of climate change could alter the existence, attractiveness or viability of some destinations reducing demand for those routes. Examples of destinations at most risk include those that would be impacted by sea level inundation, desertification, drought and the loss of important local climate conditions that are important features for attracting visitors, such as snow cover at winter sports destinations.

The scale of these impacts may be limited to some degree by investment at destinations to mitigate the impacts, where that is possible and affordable.

The loss of existing travel destinations would be a significant risk to the global aviation industry and affect airport route networks and passenger traffic. The risk is likely to be greatest for airports most dependent on flying to those destinations heavily impacted by physical climate effects and where mitigating those impacts may be more difficult. Heathrow's position as a hub in the global network and our large and diverse route network reduces our exposure to this risk. Our current network of destinations includes many large population and business centres that will remain important destinations and are likely to be better placed to invest in mitigation.

However, the pattern of global destinations may be affected more broadly in a world that is 4°C warmer than today. The physical impacts would be significant and widespread and likely to have knock-on impacts on the global economy which in turn would affect aviation. Further work is needed across the aviation sector to better understand and quantify this risk, but it is likely to be significant.

HOW WE ARE ADDRESSING THIS RISK

We have developed an initial climate hazard and vulnerability review of Heathrow's five most financially material routes by revenue (in 2019). We will extend this methodology to include a wider range of destination airports and begin to assess the level of risk and materiality. Where necessary we will encourage and support industry research to build our understanding of the potential impacts.

FINANCIAL MATERIALITY

Financial materiality: **MEDIUM**

It is not currently possible to calculate a financial impact of variations to passenger demand for certain destinations if this risk is not mitigated. Our assessment is based on our current understanding of the risk and its potential financial impact on Heathrow and will be refined as research evolves.

SECTION 172(1) STATEMENT

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, they must have regard to the range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006.

In discharging our section 172 duty we, the Directors of the Company, have regard to such factors and take them into consideration when decisions are made. We also have regard to other factors which we consider relevant to the decisions being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's vision, purpose and values together with its strategic priorities, as shown in our Strategic Framework on page 26, and having a process in place for decision-making we aim to ensure that our decisions are consistent and predictable.

As is normal for large companies, we delegate authority for day-to-day management of the Company and its subsidiaries to the Executive Committee and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the HAHL Board[1]. Group policies set by the HAHL Board are communicated to all group companies and we ensure that, when we are applying these group policies, we have due regard to our fiduciary duties and responsibilities as Directors of the Company. The HAHL Board also reviews health and safety, financial and operational performance, legal and regulatory compliance, business strategy, key risks, stakeholder-related matters, diversity and inclusivity, environmental matters and corporate responsibility. The Directors of the Company include a member of the HAHL Board and two members of the Executive Committee, which enables the dissemination of core information about the business of the Heathrow Airport Holdings Limited Group (the 'HAHL Group').

There are also Directors of the Company that attend the Audit Committee and Risk and Assurance Committee, which helps to provide foresight of the principal risks affecting the HAHL Group and specifically those affecting the Company.

The discussion on Heathrow's recent COVID-19 response, within Our Strategy on page 24, provides an illustrative example of how the Board takes stakeholder views, and the impact on stakeholders, into account in its decision-making.

The Company's key stakeholders are its passengers, communities and the environment, colleagues, airlines, investors, suppliers and commercial partners and regulators. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both our stakeholders and the HAHL Group means that generally our stakeholder engagement takes place best at an operational or HAHL Group level. We find that, as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details of some of the engagement that takes place at an operational or HAHL Group level with the Company's stakeholders, so as to encourage the Directors to understand the issues to which they must have regard, please see the HAHL stakeholder table on the following pages.

During the period we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG (environmental, social and corporate governance) matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the Company.

We set out below some examples of how we have had regard to the matters set out in section 172(1)(a) - (f) when discharging our section 172 duty and the effect of that on decisions taken by us.

[1] The HAHL Board is the Board of Directors of Heathrow Airport Holdings Limited as defined on page 84.

KEY DECISIONS MADE BY THE DIRECTORS OF THE COMPANY

Board Decision	Stakeholders	Considerations	Outcome
Capital Allocation	Investors Passengers Airlines	Each quarter, the Directors of the Company consider the Group's capital structure and capital allocation when proposing dividends. Details of our approach to capital allocation are set out on page 54 where we explain our long-term approach to allocating capital and the payment of dividends. In making this decision the Board considers a range of factors. These include the long-term viability of the Company, its expected cash flow and financing requirements, the strength of the Group's balance sheet, the balance of current and forecast distributable reserves (including stress-testing to key risks), the potential impact on credit metrics, the common terms of financing agreements including trigger events and the ongoing need for the business to support the safe and efficient operations over the long term.	In 2021, due to the impact of COVID-19, no dividends were recommended by the Directors of the Company.
Borrowings	Investors Passengers Airlines	As required, the Directors of the Company review and approve commercial terms for borrowing. In approving terms, the Directors seek to ensure that appropriate funds are available to continue to invest in airport services, at a minimal cost and for a suitable period of time.	The Directors of the Company approved the commercial terms relating to £1.2bn of Class A funding and £0.4bn of Class B funding across public and private markets to extend the liquidity horizon and strengthen liquidity during COVID-19.

KEY DECISIONS MADE BY THE HAHL BOARD

Board Decision	Stakeholders	Considerations	Outcome
Health, Safety and Wellbeing (HSW) of Colleagues and Passengers	Colleagues Passengers Airlines Suppliers and Commercial Partners Regulator Government	The HAHL Board continues to understand and acknowledge the significant changes, and supported the associated investment, required to ensure a COVID-19 secure and safe operating environment for colleagues, passengers, and Team Heathrow stakeholders. The HAHL Board also understands the importance of colleague wellbeing and mental fitness on engagement, safety, productivity, and performance. HSW considerations are presented to the HAHL Board via quarterly Sustainability and Operational Risk Committee (SORC) meetings. The Chair of SORC presents to the HAHL Board. Decisions regarding ongoing COVID-19 controls have been informed by UK Government guidelines, advice from Public Health England, our Chief Medical Officer, and the Health and Safety Executive. Controls are documented in our COVID-19 risk assessment. Decisions continued to be made through specific governance until management of COVID-19 transitioned into business-as-usual activity. Regular updates continue to be provided to the HAHL Board. Airlines and other Team Heathrow organisations, including Border Force, have been informed and engaged regarding COVID-19 controls at all levels of the respective organisations. Trade Unions continue to be engaged in decisions on COVID-19 related policies and standards via established Trade Union and additional COVID-19 specific meetings. The HAHL Board have been made aware of and supported Heathrow's lobbying for a risk-based approach to enable safe travel to and from the UK.	The HAHL Board endorsed the establishment of colleague testing, and a Red List Arrivals Facility, the safe re-opening of terminals and the expansion of onsite passenger testing. This has enabled Heathrow to operate safely, re-start the aviation industry and ramp up safety to accommodate increasing demand. The HAHL Board has endorsed investment decisions to enable Heathrow to operate safely, including capital allocation to provide for the safe operation of critical assets.
		In addition to oversight and endorsement of COVID-19 related matters, the HAHL Board has overseen HSW performance, including the health, safety and wellbeing of colleagues and performance and resilience of assets that have an impact on HSW. Colleague health and wellbeing, including mental health, trends, issues and associated actions are also overseen by the HAHL Board. The HAHL Board is guided on health and wellbeing matters by the Chief Medical Officer and expert behavioural psychologist.	The HAHL Board's increasing focus on health and wellbeing issues has accelerated the development of Heathrow's mental fitness programme, which focuses on prevention and supplements the range of early intervention and support products and services in place.
		The HAHL Board continues to oversee fire safety improvements and we share best practice with other organisations. In addition to the above, the HAHL Board receive a short Board Safety Moment each month, providing updates on key HSW issues and Heathrow's response to them. Examples in 2021 have included the impact of mental health on safe decisions and incidents, the outcome of a HSE investigation and prosecution regarding a serious injury in T5 baggage (British Airways) and the learnings from a live operational exercise where the main tunnel was shut to test fire safety and emergency arrangements. These Board Safety Moments are for information, rather than decision making, but help to build the HAHL Board's understanding of HSW issues generally and Heathrow issues specifically.	Fire continues to present a significant risk to Heathrow's operations. Post Grenfell, work continues to ensure that Heathrow meets new legislative requirements.

KEY DECISIONS MADE BY THE HAHL BOARD (CONTINUED)

Board Decision	Stakeholders	Considerations	Outcome
Regulation	Regulator Government Airlines Passengers Investors	During the course of the year the HAHL Board considered and approved a number of key submissions to the CAA on matters of regulatory policy as well as the Regulatory Business Plan for H7. The HAHL Board considered and approved updates to Heathrow's regulatory plan in June and December, taking into account the requirements of the CAA, Government Policy (in respect of security requirements), consumer research undertaken to guide the development of the plan and ensure Heathrow's plans met consumers' needs, and the views of airlines were obtained through constructive engagement with them. The HAHL Board also considered the financial implications of the plans carefully before approving them.	The CAA responded to our June business plan submission setting out its initial proposals for H7. This included a potential increase in charges for H7 of up to 86%. Further updates from the CAA in response to Heathrow's submissions are due during 2022.
Airport Readiness, Ramp up and Border Force	Colleagues Passengers Airlines Regulator Government Border Force	During the course of the year, border regulations ebbed and flowed as the spread of COVID-19 evolved around the globe. Many countries/regions started the year with their borders shut and gradually reopened, albeit with further closures emerging from time to time. These events impacted the volume and shape of passenger demand at Heathrow – in particular demand was concentrated around specific time of day and days of the week. This very uneven schedule (so called "peaky" demand) challenged the business's ability to ramp up quickly but cost effectively so there was a need for regular reviews to ensure timely judgements and decisions were taken.	Lobbying of the UK Government to ensure certainty of restart of international travel and that restrictions were proportionate and evidence based.
		The UK Government put in place a framework for the re-start of international travel and trade in May 2021. The HAHL Board considered Heathrow's preparations for the return of a growing number of passengers, including how and when to restart operations in Terminal 3. Engagement took place with our airport partners, including airlines, Border Force and retailers to ensure adequate resources and processes were in place to maintain the safety and efficiency of passenger journeys. The HAHL Board regularly monitored demand and were kept updated in relation to available resource. Investment decisions had to be taken in relation to the maintenance of facilities/assets and resources to create resilience and ensure the business could effectively deal with passenger ramp up. Establishing accurate information in relation to readiness and ramp up required extensive work within Heathrow, with input from across Team Heathrow, including airlines and suppliers, to ensure the HAHL Board had the best available information to make effective decisions in relation to resource, capacity and demand. These unprecedented circumstances required the HAHL Board to make and have sight of decisions regarding the opening of facilities, resource strategies, for us and our key contractors, and the resilience levels of our assets and our people, to ensure assurance as to management's operational preparedness and the associated operational and financial risks.	Imposition/removal of Traffic Light System in May/Sept 2021 and requirement for specialist Red List Arrival Facility by Government.
		In response to the Government's request for a specialist Red List Arrival Facility, consideration was given to initially utilising Terminal 3 to provide the facility and then reopening Terminal 4 and moving the facility into it.	Following approval by the HAHL Board, the facilitation of a Red List Arrival Facility, including the reopening of Terminal 4 for Red List Arrival passengers.
		One of the key areas of risk considered by the HAHL Board, partly due to resource pressures, but also due to materially extended transaction times, was the performance of the Border Force at Heathrow. Considerable engagement took place with the Government and Border Force to improve and prioritise resource availability within Border Force, upgrade the technology at border control at Heathrow, and generally improve the passenger experience during border checks.	Regular briefings were undertaken with Border Force to discuss performance levels, establish robust operating plans, scope mitigation plans and to support briefing of stakeholder contacts. The HAHL Board has monitored and required oversight of these briefings to ensure a robust response, enable escalation and manage reputational impacts. Border Force's resourcing issues steadily improved during the year and e-gates in Terminals 2 and 5 were upgraded to cope with additional COVID-related checks, including the processing of passenger locator forms, thereby reducing the overall length of transaction times for passengers.

Board Decision	Stakeholders	Considerations	Outcome
Commercial Revenue and Growth	Suppliers and Commercial Partners Passengers Airlines Regulator Government	Despite 2021 passenger volumes being heavily suppressed by COVID-19 and related travel restrictions, our commercial business has continued to drive performance across its portfolio of revenue channels, including: Aeronautical revenues (driven by passenger volumes, aircraft movements and cargo) Retail revenues (from concession partners), Property revenues (from Property assets) and Surface Access services (including Heathrow Express and customer parking).	
Retail concessions		To protect 2021 revenues, the Retail team continued to engage and collaborate with Retail and F&B partners, leveraging HAHL contracts to maintain a well-balanced Retail and F&B proposition in terminal whilst ensuring HAL's contractual rights were asserted. Both Tax Free shopping and the VAT-Res scheme were removed at the beginning of January 2021 whilst legislation saw duty free competitive pricing return; this resulted in tax free shopping being removed from all retail sales except on alcohol and tobacco which is a small proportion of Heathrow's overall retail sales. This was a significant legislative change in the UK, impacting the retail landscape, that would potentially impact passenger engagement and purchasing decisions, negotiations, sales/income and the unit mix going forward.	Whilst several retailers are no longer trading at Heathrow, 7 new Retail and F&B partnerships have commenced at Heathrow, with 12 new units opened during 2021 and many further units have been re-contracted and re-opened throughout the year. Alongside minimum guarantee management, these factors have resulted in retail income targets being exceeded for 2021. The impacts of legislation change remain under review.
Property		A series of alleviation policies were agreed to minimise tenant hand-backs, to reduce business rate liability and protect revenue throughout 2021 These were interlinked with the terminal airline moves.	Our rent alleviation approach has protected material amounts of revenue in 2021.
Aviation		Aviation strategy focused on Driving Passenger and Cargo Growth while protecting revenues and reducing debt. The four key pillars of Aviation Strategy were incumbent build-back, London Consolidation, attracting new entrants, and growing cargo. These initiatives were underpinned by both pricing and slot strategies. The HAHL Board were consulted on the development of each of these strategies and were updated on their implementation and performance. Delivery of these strategic initiatives required a high level of engagement with both internal and external stakeholders. Internally, engagement included members of the HAHL Board, as well as ops and planning teams, legal and regulatory colleagues, central strategy, and other commercial team functions. A considerable amount of internal engagement was fulfilled through the Airport Coordination Group (ACG), which is chaired by the Aviation team. Externally, within the Heathrow community, we engaged heavily with our incumbent carriers, as well as prospective carriers as new business prospects, and industry bodies. Various working groups including the Heathrow Joint Steering Board (JSB) and Other Regulated Charges Group (ORCG) were convened to coordinate shared priorities across the community.	2021 saw heavily suppressed passenger revenues versus pre COVID-19 levels, but cargo revenue outperformed all forecasts. In addition, a deferred ORC payment scheme was agreed with the airline community which resulted in lower counterparty risk and lower unit tariffs in 2022. Under the remaining initiatives, there have been important strategic successes including 57 new routes and 8 new entrant carriers. Lobbying of the DfT resulted in favourable policy outcomes on slot alleviation. On 2022 pricing, the CAA announced an interim price control that, although represents a significantly higher maximum allowable yield (MAY) versus 2021, incorporates a number of assumptions relating to required OpEx commercial revenues, passenger forecasts and Weighted Average Cost of Capital (WACC), that Heathrow contests and therefore has resulted in lower than required MAY. The CAA interim yield incorporates a lower than required OpEx allowance, higher commercial revenues expectation, higher passenger forecast and a lower WACC.
		Regulators, including the CAA were engaged closely, especially on 2022 pricing, and ACL, the slots coordinator on slot strategy and allocation. The UK's Department for Transport was engaged as a key external stakeholder across all strategic initiatives.	Dedicated slots strategy for the H7 period.
Climate/ Carbon Strategy Climate-related Financial Disclosure (TCFD)	Colleagues Regulator Government Airlines Passengers Local Authorities Communities and the environment Investors	Heathrow has implemented the guidance of Taskforce for Climate-related Financial Disclosures (TCFD) and we have continued to improve our climate related risk disclosures using the TCFD maturity guidance issued by Accounting for Sustainability as our guide. The disclosure provides investors and other stakeholders with an annual account of how Heathrow's exposure to both transition and physical climate risks and a financial materiality rating for each risk, The disclosure also describes our approach to managing and addressing climate risks and the governance arrangements in place, with a focus on HAHL Board level engagement. The disclosure, including the material climate related financial risks were shared with the Audit Committee for consideration before publication in the 2021 Annual Report and Accounts.	Our 2021 TCFD disclosure is based on Accounting for Sustainability's TCFD maturity guidance to ensure we followed best practice disclosure to all stakeholders. The disclosure was reviewed by the Sustainability and Operational Risk Committee and reviewed and endorsed by the Audit Committee, it was endorsed by the HAHL Board as part of the Annual Report.
Net Zero Plan		A Net Zero Plan was developed through 2021 and was published in February 2022. The plan sets carbon goals for net zero in the air and net zero on the ground and eight solutions for reducing Heathrow's carbon footprint by 2030 and beyond. The HAHL Board has been engaged on the development of the plan and endorsed the final version. Delivering our plan will respond to the material climate transition risks in our Taskforce for Climate Related Financial Disclosures.	In developing the Net Zero Plan we consulted key stakeholders including our largest airline customers and the CAA and it has been shaped to respond to consumer priorities expressed through recent consumer research. The plan forms the basis of the carbon and sustainability programme in our H7 business plan and has featured prominently in the regulatory settlement process and engagement.
Introduction of Terminal Drop Off Charge		In line with our Surface Access Strategy and building on the consultation that was undertaken in 2019 to introduce a Heathrow Ultra-Low Emission zone for the Expansion programme, we developed a revised scheme to introduce a Terminal Drop Off charge for passengers being dropped off by car, private hire vehicles or taxi on our Terminal Forecourts. We consulted and engaged widely during the development phase of the project and extensively consulted with our airlines and other key stakeholder groups such as the Heathrow Accessibility Advisory Group (HAAG), Heathrow Area Transport Forum (HATF), black taxi and private hire trade associations such as the LTDA and LPHCA. Through this engagement we developed the charging structure, exemptions and discounts that apply to the scheme. The scheme gives us the ability in the future to incentivize the correct behaviours to encourage passengers to adopt more sustainable methods of travelling to and from the airport as well as making contributions to the single till to enable further investment in sustainable travel incentives.	The scheme was endorsed by the HAHL Board and successfully implemented on 1 November 2021 with the appropriate exemptions and discounts in place.

The table below, which forms part of the Section 172 Statement, sets out who the HAHL Board consider to be its key stakeholders and provides details of some of the engagement that takes place at an operational or HAHL Group level. Not all information is reported directly to the HAHL Board and not all engagement takes place directly with the HAHL Board. However, the output of this engagement informs business-level decisions, with an overview of developments and relevant feedback being reported to the HAHL Board and/or its committees.

WHY WE ENGAGE	HOW WE ENGAGE	LINK TO STRATEGIC PRIORITIES
Passengers		
Understanding our passengers' changing needs and behaviours helps us to achieve our vision to give passengers the best airport service in the world.	Passenger interactions at the airport and satisfaction surveys drive KPIs which measure how successful we are and provide feedback on the impact of our decisions. We use consumer research groups to engage and shape the key decisions we make. Horizon is an online community of current and potential Heathrow users which can be used when making real time decisions. We use social media, our website, the Official Heathrow traveller blog, email communications and the Heathrow App to communicate directly with our passengers. The Consumer Challenge Board ('CCB'). The CCB help shape our passenger engagement strategy by providing independent challenge on the use of our passenger research and engagement in our business planning.	
Communities and the environment		
Working with communities at local, regional and national levels enables us to deliver on the objectives of Heathrow 2.0, our sustainability leadership plan.	Heathrow Strategic Planning Group (HSPG) is a joint partnership of many of the local authorities and Local Enterprise Partnerships (LEPs) responsible for planning the land use, transport, environment, economic development and sustainable development of the sub-region surrounding Heathrow Airport. Its current focus is recovery from the COVID-19 pandemic and downturn, to ensure local communities and businesses reliant on the airport can quickly get back on their feet, whilst ensuring a better environment is also created. Local Focus Forum is a quarterly meeting that we host, made up of resident associations and local councillors from the villages bordering Heathrow, where we share information about pending developments and operational impact that might affect the local area and give residents the opportunity to raise queries of concerns. Heathrow Community Noise Forum is a group made up of local councillors and residents from 12 boroughs around Heathrow affected by noise from the airport. It seeks members' inputs in the planning and communication of the modernisation of Heathrow's airspace. Heathrow Community Engagement Board (soon to be called The Council for the Independent Scrutiny of Heathrow) is an independent body to ensure independent oversight of the way Heathrow engages with stakeholders. It is integrated with Heathrow's wider community forum structure and provides a transparent mediation process for constructive and effective engagement with the airport as signified in Section 35 of the Civil Aviation Act. Charity partnership with Heathrow Community Trust. The Heathrow Local Recovery Forum, chaired by Lord David Blunkett, was set up in 2020 to collaborate with stakeholders on local economic recovery and growth post-pandemic. It brings together local councils, enterprise partnerships, education providers, business groups and chambers of commerce to drive forward recommendations to protect the future security of the economies and communities who rely on Heathrow with an initial focus on skills and employment, supply chain opportunities, local transport and green recovery. We also use social media, our website, the Official Heathrow traveller blog, email communications and the Heathrow App to communicate directly with our communities. Further information can also be found at https://www.heathrowexpansion.com/local-community. Further information on our engagement on the environment can be found in the sustainability section of this report on page 31 and at https://www.heathrow.com/company/about-heathrow/heathrow-2-0-sustainability-strategy/reports-and-futher-reading.	
Colleagues		
We will only deliver our vision if we recruit and retain the best people and develop a flexible, motivated, efficient, diverse and engaged team. Engaged employees deliver excellent service.	The Colleague Engagement Forum allows colleagues from across the business at all levels to have their say and help make Heathrow a great place to work. The People Leadership Forum works with partners to create an agile, diverse, inclusive and skilled workforce that has access to quality careers, employment and training opportunities. Employee InPulse surveys help measure progress made with our engagement plans and make sure we're moving in the right direction. Our diversity networks help us promote an inclusive culture through events, fundraising and awareness campaigns. They include: Proud, our LGBT+ network; HAND, Heathrow Airport's Network for Disability; en-haNCE our culture and ethnicity network; and Altitude, our gender equality network. We monitor Colleague safety through KPI reporting and take action to continuously improve the safety of our working environment. Heathrow has regular team updates, and briefings, the HUB intranet portal includes a CEO blog and other communications. We have a regular process to collect feedback on how colleagues feel working at Heathrow. This is reported on a monthly basis. In addition to this we have a community app called Buzz, which we use to send information to colleagues and respond to questions. Heathrow also has joint forums with its recognised trade unions on matters such as financial results and business performance.	

WHY WE ENGAGE	HOW WE ENGAGE	LINK TO STRATEGIC PRIORITIES
Investors		
Understanding the needs of investors helps us to access a cost-effective, stable, diversified financing base for the business and to make Heathrow an attractive global infrastructure investment.	Shareholders controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited are entitled to appoint one Non-Executive Shareholder Director to the HAHL Board for every 10 per cent held. We provide quarterly financial updates, semi-annual investor reports and debt investor presentations. We provide an annual report and accounts, which include optional enhanced disclosures. We perform investor roadshows and make prospectus documents available. We have ongoing dialogue with current and potential investors. We liaise with credit rating agencies to ensure we understand the impact of our strategic decisions on their assessment. We provide ESG reporting which integrates Heathrow 2.0 KPIs into our future financing plans. Further information can be found at our Heathrow corporate website https://www.heathrow.com/company /investor-centre.	
Airlines		
Airlines and their customers are at the heart of the Heathrow proposition. It is important that we understand their needs and deliver the right operating environment for our airlines.	Heathrow Leadership Group works collaboratively to improve the end-to-end passenger experience at Heathrow. The group comprises the Chief Executives of Heathrow Airport, British Airways, Virgin Atlantic, NATS and the CAA. It meets quarterly under the Chairmanship of Heathrow's CEO. We engage formally with airlines throughout the year on key areas including operational and passenger experience, the expansion of Heathrow and pricing and governance around capital spend, this engagement is overseen through a Joint Steering Board. This is augmented with further bespoke engagement on a range of issues as an airline or as an airport community as is necessary. Quarterly joint executive meetings take place with customers. The CEO regularly visits major current and potential international airlines.	
Suppliers and Commercial Partners		
The service provided to passengers is the combination of a highly complex and interconnected system of services from different organisations. Heathrow works collaboratively and in partnership with all the organisations in this ecosystem to deliver our vision.	The Working Together Charter is a foundation for building better relationships between Heathrow and our Suppliers with the purpose to support Heathrow and Supplier colleagues to work together and fulfil our vision to give passengers the best airport service in the world. Team Heathrow Annual Conference has become the premier gathering for our top strategic supply chain partners and procurement professionals. This event allows us to showcase our success stories, network with peers and develop strategic partnerships. Heathrow Business Summits give participants the chance to meet and collaborate with Heathrow's key suppliers, regional SMEs, fellow Team Heathrow colleagues and retail partners across Heathrow. The Heathrow Sustainability Partnership is a group of companies representing all sectors at the airport all working hard to improve Heathrow's sustainability performance. The Clean Vehicles Partnership works with companies at Heathrow to reduce emissions from their fleet operations.	
Regulator		
Heathrow is subject to economic regulation by the Civil Aviation Authority ('CAA'), which is the independent aviation regulator in the UK, responsible for economic regulation, airspace policy, safety and consumer protection.	We meet regularly with the CAA to discuss all issues relating to the regulated elements of Heathrow. We respond to various CAA publications related to the economic regulation of the airport. This includes regulatory price control reviews and expansion related matters. As part of our licence, we are required to publish various regulatory documents. Regulatory reporting through the Annual Regulatory Accounts.	

SECTION 02

GOVERNANCE REPORT

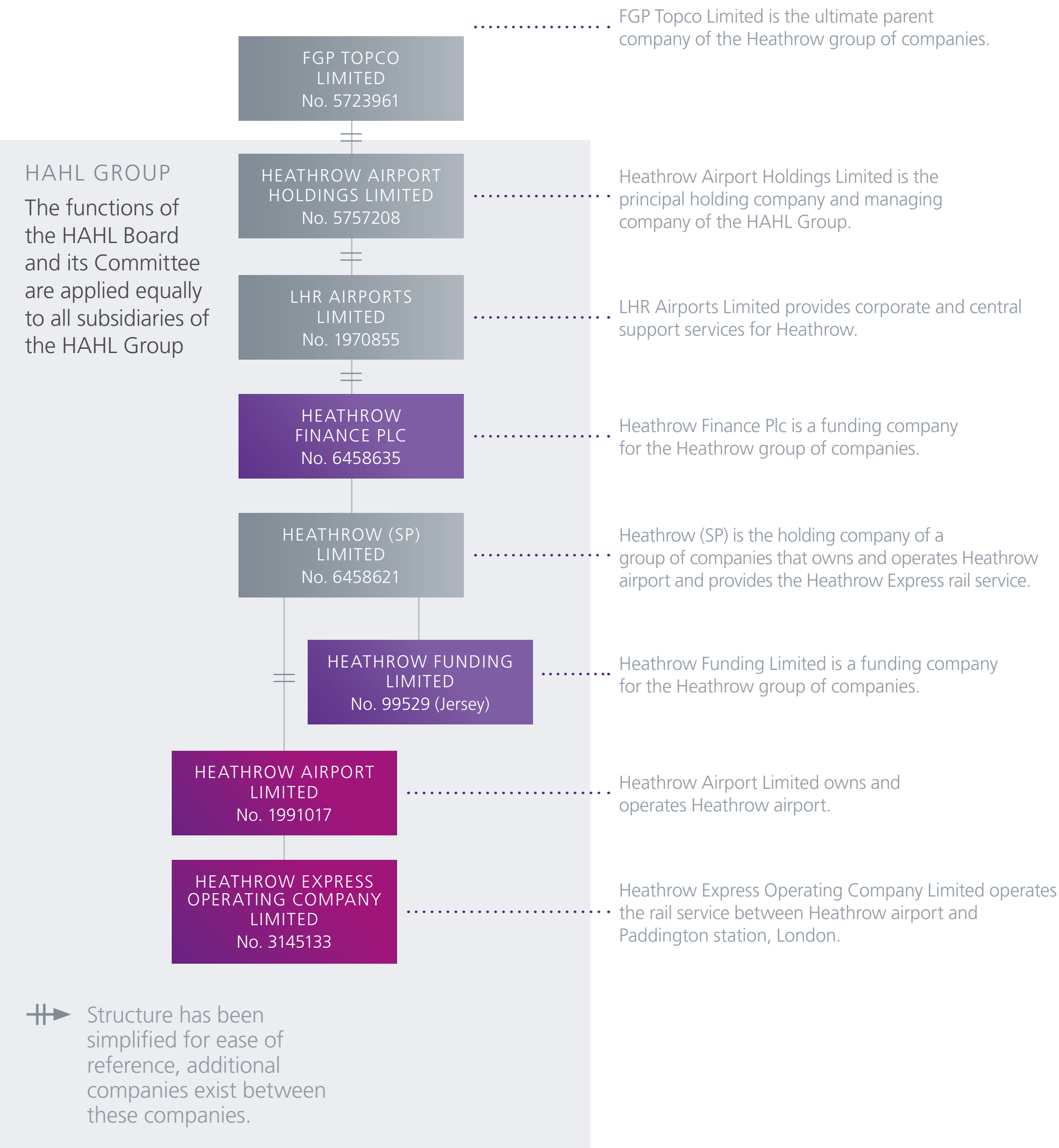
GROUP STRUCTURE

Heathrow (SP) Limited (the 'Company' or 'Heathrow SP') is a holding company of a group of companies (the 'Group') that owns Heathrow Airport ('Heathrow') and operates the Heathrow Express Rail Service. Heathrow SP is an indirect subsidiary of the Heathrow Airport Holdings Limited Group (the 'HAHL Group').

The Board of Directors of Heathrow Airport Holdings Limited (the 'HAHL Board') determines the long-term strategy of the HAHL Group, ensuring that it acts ethically, has the necessary resources to meet its objectives, monitor performance, and meet its responsibilities as a major airport group.

As the functions of the HAHL Board and its Committees are applied equally to all subsidiaries of the HAHL Group, including the Company, the discussion in the Corporate Governance section relating to the governance structure and composition of the HAHL Board and its committees has been extracted from the financial statements of Heathrow Airport Holdings Limited.

The ultimate parent company of the HAHL Group is FGP Topco Limited. A simplified structure of FGP Topco Limited and its subsidiaries along with their principal activities within the HAHL Group is illustrated in the diagram below.



OUR OWNERS

The HAHL Group is owned by a consortium of investors (the 'Shareholders') who hold shares in FGP Topco Limited. Details of the Shareholders' equity interests, as at 31 December 2021, are shown in the table to the right:

Shareholder	% held
Ferrovial Hubco Netherlands B.V. (an indirect subsidiary of Ferrovial, S.A., Spain)	**25.00%**
Qatar Holding LLC Qatar Holding Aviation (a wholly-owned subsidiary of Qatar Holding LLC)	**20.00%**
Caisse de dépôt et placement du Québec ('CDPQ')	**12.62%**
GIC Baker Street Investment Pte Ltd (an investment vehicle of GIC)	**11.20%**
Alinda QS Airports UK, LP (investment vehicle managed by Alinda Capital Partners)	**11.18%**
China Investment Corporation ('CIC') Stable Investment Corporation (an investment vehicle of the China Investment Corporation)	**10.00%**
Universities Superannuation Scheme ('USS') USS Buzzard Limited (wholly-owned by the Universities Superannuation Scheme)	**10.00%**

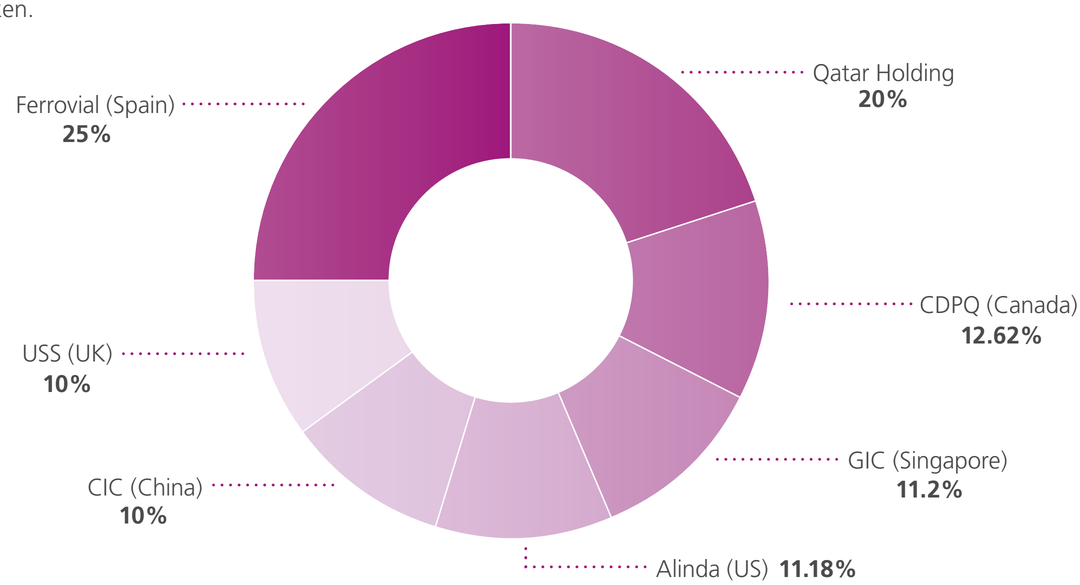
Shareholders' Agreement

All the Shareholders are party to a Shareholders' Agreement which determines their relationship as well as certain governance procedures in the HAHL Group. Under the terms of the Shareholders' Agreement, each Shareholder, controlling 10 per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one Director to the HAHL Board for every 10 per cent they hold. There are also a limited number of matters reserved for approval by the Shareholders. Although these matters are reserved for decision by the Shareholders, the HAHL Board would expect to express a view to the Shareholders before any decisions were taken.

Governance arrangements resulting from the Heathrow Group's secured financing platform

In 2008, a secured financing platform was put in place. As part of these arrangements, the Group entered into a Common Terms Agreement ('CTA') with its debt investors. The CTA sets out the terms and conditions of the Group's borrowing and the ongoing management of its secured financing platform. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the financing platform.

The governance measures put in place in 2008 are designed to ensure that the Group has the means to conduct its regulated business separately from other companies within the Heathrow Group, and that all dealings between other companies within the Heathrow Group are on an arm's length basis.



HAHL BOARD OF DIRECTORS

HAHL BOARD OF DIRECTORS
CHAIRMAN, EXECUTIVE DIRECTORS, COMPANY SECRETARY

LORD PAUL DEIGHTON
CHAIRMAN Appointed June 2016

N

Lord Deighton is best-known for delivering the 2012 London Olympic Games to international acclaim as CEO of LOCOG ('London Organising Committee of the Olympic Games'), enhancing the UK's reputation for infrastructure service-delivery and generating national pride. He was Commercial Secretary to the Treasury and was responsible for the UK's National Infrastructure Plan, focusing on getting major projects built, benefits captured, attracting capital into the UK from across the world and creating the right environment for continued infrastructure investment. Lord Deighton also had a very successful career at Goldman Sachs and, more recently, was appointed PPE Tsar as part of the UK's COVID-19 emergency response. He also chairs the boards of the Economist Group and Hakluyt and is a non-executive director of Square, Inc. He is responsible for leading the HAHL Board to enable Heathrow to fulfil its vision of giving passengers the best airport service in the world.

JOHN HOLLAND-KAYE
CHIEF EXECUTIVE OFFICER Appointed July 2014

F S

John joined the company as a Commercial Director in May 2009. From November 2012, John was Development Director and was responsible for delivering the £1 billion annual investment in transforming Heathrow, including the new Terminal 2: The Queen's Terminal, which opened on 4 June 2014. He was previously Divisional CEO with Taylor Wimpey plc. Prior to that, John was Managing Director, National Sales Division, of Bass Brewers, and has also worked as a strategy consultant with LEK Consulting for a number of high-profile businesses. He is a member of DEFRA's Council for Sustainable Business, a member of HRH The Prince of Wales's Sustainable Markets Council and Chair of the Aviation taskforce. He is also a Commissioner with the Energy Transitions Commission and a Non-Executive Director at Thames Tideway.

JAVIER ECHAVE
CHIEF FINANCIAL OFFICER Appointed November 2016

F

Javier joined Heathrow in January 2008 and has been Chief Financial Officer since 2016. He is responsible for leading the organisation financially by enabling a sustainable growth strategy and transforming Heathrow's approach to risk, cost and investment. He leads the investment of our multi-billion capital plan driving long-term value generation to customers and shareholders. He was closely involved in establishing the current capital structure and positioning Heathrow as a strong credit in the financial markets, including more than £9bn of fundraising since he became CFO. Javier is Chair of Heathrow's Investment Committee. He is a member of The Prince's Accounting for Sustainability Project ('A4S') and co-chairs its UK CFO Leadership Network. He is also a member of The 100 Group. Prior to joining Heathrow, Javier worked as senior manager with Ferrovial, a Spanish-based global operator of sustainable infrastructure.

MARK OLIVER
INTERIM GENERAL COUNSEL Appointed Company Secretary September 2021

Mark was appointed Company Secretary and Interim General Counsel in September 2021, having been appointed Deputy General Counsel in 2017. Prior to joining Heathrow, Mark worked for a City law firm on large scale infrastructure projects, both nationally and internationally, and spent secondments at a leading ports business and with the Belizean government.

HAHL BOARD OF DIRECTORS
INDEPENDENT NON-EXECUTIVE DIRECTORS

RT. HON RUTH KELLY
INDEPENDENT NON-EXECUTIVE DIRECTOR Appointed April 2019

(A) (F)

Ruth's previous roles include Secretary of State for Transport and Financial Secretary to the Treasury and thus brings a wealth of political, transport and financial experience to Heathrow. This will help Heathrow build on its role as the UK's only hub airport – providing new global trading links post-Brexit and delivering world-class passenger service.

JOAN MACNAUGHTON
INDEPENDENT NON-EXECUTIVE DIRECTOR Appointed June 2021

(S)

Joan has extensive board experience in industry, government, academia and the third sector. After a career in government culminating as Director General of Energy for the UK, she spent five years in a power sector company, where she led the company's global climate change advocacy. She has wide international experience, including as Chair of the International Energy Agency, and a high-level international network. She currently chairs the Board of the Climate Group; is a Non-Executive Director of En+Group IPJSC, where she chairs the Health, Safety and Environment Committee; and is a member of the Strategic Advisory Board of Equans UK plc. She sits on several academic advisory boards at energy and climate institutes and publishes and lectures on energy and climate issues.

COMMITTEE KEY

● Committee chair (A) Audit Committee (N) Nominations Committee (F) Finance Committee (S) Sustainability and Operations Risk Committee (R) Remuneration Committee

HAHL BOARD OF DIRECTORS
NON-EXECUTIVE SHAREHOLDER DIRECTORS

HIS EXCELLENCY AKBAR AL BAKER
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed January 2013

A N F S

H.E. Mr. Akbar Al Baker has been Qatar Airways Group Chief Executive since 1997. He also led the development of the multi-billion dollar Hamad International Airport, which opened in April 2014, and currently serves as its CEO. H.E. Mr. Al Baker is also CEO of several other divisions of the Qatar Airways Group such as Doha International Airport, Qatar Executive, Qatar Duty Free, Qatar Distribution Company, Qatar Aviation Services, Qatar Aircraft Catering Company, Qatar Airways Holidays, Discover Qatar, and Dhiafatina Hotels. In 2019, he was appointed Secretary-General of Qatar's National Tourism Council ('NTC'). H.E. Mr. Al Baker is a graduate of Commerce and Economics and holds a private pilot's licence. **Alternate:** Ali Bouzarif (appointed January 2018).

AHMED AL-HAMMADI
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed February 2018

F R

Ahmed is Chief Investment Officer, Europe, Russia and Turkey for the Qatar Investment Authority. He oversees QIA's direct and fund investments in Europe. Prior to joining QIA, Ahmed worked at EFG-Hermes, a regional asset manager and, before that, at consulting firm Booz & Co. advising financial-services clients on strategy, private-equity investment opportunities, and organisation structures. Ahmed is a graduate of the Wharton School at the University of Pennsylvania and has obtained his MBA from the Harvard Business School. **Alternate:** Deven Karnik (appointed September 2014).

STUART BALDWIN
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed April 2006

N F R

Stuart is Managing Director and Head, Infrastructure Group of GIC. Stuart has served as a Director on a number of portfolio company boards for GIC as well as a number of advisory boards for private equity and infrastructure funds. Previously, he was a member of GIC's Sustainability Committee. He is currently a Director at Terminal Investment Limited Sàrl and Raffles Infra Holdings. **Alternate:** Kamil Burganov (appointed January 2020 and resigned January 2022), Jessie Jin (appointed January 2022).

CHRIS BEALE
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed October 2011

F

Chris is the Chairman of Alinda Capital Partners, an independent investment firm which has made over $12 billion in infrastructure investments. Alinda's investors are predominantly pension funds for public-sector and private-sector employees. Prior to founding Alinda in 2005, he led the world's largest infrastructure finance business as global head of project finance at Citigroup. He was also global head of project finance at Morgan Stanley and Credit Suisse.
Alternate: Sam Coxe (appointed November 2012).

LUKE BUGEJA
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed June 2021

A R N F S

Luke is the Chief Executive Officer of Ferrovial Airports. He has held senior executive positions at Hermes GPE, OMERS, Ontario Airport Investments, and Macquarie Bank Limited/MAp Airports and has over 30 years' experience in the aviation industry, including senior positions at Changi Airports International, Virgin Blue, and Qantas. Luke has held Board positions at London City, Brussels, and Bristol Airports. **Alternates:** Gonzalo Velasco Zabalza (appointed June 2021), Ignacio Madridejos Fernández (appointed June 2021) and Ignacio Castejon Hernandez (appointed June 2021).

MARIA CASERO
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed January 2019

Maria is International Asset Management, People and Communications Director for Ferrovial Airports and Ferrovial Power Infrastructure. She is a member of the Ferrovial Group Sustainability Steering Committee. She represents Ferrovial Airports as World Business partner as member of ACI EUROPE Environmental Strategy Committee & Human Resources and Leadership Committee. She joined the Group in 2008. Maria has more than 30 years' experience in the aviation industry in Europe, Latin America and the United States. Before joining Ferrovial, she was the Human Resources and International Communications Director at Carlson Wagonlit Spain. Between 1992 and 2006, she held various leadership positions in British Airways. She began her aviation career at American Airlines in 1988. **Alternates:** Gonzalo Velasco Zabalza (appointed February 2017), Ignacio Madridejos Fernández (appointed January 2020) and Ignacio Castejon Hernandez (appointed March 2020).

OLIVIER FORTIN
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed October 2015

A F S

Olivier is a senior Director in the CDPQ team based in London and is an experienced asset manager and infrastructure investor in the UK and Continental Europe. He was recently seconded for eight months to Eurostar as Managing Director in charge of the COVID-19 response. Previously he was working with AMP Capital, and prior to that with MAp Airports and Macquarie Capital Funds. He has been involved with Brussels, Copenhagen, Bristol, Rome and Newcastle Airports. He also currently sits on the boards of Eurostar, American Tower Corporation (Europe) and the supervisory board of Budapest Airport. Olivier was appointed as the HAHL Board's Climate Change Director on 27 January 2021.

ERNESTO LÓPEZ MOZO
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed October 2009

A F R

Ernesto is Ferrovial's Chief Financial Officer. Ernesto joined Ferrovial from Telefonica, having previously held positions at JP Morgan and Santander. He was a member of the IFRS advisory board 2013 – 2015 and currently is a member of the audit committee and board of directors of Aegon Spain. **Alternates:** Ignacio Madridejos Fernández and Gonzalo Velasco Zabalza (appointed January 2020), Ignacio Castejon Hernandez (appointed March 2020).

MIKE POWELL
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed November 2014

F N

Mike is Head of Private Markets Group of USS Investment Management ('USSIM'), which is the wholly owned investment management subsidiary of the Universities Superannuation Scheme ('USS'). Universities Superannuation Scheme Limited ('USSL') is the corporate trustee of one of the largest private sector pension funds in the UK with assets under management of c. £70bn as at 30 June 2020 and c. 440,000 members across more than 360 universities and other higher education and associated institutions in the UK. USSL, through its investment manager, USSIM, is a long-term owner of assets with a strong track record of investing in infrastructure and infrastructure-like businesses. Mike has overall responsibility for the Private Markets Group and is Chairman of the Private Markets Investment Committee. He is also an executive board Director of USSIM and a member of the USSIM Executive Committee and Asset Allocation Committee. Mike has served as a Director on a number of portfolio company boards for USS as well as a number of advisory boards for private equity and infrastructure funds. **Alternate:** Tom Kelly (appointed October 2018).

DAVID XIE
NON-EXECUTIVE SHAREHOLDER DIRECTOR Appointed September 2018

F

David is a Director of CIC Capital Corporation ('CIC Capital'), a wholly-owned subsidiary of China Investment Corporation ('CIC'). He is responsible for CIC Capital's infrastructure investments globally, in particular in transport, utilities and energy sectors. In addition to Heathrow, David also sits on the board of Cadent Gas and InterPark. Prior to joining CIC in 2011, David worked 11 years in various capacities at Merrill Lynch. David is a graduate of Pennsylvania State University and has an MBA degree from Georgetown University. **Alternate:** Jinhong Chen (appointed in September 2018).

EXECUTIVE COMMITTEE

From left:
Chris Annett
Helen Elsby
Ross Baker
Paula Stannett
John Holland-Kaye
Emma Gilthorpe
Javier Echave
Mark Oliver
Nigel Milton

CHRIS ANNETTS CHIEF STRATEGY OFFICER

Chris was appointed Chief Strategy Officer in September 2021. Previously he was Heathrow's Strategy, Regulation and Customer Director. During his 18-year career at Heathrow, Chris has held a number of senior roles across Digital strategy, Commercial Planning, Commercial Passenger Services, Airline Business Development, Retail Operations and Expansion. Prior to Heathrow Chris held a number of roles in the retail and hospitality industries.

HELEN ELSBY CHIEF SOLUTIONS OFFICER

Helen was appointed as Chief Solutions Officer in September 2021. She joined Heathrow in 2009 and has held multiple roles in Heathrow's Capital team including Programme Management Office Director, Capital Development Director and Expansion Integration Director. Most recently, since 2019, Helen has been the Procurement Director. Prior to joining Heathrow, Helen spent 10 years at British Airways where she held development management and consultancy roles.

ROSS BAKER CHIEF COMMERCIAL OFFICER

Ross was appointed Chief Commercial Officer in January 2017. Previously he was Heathrow's Director of Operations and, before that, Director of Strategy. Prior to joining Heathrow in 2011, Ross held a mix of advisory and aviation industry roles. At Bain & Company he advised on a mix of strategic, commercial and operational engagements. Prior to Bain, Ross spent a decade with British Airways where he held a range of operational and commercial-management roles in the UK and overseas.

JOHN HOLLAND-KAYE CHIEF EXECUTIVE OFFICER

JAVIER ECHAVE CHIEF FINANCIAL OFFICER

MARK OLIVER INTERIM GENERAL COUNSEL

For biographical details see page 86

PAULA STANNETT
CHIEF PEOPLE OFFICER

Paula was appointed as HR Director in January 2013. She has worked at Heathrow for 13 years, most recently as HR Director for our Airports Division and Support Services, and previously as programme lead for Heathrow's Winter Resilience. Paula has a strong record of engaging staff to successfully put in place organisational change and improvement.

EMMA GILTHORPE
CHIEF OPERATING OFFICER

Emma was appointed Chief Operating Officer in March 2020. She has led a wide variety of teams since joining Heathrow in September 2009. Initially as Regulatory Director, she has also led the Strategy, Sustainability and Capital Project delivery teams. Most recently Emma established and led Heathrow's Expansion Programme which created and campaigned for a sustainable and affordable 30-year Masterplan. Emma previously worked in the telecommunications sector as BT plc's Group Director of Industry Policy and Regulation. Her career has been built in the regulated infrastructure sector, both listed and private, and as incumbent and competitor. Emma is the CEO of the Jet Zero Council and a qualified barrister.

NIGEL MILTON
CHIEF OF STAFF AND CARBON

Nigel was appointed Chief of Staff and Carbon in September 2021. Previously he was Director of Communications, leading Heathrow's Press Office, Public Relations, Internal Comms, Political Affairs, Business Engagement and Policy teams. As Heathrow's Director for External Affairs between 2013 and 2016, Nigel led the communications campaign to win support for a third runway at the airport. Prior to joining Heathrow in 2010, Nigel worked in Virgin Atlantic's External Affairs department. Before that, he was Assistant Director for International Aviation in the Department for Transport and was also Private Secretary to the Deputy Prime Minister and Secretary for Transport, John Prescott, between 1998 and 2000. He has a law degree from Oxford University and a Masters degree in Transport Planning and Management from the University of Westminster.

CHAIRMAN'S INTRODUCTION

I am pleased to introduce this report, which describes the activities of the Board during the year, along with Heathrow's governance arrangements. Heathrow's purpose is to give passengers the best airport service in the world. In 2021, air travel has continued to be heavily affected by the unprecedented impact of the COVID-19 pandemic. The Board has remained focused on taking the appropriate action to successfully guide Heathrow through this extended period of uncertainty and to ensure it is well positioned for a return in passenger demand. During this period, the safety and wellbeing of passengers and colleagues has remained paramount, and the Board has further focused on ensuring that the airport continues to operate safely. The Board has also focused on achieving a fair and appropriate regulatory settlement for the H7 regulatory period. Our robust governance framework has helped to support this work.

As a Board, we remain committed to high standards of corporate governance and believe that these high standards are central to the effective management of the HAHL Group and to maintaining the confidence of our investors.

There were a number of changes to the Board during 2021. In June, we welcomed the appointment of Joan MacNaughton as a new Independent Non-Executive Director and the appointment of Luke Bugeja as a new Non-Executive Shareholder Director. We also said farewell to Jorge Gil Villen (Non-Executive Shareholder Director) in June and to David Begg (Independent Non-Executive Director) in November, both long-standing members of the Board who have contributed greatly to Heathrow. At the end of August, we bid farewell to Carol Hui (Chief of Staff and General Counsel) who was Company Secretary and thanked her for her commitment to the Board. We also welcomed the appointment of Mark Oliver (Interim General Counsel) as the new Company Secretary.

The following pages provide information on the composition of the HAHL Board and its governance structure and processes, together with reports from each of its committees.

For the year ended 31 December 2021, under the Companies (Miscellaneous Reporting) Regulations 2018, the HAHL Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ('FRC') in December 2018.

The Wates Principles provide a framework for the HAHL Board to monitor corporate governance of the HAHL Group and see where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base and ultimately build trust with our passengers, colleagues and investors. Governance processes are cascaded down from the HAHL Board to other companies in the HAHL Group, including the Directors of Heathrow (SP) Limited, so that the governance framework can provide the right environment for the HAHL Board, and other companies in the HAHL Group, to make decisions for the long-term success of Heathrow.

The table below summarises the six Wates Principles and indicates where more information can be found in the strategic and the governance reports. Throughout 2022, the HAHL Board will continue to review and challenge how the HAHL Group can continue to improve its corporate governance.

Principle	Summary	Page
Purpose and leadership	The HAHL Board is responsible for the long-term strategy, direction and performance of the HAHL Group. Our vision is to give passengers the best airport service in the world and to ensure that our values, strategy and culture are aligned with that purpose. The HAHL Board recognises that maintaining a healthy culture throughout the organisation is critical in order to create and protect long-term value. The HAHL Group's strategic framework, shown in the Strategic Report on page 26, embeds our vision, purpose, priorities and values with our strategic propositions as key elements to ensure our stakeholders' interests are central to Heathrow's future developments.	24, 76, 84
Board composition	The HAHL Board consists of the Chairman, CEO, CFO, two Independent Non-Executive Directors and ten Shareholder Non-Executive Directors. The Independent Non-Executive Directors bring outside experience and provide constructive challenge and influence. The composition of the HAHL Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the HAHL Group for the senior executives and each Shareholder to be represented at meetings. As a private, investor-owned group with seven shareholders, the HAHL Group benefits from a diversity of viewpoints at the HAHL Board and the independent Non-Executive Directors enhance this. The HAHL Board acknowledges that, overall, it has good geographical diversity, but is also committed to improving its diversity in terms of gender, ethnicity, disability and age, and its Nominations Committee is responsible for reviewing diversity and succession planning. Whilst it is recognized that there is still some way to go in this area, the appointment of Joan MacNaughton as an independent Non-Executive Director in June, is regarded as further progress in terms of improving gender diversity. Joan brings a wealth of experience in industry, government, the energy sector and climate change. Directors receive regular updates on new legislation, regulatory requirements and other changes, to ensure that they are fully equipped when making decisions about the business. The performance of the HAHL Board is reviewed annually and consideration is given to its overall composition and to the effectiveness of its different processes with a view to maximising strengths and highlighting areas for further development. More information about the HAHL Board's effectiveness, including recommendations taken and areas of focus for development, is shown on page 100.	96, 97, 100
Directors' responsibilities	The HAHL Group has a separate Chairman and CEO to ensure that the balance of responsibilities, accountabilities and decision-making are effectively maintained. The HAHL Board receives regular reports on the business, financial performance, health, safety and wellbeing of colleagues, passenger forecasts, commercial and retail performance, colleague engagement, stakeholders and local communities and management of key business risks along with updates on the activities and decisions of its formal committees. The HAHL Board is familiar with Heathrow's governance framework and annually reviews the terms of reference of its formal Committees. Directors have access to the Shareholders' Agreement, Heathrow's Group policies and related governance processes. They also receive regular training and updates relating to their statutory and fiduciary duties.	94-96
Opportunity and risk	The HAHL Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are highlighted in the annual Business Plan process presented to the HAHL Board. The HAHL Board has overall responsibility for managing risks and ensuring that an effective risk management process is in place. The HAHL Board regularly reviews Heathrow's principal risks, mitigations, and overall risk appetite. The Risk and Assurance Committee and the Executive Committee ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner, updating the risk register for any changes in underlying conditions. Operational and safety risks are regularly reviewed by the Sustainability and Operational Risk Committee and financial risks by the Audit Committee.	58, 102, 112
Remuneration	The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the HAHL Board concerning the HAHL Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee reviews Heathrow's remuneration structure each year to ensure that the framework supports Heathrow's strategic ambitions and rewards Directors fairly for the contribution that they make to the business. The Committee takes advice from independent external consultants who provide updates on legislative requirements, market best practice and remuneration benchmarking. Pay is aligned with performance, taking into account fair pay and conditions across the HAHL Group's workforce.	106
Stakeholder relationships and engagement	Central to our strategic framework, shown on page 26, are our high-level aspirations for the future of Heathrow for all our stakeholder groups. Our strategic priorities and values are how we deliver our vision. They reflect a simple business logic: engaged people deliver excellent service, which in turn delivers financial returns and growth in a sustainable way. The table within the section 172 (1) statement on page 80 provides details of our main stakeholders and some of the engagement that takes place with them at an operational or HAHL Group level.	24, 80

GOVERNANCE STRUCTURE

The HAHL Board determines the long-term strategy, direction and performance of the HAHL Group, including approval of the annual budget and management business plan. It is responsible for ensuring that the HAHL Group acts ethically and meets its legal and regulatory responsibilities, monitoring the HAHL Group's performance and ensuring the HAHL Group has the necessary resources to meet its objectives.

Whilst the HAHL Board retains oversight and accountability for decision-making within the HAHL Group, responsibility for day-to-day management and decision-making is delegated to the CEO and the Executive Committee. The HAHL Board delegates specific responsibilities to its formal committees, which consist of individuals with the most appropriate knowledge, expertise, industry experience and independence.

The duties of the HAHL Board are executed partially through its five principal committees: Audit, Nominations, Remuneration, Sustainability and Operational Risk and Finance. These committees operate within defined terms of reference, which are reviewed regularly by the HAHL Board. The role of Company Secretary to the HAHL Board is performed by the General Counsel.

The HAHL Board receives regular reports on business and financial performance, employee issues and management of key business risks. The Chairs of the Audit Committee and the Sustainability and Operational Risk Committee provide regular updates on matters discussed at those committees. Decisions from the Remuneration Committee are shared with the HAHL Board and the Finance Committee submits an annual update of its activities. Minutes from the Audit Committee, Sustainability and Operational Risk Committee and Finance Committee are shared with the HAHL Board on a regular basis and papers from each of the Committees are available to the HAHL Board. Where appropriate, recommendations are made by each of the HAHL Board Committees so that final decisions can be taken by the HAHL Board. Members of the HAHL Board have the opportunity to attend monthly Board Working Group sessions to receive more in-depth information about specific aspects of the business. The Board Working Group sessions are available to all Board members and their advisors and enable further discussion on particular topics ahead of Board meetings.

The Executive Committee is the forum of the senior executive management team of the HAHL Group. The HAHL Board delegates authority for day-to-day management of the HAHL Group to the Executive Committee, which meets weekly and is chaired by the Chief Executive Officer. In addition to the Chief Executive Officer, membership of the Executive Committee includes the Executive Directors responsible for each business function. Further information is shown on page 90.

The Executive Committee develops and recommends to the HAHL Board, medium and long-term business development strategies. They ensure the delivery of agreed strategies by providing guidance, approvals, governance and monitoring. The Executive Committee also considers health and safety, financial, legal and regulatory matters, risk assurance and compliance, and reviews and approves all matters to be presented to the HAHL Board for information or approval.

There is a high level of interaction between the HAHL Board and the Executive Committee. Members of the Executive Committee provide presentations at board meetings on a regular basis and attend strategy days with the HAHL Board in order to review issues in more detail, plan and align views.

The Executive Committee delegates specific matters to a number of formal sub-committees whilst retaining overall accountability. The sub-committees consist of managers and other experts with appropriate knowledge, industry experience and expertise to make decisions and report back to the Executive Committee. Each sub-committee operates in accordance with terms of reference approved by the Executive Committee and is evaluated on a regular basis.

EXECUTIVE SUB-COMMITTEES

AIRPORT SAFETY COMMITTEE

Responsible for reviewing Heathrow's responsibilities, strategies, policies, conduct, performance and risk-management approach. It covers all aspects of safety, including fire, physical health and safety, airside safety, psychological safety, environmental safety (compliance) and the potential impact on Heathrow's reputation arising from its performance in these respects. It is chaired by the Chief People Officer. Other members include the Chief Financial Officer, Chief Operating Officer, Safety, Health and Wellbeing Director and others.

PEOPLE COMMITTEE

Provides appropriate levels of governance with regards to People matters in support of the Mojo business priority and making Heathrow a great place to work, which is in service of Heathrow's vision to give passengers the best airport service in the world. It enables agile and transparent decision-making, while assuring levels of consistency across the organisation. It is chaired by the Chief People Officer and other members are the Chief Financial Officer and representatives from the People, Commercial and Operations teams.

INTELLIGENCE LIAISON GROUP

Responsible for providing a secure forum to safely share secret, sensitive and often time-critical security intelligence. Members require the necessary level of security clearance.

HEATHROW INVESTMENT COMMITTEE

Acts under authority delegated by the Executive Committee as a single accountable forum on capital investment across Heathrow. It is chaired by the Chief Financial Officer. Other members consist of the Chief Operating Officer, Chief Commercial Officer, Chief Solutions Officer and Chief Strategy Officer.

CHARITIES AND COMMUNITIES COMMITTEE

Responsible for agreeing strategy and policy for charitable giving and oversight of investment in local communities at Heathrow. It is chaired by the Chief of Staff and Carbon. Other members consist of the Chief Financial Officer, Chief People Officer and Communities and Sustainability Director.

POLICY COORDINATION GROUP

A strategic, senior-policy forum that provides advice and recommendations on Heathrow's policy priorities. Representing the Executive Committee, leads from different business functions provide input to agree Heathrow's positions and prioritisation on key policy asks. It is chaired by the Chief of Staff and Carbon. Other members are the Director of Communications and senior representatives from different functions across the business.

RISK AND ASSURANCE COMMITTEE

Responsible for reviewing the effectiveness of the risk-management strategy and framework, and for reviewing the principal risks.It is chaired by the General Counsel/Interim General Counsel (as of September 2021). Other members consist of the Chief Financial Officer, Chief of Staff and Carbon, Chief Strategy Officer and Director of Operations.

INTERNAL INVESTIGATIONS STEERING GROUP

Responsible for setting and overseeing compliance with the governance framework for relevant internal investigations. It provides the Executive, HAHL Board and Audit Committees with assurance that Heathrow has appropriate procedures to ensure appropriate governance and conduct of internal investigations. It is chaired by the General Counsel/Interim General Counsel (as of September 2021). Other members consist of the Head of Security Intelligence and Risk, Director of Business Assurance, Head of Legal, Compliance and DPO, Employee Relations Manager, Engagement and Business Partnering Director and a designated independent Non-Executive Director.

ROLES AND RESPONSIBILITIES

It is the HAHL Group's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. The key roles and responsibilities of the Directors of the HAHL Board are set out below:

CHAIRMAN

The Chairman is responsible for:

- Leading and managing the HAHL Board, its effectiveness and governance.
- Ensuring HAHL Board members are aware of and understand the views of key stakeholders.
- Helping set the tone from the top in terms of the purpose, goal, culture, vision and values for the whole organisation.
- Creating the conditions for overall Board effectiveness.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for the leadership and day-to-day management of the HAHL Group, with a scope covering safety, operations, finance, regulation, commercial, asset management, customer services, information services, human resources, corporate communications and legal.

CHIEF FINANCIAL OFFICER

The Chief Financial Officer is responsible for the financial performance, capital allocation and financing of the HAHL Group and supporting the Chief Executive Officer in developing and implementing strategy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors are responsible for providing constructive challenge and bringing independence to the HAHL Board and its decision-making process. Particularly:

- Bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management.
- Scrutinising and challenging the performance of the HAHL Group's business.
- Assessing risk and the integrity of the financial information and controls.

NON-EXECUTIVE SHAREHOLDER DIRECTORS

The Non-Executive Shareholder Directors are appointed in accordance with the Shareholders' Agreement and are responsible for providing constructive challenge and for contributing to the HAHL Board's decision-making processes.

COMPANY SECRETARY

The role of Company Secretary is performed by the General Counsel. The Company Secretary is available to the Chairman and all Directors and is responsible for information flows to the HAHL Board and advising the HAHL Board on procedure and corporate governance matters. Directors may also take professional advice at the Company's expense.

CORPORATE GOVERNANCE

COMPOSITION OF THE HAHL BOARD AND ITS COMMITTEES

At the date of this report, the HAHL Board comprises the Chairman; two Independent Non-Executive Directors; ten Shareholder Non-Executive Directors and two Executive Directors – the Chief Executive Officer and the Chief Financial Officer.

The names and biographies of all Directors of the HAHL Board are published on pages 86 to 89. Nine of the Non-Executive Shareholder Directors have formally approved alternates, who are also listed. The alternates are statutory Directors of HAHL, who attend Board and other meetings when Shareholder Non-Executive Directors are unable to do so, or they attend alongside the Shareholder Non-Executive Directors as observers. The Executive and Non-Executive Directors are equal members of the HAHL Board and have collective responsibility for the HAHL Group's strategy and performance. Each HAHL Board Director has a clear understanding of their accountability and responsibilities.

Recommendations for the appointment of Directors to the HAHL Board are made by the Nominations Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience, age, gender, disability and social and ethnic background). Non-executive appointees are also required to demonstrate that they have sufficient time to devote to the role.

The Independent Non-Executive Directors bring outside experience in areas such as aviation, transport, health and safety, sustainability, climate change, energy, government and finance, and provide constructive challenge and influence from outside the HAHL Group. The Chairman holds periodic meetings with all the Non-Executive Directors to discuss the performance of management and the HAHL Board, without the Executive Directors present.

The HAHL Board considered the Chairman, Lord Paul Deighton, to be independent in judgment and character on his appointment on 22 June 2016.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the HAHL Group rather than service contracts, which include the expected time commitment of the appointment.

The Directors are required to comply with Heathrow's group policies, including policies on Professional Conduct, Health and Safety, Conflicts of Interest and Anti-Bribery, Gifts and Hospitality.

The HAHL Board believe that its size and composition are appropriate to meet the strategic needs and challenges of the business and to enable effective decision-making. The composition of the HAHL Board is partly determined by the Shareholders' Agreement, which provides that each Shareholder controlling ten per cent or more of the issued ordinary shares of FGP Topco Limited, is entitled to appoint one Director to the HAHL Board. It is considered to be in the interests of the HAHL Group for each Shareholder to be represented on the HAHL Board. In addition, there are three Independent Non-Executive Directors whose purpose is to challenge and provide external expertise. The HAHL Board does not have a majority of Independent Non-Executive Directors and it is felt that the numbers associated with ensuring a majority of Independent Non-Executive Directors would make the operation of the HAHL Board unwieldy and unduly costly.

It is acknowledged that, although there is international diversity on the HAHL Board, there is a relative lack of gender diversity. The HAHL Board is committed to making the HAHL Group an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels.

2021 HAHL BOARD ACTIVITIES

The HAHL Board held eleven scheduled monthly meetings during the year ended 31 December 2021. Two additional meetings were also held to consider regulatory and other issues. Board members also attended monthly Board Working Group meetings and joint strategy sessions were held in conjunction with the Executive Committee in April and November. During the year the HAHL Board focused on a number of areas as set out below.

2021 HAHL Board activities

SAFETY

- Monitored and reviewed health and safety measures across the airport and the welfare of passengers and colleagues.

STRATEGY AND OPERATIONAL

- COVID-19 and Business Protection Plan.
- Passenger demand and growth strategy.
- Considered operational and business performance.
- Considered airport readiness, ramp up operations and Border Force.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation.
- Commercial strategy, including retail, 2022 aero charges and other regulated charges.
- Top 10 KPIs and 2021 targets.
- People Change Strategy and Colleague Engagement Plan.
- Procurement Strategy.
- Carbon Strategy; approved Heathrow's Net Zero Plan.

FINANCIAL PERFORMANCE

- Protect and monitor liquidity.
- Reviewed financial performance and forecasts.
- Considered and approved the 2022 Management Business Plan.
- Reviewed and approved results announcements.
- Raised £1.2bn of Class A funding and £0.4bn of Class B funding and sought creditors consent to waive financial covenants.

LEADERSHIP AND STAKEHOLDERS

- Discussed the approach to workforce engagement.
- Considered updates on diversity and succession planning.
- Considered Heathrow's Sustainable Communities and Charity Partnerships.

GOVERNANCE

- Reviewed and approved the 2020 Annual Report and Accounts.
- Considered improvements to existing corporate governance arrangements, including additional reporting requirements and the Wates Principles.
- Considered output from the HAHL Board evaluation process.
- Considered and agreed key risks and their mitigation and control.
- Agreed Modern Slavery Act Statement.
- Approved 2021 Continuity of Service Plan.
- Reviewed Group Policies.

HAHL BOARD AND COMMITTEE MEETING ATTENDANCE

The Directors' attendance at formally scheduled HAHL Board and Committee meetings during the year is recorded in the following table. It shows the number of formally scheduled HAHL Board and Committee meetings attended by each Director, or their alternate Director. Alternate Directors also occasionally attend HAHL Board meetings in an 'observer' capacity, but this attendance is not shown. The HAHL Board held eleven scheduled monthly meetings and two additional meetings during the year ended 31 December 2021.

	Board	Audit Committee	Finance Committee[8]	Nominations Committee	Remuneration Committee	Sustainability and Operational Risk Committee
Total meetings held during the period	**13**	**8**	**3**	**1**	**9**	**4**
Independent Non-Executive Directors						
Lord Paul Deighton	13	–	–	1	–	–
David Begg[2]	11	–	–	–	–	4
Rt. Hon Ruth Kelly	13	8	3	–	–	–
Joan MacNaughton[3]	7	–	–	–	–	2
Non-Executive Shareholder Directors and their alternates						
His Excellency Akbar Al Baker (Ali Bouzarif[1])	13	7	–	1	–	4
Ahmed Al-Hammadi (Deven Karnik[1])	13	–	3	–	9	–
Stuart Baldwin (Kamil Burganov[1])	13	–	3	–	8	–
Chris Beale (Sam Coxe[1])	13	–	3	–	–	–
Luke Bugeja[4] (Gonzalo Velasco Zabalza[1]/ Ignacio Castejon Hernandez[1])	6	5	1	–	5	2
Maria Casero (Gonzalo Velasco Zabalza[1]/ Ignacio Castejon Hernandez[1])	13	–	–	–	–	–
Olivier Fortin	13	8	3	–	–	4
Jorge Gil[5] (Gonzalo Velasco Zabalza[1]/ Ignacio Castejon Hernandez[1])	8	3	2	1	4	2
Ernesto Lopez Mozo (Gonzalo Velasco Zabalza[1]/ Ignacio Castejon Hernandez[1])	13	8	3	–	9	–
Mike Powell (Tom Kelly[1])	13	–	3	1	–	–
David Xie (Jinhong Chen[1])	13	–	3	–	–	–
Executive Directors						
John Holland-Kaye[6]	13	5	1	1	8	4
Javier Echave[7]	13	8	3	–	–	1

1 Alternate Director.
2 David Begg resigned from the Board on 24 November 2021.
3 Joan MacNaughton was appointed to the Board on 14 June 2021.
4 Luke Bugeja was appointed to the Board on 23 June 2021.
5 Jorge Gil Villen resigned from the Board on 23 June 2021.
6 The CEO is invited to attend meetings of the Audit Committee, Nominations Committee and Remuneration Committee, but is not a member of those committees.
7 The CFO is invited to attend the meetings of the Audit Committee and Sustainability and Operational Risk Committee but is not a member of those committees. The September Board and Audit Committee meetings were attended by the acting CFO, covering during the CFO's paternity leave.
8 A number of additional Finance Committee approvals were obtained by email circulation to the members throughout the year.

EFFECTIVENESS

INDUCTION AND INFORMATION

A comprehensive induction programme is provided for all new HAHL Board Directors. Our Directors update their skills, knowledge and familiarity with the HAHL Group by regularly meeting with senior management, attending operational site visits, strategy sessions with the Executive Committee and regular training sessions. During the lock down period induction training sessions were conducted online. All HAHL Board Directors have access to the advice and services of the Company Secretary and the Heathrow Group's Legal team. They may also take independent professional advice at the Company's expense.

The Chairman and Company Secretary are responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision-making, briefing papers are prepared and circulated to Directors a week prior to scheduled HAHL Board meetings.

The HAHL Board also receives regular and timely information (at least monthly) on all key aspects of the business, including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by key performance indicators. During the COVID-19 pandemic the Board received regular updates on the passenger demand forecast and on the health, safety and wellbeing of colleagues and passengers.

Key financial information is collated from the Heathrow Group's various accounting systems. The HAHL Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Statutory financial information is externally audited by PricewaterhouseCoopers LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function.

Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, are reviewed on a cyclical basis by the HAHL Group's internal audit function with quarterly reporting provided to the Audit Committee.

BOARD EVALUATION

The HAHL Board considers the regular review of its function, Committees and Directors to be an essential element of good corporate governance and important for identifying key areas of focus for future improvement and for strengthening its overall performance. Internal evaluation assessments were carried out in November 2020 and November 2021. The reviews were conducted by questionnaire, which sought the Directors' feedback on all aspects of Board and Committee performance, including board composition, behaviours and dynamics, the number and length of meetings, agendas, the quality of information, the Chairman's leadership and focus, strategic oversight, interaction between the Board and its committees, overview of risk, succession planning, induction and training and priorities for change. The results were collated by the Company Secretary and anonymised before being discussed with the Chairman and the Board for consideration and recommendations, with follow-up actions debated and adopted as appropriate.

2020 INTERNAL EVALUATION

As reported in the 2020 Annual Report, an internal evaluation was undertaken during November 2020. The results were positive overall, with themes reflecting the testing environment imposed by the COVID-19 pandemic and requirement to make difficult decisions about the business and adjust to new processes. HAHL Board and committee meetings continued to be held virtually which did not present any significant issues. The key areas identified for increased focus and development during the 2021 financial year are set out below:

Areas of Focus Identified

1. Committee chairs to further improve reporting on their committees' activities to the HAHL Board, including reviewing their terms of reference.
2. To review the effectiveness of the Shareholder Working Group sessions, taking place outside of HAHL Board meetings.
3. To schedule more time for Non-Executive Directors to hold discussions without management present.

Actions Taken

1. Further improvements have been made to the way in which each of the formal committee's report to the HAHL Board and all minutes and papers from the formal committees have been made available to HAHL Board members. Each of the committees' terms of reference were reviewed and approved during the year. The monthly Shareholder Working Group sessions remain an effective forum for deep dives and discussion for regulatory, financial and other business issues, particularly when Board time is limited. The sessions are available to all Board members and have been re-named as the 'Board Working Group'.

2. Regular sessions have been made available before Board meetings for Non-Executive Director discussion without management present.

2021 INTERNAL EVALUATION

An internal evaluation was undertaken during November 2021. Overall, there was a majority consensus that the Board was functioning well and was effective. The main themes reflected the continuing testing environment imposed by the COVID-19 pandemic, airport readiness and ramping up the business for growth and the regulatory settlement. The Board continued to hold on-line meetings successfully during the year but acknowledged the benefits of returning to some physical meetings as soon as it was practical to do so. The key areas identified for increased focus and development during the 2022 financial year are set out below:

Areas of Focus Identified

1. Committee chairs to continue to improve the interface and reporting between the formal committees and the Board.

2. To review the number and frequency of Board meetings and the balance of physical and on-line meetings.

3. To focus on the presentation of information to the Board to enable more time for discussion and debate.

Individual evaluations were also carried out by each of the HAHL Board's formal committees in 2021. Overall, the reviews showed a consensus that the HAHL Board and its committees were functioning well and were effective. No material shortcomings in relation to the operation of the HAHL Board and its committees were highlighted by the reviews. The Chairman confirms that each Director continues to make a valuable contribution to the HAHL Board and, where relevant, its committees.

AUDIT COMMITTEE

OLIVIER FORTIN
Chair

"The Audit Committee plays a key role in assisting the Board in fulfilling its oversight responsibility"

OTHER COMMITTEE MEMBERS

- Luke Bugeja (represented by his alternate Ignacio Castejon Hernandez)
- His Excellency Akbar Al Baker (represented by his alternate Ali Bouzarif)
- Ernesto Lopez
- Rt. Hon Ruth Kelly

INTRODUCTION

I am pleased to present the Audit Committee (the 'Committee') report for the year ended 31 December 2021. During the year the Committee continued to play a key role in assisting the HAHL Board in fulfilling its oversight responsibility. During 2021 the COVID-19 pandemic continued to create unprecedented impacts for Heathrow and the aviation industry as a whole. The financial, accounting and reporting implications have been significant and the role and accountability of the Committee to oversee, monitor, challenge and support management in ensuring quality and integrity in Heathrow's accounting and reporting practices has been critical during this time. During the year and at year end, the Committee's focus has been on the impact of the COVID-19 pandemic on the business, which has increased the complexity and number of key judgements in the financial statements. Throughout the year the Committee reviewed key accounting judgements made by management in relation to going concern, expansion and asset and other impairment, and made recommendations to the HAHL Board in relation to these judgements.

Considerable time was also spent monitoring the implementation of the Finance Transformation programme (Project Magenta), including assessing the implications and risks for external reporting at year end and ensuring that sufficient mitigations were in place during the 'go live' phase and beyond. The Finance team and our external auditors have adapted well to the restrictions imposed by remote working and management have worked hard to ensure that our financial controls have been maintained.

ROLES AND RESPONSIBILITIES

The Committee is a sub-committee of the HAHL Board, and its responsibilities include:

- Considering the appointment of the external auditor, taking into account relevant ethical guidance and assessing the independence of the external auditor, ensuring that key audit personnel are rotated at appropriate intervals (including overseeing the process for selecting the external auditor and making recommendations to the HAHL Board).
- Recommending the audit fee to the HAHL Board for approval and pre-approving any fees in respect of non-audit services provided by the external auditor and ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- Agreeing with the external auditor the nature and the scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- Reviewing reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Monitoring the integrity of the financial statements of the HAHL Group, and reviewing and challenging, where necessary, the actions, accounting policies and key judgements and estimates of management in relation to the interim and annual financial statements, and any press release related to those statements.
- Reviewing Internal Audit reports to the Committee on the effectiveness of the HAHL Group's systems for internal control, financial reporting and risk management.
- Reviewing the external auditor's internal control recommendations and management's responses.
- Considering management's response to any major external or internal audit recommendations.
- Approving the appointment and discharge of the Director of Internal Audit, Risk and Assurance.
- Reviewing Heathrow's procedures for handling allegations from whistleblowers.
- Reviewing the ethics policy and monitoring its application throughout the business, considering any ethical issues which arise as a result of audit findings.
- Overseeing all press releases relating to external financial results.
- Reviewing Heathrow's tax policy and insurance strategy and arrangements.
- Reviewing the results of the Data Protection Officer's data privacy compliance monitoring programme and ensuring that the Data Protection Office is adequately resourced to carry out its tasks.
- Considering the adequacy of management's response to any major data privacy non-compliance findings as a result of monitoring activities.
- Reviewing Internal Investigations and approving Internal Investigations Protocol.
- Confirming that the financial statements are fair, balanced and understandable.
- Review and confirmation of the going concern disclosure for the Annual Report and financial statements.
- Considering any other topics, as defined by the HAHL Board.

2021 ACTIVITIES

The Committee held five scheduled meetings during the year as well as three additional meetings to consider the implementation of the Magenta Programme and preparations for year end. The Committee's main activities were to:

FINANCIAL REPORTING

- Review and recommend approval of the interim and preliminary results, draft Annual Report and Accounts and the associated going concern statements, taking into consideration the disclosures against FRC guidance.
- Review the annual statement of responsibility by management with respect to the internal controls environment.
- Review financial resilience and assumptions used to support the going concern statement.
- Independently challenge and endorse critical accounting judgements recommended by management.
- Review accounting developments and their impacts and significant accounting issues.
- Review and approve the approach to Task Force on Climate Related Financial Disclosures (TCFD) for 2021 and consistency between the potential future scenarios identified and any impact they may have on these financial statements.

EXTERNAL AUDIT

- Consider reports by the external auditor on its audit and its review of the financial statements.
- Review the external audit strategy and assess effectiveness of the external audit.
- Review audit and non-audit fees incurred in 2021.

INTERNAL AUDIT

- Approve the scope of the 2022 internal audit plan.
- Review delivery of the 2021 internal audit plan and approve any material changes to it.
- Review the conclusions, key findings and actions (remediation plans) from internal audits completed.
- Monitor progress of the implementation of actions from internal audit activity.
- Consider whether the internal audit function is adequately resourced.

RISK MANAGEMENT AND INTERNAL CONTROL

- Review the effectiveness of risk management and internal governance for the HAHL Group, particularly in relation to financial risks. Further detail on our approach to managing risk is included on page 58.
- Review the effectiveness of Heathrow's internal control systems and application of internal financial reporting controls.
- Monitor progress and review the approach to the upgrade of our general ledger and ERP system.
- Monitor progress and review the implementation of the Magenta Programme and the implications for year-end reporting.
- Review effectiveness of, and provide guidance to, Heathrow's Fixed Asset Steering Group.

GOVERNANCE AND OTHER

- Consider and approve our tax strategy and reviewed tax matters.
- Review the Committee's terms of reference.
- Review the implications of the Government's Consultation on Restoring Trust in Audit and Corporate Governance and approve Heathrow's response to the Consultation.
- Receive updates on financial and climate related reporting and other corporate governance-related matters.
- Review Heathrow's procedures for handling allegations from whistleblowers and receive reports from the Internal Investigations Steering Group.
- Review the Committee's effectiveness.

KEY JUDGEMENTS AND FINANCIAL REPORTING MATTERS

The Committee reviewed critical accounting judgements and key sources of estimation uncertainty outlined in the 'Accounting policies' section of the financial statements. Based on the discussion with management, work and recommendation of the Group finance function and input from external auditor, the Committee considered that the most significant financial statements' risk matters are as follows:

Matters	Audit Committee review and conclusions
Continued impact of COVID-19 on financial reporting matters COVID-19 has increased the complexity and number of key judgements in the financial statements.	The Committee assessed the effect of COVID-19 on financial reporting and control matters, with specific consideration of the following: • Effects of COVID-19 on the going concern assessment for the Group. • Consideration of the probability of expansion of the airport against the uncertainty created by COVID-19. • Impairment considerations across all assets held, taking into account the impact of COVID-19 on the forecasting and value of the Group. • Impact of the volatility changes in macroeconomic indicators due to COVID-19 on the fair value of the defined benefit pension scheme and investment properties. • Implications on the Group's internal control processes, including the challenges presented by remote working and a restructured workforce. The Committee agreed that Management had continued to take sufficient actions to ensure a robust control environment remained in place. Where management's judgement was required for the specific COVID-19 impacts listed above, the Committee's considerations and conclusions are detailed below.
Going concern The Directors are required to determine that the business is a going concern for at least 12 months from the date of approval of the Annual Report and financial statements.	The Committee reviewed the assumptions and disclosure made in reaching the going concern conclusion including forecast operational cash flows, forecast capital expenditure, the overall group liquidity position, and impact on covenants and reviewed the output of the scenario testing performed, including severe but plausible downside scenarios. It was also noted that, in modelling the impact of COVID-19, there is a significant degree of uncertainty, given the evolving current environment and the wide range of potential forecasts being performed by various stakeholders in the global aviation industry. The Committee concluded it was appropriate to prepare the accounts on a going concern basis with material uncertainty.
Assets held in the course of construction ('AICC') and probability of expansion The HAHL Group has a substantial capital programme which has been agreed with the regulator (the Civil Aviation Authority). Only those costs which satisfy the requirements of IAS16 'Property, Plant and Equipment' should be capitalised, which in some cases requires management judgement.	The Committee received regular updates of work undertaken by the Fixed Asset Steering Group, who are responsible for ensuring capitalised costs are appropriate. During the year, the Committee reviewed an impairment and write-off charge of £24 million on assets in the course of construction and £7 million on intangible assets. The Committee concluded that the total impairment charge recognised of £31m was appropriate. The Committee reviewed Management's judgement that it remains probable that expansion of the airport will continue and therefore it is appropriate to have recognised £513m of spend to date as an asset in the course of construction. The Committee noted that on 6 September 2021 the Secretary of State for Transport concluded that no review of the ANPS was necessary at this time, and that the CAA continued to support Expansion as outlined in its Initial Proposals published on the 19 October 2021. The Committee further noted that, although the current COVID-19 crisis is expected to delay the opening of the third runway, it remains Management's assessment that in the longer term, once the benefits of air travel and connectivity have been restored, an expanded Heathrow will be required, even with the long-term uncertainty of climate change on passenger demand. Nevertheless, it was also noted that uncertainty remained, including the incentives needed for investment and the overall response to the DCO application once it is submitted. As a result of the current delay, the Committee considered whether any of the existing assets were at risk of obsolescence due to the risk of re-work, noting that Management recognised an impairment of £10m in the prior year due to the delay, with no further amount recognised in the current year. Considering all factors in relation to expansion, including the legal and regulatory frameworks still in place, and noting the Board's continued support for the programme as evidenced by the reopening of the Interim Property Hardship Scheme in May 2021, the Committee agreed with Management and concluded it was probable expansion would occur. It therefore concluded it was appropriate to continue to recognise an asset in the course of construction, that no additional impairment was required at this time and that appropriate disclosures should be included in the financial statements.
Climate change and TCFD On the basis that it has been highlighted as a material risk, the Committee reviews disclosures relating to climate change and TCFD. It is also required to assess whether climate change risks provide indication that an asset may be impaired.	The Committee reviewed and approved the Task Force on Climate Related Financial Disclosures (TCFD) in the Annual Report and Accounts. The Committee also considered whether there were any indicators of material impairment over property, plant and equipment, expansion assets in the course of construction, goodwill and other intangible assets, investments in subsidiaries, investment properties and deferred tax assets as a result of the potential physical and transition risks arising from climate change that were identified in the Task Force on Climate Related Financial Disclosures (TCFD). It was agreed that it was appropriate that no further impairments were recognised in the year as a result of this exercise.

Matters	Audit Committee review and conclusions
Impairment considerations – ongoing implications of COVID-19 At the end of each reporting period, the HAHL Group is required to assess whether there is any indication that an asset may be impaired. Judgement is required in assessing the impact of COVID-19 on forecasting and the value of assets in the Group.	Due to the ongoing impact of the COVID-19 pandemic on operations, business performance and wider economic uncertainty the Committee reviewed and challenged the impairment assessment carried out by management for each cash generating unit ('CGU') identified. The Committee reviewed the assumptions and inputs used to calculate the enterprise value for each CGU and noted there was sufficient headroom when comparing the book value of assets to the valuation derived. In addition to this, the Audit Committee reviewed the assumptions and inputs used to calculate the enterprise value for entity level investments, including the judgement made in relation to the inclusion of a potential RAB adjustment. The Committee noted there was sufficient headroom and reviewed the disclosures made in relation to the judgements applied to the impairment analysis.
Fair value of investment properties The HAHL Group holds a variety of investment properties that are accounted for at fair value. In determining the fair value, judgement is required with regard to a number of valuation assumptions that include property rental growth rate, operating cost and expected yields.	The Committee challenged and approved the key assumptions with reference to expert third party valuation advice. The review included consideration of the sensitivity of the valuation to changes in the key assumptions. The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 9.
Valuation of the retirement benefit obligation The HAHL Group operates a defined benefit pension scheme with both open and closed sections. Assessing the defined benefit pension obligation requires significant estimate and judgement, in particular with regard to discount rate, inflation and mortality.	The Committee considered the methodology for the financial and demographic assumptions used in the calculation of the net defined benefit obligation. After receiving expert third party advice, the committee concluded that the assumptions adopted for 2021 were based on reasonable methodology and within an acceptable range. In addition, the Committee reviewed Management's assessment, supported by third party legal advice, that it was appropriate to recognise a scheme surplus in line with the requirements under IFRIC 14 and concluded that there was a reasonable basis to do so. The Committee continues to note the sensitivity of the valuation to key assumptions. Further detail of this can be found in note 18.
Hedge accounting and IBOR reform The HAHL Group designates certain derivative financial instruments as cash flow hedges. Significant changes in the expected quantum of future Sterling refinancing may lead to insufficient Sterling borrowings to support components of the cash flow hedge reserve, requiring the recycling of the cash flow hedge reserves through income statement. Transition away from the London Interbank Offered Rate (LIBOR), and other IBORs, to alternative risk-free rates (RFR) represents a significant challenge to the HAHL Group. Ineffective change and strategic risk management could result in the invalidation of existing contracts as well as ineffective pricing of funds and fair value hedges.	The Committee sought quarterly updates on management's assessments, including justification of the key assumptions which support the Cash Flow Hedge Reserve and interest rate benchmark reform and transition. The Committee has considered the methods adopted to address the challenges faced by the IBOR transition, including the re-negotiation of existing contracts and the appropriateness of the new risk-free rates adopted. The Committee concluded that the assumptions adopted for 2021 were based on reasonable methodology. In addition, the Committee has reviewed Management's assessment of the overall IBOR impact to the Group and the associated disclosure in these accounts and deemed these to be appropriate.
Fair value of derivative financial instruments The HAHL Group holds a substantial derivative financial instruments portfolio comprising interest rate swaps, cross currency swaps, and index-linked swaps which are accounted for at fair value. In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps).	The Committee requested quarterly updates on the estimated fair value of open derivatives and justification of the valuation estimate. The current year fair value position was noted as being particularly volatile due to COVID-19 and global economic uncertainty. The Committee was satisfied that the volatility was being appropriately managed and did not risk the financial stability of the HAHL Group. The Committee continues to support management in its discussion with the International Financial Reporting Interpretations Committee to clarify whether it is reasonable to designate index-linked swaps as an inflation hedge under IFRS 9. Further detail regarding the sensitivity of the year-end valuation to key assumptions can be found in note 16.
Exceptional items The Group separately presents certain exceptional items on the face of the income statement that impair the visibility of the underlying performance and trends between periods. Exceptional items are material items of income or expense that are considered to merit separate presentation because of their size or nature. They are not expected to be incurred on a recurring basis. Judgement is required in determining whether an item should be classified as an exceptional item or included within underlying results.	The Committee reviewed the accounting treatment of exceptional items and agreed that the items listed in note 3 are exceptional in size and nature in relation to the Group and therefore it is appropriate to disclose them separately. The Committee noted that, of the £13 million provision as at 31 December 2020 relating to the business transformation programme, £11 million was utilised in the year.

REMUNERATION COMMITTEE

LUKE BUGEJA
Chair

> "The Remuneration Committee has responsibility for determining the remuneration of members of the Executive Committee and senior managers"

OTHER COMMITTEE MEMBERS

- Ernesto Lopez
- Stuart Baldwin
- Ahmed Al-Hammadi

INTRODUCTION

I took over as Chair of the Remuneration Committee (the 'Committee') in June 2021 and am pleased to present the Committee's report for the year ended 31 December 2021. The Committee is responsible for making recommendations to the HAHL Board concerning the Group's remuneration strategy, framework and policy, and approving the compensation packages for senior executives. To make the best decisions for the Group, the Committee receives training from specialists in areas such as pensions and equality, diversity and inclusion and takes advice from independent external experts who provide updates on legislative requirements, market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the company operates and from other sectors. The Committee has clearly defined terms of reference.

The HAHL Group is an active equal opportunities employer. It promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

Each year the Group publishes its Gender Pay Gap Report which can be found at www.heathrow.com, and for the first time, the 2021 report also includes the Group's Ethnicity Pay Gap.

ROLES AND RESPONSIBILITIES

The Committee is a sub-committee of the HAHL Board, and its responsibilities include approvals of:

- The remuneration policy of the members of the Executive Committee and Senior Managers.
- The compensation packages of the members of the Executive Committee including salary, bonus, pensions and other incentives.
- The contractual terms for the members of the Executive Committee and independent Non-Executive Directors.
- The design and terms of annual bonus plans.
- The design and terms of long-term incentive plans.
- The approval of the annual salary review of all employees in non-negotiated and negotiated grades (including budget level).

2021 ACTIVITIES

The Committee held four scheduled meetings during the year as well as five additional meetings in support of the Group's response to the ongoing impact of COVID-19 and in support of business recovery. Its main activities were:

- Approved the outcome and payment of the 2018 SIS Grant (Long Term Incentive Plan).
- Reviewed the output of the Senior Leadership Talent Review.
- Reviewed the Diversity and Inclusion Strategy.
- Approved the 2021 Heathrow Gender Pay Gap and Ethnicity Pay Gap; reviewed progress made to date and the associated action plan.
- Approved the terms of a two year Pay Deal included in the agreement reached with the Trade Unions to resolve the Industrial Dispute.
- Approved termination terms for senior leaders.
- Approved the compensation package for new members appointed to the Executive Committee.
- Approved targeted retention arrangements for key senior leaders.
- Reviewed the latest market practice of including ESG performance metrics in incentive plans.
- Reviewed and approved the design of the 2021 annual bonus plans and 2021 Share in Success Grant and Saver plans.
- Reviewed forecast performance of all active incentive plans.
- Reviewed the People Strategy, progress against the 2021 delivery plan and 2022 key priorities.
- Reviewed the Committee's effectiveness.
- Reviewed and updated the Committee's terms of reference.
- Attended three masterclasses hosted by external experts on topics including: pensions, equality, diversity and inclusion and reward trends and market practice.

REMUNERATION AND COMPONENTS

The Committee reviews Heathrow's remuneration structure each year to ensure that the framework supports Heathrow's strategic ambitions and rewards Directors fairly for the contribution that they make to the business.

Remuneration is set with reference to the market and at a level that will enhance Heathrow's resources by attracting and retaining quality leaders who can deliver Heathrow's strategic ambitions in a manner consistent with its values, purpose and the interests of its shareholders.

The remuneration policy reflects the complexity and significance of one of the world's largest airports. Executive Director's remuneration comprises a base salary, benefits, retirement provisions, annual bonus and long-term incentive plans.

To ensure that remuneration is aligned to Heathrow's carbon and sustainability targets, Carbon ESG performance metrics have been introduced in long-term incentive plans, focusing individual behaviour on making sustainable choices and rewarding sustainable outcomes.

EXECUTIVE AND WIDER WORKFORCE REMUNERATION POLICY TABLE

The Committee takes into account fair pay and conditions across Heathrow's workforce when setting the executive Directors' remuneration policy. Pay components vary by an individual's organisational band (level in the organisation). The key components of the executive committee's remuneration relative to the wider workforce are summarised below:

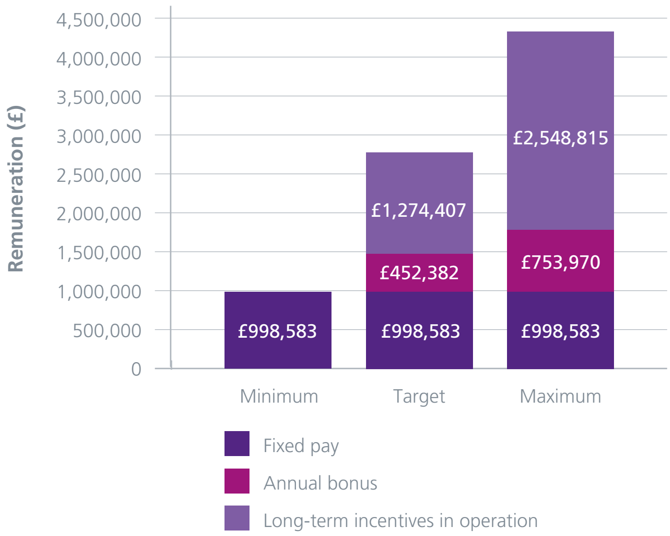
Component and purpose in supporting business strategy	Executive committee[1]	Other management colleagues	Negotiated grade colleagues
Base salary To secure and retain quality individuals to deliver Heathrow's strategy.	Base salaries are typically reviewed annually, and set taking into account: • The role's scope, responsibilities and accountabilities. • Remuneration benchmarking and competitive market practice. • Individual performance. • Fair pay and conditions across Heathrow's workforce.	Base salaries are reviewed annually, and set taking into account: • The role's scope, responsibilities and accountabilities. • Remuneration benchmarking and competitive market practice. • Individual performance. • Fair pay and conditions across Heathrow's workforce.	Frontline colleague salaries are subject to collective bargaining with Heathrow's recognised trade unions.
Benefits To comprise part of a market competitive remuneration package.	Benefits include cash travel allowance, private healthcare, private health screening, life assurance and income protection.	Eligibility for benefits is determined by an individual's organisational band and includes some or all of: cash travel allowance, private healthcare, life assurance and income protection.	Benefits include life assurance and income protection.
Retirement provisions To comprise part of a market competitive remuneration package, rewarding sustained contribution and encouraging retention.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008. Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively. The Chief Executive Officer receives a cash allowance of 30% of annual base salary having been granted protection by HMRC for the Lifetime Allowance for pensions. Colleagues impacted by the Annual or Lifetime Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008. Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively. Colleagues impacted by the Annual or Lifetime Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.	The former Group defined benefit pension arrangement, the BAA Pension Scheme, was closed to new members on 15 June 2008. The Scheme remains open to future accrual for those contributing members who joined prior to the closure date. Pension provision is available for all new colleagues through a Defined Contribution Pension Plan, established on 16 June 2008. Colleague contribution rates are either 3%, 5% and 8% of base salary, matched with an employer contribution of 8%, 10%, 12% respectively. Colleagues impacted by the Annual or Lifetime Allowance may opt for an Employer Pension Contribution equal to their Annual Allowance, if applicable, and the balance of the Employer Pension Contribution payable as a cash allowance.
Annual bonus Motivates the achievement of Heathrow's strategic ambitions, linking this with annual measurable performance criteria and rewarding individual contributions to Heathrow's success.	The executive committee participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenditure (25% weighting). Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity is 100% of base salary for the Chief Executive Officer. This is paid in March of the following year. The Heathrow Bonus Plan was not launched in 2020 due to the impact of COVID-19, consequently no payment was made in March 2021. The 2021 Heathrow Bonus Plan, which is payable in March 2022, did not include the individual performance multiplier.	Management colleagues participate in the Heathrow Bonus Plan. The plan is measured against targets for EBITDA (75% weighting) and Gross Operating Expenditure (25% weighting). Eligibility for annual bonus and target bonus opportunity is determined by an individual's organisational band e.g., target value of 7.5% of salary. Subject to satisfying individual and financial performance criteria, the maximum bonus opportunity for participants is 200% of target e.g., 15% of salary. This is paid in March of the following year. The Heathrow Bonus Plan was not launched in 2020 due to the impact of COVID-19, consequently no payment was made in March 2021. The 2021 Heathrow Bonus Plan, which is payable in March 2022, did not include the individual performance multiplier.	Frontline colleagues participate in the Airport Profit Bonus with payment determined by EBITDA performance. The Airport Profit Bonus plan was not launched in 2020 due to the impact of COVID-19, consequently no payment was made in March 2021.

[1] Also applies to the Directors of Heathrow Airport Ltd.

Component and purpose in supporting business strategy	Executive committee[1]	Management colleagues	Negotiated grade colleagues
Long-term incentive plan Aligns the interests of executive Directors with those of our ultimate shareholders, rewarding long-term sustainable results, creating shareholder value and encouraging retention.	The executive committee participate in the Heathrow Share in Success ('SIS') Grant (Long-Term Incentive Plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Executive Directors are allocated an award with a maximum face value of 280% of base salary for the Chief Executive Officer at the start of the plan. Each executive Director will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period. The SIS Grant up to 2019 is subject to a performance gate and is measured against targets for EBITDA (40% weighting), Airport Service Quality ('ASQ') score (30% weighting) and the return on Regulatory Assets Base ('RAB') for our shareholders (30% weighting). The 2021 SIS Grant is measured against EBITDA, Service, Carbon and Engagement. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are two SIS Grants in operation: • 2019 SIS Grant: performance is measured over 2019 to 2021; payable in August 2022. • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. The 2020 SIS Grant was not launched due to the impact of COVID-19. The Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards. To support the recovery of Heathrow from the impact of COVID-19, the Executive Committee and Chief Executive Officer have been awarded one off incentive grants, which incentivise the delivery of metrics relating to business recovery in 2021 and 2022.	Members of senior management participate in the Heathrow SIS Grant (Long-Term Incentive Plan) designed to reward the most senior leaders for the success of Heathrow over a three-year period. Senior Managers are allocated an award with a maximum face value determined by individual organisational band. Each participant will receive a cash payment provided that Heathrow meets agreed performance conditions measured over a three-year period. The SIS Grant up to 2019 is subject to a performance gate and is measured against targets for EBITDA (40% weighting), Airport Service Quality ('ASQ') score (30% weighting) and the return on Regulatory Asset Base ('RAB') for our shareholders (30% weighting). The 2021 SIS Grant is measured against EBITDA, Service, Carbon and Engagement. For each performance metric, entry-level performance results in zero vesting, target-level performance results in 50% vesting and maximum level performance results in 100% vesting. Currently, there are two SIS Grants in operation: • 2019 SIS Grant: performance is measured over 2019 to 2021; payable in August 2022. • 2021 SIS Grant: performance is measured over 2021 to 2023; payable in August 2024. The 2020 SIS Grant was not launched due to the impact of COVID-19. The Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility and performance conditions on future awards. To support the recovery of Heathrow from the impact of COVID-19, Senior management have been awarded one off incentive grants, which incentivise the delivery of metrics relating to business recovery in 2021 and 2022. Management colleagues not eligible to participate in the SIS Grant, are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. To ensure all our colleagues are incentivised to deliver the same long-term goals, the targets for the performance gate and metrics in the SIS Saver plan are aligned with the targets of the SIS Grant. Currently, there are two SIS Saver plans in operation: • 2019 SIS Saver: performance is measured over 2019 to 2021; payable in July 2022. • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in November 2024. The 2019 and 2021 SIS Saver plans are closed to new entrants. The 2020 SIS Saver plan was not launched due to the impact of COVID-19. To support the recovery of Heathrow from the impact of COVID-19, Management colleagues have been awarded one off incentive grants, which incentivise the delivery of metrics relating to business recovery in 2021 and 2022.	The wider colleague population are eligible to participate in the SIS Saver plan, where colleagues have the opportunity to save in return for a bonus, subject to company performance. To ensure all our colleagues are incentivised to deliver the same long-term goals, the targets for the performance gate and metrics in the SIS Saver plan are aligned with the targets of the SIS Grant. Currently, there are two SIS Saver plans in operation: • 2019 SIS Saver: performance is measured over 2019 to 2021; payable in July 2022. • 2021 SIS Saver: performance is measured over 2021 to 2023; payable in November 2024. The 2019 and 2021 SIS Saver plans are closed to new entrants. The 2020 SIS Saver plan was not launched due to the impact of COVID-19. To support the recovery of Heathrow from the impact of COVID-19, the wider colleague population have been awarded one off incentive grants, which incentivise the delivery of metrics relating to business recovery in 2021 and 2022.

POTENTIAL REWARD OPPORTUNITIES AT DIFFERENT LEVELS OF PERFORMANCE

The graph below shows the Chief Executive Officer's total remuneration levels under the different performance scenarios: Minimum, Target and Maximum. The remuneration policy aligns a high proportion of total executive remuneration with the performance of the Group.



Minimum: Fixed pay comprising of annual base salary, pension and benefits (at 31 December 2021).

Target[1]: Minimum plus annual bonus and long-term incentives in operation at the target level (annualised).

Maximum[1]: Minimum plus annual bonus and long-term incentives in operation at the maximum level (annualised).

[1] The SIS Grant was not launched in 2020 due to the impact of COVID-19.

STRATEGIC REPORT
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CHIEF EXECUTIVE OFFICER REMUNERATION

The table below presents the remuneration figures for the Chief Executive Officer for the years ended 31 December 2020 and 31 December 2021:

	Fixed Pay (£)				Performance Pay (£)			
2021	Salary	Benefits	Pension	Sub-total	Annual bonus[1]	SIS Grant vesting[2]	Sub-total	Total
Chief Executive Officer								
John Holland-Kaye	**753,970**	**21,922**	**226,191**	**1,002,083**	**497,620**	-	**497,620**	**1,499,703**

[1] Accrued annual bonus to be paid in March 2022.
[2] Expected 2019 SIS Grant is nil due to company performance targets not being achieved.

	Fixed Pay (£)				Performance Pay (£)			
2020	Salary[1]	Benefits	Pension	Sub-total	Annual bonus[2]	SIS Grant vesting[3]	Sub-total	Total
Chief Executive Officer								
John Holland-Kaye	**556,778**	**19,340**	**226,191**	**802,309**	-	-	-	**802,309**

[1] As part of the initiatives to protect the financial resilience of the business from the impact of COVID-19, John Holland-Kaye forfeited three months of his 2020 salary.
[2] There was no 2020 annual bonus.
[3] The 2018 SIS Grant (based on performance measured over the three years 2018 to 2020) is nil as the SIS Grant entitlement was waived.

POLICY FOR NON-EXECUTIVE DIRECTORS

The Chairman and Independent Non-Executive Directors receive fees for their services and are not eligible to participate in benefit, pension or bonus and other incentive plans. The Committee approves the contractual terms, remuneration and compensation packages of the Chairman and Independent Non-Executive Directors. The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the HAHL Group.

SUSTAINABILITY AND OPERATIONAL RISK COMMITTEE

JOAN MACNAUGHTON
Chair

"The Sustainability and Operational Risk Committee reviews safety performance and challenges Heathrow's policies, conduct, performance and risk-management approach against sustainability goals and operational activities"

OTHER COMMITTEE MEMBERS

- John Holland-Kaye
- Luke Bugeja (represented by his alternate Ignacio Castejon Hernandez)
- Olivier Fortin
- His Excellency Akbar Al-Baker (represented by his alternate Ali Bouzarif)

INTRODUCTION

I took over as Chair of the Sustainability and Operational Risk Committee (the 'SORC') in November 2021 and am pleased to present the SORC report for the year ended 31 December 2021. The SORC continued to perform a valuable role reviewing Heathrow's policies, conduct, performance and risk-management approach against sustainability goals and operational objectives during a challenging period. Amongst other things, the SORC reviewed the impacts and risks of the COVID-19 outbreak on the airport's operations, colleagues and passengers (on which it engaged with Public Health England); mitigations; and the development of Heathrow's 'Safe to fly Programme'.

ROLES AND RESPONSIBILITIES

The SORC is a sub-committee of the HAHL Board, and its responsibilities include:

- Reviewing Heathrow's policies, conduct, performance and risk management approach against sustainability goals and operational activities.
- Reviewing and challenging the performance and conduct of the HAHL Group relating to operational risks and delivery of sustainability goals.
- Monitoring and challenging management over the effectiveness of the relevant internal control systems for which it has access to any audit or assurance report it considers relevant.
- Reviewing and assessing management's response to significant operational incidents, for which it has access to any accident and investigation report it considers relevant.
- Monitoring and challenging the appropriateness of sustainability and operational risk assurance strategies and plans, the execution and results of such plans, and relevant communications.

2021 ACTIVITIES

The SORC held four scheduled meetings during the year, and its main activities were to:

SAFETY

- Review and advise on safety performance and the actions being taken to ensure compliance and improve fire, health and safety standards and to strengthen Heathrow's safety culture.
- Review the impacts of the COVID-19 outbreak on Heathrow, including engagement with Public Health England, mitigations and the 'Safe to fly Programme', and the associated risks.
- Review incidents, using the learnings to develop and promote best-in-class safety performance.
- Considered the health and wellbeing of colleagues at Heathrow.
- Review the Heathrow Express and Aviation Safety Reports.
- Approve Heathrow's Group Policies relating to Health and Safety, Acceptable Use of Information, Systems and Services, and Information Security.

SECURITY

- Review and advise on cyber-security strategy, cyber incidents and mitigation initiatives.
- Review and advise on aerodrome security threats, security-improvement deliverables and consider the learnings from external and in-house assessments.

SUSTAINABILITY

- Review and advise on delivery of Heathrow 2.0 targets, in particular carbon, noise, air quality and waste, supported by a programme of internal and external engagement.
- Consider the programme of activity to embed Heathrow 2.0 strategy within the business.

RISK AND ASSURANCE

- Review the principal risks to ensure alignment with the corporate-governance framework and strategy.
- Provide challenge to the business with regards to relevant audit and assurance reports.
- Review and advise on Brexit contingency planning.
- Review Heathrow's 2021 Top 10 KPI Targets.

GOVERNANCE

- Review the SORC's effectiveness.

NOMINATIONS COMMITTEE

LORD DEIGHTON
Chair

"The Nominations Committee aims to monitor and maintain an appropriate balance of skills, experience, independence and diversity on the HAHL Board"

OTHER COMMITTEE MEMBERS

- Luke Bugeja
- His Excellency Akbar Al-Baker
- Stuart Baldwin
- Mike Powell

INTRODUCTION

I am pleased to present the Nominations Committee (the 'Committee') report for the year ended 31 December 2021. The Committee met once during the year. The purpose of the Committee is to maintain an appropriate balance of skills, experience, independence and diversity on the HAHL Board. The Committee also reviews the size, structure and composition of the HAHL Board and ensures that there is a robust and transparent process for the appointment of new Independent Non-Executive Directors.

ROLES AND RESPONSIBILITIES

The Committee is a sub-committee of the HAHL Board, and its responsibilities include:

- Identifying and recommending for the consideration of the HAHL Board all new appointments of Independent Non-Executive Directors.
- Identifying and recommending for the consideration of the HAHL Board the appointment of the Chairman.
- Ensuring a formal, rigorous and transparent procedure is followed for the appointment of new Independent Non-Executive Directors to the HAHL Board.

2021 ACTIVITIES

The Nominations Committee met once during the year to consider the appointment of an additional independent Non-Executive Director to the HAHL Board and recommended the appointment of Joan MacNaughton, who was appointed in June 2021.

FINANCE COMMITTEE

ERNESTO LOPEZ
Chair

"The Finance Committee's key role is to review and approve matters relating to financing the HAHL Group and to act as a forum for obtaining consents from Shareholders of FGP Topco Limited pursuant to the Shareholders' Agreement."

OTHER COMMITTEE MEMBERS

- John Holland-Kaye
- Javier Echave
- Rt. Hon Ruth Kelly
- A Non-Executive Shareholder Director representing each shareholder entitled to appoint a Director to the HAHL Board

INTRODUCTION

I am pleased to present the Finance Committee (the 'Committee') report for the year ended 31 December 2021. The Committee acts as both a HAHL Board Committee for the approval of matters relating to the financing of the HAHL Group and a forum for obtaining consents required from the Shareholders of FGP Topco Limited pursuant to the Shareholders' Agreement. This has been a particularly important year for the Committee as HAHL Group has been active in accessing capital and managing cash flow as it looks to build back better from the impact of the COVID-19 pandemic. The Committee's primary focus has been on ensuring the HAHL Group maintained sufficient liquidity at all times and its financial covenants were protected. The HAHL Group has navigated the challenges of COVID-19 and it was pleasing to see the HAHL Group retain its access to both the public and private debt markets throughout the year and successfully receive the support of creditors to waive the Heathrow Finance ICR covenant for 2021 in line with the existing package put in place in 2020. The ability to conclude the year with repayment of the RCF provides optimism as to the robustness of the financial system as well as the HAHL Group as we head in to 2022.

ROLES AND RESPONSIBILITIES

The Committee is a sub-committee of the HAHL Board and is responsible for approving various matters relating to the Heathrow Group's debt financing arrangements, hedging strategies and treasury policies prior to their implementation, including approvals of:

- Any prospectus or other listing document required in relation to the issuance of any capital markets instruments or any formal information memorandum in relation to borrowing by any member of the HAHL Group.
- The borrowing of any money or the assumption of any indebtedness by any member of the HAHL Group (including by way of the issue of securities) in excess of certain financial thresholds.
- The refinancing of any existing indebtedness in respect of any member of the HAHL Group in excess of certain financial thresholds.
- The making of any repayments of principal in addition to scheduled principal payments on any debt that may be owing by any member of the HAHL Group.
- Other than as required by the financing arrangements of any member of the HAHL Group, the making of any material loan or advance or giving of any guarantee, indemnity or provision of any credit, in each case in excess of certain financial thresholds.
- The creation of, or the granting of any permission to create, any mortgage, charge, encumbrance or other security interest on any uncalled capital or on any asset, in each case in excess of certain financial thresholds.
- Any material change, amendment or variation to any of the financing arrangements of any member of the HAHL Group or any request for any waiver thereunder or any entry into any new loan or loan facility, in each case in excess of certain financial thresholds.
- Changes to Heathrow's treasury policies before going to the HAHL Board.
- The entry into any new non-investment grade debt facility.
- The bi-annual publication of investor reports in respect of Heathrow (SP) Limited and Heathrow Finance plc, pursuant to the requirements of the Common Terms Agreement and the Heathrow Finance plc financing arrangements.
- The strategy for mitigating risks relating to the Group's financing arrangements as detailed in note 15.

2021 ACTIVITIES

The Committee held monthly scheduled and ad hoc meetings during the year, and its main activities were to review and/or approve:

- Financing mitigation plans in response to the impact of COVID-19 as listed below.
- Debt funding for Heathrow, including bond issuances, credit facilities and private placements.
- Heathrow's Funding and Investment Engagement Plan.
- The Heathrow (SP) Limited and Heathrow Finance plc 2021 Investor Reports.
- The base prospectus and supplements thereto for Heathrow Funding Limited.
- Heathrow's Treasury Hedging Strategy.
- Heathrow's Payment and Revenue Policy.
- Heathrow's Resourcing and Cost Protection Plan.
- Heathrow's weekly Financing Dashboard.

MITIGATION ACTIVITIES IN RESPONSE TO COVID-19 PANDEMIC

In response to the COVID-19 pandemic the Committee reviewed and approved the following activities:

- A consent exercise at Heathrow Finance plc to waive the ICR covenant for the financial year ending 31 December 2021.
- Raising £1.2bn of Class A funding and £0.4bn of Class B funding across public and private markets to extend the liquidity horizon and strengthen liquidity.
- Repayment of the RCF in full.
- Completion of new interest rate swaps to help reduce interest payments over the next few years.

HEATHROW (SP) LIMITED DIRECTORS' REPORT

The Directors present their Annual Report and audited financial statements for the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activity of Heathrow (SP) Limited is as the holding company of Heathrow (AH) Limited, owner of Heathrow Airport Limited, operator of the Heathrow Express rail service and owner of Heathrow Funding Limited, the bond issuer of the Group.

A review of the progress of the Group's business during the year, the key performance indicators, internal controls, principal business risks and likely future developments are contained in the Strategic and Governance Reports.

RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £1,613 million (2020: £1,785 million).

Dividends of £nil (2020: £107 million – £0.02 per share) were paid to Heathrow Finance plc during the year.

The statutory results for the year are set out on page 132.

The financial statements have been prepared on a going concern basis with material uncertainty as detailed in the going concern statement on page 137 in the Group's accounting policies.

DIRECTORS

The Directors who served during the year and since the year end, except where noted, were as follows:

Yuanyuan Ding (Sally)

Javier Echave

Emma Gilthorpe

Nicholas Golding

COMPANY SECRETARY

Pursuant to section 270 of the Companies Act 2006, a private company registered in England and Wales is not required to have a company secretary.

EMPLOYMENT POLICIES

The Group has no direct employees. The staff are employed by LHR Airports Limited, a fellow subsidiary entity of the HAHL Group. The Group directly incurs the employment cost of services provided to the Group as stated in the Accounting policies on page 151.

The Group's employment policies are regularly reviewed and updated to ensure they remain effective. The Group's overall aim is to create and sustain a high performing organisation by building on the commitment of its people.

The Group has defined a set of guiding principles to ensure fair recruitment and selection. The Group continues to aim to recruit, retain and develop high-calibre people and has talent and succession management programmes for managerial roles.

The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Group actively encourages a diverse range of applicants and commits to fair treatment of all applicants.

We are an equal opportunities employer, all employment is decided on the basis of qualifications, merit and business need. As an accredited Disability Confident Leader, we are committed to attracting the widest possible pool of talent and are securing, retaining and developing disabled colleagues. We offer the opportunity for any individual with a disability, to be guaranteed an interview if they can demonstrate that they meet the minimum criteria for the role. We provide adjustments at both the recruitment stages and when colleagues are employed by us. We have policies in place and an active network to support colleagues with disabilities or those who develop disabilities whilst working for Heathrow.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

Details of corporate governance arrangements can be found on page 93.

EMPLOYEE ENGAGEMENT STATEMENT

Details of how the Directors have engaged with employees and the principal decisions made can be found in the section 172(1) statement from page 80.

STAKEHOLDER ENGAGEMENT STATEMENT

Details of how the Directors have engaged with suppliers, customers and other stakeholders and the principal decisions made can be found in the section 172(1) statement from page 80.

STREAMLINED ENERGY AND CARBON REPORTING

In accordance with the Streamlined Energy and Carbon Reporting requirements, the Group's energy usage has been reported in the Strategic Report on page 36.

SUBSEQUENT EVENTS

Subsequent events are disclosed in note 28.

FINANCIAL RISKS

Details of the financial risk management objectives and policies, hedging policies and exposure to financial risks can be found in the accounting policies and note 16.

POLITICAL DONATIONS

No political donations were made during the year.

DIRECTORS' INDEMNITY

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every Director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by them in defending any proceedings in which judgement is given in their favour, or in which they are acquitted or in connection with any application in which relief is granted to them by the court for any negligence, default, breach of duty or breach of trust by them in relation to the Company or otherwise in connection with their duties or powers or office. This indemnity also applies to the Directors who are Directors of other companies within the Group.

The third-party indemnity provisions (which are qualifying third-party indemnity under the Companies Act 2006) are in place during the 2021 financial year and at the date of approving the Annual Report and Financial Statements.

Matters disclosed in strategic report	Page
Environmental matters	
• Sustainable growth	31
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• Streamlined energy and carbon reporting	36
Colleagues	
• Colleague policies	43, 116
• Health and safety	60
Anti-corruption and bribery policy	97
Social matters – charitable donations	42
Security of the airport and passengers	60
Leadership and governance	93
Description of our principal risks	
• Business	60
• Financial management	104
Description of our business model	14
Non-financial performance indicators	220
Research and development and innovation	33

AUDITOR

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed within the period set out in section 485 of the Companies Act 2006.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The strategic report and Directors' report were approved and authorised by the Board and were issued on behalf of the Board.

JAVIER ECHAVE
DIRECTOR

22 February 2022
Company registration number: 06458621

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

In the case of each Director in office at the date the Directors report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware.
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

JAVIER ECHAVE
DIRECTOR

22 February 2022

SECTION 03

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEATHROW (SP) LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Heathrow (SP) Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial statements (the "Annual Report"), which comprise: the Consolidated and Company statement of financial position as at 31 December 2021; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity, the Consolidated statement of cash flows for the year then ended; the accounting policies; the significant accounting judgements and estimates; and the notes to the financial statements.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

In forming our opinion on the 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 financial statements concerning the group's and the company's ability to continue as a going concern. Heathrow continues to be significantly impacted by the COVID-19 pandemic which has resulted in a deterioration in passenger traffic and cash flows. The group's forecast and projections assume the regulatory tariffs as described in the going concern section on page 137 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 pricing from the Civil Aviation Authority (CAA) for the upcoming regulatory period (H7). In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed worldwide, the group and company, whilst having sufficient liquidity, may require covenant waivers in respect to the interest cover ratio (ICR) measured as at 31 December 2022. These conditions, along with the other matters explained in those notes to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

OUR AUDIT APPROACH

CONTEXT

This is our second year as auditors of the group and COVID-19 has again had a significant impact on the group and our audit. The impact has been relevant both in relation to our assessment of the audit risks, as well as the way we have planned to execute our work in what has been a largely remote working environment. The pandemic continues to present significant trading challenges, as described in the business review section, with travel restrictions having remained in place for much of the year. The uncertainty around travel restrictions and further new COVID-19 variants continues to impact the ability of the group to forecast future cash flows for a business that, pre-pandemic, was relatively stable and predictable.

The group has also implemented a new cloud-based enterprise resource planning (ERP) system in the year. Our audit was, therefore, performed on the legacy system for nine months of the year and on the new system for three months. Together with our IT audit specialists, we assessed the impact of the design and implementation of the new system on the audit and performed audit procedures to respond to any additional risks arising as a result.

This year we also, for the first time in our audit opinion, set out our consideration of the impact of and the audit response to climate change which has been identified by the directors as one of the principal risks faced by the business (described in "Our Principal Risks" section on page 65 above). Climate change risk is expected to continue to have a significant impact on the aviation industry. As explained in the "Task Force for Climate Related Financial Disclosures (TCFD)" section on page 67, the group has articulated the potential impact of climate change on its operations under different potential future scenarios. In addition, the group has disclosed in the 'Our Carbon Footprint section' on page 37, the impact of its own operations on the environment and ways to reduce the group's impact as they continue to work towards their own Net Zero pathway to 2050.

As part of our audit risk assessment, we again explicitly considered the impact of climate change on the financial statements; understood and challenged management's climate risk assessment, together with our climate expert, by reviewing the Heathrow 2.0 Sustainability Strategy and holding discussions with management's climate experts; and considered the consistency of climate related disclosures with the financial statements and knowledge obtained from our audit.

Management has assessed the key financial statement line items and estimates associated with future cash flows to be more likely to be materially impacted by climate risks given that the more notable impacts of climate change on the business are expected to arise in the medium to long term. Together with our climate change experts, we have evaluated management's assessment and have not noted any material impact, as a result of climate change, on the financial statements for the current period. In our key audit matters, we have further explained how we evaluated the impact of climate change on key estimates including the carrying value of Expansion asset under construction; the fair valuation of commercial car parks; the impairment of tangible and intangible assets; and the recoverability of deferred tax assets.

Whilst the group is targeting net zero carbon emissions by 2050, they are continuing to work on their pathway towards this goal. The group has started to quantify some of the impacts that may arise on this pathway; but the future financial impacts are clearly uncertain given the medium to long term time horizon. We discussed with management and the Audit Committee that the estimated financial impacts of climate change will need to be frequently reassessed and our expectation that climate change disclosures will continue to evolve as greater understanding of the actual and potential impacts on the group's future operations is obtained.

OVERVIEW

Audit scope

- In support of the group audit opinion, we performed full scope audit procedures over three individually significant components.

Key audit matters

- Material uncertainty related to going concern.
- Carrying value of Expansion assets in construction (group).
- Valuation of derivative financial instruments – inflation linked swaps including day 1 fair valuation and credit risk adjustment (group).
- Valuation of investment properties – commercial car parks (group).
- Valuation of retirement benefit obligations and assets (group).
- Impact of COVID-19 (group and parent).

Materiality

- Overall group materiality: £35m (2020: £40m) representing approximately 2.8% of a 5 year average adjusted EBITDA.
- Overall company materiality: £102m (2020: £81m) based on 1% of total assets.
- Performance materiality: £26.25m (2020: £30m) (group) and £76.64m (2020: £61m) (company).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of Expansion asset in construction (group)	
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 7 in the financial statements. Assets in the course of construction include costs of £513m in respect of the Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order. These two events were considered by the Directors to be a trigger point for the Expansion project to proceed. The Directors subsequently announced publicly that the group would apply for planning permission, in the assessment that it is probable that expansion at Heathrow will be realised. As a result, the group started to capitalise eligible costs as 'assets in the course of construction'. Costs which are directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process are capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets. In accordance with IAS 16 - Property, plant and equipment, the cost of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. We focused on Expansion as there is a risk of impairment that may arise in the event that it is not probable that the project will generate future economic benefits.	We performed the following audit procedures in order to assess whether Expansion is probable and therefore assess the risk of impairment: • We challenged management by identifying both the corroborative and contradictory evidence relating to the impairment risk for expansion. This included assessing UK government policy and the status of associated legal challenges, parliamentary and regulatory support and the basis of the views of the Board of Directors. • We considered the political and economic factors for and against expansion and the impact of these on what represents a significant infrastructure project in the UK, including the impact of COVID-19 and climate change both to the aviation industry as a whole and to Heathrow's business plan for expansion. • Together with our climate change experts, we evaluated the consistency of the corroborative and contradictory evidence with climate change considerations. In particular, we challenged management's use of climate scenarios and their impact on the probability of Expansion. This included evaluating the appropriateness of management's use of the Widespread Innovation scenario published by the UK Climate Change Committee (UK CCC) as described in the TCFD section on page 70 as the base case for probability assessment. • We evaluated whether details regarding the expansion are disclosed appropriately in the financial statements, including significant estimates and judgements to the extent necessary. Based on the above work performed, we have concluded that although the risk of impairment is a finely balanced judgement, we concur with management's view that the asset is not impaired at 31 December 2021.
Valuation of derivative financial instruments – inflation linked swaps including day 1 fair valuation and credit risk adjustment (group)	
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 15 in the financial statements. As at 31 December 2021, the group held derivative assets of £446m and derivative liabilities of £2,244m on the balance sheet. Included in these derivative balances were inflation linked swaps totalling £53m assets and £1,479m liabilities. These are held to mitigate interest rate and foreign exchange risk arising on material levels of debt. IFRS 9 "Financial Instruments" requires derivatives to be accounted for at fair value with movements recognised in profit or loss, unless designated in a hedge relationship. Due to the nature and complexity in the valuation involved, we identified a significant risk that the fair value of inflation linked swaps may be misstated. The risk is mainly driven by: • The treatment (being manual in nature) of valuation differences between the consideration paid or received and the system derived fair value on inception or restructuring; and • the application of credit risk (in particular the assumed loss given default percentage) to the valuation due to these derivatives ranking as super senior in the priority of payments.	We, with the support of our Treasury experts, performed the following audit procedures: • Assessed the design and implementation of key controls relating to the valuation of derivatives; • on a sample basis, performed independent valuation testing on the derivatives, including the credit risk adjustment and the new day-1 fair value at 31 December 2021; • recalculated and assessed the accounting treatment for the day-1 fair value of derivatives in line with IFRS 9 - Financial Instruments and IFRS 13 - Fair Value Measurement; • inspected the documentation supporting the super senior nature of interest rate swaps and inflation linked swaps where a higher recovery rate is used in the valuation and evaluated whether the rate used is in line with the expected market rate; • obtained third party confirmations from the financial institutions with which the group holds derivative instruments to assess the completeness and valuation of the instruments; • tested the application and quantum of the recovery rate applied to the super senior derivatives; and • assessed management's derivative fair value disclosures in the financial statements. The results of our procedures above did not identify any exceptions. We consider management's derivative fair value disclosures in the financial statements to be adequate.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of investment properties – commercial car parks (group)</td></tr>
<tr><td>
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 9 in the financial statements.
The value of investment properties is £2,297m as at 31 December 2021, an increase of £179m from 31 December 2020. Investment properties include rental properties (residential and commercial), car parks, airport lounges and advertising sites. As per the group accounting policies, car parks are accounted for in accordance with IAS 40 "Investment Property".
The car park portfolio represents 49% of the investment properties balance as at 31 December 2021. We identified a significant risk in relation to the valuation of commercial car parks due to the estimation uncertainty in the passenger forecast assumption, and therefore revenue, applied to discounted cash flow models.
The Directors have adopted short term assumptions regarding revenue which are in line with those used within their going concern and goodwill impairment assessments. Other key assumptions include passenger forecasts, growth rate and operating cost savings.
</td><td>
We engaged our Real Estate Valuation experts to perform specific procedures to assist in our evaluation of whether the assumptions and methodology used in valuing the investment properties (commercial car parks) where appropriate. We performed the following audit procedures:

Assessed the design and implementation of key controls relating to valuation of investment properties;
held discussions with management's expert and management to understand changes to valuations and challenged them on a number of key assumptions such as passenger forecasts, growth rate and capital expenditure, including the impact of climate change on the assumptions. This involved the consideration of potential future fall in demand for driving and, therefore, car parks and increased capital expenditure to install electric charging pods around the car parks;
assessed management's expert's qualifications and independence and read their terms of engagement to determine whether there were any matters that might affect their objectivity or may have imposed scope limitations upon their work;
tested information provided to management's expert on a sample basis to assess the completeness and existence of, and group's rights to ownership of the properties within the portfolio; and
evaluated the adequacy of disclosures in the financial statements.

The results of our procedures above did not identify any exceptions. We consider the disclosures in the financial statements to be adequate.
</td></tr>
<tr><td colspan="2">Valuation of retirement benefit obligations and assets (group)</td></tr>
<tr><td>
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters', the Accounting Policies and to note 18 in the financial statements.
At 31 December 2021, the valuation of the BAA Pension Scheme obligation was £4,543m and there are pension plan assets of £4,886m in the Consolidated statement of financial position. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the Directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation (including discount rates, inflation rates, salary increases and mortality) can have a material impact on the valuation of the pension obligations.
Of the £4,886m of pension plan assets, there are more complex pooled investment vehicles (PIVs) as a result of an element of the underlying investments being classified as level 3. As the nature of these assets is more complex; the valuation of these PIVs could have a material impact on the valuation of the pension asset.
The Directors have concluded that the group has an unconditional right to a refund under IFRIC 14 and therefore there is no requirement to restrict any IAS 19 surplus, and hence also appropriate not to recognise any additional liabilities in respect of minimum funding requirements.
</td><td>
We engaged our actuarial experts to evaluate whether the assumptions and methodology used in calculating the pension liabilities were appropriate, by:

Assessing management's expert's qualifications and independence and read their terms of engagement to determine whether there were any matters that might affect their objectivity or may have imposed scope limitations upon their work;
assessing whether salary increases and mortality rate assumptions were reasonable based on the consideration of the specifics of each plan, pension plans of similar maturity to the group's and industry benchmarks;
comparing the consistency of the discount and inflation rate assumptions with our internally developed benchmarks based on relevant market data; and
reviewing the methodology and calculations prepared by management's external actuaries to assess the appropriateness and the consistency of the assumptions used.

Based on our procedures, we concluded that the key assumptions utilised were within acceptable ranges. We assessed the related disclosures included in the group financial statements and consider them to be appropriate.
With respect to the pension assets, we obtained an understanding of the nature of the assets and obtained third party confirmations from investment managers. Particularly in relation to the PIVs we have:

Obtained investment manager's service auditor's controls report where available;
obtained the most recent audited financial statements of the funds and compared the audited information to the valuation provided by the investment manager, where available; and
for those PIVs where there were transactions close to the year end, compared the valuation to the prices of those transactions close to the year end. Where there are no transactions within the defined 'recent' window, we obtained the most recent transaction in the year to assess whether the value was not significantly different to the year end valuation, where available.

We also considered the extent to which there was any evidence available which might contradict the valuation and none was identified for any of the PIVs.
In relation to the recoverability and recognition of the pension asset surplus, we have reviewed the legal advice available to the group and noted no exceptions.
</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (group and parent)	
Refer to the Audit Committee report on 'Key Judgements and Financial Reporting Matters' and the COVID-19 section within the Accounting Policies. COVID-19 has continued to have a pervasive impact on the business and the wider aviation industry. The most recent government guidance and our hybrid working models has meant that the year end financial close process and external audit has had to take place remotely. The Directors have considered the impact of COVID-19 on the financial statements. Primarily, these considerations related to the possible impairment of intangible and tangible assets, including probability of expansion; the recognition of deferred tax assets; accounting for exceptional items; and the going concern basis of preparation There was a risk that the financial impact due to COVID-19 which had been recorded by management is inaccurate or that we may have been unable to obtain sufficient appropriate audit evidence in order to support our conclusions in respect of this assessment.	Our audit focused on those areas where management identified potential financial impacts arising as a result of the pandemic, which, based on our independent risk assessment, could have given rise to a risk of material misstatement. Despite undertaking most of our year end work remotely, we did not encounter any significant difficulties in performing our audit testing or in obtaining the required evidence to support our audit conclusions. Other than as already described in the relevant sections within this report (including the material uncertainty related to going concern section and the matters disclosed in the key audit matters above), we noted the following key material impacts on the financial statements, arising from COVID-19: • We tested cash flow forecasts used to assess for possible impairments of intangible and tangible assets, and to support the going concern basis of preparation and the deferred tax asset in relation to losses. We evaluated management's assumptions in these forecasts in light of both historical and post year end performance. In assessing the future forecasts across an extended time horizon, whilst recognising the inherent uncertainty in assessing the impacts which may arise, we challenged management as to whether allowance had been made for the potential impact of climate change to reflect the current risks which have been identified. This included consideration of passenger recovery forecasts following change in consumer behaviour during the pandemic, for example, in relation to business travel, overall less appetite for flying and the suitability of use of the 'Widespread Innovation Scenario' in forecasting medium to long term passenger numbers. • Where relevant, downside scenarios, including a severe but plausible downside scenario for the going concern assessment, were modelled by management which we assessed using our independent sensitivities. We also evaluated the consistency of the various forecast models. • In relation to going concern, we have understood the debt covenants, assessed the forecast covenant calculations and the adequacy of management's disclosure in relation to going concern basis of preparation. • We assessed the classification and accuracy of the exceptional items. We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. Based on the work performed, we found that management's conclusions in respect of the impact of COVID-19 on the group and company are appropriate.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group has two trading entities; one non trading financing entity which holds listed debt on the London Stock Exchange; and a number of other non-trading entities. Our audit scope includes a full scope audit of one of the trading entities, which contributes more than 90% of the group's EBITDA and 99% of the group's revenue and the full scope audit of two other components. The majority of the audit effort in relation to controls and substantive testing was performed at the significant trading entity level.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£35m (2020: £40m)	£102m (2020: £81m)
How we determined it	Materiality represents approximately 2.8% of a 5 year average adjusted EBITDA (2020: 2.8%)	1% of Total assets (2020: 1%)
Rationale for benchmark applied	The impact of COVID-19 on the financial statements has resulted in a significant decline in adjusted EBITDA and, therefore, given the volatility in the financial statements in the current year, we considered a 5 year average adjusted EBITDA to be a more appropriate benchmark. In making this assessment, we also considered the carrying value of assets, which remain consistent with pre pandemic levels, and the nature of the operations which remain largely unchanged year on year.	We have applied this benchmark of total assets, a generally accepted auditing practice and more appropriate given that the company does not generate revenues of its own.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £20m to £33m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £26.25m (2020: £30m) for the group financial statements and £76.64m (2020: £61m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.75m (group audit) (2020: £1.4m) and £5.1m (company audit) (2020: £1.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company'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 the company or to cease operations, or have no realistic alternative but to do so.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT CONTINUED

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Heathrow Airport's CAA operating license being revoked, breaches of environmental regulations, adherence to data protection requirements, UK tax legislation not being adhered to and non-compliance with employment regulations in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, either in the underlying books and records or as part of the consolidation process, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with; management, including representatives outside of the finance function; representatives from Business Assurance and Internal Audit; and members of the group's General Counsel team. Those discussions included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- read the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- challenging assumptions and judgements made by management in its significant accounting estimates in relation to the carrying value of Expansion assets in construction; valuation of derivative financial instruments, investment properties and retirement benefit obligations; impairment assessment of tangible including the recoverability of deferred tax assets in relation to losses (see related key audit matters above);
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals crediting revenue or those posted by unexpected users;
- testing all material consolidation adjustments to ensure these were appropriate in nature and magnitude.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sotiris Kroustis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

22 February 2022

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2021

		Year ended 31 December 2021				Year ended 31 December 2020			
	Note	**Before certain re-measurements[1] £m**	**Certain re-measurements[2] £m**	**Exceptional items[3] £m**	**Total £m**	Before certain re-measurements[1] £m	Certain re-measurements[2] £m	Exceptional items[3] £m	Total £m
Revenue	*1*	**1,214**	**-**	**-**	**1,214**	1,175	-	-	1,175
Operating costs[4]	*2*	**(1,627)**	**-**	**(31)**	**(1,658)**	(1,717)	-	(184)	(1,901)
Other operating items									
Fair value gain/(loss) on investment properties	*9*	**-**	**174**	**-**	**174**	-	(412)	-	(412)
Operating (loss)/ profit		**(413)**	**174**	**(31)**	**(270)**	(542)	(412)	(184)	(1,138)
Financing									
Finance income	*4*	**7**	**-**	**-**	**7**	12	-	-	12
Finance costs	*4*	**(864)**	**(665)**	**-**	**(1,529)**	(684)	(202)	-	(886)
Net finance costs		**(857)**	**(665)**	**-**	**(1,522)**	(672)	(202)	-	(874)
Loss before tax		**(1,270)**	**(491)**	**(31)**	**(1,792)**	(1,214)	(614)	(184)	(2,012)
Tax credit	*5*	**254**	**139**	**-**	**393**	211	110	18	339
Change in tax rate	*5*	**-**	**(214)**	**-**	**(214)**	-	(112)	-	(112)
Taxation credit/ (charge)		**254**	**(75)**	**-**	**179**	211	(2)	18	227
Loss for the year[5]		**(1,016)**	**(566)**	**(31)**	**(1,613)**	(1,003)	(616)	(166)	(1,785)

The notes on pages 158 to 210 form part of these financial statements.

[1] Amounts stated before certain re-measurements and exceptional items are non-GAAP measures.
[2] Certain re-measurements consist of: fair value gains and losses on investment property revaluations, gains and losses arising on the re-measurement of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a cash flow, fair value and economic hedging relationship and the associated tax impact on these including the impact of the UK corporation tax rate change.
[3] Exceptional items are one-off material costs that have been incurred as a result of management decisions made in response to COVID-19 and/or the delay to Expansion following the Judicial Review. Further details can be found in Note 3.
[4] Included within Operating costs is a £3 million (2020: £12 million) charge for the impairment of trade receivables.
[5] Attributable to owners of the parent.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss for the year		**(1,613)**	(1,785)
Items that will not be subsequently reclassified to the consolidated income statement			
Actuarial gain/(loss) on pensions			
Gain on plan assets[1]	22	**141**	389
Decrease/(Increase) in scheme liabilities[1]	22	**125**	(492)
Change in tax rate		**(1)**	(1)
Items that may be subsequently reclassified to the consolidated income statement			
Cash flow hedges net of tax			
Gains/(losses) taken to equity[1]	22	**18**	(43)
Transfer to finance costs[1]	22	**38**	53
Change in tax rate		**12**	4
Change in tax rate on other opening balances		**(4)**	(1)
Other comprehensive income/(expense) for the year		**329**	(91)
Total comprehensive expense for the year[2]		**(1,284)**	(1,876)

The notes on pages 158 to 210 form part of these financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Note	31 December 2021 £m	31 December 2020 £m
Assets			
Non-current assets			
Property, plant and equipment	*7*	**10,654**	11,136
Right of use assets	*8*	**270**	285
Investment properties	*9*	**2,297**	2,118
Intangible assets	*10*	**156**	182
Retirement benefit surplus	*18*	**343**	12
Derivative financial instruments	*15*	**421**	656
Trade and other receivables	*12*	**23**	20
		14,164	14,409
Current assets			
Inventories	*11*	**13**	14
Trade and other receivables	*12*	**201**	496
Current income tax assets		**3**	1
Derivative financial instruments	*15*	**25**	146
Term deposits	*13*	**2,410**	3,236
Cash and cash equivalents	*13*	**216**	280
		2,868	4,173
Total assets		**17,032**	18,582
Liabilities			
Non-current liabilities			
Borrowings	*14*	**(18,341)**	(18,635)
Derivative financial instruments	*15*	**(2,225)**	(1,134)
Deferred income tax liabilities	*17*	**(706)**	(784)
Lease liabilities	*8*	**(331)**	(349)
Retirement benefit obligations	*18*	**(30)**	(31)
Provisions	*19*	**(1)**	(1)
Trade and other payables	*20*	**(3)**	(6)
		(21,637)	(20,940)
Current liabilities			
Borrowings	*14*	**(1,008)**	(1,928)
Derivative financial instruments	*15*	**(19)**	(21)
Lease liabilities	*8*	**(40)**	(43)
Provisions	*19*	**(4)**	(15)
Trade and other payables	*20*	**(365)**	(392)
		(1,436)	(2,399)
Total liabilities		**(23,073)**	(23,339)
Net liabilities		**(6,041)**	(4,757)
Equity			
Capital and reserves			
Share capital	*21*	**11**	11
Share premium		**499**	499
Merger reserve		**(3,758)**	(3,758)
Cash flow hedge reserve		**(105)**	(173)
Accumulated losses		**(2,688)**	(1,336)
Total shareholders' equity		**(6,041)**	(4,757)

The notes on pages 158 to 210 form part of these financial statements. These financial statements of Heathrow (SP) Limited (Company registration number: 06458621) on page 132 to 210 were approved by the Board of Directors and authorised for issue on 22 February 2022.

They were signed on its behalf by:

JAVIER ECHAVE
DIRECTOR

NICHOLAS GOLDING
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

		Attributable to owners of the Company					
	Note	Share capital £m	Share premium £m	Merger reserve £m	Cash flow hedge reserve £m	Retained earnings/ (Accumulated losses) £m	Total £m
1 January 2020		11	499	(3,758)	(187)	661	(2,774)
Comprehensive income:							
Loss for the year		-	-	-	-	(1,785)	(1,785)
Other comprehensive income(expense):							
Fair value gains/(losses) on:	22						
Cash flow hedges net of tax		-	-	-	10	-	10
Change in tax rate		-	-	-	4	-	4
Actuarial gain/(loss) on pensions net of tax							
Gain on plan assets	22	-	-	-	-	389	389
Increase in scheme liabilities	22	-	-	-	-	(492)	(492)
Change in tax rate		-	-	-	-	(1)	(1)
Change in tax rate on other opening balances		-	-	-	-	(1)	(1)
Total comprehensive income/ (expense)		-	-	-	14	(1,890)	(1,876)
Transaction with owners:							
Dividends paid to Heathrow Finance plc	6	-	-	-	-	(107)	(107)
Total transaction with owners		-	-	-	-	(107)	(107)
31 December 2020		11	499	(3,758)	(173)	(1,336)	(4,757)
Comprehensive income:							
Loss for the year		**-**	**-**	**-**	-	**(1,613)**	**(1,613)**
Other comprehensive income/(expense):							
Fair value gains/(losses) on:	22						
Cash flow hedges net of tax		-	-	-	**56**	-	**56**
Change in tax rate		-	-	-	**12**	-	**12**
Actuarial gain/(loss) on pensions net of tax	22						
Gain on plan assets	22	-	-	-	-	**141**	**141**
Decrease in scheme liabilities		-	-	-	-	**125**	**125**
Change in tax rate		-	-	-	-	**(1)**	**(1)**
Change in tax rate on other opening balances		-	-	-	-	**(4)**	**(4)**
Total comprehensive income/(expense)		-	-	-	**68**	**(1,352)**	**(1,284)**
31 December 2021		**11**	**499**	**(3,758)**	**(105)**	**(2,688)**	**(6,041)**

The notes on pages 158 to 210 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash flows from operating activities			
Cash generated from/ (used in) operations [1]	*24*	**613**	(95)
Taxation:			
Corporation tax (paid)/received		**(1)**	67
Group relief received		**-**	2
Net cash generated from/(used in) operating activities		**612**	(26)
Cash flows from investing activities			
Purchase of:			
Property, plant and equipment		**(248)**	(512)
Investment properties		**(4)**	(9)
Disposal of:			
Property, plant and equipment		**14**	-
Decrease/(increase) in term deposits [2]		**826**	(2,511)
Interest received		**7**	12
Net cash from/(used in) investing activities		**595**	(3,020)
Cash flows from financing activities			
Dividends paid to Heathrow Finance plc	*6*	**-**	(107)
Proceeds from issuance of bonds		**1,582**	1,977
Repayment of bonds		**(1,119)**	(402)
Repayment of facilities and other financing items		**(1,590)**	(12)
Increase in amount owed to Heathrow Finance plc		**166**	787
Prepayment of interest on swaps [3]		**-**	(30)
Inflation swap restructuring prepaid [3]		**-**	(47)
Interest paid [4]		**(258)**	(628)
Issuance of term notes		**50**	255
Drawdown of revolving credit facilities		**-**	1,050
Settlement of accretion on index-linked swaps		**(69)**	(285)
Payment of lease liabilities		**(33)**	(36)
Prepayment of lease liabilities [1]		**-**	(11)
Net cash (used in)/generated from financing activities		**(1,271)**	2,511
Net decrease in cash and cash equivalents		**(64)**	(535)
Cash and cash equivalents at beginning of year		**280**	815
Cash and cash equivalents at end of year	*13*	**216**	280

The notes on pages 158 to 210 form part of these financial statements.

1 For the year-ended 31 December 2020, within cash generated from operations, the increase in trade and other receivables £247 million relating to prepayments made to suppliers. The total includes a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. A further £11 million of prepayments in relation to IFRS 16 lease liabilities are included within cash flows from financing activities. These prepayments were made in order to manage banking covenant ratios.

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

3 In the year ended 31 December 2020, the Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate swap transactions with the aim of reducing future interest payments (the "swap restructuring programme"). As a result, interest payments were prepaid in 2020, thereby reducing 2021 cash outflows.

4 Includes £16 million of lease interest paid (2020: £16 million).

ACCOUNTING POLICIES

for the year ended 31 December 2021

The principal accounting policies applied in the preparation of these consolidated financial statements of Heathrow (SP) Limited (the 'Company') and its subsidiaries (together the 'Group') are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

THE GROUP

The Company is the private holding company of a group of private 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, by shares, liability company incorporated, registered and domiciled in the UK. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

BASIS OF ACCOUNTING

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

The Group financial statements are presented in Sterling and are rounded to the nearest million pounds (£m), except when otherwise noted.

PRIMARY FINANCIAL STATEMENTS FORMAT

The Group's primary financial statements are prepared in accordance with UK adopted international accounting standards as they apply to the financial statements of the Group for the year ended 31 December 2021.

A columnar approach has been adopted in the income statement and the impact of certain items is shown in a separate column. This column includes certain re-measurements and exceptional items as listed in (i) and (ii) below, which management separates from the underlying operations of the Group.

Also, this column includes the effect on taxation of changes in tax rates in (iii) and (iv) below. By isolating certain re-measurements and exceptional items, management believes the results provides the reader with a more meaningful understanding of the performance of the Group, by concentrating on the matters over which it has most 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 items:

i Fair value gains and losses on investment property revaluations;

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) above; and

iv the impact on deferred tax balances of known future changes in tax rates.

EXCEPTIONAL ITEMS

The Group separately presents certain items on the face of the income statement as exceptional as it believes it assists investors to understand underlying performance and aids comparability of the Group's result between periods. Exceptional items include business transformation costs in the prior year and capital write-offs in both current and prior years. These are not expected to reoccur in future years.

GOING CONCERN

The Directors have prepared the financial information presented in the annual report and accounts 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.

GOING CONCERN CONTINUED

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 potential impact of COVID-19 on cash flow and liquidity over the next 12 months, together with the mitigations that regulation could provide as Heathrow enters the next regulatory period (H7). The Directors have also considered the period beyond 12 months to December 2023.

Despite a much more challenging market backdrop, given the COVID-19 pandemic, continued confidence and support for our credit enabled Heathrow to raise £1.6 billion of debt in the year to 31 December 2021 with new €500 million, C$1,275 million and A$125 million Class A transactions and £400 million of Class B transactions being successfully executed. Consequently, Heathrow SP held cash of circa. £2.6 billion as at 31 December 2021. Total debt maturity within Heathrow SP for the next 12 months from 31 December 2021 is £0.7 billion. The wider Heathrow Group (which includes Heathrow Finance and the cash held at Heathrow SP) has cash of circa. £2.9 billion available. No debt matures outside of Heathrow SP for the next 12 months from 31 December 2021. 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 February 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.

HEATHROW'S REGULATORY BUSINESS PLAN

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 to include the impact of COVID-19 related disruption and have considered the following:

- Forecast revenue and operating cash flows from the underlying operations, based initially on a 2022 traffic forecast of 45.5 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 impact of COVID-19, there remains a significant degree of uncertainty given the wide range of potential forecasts being formed by various stakeholders in the global aviation industry. Therefore, there is inherent subjectivity in our forecasting. For the year ended 31 December 2021, passenger traffic for the Group declined 12.2% to 19.4 million when compared with 22.1 million in 2020, and by 76.0% compared to 2019. Despite this decline in passengers compared to 2020, Adjusted Group EBITDA increased 42.2% to £384 million in 2021 driven by the annualised benefit of cost reduction initiatives implemented in 2020 and management actions taken to optimise revenue.

In addition to the inherent passenger forecast uncertainties described above, we do not yet have 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 17 of these Annual Report and Accounts, a range of potential tariffs have been provided by the CAA in their "Initial Proposals" 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 (Revised Business Plan Update 2 – "RBP Update 2") reflect the Director's view of the expected CAA passenger tariff for the H7 regulatory period, as outlined on page 17. 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 £41.95 (in 2018 prices). This is above the CAA's high charge as set out in their Initial Proposals. It is the Directors' view that its own RBP Update 2 is devoid of the errors made in the CAA's Initial Proposals and is therefore a realistic tariff supported by a detailed assessment of each individual building 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 on the following page.

STRESS TESTING

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

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the range of CAA H7 tariffs and further decreases in passenger numbers and a resulting drop in EBITDA.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals (£22.94 in 2018 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. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of over 8 million (18% reduction versus RBP Update 2) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2022.

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.

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 the Annual Report and Accounts, 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.

The Annual Report and Accounts do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) Amended standards adopted by the Group

The following new accounting pronouncements were adopted by the Group to comply with amendments to IFRS. None of these had any significant impact on adoption:

- Revised Conceptual Framework for Financial Reporting.
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2, further disclosures are made in the accounting policies and Note 16 to the financial statements.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New accounting pronouncements, that are not yet effective and have not been adopted early by the Group, to be adopted on or after 1 January 2022

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards.
- Amendments to References to the Conceptual Framework.
- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current.
- IFRS 17 'Insurance Contracts'.
- 2018-2020 Annual Improvements Cycle.

The Group's financial reporting will be presented in accordance with the new standards above, which are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group, from 1 January 2022.

BASIS OF CONSOLIDATION

The Consolidated financial statements consolidate the financial statements of Heathrow (SP) Limited and all its subsidiaries.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of control. Costs directly attributable to the acquisition are expensed to the income statement. The identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date, irrespective of any non-controlling interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill on consolidation. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of acquired subsidiaries are changed where necessary, to ensure consistency with policies adopted by the Group.

ALTERNATIVE PERFORMANCE MEASURES

In addition to performance measures, the Group discloses additional information including profit from operations, if applicable, performance before remeasurement items and exceptional items. The Group believes that this additional information provides useful information on underlying trends. This additional information is not defined under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies, as it is not intended to be a substitute for, or superior to, IFRS measures of profit. The alternative performance measures are set out on pages 219 to 222.

COVID-19

The COVID-19 outbreak developed rapidly during 2020 and continued to significant impact the Group in 2021. Measures taken to contain the virus have affected the wider economy and directly impacted on the Group's trading results (as detailed further in the Strategic report). The Group continued to operate where possible, in a safe and appropriate manner and strictly in accordance with both Government and the Civil Aviation Authorities health and safety guidelines and regulations. In light of the pandemic, the Group has performed a further review of its accounting policies and consider they remain appropriate. Some of the key points and clarifications resulting from this review are highlighted below.

The main impact to the trading results has been to the revenue and margin shortfall resulting from lockdown which ultimately resulted in not fulfilling performance obligations under IFRS 15 as efficiently as expected (or not at all) in relation to aviation income. The Group continues to recognise costs as incurred. Including, costs associated with the new working guidelines in respect of COVID-19 secure environment, providing such costs are expected to contribute to the satisfaction of the performance obligation.

The Group has utilised the Government's Job Retention Scheme until it closed. The grant income received has been accounted for in accordance with IFRS (IAS 20) for furloughed personnel and has been offset against existing furloughed staff costs incurred in line with our existing accounting policy in the Income Statement, refer to Note 2 for details.

The Group has reviewed any potential impairment indicators of both financial and non-financial assets (in accordance with IAS 36 and IFRS 9 in particular), especially where operations have suffered due to COVID-19. The Group has also reconsidered recoverability of fixed assets under IAS 36, particularly Expansion assets. Further details are included in these accounting policies.

As detailed in the Strategic report, the Group benefits from a wide customer base, which the Group considers provides greater financial security over the balances held within financial assets.

The practical expedient available from the recently endorsed amendment to IFRS 16 – 'COVID-19-Related Rent Concessions' has not been utilised on the basis that it is not relevant to the Group.

CLIMATE CHANGE

Achieving net zero carbon aviation so as to limit the impacts of climate change is one of the Group's principal risks, as identified on page 65. Climate change could materially impact future passenger demand either due to future government or regulator intervention, an increase in the cost of aviation due to taxation or levies, or as a result of a change in consumer sentiment to aviation. These transition risks are explained fully within the Task Force on Climate Related Disclosures on page 72. In addition, the Group may need to invest significant amounts of capital in order to future-proof its operations against the impacts of climate change. These physical risks are explained fully within the Task Force on Climate Related Disclosures on page 74.

In preparing these financial statements, Management has considered the Climate change risk outlined above to ensure consistency between the potential future scenarios identified in the Task Force on Climate Related Disclosures and any impact they may have on these financial statements. Specifically:

- **Property, plant and equipment (excluding assets in the course of construction):** whether physical risks associated with climate change impact the useful economic lives of existing assets resulting in the need for accelerated depreciation. This could be as a result of assets that will be replaced as part of the Group's net zero plan to decarbonise during their current useful economic life; or could be as a result of the need to replace existing infrastructure in response to increasing temperatures and more unpredictable weather patterns ahead of previous expectations. In the year, there has been no resultant change to useful economic lives of the Group's assets, and no related accelerated depreciation or impairment. Refer to Note 7 for further information.
- **Assets in the course of construction:** specifically related to Expansion assets and whether the need to get to net zero aviation impacts the probability of Expansion occurring, and therefore the recoverability of Expansion assets. Refer to the Capitalisation critical judgement on pages 155-156 for further information.
- **Investment properties:** whether future passenger demand will impact the valuation of Investment properties. Investment properties are initially recognised at cost and subsequently stated at fair value. The fair value of investment properties is based on expected revenue and revenue growth which is directly proportional to future passenger numbers. Based on Management's sensitivity analysis performed, no impairment or fair value impact has been recorded in these financial statements. Refer to Note 9 for further information.
- **Deferred tax assets:** whether future passenger demand impacts the recoverability of deferred tax assets. Deferred income tax assets are recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. A reduction in future passenger numbers may impact future taxable income. Based on the sensitivity analysis performed, the asset recognised is still fully recoverable under the Group's climate scenario adopted for TCFD. Refer to Note 17 for further information.

The Directors are satisfied that all information presented in the Annual Report and Accounts has been consistently applied throughout, particularly with regard to forecast information and commitments associated with achieving net zero.

SUBSIDIARIES

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is defined as where the Group is exposed or has rights to variable returns from its involvement with the subsidiary and the ability to affect those returns through its power over the subsidiary.

SEGMENT REPORTING

Information reported to the Chief Operating Decision Makers (CODMs) who sit on the Board of Directors for the purposes of resource allocation and assessment of segment performance relates to the operations of Heathrow and Heathrow Express.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is income arising from the sales of goods and services in the ordinary course of the Group's activities and excludes amounts collected on behalf of third parties. Revenue is recognised when performance obligations are satisfied, and control has transferred to the customer. For majority of the revenue streams, there is a low level of judgement in determined the timing of transfer of control or transaction price, an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue can be recognised over time or at a point in time.

The Group recognises revenue from the following major sources:

- Aeronautical income;
- Retail services;
- Car parking;
- Other regulated charges; and
- Rail income.

SEGMENT REPORTING CONTINUED

AERONAUTICAL INCOME

Aeronautical income includes:

- Aircraft movement charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on time parked and whether aircraft are wide or narrow bodied as provided.
- Passenger charges based on the number of departing passengers on departure.
- Other charges levied for passenger and baggage operations when these services are rendered.

Landing and terminal services are provided to airlines on demand under the published regulatory prices, rather than through fixed quantity individual contracts. Depending on the service being provided, the transaction price is calculated based on a fixed price per landing, parking, per passenger and by weight. Where applicable, separate incentive agreements are signed with individual airlines. These charges are recognised at a point in time when Heathrow renders and fulfils the service.

RETAIL SERVICES

Retail income include concession fees from retail and commercial concessionaires at the airport which are based upon reported revenue and/ or volumes by concessionaires, taking into account contracted minimum guarantees prices (variable consideration) only where applicable.

The performance obligation for this revenue stream is the provision of retail unit space to a third party for the purposes of selling goods or providing services to the passengers, in return for a fee, based either on a fixed rental fee, or a concession fee based on turnover. The revenue is recognised in the period that the sales occurred, therefore at a point in time.

OTHER REGULATED CHARGES (‘ORCS’)

Revenue in relation to ORCs is derived from the recovery of certain costs incurred by the Airport. It includes:

- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Charges related to passengers with restricted mobility and other services recognised at the time of delivery.
- Other invoiced sales: recognised on the performance of the service.

The Group typically satisfies its performance obligation as the service is provided. Revenue is recognised on the day the service takes place, therefore at a point in time.

CAR PARKING

Car parking charges is from the provision of parking services to customers, which include for Short Stay, (fixed consideration by tiered time), Long Stay, Business parking, Drop off and Storage (fixed variable consideration by time utilised). The Group considers the performance obligation is satisfied by the provision of a car park space for each day the car is parked, therefore the revenue is recognised over time.

Customers who book and pay for car parking, but then subsequently cancel before occupying or prematurely curtail the use of the parking space are refunded on a pro-rata case basis.

RAIL INCOME

Heathrow Express derives its income from the sale of tickets to customers (fixed variable consideration by time utilised).

Revenue attributable to return tickets should be allocated to each journey and recognised on the day each journey takes place, therefore at a point in time. Heathrow Express is not able to track when each journey is undertaken and therefore has used sample data of historical journeys to estimate when each journey takes place.

The revenue is recognised by applying the management assumptions below to measure progress towards satisfaction of the performance obligation:

- 90% of single tickets are used in the month of sale.
- 80% of return tickets (50% outward and 30% return) are used in the month of sale.
- All multiple journey tickets are used within 6 months.

FINANCE INCOME

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets, until the asset is complete and available for use. Such borrowing costs are capitalised whilst projects are in progress.

Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

As a consequence of the impact of COVID-19, the Group have experienced interruption in the development and construction of some qualifying assets. Borrowing costs incurred during the period of suspension have not been considered to be a necessary cost of development and thus have been recognised in the income statement in the period in which they are incurred.

All other borrowing costs, including costs incurred in respect of the maintenance of the Group's credit ratings, are recognised in the income statement in the period in which they are incurred.

PROPERTY, PLANT AND EQUIPMENT

OPERATIONAL ASSETS

Terminal complexes, airfield assets, plant and equipment, rail assets and other land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Assets in the course of construction are stated at cost and reviewed for impairment. No depreciation is charged, or revaluation made, prior to work in progress being capitalised to the appropriate asset category. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised (see "Borrowing Costs" policy), own labour costs of construction-related project management and directly attributable overheads.

Costs associated with projects that are in the early stages of planning are capitalised where the Directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future benefits will flow to the Group whilst embracing the Group's commitment to support net zero aviation by 2050. The Group reviews these projects on a regular basis to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment. Including review of all assets that have a residual economic life greater than the zero-carbon target date.

HEATHROW EXPANSION

Assets in the course of construction include qualifying costs in respect of Heathrow expansion following the Government decision in October 2016 in favour of Heathrow, and subsequent Board decision in October 2016 to apply for the Development Consent Order.

These two events were considered by management to be a trigger point for the expansion project to proceed. Management subsequently announced publicly that the Group would apply for planning permission, deeming it probable that expansion at Heathrow would be realised. Management considers October 2016 to be the point at which Expansion moved from the research phase to the development phase, and therefore eligible development expenditure is capitalised in line with the principles of IAS 38 as 'assets in the course of construction' – refer to 'Internally-generated intangible assets' accounting policy. Expansion costs incurred during the research phase for the Airports Commission process and before Heathrow was named as the preferred location for new runway capacity in October 2016, were expensed in the period incurred. Costs directly associated with, and solely for the purposes of, seeking planning consent for the delivery of new runway capacity through the Development Consent Order process were capitalised as they are directly attributable to the final design and construction of the expanded Heathrow assets.

As explained on page 44, the Airport National Policy Statement continues to be lawful and legal Government policy and therefore the legal framework continues to exist for Expansion. The impacts of COVID-19 have temporarily paused the Expansion programme with efforts focussed on recovery, nevertheless Management still consider Expansion to be a probable outcome. This forms a Critical Judgement and is explained further on page 155.

PROPERTY, PLANT AND EQUIPMENT CONTINUED

DEPRECIATION

Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value, by equal instalments over their expected useful lives as set out below:

Terminal complexes	**Fixed asset lives**
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
– Baggage systems	15 years
– Screening equipment	5–10 years
– Lifts, escalators and travelators	20 years
– Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–120 years
Airport transit systems	
– Rolling stock	20 years
– Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Rolling stock	8–40 years
Tunnels	100 years
Track metalworks	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Other land and buildings	
Short leasehold properties	3–20 years
Leasehold improvements	Lower of useful economic life or period of lease

Asset residual values and useful lives are reviewed and adjusted at each reporting date. If expenditure maintains the life of the non-current asset or maintains its earning capacity, then it is treated as revenue expenditure expensed as incurred. Alternatively, if the expenditure provides incremental future benefits so that it improves the earning capacity or extends the life of the non-current asset beyond its originally intended useful economic life, then it is treated as capital expenditure. This is usually the case with non-climate compliant assets where the Group seeks to modify appropriate assets where possible as it works towards its zero-carbon footprint commitment which is detailed in the strategic report. In certain circumstances, the asset life may fall outside of the boundaries disclosed above.

Climate uncertainty does not have a material impact on the assessment of useful lives as the assets are considered to be fit for purpose over the assessed useful economic lives with reasonable repairs and maintenance. This is primarily since the key assumption in the mitigation against climate change is the adoption of Sustainable Aviation Fuels, as explained in the TCFD on page 72, which will use the existing asset infrastructure without material changes to existing assets. Consistent with the physical risk assessment in the TCFD, there are no material physical risks associated with climate change due to physical location of the airport and its operations, and therefore at this stage there have been no resultant changes to the useful economic lives of assets.

IMPAIRMENT OF ASSETS

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when management deem impairment testing for an asset is necessary, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When performing this review, Heathrow and Heathrow Express forms two cash generating units (CGUs) based on the functional organisational structure by which the airport is managed. The Group has also assessed all Property, Plant and Equipment to consider whether there are indicators of material impairment arising from the potential physical risks arising from climate change as identified in the Task Force on Climate Related Financial Disclosures on pages 74. No assets have been impaired this year as a result of this exercise, which will be repeated at each subsequent reporting date.

INVESTMENT PROPERTIES

Investment property held to earn rentals and/or for capital appreciation, is initially measured at cost and subsequently stated at fair value at the reporting date, as determined by the Directors and supported by external valuers. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Land is held by the company for long term and strategic purposes and is not held for resale. Investment properties are land and buildings where the building is built to maximise the return on land and buildings as an "interim use", are held for long term rental yield and are not occupied by the company. Investment property also includes property that is being constructed or developed for future use as investment property. Properties leased to third parties under operating leases are generally classified as investment property.

INTERNALLY-GENERATED INTANGIBLE ASSETS

Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- The Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; and
- the Group can demonstrate how the intangible asset created will generate future economic benefits; and
- the Group has available the resources to complete the asset; and
- the Group intends to complete that asset and has the future ability to sell or use the asset; and
- the development cost of the intangible asset can be measured reliably.

Following initial recognition of an intangible asset, the cost model is applied requiring the asset to be held at cost less any accumulated amortisation and impairment. Amortisation begins when the asset is ready for use.

This type of expenditure primarily relates to internally developed software and website projects for the group and are amortised on a straight-line basis over their useful economic lives of three to seven years. During the period of development, the asset is tested for impairment annually. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

PURCHASED INTANGIBLE ASSETS (SOFTWARE COSTS)

Computer software costs principally relate to operating and financial software. These assets are amortised on a straight-line basis over their useful lives of between four and fifteen years. The assets are assessed for impairment whenever there is indication that the intangible asset may be impaired.

CLOUD COMPUTING ARRANGEMENTS

Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service and other similar hosting arrangements (i.e. an arrangement in which an end-user of the software does not take possession of the software).

Specific criteria need to be met for a cloud computing arrangement to be considered a software licence. Depending on whether those criteria are met assists in determining the accounting treatment for related fees in that arrangement. To determine if the arrangement is a software licensing arrangement, the below two criteria must be met:

- The entity has the contractual right to take possession of the software at any time during the hosting period without significant penalty; and
- the entity can run software on its own hardware or can contract with another vendor to host the software.

If the cloud computing arrangement is determined to be a software licensing arrangement, it is considered an intangible asset and accounted for as such.

If the criteria are not met, the arrangement should be treated as a service contract. In a service contract, the ongoing service costs are expensed as incurred and implementation costs can be capitalised. In light of recent IFRIC changes, the Group has re-evaluated it's historical accounting for SaaS assets and concluded that there is no material change in asset value.

LEASES

GROUP AS A LESSEE

Group leases relate to the electricity distribution network at the airport, offices, warehouses, plant and equipment and track access.

At inception, the Group assess whether the contract contains a lease or is a lease. A lease is determined when the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability for all lease agreements in which the Group is the lessee at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial lease liability adjusted for any lease payment made at or before the commencement date, plus any indirect initial costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are then subsequently depreciated using the straight-line method or reducing balance method from the commencement date to the earlier of the lease term or useful life of the underlying asset. Right-of-use assets are reviewed for indicators of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the rate implicit in the lease, or, if the rate cannot be determined, the Group's incremental borrowing rate.

The incremental borrowing rate is based on the (i) reference rate, (ii) financing spread and (iii) lease specific adjustments. The reference rate is based on the UK Nominal Gilts aligned with the tenor of the lease observed at the time of signing the contract. The financing spread is based on the term of the debt, level of indebtedness, entity and economic environment. The lease specific adjustment is required if the term of the lease is out of the norm.

Lease payments included in the measurement of lease liabilities includes the following:

- Fixed payments including in-substance fixed payments.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.

The Group remeasures the lease liability when there is a change in the future lease payments arising from a change in rate or index or, a modification to the lease that is not accounted for as a separate lease. In the latter case, the lease liability is remeasured by using a revised discount rate. When the lease liability has been remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the profit or loss account if the carrying amount of the right-of-use asset has been reduced to zero.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Group has opted not to recognise right-of-use assets and lease liabilities for low value assets and short-term leases (defined as a lease with a lease term of 12 months or less). Instead, the lease payments are recognised as an operating expense on a straight-line basis over the length of the lease term or on a systematic basis.

EXTENSION AND TERMINATION OPTIONS

Extension and termination options are included in a number of leased assets across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

GROUP AS A LESSOR

The Group receives rental income from operating leases of its investment properties, space in the terminals and ancillary buildings.

The Group fully accounts for the default risk on lease receivable by recognising loss allowances, which are recognised in accordance with the requirements of IFRS 9.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

RESTRICTED CASH

Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

CASH AND CASH EQUIVALENTS

For the purposes of the Statement of financial position, cash and cash equivalents comprise cash at bank, cash in hand, money market funds and short-term deposits with an original maturity of three months or less. For the Consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, excluding tax or escrow deposits.

As a mitigation measure in the prior year, from time to time Heathrow may, at major reporting dates prepay in advance of the operating expense falling due to its suppliers', payments which are subsequently lodged into an escrow account to improve the cash flow bank covenant ratio. In accordance, with IAS 7, cash and cash equivalent balances have been shown in accordance with the definition and thus do not include these prepayments held in escrow, as these are amounts that are no longer available to the group as disclosed in Note 24. These prepayments are an outflow of cash which have been recorded within prepayments that form part of the current, trade and other receivables balance, as disclosed in Note 12.

TERM DEPOSITS

Term deposits are shown separately on the Statement of financial position and Statement of cash flows.

DEFERRED INCOME

Amounts received prior to the delivery of goods and services are recorded as deferred income and released to the income statement as they are provided.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted, where material, to present value using a current, pre-tax rate that reflects, where appropriate, the risks specific to the liability.

RESTRUCTURING

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

FINANCIAL INSTRUMENTS

RECOGNITION AND DERECOGNITION

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

CLASSIFICATION AND INITIAL MEASUREMENT OF FINANCIAL ASSETS

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost.
- Fair value through profit or loss ('FVTPL').
- Fair value through other comprehensive income ('FVOCI').

The classification is determined by both:

- The entity's business model for managing the financial asset.
- The contractual cash flow characteristics of the financial asset.

SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

FINANCIAL ASSETS AT AMORTISED COST

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows.
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS CONTINUED

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (‘FVTPL’)

Financial assets that are held within a different business model other than ‘hold to collect’ or ‘hold to collect and sell’ are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (‘FVOCI’)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- They are held under a business model whose objective it is “hold to collect” the associated cash flows and sell and,
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9’s impairment requirements use more forward-looking information to recognise expected credit losses – the ‘expected credit loss (‘ECL’) model’.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’);
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’); and
- financial assets that have objective evidence of impairment at the reporting date (‘Stage 3’).

‘12-month expected credit losses’ are recognised for the first category while ‘lifetime expected credit losses’ are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial asset. For large one-off balances where there is no historical experience, analysis is completed in respect of a number of reasonably possible scenarios.

TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 14-day terms, are initially recognised at their transaction price. When a trade receivable is uncollectible, it is written off against the impairment provision for trade receivables. Subsequent recoveries of amounts previously written off are credited against costs in the income statement. Short-term trade receivables do not carry any interest and are stated at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument.

The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Group assess impairment of trade receivables on a collective basis where they possess shared credit risk characteristics they have been grouped based on sector industry global default rates. Refer to Note 12 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The assessment of impairment for trade receivables can either be individually or collectively and is based on how an entity manages its credit risk. As the Group has a small number of receivables with large value and these receivables are managed on an account basis (i.e. individually) it is therefore not appropriate to base the impairment on a provision matrix as such a matrix would unlikely be in line with the expected credit loss of the individual receivable.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that provides a residual interest in the assets of a business after deducting all other liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES

The Group's financial liabilities include borrowings, trade and other payables, derivative financial instruments and financial lease liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

For index-linked borrowings, the nominal amount is adjusted for movements in the relevant price index. This accretion expense is recorded within finance costs in the income statement.

DEBT ISSUE COSTS

Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

TRADE AND OTHER PAYABLES

Trade and other payables are non-interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months.

Certain derivatives, as indicated by their fair value at inception or immediately prior to the restructuring, could not be supported by observable inputs alone. These "day 1" 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 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument.

To qualify for hedge accounting, the hedging relationship must meet all off the following requirements:

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items. There is formal designation and documentation of the hedging relationship, risk management objective and strategy at inception of the hedge.
- The hedge relationship meets the hedge effectiveness requirements.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

- Fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

SOURCES OF INEFFECTIVENESS

Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be timing differences between the cash flows of the hedged item and the hedging instruments, currency basis and credit risk.

FAIR VALUE HEDGE

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship.

If a hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item that is still in place is amortised over the tenor of the original hedged item.

CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The amount recognised in the separate component of equity is the lower of:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge;
- and the cumulative change in fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. If the cumulative change in the hedging instrument exceeds the change in the hedged item (sometimes referred to as an 'over-hedge'), ineffectiveness will be recognised in the profit and loss for the excess. If the cumulative change in the hedging instrument is less than the change in the hedged item (sometimes referred to as an 'under-hedge'), no ineffectiveness will be recognised.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss, as described in the derivative financial instruments note disclosure (Note 15).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When or if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

DERIVATIVES AT FAIR VALUE THROUGH PROFIT AND LOSS

Derivative instruments not designated are accounted for at fair value and recognised immediately in the (income statement) profit and loss.

When derivatives are designated in a hedge relationship, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship, the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their net amount in finance costs in the income statement.

ACCOUNTING FOR CHANGES IN CREDIT RISK

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivatives is updated monthly based on current market data.

IBOR REFORM PHASE 2

The Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting with effect from 1 January 2020, and Phase II with effect from 1 January 2021. The amendments impact our fair value hedging relationships where derivative cash flows will be transitioned from paying LIBOR to paying an alternative reference rate. The Phase I amendments will be applied until the earliest point in time of the Group's contracts that reference LIBOR being amended, the hedging relationship being formally discontinued or formal market conventions ending uncertainty being published and widely adopted. When the transition takes place, on the hedge relationships where Phase 2 amendments are applicable, the hedged risk must be re-documented to reflect this and allow the existing hedge designations to continue. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9. The notional values of hedging instruments, for all fair value hedging relationships impacted by the Phase 2 amendments, are shown in the relevant tables in notes 14 and 16. There is no impact on cash flow hedging relationships. These amounts also correspond to the exposures designated as fair value hedges.

The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. Interest rate basis swaps will follow ISDA fallback rates (ISDA, 2020) unless the contracts are re-negotiated to reference the alternate reference rates (ARRs).

During 2021, the Directors reviewed the Group's exposures to IBOR, including an assessment of the impact on the following:

- The Group's revolving credit facilities and working capital facility of £1,150 million maturing November 2023;
- The Group's liquidity facilities of £595 million;
- Heathrow Airport Limited term notes of £718 million maturing 2022 – 2029 and EIB loan of £6 million maturing 2022;
- Heathrow Finance plc term notes and drawn facilities of £587 million maturing 2024 – 2031;
- ADI Finance 2 Limited drawn facilities of £750 million maturing 2027;
- a review of all outstanding derivative financial instruments including cross currency swaps, interest rate swaps and inflation linked swaps;
- a review of all hedged relationships both cash flow hedges and fair value hedges;
- a review of all contracts including insurance and leases;
- a review of all intercompany loan agreements;
- a review of the valuation method used for investment properties
- a review of all pension assets and liabilities; and,
- an update of the Treasury systems and processes to reflect the update from LIBOR discounting to ARR discounting.

The assessment highlighted the need to amend language in the revolving credit facilities and derivative contracts which all reference IBOR, in order that they reference alternative risk-free rates (ARFR) once the relevant IBOR is discontinued. The need to update systems and processes to be able to use the ARFR, including day-count and compounding conventions was also identified. Accordingly, the Group has engaged with its banking partners and external advisors during the period to amend IBOR language within revolving credit facilities, term loans, intercompany loan agreements and derivative contracts; and has completed implementation of system changes. The assessment identified no impact relating to other contracts.

SHARED SERVICES AGREEMENT ('SSA')

All employees of the Group are employed by LHR Airports Limited with the exception of non-senior management at Heathrow Express Operating Company Limited. LHR Airports Limited grants all employee benefits and sponsors the defined benefit pension schemes while Heathrow Airport Limited incurs any staff related costs.

On 18 August 2008, Heathrow Airport Limited and Heathrow Express Operating Company Limited entered into a SSA with LHR Airports Limited by which the latter became the shared services provider for the Group.

Following the disposal of Aberdeen, Glasgow and Southampton airports in December 2014 the Directors reassessed the Group's relationship with LHR Airports Limited, given that the sole operating airport is now Heathrow and noted the following;

- The SSA states that the operating entities, being only Heathrow Airport Limited from 1 January 2015, are responsible for pension costs on LHR Airports Limited's retirement benefit schemes,
- the Group is responsible for funding the retirement benefit schemes, paying employer contributions directly to the pension scheme, and
- although employees remain legally employed by LHR Airports Limited, the Group makes all employment decisions. LHR Airports Limited is not deemed to be providing a service, substantive or otherwise in relation to employees, to the Group.

EMPLOYMENT COSTS

The Group's airport incurs the cost of people which are contractually employed by LHR Airports Limited but provide services to the operation of the airport. Charges in relation to employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other associated expenses properly incurred by the employees of LHR Airports Limited in providing the services.

CENTRALISED SERVICES

LHR Airports Limited is viewed by management as acting as principal in relation to the services provided of the Heathrow Airport Holdings ('HAHL') board members. These costs are recharged to Heathrow Airport Limited with a mark-up of 7.5%. Other services are paid for and sourced directly by Heathrow Airport Limited, either without LHR Airport Limited's involvement or on a pass through fixed mark up only basis (agent). This judgement has been reached following consideration of whether LHR Airports Limited has been exposed to the majority of the significant benefits and risks associated with the exchange transaction.

RETIREMENT BENEFIT OBLIGATIONS

LHR Airports Limited has both defined contribution and defined benefit pension schemes. LHR Airports Limited is an indirect subsidiary of HAHL Group (the 'Group') and is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme.

Following a decision in 2015 to re-assess the Group's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Group, should act as the sponsor in relation to these schemes. As a result, the Group now recognises retirement benefit obligations within its financial statements.

Obligations for contributions to the defined contribution pension scheme are recognised as an expense in the income statement as incurred.

The cost of providing benefits under the defined benefit pension scheme is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When the benefit of a plan is changed or when a plan is curtailed, the resulting change that related to past service or the gain or loss on curtailment is recognised immediately in the Statement of profit or loss.

When a settlement occurs, the obligation and related plan asset are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement occurs. Significant events which give rise to curtailment and settlement events are those that result in a material impact to the defined benefit obligation or which result in a significant change in number of scheme members.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The Group recognises actuarial gains and losses in full in other comprehensive income ('OCI') in the period in which they occur. Remeasurements of the net defined benefit liability are recognised immediately in OCI.

The defined benefit pension asset or liability in the statement of financial position comprises the present value of the defined benefit plan obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. Scheme assets include funds for which the fair value is estimated at year-end based on the most recently available audited position with adjustments made for subsequent cash flows. A total of £138 million of assets were valued in this way for 31 December 2021.

GOVERNMENT GRANTS

Government grants are recognised where it is probable that the grant will be received, and all the attached conditions have been complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. The Group has chosen to present grants related to an expense item as net deductions against the related expense.

CURRENT AND DEFERRED INCOME TAX

The tax charge/credit for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is recognised in other comprehensive income.

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2020: 19%) for the year.

Deferred income taxation is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements, at rates expected to apply when they reverse, based on current tax rates and law. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that there are future taxable temporary differences from the unwind of the deferred income tax liabilities, against which these deductible temporary differences can be utilised or other future taxable profits. Deferred tax assets and liabilities are not discounted. For deferred tax purposes, there is a rebuttable presumption that investment properties are on a 'held for sale' basis. The Directors consider that this presumption is not rebutted.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted during the year and are expected to apply in the periods in which the related deferred tax asset or liability is reversed.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

SHARE CAPITAL

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs, allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

DIVIDEND DISTRIBUTION

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholders' right to receive payment of the dividend is established.

FOREIGN CURRENCY

The consolidated financial statements are presented in Sterling, which is the parent company's functional currency.

Transactions denominated in foreign currencies are initially recorded in the entity's functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date. Differences arising on translation are charged or credited to the income statement.

In applying the Group's accounting policies, management have made judgements and estimates in a number of key areas. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an on-going basis.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

for the year ended 31 December 2021

In applying the Group's accounting policies, management have made judgements and estimates in a number of key areas. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an on-going basis.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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 new accounting standards, interpretations and amendments' section.

HEDGE ACCOUNTING

Certain interest rate swaps are designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of forecast transactions or existing liabilities. Management compares on a regular basis existing and historic frozen cash flow hedging arrangements against expectations for future Sterling re-financing. If there were significant changes in the expected quantum of future Sterling re-financing, then levels may be insufficient to support components of the cash flow hedge reserve, requiring the cash flow hedge reserve to be recycled in full through the income statement. As at 31 December 2021, £183 million of fair value losses (2020: £205 million) on these derivatives have been deferred into the cash flow hedge reserve. This has been assessed by management as part of IBOR reform and as a result, none of the above frozen cash flow hedges have been impacted by the transition to alternative reference rates (ARRs).

CAPITALISATION

Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Judgement has been exercised in the year including in relation to:

- The assessment of assets in the course of construction, including expansion costs where judgement is exercised to determine costs that are directly attributable to the assets under construction;
- capitalised interest costs during the course of assets under construction, refer to the borrowing costs accounting policy above;
- when a project moves from the research phase (where costs must be expensed in the current period) to the development phase and hence may be capitalised as the future economic benefit of the project becomes probable and the principles of IAS 38 are considered and applied.

Assets in the course of construction for the expansion of Heathrow had a net book value of £513 million as at 31 December 2021. 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. Management has 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. Furthermore, the CAA continues to support Expansion on the basis that they believe it furthers the interests of consumers, as included within its Initial Proposals that were published in October 2021.

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 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 as discussed in our Taskforce for Climate Related Financial Disclosures on page 72.

Management has 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. Management 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; and the confirmation or a review of the ANPS by the Secretary of State for Transport.

As at 31 December 2021, £513 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 the prior year, £10 million of impairment was recognised associated with future rework, and the judgements and assumptions utilised in this assessment have not changed in the current year with no further impairment recognised.

AGENT VERSUS PRINCIPAL

The presentation of certain costs including employment costs and pension costs which are a contractual obligation of LHR Airports Limited are presented as Operating costs of the Group in the 2021 financial statements as Heathrow Airport Limited (part of the Group) is deemed to be the principal in relation to these transactions. This judgement is based on the balance of risks and rewards between group companies.

LEASES

Key judgements impact the issue of measurement when they relate to determining the appropriate basis values where consideration is required on legal limits on the use of the asset, installation of improvements, or where there is an option to extend the finance lease after the initial period and with economic/ potential lives that exceed the finance lease period. Moreover, in determining the discount rate, use is made of the incremental borrowing rate, where an increase in the discount rate would result in a lower value of the initial right-of-use asset and lease liability, lower depreciation expense and a higher interest expense over the term of the lease.

USEFUL ECONOMIC LIFE ('UEL') AND DEPRECIATION

Calculation of depreciation and the retention of assets on the fixed asset register requires management to make judgements regarding the useful economic lives of fixed assets in regard to legal limits on the use of the asset, improvements, or where there is an option to extend the finance lease after the initial period and with economic/ potential lives that exceed the lease period. These judgements are based on Heathrow's experience of similar assets, engineering data and industry standards.

Where management identifies that actual UELs differ from those estimated, the UELs are adjusted in the period that the difference is identified. As Heathrow makes significant investment in PP&E during Expansion and continues to efficiently utilise existing assets by extending lives where appropriate, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements.

CAR PARKS CLASSIFIED AS INVESTMENT PROPERTY

Management have exercised judgement in order to determine the appropriate classification of the car parks as investment properties or property, plant and equipment. Under IAS 40 'Investment Properties', an entity treats such a property as investment property if the ancillary services provided is insignificant to the arrangement as a whole and if the holder is deemed as a passive investor. Heathrow provides insignificant ancillary services as the day-to-day operation of the car parks is outsourced to a third-party provider. The third-party provider receives a portion of fixed fee and variable fee for the use of the car parks and Heathrow does not bear the associated risks and rewards of supplying the car park services to the passengers. The revenue received by the Group in respect to the car park revenue, represents rental income for the use of the space and service provided.

RETIREMENT BENEFIT SCHEME SURPLUS

At 31 December 2021, the BAA Pension Scheme is in a net surplus position of £343 million, comprising of scheme assets measured at fair value of £4,886 million and scheme liabilities of £4,543 million. Based on legal advice obtained, 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.

DEFERRED TAX ASSETS

Deferred income tax assets are recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. Management judgement is required in the assessment of whether future taxable profits support the recoverability of the deferred tax assets. Based on sensitivity analysis performed, the asset recognised remains fully recoverable.

KEY SOURCES OF ESTIMATION UNCERTAINTY

INVESTMENT PROPERTIES

In applying IAS 40 investment properties have been estimated to be worth £2,297 million as at 31 December 2021. To assist in assessing the valuation of our investment properties Heathrow engages a professional valuation firm, CBRE Limited, Chartered Surveyors, that is regulated by the Royal Institution of Chartered Surveyors (RICS). Its report comments that the outbreak of COVID-19, continues to affect economies and real estate markets globally. Nevertheless, as at the Valuation Date, property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Accordingly, their valuation is not reported as being subject to 'material valuation uncertainty', as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

Management have reviewed the main assumptions underlying the valuation of Investment properties and provide sensitivity analysis based on reasonable possible changes to relevant assumptions. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying amounts of investment properties within the next financial year have been assessed as those related to Car Parks. Car parks are valued individually based on actual data on revenue in the current year and expectations of future growth rates. Sensitivities have been run to analyse the impact of a reasonable change in growth rates and a reasonable change in base year revenue informed by discussions with CBRE and internal Heathrow car park experts. Estimations are also made concerning expectations of future growth rates of operating costs including business rates. The results of the sensitivities are shown in Note 9 to the accounts.

RETIREMENT BENEFIT OBLIGATIONS

Certain assumptions have been adopted for factors that determine the valuation of the Group's liability for pension obligations at the period end and charges to the income statement. The assumptions have been determined in consultation with the Group's actuary considering market and economic conditions. Assumptions can vary from period to period because of changing conditions and other determinants which may cause increases or decreases in the valuation of the Group's liability for pension obligations.

The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position of the Group pension scheme is recorded as a net actuarial gain or loss and is reflected in the statement of comprehensive income. The triennial Trustee valuation of the scheme was completed during 2019 and included updates to mortality rates as well as other key demographic indicators, which have been used to inform management assumptions used at 31 December 2021. Management have reviewed the main assumptions underlying the valuation of Retirement benefit obligations. The main estimations made that have a significant risk of resulting in a material adjustment to the carrying value of the assets and liabilities relating to the scheme have been assessed as: a) Discount rate, b) Inflation rates, and c) Mortality/Life expectancy changes. Sensitivities have been run to analyse the impact of a reasonable change in these estimations informed by discussions with scheme actuaries ISIO and internal Heathrow experts. The results of the sensitivities are shown in Note 18 of the Annual Report and Accounts.

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. The results of the sensitivities are given in Note 16 of the Annual Report and Accounts.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 SEGMENT INFORMATION

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

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

The performance of the above segments is measured on a revenue and Adjusted EBITDA basis.

The reportable segments derive their revenues from a number of sources and this information is also provided to the Board on a monthly basis.

- Table (a) details total revenue from external customers for the year ended 31 December 2021 and is broken down into aeronautical, retail, ORCs and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) is Adjusted EBITDA which is earnings before interest, tax, depreciation, amortisation and certain re-measurements.
- Table (b) details the transaction price allocated to (partially) unsatisfied performance obligations.
- Table (c) details depreciation, amortisation and fair value adjustments.
- Table (d) details asset and liability information by reportable segment. The assets and liabilities information by segment is not provided to the Board on a monthly basis but is included in this note as additional information.
- Section (e) details revenue and non-current asset information by geographical segment.

1 SEGMENT INFORMATION CONTINUED

TABLE (A)

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Revenue reported under IFRS 15		
Aeronautical		
Movement charges	**367**	244
Parking charges	**57**	62
Passenger charges	**130**	341
Total aeronautical revenue	**554**	647
Other regulated charges	**297**	118
Retail revenue	**217**	234
Property revenue	**13**	20
Rail Income		
Heathrow Express	**26**	26
Other	**4**	23
Total revenue reported under IFRS 15	**1,111**	1,068
Revenue reported under IFRS 16		
Property (lease-related income)	**103**	107
Total revenue	**1,214**	1,175
Heathrow	***1,188***	*1,149*
Heathrow Express	***26***	*26*
Adjusted EBITDA	**384**	270
Heathrow	***395***	*284*
Heathrow Express	***(11)***	*(14)*
Reconciliation to statutory information:		
Depreciation and amortisation	**(797)**	(812)
Operating loss (before certain re-measurements and exceptional items)	**(413)**	(542)
Exceptional items	**(31)**	(184)
Fair value gain/(loss) on investment properties (certain re-measurements)	**174**	(412)
Operating loss	**(270)**	(1,138)
Finance income	**7**	12
Finance costs	**(1,529)**	(886)
Loss before tax	**(1,792)**	(2,012)

1 SEGMENT INFORMATION CONTINUED

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2021 are as set out below:

TABLE (B)

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
Property income charged in advance	**7**	28
Retail and other income charged in advance	**30**	14
Total	**37**	42

All unsatisfied performance obligations at 31 December 2020 were satisfied during 2021 and are included within total revenue for the year. Management expects that all of the transaction price allocated to the unsatisfied contracts as of the year ended 2021 will be recognised as revenue during the next reporting period.

Revenue of £359 million (2020: £333 million) was derived from a single external customer and has been included within the Heathrow segment.

TABLE (C)

	Year ended 31 December 2021		Year ended 31 December 2020	
	Depreciation & amortisation[1] £m	**Fair value gain[2] £m**	Depreciation & amortisation[1] £m	Fair value loss[2] £m
Heathrow	**(764)**	**174**	(769)	(412)
Rail	**(33)**	**-**	(43)	-
Total	**(797)**	**174**	(812)	(412)

[1] Includes intangible asset amortisation charge of £37 million (2020: £44 million).
[2] Reflects fair value gain/(loss) on investment properties only.

TABLE (D)

	Year ended 31 December 2021		Year ended 31 December 2020	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Heathrow	**12,750**	**(346)**	13,319	(401)
Heathrow Express	**594**	**(27)**	647	(13)
Total operations	**13,344**	**(373)**	13,966	(414)
Unallocated assets and liabilities:				
Cash, term borrowings and equity investments	**2,626**	**(15,819)**	3,516	(17,219)
Retirement benefit obligations	**343**	**(30)**	12	(31)
Derivative financial instruments	**446**	**(2,244)**	802	(1,155)
Deferred and current tax assets/(liabilities)	**3**	**(706)**	1	(784)
Amounts owed from/(to) group undertakings	**-**	**(3,530)**	-	(3,344)
Right of use assets and lease liabilities	**270**	**(371)**	285	(392)
Total	**17,032**	**(23,073)**	18,582	(23,339)

(e) Revenue and non-current asset information by geographical segment

Heathrow (SP) Limited domiciled in the UK. All revenue from external customers originates in the UK which for the year ended 31 December 2021 was £1,214 million (2020: £1,175 million). The breakdown of the major components of total revenue from external customers is shown in table (a) above.

Non-current assets excluding derivative financial instruments were £13,743 million (2020: £13,753 million).
There were no non-current assets held outside the UK (2020: £nil).

2 OPERATING COSTS

Operating costs comprise:

	Year ended 31 December 2021 **£m**	Year ended 31 December 2020 £m
Employment [1]		
Wages and salaries	**200**	235
Social security costs	**25**	28
Other pension costs	**35**	38
Other staff related costs	**10**	18
Own staff costs capitalised	**(14)**	(37)
	256	282
Operational	**197**	224
Maintenance	**133**	140
Business rates	**119**	116
Utilities	**59**	62
Other	**66**	81
Operating costs before depreciation and amortisation and exceptional items	**830**	905
Depreciation and amortisation		
Property, plant and equipment	**720**	730
Intangible assets	**37**	44
Right of use assets	**40**	38
	797	812
Operating costs before exceptional items	**1,627**	1,717
Exceptional items (Note 3)	**31**	184
Total operating costs [1]	**1,658**	1,901

[1] Government grants of £21 million (2020: £36 million) have been received for reimbursement of employee costs relating to staff furloughed due to COVID-19 under the Coronavirus Job Retention Scheme. The grants received are included within the wages and salaries line above and reduce the total expense recognised in the year. Additionally, £12 million was received through the Airport and Ground Operations Support Scheme (2020: £nil) which has been credited against insurance costs within Operational costs. There are no unfulfilled conditions or contingencies attached to these grants.

2 OPERATING COSTS CONTINUED

AUDITOR'S REMUNERATION

Audit fees and non-audit fees for the current and preceding financial years were borne by Heathrow Airport Limited.

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
Fees payable to the Company's auditor for the annual audit of the		
Company's ultimate parent	**0.2**	0.1
Company's subsidiaries	**1.0**	0.7
Total audit fees	**1.2**	0.8
Fees payable to the Company's auditor and their associates for other services specific to the Group		
Audit related assurance services	**0.2**	0.5
Other services	**0.2**	0.1
Total non-audit fees	**0.4**	0.6
Total fees	**1.6**	1.4

Non-audit fees predominantly relate to audit related assurance services provided in connection with the half-year review of Heathrow (SP) Ltd.

EMPLOYEE NUMBERS

Heathrow (SP) Limited had a monthly average of 5,432 employees (2020: 7,360) of which 109 (2020: 163) are employees of Heathrow Express Operating Company Limited and the rest are legally employed by LHR Airports Limited. The Group makes all employment decisions; consequently, employee numbers for those providing services to the operation of the airport are reported in the financial statement of the Group and not in the financial statements of LHR Airports Limited.

	Year ended 31 December 2021	Year ended 31 December 2020
By activity		
Operations	**4,460**	5,224
Support Services	**972**	2,136
Total	**5,432**	7,360

DIRECTORS' REMUNERATION

Javier Echave and Emma Gilthorpe were directors of a number of companies within the Heathrow Airport Holdings Group during the year. Javier's and Emma's remuneration for the year ended 31 December 2021 was disclosed in the financial statements of Heathrow Airport Holdings Limited and Heathrow Airport Limited respectively. The Directors do not believe it is possible to accurately apportion their remuneration to individual companies based on services provided. Nicholas Golding and Sally Ding were directors of a number of companies within the Heathrow Airport Holdings Group. They were paid by, but are not directors of, Heathrow Airport Limited. The Directors do not believe it is possible to accurately apportion their remuneration to other individual companies within the Group based on services provided.

During the year, one of the directors (2020: two) had retirement benefits accruing to them under a defined benefit scheme and one of the directors (2020: two) had retirement benefits accruing to them under a defined contribution scheme.

3 EXCEPTIONAL ITEMS

	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m
Business transformation	**-**	(92)
Asset impairment and write-off	**(31)**	(92)
Total operating loss on exceptional items	**(31)**	(184)
Tax credit on exceptional items	**-**	18
Loss on exceptional items after tax	**(31)**	(166)

YEAR ENDED 31 DECEMBER 2021 EXCEPTIONAL ITEMS

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

YEAR ENDED 31 DECEMBER 2020 EXCEPTIONAL ITEMS

In the prior year, as a consequence of the impact of the COVID-19 pandemic and a delay to the Expansion (following the Court of Appeal's ruling on the Airports National Policy Statement), the Group underwent a business transformation in order to simplify operations and reduce costs. Following this review the Group incurred £92 million of exceptional charges, consisting of £142 million of people-related costs, principally redundancy, partially offset by a net £50 million credit associated with corresponding pension settlements and curtailments. In addition, the Group reviewed its asset portfolio and recognised a non-cash impairment and write-off charge of £92 million on assets in the course of construction. At 31 December 2020, £13 million of costs relating to the business transformation programme had not been utilised and were included within provisions. In the twelve months ended 31 December 2021, £11 million of this provision was utilised with the remaining £2 million expected to be utilised in 2022.

4 FINANCING

(a) Net finance costs before certain re-measurements

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Finance income			
Interest on deposits		**7**	12
Total finance income		**7**	12
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments[1]		**(609)**	(514)
Bank loans and overdrafts and unwind of hedging reserves		**(60)**	(63)
Net interest expense on external derivatives not in hedge relationship[2]		**5**	17
Facility fees and other charges		**(9)**	(15)
Interest on debenture payable to Heathrow Finance plc		**(184)**	(125)
Net pension finance costs		**(1)**	(1)
Finance cost on lease liabilities		**(16)**	(16)
		(874)	(717)
Less: capitalised borrowing costs[3]	7	**10**	33
Total finance costs		**(864)**	(684)
Net finance costs before certain re-measurements		**(857)**	(672)
Certain re-measurements			
Fair value (loss)/gain on financial instruments			
Interest rate swaps: not in hedge relationship		**(102)**	(65)
Index-linked swaps: not in hedge relationship		**(529)**	(75)
Cross-currency swaps and debt: not in hedge relationship[4]		**(15)**	11
Cross-currency swaps and debt: ineffective portion of cash flow hedges[5]		**(10)**	(14)
Cross-currency swaps and debt: ineffective portion of fair value hedges[5]		**(9)**	(59)
		(665)	(202)
Net finance costs		**(1,522)**	(874)

[1] Includes accretion of £111 million (2020: £24 million) on index-linked bonds.
[2] Includes accretion of £318 million on index-linked swaps (2020: £75 million on index-linked swaps and including prepaid discount).
[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 1.91% (2020: 3.82%) to expenditure incurred on such assets.
[4] Includes foreign exchange retranslation on the currency bonds of £7 million (2020: £6 million loss) which has moved systematically in the opposite direction to that of the cross-currency swaps which economically hedge the related currency bonds.
[5] The value of all currency bonds changes systematically in the opposite direction to that of the related cross-currency swaps, in response to movements in underlying exchange rates with a net nil impact in fair value for foreign exchange movements.

5 TAXATION CREDIT/(CHARGE)

	Year ended 31 December 2021			Year ended 31 December 2020			
	Before certain re-measurements and exceptional items £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements and exceptional items £m	Certain re-measurements £m	Exceptional items £m	Total £m
UK corporation tax							
Current tax credit/(charge) at 19% (2020: 19%)	**4**	**(2)**	**2**	76	(2)	27	101
Deferred tax							
Current year credit/(charge)	**251**	**141**	**392**	135	106	(9)	232
Prior year (charge)/credit	**(1)**	**-**	**(1)**	-	6	-	6
Change in tax rate	**-**	**(214)**	**(214)**	-	(112)	-	(112)
Taxation credit/(charge)	**254**	**(75)**	**179**	211	(2)	18	227

The taxation credit/(charge) on the Group's loss before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting loss of the Group for the reasons as set out in the following reconciliation:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss before tax	**(1,792)**	(2,012)
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 19% (2020: 19%)	**341**	382
Net non-deductible expenses	**(26)**	(37)
Adjustments in respect of deferred income tax of previous years	**(1)**	6
Difference in deferred tax movements for investment properties	**13**	(12)
Change in tax rate	**(148)**	(112)
Taxation credit for the year	**179**	227

5 TAXATION CREDIT/(CHARGE) CONTINUED

The total tax credit recognised for the year ended 31 December 2021 was £179 million (2020: £227 million) on a loss before tax for the year ended 31 December 2021 of £1,792 million (2020: £2,012 million).

The tax credit before certain re-measurements and exceptional items for the year ended 31 December 2021 was £254 million (2020: £211 million). Based on a loss before tax, certain re-measurements and exceptional items of £1,270 million (2020: £1,214 million), this results in an effective tax rate of 20.0% (2020: 17.4%). The tax credit for 2021 is more than implied by the statutory rate of 19% (2020: 19%) primarily due to some of the current year deferred tax movements at the 25% tax rate, offset by non-deductible expenses reducing the tax credit for the year (2020: non-deductible expenses reducing the tax credit for the year).

In addition, there was a £139 million tax credit (2020: £110 million) arising from fair value gain on investment property revaluations, fair value losses on financial instruments and any prior year adjustments, along with a £214 million tax charge (2020: 112 million tax charge) associated with the impact on deferred tax balances of the substantive enactment of the increase in the corporation tax rate from 19% to 25%, to take effect from 1 April 2023. The increase was substantively enacted in Finance Act 2021 and the effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

Due to the exceptional adverse impact of the COVID-19 pandemic, the Group continued to experience significant losses during the year ended 31 December 2021. Therefore, there have been no quarterly instalment payments made in relation to corporation tax for the year ended 31 December 2021. In 2021 Heathrow Airport Ltd submitted a loss carry back claim to carry back all trading losses arising in Heathrow Airport Ltd in the 2020 period against 2019 taxable profits. The impact of the estimated loss carry back claim (a tax credit of £100 million) was reflected in the tax results of the Group for the year ended 31 December 2020.

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

6 DIVIDENDS

During the year ended 31 December 2021, no dividends were paid.

During the year ended 31 December 2020, the Company paid dividends of £107 million (£0.02 per share) on 27 February 2020.

7 PROPERTY, PLANT AND EQUIPMENT

	Terminal complex £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost							
1 January 2020	11,937	2,016	996	274	1,395	1,268	17,886
Additions	-	-	-	-	-	413	413
Borrowing costs capitalised	-	-	-	-	-	33	33
Disposals	(16)	(8)	(25)	-	(1)	-	(50)
Capital write-off	-	-	-	-	-	(92)	(92)
Transfer from investment properties	-	-	-	1	-	-	1
Transfer to intangible assets	-	-	-	-	-	(50)	(50)
Transfer to completed assets	286	59	90	21	13	(469)	-
31 December 2020	**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[1]	**-**	**-**	**-**	**29**	**-**	**(29)**	**-**
Transfer to completed assets	**71**	**(14)**	**44**	**48**	**-**	**(149)**	**-**
31 December 2021	**12,276**	**2,053**	**1,103**	**372**	**1,233**	**1,177**	**18,214**
Accumulated depreciation							
1 January 2020	(4,641)	(504)	(475)	(88)	(617)	-	(6,325)
Depreciation charge	(495)	(57)	(118)	(20)	(40)	-	(730)
Disposals	16	8	25	-	1	-	50
31 December 2020	**(5,120)**	**(553)**	**(568)**	**(108)**	**(656)**	**-**	**(7,005)**
Depreciation charge	**(497)**	**(59)**	**(94)**	**(21)**	**(49)**	**-**	**(720)**
Disposals	**2**	**-**	**2**	**1**	**160**	**-**	**165**
31 December 2021	**(5,615)**	**(612)**	**(660)**	**(128)**	**(545)**	**-**	**(7,560)**
Net book value							
31 December 2021	**6,661**	**1,441**	**443**	**244**	**688**	**1,177**	**10,654**
31 December 2020	7,087	1,514	493	188	751	1,103	11,136

OTHER LAND AND BUILDINGS

Other land and buildings are freehold except for leasehold properties which are presented in Note 8.

[1] Reclassifications comprise cost and amortisation with £nil impact on the net book value in relation to historic adjustments.

7 PROPERTY, PLANT AND EQUIPMENT CONTINUED

ASSETS IN THE COURSE OF CONSTRUCTION

The major balances in assets in the course of construction include accumulated costs related to Heathrow Expansion, Baggage programme projects to install the latest generation of Baggage screening machines, the Asset Management programme to replace assets at the end of their useful life, and the Airport resilience programme including tunnels and airfield improvements. Also included in additions to assets in the course of construction are intangible asset additions, primarily computer software costs, with an estimated value of £17 million (2020: £20 million), which will be transferred to intangible assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use.

ACCELERATED DEPRECIATION

Depreciation in 2021 includes £17.6 million of accelerated depreciation on Heathrow Express rail assets. Depreciation in 2020 included accelerated depreciation of £4.1 million on two of the Group's head office locations. In its assessment, Management considered any climate-related risks (as described in the Task Force on Climate-Related Disclosures on pages 66-75) and associated strategic capital projects that could impact the useful economic lives of Property, Plant and Equipment with no resultant change to useful economic lives.

CAPITAL WRITE-OFF

As outlined on page 17, the regulatory environment that the Group operates in provides cash flow predictability, supporting investment. This limits the Group's exposure to impairment of assets in the course of construction in exceptional circumstances. In 2020, the Group impaired £92 million of capital projects that had commenced but that were expected to be discontinued or delayed to such an extent that rework would be required following the impact of COVID-19. This impairment was determined based on Management's best estimates of the full impact of COVID-19 on the operations of the Group. Following a reassessment, a further impairment of £24 million has been recognised in the year reflecting further cancelled or paused projects with an additional £7 million impairment recognised within intangible assets.

BORROWING COSTS CAPITALISED

During the year ended 31 December 2021, borrowing costs of £10 million were capitalised (2020: £33 million). Capitalised borrowing costs were calculated by applying an average interest rate of 1.91% (2020: 3.82%) to expenditure incurred on qualifying assets.

A tax deduction of £10 million (2020: £33 million) for capitalised borrowing costs was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

REGULATORY ASSET BASE (RAB)

RAB at December 2021 was £17,474 million (2020: £16,492 million). The main drivers of increase in RAB are inflation and the CAA's interim RAB adjustment partly offset by higher assumed ordinary regulatory depreciation.

LEASED ASSETS

Included within total property, plant and equipment above, the Group had assets rented to third parties under operating leases as follows:

	31 December 2021	31 December 2020
	£m	£m
Cost or valuation	**881**	628
Accumulated depreciation	**(455)**	(314)
Net book value	**426**	314

Securities granted by the Group over its assets, including property, plant and equipment, are disclosed in Note 16.

8 LEASES

GROUP AS A LESSEE

The Group leases assets including land and buildings, vehicles, plant and equipment and rolling stock.

(i) Amounts recognised in the balance sheet

RIGHT-OF-USE ASSETS

	Land and Buildings £m	Plant and Equipment £m	Others[1] £m	**Total £m**
Balance at 1 January 2020	37	7	232	**276**
Additions	-	2	40	**42**
Remeasurement	-	-	7	**7**
Disposal	-	(1)	(1)	**(2)**
Depreciation charge for the year	(13)	(3)	(22)	**(38)**
Balance at 31 December 2020	**24**	**5**	**256**	285
Remeasurement	22	-	3	**25**
Depreciation charge for the year	(13)	(1)	(26)	**(40)**
Balance at 31 December 2021	**33**	**4**	**233**	270

Five leases expired during the year ended 31 December 2021 (2020: three).

LEASE LIABILITIES

	31 December 2021 £m	31 December 2020 £m
Current	**40**	43
Non-current	**331**	349

	31 December 2021 £m	31 December 2020 £m
Less than one year	**40**	43
One to five years	**88**	101
More than five years	**243**	248

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. Potential future increases in variable lease payments based on an index or rate are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

[1] A significant portion of the leased assets classified under 'Others' category relates to the electricity distribution network at the Airport.

8 LEASES CONTINUED

(ii) Amounts recognised in profit and loss

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Depreciation expense on right-of-use assets	**40**	38
Interest expense on lease liabilities	**16**	16
Expense relating to variable payments not included in the measurement of the lease liability	**4**	5

(iii) Amounts recognised in statement of cash flows

The Group has some contracts that contain variable lease payment terms linked to the retail price index ('RPI'), aligned to the Group's regulatory environment which provides cash flow predictability through passenger pricing (revenue) linked to RPI. The breakdown of the lease payments are as follows:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fixed payments	**17**	27
Variable payments	**32**	36
Total cash outflow relating to leases	**49**	63

GROUP AS A LESSOR

Lease income from lease contracts where the Group is the lessor is as below

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Operating lease		
Property (lease-related income)	**103**	107

Operating lease

The Group leases out a portion of its investment property. The Group has classified these as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease income, showing the undiscounted lease income to be received after the reporting date.

	31 December 2021 Land and buildings £m	31 December 2020 Land and buildings £m
Within one year	**72**	69
One to two years	**57**	58
Two to three years	**48**	50
Three to four years	**45**	44
Four to five years	**38**	41
More than five years	**1,845**	1,833
	2,105	2,095

9 INVESTMENT PROPERTIES

	Car parks £m	Airport operations £m	Land and other £m	Total £m
Valuation				
1 January 2020	1,330	578	614	2,522
Additions	-	-	9	9
Transfers to property, plant and equipment	-	-	(1)	(1)
Investment property fair value movements	(313)	(58)	(41)	(412)
31 December 2020	**1,017**	**520**	**581**	**2,118**
Additions	-	-	4	4
Transfers from property, plant and equipment	-	-	1	1
Investment property fair value movements	115	9	50	174
31 December 2021	**1,132**	**529**	**636**	**2,297**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Valuation				
1 January 2020	-	1,308	1,214	2,522
Additions	-	9	-	9
Transfers from property, plant and equipment		(1)	-	(1)
Investment property fair value movements	-	(73)	(339)	(412)
31 December 2020	**-**	**1,243**	**875**	**2,118**
Additions	-	4	-	4
Transfers from property, plant and equipment	-	1	-	1
Investment property fair value movements	-	110	64	174
31 December 2021	**-**	**1,358**	**939**	**2,297**

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

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

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

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

Level 3 inputs are based on unobservable inputs which relate to discounted cash flow technique using an appropriate asset discount rate including growth rates for the relevant revenues and costs. Most of this classification is made up of car parks which accounts for 89% (2020: 89%) of the valuation. In the case of non-operational hotels' land, the discounted cash flow methodology has incorporated exit yields, occupancy and ancillary revenues too.

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

9 INVESTMENT PROPERTIES CONTINUED

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

The investment property portfolio includes car parks (for passengers and employees) and maintenance hangars, which together account for 68% (2020: 68%) of the fair value of the investment property portfolio at 31 December 2021. The valuation of maintenance hangers is largely based on long term contractual terms and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

The investment property asset class balance consists of 49% (2020: 48%) car parks, 23% (2020: 25%) airport operations and 28% (2020: 27%) land and others. Level 2 to 3 is split according to the following percentiles respectively: 59% (2020: 59%) and 41% (2020: 41%).

The sensitivities analysis below relates specifically to fair value movements in car parks within the level 3 valuation that comprises of 94% (2020: 92%) of the total. Therefore, the valuation of level 3 has been determined based on reasonably possible changes to the respective assumptions. The methodology used in arriving at the incremental changes shown is consistent with that used for the valuation at the year end.

	Increase/(decrease) in asset valuation £m
Car parks – Base revenue	
+10.0% pa	**39**
-10.0% pa	**(39)**
Car parks – Revenue growth	
+1.0% pa	**143**
-1.0% pa	**(129)**
Car parks – Operating costs growth	
+1.0% pa	**(42)**
-1.0% pa	**38**

The property rental income earned by the Group from its investment property, amounted to £88 million (2020: £78 million). Direct operating expenses arising on the investment property, all of which generated rental income in the period, amounted to £1 million (2020: £1 million). The Group has entered into contracts for the maintenance of its investment property, which will give rise to an annual charge of less than £1 million (2020: less than £1 million).

Securities granted by the Group over its assets, including investment properties, are disclosed in Note 16.

10 INTANGIBLE ASSETS

	£m
Cost	
1 January 2020	308
Disposals	(4)
Transfers from property, plant and equipment	50
31 December 2020	**354**
Additions	**-**
Impairment	**(7)**
Disposals	**-**
Transfers from property, plant and equipment	**18**
31 December 2021	**365**
Amortisation and impairment	
1 January 2020	(132)
Charge for the year	(44)
Disposals	4
31 December 2020	**(172)**
Charge for the year	**(37)**
Disposals	**-**
31 December 2021	**(209)**
Net book value	
31 December 2021	**156**
31 December 2020	182

All intangible assets relate to capitalised computer software costs. These software costs principally relate to operating and financial software, amortised over a period of between four and fifteen years. Amortisation for the year has been charged through operating costs.

11 INVENTORIES

	31 December 2021	31 December 2020
	£m	£m
Consumables	**13**	14

The total amount of inventories consumed in the year was £4 million (2020: £7 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

12 TRADE AND OTHER RECEIVABLES

	31 December 2021	31 December 2020
	£m	£m
Non-current		
Prepaid debt fees[1]	**1**	1
Prepayments	**12**	13
Amounts owed by parent entity	**2**	2
Other receivables	**8**	4
	23	20
Current		
Trade receivables	**98**	84
Accrued income[2]	**64**	31
Trade receivables and accrued income	**162**	115
Less: provision for impairment	**(20)**	(17)
Trade receivables and accrued income after impairment[3]	**142**	98
Prepayments[3]	**32**	357
Amounts owed by group undertakings	**7**	6
Other receivables	**20**	35
	201	496

The fair value of trade and other receivables are not materially different from the carrying value.

Trade receivables are non-interest bearing and are generally on 14-day terms. No collateral is held as security.

As at 31 December 2021, trade receivables of £38 million (2020: £60 million) were fully performing. Trade receivables of £60 million (2020: £24 million) were past due. These relate to a number of independent customers for whom there is no recent history of default. Refer to Note 16, Financial instruments, for the aging profile of trade receivables under credit risk.

[1] Prepaid debt fees largely relate to financing fees paid on facilities not yet drawn and are amortised over the term of the facility.
[2] Accrued income is net of any amounts received in advance from customers.
[3] Prepayments included as current receivables at 31 December 2020 includes £258m relating to prepayments made to suppliers, including a £60 million payment to HMRC in relation to Heathrow's payroll taxes payable to HMRC during 2021. These prepayments were made in order to manage banking covenant ratios. The prepayments made in 2020 have fully unwound during 2021.

Movements in the provision for impairment of trade receivables are as follows:

	£m
1 January 2020	5
Impairment for trade receivables	12
31 December 2020	**17**
Impairment for trade receivables	3
31 December 2021	**20**

As at 31 December 2021, trade receivables were considered for impairment under IFRS 9 resulting in an increase in provision of £3 million (2020: £12 million increase). Impaired receivables mainly relate to specific customers experiencing economic difficulties but also includes expected credit losses. Note 18 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The creation and release of any provisions for impaired receivables have been included in 'other' operating costs in the consolidated income statement as shown in Note 2.

During the year, £1 million (2020: £1 million) of trade receivables were written off as there was no expectation of recovery.

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 16.

13 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	31 December 2021	31 December 2020
	£m	£m
Cash at bank and in hand	**42**	24
Short-term deposits	**174**	256
Cash and cash equivalents	**216**	280
Term deposits	**2,410**	3,236
Cash and cash equivalents and term deposits	**2,626**	3,516

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates to their book value.

Within the Group, Heathrow Airport Limited holds investments in term deposits, which have an original maturity of more than three months. The increase in term deposits is the result of draw down on existing debt and utilisation of new financing raised in the year.

For the purposes of the Consolidated statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand, money market funds and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments, restricted cash and bank overdrafts.

The Group may, from time to time, at major reporting dates prepay, in advance of the operating expense falling due to its suppliers', payments which are subsequently lodged into an escrow account. In accordance, with IAS 7, cash and cash equivalent balances have been shown in accordance with the definition and thus do not include these prepayments held in escrow, as these are amounts that are no longer available to the Group. These prepayments are an outflow of cash which have been recorded within prepayments that form part of the current, trade and other receivables balance.

14 BORROWINGS

	31 December 2021 £m	31 December 2020 £m
Current		
Secured		
Heathrow Funding Limited bonds:		
8.500% £250 million due 2021	-	251
3.000% C$450 million due 2021	-	259
4.875% US$1,000 million due 2021	-	742
1.650%+RPI £180 million due 2022	234	-
1.875% €600 million due 2022	507	-
Total bonds	741	1,252
Heathrow Airport Limited loans	-	4
Heathrow Airport Limited debt:		
Class A1 term loan due 2021	-	418
Total current (excluding interest payable)	741	1,674
Interest payable – external	203	209
Interest payable – owed to group undertakings	64	45
Total current	1,008	1,928
Non-current		
Secured		
Heathrow Funding Limited bonds:		
1.650%+RPI £180 million due 2022	-	222
1.875% €600 million due 2022	-	549
5.225% £750 million due 2023	732	717
7.125% £600 million due 2024	597	595
0.500% CHF400 million due 2024	326	336
3.250% C$500 million due 2025	294	301
1.500% €750 million due 2025	625	665
4.221% £155 million due 2026	155	155
0.450% CHF210 million due 2026	170	177
6.750% £700 million due 2026	695	694
2.650% NOK1,000 million due 2027	84	90
2.694% C$650 million due 2027	379	-
3.400% C$400 million due 2028	233	229
2.625% £350 million due 2028	346	-
7.075% £200 million due 2028	199	199
4.150% A$175 million due 2028	99	113
2.500% NOK1,000 million due 2029	77	82
2.750% £450 million due 2029	445	444
1.500% €750 million due 2030	656	735
3.782% C$400 million due 2030	235	235
1.125% €500 million due 2030	414	-
3.661% C$500 million due 2031	291	285

	31 December 2021	31 December 2020
	£m	£m
Secured (continued)		
Heathrow Funding Limited bonds *continued:*		
6.450% £900 million due 2031	**860**	857
Zero-coupon €50 million due January 2032	**63**	65
1.366%+RPI £75 million due 2032	**92**	88
Zero-coupon €50 million due April 2032	**62**	64
1.875% €500 million due 2032	**418**	446
0.101%+RPI £182 million due 2032	**192**	182
3.726% C$625 million due 2033	**371**	-
1.875% €650 million due 2034	**555**	636
4.171% £50 million due 2034	**50**	50
Zero-coupon €50 million due 2034	**52**	54
0.337%+RPI £75 million due 2036	**80**	76
0.347%+RPI £75 million due 2035	**80**	76
1.061%+RPI £180 million due 2036	**216**	204
3.460% £105 million due 2038	**105**	105
0.419%+RPI £51 million due 2038	**54**	51
1.382%+RPI £50 million due 2039	**61**	58
Zero-coupon €86 million due 2039	**78**	81
3.334%+RPI £460 million due 2039	**679**	645
0.800% JPY1,000 million due 2039	**64**	72
1.238%+RPI £100 million due 2040	**121**	115
0.362%+RPI £75 million due 2041	**80**	76
5.875% £750 million due 2041	**739**	739
3.500% A$125 million due 2041	**67**	-
2.926% £55 million due 2043	**54**	54
4.625% £750 million due 2046	**742**	742
1.372%+RPI £75 million due 2049	**92**	87
2.750% £400 million due 2049	**393**	393
0.147%+RPI £160 million due 2058	**175**	166
Total bonds	**13,647**	13,005
Heathrow Airport Limited debt:		
Class A2 term loan due 2024	**100**	100
Class A3 term loan due 2029	**200**	199
Term notes due 2026-2040	**928**	878
Revolving credit facilities	**-**	1,150
Heathrow Airport Limited Loans	**-**	4
Total other debt	**1,228**	2,331
Debenture payable to Heathrow Finance plc	**3,466**	3,299
Total non-current	**18,341**	18,635
Total borrowings (excluding interest payable)	**19,082**	20,309

14 BORROWINGS CONTINUED

At 31 December 2021, SP Group consolidated nominal net debt was £13,332 million (2020: £13,131 million). It comprised £14,327 million (2020: £13,755 million) in bond issues, £1,230 million (2020: £1,606 million) in other term debt, £381 million (2020: £133 million) in index-linked derivative accretion, £nil million (2020: £1,150 million repaid in full during 2021) in revolving credit and working capital facilities and £20 million (2020: £3 million) of additional lease liabilities post transition to IFRS 16. This was offset by £2,626 million (2020: £3,516 million) in cash and cash equivalents and term deposits. Nominal net debt comprised £11,294 million (2020: £11,280 million) in senior net debt and £2,038 million (2020: £1,851 million) in junior debt.

At 31 December 2021, total external non-current borrowings due after more than 5 years was £11,083 million (2020: £10,703 million), comprising £10,055 million (2020: £9,626m) of bonds and £1,028 million (2020: £1,077 million) in bank facilities, excludes lease liabilities.

INTEREST RATE BENCHMARK REFORM

The following table contains details of all of the financial instruments the Group holds at 31 December 2021 which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark. As set out within the accounting policies, the amendments have been applied prospectively and therefore no comparatives are presented for 31 December 2020.

	Carrying value at 31 December 2021		Of which: Have yet to transition to an alternative benchmark interest rate:	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-derivative assets and liabilities exposed to GBP LIBOR Measured at amortised cost				
Cash	**2,626**	**-**	-	-
Long-term debt	**-**	**(300)**	-	-
Lease liabilities	**-**	**(371)**	-	-
	2,626	**(671)**	-	-
Derivatives	**188**	**(716)**	188	(716)
Total assets and liabilities exposed to GBP LIBOR	**2,814**	**(1,387)**	188	(716)

Throughout the transition period £1,868 million of floating rate GBP LIBOR-linked debt and facilities was impacted by iBOR transition, of which £300 million is held as amortised cost and transitioned to the alternative reference rates. In addition, the disclosure of fair value of these borrowings held as amortised cost will be impacted due to the change in applying an alternative reference rate discount curve.

HEATHROW FUNDING LIMITED BONDS

The maturity dates of the Heathrow Funding Limited bonds listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and Heathrow Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled redemption date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later, except for the 7.125% £600 million due 2024, 4.221% £155 million due 2026, 2.625% £350 million due 2028, 0.101%+RPI £182 million due 2032, 0.347%+RPI £75 million due 2035, 0.377%+RPI £75 million due 2036 1.061%+RPI £180 million due 2036, 3.460% £105 million due 2038, 0.419%+RPI £51 million due 2038 and 0.362%+RPI £75 million due 2041 bonds wherein the redemption dates coincide with their legal maturity dates.

FAIR VALUE OF BORROWINGS

	31 December 2021		31 December 2020	
	Book value £m	**Fair value[1] £m**	Book value £m	Fair value[1] £m
Current				
Short-term debt	**741**	**691**	1,674	1,685
Non-current				
Long-term debt	**14,875**	**16,672**	15,336	17,796
Borrowings from parent	**3,466**	**3,466**	3,299	3,299
	19,082	**20,829**	20,309	22,780

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair value of listed borrowings are based on quoted prices (thereby classified as Level 1) at balance sheet date. For unlisted borrowings, the Group establishes fair values by using discounted cash flow analysis utilising yield curves derived from observable market data, which are adjusted to allow for any relevant credit risk (Level 2). The fair value of borrowings which have floating rate interest are assumed to materially equate to their nominal value. At 31 December 2021, the fair value of debt classified as Level 1 and Level 2 was £15,137 million and £5,692 million respectively (2020: £15,467 million and £7,313 million respectively).

The average cost of the Group's external gross debt at 31 December 2021 was 1.25% (2020: 0.87%), taking into account the impact of interest rate, cross-currency and index-linked hedges but excluding index-linked swap accretion. Including index-linked swap accretion, the Group's average cost of borrowing at 31 December 2021 was 3.64% (2020: 1.48%).

The RPI growth rate in the period reflected by a 12-month annualised increase of 7.1% in 2021 compared to an annualised increase of 1.2% in 2020.

IMPACT OF FAIR VALUE HEDGE ADJUSTMENTS

The nominal value of debt designated in fair value hedge relationship was EUR 2,000 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:

	31 December 2021		31 December 2020	
	Nominal[2] £m	**Fair value adjustment[3] £m**	Nominal[2] £m	Fair value adjustment[3] £m
Sterling debt	**-**	**-**	393	(1)
Euro denominated debt	**1,615**	**(52)**	1,615	(145)
USD denominated debt	**-**	**-**	621	(10)
CAD denominated debt	**337**	**(5)**	584	(25)
CHF denominated debt	**437**	**1**	437	(7)
AUD denominated debt	**96**	**(6)**	95	(14)
JPY denominated debt	**71**	**1**	71	-
NOK denominated debt	**176**	**7**	176	(2)
	2,732	**(54)**	3,992	(204)

1 Fair value of borrowings are for disclosure purposes only. Bonds and floating rate term loan fair values are taken from Bloomberg while Class B RPI inflation linked debt and floating rate facilities' fair values are based on discounted cashflow valuations.

2 Nominal values are based on initial designation FX rates.

3 Fair value adjustment is comprised of fair value loss of £45 million (year ended December 2020: £185 million loss) on continuing hedges and £9 million loss (year ended December 2020: £19 million loss) on discontinued hedges.

14 BORROWINGS CONTINUED

SECURITIES AND GUARANTEES

Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements.

BAA Pension Trust Company Limited, as a trustee of the BAA Pension Scheme, is a Borrower Secured Creditor and ranks equally in an amount up to £284 million with senior (Class A) debt.

Heathrow Funding Limited has given the Bond Trustee a covenant to pay and discharge, when due, to each of the Issuer Secured Creditors (including Bondholders) all Issuer Secured Liabilities (including all amounts due under the Bonds). The Bond Trustee holds the benefit of that covenant on trust for itself and the Issuer Secured Creditors. Heathrow Funding Limited has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

Heathrow Airport Limited has also granted security to the Bond Trustee (for itself and as trustee for the Issuer Secured Creditors) over its property, assets, undertakings and rights to secure the covenant to pay and discharge the Issuer Secured Liabilities.

Heathrow Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee and indemnity in favour of Lloyds Bank plc (in its capacity as the Borrower Account Bank) in respect of each other's obligations under the Borrower Account Bank Agreement and associated financing agreements. ADI Finance 1 Limited and ADI Finance 2 Limited have granted security to Lloyds Bank plc (in its capacity as the 'Security Agent') over all of their assets, which includes their interests in the share capital of ADI Finance 2 Limited and Heathrow Airport Holdings Limited, respectively, to secure their obligations under the ADI Finance 2 Limited financing agreements. Additional disclosures on risk management and hedging of borrowings are included in Notes 15 and 16.

15 DERIVATIVE FINANCIAL INSTRUMENTS

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

31 December 2020	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts	31	1	-	1
Interest rate swaps	-	-	-	-
Cross-currency swaps	868	144	-	144
Index-linked swaps	326	1	(21)	(20)
	1,225	146	(21)	125
Non-current				
Foreign exchange contracts	62	-	(3)	(3)
Interest rate swaps	6,844	33	(431)	(398)
Cross-currency swaps	4,656	547	(47)	500
Index-linked swaps	5,756	76	(653)	(577)
	17,318	656	(1,134)	(478)
Total	18,543	802	(1,155)	(353)

At 31 December 2021, total non-current notional value of Derivative financial instruments due in greater than 5 years was £13,543 million (2020: £14,170 million), comprising £4,777 million (2020: £4,926 million) of index-linked swaps, £4,013 million (2020: £2,942 million) of cross-currency swaps, and £4,753 million (2020: £6,302 million) of interest rate swaps. The Group reprofiled a proportion of existing interest rate and inflation swaps and completed a series of new interest rate transactions which will help to reduce interest payments over the next few years. This gives rise to fair value differences at inception or restructuring of derivatives between the transaction price and calculated fair value of the derivatives.

At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, 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 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instruments.

During the year, new interest rate swaps with a notional of £0.8 billion were executed in continuation of the theme where the Group will receive fixed coupon and pay SONIA with a spread close to zero for 2021 and 2022, where possible and an additional £0.4 billion executed to maintain hedging ratio compliance. This resulted in a fair value of £6 million (cost) at initial recognition and deferred on the balance sheet.

As at 31 December 2021, £276 million (2020: £300 million) remained deferred on the balance sheet and £30 million (2020: £29 million) had been recognised in the income statement for the period.

INTEREST RATE SWAPS

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

Of the total amount deferred in other comprehensive income gross of tax was £183 million (2020: £205 million) related to discontinued cash flow hedges. During the year, £22 million recycled from the frozen cash flow hedge reserve to the income statement in the period.

The losses deferred of £21 million (2020: £20 million) expected to be released in less than one year, £21 million (2020: £22 million) between one and two years, £62 million (2020: £64 million) between two and five years and £79 million (2020: £99 million) over five years.

15 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

CROSS-CURRENCY SWAPS

Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on its foreign currency-denominated bond issues. The gains and losses deferred in equity on certain swaps in cash flow hedge relationships will be continuously released to the income statement over the period to maturity of the hedged bonds. The gains deferred of £43 million, of which of £7 million (2020: £1 million) are expected to be released in less than one year, losses of £7 million (2020: £1 million) between one and two years, £22 million (2020: £1 million) between two and five years and gains of £7 million (2020: £6 million) over five years.

INDEX-LINKED SWAPS

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

FOREIGN EXCHANGE CONTRACTS

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

16 FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments (other than derivatives) comprise of loans, term notes, listed bonds, cash and short-term deposits; the main purpose of these instruments is to raise finance for the Group's operations; and additionally include trade and other receivables, trade and other payables and lease liabilities.

The Group also enters into derivative transactions, principally interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group mitigates the risk of mismatch between Heathrow's aeronautical income and its regulatory asset base, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the use of index-linked instruments.

The Group's policy does not permit use of derivatives for speculative purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group's income statement. These instruments include index-linked contracts and foreign exchange forward contracts. The treasury function operates on a centralised basis, where Derivatives are only used for economic hedging purposes and not as speculative investments and are classified as 'held for trading', other than designated and effective hedging instruments, and are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period, otherwise they are classified as non-current.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing each of the risks which are summarised below.

INTEREST RATE BENCHMARK REFORM

As listed below, the Group is exposed to interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform.

The following table contains details of all derivatives underpinned by IBOR floating rates used in the Group's hedging strategies which reference GBP LIBOR and have not yet transitioned to SONIA or an alternative interest rate benchmark, such that phase 1 reliefs have been applied to the hedging relationships:

	Carrying value at 31 December 2021			Impact of transition on fair value	Notional amount directly impacted by IBOR reform
	Notional £m	Assets £m	Liabilities £m	£m	£m
Summary derivatives underpinned by iBOR floating rates					
Cross-currency interest rate swap derivative designated hedge relationships	2,243	181	-	**(7)**	2,243
Cross-currency interest rate swap derivative not in designated hedge accounting relationships	75	7	-	**(1)**	75
Interest rate swap derivative not in designated hedge accounting relationships	3,795	-	(218)	**(2)**	3,795
Inflation linked swap derivative not in designated hedge accounting relationships	1,801	-	(496)	**(14)**	1,801

Each of the categories above are included within the Derivative financial asset and Derivative financial liability categories on the statement of financial position.

Heathrow is also aware that transition to potential development of RFR-based term rates is at different stages depending on the jurisdiction. The Group also expects that the timing of any transition away from relevant interbank offered rates to take into account liquidity of the development of robust RFR-based term rates, changes in relevant industry conventions and the speed with which market participants transition away from LIBOR. As a part of our treasury risk management strategy, the Group intends to follow milestones set out by the ICE Benchmark Administration ('IBA') with respect to providing LIBOR-linked products maturing after the end of 2021 and will also explore solutions to reduce our footprint in relation to LIBOR-linked products, under Phase 2 of the 'Interest rate benchmark reform'.

IBOR REFORM

Below are details of the LIBOR impacted hedging instruments and hedged items that have yet to transition, but are within the scope of IFRS 9, IAS 39, and IFRS 7 Interest Rate Benchmark Reform amendments. The terms of the hedged items listed, by hedge type, match those of the corresponding hedging instruments.

Hedge Type	Hedging Instrument Type	Hedged Item	Nominal Value	Maturing
Fair value hedges	Receive NOK fixed, pay 6-month GBP LIBOR currency swaps	NOK fixed rate issued debt	NOK 1,000m	2027
			NOK 1,000m	2029
	Receive CAD fixed, pay 6-month GBP LIBOR currency swaps	CAD fixed rate issued debt	CAD 500m	2025
			CAD 120m	2030
	Receive CHF fixed, pay 6-month GBP LIBOR currency swaps	CHF fixed rate issued debt	CHF 400m	2024
			CHF 210m	2026
	Receive EUR fixed, pay 6-month GBP LIBOR currency swaps	EUR fixed rate issued debt	EUR 600m	2022
			EUR 750m	2030
			EUR 650m	2034
	Receive AUD fixed, pay 6-month GBP LIBOR currency swaps	AUD fixed rate issued debt	AUD 175m	2028
	Receive JPY fixed, pay 6-month GBP LIBOR currency swaps	JPY fixed rate issued debt	JPY 10bn	2039

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

HEDGING STRATEGY

Cross currency swaps designated in fair value hedge

The Group also enter into cross currency swaps to swap, to hedge and mitigate against the cash flows of currency coupons and the final principal exchange. The annual interest coupon payments are swapped into sterling LIBOR floating rates. Fair value hedge accounting has been applied to these relationships in addition to the existing cash flow hedge.

Cross currency swaps are designated as fair value hedges against the final settlement of currency-denominated public bonds to mitigate the functional currency exposure on the principal and interest payments. The Group's policy is to hedge against movements in foreign exchange rates and interest rate exposure, and to comply with the groups interest rate policy. The credit adjustment and cross currency basis on the cross-currency swaps are courses of hedge ineffectiveness and are recognised in the income statement.

The hedge ratio for each designation will be established by comparing the quantity of the hedging instrument and the quantity of the hedged item to determine their relative weighting; for all of the Group's existing hedge relationships the hedge ratio has been determined as 1:1.

These are held in a fair value hedge relationship with the debt items as identified and listed in the table shown below:

Borrowings in a hedge relationship	**Notional hedged £m**	**Weighted average interest rate after swaps**	**Hedged FX rate**	**Swap maturity**	**Carrying value of hedged item 2021 £m**	Carrying value of hedged item 2020 £m
3.000% CAD450 million due 2021	-	6m LIBOR + 0.69%	2.03	2021	-	259
4.875% US$1000 million due 2021	-	6m LIBOR + 2.58%	1.54	2021	-	742
6.750% £700 million due 2026[2]	-	6m LIBOR + 0.87%	1.00	2021	-	223
7.075% £200 million due 2028[2]	-	6m LIBOR + 1.22%	1.00	2021	-	166
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	1.16	2022	507	549
0.500% CHF400 million due 2024	277	6m LIBOR + 1.58%	1.44	2024	326	336
3.250% C$500 million due 2025	266	6m LIBOR + 0.88%	1.88	2025	294	301
0.450% CHF210 million due 2026	160	6m LIBOR + 0.99%	1.31	2026	170	177
2.650% NOK1,000 million due 2027	84	6m LIBOR + 0.72%	11.85	2027	84	90
4.150% A$175 million due 2028	96	6m LIBOR + 1.24%	1.82	2028	99	113
2.500% NOK1,000 million due 2029	91	6m LIBOR + 1.43%	10.97	2029	77	82
1.500% €750 million due 2030	566	6m LIBOR + 0.80%	1.16	2030	657	735
3.782% C$400 million due 2030[1,2]	72	6m LIBOR + 1.27%	1.68	2030	71	70
1.875% €650 million due 2034	559	6m LIBOR + 1.26%	1.16	2034	556	636
0.800% JPY1,000 million due 2039	71	6m LIBOR + 1.33%	141.44	2039	64	72

[1] Bifurcation of hedge, fair value designation of C$120 million with the remaining balance designated in a cash flow hedge.
[2] 2020 balances have been aligned to current year presentation methodology.

MOVEMENT NOTE

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedged item 2021 £m	Change in value of hedging instrument 2021 £m	Change in value of hedged item 2020 £m	Change in value of hedging instrument 2020 £m
3.000% CAD450 million due 2021	-	6m LIBOR + 0.69%	2021	10	(11)	1	(3)
4.875% US$1000 million due 2021	-	6m LIBOR + 2.58%	2021	19	(19)	22	(23)
6.750% £700 million due 2026	-	6m LIBOR + 0.87%	2021	1	(1)	2	(4)
7.075% £200 million due 2028	-	6m LIBOR + 1.22%	2021	-	(1)	1	(3)
1.875% €600 million due 2022	490	6m LIBOR + 0.60%	2022	42	(43)	(31)	23
0.500% CHF400 million due 2024	277	6m LIBOR + 1.58%	2024	11	(9)	(29)	21
3.25% C$500 million due 2025	266	6m LIBOR + 0.88%	2025	8	(10)	(12)	11
0.450% CHF210 million due 2026	160	6m LIBOR + 0.99%	2026	7	(7)	(10)	10
2.65% NOK1,000 million due 2027	84	6m LIBOR + 0.72%	2027	6	(6)	(5)	3
4.150% A$175 million due 2028	96	6m LIBOR + 1.24%	2028	14	(15)	(10)	10
2.50% NOK1,000 million due 2029	91	6m LIBOR + 1.43%	2029	5	(4)	(6)	3
1.50% €750 million due 2030	566	6m LIBOR + 0.80%	2030	79	(83)	(91)	56
3.782% C$400 million due 2030	72	6m LIBOR + 1.27%	2030	3	(3)	(4)	4
1.875% €650 million due 2034	559	6m LIBOR + 1.26%	2034	81	(85)	(51)	60
0.800% JPY10,000 million due 2039	71	6m LIBOR + 1.33%	2039	8	(5)	(3)	(1)

The fair value of cross currency interest rate swaps designated in a fair value hedge at 31 December 2021 was £228 million (2020: £639 million) asset and £23 million (2020: £11 million) liability, respectively.

These cross-currency derivatives are included within "Derivative financial assets" and "Derivative financial liabilities" in the balance sheet. The notional hedged value is equal to the notional value impacted by IBOR reform.

Cross currency swaps designated in cash flow hedges

The Group hold cross-currency interest rate swaps to convert the principal and annual interest coupons, of some of the Groups non-GBP denominated bonds to a sterling debt notional with fixed GBP annual interest coupons.

We applied cash flow hedge accounting to these relationships to limit our currency cash flow exposure on the principal and interest payments. The hedge designations were fully effective in the 2021 and 2020 financial years as the notional amount, maturity, payment and reset dates match.

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Hedged rate	Swap maturity	Hedging instrument fair value 2021 £m	Hedging instrument fair value 2020 £m
1.500% €750million due 2025	681	2.34%	1.10	2025	(40)	(15)
2.694% C$650 million due 2027	374	2.03%	1.74	2027	6	-
3.400% C$400 million due 2028	226	2.66%	1.77	2028	10	5
3.782% C$400 million due 2030[1]	167	2.93%	1.68	2030	(2)	(6)
1.125% €500 million due 2030	427	2.33%	1.17	2030	(14)	-
3.661% C$500 million due 2031	291	3.18%	1.72	2031	(1)	(13)
1.875% €500 million due 2032	443	2.67%	1.13	2032	(20)	4
3.726% C$300 million due 2033	173	2.81%	1.74	2033	5	-
3.726% C$325 million due 2033	190	2.78%	1.71	2033	5	-
3.500% A$125 million due 2041	68	2.44%	1.84	2041	(4)	-

[1] Bifurcation of hedge, cash flow hedge designation of C$280 million with the remaining balance designated in a fair value hedge.

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Cross currency swaps designated in cash flow hedges continued

During the period, five currency bonds C$650 million, €500 million, C$300 million, C$325 million and A$ 125 million notional were swapped into GBP fixed rate debt.

MOVEMENT NOTE

Borrowings in a hedge relationship	Notional hedged £m	Weighted average interest rate after swaps	Swap maturity	Change in value of hedged item 2021 £m	Change in value of hedging instrument 2021 £m	Change in value of hedged item 2020 £m	Change in value of hedging instrument 2020 £m
1.500% €750 million due 2025	681	2.34%	2025	24	(24)	10	(14)
2.694% C$650 million due 2027	374	2.03%	2027	(12)	10	-	-
3.400% C$400 million due 2028	226	2.66%	2028	(7)	6	(5)	4
3.782% C$400 million due 2030[1]	167	2.93%	2030	(6)	6	(3)	1
1.125% €500 million due 2030	427	2.33%	2030	7	(10)	-	-
3.661% C$500 million due 2031	291	3.18%	2031	(11)	12	11	(14)
1.875% €500 million due 2032	443	2.67%	2032	22	(20)	(24)	10
3.726% C$300 million due 2033	173	2.81%	2033	(8)	7	-	-
3.726% C$325 million due 2033	190	2.78%	2033	(1)	5	-	-
3.500% A$125 million due 2041	68	2.44%	2041	2	(4)	-	-

The fair value of cross currency interest rate swaps designated in a cash flow hedge at 31 December 2021 was £28 million (2020: £8 million) asset and £74 million (2020: £35 million) liability, respectively. These cross currency derivatives are included within "Derivative financial assets" and "Derivative financial liabilities" in the balance sheet.

Interest rate swaps designated in cash flow hedge

Interest rate swaps are designated as cash flow hedges to mitigate the interest payments on certain bonds, the nominal amounts hedged were discontinued during the prior year with £23 million fair value loss deferred in frozen cash flow hedge reserves.

[1] Bifurcation of hedge, cash flow hedge designation of C$120 million with the remaining balance designated in a fair value hedge.

INTEREST RATE RISK

The Group's policy is to maintain a mix of fixed and floating rate debt within Board approved parameters such that a minimum of 75% of existing and forecast debt is at a fixed rate. It manages its cash flow interest rate risk by using floating or fixed interest rate swaps, where at three or six-month intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts are exchanged.

Floating interest rate swap contracts that exchange floating rate interest for fixed interest, have been designated as cash flow hedges to hedge the variability of the interest cash flows associated with floating rate debt. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to Group's income statement over the period that the floating rate interest payments affect profit or loss.

Fixed interest rate swap contracts that exchange fixed rate interest for floating interest, have been designated as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised liability. Changes in the fair value of derivatives that are designated as fair value hedges are recognised in the Group income statement within finance costs, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

The critical terms of the interest rate swap contracts and their corresponding hedged items are the same. A qualitative assessment of effectiveness is performed, and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. Moreover, where critical terms are inadequate, use is made of the hypothetical derivatives approach.

The main sources of ineffectiveness in these hedge relationships are the effects of the Group's own credit risk on the fair value of the interest rate swap contracts, that are not reflected in the fair value of the hedged item attributable to changes in interest rates; difference in critical terms between the hedging instrument and hedged item; and the markets expectation and anticipation when GBP LIBOR moves to SONIA at different dates. No other sources of ineffectiveness emerged from these hedging relationships.

SENSITIVITY ANALYSIS

Each 0.20% (2020: 0.15%) change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movements in the finance income, finance cost and mark-to-market valuation of derivatives:

	31 December 2021		31 December 2020	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
LIBOR rate				
2021: 0.20% increase (2020: 0.15% increase)	**122**	**-**	110	-
2021: 0.20% decrease (2020: 0.15% decrease)	**(123)**	**-**	(111)	-
SONIA rate				
2021: 0.20% increase (2020: 0.15% increase)	**(29)**	**-**	(38)	-
2021: 0.20% decrease (2020: 0.15% decrease)	**29**	**-**	38	-

During 2021, the highest month-on-month 6-month GBP LIBOR curve movement averaged 0.30% (2020: 0.11%); therefore 0.20% (2020: 0.15%) is considered to be reasonable and provides an appropriate stress test.

In determining the fair value, judgement is used to determine the recovery rate and associated reduction in credit risk of super senior ranking derivatives (interest rate and index-linked swaps).

As at 31 December 2021, the super senior assumed recovery rate was 88% (2020: 79%), with all other variables remaining constant, if the assumed recovery rate had increased or decreased by 10% (2020: 5%), annual pre-tax profit would have decreased or increased by £51 million and £53 million respectively (2020: £12 million and £12 million respectively). A higher recovery rate has been applied in 2021 due to global default rates improving through 2021.

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

FOREIGN EXCHANGE RISK

For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge the interest and principal payments. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed. The Group is not exposed to foreign exchange risk on borrowings after hedging. The Group is not materially exposed to foreign exchange risk on an economic basis.

PRICE RISK

The Group is exposed to RPI risk on its index-linked bonds and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2021, with all other variables remaining constant, if the RPI had increased or decreased by 1%, annual pre-tax profit would have decreased or increased by £848 million and £775 million respectively (2020: a 1% increase or decrease leading to a £927 million decrease and £839 million increase respectively). During 2021, the highest month-on-month RPI curve movement averaged 1% and the highest month-on-month movement for a given term (1-year) was 1.5%. Therefore 1% is considered to be reasonable and provides an appropriate stress test.

CREDIT RISK

Credit risk arises from cash and cash equivalents, term deposits, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents and term deposits across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2 (S&P)/F1 (Fitch). The group monitors the credit ratings of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with long-term credit ratings below BBB- (S&P)/BBB- (Fitch).

As at 31 December 2021, the Group had credit risk on derivatives with asset mark to market of £446 million (2020: £802 million). The maximum exposure to credit risk as at 31 December 2021 was £3,214 million (2020: £4,416 million).

SET-OFF OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. According to the enforceable master netting agreements with the counterparties, in the event of default, derivative financial instruments with the same counterparty and of similar payment seniority can be net settled.

The table below shows the Group's financial assets and liabilities that are subject to offset in the balance sheet and the impact of enforceable master netting or similar agreements:

	Gross amount presented in balance sheet £m	Right of asset offset with derivative counterparty £m	Right of liability offset £m	Net amounts £m
31 December 2021				
Derivative financial assets	**446**	**(145)**	**63**	**364**
Derivative financial liabilities	**(2,244)**	**145**	**(63)**	**(2,162)**
31 December 2020				
Derivative financial assets	802	(56)	42	788
Derivative financial liabilities	(1,155)	56	(42)	(1,141)

There were no other material amounts offset in the consolidated statement of financial position or associated with enforceable master netting agreements.

EXPECTED CREDIT LOSS

The Group applies IFRS 9 for recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and, also according to the industry sector of the Group's customers.

The expected loss rates are based on Global industry default rates as well as the corresponding historical credit.

The historical rates are adjusted to reflect the loss given default factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period. Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery, therefore moving from 'Stage 2' to 'Stage 3'.

On the above basis the expected credit loss for trade receivables as at 31 December 2021 and 31 December 2020 was determined as follows:

	31 December 2021					
	Current £m	**1-30 days** £m	**31-60 days** £m	**61-90 days** £m	**Over 90 days** £m	**Total** £m
Trade receivables						
Gross carrying amount	**38**	**24**	**3**	**2**	**31**	**98**
Lifetime expected credit loss	**(6)**	**(3)**	**-**	**-**	**(11)**	**(20)**
Total adjusted receivables	**32**	**21**	**3**	**2**	**20**	**78**

	31 December 2020					
	Current £m	1-30 days £m	31-60 days £m	61-90 days £m	Over 90 days £m	Total £m
Trade receivables						
Gross carrying amount	60	9	1	1	13	84
Lifetime expected credit loss	(12)	(1)	-	-	(4)	(17)
Total adjusted receivables	48	8	1	1	9	67

LIQUIDITY RISK

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at the relevant date:

	31 December 2021 £m	31 December 2020 £m
Floating rate facilities		
Expiring in more than one year and less than two years	**1,150**	-
	1,150	-

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

LIQUIDITY RISK CONTINUED

As at 31 December 2021, overdraft facilities of £10 million were available (2020: £10 million).

We have sufficient liquidity to meet all our forecast needs until at least February 2023 under the extreme stress-test scenario of no revenue, or well into 2023 under our current traffic forecast. This includes forecast operational costs and capital investment, debt service costs, debt maturities and repayments. This liquidity position takes into account £3,766 million in cash resources as well as undrawn debt and liquidity as at 31 December 2021.

The tables below analyse the gross undiscounted contractual cash flows as at 31 December of the Group's financial liabilities and net settled derivative financial instruments to the contractual maturity date.

	31 December 2021			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**731**	**751**	**3,044**	**11,080**
Borrowing interest payments	**524**	**512**	**1,305**	**3,547**
Derivative financial instruments	**(319)**	**49**	**335**	**(762)**
Trade payables	**132**	**-**	**-**	**-**
Capital payables	**76**	**-**	**-**	**-**
Lease liabilities	**55**	**43**	**96**	**458**

	31 December 2020			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	1,541	717	3,828	10,601
Borrowing interest payments	540	486	1,284	3,462
Derivative financial instruments	(246)	(244)	152	(41)
Trade payables	178	-	-	-
Capital payables	39	-	-	-
Lease liabilities	59	53	100	470

The tables below analyse the expected gross undiscounted contractual cash flows as at 31 December of the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period to the contractual maturity date. The table should be viewed in conjunction with the table presenting undiscounted cash flows on the Group's financial liabilities and net settled derivative financial instruments.

	31 December 2021			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**145**	**140**	**371**	**504**
Cross-currency derivative receipts	**(147)**	**(121)**	**(321)**	**(511)**

	31 December 2020			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	99	101	235	328
Cross-currency derivative receipts	(137)	(116)	(261)	(742)

CAPITAL RISK MANAGEMENT

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB'). Net debt is the external consolidated nominal net debt at the entity within the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements held by the Group. Gearing ratios achieved by the Group are set out below:

	31 December 2021	31 December 2020
Total net debt to RAB	**0.763**	0.796
Senior net debt to RAB	**0.646**	0.684

At 31 December 2021, the Group's senior (Class A) and junior (Class B) gearing ratios were 64.6% and 76.3% respectively (31 December 2020: 68.4% and 79.6% respectively) with respective trigger levels of 72.5% and 85%.

In August, we successfully received approval from Heathrow Finance's creditors (representing over 95% of the total debt) to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2021. This followed the approval received in July 2020 to waive the Interest Cover Ratio covenant for the financial year ending 31 December 2020 and to amend the Regulatory Asset Ratio covenant from 92.5% to 95.0% and 93.5% for the financial year ending on 31 December 2020 and 31 December 2021 respectively.

FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial instruments as classified in the financial statements can be analysed under the following categories:

	31 December 2021			
	Financial assets at amortised cost and cash equivalents £m	**Assets at fair value through income statement** £m	**Derivatives qualifying for hedge accounting** £m	**Total** £m
Derivative financial instruments[1,2]	**-**	**189**	**257**	**446**
Cash and cash equivalents	**216**	**-**	**-**	**216**
Trade receivables	**142**	**-**	**-**	**142**
Term deposits	**2,410**	**-**	**-**	**2,410**
Total financial assets	**2,768**	**189**	**257**	**3,214**

1 Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £228 million.
2 Designated in cash flow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £29 million.

	31 December 2021			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting** £m	**Other financial liabilities at amortised cost** £m	**Total** £m
Borrowings	**-**	**-**	**(19,082)**	**(19,082)**
Derivative financial instruments[1,2]	**(2,146)**	**(98)**	**-**	**(2,244)**
Trade payables	**-**	**-**	**(132)**	**(132)**
Capital payables	**-**	**-**	**(76)**	**(76)**
Lease liabilities	**-**	**-**	**(371)**	**(371)**
Total financial liabilities	**(2,146)**	**(98)**	**(19,661)**	**(21,905)**

1 Designated in fair value hedges of interest rate risk with changes in fair value recognised in finance costs in the income statement of £23 million.
2 Designated in cash flow hedges of interest rate risk with changes in fair value recognised in losses taken to equity in other comprehensive income of £75 million.

16 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL INSTRUMENTS BY CATEGORY CONTINUED

	31 December 2020			
	Financial assets at amortised cost and cash equivalents £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	-	154	648	802
Cash and cash equivalents	280	-	-	280
Trade receivables	98	-	-	98
Term deposits	3,236	-	-	3,236
Total financial assets	3,614	154	648	4,416

	31 December 2020			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities at amortised cost £m	Total £m
Borrowings	-	-	(20,309)	(20,309)
Derivative financial instruments	(1,109)	(46)	-	(1,155)
Trade payables	-	-	(178)	(178)
Capital payables	-	-	(39)	(39)
Lease liabilities	-	-	(392)	(392)
Total financial liabilities	(1,109)	(46)	(20,918)	(22,073)

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)
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

At 31 December 2021 and 2020, all fair value estimates on derivative financial instruments are included in level 2.

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

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

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

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

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

As at 31 December 2021, £234 million (2020: £261 million) remained capitalised and £27 million (2020: £28 million) had been recognised in the income statement for the period.

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

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

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

	31 December 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through income statement	-	154	-	154
Derivatives qualifying for hedge accounting	-	648	-	648
Total assets	-	802	-	802
Liabilities				
Liabilities at fair value through income statement	-	(1,109)	-	(1,109)
Derivatives qualifying for hedge accounting	-	(46)	-	(46)
Total liabilities	-	(1,155)	-	(1,155)

On a semi-annual basis, the Group reviews any material changes to the valuation techniques and market data inputs used. The potential impact to the fair value hierarchy is assessed if it is deemed a transfer. Significant transfers between levels are considered effective at the end of the reporting period. During the year there were no transfers between the levels in the fair value hierarchy. Changes in Level 3 instruments have been disclosed in Note 9.

17 DEFERRED INCOME TAX

The net movement on the deferred income tax account is as follows:

	Note	2021 £m	2020 £m
1 January		**(784)**	(934)
Credited to income statement[1]	*5*	**392**	238
Charged to income statement - change in tax rate		**(214)**	(112)
(Charged)/credited to other comprehensive income	*22*	**(107)**	22
Credited to other comprehensive income - change in tax rate		**7**	2
31 December		**(706)**	(784)

Deferred tax is analysed as follows:

	31 December 2021 £m	31 December 2020 £m
Deferred income tax liabilities	**(1,328)**	(1,060)
Deferred income tax assets	**622**	276
31 December	**(706)**	(784)

The movements in deferred income tax assets and liabilities during the financial year are shown below.

DEFERRED INCOME TAX LIABILITIES

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Post employment benefits £m	Revaluations of property, plant and equipment £m	Tax on rolled over gains £m	Total £m
1 January 2020	(810)	(220)	(1)	(30)	(8)	(1,069)
Credited to income statement	66	67	-	-	-	133
Charged to income statement – change in tax rate	(95)	(26)	-	-	(1)	(122)
Charged to other comprehensive income – change in tax rate	-	-	-	(3)	-	(3)
Transfer to deferred tax assets	-	-	1	-	-	1
31 December 2020	**(839)**	**(179)**	**-**	**(33)**	**(9)**	**(1,060)**
Credited/(charged) to income statement	**117**	**(36)**	**-**	**-**	**-**	**81**
Charged to income statement – change in tax rate	**(201)**	**(56)**	**-**	**-**	**(3)**	**(260)**
Charged to other comprehensive income – change in tax rate	**-**	**-**	**-**	**(10)**	**-**	**(10)**
Transfer from deferred tax assets	**-**	**-**	**(79)**	**-**	**-**	**(79)**
31 December 2021	**(923)**	**(271)**	**(79)**	**(43)**	**(12)**	**(1,328)**

DEFERRED INCOME TAX ASSETS

	Financial instruments £m	Short-term timing differences £m	Post employment benefits £m	IFRS 16 £m	Unused tax losses[1] £m	Total £m
1 January 2020	114	3	-	18	-	135
Credited/(charged) to income statement	57	(1)	(20)	-	69	105
Credited to income statement – change in tax rate	9	-	1	-	-	10
(Charged)/credited to other comprehensive income	(2)	-	24	-	-	22
Credited/(charged) to other comprehensive income – change in tax rate	4	-	(1)	2	-	5
Transfer from deferred income tax liabilities	-	-	(1)	-	-	(1)
31 December 2020	**182**	**2**	**3**	**20**	**69**	**276**
Credited/(charged) to income statement	**193**	**1**	**6**	**(2)**	**113**	**311**
Credited to income statement – change in tax rate	**40**	**-**	**2**	**-**	**4**	**46**
Charged to other comprehensive income	**(18)**	**-**	**(89)**	**-**	**-**	**(107)**
(Charged)/credited to other comprehensive income – change in tax rate	**12**	**-**	**(1)**	**6**	**-**	**17**
Transfer to deferred income tax liabilities	**-**	**-**	**79**	**-**	**-**	**79**
31 December 2021	**409**	**3**	**-**	**24**	**186**	**622**

Deferred income tax credit/(charge) to other comprehensive income during the year was as follows:

	Note	**Year ended 31 December 2021** £m	Year ended 31 December 2020 £m
Cash flow hedge reserve	*22*	**(6)**	2
Tax credit on actuarial movement	*22*	**(90)**	23
Change in tax rate	*22*	**(4)**	(1)
		(100)	24

The Finance Act 2021 substantively enacted the increase in the corporation tax rate from 19% to 25%, which will take effect from 1 April 2023. The effect of the rate increase has been reflected in the deferred tax balances in the financial statements.

At 31 December 2021, the aggregate amount of undistributed earnings of subsidiaries and joint ventures on which temporary differences may exist was nil (2020: nil).

A nil deferred tax liability (2020: nil) has been recognised on undistributed earnings since no tax is expected to arise on the distributions from subsidiaries in the future under the application of UK tax legislation.

[1] Of the closing £186m deferred tax asset, £24m relates to trading losses and the balance relates to non-trading deficit post-April 2017.

17 DEFERRED INCOME TAX CONTINUED

The net deferred tax liability expected to reverse in 2022 is £40 million. This primarily relates to the reversal of timing differences in relation to accelerated capital allowances, fair value of financial instruments and carried forward losses.

Deferred income tax assets have been recognised in respect of all deductible temporary differences where it is considered probable that there will be sufficient future taxable income against which these assets will be recovered. There are no unrecognised deferred income tax assets. UK tax losses and capital losses have no expiry date. The recognition of these deferred income tax assets is supported by a combination of the reversal of taxable temporary differences and forecast future taxable income including a period of over 5 years after the balance sheet date running to 2039, which is the expected timing required for the deferred tax asset on the fair value of financial instruments to fully unwind.

In assessing the risks associated with future taxable income forecasts that have been used to support recognition, management have concluded that there is significant headroom (over 50%) above the amounts required to support recoverability of the deferred income tax assets. The reliance on future taxable profits has been made with a high level of certainty as there is considerable headroom in the Group's long term forecasts over and above the amount forecast to be utilised to support recoverability of the deferred income tax assets.

The Group has a strong earnings history. The COVID-19 Pandemic has been very challenging for the aviation industry, but the business fundamentals remain strong. The Group benefits from countercyclicality. In times of reduced passenger traffic across the industry, airlines have tended to consolidate traffic towards hubs such as Heathrow Airport. This position as the UK's only hub airport ensures that Heathrow remains a resilient airport, maintaining the UK's critical trade and passenger connectivity. This underlying characteristic of Heathrow means that the airport is well placed to grow once passenger demand increases and travel restrictions are eased.

18 RETIREMENT BENEFIT OBLIGATIONS

The Group has applied the requirements of the standard IAS 19 'Employee Benefits (Revised 2011)' ('IAS 19R') for the year ended 31 December 2021.

LHR Airports Limited, which is an indirect subsidiary of HAH Group (the 'Group'), is the sponsor of the Defined Benefit ('DB') pension scheme, the Unfunded Unapproved Retirement Benefit ('UURBS') scheme and the Post-Retirement Medical Benefits ('PRM') scheme. Following a decision to re-assess the Group's relationship with the legal sponsor of the retirement benefit schemes, it was determined that Heathrow Airport Limited, and therefore the Group, should act as sponsor in relation to these schemes. As a result, the Group now recognises retirement benefit obligations within its financial statements.

The Group's primary UK defined benefit pension fund (the 'BAA Pension Scheme' or the 'Scheme') is now closed to new employees. As required by UK pension law, there is a Pension Trustee Board that, together with LHR Airports Limited, is responsible for governance of the Scheme. The employer's contributions are determined based on triennial valuations conducted on assumptions determined by the Trustee and agreed by LHR Airports Limited. The defined benefit obligation or surplus is calculated quarterly by independent actuaries.

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former Directors and senior employees whose benefits are restricted by the rules of the Scheme. In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners.

LHR Airports Limited operates a defined contribution pension scheme for all employees who joined the Group after 15 June 2008. The Group has no further payment obligations once the contributions have been paid. The total cost of defined contribution pension arrangements is fully expensed as employment costs.

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 within sections a) and b).

INCOME STATEMENT

Pension and other pension related liabilities costs

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Employment costs:		
Defined contribution schemes	**12**	14
BAA Pension Scheme	**22**	24
Past service credit (BAA Pension Scheme)	**-**	(53)
	34	(15)
Finance credit - BAA Pension Scheme	**-**	-
Finance charge - Other pension and post retirement liabilities	**-**	-
Total pension costs	**34**	(15)

OTHER COMPREHENSIVE INCOME

Gain/(loss) on pension and other pension related liabilities

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
BAA Pension Scheme gain/(loss)	**355**	(125)
Unfunded schemes	**-**	(2)
Actuarial gain/(loss) recognised before tax	**355**	(127)
Tax (charge)/credit on actuarial gain or loss	**(90)**	23
Actuarial gain/(loss) recognised after tax	**265**	(104)

There were no past service credits for the year-ended 31 December 2021. For the year-ended 31 December 2020, net past service credit of £53 million includes a charge of £12 million arising from curtailment of the scheme due to the changes in the organisational structure which is part of the business transformation programme outlined in Note 3, and £65 million of gains relating to liabilities extinguished on settlements. Curtailment losses resulting from scheme leavers linked to the exceptional restructuring were calculated using market conditions as at 31 July 2020 based on this being a representative midpoint of when individuals left the scheme. Settlement gains were calculated using market rates at the dates where the settlements were enacted.

STATEMENT OF FINANCIAL POSITION

Net defined benefit pension surplus/(deficit) and other pension related liabilities.

The net deficit or surplus of the LHR Airports Limited retirement benefit schemes, being the BAA Pension Scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefit Scheme, are recognised within non-current assets or non-current liabilities if the pension schemes are in a surplus or deficit position respectively. The net surplus or deficit is presented below for the current and previous four financial years.

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

	31 December				
	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of plan assets	**4,886**	4,796	4,302	3,869	4,085
Benefit obligation	**(4,543)**	(4,784)	(4,269)	(3,841)	(4,209)
Surplus/(deficit) in BAA Pension Scheme	**343**	12	33	28	(124)
Unfunded pension obligations	**(29)**	(30)	(28)	(28)	(29)
Post-retirement medical benefits	**(1)**	(1)	(1)	(4)	(5)
Deficit in other pension related liabilities	**(30)**	(31)	(29)	(32)	(34)
Net surplus/(deficit) in pension schemes	**313**	(19)	4	(4)	(158)
Group share of net surplus/(deficit) in pension schemes	**313**	(19)	4	(4)	(158)

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

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

(A) BAA PENSION SCHEME

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

The value placed on the Scheme's obligations as at 31 December 2021 is based on the full actuarial valuation carried out at 30 September 2018. This has been updated at 31 December 2021 by ISIO Group Limited to take account of changes in economic and demographic assumptions, in accordance with IAS 19R. The valuation performed at 31 December 2021 takes account of the changes in scheme membership from special events in the year, being the scheme curtailment and settlement giving rise to past service costs as noted above. The Scheme assets are stated at their bid value at 31 December 2021. As required by IAS 19R, the Group recognises re-measurements as they occur in the statement of comprehensive income.

Analysis of movements in plan assets and defined benefit obligations

	2021 £m	2020 £m
Fair value of plan assets at 1 January	**4,796**	4,302
Income statement:		
Interest income on plan assets	**61**	80
Administration costs	**(3)**	(3)
Other comprehensive income:		
Re-measurement gain (return on assets in excess of interest income on plan assets)	**188**	481
Cash flows:		
Employer contributions (including benefits paid and reimbursed)	**1**	43
Prepaid contributions	**-**	35
Members' contributions	**1**	3
Benefits paid (by fund and Group)	**(158)**	(145)
Fair value of plan assets at 31 December	**4,886**	4,796
Defined benefit obligation at 1 January	**(4,784)**	(4,269)
Income statement:		
Current service cost	**(21)**	(23)
Past service cost	**-**	54
Interest cost	**(61)**	(80)
Other comprehensive income:		
Re-measurements of defined benefit obligation:		
Arising from changes in financial assumptions	**154**	(728)
Arising from changes in demographic assumptions	**54**	(13)
Experience gains	**(41)**	133
Cash flows:		
Members' contributions	**(1)**	(3)
Employer contributions	**(1)**	
Benefits paid (by fund and Group)	**158**	145
Defined benefit obligation at 31 December	**(4,543)**	(4,784)

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

(A) BAA PENSION SCHEME CONTINUED

In December 2020, the company prepaid £35 million covering 2021 employer contributions including £20 million of deficit repair contributions. The defined benefit obligation at 31 December 2020 was disclosed net of the prepayment on the statement of financial position to reflect the true closing defined benefit scheme deficit at 31 December 2020. The prepayment has fully unwound in 2021 and there have been no additional cash contributions in the year.

The net actuarial gain before tax of £355 million (2020: £127 million net loss) for the BAA Pension Scheme resulted from a decrease in obligations due to lower net discount rate of £154 million (2020: £728 million loss), an increase in assets of £188 million due to over performance relative to discount rates (2020: £481 million gain). In addition, there was a £54 million gain (2020: £13 million loss) attributable to updated demographic assumptions and a £41 million experience loss (2020: £133 million gain).

The actuarial gain on change in financial assumptions is mainly attributable to an increase in the net discount rate of 0.50% over the year, based on a discount rate assumption of 1.80% and an RPI inflation assumption of 3.50%. The discount rate used has increased from 1.30% in 2020 to 1.80% in 2021 and is derived from the yield on 'high quality corporate bonds' of duration consistent with liabilities of the scheme. In 2021 the Company adopted a multi-agency approach to setting the discount rate, i.e. for a bond to be treated as high quality it must have a AA (or equivalent) from at least two of the major ratings agencies. The rationale for making this change was to be more in line with typical market practice when setting the discount rate.

Analysis of fair value of plan assets

	31 December 2021			31 December 2020		
	Quoted [1] £m	**Unquoted £m**	**Total £m**	Quoted [1] £m	Unquoted £m	Total £m
Fair value of plan assets						
Equity	**185**	**179**	**364**	620	166	786
Property	**-**	**166**	**166**	-	149	149
Bonds	**502**	**1,051**	**1,553**	476	878	1,354
Cash	**-**	**155**	**155**	-	191	191
LDI	**-**	**2,024**	**2,024**	-	1,545	1,545
Buy in	**-**	**311**	**311**	-	339	339
Other	**-**	**313**	**313**	164	268	432
Total fair value of plan assets	**687**	**4,199**	**4,886**	1,260	3,536	4,796

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. At 31 December 2020, the largest single category of investment was an LDI mandate, with value of £1,545 million (32% of the asset holding at 31 December 2020).

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

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

Risk exposure

Through its defined benefit pension plans, the Group is exposed to a number of risks as detailed within the statement of investment principles and below:

- Funding: that the Scheme has insufficient assets to cover 100% of the accrued liabilities.
- Mismatching: arising from a difference in the sensitivity of asset and liability values to financial and demographic factors.
- Cash flows: arising from a shortfall of liquid assets relative to the Scheme's immediate liabilities.
- Investment managers: arising from a failure to meet target returns.
- Diversification: an inadequate spread of investments and sources of return.
- Covenant: the possibility of failure of the Scheme's sponsor.
- Counterparty: arising from the failure of a third party to fulfil its obligations under a financial (e.g. derivative or bulk annuity) contract entered into with the Scheme.
- Operations: fraud, poor advice or negligence.
- Leverage: an additional risk introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.
- Regulatory: arises from investing in a market environment where the regulatory regime may change.
- Liquidity: the ease with which assets are marketable and realisable.

These risks are reduced by careful structuring of the Scheme's funding and investment management arrangements, and through the contracts with the investment managers. Counterparty risk is reduced by limiting the exposure to any one counterparty, together with the use of a collateral mechanism for derivative positions that is calculated daily. Operational risk is reduced as far as possible by due diligence on the appointment and review of investment managers, annuity providers and advisors, and by contracts of engagement.

Analysis of financial assumptions

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

	31 December 2021 %	31 December 2020 %
Rate of increase in pensionable salaries	**1.90**	1.90
Increase to deferred benefits during deferment	**3.00**	2.60
Increase to pensions in payment:		
Open section	**3.40**	3.00
Closed section	**3.50**	3.10
Discount rate	**1.80**	1.30
Inflation assumption	**3.50**	3.10

The assumptions relating to longevity underlying the pension liabilities at the reporting date are in line with those adopted for the 2018 actuarial funding valuation, removing prudency, and are based on standard actuarial mortality tables with an allowance for future improvements in longevity. The assumptions are equivalent to a life expectancy for a 60 year old male pensioner of 26.7 years (2020: 26.8 years) and 27.8 years (2020: 27.9 years) from age 60 for a 40 year old male non-pensioner.

The expected rate of inflation is an important assumption for salary growth and pension increase. A rate of inflation is 'implied' by the difference between the yields on fixed and index-linked government bonds.

As required under IAS 19R, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate discussed above.

The funding valuation is used to judge the amount of cash contributions the Group needs to put into the pension scheme. It will always be different to the IAS 19 accounting deficit, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. Note that for the valuation at 31 December 2021, the assumptions have been updated from those detailed at the September 2018 triennial valuation to allow for actual realised inflation in both 2020 and 2021. The future inflation assumptions above are applied for future periods. Mortality assumptions have been updated to the most up to date tables, using CMI 2020.

18 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

(A) BAA PENSION SCHEME CONTINUED

Analysis of future cash flows

UK legislation requires that pension schemes are funded prudently. In September 2019, the trustee of the BAA Pension Scheme concluded a formal actuarial valuation of the Scheme as at September 2018. The next actuarial valuation of the BAA Pension Scheme will be measured as at 30 September 2021. Work on the valuation has commenced and is expected to conclude in 2022.

The September 2018 funding valuation identified a shortfall of £123 million, and LHR Airports have agreed deficit repair contributions of £20 million per annum (previously £23 million) to eliminate the September 2018 funding valuation deficit by 2022.

The valuation also considered the cost of the benefits that will be built up over the remaining future lifetime of active members. The table below gives a breakdown of the future service cost at 30 September 2018 and the cost at 30 September 2015 for comparison. Active members pay contributions to the Scheme as a condition of membership.

Future service contributions over the future lifetime of active members whilst employed by the Group

	30 September 2018	30 September 2015
	% of base salary including shift pay	% of base salary including shift pay
Cost of pension benefits	**26.4**	24.2
Plus Administration Expenses (including the PPF levy)	**2.6**	2.2
Less members' contributions	**(3.4)**	(3.4)
Employer future service contribution rate	**25.6**	23.0

Sensitivity analysis of significant assumptions

The following tables present a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected, before and after tax, by changes in the relevant actuarial assumptions that were reasonably possible at the reporting date.

The standard market practice is to include sensitivity to a change of between 0.1% and 1%. Therefore 0.5% is considered to be reasonable and in line with market practice and the movements in assumptions observed in 2021.

The range of long-term inflation and long dated AA bonds over 2020 were c.0.4% and 0.5% respectively, so the choice of 0.5% is deemed to be acceptable as pension sensitivities are aligned to historical trends.

	(Decrease)/increase in defined benefit obligation	
	Before tax £m	After tax £m
Discount rate		
+0.50% discount rate	(418)	(338)
-0.50% discount rate	484	392
Inflation rate		
+0.50% inflation rate	361	293
-0.50% inflation rate	(352)	(285)
Mortality		
Increase in life expectancy by one year	203	164

The sensitivity analysis is based on a change in one assumption while holding all other assumptions constant, therefore interdependencies between assumptions are excluded, with the exception of the inflation rate sensitivity which also impacts salary and pension increase assumptions. The analysis also makes no allowance for the impact of changes in gilt and corporate bond yields on asset values. Sensitivities calculated for 2021 have been updated for the CMI 2020 model as noted above in the analysis of financial assumptions.

The total contributions by the Company to the defined benefit pension scheme in 2022 are expected to be £35 million. The levels of contributions are based on the current service costs and the expected cash flows of the defined benefit pension scheme. The Company estimates the present value of the duration of the Scheme liabilities on average fall due over 21 years (2020: 21 years).

Management believes that the scheme has no significant plan specific or concentration risks.

(B) OTHER PENSION AND POST-RETIREMENT LIABILITIES

LHR Airports Limited also provides unfunded pensions in respect of a limited number of former Directors and senior employees whose benefits are restricted by the Scheme rules. The unfunded pension obligations amount to £29 million (2020: £30 million) and are included in the statement of financial position.

In addition, LHR Airports Limited provides post-retirement medical benefits to certain pensioners. The present value of the future liabilities under this arrangement is £1 million (2020: £1 million) and this is also included in the statement of financial position. The value of these unfunded pensions has been assessed by the actuary using the same assumptions as those used to calculate the Scheme's liabilities.

19 PROVISIONS

	Reorganisation costs £m	Home loss payments £m	Other £m	Total £m
Current	13	2	-	15
Non-current	-	-	1	1
1 January 2021	**13**	**2**	**1**	**16**
Utilised	(11)	-	-	(11)
31 December 2021	**2**	**2**	**1**	**5**
Current	**2**	**2**	**-**	**4**
Non-current	**-**	**-**	**1**	**1**
31 December 2021	**2**	**2**	**1**	**5**

REORGANISATION COSTS

See Note 3 in relation to the exceptional restructuring programme.

HOME LOSS PAYMENT

Between 2005 and 2011, the Company entered into a number of agreements (Property Market Support Bonds) to buy residential properties in the previous third runway blight area. The purchase price for these properties included a deferred 10% payment ("deferred payment") which was to be settled in cash when planning consent was obtained. In October 2016, the Government announced its decision in favour of expansion at Heathrow and following board approval, a public statement was issued by the Company stating its intention to apply for planning consent. Legal advice was that the Company would be required to pay the deferred payment. As a result, in the year ended 31 December 2016, Heathrow created a provision for the deferred payment equal to the amount it expects to pay of £7.5 million.

As at 31 January 2020 any unredeemed bond payments have lapsed. Heathrow does not have any further obligation to purchase properties or make any Home loss payments.

Heathrow had continued to locate previous bond holders and as at year ended 31 December 2021, total amount utilised was £5.2 million paid against 171 properties resulting in a closing balance of £2.3 million. These payments were proactively paid as per the residential property agreement. In some instances, there were difficulties in tracing core dependants of the original property and securing robust documentation and hence payments had been slower than anticipated. Heathrow is no longer locating bond holders, however, carries an adequate provision for the same value.

OTHER

These provisions relate to insurance claims liability from incidents which occurred at Heathrow Airport.

20 TRADE AND OTHER PAYABLES

	31 December 2021 £m	31 December 2020 £m
Non-current		
Other payables	**3**	6
	3	6
Current		
Deferred income	**37**	42
Trade payables[1]	**132**	178
Other tax and social security	**7**	17
Other payables	**51**	58
Capital payables	**76**	39
Amounts owed to group undertakings – operating[2]	**62**	58
	365	392

21 SHARE CAPITAL

	£m
Authorised	
At 1 January and 31 December 2021	
9,000,000,000 ordinary shares of 0.19p each	**17**
Called up, allotted and fully paid	
5,773,555,178 ordinary shares of 0.19p each	**11**

[1] Trade payables are non-interest bearing and are generally on 30-day terms.
[2] The fair value of trade payables and other payables are assumed to materially equate to their carrying value due to their short-term nature.

22 TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

The tax credit/(charge) relating to components of other comprehensive income was as follows:

	31 December 2021			31 December 2020		
	Before tax £m	Tax charge £m	After tax £m	Before tax £m	Tax credit/ (charge) £m	After tax £m
Cash flow hedges						
Gains/(losses) taken to equity	**24**	**(6)**	**18**	(47)	4	(43)
Transferred to income statement	**50**	**(12)**	**38**	59	(6)	53
Change in tax rate	**-**	**12**	**12**	-	4	4
Actuarial gain /(loss) on pensions (Note 18)						
Gain on plan assets	**188**	**(47)**	**141**	481	(92)	389
Decrease/(increase) in scheme liabilities	**167**	**(42)**	**125**	(608)	116	(492)
Change in tax rate	**-**	**(1)**	**(1)**	-	(1)	(1)
Change in tax rate relating to other opening balances	**-**	**(4)**	**(4)**	-	(1)	(1)
Other comprehensive income/(loss)	**429**	**(100)**	**329**	(115)	24	(91)

23 COMMITMENTS AND CONTINGENT LIABILITIES

OTHER COMMITMENTS GROUP COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	31 December 2021 £m	31 December 2020 £m
Contracted for, but not accrued:		
Baggage systems	**35**	49
Terminal restoration and modernisation	**59**	78
Tunnels refurbishment	**65**	28
Capacity optimisation	**9**	27
IT projects	**15**	2
Other projects	**1**	8
	184	192

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

OTHER COMMITMENTS

Heathrow Airport Limited has a commitment to pay £81.4 million to the Department for Transport in relation to the Crossrail project in return for a service commitment for Crossrail to operate services to Heathrow for 15 years, with payment expected during 2022. The amount will be included as an intangible asset in the financial statements and will be added to the RAB in accordance with the Q6 regulatory settlement.

Following the Government decision in October 2016 for Heathrow as preferred option for expansion, the Company recognises that up to 66 residential property owners could exercise their right under the previous scheme for which bonds were issued, to redeem those bonds at some point in the future. The Company's best estimate of the total payment is £23 million based on a valuation in accordance with the terms set out in the bond contract and assumes all the bondholders will exercise their option to sell. Eight houses were purchased in 2021 (2020: thirteen) for a total cost of £4 million (2020: £8 million). Therefore, the number of properties where bondholders have yet to exercise the option to sell is 29 and the commitment remaining is £3 million.

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CONTINGENT LIABILITIES

As at 31 December 2021 the Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £2 million at 31 December 2021 (2020: £1 million).

24 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

RECONCILIATION OF LOSS BEFORE TAX TO CASH GENERATED FROM/(USED IN) CONTINUING OPERATIONS

		Year ended 31 December 2021	Year ended 31 December 2020
Operating activities	*Note*	**£m**	£m
Loss before tax		**(1,792)**	(2,012)
Exceptional items	3	**31**	184
Loss before tax and exceptional items		**(1,761)**	(1,828)
Adjustments for:			
Net finance costs	4	**1,522**	874
Depreciation	7	**720**	730
Amortisation on intangibles	10	**37**	44
Amortisation on right of use assets	8	**40**	38
Fair value (gain)/loss on investment properties	9	**(174)**	412
Working capital changes:			
Decrease/(increase) in trade and other receivables [1]		**283**	(239)
Decrease/(increase) in inventories		**1**	(1)
(Decrease)/increase in trade and other payables		**(66)**	56
Decrease in provisions		**-**	(5)
Difference between pension charge and cash contributions		**22**	(51)
Cash generated from operations before exceptional items		**624**	30
Cash payments in respect of exceptional items		**(11)**	(125)
Cash generated from /(used in) continuing operations		**613**	(95)

[1] The decrease in trade and other receivables primarily relates to the unwind of prepayments made to suppliers at 31 December 2020 as described in the cash and cash equivalents section of the accounting policies. These prepayments were made in order to manage banking covenant ratios. Judgement is required in classifying these prepayments within the statement of cash flows. Management have concluded these should be presented within operating activities as they represent operational prepayments to suppliers (operating cash flows) as opposed to cash advances to other parties (financing activities).

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT CONTINUED

RECONCILIATION IN NET DEBT

Net debt comprised the Group's consolidated borrowings excluding interest accruals, net of cash and cash equivalents, term deposits and lease liabilities.

	1 January 2021 £m	**Cash flow £m**	**Transfers from non-current to current £m**	**Lease liabilities £m**	**Other non-cash changes[1,2] £m**	**31 December 2021 £m**
Current debt	**(1,674)**	**1,545**	**(774)**	**-**	**162**	**(741)**
Non-current debt	**(15,336)**	**(473)**	**774**	**-**	**160**	**(14,875)**
Current lease liabilities	**(43)**	**32**	**(40)**	**11**	**-**	**(40)**
Non-current lease liabilities	**(349)**	**17**	**40**	**(39)**	**-**	**(331)**
Total financing liabilities excluding intercompany	**(17,402)**	**1,121**	**-**	**(28)**	**322**	**(15,987)**
Intercompany	**(3,299)**	**(167)**	**-**	**-**	**-**	**(3,466)**
Total financing liabilities	**(20,701)**	**954**	**-**	**(28)**	**322**	**(19,453)**
Cash and cash equivalents	**280**	**(64)**	**-**	**-**	**-**	**216**
Term deposits	**3,236**	**(826)**	**-**	**-**	**-**	**2,410**
Net debt	**(17,185)**	**64**	**-**	**(28)**	**322**	**(16,827)**

	1 January 2020 £m	Cash flow £m	Transfers from non-current to current £m	Lease liabilities £m	Other non- cash changes[3,4] £m	31 December 2020 £m
Current debt	(404)	405	(1,700)	-	25	(1,674)
Non-current debt	(13,436)	(3,273)	1,700	-	(327)	(15,336)
Current lease liabilities	(38)	63	-	(68)	-	(43)
Non-current lease liabilities	(346)	-	-	(3)	-	(349)
Total financing liabilities excluding intercompany	(14,224)	(2,805)	-	(71)	(302)	(17,402)
Intercompany	(2,512)	(787)	-	-	-	(3,299)
Total financing liabilities	(16,736)	(3,592)	-	(71)	(302)	(20,701)
Cash and cash equivalents	815	(535)	-	-	-	280
Term deposits	725	2,511	-	-	-	3,236
Net debt	(15,196)	(1,616)	-	(71)	(302)	(17,185)

The closing value of net debt continues to include certain bonds which are reported at an amount of £55 million (2020: £204 million) higher than their GBP-equivalent cash redemption value as a result of hedge accounting under IFRS, together with bond issue/novation costs of £(64) million (2020: £(91) million). In addition, 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 not reflected in gross debt and would decrease GBP equivalent by £68 million (2020: £388 million), together with the RPI swap accretion of £381 million (2020: £133 million), both of which are included in nominal net debt.

1 Fair value adjustments on hedged bonds of £20 million, and movements on foreign exchange gain on translations of foreign debt of £156 million, accretion accruals of £(12) million and amortisation of issue costs, premiums and discounts of £(2) million.

2 Relates to amortisation of issue costs, premiums and discounts of £(26) million, foreign exchange gain on translations of foreign debt of £162 million, fair value adjustments on hedged bonds of £129 million, accretion accruals of £(99) million and zero-coupon accruals of £(6) million.

3 Fair value adjustments on hedged bonds of £4 million, and movements on foreign exchange gain on translations of foreign debt of £21 million.

4 Relates to amortisation of issue costs, premiums and discounts of (£18) million, foreign exchange gain on translations of foreign debt of £144 million, fair value adjustments on hedged bonds of £122 million, accretion accruals of (£24) million, and zero-coupon accruals of (£14) million.'

25 RELATED PARTY TRANSACTIONS

During the year the Group entered into the following transactions with related parties.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Purchase of goods and services		
Ferrovial Agroman	**50**	28
Heathrow Finance plc[1]	**184**	125
	234	153

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Sales to related party		
Harrods International Limited	**3**	6
Qatar Airways	**23**	22
	26	28

Balances outstanding with related parties were as follows:

	31 December 2021		31 December 2020	
	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	**-**	**3,530**	-	3,344
	-	**3,530**	-	3,344

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.

Key management personnel compensation is covered within Note 2.

26 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of the Group is Heathrow Finance plc, a company registered in the UK.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Group's results are also included in the audited consolidated financial statements of Heathrow Finance plc for the year ended 31 December 2021, which is the parent undertaking of the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2021.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited and Heathrow Finance plc may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW. This is the registered office for the smallest and the largest undertaking to consolidate these financial statements.

[1] Relates to interest on the debenture payable to Heathrow Finance plc (Note 4).

27 SUBSIDIARIES

The subsidiaries whose financial position affects the Group are as follows:

Holding company

Heathrow (AH) Limited

Airport owner and operator

Heathrow Airport Limited [1]

Other

Heathrow Funding Limited [2]

Heathrow Express Operating Company Limited [1]

Unless otherwise indicated, all subsidiaries are wholly-owned, incorporated in Great Britain and registered in the UK.

The registered office of the Company's subsidiaries is the same as Heathrow (SP) Limited as set up below, with the exception of Heathrow Funding Limited whose registered office is IFC5, St Helier, Jersey, JE1 1ST, Channel Islands.

28 SUBSEQUENT EVENTS

Bulk Purchase Annuity Policy

On 27 January 2022, the BAA Pension scheme entered into an insurance annuity contract in respect of a proportion of its current pensioners. The annuity policy is recognised as a plan asset with a value equal to the value of the underlying obligations. The estimated impact of the contract results is a reduction in the pension surplus of circa £43 million when measured on 26 January 2022.

Registered office

Heathrow (SP) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.
Registered in England Number: 06458621

[1] Held by a subsidiary undertaking
[2] Incorporated in Jersey, but UK tax resident

COMPANY STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2021

	Note	31 December 2021 £m	31 December 2020 £m
Assets			
Non-current assets			
Investment in subsidiaries	2	**8,055**	8,055
		8,055	8,055
Current assets			
Trade and other receivables	3	**49**	48
Deferred income tax assets	4	**161**	61
Cash at bank and in hand	5	**11**	10
Total assets		**8,276**	8,174
Liabilities			
Non-current liabilities			
Trade and other payables	6	**(5,732)**	(5,325)
Current liabilities			
Trade and other payables	6	**(168)**	(172)
Total liabilities		**(5,900)**	(5,497)
Net assets		**2,376**	2,677
Capital and reserves			
Called up share capital	7	**11**	11
Share premium reserve		**499**	499
Revaluation reserve		**331**	331
Retained earnings		**1,535**	1,836
Total shareholder's funds		**2,376**	2,677

The loss of the Company for the year attributable to shareholders was £301 million (2020: £161 million).

These financial statements of Heathrow (SP) Limited (Company registration number: 06458621) were approved by the Board of Directors and authorised for issue on 22 February 2022 and signed on its behalf by:

JAVIER ECHAVE
DIRECTOR

NICHOLAS GOLDING
DIRECTOR

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	Note	Share capital £m	Share premium reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
1 January 2020		11	499	331	2,104	2,945
Total comprehensive loss for the year						
Loss for the year	*1*	-	-	-	(161)	(161)
Transaction with owners						
Dividends paid to Heathrow Finance plc	*8*	-	-	-	(107)	(107)
31 December 2020		**11**	**499**	**331**	**1,836**	**2,677**
Total comprehensive loss for the year						
Loss for the year	*1*	-	-	-	**(301)**	**(301)**
31 December 2021		**11**	**499**	**331**	**1,535**	**2,376**

ACCOUNTING POLICIES

for the year ended 31 December 2021

The principal accounting policies applied in the preparation of the financial statements of Heathrow (SP) Limited (the 'Company') are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

The Company is a private holding company of a group of private 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, by shares, liability company incorporated, registered and domiciled in the UK. Its registered office is The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards. They have been prepared by the Directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Under FRS 101, the Company applies the recognition and measurement provisions of International Accounting Standard ('IAS') 27 'Separate Financial Statements', in accordance with UK adopted international accounting standards.

The Company has taken advantage of certain disclosure exemptions in FRS 101 as its financial statements are included in the publicly available consolidated financial statements of the Group. As such, the Company is exempt from presenting the Statement of cash flows and from the disclosures requirement to show related party transactions with entities that are wholly owned subsidiaries of the Company. In addition, the Company has also taken advantage of disclosure exemption of the income statement as allowed by the Companies Act. Copies of those consolidated financial statements may be obtained by writing to the Company Secretarial Department at the Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

The Company is not a financial institution and is therefore able to take advantage of exemptions from specified requirements of, IFRS 7 'Financial Instruments: Disclosures', IFRS 13 'Fair Value Measurement', IFRS 15 'Revenue from Contracts with Customers' and IAS 1 'Presentation of Financial Statements'.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) Amended standards adopted by the Company

The following new accounting pronouncements were adopted by the Company to comply with amendments to IFRS. None of these had any significant impact on adoption:

- Revised Conceptual Framework for Financial Reporting.
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New accounting pronouncements, that are not yet effective and have not been adopted early by the Company, to be adopted on or after 1 January 2022:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards.
- Amendments to References to the Conceptual Framework.
- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities as current and non-current.
- Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7 – phase 2.
- IFRS 17 'Insurance Contracts'.
- 2018-2020 Annual Improvements Cycle.

The Company's financial reporting will be presented in accordance with the new standards above, which are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group, from 1 January 2022.

GOING CONCERN

The Directors have prepared the financial information presented for Heathrow (SP) Limited on a going concern basis as they have a reasonable expectation that the entity has adequate resources to continue in operational existence for the foreseeable future.

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.

Full detail of the considerations for the Company are included within the Going Concern policy for the Group accounts on page 133 where a description of the challenges facing the wider Group and the scenarios modelled by the Directors are included.

The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

INTEREST

Interest payable and interest receivable are recognised in the income statement in the period in which they are incurred.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable. Reversals are recognised where there is a favourable change in the economic assumptions in the period since the provision was made.

INTERCOMPANY LOANS RECEIVABLE

Intercompany advances to other Group entities are all held till maturity, neither parties have an option to call or prepay the loan before the contracted maturity date.

Such assets are held under a business model to hold and collect contractual cash flows and therefore meet the Solely Payments of Principal and Interest ('SPPI') test. No embedded derivatives are currently recognised in these advances, and the amortised cost classification is not impacted. All intercompany advances are assessed for impairment under the IFRS 9 "expected credit losses model" ('ECL').

Group relief claimed/surrendered between UK companies is paid for at the applicable tax rate of 19% (2020: 19%) for the year. Group relief receivables reflects the amounts owed to the Company by other group companies in respect of losses the Company has surrendered to them as group relief.

CASH

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

AMOUNTS OWED TO GROUP UNDERTAKINGS

Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

CURRENT TAXATION

The tax expense for the year comprises current tax. Tax is recognised in the income statement.

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

SHARE CAPITAL

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs, allowing for any reductions in the par value. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

DIVIDEND DISTRIBUTION

A dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the shareholders' right to receive payment of the dividend is established. Interim dividends are recognised when paid.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

for the year ended 31 December 2021

CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

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

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 new accounting standards, interpretations and amendments' section.

KEY SOURCES OF ESTIMATION UNCERTAINTY

INVESTMENT IMPAIRMENT REVIEW
CAA PASSENGER TARIFF

The investment impairment review has been completed incorporating management's judgement with regards to the outcome of the CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). The current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2") applies an average tariff, £41.95 (at 2018 prices), for the H7 period which is outside the CAA's high charge as set out in their initial proposals and further detailed at page 17. The average tariff applied reflects the CAA high charge tariff but also includes an expectation of receiving a further adjustment to the Regulatory Asset Base (RAB) of £2.5bn. Under this RBP Update 2 scenario, there would be no impairment.

Due to the uncertainty over final pricing for the H7 regulatory period and the fact that management's RBP Update 2 scenario is outside of the potential tariff range published by the CAA in its Initial Proposals, Management has performed a sensitivity analysis adopting the CAA's proposed lowest tariff with no further RAB settlement: £22.94 (at 2018 prices). The results of the sensitivity continue to support a positive headroom when comparing the carrying value of investments against the cost of investments held, and therefore no impairment has been recognised in the year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 COMPANY RESULT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The loss of the Company for the year as at 31 December 2021 attributable to shareholders was £301 million (2020: £161 million).

2 INVESTMENTS IN SUBSIDIARIES

	£m
Cost	
1 January 2021 and 31 December 2021	**8,055**

The Company's subsidiary undertakings is Heathrow (AH) Limited, which is incorporated and registered in the UK.

Details of the principal subsidiary undertakings of the Group are provided in Note 27 of the Heathrow (SP) Limited consolidated financial statements.

The Company reviews the investments in subsidiary's carrying value for impairment if there are any indications that the carrying value may not be recoverable. The recoverable amount, fair value less costs to sell, is calculated based on discounted cash flow projections of the business using a perpetuity model where the discount rate is calculated using a WACC of 8.5%. Short term projections are based on the latest forecast approved by the Board in December 2021 and longer term projections reflect the current regulatory business plan (Revised Business Plan Update 2 – "RBP Update 2"). From the review of the position at 31 December 2021, Management concluded that there is no impairment in the investments held. However, there does remain regulatory uncertainty, as outlined on page 17, regarding the CAA passenger tariff for the H7 regulatory period (the period from 1 January 2022 to 31 December 2026). A range of potential tariffs have been provided by the CAA in their "Initial Proposals" with a final tariff announced later in 2022. In order to reflect this uncertainty, Management have applied a sensitivity on the assumption that the CAA adopt the lowest tariff within this range, whilst also applying a mid-point WACC of 5.75% within the CAA's published range. The results of the sensitivity still reflect no impairment in the investments held. Due to the nature of the regulatory arrangement and the significant headroom in the valuation, climate change risks are not considered to have a material impact on the valuation of investments in subsidiaries.

3 TRADE AND OTHER RECEIVABLES

	31 December 2021 **£m**	31 December 2020 £m
Current		
Amounts owed by group undertakings[1]	**49**	47
Group relief receivable	**-**	1
	49	48

4 DEFERRED INCOME TAX ASSET

	31 December 2021 **£m**	31 December 2020 £m
Deferred income tax assets	**161**	61

[1] Amounts owed to group undertakings are unsecured.

5 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	31 December 2021 £m	31 December 2020 £m
Cash at bank and in hand	**11**	10

6 TRADE AND OTHER PAYABLES

	31 December 2021 £m	31 December 2020 £m
Non-current		
Amounts owed to group undertakings - interest bearing [1,2]	**2,267**	2,026
Debenture payable to Heathrow Finance plc [1,3]	**3,465**	3,299
	5,732	5,325
Current		
Amounts owed to group undertakings - interest payable [1]	**168**	172
	168	172

7 SHARE CAPITAL

	£m
Authorised	
At 31 December 2020 and 31 December 2021	
9,000,000,000 ordinary shares of 0.19p each	**17**
Called up, allotted and fully paid	
At 31 December 2020 and 31 December 2021	
5,773,555,178 ordinary shares of 0.19p each	**11**

[1] Amounts owed to group undertakings are unsecured.

[2] Amounts owed to group undertakings – interest bearing represents loans payable to Heathrow Airport Limited of £1,482 million and £785 million promissory notes (2020: £1,241 million and £785 million) which have fixed interest rates of 7.57% and 3.40% respectively (2020: 7.57% and 3.40%).

[3] The debenture payable to Heathrow Finance plc is used by the entity to pay the interest on its bond and loan facilities. As at 31 December 2021, the rate on the debenture was 4.75% (2020: 4.75%).

8 DIVIDENDS

No dividends were declared during the year ended 31 December 2021. The Company declared dividends of £107 million (£0.01 per share) on 27 February 2020.

9 AUDITORS' REMUNERATION

Audit fees are recharged in accordance with the group Shared Service Agreements ('SSAs') into the operating entities. This entity is not an operating entity and is therefore not party to the SSAs and receives no recharge of the audit cost. However, the Company's auditor received £58,000 (2020: £32,000) as remuneration for the audit of the Company's financial statements, the cost of which was borne by Heathrow Airport Limited. Details of fees for other services are provided in Note 2 of the Heathrow (SP) Limited group financial statements.

10 EMPLOYEE INFORMATION AND DIRECTORS' REMUNERATION

Employee numbers
The Company has no employees (2020: none).

Directors' remuneration
Details of Directors' remuneration for the year are provided in Note 2 of the Group financial statements.

11 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Heathrow Finance plc, a company registered in the UK.

The ultimate parent entity is FGP Topco Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The shareholders of FGP Topco Limited all hold ordinary shares in the following proportion; Hubco Netherlands B.V. (25.00%) (an indirect subsidiary of Ferrovial, S.A., Spain), Qatar Holding Aviation (20.00%) (a wholly-owned subsidiary of Qatar Holding LLC), Caisse de dépôt et placement du Québec (12.62%), Baker Street Investment Pte Ltd (11.20%) (an investment vehicle of GIC), QS Airports UK, LP (11.18%) (investment vehicle managed by Alinda Capital Partners), Stable Investment Corporation (10.00%) (an investment vehicle of the China Investment Corporation) and USS Buzzard Limited (10.00%) (wholly-owned by the Universities Superannuation Scheme).

The Company's results are also included in the audited consolidated financial statements of Heathrow (SP) Limited for the year ended 31 December 2021, which is the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of Heathrow Finance plc, Heathrow Airport Holdings Limited and FGP Topco Limited for the year ended 31 December 2021.

Copies of the financial statements of FGP Topco Limited, Heathrow Airport Holdings Limited and Heathrow Finance plc may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

12 SECURITIES AND GUARANTEES

Heathrow Airport Limited, Heathrow Express Operating Company Limited, Heathrow (SP) Limited and Heathrow (AH) Limited (together, the 'Obligors') have granted security to Deutsche Trustee Company Limited (in its capacity as the 'Borrower Security Trustee', for itself and as trustee for the Borrower Secured Creditors) over their property, assets and undertakings to secure their obligations under various financing agreements. Each Obligor has also guaranteed the obligations of each other Obligor under such financing agreements. The total value secured is £15,958 million (2020: £16,647 million), equal to the gross value of Heathrow (SP) Group debt.

13 SUBSEQUENT EVENTS

There are no subsequent events to disclose.

REGISTERED OFFICE

Heathrow (SP) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

Registered in England Number: 06458621

ALTERNATIVE PERFORMANCE MEASURES ('APMS') - UNAUDITED

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

EBITDA

EBITDA is loss 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.

	2021 £m	2020 £m
Loss for the year	**(1,613)**	(1,785)
Less: Tax credit	**(179)**	(227)
Add: Net finance cost	**1,522**	874
Operating loss	**(270)**	(1,138)
Add: depreciation and amortisation	**797**	812
EBITDA	**527**	(326)

ADJUSTED EBITDA

Adjusted EBITDA is loss before interest, taxation, depreciation, amortisation, fair value gains and losses on investment properties and exceptional items. Fair value gains and losses on investment properties are excluded as they can vary significantly from one year to the next due to market perceptions of the value of the property and the accounting method used to calculate the fair value. Exceptional items in the current year include impairment of Fixed assets and AICC, while 2020 was also inclusive of restructuring costs. These are excluded due to their size and the fact that they are not representative of a normal trading year. Adjusted EBITDA is an approximation of pre-tax operating cash flow and reflects cash generation before changes in working capital and investment. The APM assists investors to value the business (valuation using multiples) and rating agencies and creditors to gauge levels of leverage by comparing Adjusted EBITDA with net debt.

	2021 £m	2020 £m
Loss for the year	**(1,613)**	(1,785)
Less: Tax credit	**(179)**	(227)
Add: Net finance cost	**1,522**	874
Operating loss	**(270)**	(1,138)
Add: depreciation and amortisation	**797**	812
Add: exceptional items	**31**	184
Add: fair value (gain)/loss on investment properties	**(174)**	412
Adjusted EBITDA	**384**	270

	2021 £m	2020 £m
Cash generated from/ (used in) operations	**613**	(95)
Exclude:		
(Decrease)/increase in trade and other receivables	**(283)**	239
(Decrease)/increase in inventories	**(1)**	1
Decrease/(increase) in trade other payables	**66**	(56)
Decrease in provisions	**-**	5
Difference between pension charge and cash contributions	**(22)**	51
Cash payments in respect of exceptional items	**11**	125
Adjusted EBITDA	**384**	270

ADJUSTED OPERATING LOSS

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

	2021 £m	2020 £m
Operating loss[1]	**(270)**	(1,138)
Add: exceptional items	**31**	184
Add: fair value (gain)/loss on investment properties	**(174)**	412
Adjusted operating loss	**(413)**	(542)

NET FINANCE COSTS BEFORE CERTAIN RE-MEASUREMENTS

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

	2021 £m	2020 £m
Finance income	**7**	12
Finance cost	**(1,529)**	(886)
Net finance cost including certain re-measurements	**(1,522)**	(874)
Add: fair value gain arising on re-measurement of financial instruments	**665**	202
Net finance cost before certain re-measurements	**(857)**	(672)

ADJUSTED LOSS BEFORE TAX

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

	2021 £m	2020 £m
Loss before tax	**(1,792)**	(2,012)
Add: exceptional items	**31**	184
Less: fair value (gain)/loss on investment properties	**(174)**	412
Less: fair value gain arising on re-measurement of financial instruments	**665**	202
Adjusted loss before tax	**(1,270)**	(1,214)

ADJUSTED LOSS AFTER TAX

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

	2021 £m	2020 £m
Loss after tax	**(1,613)**	(1,785)
Add: exceptional items	**31**	184
Add: fair value (gain)/loss on investment properties	**(174)**	412
Add: fair value gain arising on re-measurement of financial instruments	**665**	202
Less: tax credit on fair value loss on investment properties and re-measurement of financial instruments	**(139)**	(110)
Less: tax credit on exceptional items	**-**	(18)
Add: change in tax rate	**214**	112
Adjusted loss after tax	**(1,016)**	(1,003)

[1] Operating profit is presented on the Group Income statement, it is not defined per IFRS, however it is a generally accepted profit measure.

HEATHROW SP CONSOLIDATED NOMINAL NET DEBT

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

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

	2021 £m	2020 £m
Net debt (Note 24)	**(16,827)**	(17,185)
Index-linked swap accretion [1]	**(381)**	(133)
Impact of cross currency interest rate swaps [2]	**124**	591
Bond issuance costs [3]	**(65)**	(92)
Less: IFRS 16 lease liability at 31 December relating to pre-existing leases [4]	**351**	389
Less: Intercompany	**3,466**	3,299
Consolidated nominal net debt	**(13,332)**	(13,131)

REGULATORY ASSET BASE ('RAB')

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

	2021 £m	2020 £m
Regulatory Asset Base ('RAB')	**(17,474)**	16,492

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.

Gearing ratios	**2021**	2020
Total net debt to RAB at Heathrow (SP) Limited	**0.763**	0.796
Senior net debt to RAB at Heathrow (SP) Limited	**0.646**	0.684

[1] Index linked swap accretion is included in nominal net debt, amounts are reported within derivative financial instruments on the Group's 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.

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